ConvaTec

Pioneering trusted medical solutions to improve the lives we touch

ConvaTec Group Plc
Annual Report and Accounts 2019

2019 highlights

Financial highlights[1]

Revenue
$1,827m -0.3%

2019	**$1,827m**
2018	$1,832m

Operating profit[2]
$96.9m -63.8%

2019	**$108.4m**
2018	$267.7m

Earnings per share[2]
$0.00

2019	**$0.00**
2018	$0.11

Adjusted EBIT[3]
$354m -17.5%

2019	**$354m**
2018	$429m

Adjusted EBIT margin
19.4%

2019	**19.4%**
2018	23.4%

Adjusted earnings per share
$0.12

2019	**$0.12**
2018	$0.16

1. Certain financial measures in this Annual Report and Accounts, including adjusted performance measures above, are not prepared in accordance with IFRS. All adjusted performance measures are reconciled to the most directly comparable measure prepared in accordance with IFRS on pages 182 to 187.
2. Operating profit and EPS are stated after impairment of certain intangible assets of $105.5m. For further information see pages 157 and 158.
3. Adjusted EBIT is equivalent to adjusted operating profit as reconciled on pages 184 and 185.

Contents

Introduction

"As we embark on ConvaTec's transformation we have established a new clear vision – *pioneering trusted medical solutions to improve the lives we touch* – and identified our key priorities.

We will build closer relationships with the people who need our products and services to help them manage challenging chronic conditions. There is significant potential for us to contribute even more to their care. To do this, we will focus on strengthening our innovation pipeline and developing trusted medical solutions that address their distinct needs and deliver proven outcomes. We will also relentlessly drive execution excellence across every part of our business.

Whilst we have made some progress in 2019, driving forward with the transformation and laying the foundations of organisational change through the new Group vision, strategy, operating model and values, there is much more to do as we focus on our strategic intent of pivoting to sustainable and profitable growth."

Karim Bitar
Chief Executive Officer

Our business model

Our vision is to develop pioneering trusted medical solutions to improve the lives we touch. Our business model and strategy are structured to help us realise this vision and create sustainable value for all our stakeholders.

Why we exist

We have a clear vision – pioneering trusted medical solutions to improve the lives we touch. This statement, which encapsulates our purpose and our ambition, is at the heart of everything we do.

What we do

We are a MedTech business focused on the chronic care market, with established positions in advanced wound care, ostomy care, continence and critical care and infusion care. We develop and manufacture innovative products that give people living with chronic conditions confidence, freedom and mobility. We also offer a range of services to support these people and the healthcare professionals who care for them.

Group reported revenue by franchise

1. Advanced Wound Care ("AWC"): 31.2% $569.9m
2. Ostomy Care: 28.7% $525.0m
3. Continence & Critical Care ("CCC"): 25.0% $456.7m
4. Infusion Care[1]: 15.1% $275.6m

Group reported revenue by geography

1. EMEA: 39.7% $724.1m
2. Americas: 52.5% $959.8m
3. APAC: 7.8% $139.4m

The key resources and relationships that enable us to improve lives and create value

A values-led, performance-driven culture
Our values shape our culture and behaviours and determine how we do business. Read more about our values, which were updated during the year, and our culture on pages 37 and 38.

People
Our skilled and dedicated workforce are key to our success. Read more about our people and how we manage and develop them on pages 37 to 40 and in our Corporate Responsibility Report which is available on our website at www.convatecgroup.com/corporate-responsibility.

Proactive stakeholder engagement
Our proactive engagement with our customers and healthcare professionals helps us better understand and meet their needs. We operate direct-to-consumer sales and support services channels including our me+™ programme. Read more about how we engage with our customers and other stakeholders on pages 10 to 13.

Strong brands
Our brands address a range of increasingly prevalent conditions. Information about our key brands and differentiated product portfolio is included on pages 48 to 54.

Established positions in structurally growing markets
Our well-established positions in the large structurally growing chronic care market. Read more about our market environment on pages 14 to 17.

R&D capabilities and extensive IP portfolio
Our R&D capabilities include two dedicated R&D facilities located in the UK and in Denmark, which employ over 300 people. We have approximately 250 active patent families, approximately 2,600 patents and patent applications and over 6,000 registered trademarks. Read about what we are doing to enhance our innovation pipeline on page 20.

Dedicated sales team and an extensive distribution network
We market and sell our products and services in over 110 countries through our four franchises: Advanced Wound Care, Ostomy Care, Continence & Critical Care and Infusion Care. We have a direct presence in certain markets and an extensive network of wholesalers and distributors who sell our products and manage the entire distribution process on our behalf. Read more about how we market and sell our products and services on page 47.

Operational footprint
We own and operate nine manufacturing plants, some of which are located in lower cost countries. To provide significant operational flexibility we also work with third-party contractors who manufacture on our behalf.

Financial resources – $425 million cash generated[2]
We generate significant cash from operating activities and have access to capital through our shareholder base and debt providers. Read more about our financial position on pages 63 to 65.

1. Previously Infusion Devices.
2. Reported cash generated from operations net of PP&E.

How we create value

We invest in product development and focus on commercialising and manufacturing differentiated products that deliver proven outcomes.

We proactively engage with our customers and healthcare professionals to gather feedback. This valuable feedback informs our R&D processes and enables us to develop products and services that meet customers' needs. Our engagement activities, including our service offering, also help us build strong relationships with our customers and healthcare professionals. Strengthening our customer relationships and getting closer to the people who use our products and services are key priorities.

We generate revenue from the sale of our products and, through the implementation of our strategy, we are focused on pivoting to sustainable and profitable growth.

We have five strategic priorities:

- Focus on "must-win" markets and categories.
- Innovate by investing in our R&D capabilities to develop trusted medical solutions that customers need most.
- Simplify and strengthen our organisation by having a more customer-centric and agile operating model with clear accountability.
- Build critical core capabilities across the value chain via centres of excellence.
- Execute with excellence across the Group via the Transformation Office.

Focus **Innovate** **Simplify** **Build** **Execute**

Read more about our strategy and how we measure our progress using financial and non-financial key performance indicators on pages 18 to 23.

We run our business in a way that helps support the United Nations Sustainable Development Goals and focus on:

- Delivering for our customers.
- Enabling our people.
- Working responsibly with our partners.
- Conserving the planet.
- Behaving ethically and transparently.
- Making a socio-economic contribution.

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Read more about how we run our business in a responsible way on pages 36 to 46 and in our Corporate Responsibility Report which is available on our website at www.convatecgroup.com/corporate-responsibility.

The value we create

We create value for a range of stakeholders and protect this value by deploying a risk management process, which is described on pages 24 to 33.

Consumers

Our products and services give people living with chronic conditions greater confidence, mobility and freedom. Read about how our products and services help consumers throughout this Annual Report.

300,000+
Participants in our me+™ programme

Employees

We offer our employees training and development opportunities in a positive work environment. Read more on page 38 and in our Corporate Responsibility Report, which is available on our website at www.convatecgroup.com/corporate-responsibility.

9,100+
Jobs/people employed

Shareholders

We generate returns for investors.

$112.9m
Dividends paid and proposed for the year ended 31 December 2019

Healthcare providers

We provide value-add solutions, support and advice that help healthcare providers deliver better clinical outcomes in a cost-effective way.

People living with chronic conditions and the medical profession

We increase awareness and understanding of certain chronic conditions through our engagement programmes and our R&D capabilities, which advance clinical outcomes and practices.

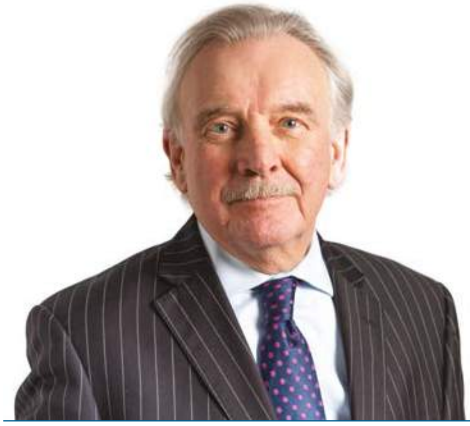
Society

We create socio-economic benefits for a range of stakeholders including generating income for governments through our tax payments and providing employment across our supply chain and in the communities where we operate.

$37.0m
Income taxes paid

$347,000
Donations approved through our LIFE+ by ConvaTec community programme (see page 45).

Chairman's letter



Dr John McAdam
Chairman

Dear Shareholder

Introduction

Following Sir Christopher Gent's decision to retire from the Board, I was delighted to be appointed Chairman in September 2019. While ConvaTec has faced a number of challenges since its listing in 2016, it is a fundamentally sound business that operates in large structurally growing markets. Significant actions to improve performance and returns to shareholders are already underway and I look forward to leading the Board as we move into the Group's next phase of development.

2019 performance

I was pleased that performance for the year was in line with the guidance we set out in February 2019. Group revenue of $1,827.2 million declined 0.3% on a reported basis, but grew 2.3% on an organic basis. The Group generated operating profit of $96.9 million on a reported basis (5.3% EBIT margin), as a result of impairment of certain intangible assets and our investment in transformation and MDR. On an adjusted basis, operating profit was $354.3 million and EBIT margin was 19.4%. Cash generated from operations was $401.8 million as a result of concerted inventory reductions.

In October 2019 we successfully refinanced the Group's debt. The credit agreement includes a $1.5 billion loan facility and a $200 million revolving credit facility, with limited security, covering a five-year period and held with a smaller group of relationship banks. Further information about our 2019 performance is included on page 56 and throughout this Annual Report.

Dividend

Reflecting our view on the potential of the Group over the medium to long term and its financial strength, the Board is proposing a final dividend of 3.983 cents per share in respect of 2019, subject to shareholder approval at our Annual General Meeting on 7 May 2020. This is in addition to the Company's interim dividend of 1.717 cents per share, which was declared on 1 August 2019. We are therefore proposing to maintain our total 2019 dividend at 5.700 cents per share, in line with the total dividend for 2018. Whilst this is outside our stated policy of 35% to 45% of adjusted net profit, the Board has taken into consideration balancing the return to shareholders and the additional investment in transformation in the period. The decision to maintain the dividend reflects the Board's confidence in the future performance of the Group and the underlying financial strength, distributable reserves position and cash generation of the Group. The Board notes that in the near term the dividend pay-out ratio may be slightly above the target ratio as investment is made in the ongoing transformation of the Group.

Board changes and governance

2019 was a year of significant change. In addition to my appointment, Karim Bitar joined ConvaTec as Chief Executive Officer ("CEO") in September 2019. Karim is an experienced leader with a proven track record of creating shareholder value and delivering transformational change within similar businesses. Prior to Karim joining, Rick Anderson served as our Interim Chief Executive Officer and then as our Executive Chairman. In this executive capacity Rick, with the support of the leadership team, developed our refreshed execution model "Pivot to Growth", which was implemented through various workstreams, to improve execution across key parts of our business and ensure more effective delivery of our strategy. In doing so he set the Group on an important and new trajectory of execution and change which we are continuing to build on. On behalf of the Board and everyone at ConvaTec, I would like to acknowledge and thank Rick for assuming this executive leadership role at a critical time. With effect from 30 September 2019, Rick resumed his role as a Non-Executive Director.

During the year there were a number of changes to the membership of our Board, which are described on page 69. Searches for two additional independent Non-Executive Directors were commissioned and today we were delighted to announce the appointment of Brian May, who will join our Board on 2 March 2020, and at the same time become a member of our Audit and Risk and Remuneration Committees. Brian has extensive financial and international business experience. Furthermore, he has a detailed understanding of the challenges and opportunities that arise as a result of transformational change. As we focus on pivoting to sustainable and profitable growth I am confident that he will make a valuable contribution to the Board. Further background information about him is included on page 94. Our search for an additional independent Non-Executive Director is ongoing.

Since I joined ConvaTec I have had an opportunity to review the current governance practices which are generally effective. There is potential to enhance our processes in a number of areas and this is being addressed. Further information about our 2019 Board evaluation processes and, the improvement actions we are prioritising in 2020, is included on pages 89 to 91.

Culture, stakeholders and corporate responsibility

Our success is dependent on running our business in a way that engenders trust. To build this trust at all times we must operate with the highest standard of integrity, do what we say we will do, make a positive economic and social contribution and minimise our impact on the environment. Our values, which shape our culture, aim to ensure that this responsible business approach operates throughout the Group.

During the year, following consultation with our employees, our values and vision statement were revised to better reflect the culture we aspire to embed across the Group. Further information is set out on page 37 and 38.

"Significant actions to improve performance and returns to shareholders are already underway and I look forward to leading the Board as we move into the Group's next phase of development."

Our sustainable success is also dependent on a wide range of stakeholders. We run our business in a responsible way to meet the needs of the people who use our products and services and the healthcare professionals who care for them. By doing so we generate value for our stakeholders including our shareholders and our employees.

To ensure that we factor all stakeholder issues and concerns into our Boardroom discussions and decision-making processes, we are enhancing the mechanisms available to the Board to ensure that we have timely and effective access to relevant information. Further information about our Board-level stakeholder engagement activities is set out on pages 79 and 80.

In recent years we have laid strong foundations to ensure that at all times we operate in a responsible and sustainable way and much progress has been made as detailed on pages 36 to 46. However, there is much still to do. Taking account of this, and recognising that sustainability is a key geopolitical concern that impacts all our stakeholders, we have strengthened our corporate responsibility management and governance arrangements.

With effect from 2 March 2020, to embed sustainability into every aspect of our strategy and day-to-day business operations, increase accountability and drive delivery, Sean McGrath, Executive Vice President, Human Resources, will become responsible for our CR programme. Reflecting the critical importance of this area to the success of our business, Sean will work with other members of the ConvaTec Executive Leadership Team (the "CELT"), and their teams, to allocate specific CR programme-related activities and hold them accountable for delivery. At the same time, responsibility for overseeing the CR programme and reviewing our CR strategy and its implementation, will be transferred to the Board. As a result, the Board's CR Committee will be disbanded. In the coming year we will monitor our CR programme on a regular basis and we will continue to evolve its scope and implementation to ensure its effectiveness.

Our employees and shareholders

Our employees are key to our success. Their skill and dedication improves the lives of people with challenging medical conditions, and creates value for our stakeholders. As we set about transforming our business, our employees also have a critical role to play. Their full support and commitment are essential if we are to achieve our strategic ambitions. On behalf of the Board I would like to thank them for their continued hard work.

Finally, I would also like to thank our shareholders for their ongoing support. It is imperative that we create shareholder value and we are firmly committed to pivoting our business to deliver sustainable and profitable growth.

Dr John McAdam
Chairman
27 February 2020

Governance highlights

A summary of the activities of the Board and its committees during the period is detailed below. Further information is provided on pages 68 to 135.

The Board

- Reviewed and endorsed development of strategy to pivot to sustainable and profitable growth.
- Undertook searches and subsequently appointed new Chairman and CEO.
- Considered feedback from stakeholders, including shareholders and employees.
- Approved Brian May's appointment.

Further information on pages 78 to 85.

Nomination Committee

- Oversaw CEO recruitment process.
- Established sub-committee to oversee Chair recruitment process.
- Reviewed Board composition, developed detailed brief and commissioned searches for additional independent Non-Executive Directors.
- Recommended Brian May's appointment.

Further information on pages 92 to 94.

Audit and Risk Committee

- Ensured effective quality external audit was provided.
- Reviewed key terms of Group's refinancing arrangements.
- Reviewed Group's internal controls and risk management processes and assessed their effectiveness.

Further information on pages 95 to 109.

Corporate Responsibility Committee

- Reviewed and enhanced stakeholder engagement process.
- Analysed stakeholder survey results.
- Reviewed supplier assessment programme.

Further information on pages 110 and 111.

Remuneration Committee

- Developed a new Remuneration Policy.
- Agreed remuneration arrangements for Rick Anderson, Executive Chairman, and the new Chair and CEO.
- Ensured remuneration arrangements appropriately supported the retention and motivation of CELT members, and thus business continuity.

Further information on pages 112 to 131.

Chief Executive Officer's review

Karim Bitar
Chief Executive Officer

I am pleased to have joined ConvaTec as Chief Executive Officer last September. I accepted the role for a number of reasons. I am passionate about improving patient care by leveraging innovation, technology and services. Serving patients and the people we touch will be at the core of ConvaTec's culture. There is significant potential for us to be more customer-centric and do more to support and help the people who use and benefit from our products and services.

ConvaTec operates in attractive, structurally growing chronic care markets where there is long-term demand for our products and services and market growth rates are expected to remain at current levels (c.4% pa) in the medium term. However our past performance has been mixed. Whilst we have leadership positions in some markets due to strong customer relationships and some innovative products, in other areas our ability to perform to our full potential is impeded by organisational complexity and limited capabilities.

The trends that are impacting the wider healthcare industry also create challenges and opportunities for our organisation. These trends include the increasing cost pressures on health systems; the rising influence of the patient or consumer; an increasing shift towards the importance of homecare; technological advancements; the entrance of new competitors; and the growth in emerging markets. We need to understand these trends and effectively differentiate our offering as we strive to seize the opportunities created.

Since I joined ConvaTec, the CELT has undertaken an assessment of our organisation, including the Transformation Initiative commenced in 2019. This assessment has led to the wider strategic changes detailed on the adjacent page. We launched the Transformation Office last year to improve execution across key parts of our business and ensure more effective delivery of our strategy. Improving the execution capabilities of our commercial teams, operations and business support services is fundamental to ConvaTec's success. We are continuing to strengthen our execution excellence discipline via our Transformation Office, which focuses on supporting improved execution across the entire organisation. We are pleased that this is already delivering some benefits, although there is still much to be achieved.

ConvaTec Executive Leadership Team ("CELT")

Frank Schulkes
Chief Financial Officer

Supratim Bose
President and Chief Operating Officer, Global Emerging Markets

Kjersti Grimsrud
President and Chief Operating Officer, Global Continence Care

Donal Balfe
Executive Vice President, Global Quality, Operations and Regulatory

David Shepherd
President and Chief Operating Officer, Global Advanced Wound Care

Seth Segel[a]
President, Home Services Group

Mani Gopal[b]
President and Chief Operating Officer, Global Ostomy Care

John Lindskog
President and Chief Operating Officer, Global Infusion Care

Sean McGrath
Executive Vice President, Human Resources

Adam Deutsch
Chief Transformation Officer and General Counsel

Dr Divakar Ramakrishnan[c]
Chief Technology Officer

a. Joined the CELT on 1 January 2020.
b. Joined ConvaTec and the CELT on 13 January 2020.
c. Joined ConvaTec and the CELT on 21 January 2020.

"One of the key reasons that attracted me to ConvaTec was the significant opportunity ahead of us. With clear direction, an emphasis on innovation and an execution excellence culture, ConvaTec will focus on pivoting to sustainable and profitable growth."

Transforming by pivoting to sustainable and profitable growth

To achieve our transformation goal of pivoting to sustainable and profitable growth, more significant and fundamental change is required; we are already taking action to achieve this.

We now have a clear new vision, which encompasses our purpose: *Pioneering trusted medical solutions to improve the lives we touch*. We will realise this through our five strategic pillars: Focus, Innovate, Simplify, Build and Execute. Further information about our strategy and each of these pillars is set out on pages 18 to 21.

Our success will be underpinned by a new operating model that is more customer-centric, agile, innovation led and with clear accountability, supported by our refreshed Group values (see page 37) that are consistent with our vision, strategy and operating model, and these will guide the way we work.

New operating model

As noted above, our organisational complexity and limited capabilities have been key drivers of our past mixed performance; therefore, we have started to simplify and strengthen our operating model to make it more customer-centric, agile and accountable.

During 2020 we will transition to an organisation that will operate with six integrated global business units: Advanced Wound Care, Ostomy Care, Continence Care, Infusion Care (formerly Infusion Devices), Emerging Markets and Home Services Group ("HSG") (formerly Home Distribution Group). These six global business units will be supported by: a new technology and innovation function, an enhanced quality, operations and regulatory function, customer support functions (Finance, IT, HR and Legal), and the Transformation Office.

In the coming years, we plan to significantly increase our investment in R&D as we strengthen our innovation capabilities and improve our product development pipeline. We need to get closer to the patients and people we serve, increase innovation and drive execution excellence. To achieve this, R&D needs to be an integral part of our organisation.

To lead our innovation strategy, strengthen the capability and drive execution we have appointed Dr Divakar Ramakrishnan, our first Chief Technology Officer, who joined ConvaTec and the CELT on 21 January 2020. Divakar has significant experience, most recently at Eli Lilly, in leading global R&D teams focused on developing innovative and digitally-enabled devices to improve patient care. He has deep competencies in product, process and clinical development.

Supratim Bose, previously Executive Vice President of APAC, will lead Global Emerging Markets and Seth Segel will lead HSG. Seth was previously President of Home Distribution Group having joined ConvaTec in September 2017 following the acquisition of Woodbury Health Products, where he served as CEO for five years. Seth became a member of the CELT on 1 January 2020.

Mani Gopal joined ConvaTec and the CELT on 13 January 2020 as President and Chief Operating Officer of our Global Ostomy Care business unit. He was previously with Cooper Vision and Abbott Laboratories and has extensive experience of running and improving the performance of integrated healthcare businesses.

We are pleased that Kjersti Grimsrud, formerly President of EMEA, has agreed to lead the Global Continence Care business unit, whilst David Shepherd will continue to lead our Global Advanced Wound Care business unit.

Finally, in keeping with the new values of the Group, in particular improving care, we are aligning the name of our infusion set business, formerly Infusion Devices, to our other global business units, and renaming it Infusion Care. John Lindskog will continue to lead this business unit.

Following the above changes Frank Gehres and Stephan Bonnelycke have left ConvaTec. They played important roles as members of the leadership team and we would like to thank them for their contributions and wish them well for the future.

Our new vision, strategy, operating model and values combined with our strengthened leadership team, will bring greater focus and stronger execution.

Further biographical information on all members of the CELT is available on our website (www.convatecgroup.com).

I have had the pleasure of visiting a great many of our sites since joining the organisation and taken the opportunity to meet many colleagues and customers. I want to thank my colleagues for a very warm welcome and their commitment to transforming ConvaTec.

2019 financial performance overview

It is encouraging that the full year results are in line with the guidance we provided in February 2019. However, this is only a first step and much hard work needs to be undertaken to achieve our strategic intent of pivoting to sustainable and profitable growth.

Group reported revenue of $1,827.2 million (2018: $1,832.1 million) declined 0.3% year-on-year but grew 2.4%[1] on a constant currency basis and 2.3%[2] organically, towards the top of the guidance range provided in February 2019. The performance reflects solid growth in CCC and Infusion Care, although both benefited from weaker 2018 performances. AWC continued to underperform the market, largely due to transition in the franchise's US business. Ostomy Care, against a declining prior year, also remained soft as good performances in Latin America and some EMEA markets were partly offset by underperformance in the US.

Reported EBIT[3] margin was 5.3% (2018: 14.6%), a result of impairments related to acquired intangible assets, investment in the transformation, and adverse FX movements.

Adjusted EBIT[3] margin at 19.4% (2018: 23.4%) was a little above the mid-range of guidance provided. Investment in the transformation ($39.4 million) and the EU Medical Device Regulation ("MDR", $5.2 million) were the main drivers of lower adjusted EBIT margin, in addition to the impact of adverse FX movements ($13.6 million). A net positive productivity contribution was more than offset by price pressures and negative sales mix. Cash flow remained robust with adjusted cash conversion at 98% (2018: 81%), driven by improved working capital. For further information on costs and margin see pages 59 to 63.

Franchise performance

AWC revenue declined 3.0% on a reported basis but grew 0.5%[2] organically. Overall our performance was in line with internal expectations, but the franchise's US business continued to be challenged, impacted by moving to a more specialised salesforce, which should start to yield benefits in 2020. Our AQUACEL™ Ag+/Advantage silver products performed strongly, partly offset by our legacy base AQUACEL™ dressings and continued declines in skin care. We saw strong momentum in Latin America, APAC and most EMEA markets. The UK market has stabilised; however, it remains challenging. French reimbursement cuts were in line with our expectations.

Ostomy Care revenue declined 1.6% on a reported basis but grew 1.9%[2] year on year on an organic basis. Against a weak prior year, we continued to execute on our strategy to return the franchise to consistent and improved levels of growth, with solid performances in Latin America and EMEA offsetting weakness in the US. We continue to invest in and see traction with our more recent Convex product launches such as Esteem+™ Flex and Natura™ Accordion and grow our me+™ direct-to-consumer programme.

CCC revenue grew 3.1% on a reported basis and 4.1%[2] organically, with a strong performance from HSG in the US, which continued to outgrow the overall US continence market. Growth also benefited from the impact of a product recall in the prior year. This was partially offset by the franchise's Hospital & Critical Care businesses, which continued to decline.

Infusion Care revenue grew 2.7% on a reported basis, and 4.1%[2] on an organic basis. We saw strong orders from customers through the year, and as expected, growth was towards the lower end of historical market growth levels due to the exit of Animas from the durable pump market in late 2018.

Further information about each of our franchises is included on pages 47 to 55.

COVID-19 ("Coronavirus")

We are closely monitoring the Coronavirus outbreak, with particular regard to the wellbeing of all our colleagues, our production processes and our supply chain. In 2019, sales in China accounted for less than 1% of Group revenues and within our supply chain there are a small number of component parts and accessories that are manufactured by third-parties in affected areas of APAC. At this stage, assuming that the situation normalises in Q2 and that the outbreak is contained, we do not anticipate any significant business interruption, however we are continuing to assess potential impacts, and the subsequent mitigating actions. We have a number of employees in affected areas and we aim to ensure that they are in an environment which is safe and secure.

UK withdrawal from the European Union ("Brexit")

We continue to monitor the Brexit negotiations, assessing the potential effects on our organisation, and preparing contingency plans to address the potential outcomes. Our Brexit taskforce is actively preparing for a "No-Deal" scenario with external advisory support as required. Management considers there will be no material financial effect on our business, or significant operational issues which could arise, as a result of Brexit. However, it remains unclear what the position will be for the UK after the transition period ends on 31 December 2020 and our planning will continue to evolve and adapt with the political developments.

Group 2020 outlook

In 2020 we expect constant currency revenue growth of 2.0% to 3.5%[1,4], with an improved performance year on year driven by AWC and Infusion Care, we expect a similar year in Continence Care, whilst Ostomy Care will deliver very low single-digit growth due to the impact of product portfolio and market rationalisation. Constant currency adjusted EBIT margin in 2020 is expected to be 16.0% to 18.0%[3,4], including c.$50 million of cost investment associated with the transformation and c.$18 million of costs related to the implementation of MDR.

Whilst we have made some progress, driving forward with the transformation and laying the foundations of organisational change through the new Group vision, strategy, operating model and values, there is much more to do as we pivot to sustainable and profitable growth. Our opportunity over the medium term is to drive improved revenue and EBIT growth. I look forward to updating you further later in the year.

Karim Bitar
Chief Executive Officer
27 February 2020

1. Constant currency growth is calculated by applying the applicable prior period average exchange rates to the Group's actual performance in the respective period.
2. Organic growth presents period over period growth at constant currency, excluding M&A activities.
3. Adjusted EBIT is equivalent to adjusted operating profit and reported EBIT is equivalent to reported operating profit.
4. Our intention is to drive absolute revenue and earnings growth, both organic and inorganic, therefore a constant currency measure is more appropriate moving forward.

Our stakeholders and how we engage with them

Our ability to develop pioneering trusted medical solutions to improve the lives we touch and create value is dependent on a range of stakeholders.

It is essential that we understand our stakeholders' issues and concerns. To achieve this understanding, within the relevant ethical and regulatory frameworks, we aim to engage with them proactively to build long-term relationships based on trust.

Our stakeholders and how we engage with them are highlighted in the table below.

Section 172 statement
Section 172 of the Companies Act requires each of our Directors to act in a way that he or she considers, in good faith, would most likely promote ConvaTec's long-term success for the benefit of its shareholders and other stakeholders.

In discharging their section 172 duty our Directors have regard to issues and concerns that arise through our stakeholder engagement and they factor these matters into their Board discussions and decision-making process. In particular, they take account of the likely long-term consequences of the decisions they make and the impact of those decisions on the Group's employees, its customers and suppliers, the local communities where we operate and the environment.

This approach ensures that we continue to serve and support the people who rely on our products and services. It also supports our ambitions to become a "destination employer" and our strategy to pivot to sustainable and profitable growth.

Information about how our Board gains an understanding of stakeholder issues and how they factored such issues into the decisions they made during the year in accordance with section 172, is set out on pages 79 and 80. Our section 172 statement is also included on pages 84 and 85.

Consumers – the people we deliver for

The people who use our products and rely on our services

Their key issues	How we engage	Outcomes
– Safe, accessible and innovative products. – Support and information.	– Direct-to-consumer channels including our me+™ programmes operated by our Ostomy Care and CCC franchises. – Home delivery companies including HSG in the US and Amcare in the UK. Read more about HSG on page 53. – Specialist nurses. – Call centres. – Targeted consumer research. – Responding to specific consumer questions, feedback and complaints.	– Incorporation of relevant consumer feedback in our research and development processes. – Reviews of our service provision, based on customer feedback, and the introduction of enhancements as required. – Tracking and management of customer issues.

Direct enablers who help us deliver

Healthcare professionals

Their key issues
- Products and support that meet patients' needs and benefit the healthcare delivery system.

How we engage
- Ongoing commercial dialogue.
- Targeted research.
- Specialist training programmes.
- Nurse Advisory Boards.
- Key opinion leader meetings.

Outcomes
- Product and service insights inform our development processes and our day-to-day operations.

Our people

Their key issues
- Safe, healthy, ethical and fair working environment.
- Supporting and serving the people who rely on and prescribe our products and services, and making a difference.
- Attractive rewards.
- Development opportunities.

How we engage
- Group-wide interaction via our intranet and ConvaTec app.
- Regular town hall meetings.
- Performance reviews.
- Employee resource groups focused on gender and LGBTQ issues.
- Group-wide employee surveys.
- Global Challenge initiative.
- Union representation and works councils (where relevant).
- Board-level engagement programme – see page 80.
- Independent whistleblower hotline and web link – see page 44.

Outcomes
- Incorporation of relevant feedback into our people strategy and procedures, our development and training programmes and our internal communication processes. Valuable input from our employees across the Group helped shape our updated vision statement and values – see page 37.
- Implementation of our Global Challenge initiative to support our workforce's health and wellbeing. Read more on page 39.

Suppliers, distributors and other partners

Their key issues
- Long-term relationships.
- Fair pricing and commercial terms.
- Predictable business.

How we engage
- Commercial dialogue.
- Supplier assessments.
- Distributor due diligence and compliance training – see page 41.

Outcomes
- Development of valuable partnerships that work together to address consumers' needs – see page 41.
- Supplier awards.

Investors and debt providers

Their key issues
– Strategy and delivery.
– Sustainable returns.
– Responsible business practices.
– Cash flow to service debt obligations.

How we engage
– Annual General Meeting.
– All members of the Board are available to shareholders.
– Shareholder consultation process in relation to proposed Remuneration Policy – see page 113.
– Quarterly results announcements.
– Active investor relations programme including engagement with specialist environmental, social and governance investors and analysts on specific CR topics – see page 80.
– Relationship-led engagement with debt providers.
– Feedback from corporate brokers.

Outcomes
– As part of the consultation process in relation to the development of our new Remuneration Policy (see pages 117 to 123) a number of shareholders provided constructive feedback which was considered in the development of the new Remuneration Policy.
– Successful refinancing of the Group's debt arrangements.

Evaluators who hold us to account for our performance

Institutional customers/buying organisations

Their key issues
– Effective competitively priced products.

How we engage
– Commercial dialogue.
– Marketing activities.
– Tender processes.

Outcomes
– Continued inclusion in tender processes.

MedTech regulators

Their key issues
– Adherence to legislation and regulation.
– Proactive engagement when challenges arise.

How we engage
– Regular and ad hoc dialogue in relation to product approvals and other matters.

Outcomes
– Implementation of responsible and diligent business practices.
– Compliance with legislation and regulation.
– Input into relevant industry consultations.

Governments

Their key issues
– Responsible business practices.
– Employment.
– Income generation via taxes.

How we engage
– Ad hoc dialogue in relation to specific matters including Brexit, fiscal (e.g. taxation), employment (e.g. apprenticeships) and corporate governance.

Outcomes
– Making a socio-economic contribution – see pages 3 and 45.

Local communities

Their key issues	How we engage	Outcomes
– Employment opportunities. – Minimal negative impact from operations.	– Ad hoc dialogue in relation to specific matters. – Our LIFE+ by ConvaTec community programme – see page 45.	– Enhancing the local communities where we operate. – Building our reputation in our local communities and across broader society.

Industry bodies and non-governmental organisations (“NGOs”)

Their key issues	How we engage	Outcomes
– High-quality input into industry policies and standards development. – Proactive engagement in relation to relevant issues.	– Membership of several industry bodies including the MedTech Europe Environment and Sustainability Committee, ABHI and AdvaMed. – Participation in meetings and discussions in relation to industry issues including best practice. – Engagement with NGOs on issues of concern, where appropriate.	– Contributing to improved understanding of key industry issues. – Helping to shape relevant agendas and standards.

Our 2019 GlobeScan survey

During the year we commissioned an independent company, GlobeScan, to undertake an online survey that involved nearly 70 individual external stakeholders and employees across the UK, US, Spain, Germany, Canada and Hong Kong. The external stakeholder groups included healthcare professionals and patient group representatives. Other stakeholders, including investors, business customers, industry groups and NGOs, were also included.

All participants were asked to identify key issues for ConvaTec to focus on today and in the next five to ten years and rank these issues in order of importance. Based on feedback from the survey, while patient-related issues (safety, innovation and efficacy, reliability) remain the top priority for external stakeholders today, environmental issues, particularly relating to product recyclability and climate change, will become highly significant across the next decade. The feedback also showed that our internal stakeholders recognise the growing importance for large international businesses to be able to demonstrate leadership on sustainability and responsible behaviour. It is pleasing to report that external stakeholders continue to rank our business as a leader in responsible behaviour within our sector. Further information about the GlobeScan survey and its key findings are included in our Corporate Responsibility Report which is available on our website at www.convatecgroup.com/corporate-responsibility.

Our market environment

We have established positions in attractive structurally-growing markets driven by global megatrends and evolving dynamics which are shaping the way we do business.

Our chronic care marketplace

Our chronic care marketplace is valued at c.$13 billion[1] and is projected to grow, on average, at 4% per annum over the next five years. Our performance and competitive positioning across our markets are mixed.

Advanced Wound Care[2]

Market size
c.$7.0bn

Market growth
c.4%

Key competitors
- Acelity
- Mölnlycke
- Smith & Nephew
- Others

2019 revenue
$569.9m

Market position/market share
- Global advanced wound dressings #2/17%
- Global silver dressings #1/30%
- Global hydrocolloid dressings #1/38%
- Global alginate and gelling fibre dressings #1/40%

For further information see page 48.

Ostomy Care[3]

Market size
c.$2.5bn

Market growth
c.4%

Key competitors
- Coloplast
- Hollister/Dansac
- Others

2019 revenue
$525.0m

Market position/market share
- Global ostomy #3/20%
- US #2
- EMEA #3

For further information see page 50.

Continence & Critical Care[4]

Market size
c.$2.0bn

Market growth
c.4%

Key competitors
- Coloplast
- Bard
- Wellspect

2019 revenue
$456.7m

Market position/market share
- Retailer in intermittent catheters in the US #1/40%
- US fecal management systems #1/64%

For further information see page 52.

Infusion Care[5]

Market size
c.$1.0+bn

Market growth
4–5%

Key competitors
- Smiths
- Ypsomed

2019 revenue
$275.6m

Market position/market share
- Global disposable infusion sets for insulin pumps #1/71%

For further information see page 54.

1. Market size, position, share and growth information contained on this page are estimates and are based on internal analysis and publicly available sources, including SmartTRAK and Global Industry Analysts Inc. reports.
2. The AWC market includes advanced dressings (global alginate and gelling fibre dressing sectors (combined), contact layers, hydrogels, hydrocolloids and super absorbents (other advanced dressings), silver/antimicrobials and foam), biologics and negative pressure wound therapy.
3. The Ostomy Care market includes pouching systems and ostomy care accessories (including deodorants, skin barriers and clothing) but excludes irrigation products.
4. The CCC market comprises the US and Europe intermittent catheter and fecal management market.
5. The Infusion Care market size refers to disposables for insulin infusion pumps.

The global trends driving growth in our markets

Three global trends are driving structural growth in our markets and increasing demand for our products and technologies.

Trends	Impact on our business
Populations are getting older By 2050 the world's population aged over 60 is projected to more than double. Global population aged 60+ — 2017: 0.9 billion; 2050: 2.1 billion Source: United Nations, World Population Prospects, 2017 revision.	There is a strong correlation between age and the incidence of chronic conditions that require wound, ostomy and incontinence treatment and infusion products. Source: Gist, Tio-Matos, Falzgraf, Cameron, Beebe (2009).
Chronic conditions are on the increase Between 1985 and 2005 the prevalence of chronic disease doubled and continues to grow, mainly due to increased life expectancy. Source: Uijen, A. A., & van de Lisdonk, E. H. (2008). By 2030 the incidence of diabetes across the global adult population is forecast to increase to approximately 10%. Source: Euromonitor. Globally there are 50 million reported cases of patients suffering from hard-to-heal wounds, including foot ulcers and venous leg ulcers. Source: Frost & Sullivan.	The increasing prevalence of chronic conditions, which are often experienced over a long period of time and generally progress slowly, is driving demand for our products. The conditions that each of our franchises focus on are detailed below. **Advanced Wound Care**: – Diabetes and vascular disease – Chronic ulcers **Ostomy Care**: – Colorectal cancer – Bladder cancer – Crohn's disease – Ulcerative colitis **Continence & Critical Care**: – Multiple sclerosis – Benign prostatic hyperplasia – Spinal cord injury **Infusion Care**: – Diabetes
People are living longer Due to earlier detection and more effective treatment, people with chronic conditions are living longer. Average life expectancy of people with type 1 diabetes — 53 (1950–1964); 69 (1956–1980) Source: The Pittsburgh Epidemiology of Diabetes Complications Study, Cohort (2012).	Many of our customers stay with us throughout their lives, and as they live longer, the period during which they are reliant on our products is extended. Commercially this gives us long-term visibility of the underlying demand for our products.

A number of evolving market dynamics are shaping how we do business

Dynamic	How it is shaping our business
Health systems facing cost pressures and emphasis on homecare for chronic diseases Due to the growing demand for care and treatment, worldwide healthcare costs as a percentage of GDP are projected to rise. (Source: The New Economy: Beyond The Hype. Final report on the Organisation for Economic Co-operation and Development Growth Project.). Efforts to reduce overall spending are being accelerated and increasingly healthcare providers are putting greater emphasis on value-based healthcare solutions that deliver better outcomes at lower costs. They are also applying increasing price pressure across the entire care continuum and focusing more on out-patient care. In the US, the home healthcare market grew by 6.8% in 2019 and is expected to reach $186.8 billion by 2027. (Source: Centers for Medicare & Medicaid Services (CMS) Office of the Actuary.)	We focus on developing solutions that provide optimal outcomes and help healthcare providers deliver their services effectively and in the most cost effective way. To drive the development of a robust new product pipeline, we have strengthened our R&D and technological capabilities and reorganised our innovation function (see page 20). We are also striving to instil an execution excellence culture across the Group to ensure that we operate in the most efficient way and deliver competitive products and solutions. See page 21. We are continuing to build and strengthen our direct-to-consumer business. Read about our Home Services Group on page 53.
Increase in patient/consumer influence People are becoming more engaged in their healthcare and are actively seeking out products and technologies that not only address their needs, but do so in a convenient way that fits with their lifestyle.	We engage with the people who use our products and obtain valuable feedback, which helps us better understand and meet their needs. Read about our me+™ programme on page 51. Through innovation we will focus on delivering differentiated patient-centric trusted medical solutions that take account of personal preferences, emotional and lifestyle needs.
Increase in new technologies, including digital, to manage disease Tech-enabled innovation is affecting all types of disease management. In particular, digitisation is enabling remote management of therapies and early detection and real-time monitoring.	The development of digitally-enabled technologies is creating multiple opportunities in wound care and diabetes management. In line with our strategy (see pages 18 to 21), we will significantly increase our investment in innovation to strengthen our innovation capabilities and developing differentiated solutions that utilise smart technologies and data and meet the distinct needs of our customers.
New entrants and value players In recent years new players have entered the healthcare market and their numbers continue to increase. Innovation, pressure on existing healthcare systems and consumer demand are driving this development which is disrupting a sector once populated by long-established medical businesses.	One of our key priorities is to become more customer-centric and build closer relationships with the people who need our products and services. We are also working to simplify our business to become more agile and better able to harness market opportunities. For further information see page 20.
Rise of emerging markets The use of healthcare products and services is increasing as a large proportion of the growing middle class in emerging markets are gaining access to private medical insurance. A $3 billion growth in consumables is expected to come from China over the course of the next three years. (Source: Fitch Solutions.)	We have simplified the operating model and created a new global Emerging Markets business unit to focus on faster growing markets. We are also focusing our resources on "must-win" markets which include China. For example we are appointing senior, locally-based management who have significant knowledge and experience of local markets and developing trends. Read more about our market approach on page 20.

Working in partnership with our customers to benefit the diabetes community

Our Infusion Care franchise is the global leader in the disposable infusion set market. Its innovative technologies and high-technology production facilities have enabled it to build a number of long-term partnerships with major manufacturers of insulin pumps. These partnerships have resulted in a number of collaborations focused on developing novel new ways of delivering insulin to benefit the diabetes community.

Currently we are working with Medtronic to bring an extended wear infusion set to market which will reduce the number of insertions required of patients on pump therapy. This breakthrough innovation has recently received CE mark certification in Europe. The CE mark labelling supports the use of the infusion set for up to seven days – more than twice the length of time that any current infusion set can be used. This milestone is the result of a strong development partnership between Medtronic and ConvaTec. A pivotal trial is now underway in the US to support a 510K submission.

We are also partnering with Tandem Diabetes Care in relation to their t: slim X2 insulin pump, one of the smallest pumps on the market.

t: slim X2 now incorporates Basal-IQ™ technology that gives the user better control by helping reduce the frequency and duration of low glucose events by predicting glucose levels and adjusting insulin delivery accordingly.

Mio™ Advance is an infusion set with an integrated insertion device which makes continuous subcutaneous infusion easier, faster and more comfortable. Mio™ Advance is a trademark of Medtronic Minimed, Inc.

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Our strategy

The various projects our Transformation Office has overseen have delivered some benefits. However, there is much still to be achieved. To realise our strategic intent of pivoting to sustainable and profitable growth, more significant and fundamental change is required. To achieve this we have developed our strategy, which is focused on the five pillars set out below. Our success will be underpinned by our new operating model, which is described on page 7, and supported by our refreshed values (detailed on page 37), which will guide the way we work.

Our vision

Pioneering trusted medical solutions to improve the lives we touch

Our strategic pillars

Focus

Overview
Focus on "must-win" markets and categories. See page 20.

Relevant KPIs
- Group revenue growth
- Adjusted EBIT margin
- Adjusted free cash flow

Link to risk
1, 2, 3, 4, 5, 6, 7, 8, 9.

Innovate

Overview
Innovate by investing in our R&D capabilities to develop trusted medical solutions that customers need most. Our innovation will focus on providing differentiated, patient-centric solutions delivered across products, services and digital. See page 20.

Relevant KPIs
- Group revenue growth
- Adjusted EBIT margin
- Adjusted free cash flow
- Quality

Link to risk
1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11.

Simplify

Overview
Simplify and strengthen our organisation by having a more customer-centric and agile operating model with clear accountability. See page 20.

Relevant KPIs
- Adjusted free cash flow

Link to risk
1, 2, 5, 6, 7, 8, 10.

Build

Overview
Build critical core capabilities across the value chain via centres of excellence, including salesforce effectiveness and quality. See page 21.

Relevant KPIs
- Group revenue growth
- Adjusted EBIT margin
- Quality

Link to risk
1, 2, 4, 5, 7.

Execute

Overview
Execute with excellence across the Group by instilling a culture of execution via the Transformation Office. See page 21.

Relevant KPIs
- Adjusted free cash flow
- Quality

Link to risk
1, 2, 5, 7.

Key to risks – see pages 28 to 33.

1. Change and transformation
2. Failure to attract, engage and retain leadership talent
3. Legal and compliance
4. Product innovation and intellectual property
5. Information security
6. Quality and regulatory
7. Brexit
8. Global operational and supply chain
9. Pricing and reimbursement
10. Forecasting process
11. Macroeconomic and foreign exchange

Our strategic pillars – developments to date and future priorities

Focus

Developments
– Created and launched specialised AWC sales teams in the US dedicated to specific markets (chronic and surgical).

Priorities
– Invest in our top 12 markets which include the US and China.
– Maintain and develop competitive offering in other markets.
– Service indirectly or exit tail markets.

Simplify

Developments
– Developed new operating model which is more agile, customer-centric, innovation led and accountable (see page 7).

Priorities
– Transition to new operating model.
– Rationalise SKUs in Ostomy Care by more than 10%.

Innovate

Developments
– Strengthened our innovation capabilities with the appointment of our first Chief Technology Officer (see page 7).
– Appointed our first Chief Medical and Innovation Officer to support the development and implementation of our patient-centric innovation strategy and, in particular, to generate evidence-based improvements in patient outcomes, increased economic efficiency and improved patient access.

Priorities
– Aim to significantly increase our R&D investment.
– Deliver differentiated, patient-centric trusted medical solutions that take account of personal preferences and utilise innovative technologies and evidence-based results data.
– Design for low cost and adaptability.
– Create a total wrap-around service encompassing products, services and digital.

Strengthening our innovation pipeline
During the final quarter of 2019, to ensure that we focus on developing innovative solutions that best address our customers' needs and can be commercialised successfully, we introduced a new product development process. Launch Excellence ("L.Ex") is a global standard seven-stage process which we now apply to every proposed new product and service development. L.Ex reduces duplication, drives accountability and enables disciplined decision making.


One of our Infusion Care cannulas undergoing R&D testing.

Build

Developments

- Launched common customer relationship management platform in Europe to facilitate sales force efficiency and effectiveness.
- Introduced L.Ex, our new product development process (see previous page).

Priorities

- Further strengthen product process and clinical development together with medical education.
- Strengthen supply chain to ensure reliable and efficient production of high-quality products.
- Enhance digital marketing capabilities and, in particular, increase focus on customer insights, targeted messaging and demonstration of value proposition.
- Broaden and enhance service excellence across the Group.
- Improve salesforce effectiveness and refine pricing and market access.

Execute

Developments

- Implemented more than 100 initiatives in all areas of our business.
- More than 150 people trained on execution excellence.
- Improved the execution capabilities of our commercial teams including refining and standardising our account segmentation model across Europe and the US to ensure our customer facing teams are focused effectively.
- Improved the cost base and created capacity at IC's Danish production facility by moving five production lines to our Reynosa plant in Mexico. The project was completed ahead of schedule and did not impact production.

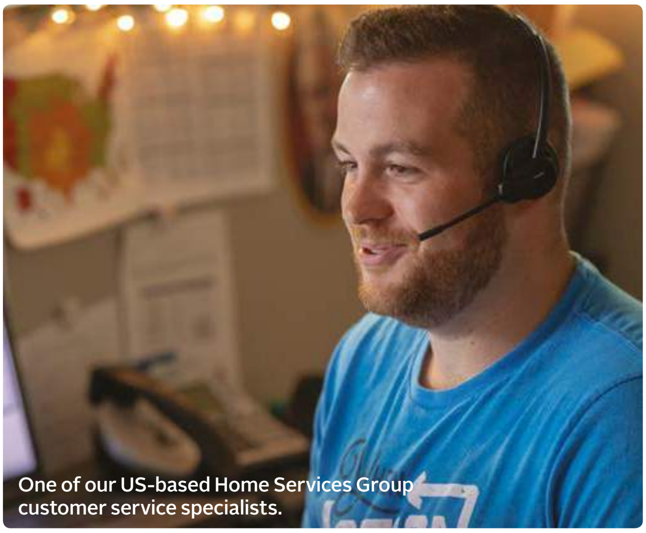
Priorities

- Accelerate US AWC turnaround.
- Enhance the efficiency and effectiveness of internal functions, including finance, IT and human resources, to support the provision of best-in-class customer service. This will be achieved by implementing standardised automated global processes enabled by a common suite of core systems and building a culture of continuous improvement and regular performance reviews.

How execution excellence is driving our success

Our Home Services Group ("HSG") is renowned for its exceptional customer service. The business's Net Promoter Score, which measures customers' experiences with its products and services, is world-class and, despite operating in a very competitive market, it has an annual customer churn of less than 1%.

A relentless focus on execution, excellence, and building relationships with our customers enables HSG to consistently deliver exceptional service levels. Every customer and healthcare professional enquiry is managed akin to a manufacturing process that is divided into a number of dedicated functions, all of which are overseen by specialist teams. This "expert" approach, combined with HSG's proprietary technology system that manages the flow of accurate information throughout the process, ensures that, at all times, enquiries are dealt with efficiently and effectively. In addition, team members are encouraged to refine and develop their skills, take on more responsibility, and progress their careers. This focus on personal development emboldens our people and makes them more confident about decision-making. As a result, we are able to respond faster to our customers' needs.



One of our US-based Home Services Group customer service specialists.

To realise our strategy and support our transformation we are making the following investments in our business:

- Increasing investment to between $205 million and $215 million over 2019 to 2021, including $44 million in 2019.
- Increasing recurring investment in commercial and R&D, this investment was $13 million in 2019 and is expected to be c.$60 million in 2020, increasing to c.$75 million in 2021.

See page 58 for further information.

Our key performance indicators

We monitor delivery of our strategy using both financial and non-financial KPIs.

Strategic pillars:

Focus, Innovate and Build

- Focus on "must-win" markets and categories.
- Innovate by investing in our R&D capabilities to develop trusted medical solutions that customers need most.
- Build critical core capabilities across the value chain via centres of excellence.

Group revenue growth[1] $

2019	**1,827.2m**	**+2.4%**
2018	1,832.1m	+2.7%
2017	1,764.6m	+4.1%

On a reported basis, revenue declined 0.3%. At constant currency, revenue grew by 2.4% to $1,827.2m, and 2.3% organically. AWC revenues grew 0.5% in line with expectations, with strong growth in our AQUACEL™ Ag+ Advantage silver products, offsetting adverse performance in legacy base Hydrofiber™ and skin care, due to challenging market dynamics, and transition in the US market. Ostomy Care grew 1.9%, against a weak prior year, driven by strong sales in Latin America, APAC and select EMEA markets, offset by US performance. CCC revenue grew 4.1% organically, principally driven by continued growth in HSG, against a weaker prior year comparator due to the packaging recall, and partially offsetting underperformance in the Hospital & Critical Care businesses. Infusion Care organic revenues grew 4.1%, reflecting both a normalisation of ordering patterns of our largest customer in the last quarter of 2018 and strong ongoing demand from two of our largest customers driving sales volumes, which has compensated for the decision of another customer (Animas) to exit the market.

Link to risk
1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11.

Adjusted EBIT margin[2] %

2019	**19.4**	**-4.0%**
2018	23.4	-2.5%
2017	25.9	-2.1%

Adjusted EBIT margin fell 4.0%. The main drivers of this movement were our investment in transformation ($39.4m) and MDR ($5.2m) and the impact of adverse FX movements ($13.6m). A net positive productivity contribution was more than offset by price pressures and negative sales. See pages 59 to 67.

Link to risk
1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11.

Key to risks – see pages 28 to 33.

1. Change and transformation
2. Failure to attract, engage and retain leadership talent
3. Legal and compliance
4. Product innovation and intellectual property
5. Information security
6. Quality and regulatory
7. Brexit
8. Global operational and supply chain
9. Pricing and reimbursement
10. Forecasting process
11. Macroeconomic and foreign exchange

1. Revenue growth is stated at constant currency.
2. Certain financial measures in this Annual Report and Accounts, including the adjusted performance measure above, are not prepared in accordance with IFRS. All adjusted performance measures are reconciled to the most directly comparable measure prepared in accordance with IFRS on pages 182 to 187.
3. Adjusted net cash for cash conversion less tax paid.
4. In 2019, due to better-than-expected energy efficiency performance, and more favourable movements in carbon intensities in certain national grids, we have reduced our GHG emissions by an amount significantly in excess of our projections. Whilst we expect additional gains to be become more difficult to deliver, we will monitor progress against our target to assess if we should re-set this at a more ambitious level.

Strategic pillars:
Focus, Innovate, Simplify and Execute

- Focus on "must-win" markets and categories.
- Innovate by investing in our R&D capabilities to develop trusted medical solutions that customers need most.
- Simplify and strengthen our organisation by having a more customer-centric and agile operating model with clear accountability.
- Execute with excellence across the Group via the Transformation Office.

Adjusted free cash flow[3] $

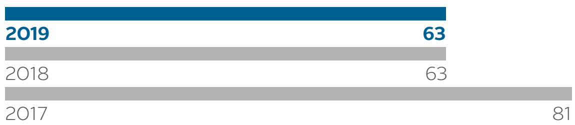
Adjusted free cash flow has increased, principally due to positive working capital movements resulting from inventory reductions. This is partially offset by increased investment in transformation and MDR. Further information is provided on page 187.

Link to risk
1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11.

Strategic pillars:
Innovate, Build and Execute

- Innovate by investing in our R&D capabilities to develop trusted medical solutions that customers need most.
- Build core capabilities across the value chain via centres of excellence.
- Execute with excellence across the Group via the Transformation Office.

Quality (complaints per million products sold)



Our primary key performance indicator for quality is complaints per million products sold ("CPM"). This reflects our customer- centric focus. It is also a strong indication of our manufacturing quality and is key to ensuring that our products are of the highest quality. Our CPM metric peaked in 2017 after the transfer of the manufacture of Ostomy Care and AWC products to our plant in Haina in the Dominican Republic. Since then we have continued to improve this metric across all our business units and have achieved an overall reduction of 22% since 2017.

In 2019, to ensure the highest level of patient safety and satisfaction, we initiated a field safety notice for a limited family of ostomy products. This notification to our customers resulted in a temporary increase in the complaint rate in Q4 2019. Our global rate of reportable events remains very low.

We continue to be compliant with the regulations in all our global markets and we have updated our processes in these areas to meet the requirements of the new EU Medical Devices Regulation 2017/745. We have recently been awarded certification to the new Medical Device Single Audit Programme for all our facilities.

Link to risk
1, 3, 4, 6, 8, 10.

Monitoring our responsible business approach

Detailed information about our CR programme, including targets and an update on the progress we are making, is contained in our Corporate Responsibility Report which is available on our website at www.convatecgroup.com/corporate-responsibility.

Health & Safety

	2019	2018	2017
Fatalities	**0**	0	0
Recordable injuries	**33**	30	48
Recordable injury rate	**0.55**	0.50	0.82
Lost time injuries	**16**	20	33
Lost time injury rate	**0.27**	0.33	0.57

Progress against greenhouse gas emissions target
Greenhouse gas emissions (market-based method) (tonnes CO_2e)

2018	33,184
2019[4]	26,833
Target (2023)	29,865

Risk management

Understanding and appropriately managing risk inherent to our business maximises potential opportunities to realise our vision, pivot to sustainable and profitable growth and create and preserve value.

Introduction
A number of current and emerging risks specific to our business, industry and external environment could potentially impact our strategy, performance and reputation. Successful management of these risks supports better decision-making, ensures that our Board and management respond promptly when risks arise, and enables us to keep shareholders and other stakeholders well informed about our risk profile and the Group's long-term viability.

Risk culture
Our Board is responsible for risk management and promotes a transparent and accountable culture through good stewardship that does not inhibit sensible risk taking critical to growth. Board and Committee meetings set the tone for the CELT and other senior management to promote and cascade this culture through the Group and with external stakeholders.

The Board supports good risk management across the Group by implementing and overseeing a framework of appropriate and effective controls that enable risk to be assessed and managed. The Board's Committees have the following risk-related responsibilities:
- Audit and Risk Committee ("ARC"): monitors and reviews all risk management processes and is responsible for ensuring risk mitigation and controls are effective.
- CR Committee: defines and oversees the Group's environmental and social obligations and conduct, and the implementation of its CR strategy. As explained on page 5, the CR Committee will be disbanded with effect from 2 March 2020, and the Board will be responsible for overseeing our CR strategy and its implementation.
- Nomination Committee: provides oversight to ensure that the Group has a talented, diverse and effective leadership team and a pipeline of future talent, capable of successfully managing risks that could impact the Group's strategy.
- Remuneration Committee: provides oversight to ensure implementation of appropriate reward arrangements to drive a high-performing culture that manages risk in line with our risk appetite.

While sound risk management systems cannot eliminate all risks, the role of the Board, its committees and the CELT is to ensure that our risk management systems are robust, effective and take account of appropriate exposures.

Risk appetite
The Board sets the level of risk we are prepared to accept to achieve our vision and our strategy. Our risk appetite is defined against four risk categories which are described in the following diagram. On an ongoing basis, the ARC monitors the level of risk faced and how the business continues to operate within the stated risk appetite levels.

Principal risks
Our principal risks, which the Board reviews and approves on a bi-annual basis, are set out on pages 28 to 33.

Our risk appetite

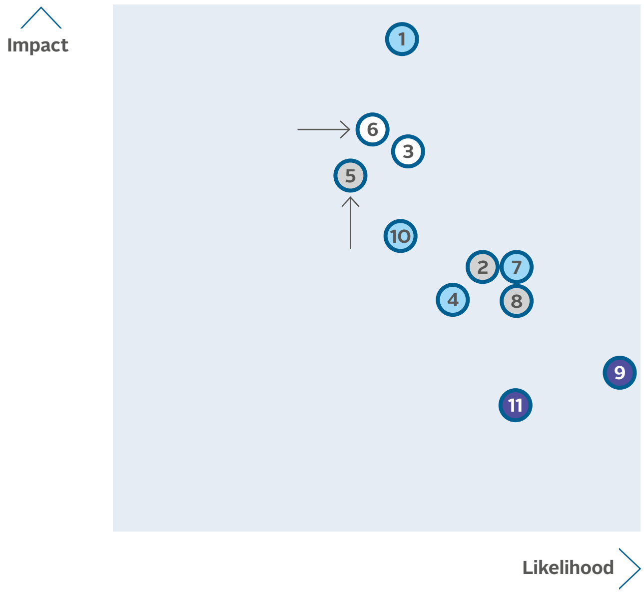
Risk category	Risk appetite level
Strategic	**Moderate to High** – the business takes well-informed and well-managed risks to achieve strategic objectives.
Operational	**Low to Moderate** – the business works to achieve strategic objectives through accepting, managing and/or reducing risk to a minimal level as appropriate.
Financial	**Low to Moderate** – the business works to achieve strategic objectives through accepting, managing and/or reducing risk to a minimal level as appropriate.
Compliance	**Extremely Low (zero)** – the business seeks to eliminate the risk as much as possible.

During the last quarter of 2019, the CELT reviewed the principal risks against our risk appetite taking into consideration the evolving strategy, current business environment and any emerging risks, including those that could arise during 2020 and beyond. The CELT reconfirmed and prioritised the principal risks as to their potential effect on our ability to successfully deliver our strategy. The principal risks described on pages 28 to 33 in order of priority are reflected in the key adverse assumptions in the Viability statement (see pages 34 to 35).

The graphic on the adjacent page summarises our assessment of the likelihood of our principal risks occurring and the impact that could result. These are stated after taking into consideration the mitigating actions and effective controls in place to manage each risk.

During 2019, our overall risk landscape remained largely unchanged. To support our strategy and mitigate specific external events we increased our focus in certain areas as follows:
- Strategic risks: We retain a dedicated third party to support our Transformation Initiative that will underpin successful delivery of our strategy. Previous underinvestment in our product and development pipeline, with the consequence of losing market share, is being addressed through continuous re-investment and

Principal risks



Key:
1. Change and transformation
2. Failure to attract, engage and retain leadership talent
3. Legal and compliance
4. Product innovation and intellectual property
5. Information security
6. Quality and regulatory
7. Brexit
8. Global operational and supply chain
9. Pricing and reimbursement
10. Forecasting process
11. Macroeconomic and foreign exchange

Risk category:

Strategic Operational Financial Compliance 2019 movement

oversight. We continue to enhance our business planning and forecasting processes with improvements in data, culture and focus across the Group. A cross-functional steering group manages Brexit uncertainty in future trading conditions to continue to deliver sustainable returns.

- Operational risks: We made changes in 2019 to the Board and CELT, and, despite competitive labour markets, attracted experienced and proven senior management talent to reshape and lead the Group in the successful execution of our strategy. We continue to improve the robustness and performance of our operations, supply chain and IT infrastructure, including through the implementation of the ConvaTec Way, which is explained on page 38, conducting due diligence reviews on our third-party partners and continuing to invest to improve and enhance the resilience of our IT infrastructure.
- Financial risks: Strengthening our ability to grow in a sustainable and profitable way over the medium to long-term through implementation of interest rate hedges to minimise market risks and the successful completion of the Group's debt refinancing programme were key events during the year, which provide significantly increased assurance about the Group's long-term viability.
- Compliance risks: Working towards operational preparedness for the European Union Medical Device Regulation ("MDR") requirements coming into effect in 2020, including managing and reinforcing conformance with existing obligations and legislative requirements. Quality and regulatory was elevated in risk score, following review in 2019, to reflect the increasing risk environment as a result of the MDR deadline in the wider Brexit context and the delay in the UK exiting the EU now coinciding with the regulatory timeframe.

2020 anticipated risks

We expect some risks to be realised in 2020 and have put in place mitigations to reduce adverse consequences on the Group's financial results, operations, reputation and strategy. While these risks form part of our principal risks, further details are provided below:

- Coronavirus: The Coronavirus outbreak is being monitored with particular regard to our people, production, the supply chain and sales. We are continually assessing the potential impacts on our ability to operate effectively across all of our chosen markets. A response plan with appropriate mitigation actions will be put in place as necessary. For further information, see page 58.
- MDR: The EU MDR, published in 2017, comes into effect in May 2020. Our markets in the EU, and other regions that align their product registrations to EU requirements, are affected by the new requirements for all CE marked products. Not complying with the regulatory requirements could result in increased scrutiny, financial penalties and an inability to trade within our chosen markets. Our Quality Assurance, Regulatory Affairs and Clinical team is working with our businesses towards ensuring compliance across the Group, including the re-registration of all of our medical devices, regardless of the site of manufacture.
- Brexit: Following the UK referendum result in 2016 and the UK election in 2019, the political and regulatory landscape and our trading position within the EU remains uncertain. This uncertainty is expected to continue until UK/EU exit negotiations have been completed and an exit agreement reached. We have taken appropriate steps to prepare for foreseeable consequences from the UK exiting the EU and continue to monitor and, where possible, mitigate this area as it progresses using a cross-functional approach. Brexit remains one of our principal risks and more information about our readiness can be found on page 31.
- Geopolitical: climate-related risk continues to increase as the new UK Government sets out its domestic agenda. There is also potential heightened risk associated with the US administration's ongoing modification of its approach to trade policy, further regional geopolitical tensions and the implementation of national healthcare reforms and local market tariffs, regulation and legislation in the markets where we operate.

Emerging risks

In line with requirements of the UK Corporate Governance Code 2018 (the "Code"), on a quarterly basis we engage with the business to identify any emerging risks. We continue to develop our emerging risk approach and its integration into our current risk management system.

We have identified the following emerging risks, which relate to new or changing conditions in our market environment, that may impact the Group beyond the horizon of our long-term Viability statement:

- Customer behaviour: Driven by increasing pressure from economic, political and social developments, including rising income inequality, national sentiment, market trends and recognition of the economic and environmental impact of global climate change, future markets will potentially be shaped by changes in customer demands and expectations. They may also be impacted by regulatory requirements necessitating a move towards a lowest possible cost environment and low-carbon and plastics economy.
- Disruptive technology: technology and innovation are essential if we are to meet customer demands in a competitive way. If we do not develop the right products, have access to the right technology or deploy it effectively within our key markets we may lose market share to existing and new-entrant competitors.
- Political and regulatory environment: political and regulatory interventions and changes to corporate governance requirements from governments and regulatory bodies vary, but include changing environmental regulations and disclosure requirements, governance of industry operations, security of supply chain, amendment to existing tax and disclosure regimes and protection of consumers and customers. The continuing volatility of the international political climate increases the possibility of tariff structure changes, sanctions or other trade limiting actions that could impact the ability to source commodities and services, operate in certain markets and/or retain a presence in our current locations.
- Climate change and sustainability: increasing attention on climate change, including activities by non-governmental and political organisations as well as greater interest by the broader public, reinforce the need to implement our climate change strategy which is described on page 42. We continue to strengthen our management of CR-related risk (including adopting elements of the climate risk framework established by the Task Force on Climate-Related Financial Disclosures ("TCFD")), to improve our transparency, develop our employee and community engagement, and improve the sustainability performance of our products. Failure to follow global business principles of operating professionally, fairly and with integrity, or the public perception that there has been such a failure or other real or perceived failures of governance, or legal or regulatory compliance, could undermine trust in the Group. Our CR strategy acknowledges the key elements of the sustainable development agenda and has been developed to recognise how these factors interact with the Group. Further information about how we run our business in a responsible way is set out on pages 36 to 46, and in our CR report, which is available on our website at www.convatecgroup.com/corporate-responsibility.

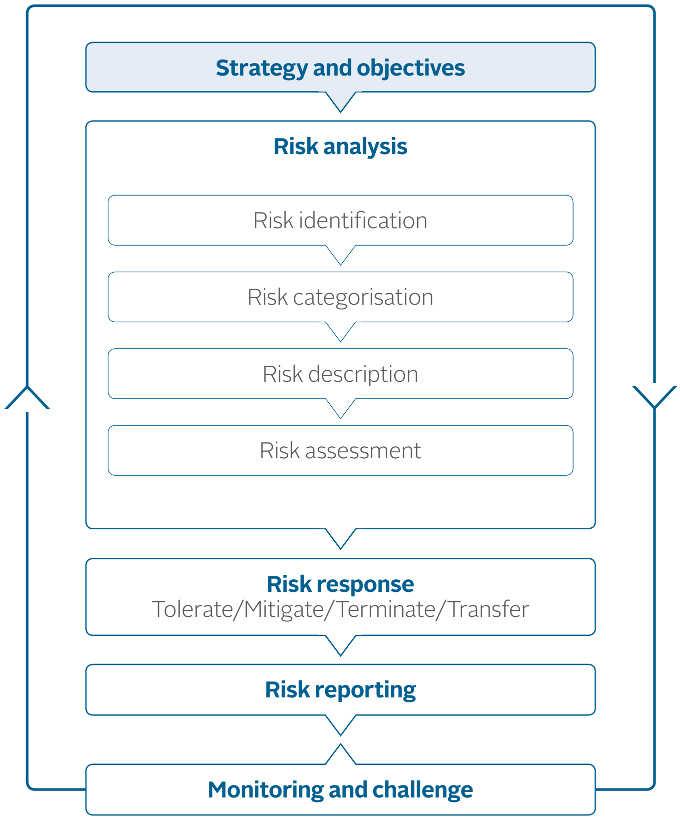
Risk management framework

We continue to strengthen our approach to risk management to develop a process that is aligned to ISO 31000, Risk Management, and complies with the requirements of the Code.

The Group seeks to minimise risk exposure in line with our risk appetite and provide assurance that we can deliver value to our customers, shareholders and other stakeholders.

We identify, assess and prioritise our principal risks, according to our defined risk scoring criteria, twice a year with management. Controls are in place and are reviewed as to continued effectiveness. Additional risk mitigation measures are implemented and monitored to further reduce our risk exposure and ensure alignment with our risk appetite. The ARC provides oversight to these risks and the risk management process each quarter.

Our risk management framework



Governance and oversight

The Board has overall responsibility for the Group's system of risk management and internal control and regularly reviews the processes the Group operates. This includes determining the nature and extent of the principal risks we are prepared to accept to achieve our strategy, verifying the Group's prospects and viability through the Viability statement and ensuring that an appropriate culture has been embedded throughout the Group. The Board delegates responsibility for overseeing internal and external audit, internal controls and risk management to the ARC. The work of the Board and the ARC is underpinned by a formal structure of delegated authority and supported by Group policies covering key areas of operation, including risk management.

We have in place a dedicated central risk team that establishes and facilitates the risk management process across the Group to provide risk information for management oversight and decision. Senior business representatives (Risk Champions) from each franchise, function and region take a lead role in the identification of risk, and agreeing and updating risk information for senior management oversight. The diagram below shows the key roles, responsibilities and overall arrangements for collecting, monitoring and reviewing risk information for management decision within the risk management process.

Other factors

For further information relevant to our risk profile see:

– Our market environment – pages 14 to 17.
– Our business model – pages 2 and 3.
– Our strategy – pages 18 to 21.
– Our key performance indicators – pages 22 and 23.
– How we run our business in a responsible way – pages 36 to 46.
– Viability statement – pages 34 and 35.
– Our governance arrangements – pages 68 to 135.

Roles and responsibilities

Board	– Sets the Group's risk appetite. – Ensuring appropriate risk management and internal control systems to enable a robust assessment of the principal risks. – Determining and managing the principal risks, and taking a balanced view of those risks against ConvaTec's strategy to establish an appropriate risk appetite position. – Setting the "tone from the top" and the culture for managing risk.
Audit and Risk Committee	– Considering the risk environment through reporting from management, Internal Audit and the external auditor. – Reviewing, and reporting to the Board on the effectiveness of the internal control environment and risk management systems. – Setting the Internal Audit annual plan and external audit scope to provide assurance that the Group operates within the Board's approved risk appetite through appropriate and effective controls and mitigations in place.
ConvaTec Executive Leadership Team	– Sponsoring a coordinated approach to establishing enterprise risk management. – Managing the principal risks appropriately to operate within the Group's risk appetite.
Business Leadership Teams	– Reviewing management of their specific risks on a quarterly basis against the Group's risk appetite. – Continuously identifying additional mitigations to reduce the risk of exposure.

Risk information top down

Risk information bottom up

Principal risks

Detailed below in order of priority is an overview of the principal risks we believe could threaten the fulfilment of our vision, impede our ability to pivot to sustainable and profitable growth and damage our reputation. We explain here the actions we are taking to respond to and mitigate those risks.

Risk, category, appetite and oversight	Link to strategy, risk profile change, impact	Key drivers, overarching vulnerabilities, opportunity	Risk mitigation (current and planned)
1. Change and transformation The scale of our transformation programme is significant. Successful delivery through robust change management processes and investment in infrastructure and capabilities is required to realise our vision and pivot to sustainable and profitable growth. A material delay or challenge in realisation of our forecasts may affect the transformation or growth of our business areas resulting in a failure to meet stakeholder and shareholder expectations. **Risk category** Strategic **Risk appetite** Moderate to high **Oversight** Board **CELT accountability** Adam Deutsch, Chief Transformation Officer and General Counsel	Focus Build Innovate Execute Simplify **Risk profile change during 2019** No material change. **Impact** Medium-term: – Financial – Operations – Reputation and brand – People	**Key drivers** – Change management delivery. – Realisation of transformation benefits. – Our strategic drivers. **Overarching vulnerabilities** – Speed and volume of change management. – People capability and capacity alongside business as usual activity. – Stakeholder and shareholder expectations. **Opportunity** Create a continuous streamlined business model that assesses value adding opportunities, maximises investment returns and delivers strategy to meet stakeholder expectations.	**Current** – Dedicated Transformation Office in place providing overarching oversight to delivery of Transformation Initiative. – Robust and transparent transformation process implemented with third-party consultancy support in place. – Clear accountability and governance arrangements established to support the transformation workstreams. **Planned** – Performance benchmarking to gain cross-industry insight into similar transformation programmes. – Continuing to embed improved efficiency and optimisation into the business. – Provide assurance over effectiveness of the transformation portfolio, mitigate programme risks and ensure balance between short and long-term initiatives.

For further information see pages 18 to 21.

Risk, category, appetite and oversight	Link to strategy, risk profile change, impact	Key drivers, overarching vulnerabilities, opportunity	Risk mitigation (current and planned)
2. Failure to attract, engage and retain leadership talent To transform our business we need to attract, retain and develop skilled and talented people. Failure to secure the right level of capability and capacity, particularly in our senior management, and develop a talent pipeline will adversely affect our ability to transform our business, achieve our strategic objectives and deliver growth. **Risk category** Operational **Risk appetite** Low to moderate **Oversight** Board **CELT accountability** Sean McGrath, Executive Vice President, Human Resources	Focus Build Innovate Execute Simplify **Risk profile change during 2019** No material change. **Impact** Medium-term: – People – Operations – Reputation and brand	**Key drivers** – Attraction and retention of key skills and capabilities. – Effective succession planning strategy for senior leadership. – Knowledge retention within key markets and functions. **Overarching vulnerabilities** – Competitive industry and regional recruitment markets. – Senior management change and succession. – Speed and volume of management change. **Opportunity** Create a sustainable level of expertise and key skills across the Group.	**Current** – People strategy focused on simplifying people processes, building talent, developing capability, enhancing employer reputation and strengthening diversity and inclusion. – Regular talent management reviews in place with retention process for key performers and talent. – Performance management processes in place to support our talent in creating value and delivering our priorities, **Planned** – Enhance talent management review processes to further enable robust management of key talent. – Further roll-out of our people strategy to support development of key individuals in key roles. – Increase focus on retention of key roles during transformation programme.

For further information see pages 37 to 40.

Risk, category, appetite and oversight	Link to strategy, risk profile change, impact	Key drivers, overarching vulnerabilities, opportunity	Risk mitigation (current and planned)
3. Legal and compliance Our business is subject to a complex environment of laws and regulations across multiple jurisdictions. We seek to fully comply with all market and corporate obligations and requirements. Real or perceived failure to do so, or adjust to a change in conditions and increase in scrutiny, could result in adverse consequence such as penalties, a decrease in corporate trust from stakeholders or additional compliance measures. **Risk category** Compliance **Risk appetite** Extremely low (zero) **Oversight** Board **CELT accountability** Adam Deutsch, Chief Transformation Officer and General Counsel	**Focus** **Innovate** **Risk profile change during 2019** No material change. **Impact** Short-term: – Regulatory/legal breach – Financial – Reputation and brand – Operations	**Key drivers** – Sales and market conduct. – Engagements with payors and healthcare contacts. – Supply chain transparency. **Overarching vulnerabilities** – Complex legal and regulatory environment. – Volatile political environment. – Operational and third-party performance. **Opportunity** Create an industry-leading legal and compliance approach to our obligations and stakeholder expectations.	**Current** – Policies and procedures, including our Code of Conduct, reinforce our values and culture. – Compliance steering committee provides top-down senior leadership on compliance initiatives. – Dedicated Group compliance function, annual compliance assurance programme, ongoing employee compliance training and independent whistleblower hotline and web link in place. **Planned** – Enhance supply chain compliance and transparency through improving the on-boarding due diligence process and current third-party business partner risk management activities. – Undertake a phased risk-based approach on policy revision to maintain an appropriate compliance culture. – Provide assurance over Group operations through the annual compliance assurance programme.
For further information see page 44.			
4. Product innovation and intellectual property ("IP") Sustainable innovation in our product and development pipeline is fundamental to future growth, and the ability to respond to disruptive new technologies, changing customer behaviour and demand. Failure to invest in and develop safe, effective, profitable long-life products to meet market needs, or maintain sufficient IP protection, could result in lost market share, underperformance and a lack of confidence in our operational integrity to deliver in line with expectations. **Risk category** Strategic **Risk appetite** Moderate to high **Oversight** Board **CELT accountability** Dr Divakar Ramakrishnan, Chief Technology Officer Presidents and Chief Operating Officers	**Focus** **Innovate** **Build** **Risk profile change during 2019** No material change. **Impact** Medium-term: – Operations – Financial – Reputation and brand	**Key drivers** – Transition from end-of-life technology and ageing products. – Competitor pricing strategies and market environment. – Short and long-term management of customer demands. **Overarching vulnerabilities** – Disruptive and new technologies. Changing customer and market needs. – Previous underinvestment. – Complexity and transparency of intellectual property and patent environment, including in tax and operations. **Opportunity** Improve the long-term customer experience, meet market demands and capture growth opportunities in our markets through a sustainable development pipeline.	**Current** – Continued investment in R&D, product development and new product launches to cultivate the product pipeline. – Appropriate patent protection applied and maintained and ongoing market monitoring for potential IP violations. – Product portfolio reviews providing oversight on short, medium and long-term innovations and the balance across product categories and market regions. **Planned** – Improve assurance over the robustness of the IP portfolio and forward planning and ensure an effective balance between short, medium and long-term innovations through regular review of activities. – Maintain an appropriate level of R&D investment. – Conduct a review of the current and desired tax position for IP within the Group.

Risk, category, appetite and oversight	Link to strategy, risk profile change, impact	Key drivers, overarching vulnerabilities, opportunity	Risk mitigation (current and planned)
5. Information security We rely upon our complex technology systems, network and information management processes to support the effective operation of our global business. Failure to ensure that our systems and data management are effective, available, and integral and secure, including those of our third-party partners, could adversely affect our ability to maintain continuity in our operations and the trust of our customers, stakeholders and shareholders to provide a robust platform for our business. **Risk category** Operational **Risk appetite** Low to moderate **Oversight** Board **CELT accountability** Frank Schulkes, Chief Financial Officer	Focus Build Innovate Execute Simplify **Risk profile change during 2019** Increased following high-profile data protection cases and penalties involving other UK companies. **Impact** Short-term: – Information security – Financial – Regulatory/legal breach – Reputation and brand – Operations	**Key drivers** – Cyber security. – IT resilience, business continuity and disaster recovery arrangements. – Data management and privacy. **Overarching vulnerabilities** – IT system resilience. Replacement of legacy and end-of-life technology. – Confidential data and system management. – Increasing sophistication of hackers and cyber criminals. **Opportunity** Enhance the efficiency and resilience of our IT systems and processes to support effective delivery of our operations.	**Current** – Independent cyber assessments and regular reviews on the integrity of our network and data storage to assure cyber security exposures and the protection of sensitive information. – Corporate Accountability and Governance Framework to embed data privacy and a data privacy compliance programme. – Cyber Security Leadership Council and Data Privacy Leadership Team provide oversight and challenge to current and emerging exposures and improvement plans. **Planned** – Review adequacy and effectiveness of data protection in our third-party supply chain to ensure a robust environment. – Embed enhanced level of IT security across critical IT and manufacturing systems. – Embed dedicated team, including Data Protection Officer, to provide increased focus on data privacy exposures and provide ongoing education and awareness to employees at all times.
6. Quality and regulatory We are subject to oversight by a number of regulatory jurisdictions that continue to implement significant obligations and scrutinise how we operate. Failure to absorb any cost increase, fulfil emerging obligations or produce products and packaging that meet stringent customer and environmental criteria, or operate inadequate manufacturing and quality system procedures could result in our inability to supply or a requirement to recall a product, with the potential for patient class actions and individual patient liability claims, due to non-compliance with regulatory bodies or a failure to meet stakeholder expectations or due to patient harm from faulty products. **Risk category** Compliance **Risk appetite** Extremely low (zero) **Oversight** Board **CELT accountability** Donal Balfe, Executive Vice President, Global Quality, Operations and Regulatory	Focus Innovate Simplify **Risk profile change during 2019** Increased following the impending implementation of MDR in 2020. **Impact** Short-term: – Financial – Regulatory/legal breach – Reputation and brand – Operations	**Key drivers** – Compliance with MDR. – Quality standards within the manufacturing process. – Availability of key raw materials and services within our supply chain. **Overarching vulnerabilities** – Effective transfer of CE marks across our product range with no delay from our notified bodies. – Resolution of existing and emerging quality issues within the supply chain. – Single source or sole suppliers for raw materials and/or services. **Opportunity** Create a leading and responsive position in the quality and regulatory environment.	**Current** – Group-wide dedicated quality, regulatory and clinical affairs team provides focus on operational performance and emerging requirements. – Monitoring of product development processes with the implementation of timely corrective actions when required. – Training programmes in place for employees and contractors to ensure compliance with key regulatory requirements. **Planned** – Maintain relationship with our notified body and consultants to ensure global compliance across our operations. – Further strengthen the clinical team to provide a better focus on ensuring devices are safe and effective. – Additional improvements to our Effective Regulatory Intelligence process to ensure that the latest standards are met in all jurisdictions.

Risk, category, appetite and oversight

7. Brexit
We operate in and trade across the EU and rely on CE certification for our products in this and other global markets. As a result of Brexit a high level of uncertainty has been introduced regarding future trading conditions. A failure to adapt to changes in oversight and regulatory requirements from EU bodies that set and oversee terms of our operation in this region will adversely impact assumptions underlying our business plan, our EU and UK production plants, EU employees and potentially the logistics hub based in the Netherlands and sales in all EU countries.

Risk category
Strategic

Risk appetite
Moderate to high

Oversight
Board

CELT accountability
Donal Balfe, Executive Vice President, Global Quality, Operations and Regulatory

Link to strategy, risk profile change, impact

Focus
Build
Innovate
Execute
Simplify

Risk profile change during 2019
No material change.

Impact
Short-term:
- Financial
- Regulatory/legal breach
- Reputation and brand
- Operations
- People

Key drivers, overarching vulnerabilities, opportunity

Key drivers
- Compliance with regulatory frameworks.
- Adverse customs duties and tariffs.
- Supply chain resilience.

Overarching vulnerabilities
- Migration of product and process to retain CE certification.
- Import and export to and from the EU within our operations and supply chain.
- Tax impacts of changes to EU duty for goods and products.

Opportunity
Effective minimisation of Brexit disruption will enable us to identify areas for operational improvement, deliver further value and maintain our competitive market positions.

Risk mitigation (current and planned)

Current
- Cross-functional Brexit Steering Committee in place to oversee Brexit preparations, understand interdependencies across the Group and put in place mitigating actions.
- Supply chain and manufacturing contingency plans in place to manage projected product impacts, with continuous monitoring of appropriate stock and inventory level positioning.
- Migrated to an EU Medical Device Notified Body in the Netherlands to allow for continued operations under relevant EU market directives and associated CE product certificates.

Planned
- Continue to work with Department of Health and NHS Supply Chain on their contingency planning and projected product demands.
- Review and implement additional finance, tax, tariff and custom duty responsibilities post Brexit to optimise trading performance.
- Continue to improve and align to regulatory requirements on CE certification and product labelling.

For further information see page 9 and 58.

Risk, category, appetite and oversight	Link to strategy, risk profile change, impact	Key drivers, overarching vulnerabilities, opportunity	Risk mitigation (current and planned)
8. Global operational and supply chain We invest in the maintenance, development and innovation of our manufacturing assets to provide resilience in our operational integrity and performance. We rely on resilient and cost-effective supply chain partners and third parties for quality products, raw materials and services to support our operations and to comply with legal, regulatory and ethical obligations. Failure to respond to events, including pandemics and any increase in extreme weather patterns from climate change, that result in production delays, adverse product quality and health, safety and environmental incidents could result in underperformance or a loss of confidence in our ability to deliver our strategic objectives. **Risk category** Operational **Risk appetite** Low to moderate **Oversight** Board **CELT accountability** Donal Balfe, Executive Vice President, Global Quality, Operations and Regulatory	**Focus** **Innovate** **Simplify** **Risk profile change during 2019** No material change. **Impact** Short-term: – Operations – Financial – Reputation and brand – Regulatory/legal breach	**Key drivers** – Supply chain resilience. – Sales volume expectations. – Extreme weather events. **Overarching vulnerabilities** – Single source or sole suppliers for raw materials and services. – Growing global green agenda and other corporate responsibilities. – Health and safety of employees and contractors. **Opportunity** Increase the efficiency and effectiveness of operations to support future market and customer demands.	**Current** – Business continuity plans in place for manufacturing facilities and our key supply chain. – Developed process in place to redeploy inventory across the Group to minimise supply disruptions. – Solution in place to monitor supply-based risk across our key suppliers, ports and countries of operation. **Planned** – Continue to review and improve our business continuity planning, including appropriate preventative and response measures with regards to the current Coronavirus outbreak, pandemics and extreme weather patterns. – Enhance process for managing end of life product offerings. – Continue to identify and implement actions across our operations to align with our climate change strategy.
9. Pricing and reimbursement Growth and value in our markets rely on our product and future innovation pipeline meeting customer demands and a competitive pricing strategy. Failure to respond to changing customer behaviours and reimbursement rates, pricing pressure from large and consolidating buying groups, competitor movements and any reduction in local and national Government healthcare budgets could erode our market performance, financial return and ability to maintain confidence with stakeholders and shareholders. **Risk category** Financial **Risk appetite** Low to moderate **Oversight** Board **CELT accountability** Presidents and Chief Operating Officers	**Focus** **Innovate** **Risk profile change during 2019** No material change. **Impact** Medium-term: – Operations – Financial	**Key drivers** – Local or national Government healthcare budget provisions. – Operational, contracting and price review process. – Product portfolio rationalisation. **Overarching vulnerabilities** – Competitive markets and consolidation of buying groups. – Changes in customer buying patterns. – Manufacturing costs in a low-margin driven pricing environment. **Opportunity** Grow portfolio and market share through cost efficient, innovative products that strengthen the relationship with our customer base.	**Current** – Product portfolio rationalisation reviews in place to adapt to market pressures and realise higher value growth lines. – Operational reviews in place to drive manufacturing cost efficiencies and focus on R&D innovation. – Pricing governance process with dedicated team in place to adjust to changing market conditions. **Planned** – Further improve pricing strategy and process through pricing initiatives. – Continue to engage with industry associations with an active role in healthcare authority negotiations. – Maintain investment in enhancing management information to better differentiate products, value and clinical effectiveness.

Risk, category, appetite and oversight	Link to strategy, risk profile change, impact	Key drivers, overarching vulnerabilities, opportunity	Risk mitigation (current and planned)
10. Forecasting process We rely on effective business planning and accurate forecasting that link operational manufacturing, commercial and supply processes to make effective management decisions and prioritise how we use our resources. Failure to identify, react or plan effectively to changes in market conditions or customer demand on a timely basis could result in suboptimal decisions, underperformance and adverse trading results. **Risk category** Strategic **Risk appetite** Moderate to high **Oversight** Board **CELT accountability** Frank Schulkes, Chief Financial Officer	**Innovate** **Simplify** **Risk profile change during 2019** No material change. **Impact** Medium-term: – Operations – Financial – Reputation and brand	**Key drivers** – Operational manufacturing, commercial and supply planning processes. – Future customer demand requirements. – Future market conditions and competition. **Overarching vulnerabilities** – Competitive markets and manufacturing costs. – Volume of change management. – Historic commercial and operational performance. **Opportunity** Optimise forecasting and business planning to deliver targets and meet stakeholder and shareholder expectation.	**Current** – CELT-led regular operating review process in place with senior management and the global supply chain team. – Regular forecast review process in place using enhanced analytics and sensitivity analysis to address trends in a timely manner. – Insider information training programme in place for CELT, senior management and key functions. **Planned** – Continue to improve business information and processes used in operational planning and forecasting processes. – Review and enhance alignment between commercial and supply planning and the sales and operational planning process. – Provide further guidance on insider information as part of the annual operational planning and reforecasting processes.
For further information about our financial performance see pages 59 to 63.			
11. Macroeconomic and foreign exchange Our financial performance and price competitiveness are dependent on the management of exposure to changes in macroeconomics, particularly foreign exchange and interest rate movements, and tax obligations, including duties and tariffs. Failure to respond to events that have a direct impact on our credit, ratings and liquidity could result in an increase in the cost of and access to financing. An inability to maintain robust financial and tax systems to fulfil accurate financial statements and filing requirements, underpinned by appropriate accounting and tax judgements, could result in inadequate disclosure or material misstatement. **Risk category** Financial **Risk appetite** Low to moderate **Oversight** Board **CELT accountability** Frank Schulkes, Chief Financial Officer	**Innovate** **Risk profile change during 2019** No material change. **Impact** Medium-term: – Financial – Reputation and brand	**Key drivers** – Foreign exchange and interest rates. – Fluctuation, impact and changes in tax rates and allowances including as a result of our transformation. – Global economic environment and financial markets. **Overarching vulnerabilities** – Volatile geopolitical environment. – Complex global regulatory environment. – Changes to local or national Government healthcare budget provisions. **Opportunity** Stronger financial performance and balance sheet to increase stakeholder and shareholder confidence.	**Current** – Regular management oversight of estimated impact on financial performance from foreign exchange movement through sensitivity analyses. – Central global tax team in place monitors changes in tax laws and regulations to advise the business regularly on obligations and requirements. – Central global tax team supports business with the Organisation for Economic Co-operation and Development ("OECD") filing obligations in respect of transfer pricing and intercompany transactions. **Planned** – Further develop our foreign exchange risk management strategy and implement amendments to the intercompany funding structure. – Embed solution to deliver real-time reporting of our global filing and payment obligations. – Implement a new external tax tool to support the execution of our transfer pricing obligations.
For further information about our financial performance see pages 59 to 63.			

Viability statement

The Group's future prospects and viability

An understanding of the Group's strategy, to pivot to sustainable and profitable growth, and its business model (pages 18 to 21 and pages 2 and 3), are central in allowing the Board to assess the Group's prospects, liquidity, resilience and viability. The principal and emerging risks being addressed by the Company (see pages 28 to 33 and page 26) are reflected in the determination of the Group's strategy and its successful implementation.

Assessment of future prospects

The Group's annual planning process consists of monthly monitoring of progress against the financial budget and key objectives for the current year by the CELT and the Board, reforecasting throughout the year in respect of the expected outcome for the current year, preparing a detailed budget for the following year and updating a rolling five-year strategic plan, which forms the main basis on which to assess the longer-term prospects of the Group. Throughout 2019, management's ability to forecast revenue and operating margin performance has proven to be significantly more reliable than prior years. Further enhancements in the planning and forecasting process, including more granular analysis of performance by franchise, geography and product, will be achieved during 2020.

In 2019 the Board approved a detailed operational plan and refreshed execution model to deliver better financial results over the medium to long term. The Board subsequently approved the resulting revised financial plan that underpins the five-year strategic plan in January 2019 with a further update in July 2019. The revised financial plan, forecasts the Group's profitability, cash flows and funding requirements for the relevant period.

The current strategic plan has been developed from each of our four franchises and also three geographic regions, supplemented by items managed at a Group level and assumptions such as macro-economic activity, sector market growth forecasts, competitor activity and exchange rates. This has then been supplemented by the CEO's and the CELT's plans for improving the operational effectiveness and execution of all elements of the Group.

Karim Bitar took up the role of Chief Executive Officer in September 2019. Since then, in collaboration with the CELT, he has undertaken an assessment of the organisation, including the various workstreams under the Transformation Initiative launched last year to improve the execution across key parts of the business and ensure more effective delivery of our strategy. The new strategy is customer-centric, more agile, focuses on innovation and ensures clear accountability. Our transformation goal is to pivot to sustainable and profitable growth. The outcome of this review is expected to enhance the Group's viability.

Key factors affecting the Board's view of the Group's prospects over the period of the viability assessment and the longer term are:

- The fundamentals of our markets, our products and brands remain sound, as does our current and future strategy of leveraging our product portfolio for growth in attractive segments and geographies, developing and commercialising new technologies and services and striving to reduce complexity and increase efficiency.
- The continued strengthening of the Group's execution discipline via the Transformation Office to capitalise on the Group's core strengths: established positions in large, structurally growing markets; strong brands and a range of differentiated products; a well-diversified business platform across a range of market segments and geographies; and cash generation capabilities.
- The five strategic pillars that will support the delivery of the strategy, which are set out on page 19.

The key assumptions considered in the strategic plan, on which this viability assessment is based, include:

- Our markets remain structurally sound and continue to grow at existing levels with no significant change to re-imbursement environments.
- Margin improvement is driven by successful execution of our operational excellence programmes in order to deliver productivity gains in excess of pricing and other headwinds.
- Through the execution of our strategy we simplify our business, remove excess costs and re-invest in future innovation.
- No change in capital structure. The Group's debt was refinanced in October 2019, providing a committed five-year bank facility of $1.5 billion and a five-year $200 million revolving credit facility.
- Maintaining the level of the dividend during the period of transformation.

Viability assessment

Throughout the year, the Board has undertaken a robust assessment of the principal risks affecting the Group and also emerging risks, particularly those that could threaten the business model and the Group's viability over an extended period, including an assessment of the likelihood of them materialising. These risks and the actions being taken to manage or mitigate these risks are explained in detail on pages 28 to 33. This analysis has then been applied to allow the Board to assess the ability of the Group to continue in operation and have an adequate level of liquidity to meet its obligations. The assessment covers the three-year period from January 2020 to December 2022 ("the Viability Period"). Although the Directors have no reason to believe that the Group will not be viable over a longer period, the Board has chosen to conduct the assessment for this three-year period because:

- Karim Bitar, CEO, joined the Group on 30 September 2019. Under his leadership, further transformation and the strategy to pivot to sustainable and profitable growth is likely to impact the plans and forecasts for future years, particularly from 2022 onwards.
- Significant investments being made over the next two years to realise the Group's strategy over the medium to long term.
- The Group's business model does not necessitate regular investment in large capital projects that would require a longer time horizon assessment or returns.
- Our R&D and production cycles.
- Ability to respond in a timely manner to reasonably possible Group specific and market events.
- Implicitly it is harder to accurately forecast the latter years of a five-year plan.

The viability assessment has consisted of stress testing the forecasts underlying the strategic plan by modelling severe but plausible scenarios in which a number of the Group's principal risks and uncertainties materialise within the Viability Period. We have modelled scenarios which group together principal risks where we believe interdependencies exist between risks, in addition to scenarios where unconnected risks occur simultaneously. These scenarios focused on both external factors, such as the possible impact of Brexit, economic recession in some markets leading to material pricing pressure and lower than expected market growth, and internal factors, such as the refreshed execution model delivering less than expected and the efficiency programme failing to release the savings anticipated.

Individual and combined scenarios were reviewed against the current and projected liquidity and funding position. The scenarios and sensitivity testing have been based upon the current Board-approved strategic plan and forecast revenues, operating profit and balance sheets. The sensitivity analysis included the following potential scenarios:

Scenarios	Linkage to risks on page 28 to 33
Appreciation of the US dollar by 20% against all other currencies – Impacts of a global change in macroeconomic trends.	– Macroeconomic and foreign exchange – Brexit
Impact of commercial execution headwinds leading to overall flat revenue growth for the Group. Includes plausible combinations of: – Pricing pressures. – Failure to win new supply contracts and poor sales force performance. – Lower uptake of new products. – Production shortages, e.g. due to a cyber-attack or other unexpected shutdowns (including climate change impacts). – Potential impacts from Brexit, e.g. border delays.	– Pricing and reimbursement – Product innovation and intellectual property – Global operational and supply chain – Information security – Quality and regulatory – Brexit – Change and transformation
Increase of $85m in costs of sales as reduced productivity improvements fail to offset gross margin headwinds – Operational excellence programmes fail to deliver anticipated savings, e.g. efficiency and material pricing projects are not realised. – Increased costs associated with Brexit from increased border controls and tariffs. – Increased supplier costs resulting from climate change impacts.	– Global operational and supply chain – Change and transformation – Brexit
Capital overspend – Overruns associated with transformation and efficiency programmes. – Increased cost to mitigate global operational and supply chain risk.	– Change and transformation – Global operational and supply chain

Consideration was also given to a number of other individual risks and events. In the Board's estimation these events would not plausibly occur to a level of materiality that, in themselves, would endanger the Group's viability.

The individual and combined scenario took no account of the likely mitigating actions available to the Directors through adjustments to the Group's strategy and other means in the normal course of business. They did assume maintenance of the dividend at the current level during the period of transformation.

This assessment was informed by management's and the Board's combined judgements as to the potential financial (particularly liquidity) impact of these risks if they materialise, together with their likelihood of occurrence.

In addition, the Board undertook an independent review of market information, including investors' and analysts' views and the insights from market commentators on the future viability of the Group and the market prospects. This review was undertaken to ensure there was no external view or information that was contradictory to the views of management. This independent review and the scenario tests enabled the Board to conclude on the Group's viability and resilience.

Viability statement

The results of the sensitivity analysis, including a severe but plausible combination of the individual scenarios, demonstrated that due to the Group's level of cash generation and existing financing facilities, and the timing of the peak cash outflows, it would be able to withstand the impact in each case.

Having assessed the Group's principal risks and the consolidated financial impact of the sensitivity analysis (which did not take into consideration any mitigating actions available to the Group), the Board has determined that it has a reasonable expectation that the Group will be able to continue to operate within its existing bank covenants and meet its liabilities over the Viability Period to December 2022.

The Group's Going Concern statement is detailed on page 72.

How we run our business in a responsible way

To realise our vision and generate value we must build trust and develop positive stakeholder relationships.

We endeavour to do this by engaging with our stakeholders (as explained on page 10) and focusing on the following six areas which relate to our value creation process. Further information about these areas and our approach to corporate responsibility is included in our Corporate Responsibility Report which is available on our website at www.convatecgroup.com/corporate-responsibility.

Delivering for our customers

Our entire business is oriented to delivering products and services to help people manage challenging chronic conditions. We play an important role in helping them enjoy their lives, rather than being ruled by those conditions. At a broader level, particularly where our products are primarily used in a healthcare setting, their innovative design can enable healing outcomes and a reduction in healthcare-associated infections, the most frequent adverse event in healthcare worldwide. Our customers, the people who use our products and services, and the healthcare professionals who care for them, rely on us and if we do not deliver for them we have no business.

On this page and throughout this Annual Report are examples of how we support our customers. Information about how we sell our products and the customers we serve is included on page 47.

Our engagement with our customers is fundamental to our success. As explained on page 3, we listen to the people who use our products to better understand their needs and use the feedback we gather to improve the products and services we provide.

In terms of our product development and manufacturing processes we must ensure that:
- Our products are effective and that we constantly innovate to improve them.
- Our process of innovation is ethical.
- Our products are safe for people to use.
- We maintain a reliable supply of products to those who use them.
- We help reduce barriers to accessing our products.
- We safeguard any personal data that we manage as part of our activities.

Enhancing clinical outcomes and improving customers' experience

In Q4 2019, we launched the new ConvaMax™ super absorber dressing. This new product expands our AWC product range and takes the franchise into the Superabsorbent Dressings market. ConvaMax™ is designed to manage the challenges around highly exuding wounds, combining softness and conformability with high absorbency, even under compression, to lock excess exudate and bacteria away from the wound. ConvaMax™ is available in both non-adhesive and adhesive formats and enhances clinical outcomes for our customers when managing highly exuding wounds. Initially launched in select European countries in 2019, ConvaMax™ will be rolled-out across other geographies during 2020.

Expanding our product offering to meet our customers' needs

In Q4 2019, we also expanded our range of convexity solutions with the launch of Esteem™+ Soft Convex drainable and closed pre-cut and urostomy pouches. The launch of these further additions to the Esteem™+ Soft Convex range gives individuals with a stoma more choice about the products they use. It also strengthens our presence in the growing convexity market.

Initially launched in Japan, Canada and a number of countries in Europe, these additions to the Esteem™+ Soft Convex range of pouches will also be introduced in the US, UK, Republic of Ireland, Italy, Czech Republic, Australia and New Zealand in the coming year.

How we will improve and drive our performance
- Set a clear direction and secure internal buy-in for change.
- Enhance our leadership skills to inspire our people.
- Strengthen our operational effectiveness.
- Build our skill base and develop our future leaders.
- Drive innovation.

Enabling our people

The people we employ around the world are key to our success. Every day their skill and dedication enables us to improve the lives we touch and create value for all stakeholders. Our people also have an important role to play in ensuring that the actions we are taking to transform our business are successful and deliver their targeted results and benefits.

Our culture, vision and values

Running our business in a responsible way to engender trust is essential. Our culture and our vision, together with our values and behaviours which determine how we run our business every day, underpin our responsible approach.

In the first half of 2019 we commissioned McKinsey & Company ("McKinsey") to undertake its Organisational Health Index (the "OHI") survey to assess our culture. The OHI survey also assessed our ability to sustain great performance over time, based on how we work and how effective we are. All employees were invited to participate in the survey and 88% of our total workforce responded. Their feedback provided valuable insights including identifying areas where improvements are required.

Based on the survey's finding we are focusing on five key areas to better align our culture with our ambitions and improve and drive our performance. Across all of these areas, which are summarised in the box above, we have made significant progress. In particular:
- To ensure that our culture is aligned with our ambition to contribute more to the people who use our products and services and the healthcare professionals who support them, we have reviewed and redefined our vision statement and our values. This review process involved all our employees, who were invited to share their views through a mix of both face-to face and online discussion workshops and forums. Through this process we were also keen to develop content that was meaningful and resonated with our people and that reflected the culture we aspire to embed across all parts of the Group. The representative views of people have helped shape our updated vision statement and values, which were approved by the CELT and launched across the Group in January 2020. Our updated values, which underpin how we operate, are shown in the adjacent panel.

Our values

Improve care
- We are passionate about serving and supporting people with deeply personal and challenging medical conditions.
- We actively listen and respond to their needs: demonstrating deep empathy and using the insight we gain to develop and share innovative solutions.

Deliver results
- We consistently deliver excellent work, say what we do and do what we say.
- We focus on what matters to the people we serve, fulfilling our own roles while working in a team with shared goals.
- We keep things simple and strip out complexity wherever possible.

Own it
- We take personal ownership of all our work: taking the initiative, innovating, taking smart risks and never settling for second best.
- We are bold but humble, manage ambiguity and move quickly to seize opportunities or adjust to new demands.

Grow together
- We help colleagues around us grow, develop and thrive, so we can all fulfil our potential and make ConvaTec a "destination employer".
- We respect what each of us contributes to ConvaTec: inspiring and supporting each other to excel, while sharing in our successes and learning from mistakes.
- We are candid, constructive and committed to collaboration with colleagues and partners.

Do what's right
- We are honest and trustworthy, meeting our obligations and operating with the highest standards of integrity. We challenge what feels wrong: no matter what the issue or circumstances.
- We seek advice and input from others when in doubt.
- We embrace responsibility for our contribution to local communities and make a positive economic, environmental and social impact on society.

- In a bid to drive executional excellence, we have developed new ways of operating, known as "the ConvaTec Way". The Transformation Office has instilled a rigorous methodology for execution that covers a range of best-in-class operational processes including LEAN management and continuous improvement. A series of training and development modules have been made available to employees through face-to-face briefing sessions and online training to embed the new practices. Our induction processes are also being updated and every employee who joins the Group receives relevant training in relation to the ConvaTec Way and our transformation effort.
- To enhance our commercial and general business skills, in the second half of 2019, we launched training modules focused on sales force effectiveness and business fundamentals, through our online learning portal and publicised via the Group's "My ConvaTec" mobile app. We developed these modules in conjunction with leading third-party experts to ensure that our people have access to cutting-edge strategies and techniques.
- Following a review of our existing arrangements, we are enhancing and expanding our employee development programmes. Our "ConvaTec Management Experience" programme, which is targeted at our new and early career managers, has been expanded. Businesses in our EMEA and America regions are now participating in this enhanced programme and we plan to extend it globally during 2020. We are also developing a new programme focused on the development of our top 30 senior managers. This initiative will support the CELT's succession planning and ensure that we have a strong pipeline of internal talent.

Our people strategy

Ensuring that every employee has an opportunity to develop and fulfil their potential continues to be a key priority. During the year we reviewed and revised our people strategy to ensure that the working environment we create and our people management processes are aligned with our updated vision and values and support our transformation. Our people strategy now focuses on the following key elements:

- Embedding our values-based culture across the Group.
- Building capabilities to drive our transformation.
- Aligning talent to value and building diverse talent succession for critical roles.
- Developing our reputation as a world-class employer.

Engagement

As highlighted above, our people are key to our success. We must listen to their views and feedback and keep them updated about the Group and key developments. We use a number of channels to do this which are described on page 11. In particular our "MyConvaTec" app is being increasingly adopted across the Group.

As explained above our people played a key role in updating our vision statement and values.

Engagement with our employees in relation to our Transformation Initiative is particularly important. The changes we are implementing will only deliver their targets and benefits on a sustainable basis if they become embedded in our everyday working practices. For this to happen our employees must understand, buy into and help action the plans and initiatives that impact their daily activities. To facilitate this we have established an "Influencers" network which includes over 180 colleagues across more than 60 locations and 25 countries. This network of people serve as a sounding board for new initiatives, help us create understanding and engagement about changes across the wider workforce and help create the culture to drive sustainable performance.

Health and safety

The health and safety ("H&S") of our employees and others who visit our sites is a priority.

A team of dedicated Environment, Health and Safety ("EHS") Managers operate across our manufacturing facilities working closely with the site leadership team developing improved working practices, ensuring compliance with local requirements and the implementation of corporate policies. Our Global EHS team leads the development of corporate policies, auditing performance against the policies and standards, providing advice and supporting the local teams to ensure both legislative and company requirements are met. The Global EHS team reports to the Executive Vice-President of Global Operations who is a member of the CELT. H&S performance is reported to senior management on a monthly basis and the Board received a high-level update on H&S performance in December 2019.

We deploy a broad range of H&S policy standards, covering both our EHS management system and specific H&S topics, all of which were reviewed and updated during 2019. These policy standards address activities such as emergency preparedness, hazard identification and risk assessment. All policies are available on our intranet and training has been undertaken by management teams at our operations.

An extensive benchmarking and continuous improvement programme has been ongoing across all manufacturing locations since 2017 with audits identifying best practices, gaps, and opportunities for strengthening H&S management systems, internal audit programmes and risk assessments. All primary manufacturing operations have continued to strengthen their local EHS management systems during 2019 by updating local procedures, improving working practices, applying performance metrics and developing targeted improvement programmes.

During 2019 there were no fatalities and we saw a continued reduction in the lost time injury rate. The recordable injury rate has increased slightly from 2018, although it remains significantly lower than in 2017. Information about our 2019 H&S performance is set out in the table below and in our CR Report which is available on our website at www.convatecgroup.com/corporate-responsibility.

	2019	2018	2017	2016
Fatalities	**0**	0	0	0
Recordable injuries	**33**	30	48	35
Recordable injury rate	**0.55**	0.50	0.82	0.56
Lost time injuries	**16**	20	33	16
Lost time injury rate	**0.27**	0.33	0.57	0.26

Employee wellbeing

As part of our "LIFE+ by ConvaTec" community programme (see page 45) our employees participated in the Global Challenge wellbeing programme, which is managed by Virgin Pulse. This wellbeing programme aims to:

- Support our employees to improve their health and wellbeing through working on modules connected with exercise, nutrition, stress and sleep.
- Connect improving employee health with the mechanism we use to disperse our community fund in local communities, so engaging employees in our philanthropic programme.
- Build teamwork and engagement with our vision and values.

During 2019, compared to the previous year, participation in the programme increased by 53%, and represented approximately 23% of our workforce.

In addition to the Global Challenge, we operate other employee wellness programmes in a number of countries across the Group. One of the most effective is in the UK, where we have partnered with health insurance provider, Vitality, to support our employees in achieving health goals.

Approach to human rights and labour standard issues

We are committed to creating a working environment where everyone is treated fairly with respect, dignity and consideration and where there are opportunities for all. Our Human Rights and Labour Standards Policy, which incorporates principles and guidelines set out in the United Nations Universal Declaration of Human Rights, and the UN Guiding Principles on Business and Human Rights, addresses a range of issues including equal opportunities, anti-harassment and dignity at work. Many elements of our Human Rights and Labour Standards Policy are reflected in our Code of Conduct, which is explained on page 44. We also operate a cross-functional Human Rights Steering Committee to guide our approach in this important area.

Our Code of Conduct and Human Rights and Labour Standards Policy are available on our website at www.convatecgroup.com/corporate-responsibility.

Diversity and inclusion

Diversity and inclusion underpin all aspects of our people strategy. We want our people to feel included in our business and keen to play their part. Furthermore, an inclusive diverse environment enhances our ability to realise our vision and deliver commercial success.

Our diversity and inclusion strategy focuses on the following key areas:

- Leading, Promoting and Educating: establishing policy statements, forming appropriate governance, setting up employee engagement forums and enhancing existing eLearning capabilities around diversity, inclusion and unconscious bias.
- Building, Developing and Promoting Talent: developing and promoting diverse talents and creating an inclusive culture.
- Sourcing Talent: actively sourcing a diverse range of candidates for all senior roles.

In 2017 we achieved a minimum of 30% female Board representation and, as at 31 December 2019, the proportion of women on our Board was 38%. We also set ourselves an objective of having 30% of senior management roles (members of the CELT and their direct reports, excluding administrative staff) held by female executives by the end of 2020. As at 31 December 2019, women made up 25% of our senior management team. Recognising the need to accelerate our progress in this area, during 2019 members of our human resources team participated in a number of jobs fairs with a view to exploring and developing new routes and approaches to attract talent from more diverse backgrounds. We also hosted various networking events for our female colleagues and engaged in open dialogue about career development.

We also remain committed to increasing gender and other forms of diversity including age and ethnicity across all parts of our business through the continuous and effective implementation of our diversity and inclusion strategy. In particular, we track employee diversity through our human resource systems and the Board will continue to review our diversity profile on an annual basis.

Our gender diversity profile as at 31 December 2019 is set out below.

		Male		Female	
	Total	Number	%	Number	%
Board[a]	8	5	62	3	38
CELT[b]	9	8	89	1	11
Senior management	64	48	75	16	25
Other employees	9,116	3,369	37	5,747	63
Total[c]	9,197	3,430	37	5,767	63

a. Includes six Non-Executive Directors.
b. For the purposes of this table the CEO and the CFO are included as members of the Board.
c. Excludes freelancers, independent contractors or other outsourced and non-permanent workers who are hired on a project or temporary basis.

Our gender pay gap

The table below shows our overall mean and median gender pay gap based on hourly rates of pay as at the "snapshot date"[1], 5 April 2019. Due to our disappointing financial performance in 2018 no bonus payments were awarded in March 2019. The data provided only relates to our UK employees.

	Percentage difference mean	Percentage difference median
Hourly rate of pay	13.35%	14.58%

In 2019 the median hourly pay difference between our male and female employees narrowed to 14.58% (2018: 15.75%), which is below the UK median pay gap of 17.3% across all public and private sectors in October 2019 (source: Office for National Statistics).

A detailed breakdown of pay by gender and by pay quartile is shown in the table below. In the lower and lower middle quartiles, we have more females than males. In the upper middle and upper quartiles, we have more males than females.

	Proportion of females and males in each quartile band			
	£7.34 < £13.56	£13.57 < £18.03	£18.04 < £29.15	£29.16 < £185.48
Total in band	210	210	211	211
Male total: 446	101	103	120	122
Female total: 396	109	107	91	89
% male	48%	49%	57%	58%
% female	52%	51%	43%	42%
% difference mean	1.48%	(0.89)%	(0.41)%	5.02%
% difference median	5.46%	(1.94)%	(1.28)%	8.79%

Our gender pay gap reflects the demographic make-up of our business. The April 2019 data shows an improvement on the previous year as a result of our very conscious efforts to recruit and retain women in senior management roles. For example, our candidate short lists for senior roles must include men and women and we offer flexible working arrangements. We also track a number of metrics to measure the progress of our diversity and inclusion strategy to ensure that we recruit and retain a skilled and diverse workforce.

As highlighted above no bonus payments were awarded in March 2019. Those eligible to receive a bonus during the relevant period are shown in the table below.

	Female	Male
Eligible population for a bonus during the relevant bonus pay period*	317	364

* 65 individuals were not eligible for bonus payments because they were new hires during the final quarter of the financial year ended 31 December 2018.

Further information about our pay data is included on our website at www.convatecgroup.com/investors/corporate-governance.

1. Snapshot date: Specific reference date in which the gender pay gap needs to be calculated as Government requirement from the Advisory, Conciliation and Arbitration Service and Government Equalities Office. For businesses and charities this date is 5 April.

Working responsibly with partners

We aim to build long-term, mutually beneficial relationships with third parties along the value chain, including suppliers of materials and services, transport and logistics companies, and distribution businesses. Our relationships with these third parties must be consistent with our vision and values, and the regulatory framework which underpins our ethical business practice.

We accept our responsibility for setting the correct standards of behaviour and ensuring our partners meet, exceed or are working positively towards these standards. We believe that developing a more sustainable supply chain will benefit our business over the long term through increased efficiency, product improvements, lower risk and deeper, more collaborative relationships.

Like many medical device companies, our products are often sold by third parties, such as distributors. To help protect against the risk of a third-party acting unethically, our compliance team conducts due diligence on our distributors, enters into agreements that contain appropriate assurances by the distributors, and delivers both online and "live" compliance training programmes to distributor staff, based on our Global Third Party Compliance Manual. Using a risk-based approach, we conduct due diligence on distributors when they are initially engaged, and every three years thereafter, using an external due diligence provider.

In 2019, 89 new and renewed organisations were subject to due diligence review. A total of 38 third-party distributors completed both their annual Global Third Party Compliance Manual and Distributor anti-bribery and corruption training via our external, electronic learning system.

We require our suppliers to adhere to our Supplier Code of Conduct ("SCoC") which draws on the International Labour Organisation conventions and the Principles of the UN Global Compact, and extends our own Code of Conduct and our Human Rights and Labour Standards Policy to the supply chain. All new suppliers must sign the SCoC as part of doing business with ConvaTec and the SCoC is introduced to all existing supplier contracts as these are renewed. A copy of our SCoC is available on our website at www.convatecgroup.com/corporate-responsibility.

We monitor and assess suppliers using third-party risk platforms including "Risk Methods", which provides in-depth, real-time coverage of a range of factors that could impact on supplier performance (including geo-political, climatic, civil unrest), as well as events that may have been "caused" by our suppliers (for example strikes and major pollution incidents).

Supporting innovative technological solutions

Our partnership with Beta Bionics, Inc., a for-profit Massachusetts public benefit corporation, is focused on developing and commercialising the iLet™, the world's first fully automated bionic pancreas. Starting in 2020, working alongside Beta Bionics as their infusion set partner, our Unomedical sets will be deployed in two pivotal trials testing the iLet™ in its insulin-only and bihormonal configurations.

The iLet™ is a dual-chamber, pocket-sized, wearable medical device that autonomously controls blood-sugar levels in people with diabetes. Embedded within the device are clinically tested mathematical dosing algorithms driven by lifelong autonomous learning which automatically calculate and dose insulin and/or glucagon as needed, based on data from a continuous glucose monitor.

Conserving the planet

We must minimise the negative impact of our own operations (including greenhouse gas ("GHG") emissions) on the environment. We must also endeavour to minimise the impacts of our "upstream" supply chain that supports the creation of our products, our "downstream" distribution arrangements and our products' use and final disposal. First and foremost, to secure a more sustainable future, this is the right thing to do. Taking a proactive approach also drives commercial benefits. In addition to ensuring we avoid fines for breaching environmental regulations and associated reputational damage, increased efficiency in our energy and raw materials usage can reduce production costs both within our own facilities and throughout our supply chain. And while the risk of direct financial material impact on our business as a result of climate change is relatively low in the short to medium term, we are seeing signs of customer pressure around the environmental performance of products and packaging which could have a direct impact on commercial outcomes.

We believe our most significant environmental impacts to be:
- Emissions to air – in particular, GHG emissions associated with energy consumption.
- Generation of waste – hazardous and non-hazardous.
- Management of water.
- Consumption of raw materials in our products.

Our environmental policy statement which is available on our website (www.convatecgroup.com/corporate-responsibility/conserving-our-planet) explains our approach, and reflects a more detailed internal environmental policy document which provides direction to our major facilities on how to structure their environmental management programmes. These programmes focus on:

- Minimising the environmental impacts of our own and our partners' operations.
- Minimising the environmental impacts of our products and services across their entire life cycle.
- Setting objectives to improve our performance and the development of more environment-friendly products.
- Implementing management systems to support achievement of our objectives.
- Reporting progress to our stakeholders.

Overall responsibility for environmental issues, including climate change, lies with our Board. The key roles relating to environmental management sit within our Global Operations division. As explained on page 38, dedicated EHS managers work across our manufacturing facilities, which operate environmental management systems in line with corporate requirements which reference ISO 14001.

Climate change

There is strong scientific consensus that human activities, such as the burning of fossil fuels and deforestation, are key drivers of climate change. As such we must address and strive to reduce our GHG emissions. During 2018 we completed the development of a comprehensive climate change strategy which focuses on the reduction of our GHG emissions through a series of initiatives. The development of this strategy, which was approved by the CR Committee in early 2019, was driven by:

- An assessment of climate change risk carried out against the framework developed by the TCFD. Further information about this assessment is set out in the adjacent panel.
- An analysis of historical and projected energy data, likely future carbon conversion factors, options for procuring or generating renewable energy, product and supply chain profiles, regulatory and disclosure requirements, competitor actions, best practice and efficiency opportunities.

Climate change risk assessment

Our risk assessment is conducted against the framework recommended by the TCFD and therefore covers both (i) Transition risks (Policy and Legal, Technology, Market and Reputational risks) and (ii) Physical risks (Acute and Chronic risks). Our assessment concluded that our overall exposure to climate-related risk is relatively low in the short to medium term (up to five years). From our analysis, the areas where risk is highest are:

- Policy and Legal – impact on costs/revenue of potential regulation relating to products and raw materials, particularly in relation to the use of plastics within our products and packaging. The vast majority of our products are single-use due to the nature of their medical application.
- Market – potential impact of increases in costs of raw material prices due to climate change-driven factors such as raw material shortages, water scarcity or increased energy costs. Rising customer concerns relating to carbon footprint, single-use plastics and circularity.
- Reputation – whilst it is unlikely that we would suffer stigmatisation for a perceived lack of responsibility in relation to our products (due to the nature of the medical devices we supply), our reputation could be damaged relative to competitors should we fail to keep pace with climate-related sector innovations.
- Physical – whilst we assess potential for disruption to our own operations to be limited in scope (mainly relevant to our Haina plant) and well mitigated (through structural and operational measures – see below), we assess that sales of certain products could potentially suffer disruption through the vulnerability of certain supply chains to climate risk. This could relate particularly to raw materials harvested from natural resources.

The key elements of our climate change strategy are

- **Enabling product and packaging improvements** – through the development of green design guidelines, a focus on packaging materials and robust risk and opportunity assessment of existing products (including continuation of life cycle assessments).
- **Driving greener operations** – through efficiency auditing, target-setting and supply chain engagement.
- **Supporting decision-making** – through better, more joined up and accessible performance data.
- **Enhanced governance** – assigning accountability to relevant CELT members via personal objectives.

Energy consumption

We have increased our focus on driving energy efficiency across our business. Between 2020 and 2022 we are targeting total energy efficiency savings of 15% on our 2018 energy consumption.

Electricity represents 75% of total energy consumed, with natural gas at 24% with diesel and district heating contributing less than 1% to the total. Manufacturing locations account for approximately 94% of total consumption, with electricity (75%) and gas (25%) the dominant sources (see the table below). For further information about our energy consumption see our Corporate Responsibility Report which is available on our website at www.convatecgroup.com/corporate-responsibility.

Total energy consumption by (function) (mWh)

	2019	2018	2017	2016
Manufacturing locations	**97,233**	104,690	99,419	92,142
Non-manufacturing locations	**5,895**	5,279	5,007	–
Total energy consumption	**103,128**	109,969	104,426	92,142

Energy intensity (GWh/$m revenue)

	2019	2018	2017
Energy intensity	**0.056**	0.060	0.059

Energy consumption has decreased by 6%, driven by efficiency gains made across virtually all manufacturing sites in both gas and electricity use. Information about some of our energy-saving initiatives is included below.

Examples of energy-saving initiatives implemented at our facilities

- **Minsk, Belarus:** optimisation of the air change rate in the clean room has reduced energy consumption by 160,000 kWh per year.
- **Haina, Dominican Republic:** installed LED lighting and movement sensors in the warehouse, and will complete modernisation of heating, ventilation and air-conditioning (“HVAC”) system, saving an estimated 330,000 kWh per year.
- **Michalovce, Slovakia:** upgraded air compressor which, together with optimisation of dust filtration systems and installation of further LED lighting, will save over 1.0 GWh per year.
- **Reynosa, Mexico:** optimisation of clean room temperatures, saving an estimated 285,000 kWh per year.
- **Deeside, UK:** installed LED lighting, optimised clean room air change rates, retrofitted more efficient fans, and fixed compressed air leaks to generate over 1.1 GWh annual savings.

Our GHG emissions

Our GHG reporting follows the methodologies set out in “The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition)”, developed by the World Business Council for Sustainable Development and the World Resources Institute.

Our GHG emissions relate mainly to the consumption of natural gas and electricity to power, heat and cool our facilities. In 2019, the scope of our GHG reporting covers our manufacturing locations, R&D centres, major offices and distribution centres. The table on the following page sets out our emissions on both a location, and a market basis. UK locations contribute 2% of total GHG emissions under the market-based method (15% under the location-based method).

The like-for-like decrease in GHG emissions of approximately 19% (market basis) is driven by energy efficiency gains. In addition, the impact of a full year of green electricity use in the UK, 80% of UK gas consumption being covered by green gas certificates and by changes in the carbon intensity of electricity grids in several countries, have added significantly to the effect of the energy efficiency gains.

GHG (market-based method) (tonnes CO_2e)

	2019	2018
Scope 1[1]	**3,402**	4,901
Scope 2[2]	**23,431**	28,283
Total GHG emissions	**26,833**	33,184

GHG (location-based method) (tonnes CO_2e)

	2019	2018	2017	2016[3]
Scope 1	**5,046**	5,435	5,473	4,001
Scope 2	**26,733**	30,055	29,054	26,806
Total GHG emissions	**31,779**	35,490	34,527	30,807

1. Scope 1 emissions are direct emissions from owned or controlled sources.
2. Scope 2 emissions are indirect emissions from the generation of purchased energy.
3. 2016 Scope 2 emissions include an additional 383 tonnes CO_2e (relating to use of district heating) previously omitted in error. 2016 was our first year of reporting and the scope did not include non-manufacturing locations.

GHG emission intensity (tonnes/$m revenue)

	2019	2018	2017
GHG emission intensity (location basis)	**17.4**	19.2	19.6
GHG emission intensity (market basis)	**14.7**	18.0	N/A[4]

4. In 2018 we started to report on both a location and market-based approach.

Management of water and waste

As set out in our Environmental Policy statement, we are committed to understanding, quantifying and minimising our levels of waste (hazardous and non-hazardous), and our consumption of water. Quantitative data about our water consumption and waste is included in our CR Report which is available on our website at www.convatecgroup.com/corporate-responsibility.

Environmental impacts along the value chain

As well as the environmental impact of our own operations, the delivery, use and disposal of our products also creates impacts along the value chain, including the sourcing of raw materials, supplier manufacturing, packaging, logistics and transport. To minimise this "indirect" environmental impact we have developed a strategy that focuses on:

- Assessing the environmental performance of key suppliers.
- Reporting value chain impacts.
- Assessing product and packaging performance.
- Designing sustainability into new products and packaging in line with our newly-developed green Design Guidelines.

Behaving ethically and transparently

How we conduct ourselves – earning trust, behaving responsibly and with integrity and doing what we say we will do – is essential if we are to achieve our vision and create value for our stakeholders. It is also the right thing to do and protects our reputation.

We operate an extensive ethics and compliance programme and implement a number of policies and procedures, including our "Code of Conduct". This covers business conduct and compliance issues, including preventing bribery and corruption. Annually, all employees are required to undertake training in relation to our Code of Conduct. This training is undertaken either online, with electronic acknowledgement of completion, or through participation in town hall meetings.

We also make available an independent whistleblower hotline and web link, which can be used by employees and third parties, to report suspected breaches of our Code of Conduct. Issues reported via this hotline are reviewed by our ethics and compliance function and the resulting investigation and outcome of any significant issues are overseen by the global compliance oversight function, known as the Ethics & Compliance Executive Team, as well as by the Audit and Risk Committee. For further information see page 109.

We deploy policies and procedures that are consistent with our Code of Conduct, which cover the third parties we rely upon to fulfil our vision. Our Modern Slavery Act statement is available on our website at www.convatecgroup.com/modern-slavery-act. For further information see "Working responsibly with our partners" on page 41.

We also engage with stakeholders on ethical topics within our sector and by way of example in 2019 we played an instrumental role in updating the AdvaMed Code of Ethics on Interactions with Healthcare Professionals. AdvaMed is the largest medical device industry organisation in the US.

Making a socio-economic contribution

Through running our business we aim to make a socio-economic contribution to society. This contribution, which is important to a range of stakeholders, is summarised on page 3.

Our "LIFE+ by ConvaTec" ("LIFE+") community programme, through which we make funds available to support local initiatives, is focused on helping disadvantaged young people to have a healthier start in life. The key features of the programme are:

- Supporting young people to reduce the risk factors that could increase their chances of contracting chronic conditions later in life – the type of conditions that our products and services help people to cope with. These risk factors include: obesity and poor nutrition, lack of exercise, and damaging addictions.
- Identifying communities where some form of disadvantage creates barriers to accessing sports or recreation opportunities, a healthy diet, or professional support to tackle addiction or other relevant health factors.
- Community partners for donations and volunteering are employee-selected and focus on communities and institutions local to our plants, offices and other centres.
- As explained above, reinforcing our "employee-led" approach we link the allocation of our community fund to the level of engagement in our Global Challenge initiative.

During 2019 LIFE+ supported a number of projects around the world including:

- In Reynosa (Mexico), where our largest manufacturing facility is based, we financed the construction of a football pitch and running track for the children attending the El Chamizal primary school, which is located in a deprived part of the city. More than 1,000 children will benefit from increased opportunities to engage in exercise.
- In the Dominican Republic, our donation is funding the repair and reconditioning of a baseball stadium and the construction of a basketball court within the Savio Educational Centre. The facility provides support to 2,500 young people between the ages of 5 and 17 living in extreme poverty and high-risk situations. It provides sports, nutrition and educational activities, as well as psychological help.
- In Spain we continue to support the charity SAOPRAT, which supports children at social risk with information on healthy eating, personal hygiene and exercise opportunities. We are also supporting the Spanish Red Cross, through donations to fund training sessions and young volunteers to deliver healthy lifestyle messages to underprivileged children.

Supporting medical research to better understand rare disease

Epidermolysis bullosa ("EB") is a rare genetic disease that causes the skin to become fragile and blister. The disease has currently no known cure and is managed through wound care, pain control, treatment for infections and other support. A cross-functional team based in our EMEA region is working with DEBRA UK, an international medical research charity dedicated to patients with EB, to explore how we can support EB sufferers and their families.

Working with healthcare professionals to improve the lives of people with chronic conditions

In June 2019, in partnership with the European Wound Management Association, we launched three research grants for nurses, doctors or scientists working in the field of wound management. This initiative, which aims to improve the care and quality of life of individuals with acute and chronic wounds and support clinicians, is focused on research in three areas: process redesign to improve quality and accessibility in wound care; E-health and digital solutions for wound management; and solutions to enhance patient safety and compliance in wound management.

Non-financial information statement

In accordance with the requirements of section 414CB of the Companies Act 2006, the information below is provided to help our stakeholders understand our position in relation to key non-financial matters including, where appropriate, the relevant policies and processes we operate.

Key non-financial matter	Policies and processes we implement	Information
Environmental matters	Environmental Policy Climate change strategy GHG reduction targets CR rating monitoring	Pages 41 to 44.
Employees	Code of Conduct The ConvaTec Way Our vision and values Diversity and Inclusion Policy Our people strategy Employee induction, training and development programmes Employee engagement Diversity targets and review of metrics	Page 44 and pages 37 to 40.
Human rights	Human Rights and Labour Standards Policy Modern Slavery Act statement	Page 39. Page 44.
Social and community matters	LIFE+ programme Global Challenge	Page 45. Page 39.
Anti-corruption and anti-bribery	Independent whistleblower hotline and web link Third-party Compliance Manual Supplier Code of Conduct Compliance training Third-party due diligence, monitoring and assessment	Page 44 and page 41.
Principal risks and impact of business activity	–	Pages 28 to 33.
Non-financial key performance indicators	–	Page 23.
Our business model	–	Pages 2 and 3.

Our franchises

Our franchises are improving lives and helping us realise our vision. Information about their respective product portfolios, sales and marketing activities, and performance during 2019, is included below.

How we market and sell our products

Our four franchises market and sell our products and services in over 110 countries using a number of channels which are described below.

Advanced Wound Care ("AWC")
Advanced wound dressings and skin care products for the management of acute and chronic wounds resulting from ongoing conditions such as diabetes and acute conditions resulting from traumatic injury and burns.

Continence & Critical Care ("CCC")
Products and services for people with urinary continence issues related to spinal cord injuries, multiple sclerosis, spina bifida and other causes, and devices and products used in intensive care units and hospital settings.

Ostomy Care
Devices, accessories and services for people with a stoma (a surgically-created opening where bodily waste is discharged), commonly resulting from causes such as colorectal cancer, inflammatory bowel disease and bladder cancer.

Infusion Care
Disposable infusion sets for diabetes insulin pumps, similar pumps used in continuous subcutaneous infusion treatments for conditions such as Parkinson's disease and a range of products for hospital and home healthcare markets.

Distributors and wholesalers

- We sell our products to pharmacies, bandagists, hospitals and other acute and post acute healthcare service providers through distributors or wholesalers.
- We have a network of external distributors who manage the entire distribution process on our behalf, including ordering, warehousing, billing and delivery.

Hospitals Wound care clinics Intensive care

- Our dedicated sales teams provide support, advice and training to product decision makers.
- Product decision makers are usually doctors or specialist nurses.

Specialist medical stores Pharmacies Homecare agencies

- In many markets our products are available through homecare agencies, specialist medical stores or pharmacies and retail distributors catering to the homecare market.

Direct-to-consumers

- We sell directly to consumers in the UK via Amcare, our home delivery company, and in the US, via our Home Services Group, our homecare company.
- In a number of markets, including Central and Eastern Europe, Latin America and parts of Asia, we have our own shops.
- We operate digital sales platforms including ostomysecrets.com.

Consumer-focused service and support

- We provide consumer-focused service and support through a number of channels.
- See page 51 for information about our me+™ programme, which aims to support people managing chronic conditions and help them enjoy their lives.
- See page 80 for information about our call centres, which provide specialist advice and support.

Leading insulin pump manufacturers

- We sell directly to manufacturers of insulin pumps.
- We also supply our products to hospitals and the home healthcare sector, via our distributor network.

Advanced Wound Care

Revenue $569.9m -3.0%

2019	**$569.9m**
2018	$587.5m

Key brands

- AQUACEL™
- AQUACEL™ Ag+
- AQUACEL™ Ag Foam
- AQUACEL™ Ag Surgical
- AQUACEL™ Ag Advantage
- Avelle™ System
- DuoDERM™

David Shepherd
President and Chief Operating Officer, Global Advanced Wound Care

Overview

Organic growth in 2019 remained subdued as it was impacted by disruption and transition in the franchise's US business moving to a more specialised salesforce. We continued to see improved call rates and customer targeting, the benefits of this in terms of revenue growth should be seen in 2020 and beyond.

2019 revenue performance

We remained focused on three priorities to drive our growth:

- Transitioning to a new specialised salesforce in the US.
- Expanding our AQUACEL™ dressings offering through the extension of AQUACEL™ Ag+/Advantage dressing with anti-biofilm technology and the expansion of the AQUACEL™ Surgical product portfolio into new surgical areas.
- Continuing to grow in the foam market and expanding our portfolio of dressings, targeting the fast-growing protection and prevention foam segments.

Reported revenue of $569.9 million declined 3.0% compared to the prior year, but on an organic basis revenue grew 0.5%. In the fourth quarter, revenue grew 1.8% on an organic basis, driven by growth in Latin America, APAC and some EMEA markets, partly offset by the US.

Sales of our AQUACEL™ brand remain strong. We are leaders in market share in several categories, including silver, and we continue to build our position in foam, growing in line with the market. Our AQUACEL™ Ag Advantage dressing, launched just over a year ago in the US, has been positively received by clinicians. In Q4 2019, we also launched ConvaMax™, our first entry into the super absorber segment within Europe and will launch in the US in Q1 2020. Growth in AQUACEL™ surgical cover dressing remained low, impacted by the changes to the US salesforce.

The franchise's legacy DuoDERM™ and base AQUACEL™ Hydrofiber™ products, together with its skin care business, make up a little under 40% of AWC revenues and, as a whole, were a significant drag on revenue growth in 2019. However DuoDERM™ made some progress and delivered modest growth in the year. AQUACEL™ Hydrofiber™ was negatively impacted by the challenging UK market dynamics, although performance did improve in the second half of the year. We expect these UK market pressures to remain in 2020.

We saw strong growth in our emerging markets in APAC and Latin America as well as some EMEA markets. As noted above, we continued to underperform in the US, however this has been impacted by the planned restructure of the salesforce that led to some disruption in 2019. Whilst in France we experienced the impact of the reimbursement cuts.

Improving healing outcomes and helping healthcare providers reduce costs

To dramatically improve healing outcomes and help hospitals and other healthcare providers reduce their total costs of care, we developed AQUACEL™ Ag+, a dressing with proven effectiveness in promoting healing in chronic hard-to-heal wounds. AQUACEL™ Ag+ combines two of our proprietary technologies – our Hydrofiber™ Technology, which improves the dressing's ability to absorb and retain excess exudate, and our unique patent protected anti-biofilm technology, which helps destroy biofilm and maximises antimicrobial action.

During the year we launched our MORE THAN SILVER™ global AQUACEL™ Ag+ advertising campaign. It focuses on differentiating our unique and patent-protected anti-biofilm technology and helping healthcare professionals better understand why biofilm is a serious problem in hard-to-heal wounds and why early and aggressive intervention is essential.

Ostomy Care

Revenue $525.0m -1.6%

2019	**$525.0m**
2018	$533.3m

Key brands

- Esteem™
- Esteem™+
- Natura™
- Natura™+
- Stomahesive™
- Durahesive™
- InvisiClose™
- me+™

Mani Gopal
President and Chief Operating Officer, Global Ostomy Care

Overview

As expected, performance remained subdued as a result of underperformance in the US. However, we saw solid performances in Latin America, EMEA and in certain markets in APAC driven by good traction with our recent product launches such as Esteem™ + Flex and Natura™ Accordion as well as good growth in accessories.

We focused on three priorities to drive our growth:

- Continuing to strengthen relationships with ostomy nurses in hospitals to increase familiarity with our products and to provide them with the tools to make ostomy care simple, easy and accessible.
- Expanding our me+™ direct-to-consumer programmes to engage directly and frequently with patients to build strong and long-term customer relationships.
- Continuing to enhance our portfolio of offerings by leveraging our technology and investing in consumer-led solutions.

2019 revenue performance

Reported revenue of $525.0 million for 2019 declined 1.6% against the prior year, but on an organic basis revenue grew 1.9%. In the fourth quarter revenue grew 5.2% on an organic basis, driven by broad-based growth across the business albeit against a weak prior year.

We continued to see good traction with our recent product launches including Esteem™ + Flex Convex, Natura™ Convex Accordion Flange and Varimate strips and ongoing investment in our me+™ platform is leading to a continued increase in the number of enrolled patients.

We saw solid performances and market share gains in Latin America and in certain markets in APAC and Europe. We continued to see underperformance in the US.

To address the underperformance, we have been implementing changes to our commercial approach to improve salesforce effectiveness, including flattening our organisational structure to get closer to the customer, improved segmentation and revised sales incentive programmes. We are also increasingly leveraging our HSG service offering and integrating our product and me+™ programme into selected accounts.

In January 2020 we were pleased to agree a three-year extension to the Premier GPO ("General Purchasing Organisation") contract for Ostomy Care in the US, commencing April 2020. This is the second largest GPO contract in the US covering around 25% of hospitals and our contract now runs until March 2023.

Expanding our customer support offering

Our me+™ programme, which operates across 17 markets, aims to support people managing chronic conditions and help them enjoy their lives. Programme participants, who enrol at no cost, now exceed over 300,000 members. The programme offers practical advice and support pre- and post-surgery, including in the vital period when people are first living with their ostomy, through to the time well beyond surgery, when they go back to living the life they want.

This vital support is provided in a number of ways. Our online resources help guide people to identify the right products and access helpful videos, other patient stories and support groups. We also have a growing team of specialised ostomy nurses and support specialists who provide advice via the telephone or, in some countries, visit people in their homes.

We continue to expand this customer support service. During 2019 in the US we launched me+™ Talk, a dedicated ostomy podcast and in the UK we established a dedicated cross-brand customer interaction centre. The me+™ team, product specialists and our Amcare home delivery service now operate from the same place and provide our customers with a complete centralised support service.

me+ ™

Continence & Critical Care

Revenue $456.7m +3.1%

2019	**$456.7m**
2018	$443.0m

Key brands

GentleCath™

Flexi-Seal™

UnoMeter™

me+™

Kjersti Grimsrud
President and Chief Operating Officer, Global Continence Care

Overview

Growth in CCC was driven by HSG, which continues to outgrow the overall US continence market, partly offset by the drag from our Hospital and Critical Care businesses. The growth also benefited from the impact of a product recall in the prior year.

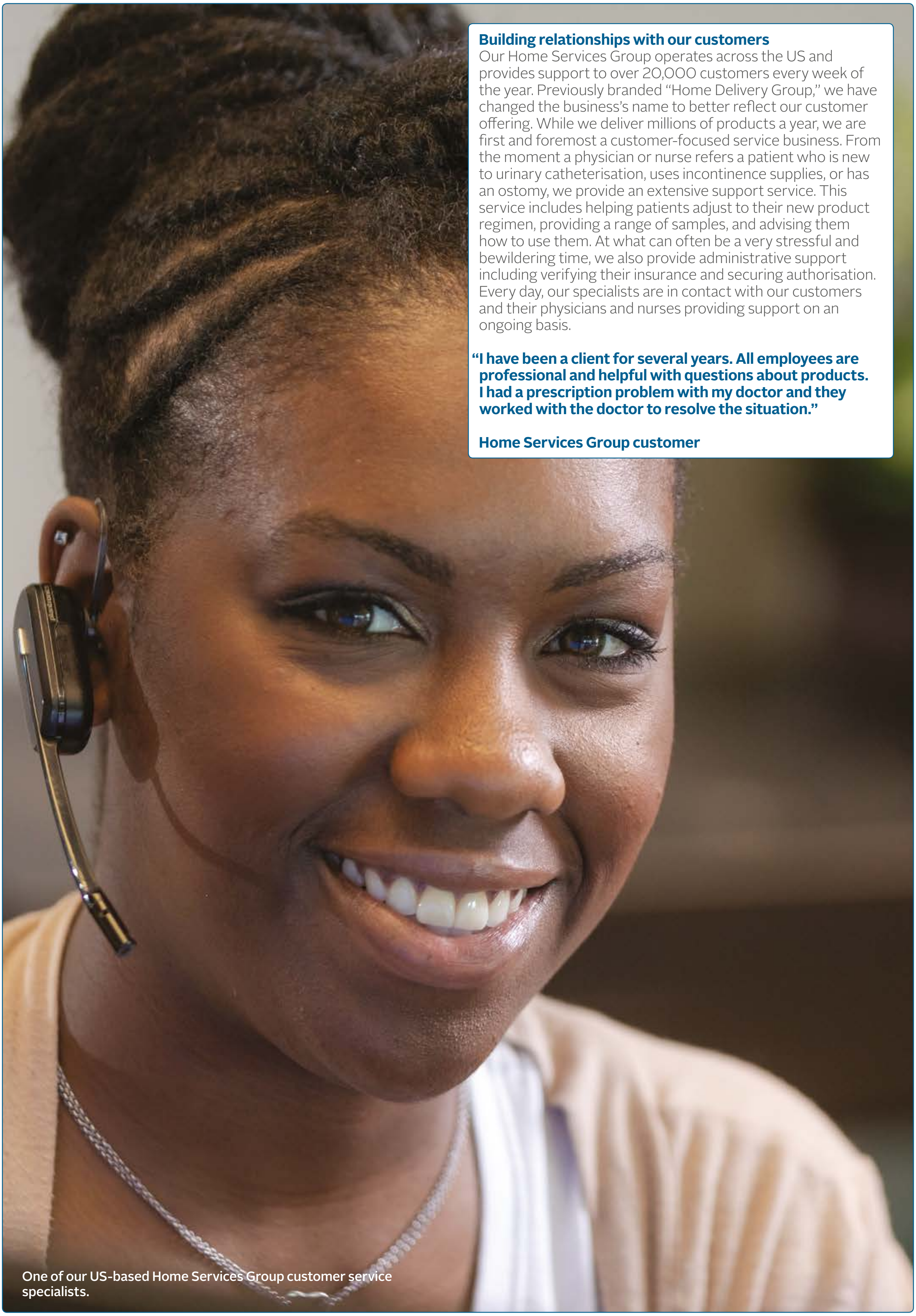
We focused on two priorities to drive our growth:

– Leveraging the reach of HSG, the largest supplier of intermittent catheters in the US.
– Continuing to innovate and expand the GentleCath™ intermittent catheter portfolio to cover a wider range of needs together with expanding our me+™ platform for intermittent catheter users.

2019 revenue performance

Reported revenue of $456.7 million grew 3.1% against the prior year, including a small net revenue contribution of $1.3 million from J&R Medical, which was acquired by HSG on 1 March 2018 and Southlake Medical Supplies, which was acquired by HSG on 1 October 2019, net of the Symbius divestment in 2018. Revenue grew 4.1% year on year on an organic basis. In the fourth quarter revenue grew by 3.8% on an organic basis, again driven by strong growth in HSG.

HSG, driven by its high-touch patient care model, continues to be the driver of growth in the franchise. It aims to deliver superior patient experiences by providing direct support, advice and liaison with clinicians, insurance companies and state funded health coverage programmes on reimbursement.



Building relationships with our customers

Our Home Services Group operates across the US and provides support to over 20,000 customers every week of the year. Previously branded "Home Delivery Group," we have changed the business's name to better reflect our customer offering. While we deliver millions of products a year, we are first and foremost a customer-focused service business. From the moment a physician or nurse refers a patient who is new to urinary catheterisation, uses incontinence supplies, or has an ostomy, we provide an extensive support service. This service includes helping patients adjust to their new product regimen, providing a range of samples, and advising them how to use them. At what can often be a very stressful and bewildering time, we also provide administrative support including verifying their insurance and securing authorisation. Every day, our specialists are in contact with our customers and their physicians and nurses providing support on an ongoing basis.

"I have been a client for several years. All employees are professional and helpful with questions about products. I had a prescription problem with my doctor and they worked with the doctor to resolve the situation."

Home Services Group customer

One of our US-based Home Services Group customer service specialists.

Infusion Care

Revenue $275.6m +2.7%

2019	**$275.6m**
2018	$268.3m

Key brands

inset™

comfort™

neria™

John Lindskog
President and Chief Operating Officer, Global Infusion Care

Overview

Performance was in line with expectations with good underlying revenue growth, driven by strong customer orders and the continued growth of MiniMed™ Mio™ Advance with our partner Medtronic. However, the organic growth was towards the lower end of the historical market growth of 4% to 5% per annum due to the exit of Animas from the market in late 2018.

We focused on three priorities to drive our growth:

- Maintaining our strong and long-term partnerships with insulin pump manufacturers to secure long-term business.
- Continuing to develop innovative products for both insulin and other drug delivery.
- Leveraging our leading industry position to ensure that we were the supplier of choice for new entrants into the insulin market and delivery of other sub-cutaneous drugs.

2019 revenue performance

Revenue in 2019 of $275.6 million grew 2.7% year on year on a reported basis and 4.1% on an organic basis driven by strong customer orders. In the fourth quarter revenue grew by 12.4% on an organic basis, largely driven by materially lower revenue in the prior year, following a change in inventory policy at our biggest customer in Q4 2018.

Enabling people to live the life they want

Jack Trigger is a professional athlete who competes in some of the most gruelling long distance sailing races. He has Type 1 diabetes and a Medtronic insulin pump and ConvaTec infusion set has been his product of choice since moving to insulin infusion therapy. Jack has a number of sponsors, including our Infusion Care franchise.

"For almost as long as I can remember, I have raced boats. I have competed in some of the toughest events, including the iconic Route du Rhum, a solo race which starts in St Malo, crosses the Atlantic and finishes in Guadeloupe. It is probably the second most gruelling single-handed offshore course in the world.

"Managing my diabetes while I am racing can be challenging. The environment is extreme, regular sleeping and eating patterns are not possible and injecting during the all too often storms and high seas can be dangerous. I successfully manage my condition by using an insulin pump and infusion set which supplies insulin subcutaneously. This device helps me stay healthy and allows me to participate in the sport that I love at the very highest levels."

Jack Trigger training for the 2019 Rolex Fastnet on his "Figaro 3" yacht.

Chief Financial Officer's review

Frank Schulkes
Chief Financial Officer

2019 results

As already noted, our overall financial result for the year was in line with expectations and both revenue growth and the adjusted EBIT margin were consistent with our guidance given in February 2019.

On an organic basis, Group revenue grew 2.3% to $1,874.4 million (2018: $1,832.1 million). This compares to our guidance of 1% to 2.5% organic revenue growth. As expected, adjusted operating profit declined by $75.1 million to $354.3 million (2018: $429.4 million), resulting in an adjusted EBIT margin of 19.4% (2018: 23.4%). This compares to our guidance of 18% to 20%.

On a reported basis, our revenue declined by 0.3% to $1,827.2 million (2018: $1,832.1 million) which included unfavourable foreign exchange movements of $48.6 million, partially offset by $1.4 million from acquisitions.

Revenue performance across our franchises was mixed but all franchises improved performance year-on-year and each delivered organic revenue growth. The organic revenues of AWC grew by 0.5%, driven by growth in our silver portfolio and foam products, partly offset by decline in legacy products. Ostomy Care delivered organic revenue growth of 1.9% reflecting a solid performance against a weak 2018 comparative. CCC delivered a good performance with continued growth in our HSG business at 4.1%. The organic revenues of Infusion Care grew by 4.1% representing a good performance against a weak prior year comparator.

The decline in adjusted operating profit in 2019 of $75.1 million reflects the increase in organic revenue offset by sales mix and net productivity improvements, negative foreign exchange ($13.6 million) and, as expected, by investment in the Transformation Initiative ($39.4 million) and MDR ($5.2 million) together with an increase in employee incentives as a result of the Group meeting (for the first time since IPO) its financial targets for the year.

On a reported basis, operating profit was $96.9 million, a decline of $170.8 million reflecting the movement in adjusted operating profit together with $5.8 million of severance costs specifically associated with the ongoing operating model changes, CEO buy-out costs ($6.2 million), intangibles impairment charge of $105.5 million.

Despite our expected reduction in profitability, we continue to deliver good net cash generation. Reported net cash generated from operating activities was $401.8 million (2018: $352.0 million) and reported cash conversion was 101.0% (2018: 82.4%). Cash conversion on an adjusted basis was 97.9%, an improvement on 2018 (80.6%). During the year inventory levels reduced by $21.5 million which reflected our focus on rationalising inventory across the Group and was the principal driver of the improvements in reported and adjusted cash conversion. In 2019, the net cash we generated was used to reduce our external borrowing requirement by c.$100 million (2018: voluntary debt repayment of $95.0 million) when the Group refinanced its external debt (see "Borrowings and net debt" below), service fees associated with the refinancing ($17.0 million), acquire Southlake Medical Supplies ($12.3 million), purchase shares to cover the future vesting of our employee share incentive plans ($14.0 million) and make dividend payments of $79.9 million.

Further information on our financial performance can be found in the Financial review on pages 59 to 67.

Dividends

In August 2019, the Board declared an interim dividend of 1.717 cents per share and has proposed a final dividend of 3.983 cents per share. The Board has maintained the recommended dividend at the level declared in 2018. This represents a pay-out ratio (when compared to adjusted net profit) for 2019 of 49%. This is ahead of our stated pay-out policy of 35% to 45% but is a reflection of the Board's confidence in the future performance of the Group and its underlying financial strength, realised distributable reserves position and cash generation. Further information about our dividend policy and dividends paid can be found on page 132 and information on capital maintenance and our available distributable reserves position can be found on page 64 of the Financial review.

Acquisitions

The trade and assets of Southlake Medical Supplies ("Southlake"), a Texas-based independent provider of catheter-related supplies, were acquired on 1 October 2019 for cash consideration of $12.3 million. The addition of Southlake to HSG will further strengthen our presence in an important US market and reinforce the Group's position as the leading supplier of urinary catheters in the US.

The initial performance of this acquisition has been in line with our expectations, contributing $1.0 million to revenue and $0.4 million to operating profit since acquisition, with good progress on integrating the business into HSG.

Impairment of intangible assets

During the year, as part of the Group's Transformation Initiative, a product portfolio review has been undertaken which has resulted in the identification of impairment triggers in relation to certain of the Group's intangible assets. As a result of the reviews, an impairment charge has been recognised of $103.6 million on product-related intangibles. Given the impairment charge is not representative of the underlying performance of the business and consistent with the treatment of intangibles acquired before 2018, the charge has been treated as an adjustment in calculating the Group's non-IFRS performance measures. For further details on intangible assets see Note 8 to the Financial Statements.

"Our overall financial result was in line with expectations and both revenue growth and the adjusted EBIT margin were consistent with our previous guidance."

Borrowings and net debt

	31 December 2019 $m As reported	31 December 2018 $m As reported	31 December 2018 $m Applying IFRS 16 opening lease liabilities[1]
Borrowings	**1,486.1**	1,620.8	1,620.8
Finance leases	**–**	23.7	
IFRS 16 lease liabilities	**88.5**	–	89.5
Total interest-bearing borrowings	**1,574.6**	1,644.5	1,710.3
Cash and cash equivalents	**(385.8)**	(315.6)	(315.6)
Net debt (including leases)	**1,188.8**	1,328.9	1,394.7
Net debt	**1,100.3**	1,305.2	1,305.2

1. At the point of transition to IFRS 16, *Leases* ("IFRS 16") an opening lease liability of $89.5 million was recognised. To more readily understand the year-on-year movement in net debt, the net debt for the year ended 31 December 2018 is presented above on both a reported basis, which includes finance lease liabilities only, and on a basis using the IFRS 16 opening lease liability which includes all leases as defined by our IFRS 16 accounting policy. For further information see Note 1.4 to the Financial Statements.

On 24 October 2019 the Group completed the refinancing of the debt put in place at the time of the IPO in October 2016. At the point of refinancing, the debt outstanding under this legacy agreement was $1,587.6 million, consisting of a US dollar and Euro denominated Term Loan A Facility that was due to mature in 2021, a US dollar denominated Term Loan B Facility which was due to mature in 2023 and a $200 million revolving credit facility due to expire in October 2021. These three facilities have been replaced with two five-year committed loan facilities totalling $1.5 billion, consisting of $900 million of non-amortising debt and $600 million of amortising debt, together with a $200 million revolving credit facility expiring in October 2024. The new debt facilities are with a smaller group of relationship banks and have limited security. The weighted average interest rate, excluding fees, is similar to that of our previous debt facilities. As part of the refinancing process, the Group utilised c.$100 million of available cash to reduce the overall bank debt funding requirement. The Group now has the appropriate funding in place to deliver on its transformation and pivot to sustainable and profitable growth. For further information on our new borrowings see Note 19 to the Financial Statements.

As at 31 December 2019, the debt outstanding on the loans was $1,486.1 million (2018: $1,620.8 million). The $200 million revolving credit facility was undrawn as at 31 December 2019.

The Group ended the year with total interest-bearing liabilities, including IFRS 16 lease liabilities, of $1,574.6 million (2018: $1,644.5 million, as reported and including finance lease obligations). Including the opening lease liability, total interest-bearing liabilities was $1,710.3 million as at 31 December 2018. Offsetting cash of $385.8 million (2018: $315.6 million) and excluding lease liabilities, net debt was $1,100.3 million (2018: $1,305.2 million). This amounted to 2.5x adjusted EBITDA (2018: 2.7x adjusted EBITDA). At 31 December 2019, the Group was in compliance with all financial and non-financial covenants associated with the Group's outstanding debt.

On 24 October 2019, the Group closed out the interest rate swaps that were used to manage interest rate fluctuations on the previous funding structure resulting in derecognition of the associated asset. The new borrowings comprise $1,050 million and €403 million of floating rate debt. The interest rate on this debt is reset quarterly at a fixed margin above the inter-bank offered rate ("IBOR"). In order to manage potential interest rate volatility on the new funding structure, the Group aims to have fixed rate net debt of between 40% and 60% arising naturally or using derivatives. In accordance with this target, on 5 December 2019, the Group entered into US dollar interest rate swap agreements with a notional value of $275 million. This is in addition to Euro denominated net debt of $380.5 million which the Group considers quasi-fixed. For further details on derivative financial instruments see Note 21 to the Financial Statements.

Accounting standards

During the year, the Group has applied several changes in accounting standards. These were (i) IFRS 16, *Leases*; (ii) IAS 19, *Plan Amendments, Curtailments or Settlement (Amendments to IAS 19)*; and (iii) IFRIC 23, *Uncertainty over income tax treatments*. With the exception of IFRS 16, their adoption has not had a material impact on our Financial Statements. Further details can be found on pages 144 to 145.

The Group adopted IFRS 16 on 1 January 2019, which introduced changes to lessee accounting by removing the distinction between operating and finance leases and required the recognition of a right-of-use asset and a lease liability at the commencement for all leases. The Group's operating leases impacted by IFRS 16 principally relate to real estate and vehicle leases.

Finance leases existing at the date of adoption continue to be treated as finance leases and have been reclassified from borrowings to lease liabilities. For operating leases existing at the date of the adoption, the Group has applied the modified retrospective approach by measuring the right-of-use asset and an amount equal to the lease liability and therefore comparative information has not been restated.

As a result of adoption, the Group recognised lease liabilities of $89.5 million and a right-of-use asset of $86.9 million on 1 January 2019 (of which finance lease liabilities represented $23.7 million and $21.1 million of right-of-use assets). The effect on the Consolidated Income Statement for the year was to increase operating profit by $1.5 million and to increase finance costs by $2.1 million resulting in a small reduction to profit before income taxes of $0.6 million.

In adopting IFRS 16, the Group applied a number of practical expedients permitted by the standard. For details on the expedients applied, discount rates and reconciliations of right-of-use assets and lease liabilities see pages 144 to 145.

Deferred taxation

As a result of the Swiss tax reform which was substantively enacted on 4 October 2019 and is effective on 31 December 2019, ConvaTec International Services GmbH is subject to a significant change in its effective tax rate. The effective rate will increase over a ten-year period to 1 January 2030, however this rate increase is alleviated by grandfathering provisions that result in the estimation and recognition of a deferred tax asset. The value of the asset of $23.0 million at 31 December 2019 has been calculated on a best estimate basis using a specific methodology that is permitted under Swiss law. Given the future anticipated transformative changes in the business, there is estimation uncertainty in the calculation of the deferred tax position. This will remain subject to review as a key source of estimation uncertainty in Note 1.3. For further details on deferred taxation, see Note 5 to the Financial Statements.

Brexit

Following the results of the UK referendum in 2016 and the UK officially leaving the EU on 31 January 2020, uncertainty still remains on the UK's trading position with Europe and impact on the regulatory environment. In order to monitor the potential outcomes and associated risks to the business from ongoing Brexit negotiations, we have maintained a programme of continuous review through our multi-disciplinary Brexit Steering Committee. Together with external advisers, this committee has reviewed possible issues that may arise as a result of leaving the EU including customs, people, regulatory and supply chain together with their mitigations under various Brexit scenarios. Management considers there will be no material financial effect on our business or significant operational issues which could arise as a result of Brexit and we continue to work with the Department of Health on contingency planning, including continuous monitoring of inventory levels, adjusting where required, and registration for dedicated medical device shipping lanes. As a result, we have concluded that Brexit is not a key source of estimation uncertainty. We will continue to monitor and review the evolving situation.

Business services transformation

We have made progress in a number of key areas across our finance function. As part of the ongoing business services transformation, we have redesigned end-to-end processes for our transactional finance operations and have begun implementation of technology enabling tools that will create the platform for efficient and scalable services. We have also announced the consolidation of our finance shared service footprint into a single low-cost location in Lisbon, which will be co-located with our newly formed IT hub to create the foundation for global business services. The transition to this new finance model will transform the way that finance services are delivered to the business by improving the quality, accuracy, timeliness and consistency of financial information.

COVID-19 ("Coronavirus")

We are monitoring the effect of Coronavirus on both our direct sales in China and on our supply chain. In FY 2019, sales in China accounted for less than 1% of our Group revenues. Within supply chain we have a small number of component parts and accessories that are manufactured by third-parties in affected areas. We have undertaken a risk assessment and, assuming that the situation normalises in Q2 and that the outbreak is contained, management considers that there will be no material financial effect on our business in 2020. We will continue to monitor this emerging situation.

Outlook and guidance

The fundamentals of the business remain strong. The Group is a diversified chronic care business with strong brands and differentiated products, holding established market positions in large and structurally-growing markets.

In 2020 we expect constant currency revenue growth of 2.0% to 3.5%. Constant currency adjusted EBIT margin is expected to be 16% to 18%, including $50 million of operational spend associated with transformation and $18 million of costs related to MDR. In addition, under the Transformation Initiative we expect to invest $30 million in capital expenditure and $25 million to $30 million in termination benefits, which will be treated as adjusting in our non-IFRS financial measures, in line with our policy.

We see significant opportunity for sustainable and profitable growth ahead of us by becoming more customer-centric and innovation led, therefore we are investing more than was previously announced, including costs related to the change in operating model. The increased investment will deliver a higher level of benefit than previously announced.

Overall, we expect the total investment in transformation from 2019 to 2021 to be between $205 million and $215 million. This consists of $140 million to $150 million, of which $35 million to $40 million will be excluded from adjusted EBIT, given its nature, and between $60 million to $65 million of investment in capital expenditure.

Frank Schulkes
Chief Financial Officer
27 February 2020

Financial review

The commentary in the Chief Financial Officer's review and this Financial review includes discussion of reported and alternative performance measures. Management uses alternative performance measures as a meaningful supplement to reported measures. These measures are disclosed in accordance with the ESMA guidelines and are explained and reconciled to the most directly comparable measure prepared in accordance with IFRS on pages 182 to 187. Further detail on the Group's financial performance, measured in accordance with IFRS, is set out in the Financial Statements and Notes thereto on pages 138 to 181.

In addition, the discussion below (and in the Chief Financial Officer's review) includes commentary on revenue on both a constant currency basis and an organic basis. Constant currency removes the effect of fluctuations in exchange rates. Organic removes the effect of fluctuations in exchange rates and the impact of acquisitions and disposals in the year and prior year. Both measures enable the Group to focus on the underlying revenue performance. Constant currency information is calculated by applying the applicable prior period average exchange rates to the Group's revenue performance in the respective period. Revenue growth on a constant currency basis and an organic basis are non-IFRS financial measures and should not be viewed as replacements of IFRS reported revenue.

Results of operations

The following table sets forth the Group's revenue and expense items from continuing operations for each of the last two years:

	Reported 2019 $m	Reported 2018 $m	**Adjusted[1] 2019 $m**	Adjusted[1] 2018 $m
Revenue	**1,827.2**	1,832.1	**1,827.2**	1,832.1
Cost of goods sold	**(871.6)**	(858.3)	**(749.0)**	(729.9)
Gross profit	**955.6**	973.8	**1,078.2**	1,102.2
Gross margin %	**52.3%**	53.2%	**59.0%**	60.2%
Selling and distribution expenses	**(433.0)**	(418.0)	**(431.3)**	(415.3)
General and administrative expenses	**(266.4)**	(238.2)	**(238.5)**	(208.3)
Research and development expenses	**(53.8)**	(49.9)	**(53.8)**	(49.2)
Other operating expenses	**(105.5)**	—	**(0.3)**	—
Operating profit	**96.9**	267.7	**354.3**	429.4
Operating margin %	**5.3%**	14.6%	**19.4%**	23.4%
Finance costs	**(73.6)**	(65.2)	**(73.6)**	(65.2)
Non-operating expense, net	**(4.4)**	(1.3)	**(4.4)**	(3.2)
Profit before income taxes	**18.9**	201.2	**276.3**	361.0
Income tax (expense)/benefit	**(9.1)**	20.4	**(44.3)**	(56.5)
Net profit	**9.8**	221.6	**232.0**	304.5
Net profit %	**0.5%**	12.1%	**12.7%**	16.6%
Basic and diluted earnings per share ($ per share)	**0.00**	0.11	**0.12**	0.16
Dividend per share (cents)	**5.7**	5.7		

1. These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 182 to 187.

Revenue

Reported revenue decreased 0.3% to $1,827.2 million for the year from $1,832.1 million in the prior year, reflecting unfavourable foreign exchange movements of $48.6 million offset by improved franchise performance and the contribution from acquisitions. On a constant exchange rate basis revenue increased 2.4%, including a net $1.4 million contribution from the 2018 acquisition of J&R Medical and Symbius divestment, and current year acquisition of Southlake Medical Supplies. Organic revenue growth for the year ended 31 December 2019 was 2.3% reflecting year-on-year growth across all franchises.

Revenue by franchise

The following table summarises the Group's revenue by franchise for each of the last two years and the percentage change on a reported and organic basis, indicating the impact of constant exchange rate movements and acquisitions:

	2019	2018	Reported growth	Organic revenue	Organic growth	M&A		Exchange rates	
	$m	$m	%	$m	%	$m	%	$m	%
AWC	**569.9**	587.5	(3.0)%	590.3	0.5%	—	—%	(20.4)	(3.5)%
Ostomy Care	**525.0**	533.3	(1.6)%	543.8	1.9%	0.1	—%	(18.9)	(3.5)%
CCC	**456.7**	443.0	3.1%	461.0	4.1%	1.3	0.3%	(5.6)	(1.3)%
Infusion Care	**275.6**	268.3	2.7%	279.3	4.1%	—	—%	(3.7)	(1.4)%
Total	**1,827.2**	1,832.1	(0.3)%	1,874.4	2.3%	1.4	0.1%	(48.6)	(2.7)%

AWC
Our AWC franchise delivered organic revenue growth of 0.5% in 2019. Underlying growth in our AQUACEL™ Ag+/Advantage silver products was impacted by moving to a more specialised salesforce in the franchise's US business and further offset by continued decline in our legacy products, as presented in more detail on page 48. Reported revenue of $569.9 million in 2019 fell 3.0% compared to 2018, the difference driven from the year's unfavourable foreign exchange movements.

Ostomy Care
The Ostomy Care franchise returned improved levels of growth across several markets with organic revenue growth at 1.9%. Reported revenue of $525.0 million fell by 1.6%, primarily from the impact of foreign exchange. A full discussion on the performance of the Ostomy Care franchise is presented on page 50.

CCC
Organic revenue growth of 4.1% reflected consistent year-on-year growth, principally driven from our HSG business. Reported revenue increased 3.1% to $456.7 million in the year. A net contribution of $1.3 million ($43.5 million in 2018) was realised from the acquisitions of J&R Medical (acquired on 1 March 2018), net of the Symbius divestment and Southlake Medical Supplies (acquired on 1 October 2019). Further CCC franchise performance details are presented on page 52.

Infusion Care
Our Infusion Care franchise returned an organic revenue growth of 4.1% and a reported revenue increase of 2.7% to $275.6 million, reflecting the normalisation of the unexpected ordering patterns of our largest customer in the last quarter of 2018 and the continued growth of MiniMed™ Mio™ Advance with our partner, Medtronic. A more detailed analysis of performance for Infusion Care is presented on page 54.

Cost of goods sold and gross profit
Reported
Reported cost of goods sold increased by 1.5% to $871.6 million (2018: $858.3 million). The increase was a result of negative mix and pricing pressures offset by favourable foreign exchange gains.

Reported gross profit decreased by $18.2 million to $955.6 million (2018: $973.8 million) and gross profit margin decreased to 52.3% (2018: 53.2%) reflecting net unfavourable foreign exchange of $33.0 million, and offset by a net $14.8 million increase from sales growth across the franchises net of changes in mix and pricing.

Adjusted
Adjusted cost of goods sold for the year ended 31 December 2019 was $749.0 million (2018: $729.9 million), a 2.6% increase.

Adjusted gross profit decreased by $24.0 million to $1,078.2 million (2018: $1,102.2 million) with the respective gross profit margin decreasing to 59.0% from 60.2%. The changes are consistent with the drivers of the reported reduction.

Operating costs and expenses
The following is a summary of operating costs and expenses for the year ended 31 December 2019 and 2018, and the cost in each category is compared with the total revenue in the respective period:

Category[1]	**Reported 2019 $m**	Reported 2018 $m	**Adjusted 2019 $m**	Adjusted 2018 $m
Selling and distribution	**433.0**	418.0	**431.3**	415.3
% revenue	**23.7%**	22.8%	**23.6%**	22.7%
General and administration	**266.4**	238.2	**238.5**	208.3
% revenue	**14.6%**	13.0%	**13.1%**	11.4%
Research and development	**53.8**	49.9	**53.8**	49.2
% revenue	**2.9%**	2.7%	**2.9%**	2.7%
Other operating expenses	**105.5**	—	**0.3**	—
% revenue	**5.8%**	—%	**—%**	—%
Total operating costs	**858.7**	706.1	**723.9**	672.8
% revenue	**47.0%**	38.5%	**39.6%**	36.7%

1. Percentages may not sum due to rounding.

Reported

Selling and distribution expenses

On a reported basis, selling and distribution expenses increased $15.0 million to $433.0 million (2018: $418.0 million). This increase was driven by the continued strengthening of our commercial resources, primarily in the US AWC franchise and across EMEA.

General and administrative expenses

Reported general and administrative expenses increased $28.2 million to $266.4 million (2018: $238.2 million). The increase reflects the costs incurred in the implementation of the Transformation Initiative and increases in employee incentives, including stock compensation costs resulting from the CEO buy-out.

Research and development expenses ("R&D")

Reported R&D expenses increased $3.9 million to $53.8 million (2018: $49.9 million). The principal increase in spend in the year included compliance costs incurred in relation to the implementation of MDR of $5.2 million.

Other operating expenses

As part of the Transformation Initiative a product portfolio review has been undertaken which has resulted in the identification of impairment triggers in relation to a number of the Group's intangible assets resulting in $105.5 million impairment of certain intangible assets.

Adjusted

Selling and distribution expenses

Adjusted selling and distribution expenses increased $16.0 million or 3.9% to $431.3 million. The increase is a result of investment in commercial resources as outlined in reported.

General and administrative expenses

Adjusted general and administrative expenses increased $30.2 million or 14.5% to $238.5 million. The increase, as discussed in reported, relates to increases in employee incentives and the Group's Transformation Initiative.

R&D

Adjusted R&D expenses increased $4.6 million or 9.3% to $53.8 million. The increase is in line with reported R&D, resulting from compliance costs incurred in relation to MDR.

Other operating expenses

Other operating expenses includes $0.3 million relating to the impairment of certain intangible assets as outlined above. Further details on adjusting items are outlined on pages 182 to 187.

Operating profit

Reported

On a reported basis, operating profit was $96.9 million, a decrease of $170.8 million (2018: $267.7 million) reflecting primarily the impairment of certain intangible assets of $105.5 million, operating cost increases of $69.1 million resulting from Transformation Initiative costs including MDR, employee incentives and net negative foreign exchange movements of $11.0 million offset by the $14.8 million increase in gross margin.

Adjusted

Adjusted operating profit was $354.3 million, a decrease of $75.1 million (2018: $429.4 million). The movement reflects the cost of the Transformation Initiative ($39.4 million), MDR costs ($5.2 million) and negative foreign exchange movements, as previously discussed, but excludes $105.2 million of impairment charges on certain intangible assets.

Finance and non-operating expenses

The table below presents a summary of finance and non-operating expense, net, on a reported and adjusted basis.

	Reported 2019 $m	Reported 2018 $m	**Adjusted 2019 $m**	Adjusted 2018 $m
Finance costs	**(73.6)**	(65.2)	**(73.6)**	(65.2)
Non-operating expense, net	**(4.4)**	(1.3)	**(4.4)**	(3.2)
Total	**(78.0)**	(66.5)	**(78.0)**	(68.4)

Finance costs

Finance costs consist of interest costs on bank and other finance debt, non-utilisation of finance facility fees and the interest cost on derivative financial instruments.

Finance costs increased $8.4 million, or 12.9%, to $73.6 million (2018: $65.2 million). The increase primarily results from $11.2 million of deferred financing fees recognised upon early termination of the Group's previous credit agreement (further details can be found in Note 19 – Borrowings) and $1.8 million increase in interest on leases predominantly upon the adoption of IFRS 16, *Leases*, offset by a $4.6 million net reduction in interest charges and increased interest income recognised.

The are no adjusted measures reported in finance costs.

Taxation

	Reported 2019 $m	Reported 2018 $m	**Adjusted 2019 $m**	Adjusted 2018 $m
Profit before taxation	**18.9**	201.2	**276.3**	361.0
Income tax (expense)/benefit	**(9.1)**	20.4	**(44.3)**	(56.5)
Effective tax rate	**48.1%**	(10.1)%	**16.0%**	15.7%

	2019 $m	2018 $m
Reported income tax (expense)/benefit	**(9.1)**	20.4
Tax effect of adjustments[1]	**(12.2)**	(11.2)
Other discrete tax items[2]	**(23.0)**	(65.7)
Adjusted income tax expense	**(44.3)**	(56.5)

1. The tax effects of the adjustments relating to non-IFRS financial measures are explained and reconciled on pages 182 to 187.
2. In 2019, other discrete items include the recognition of a deferred tax asset, $23.0 million, in respect of the Swiss tax reform. In 2018 tax benefits of $30.4 million arose from the reassessment of deferred tax liabilities in respect of unremitted earnings and $35.0 million recognition of additional deferred tax assets resulting from the US tax reform in December 2017. Refer to Note 5 of the Consolidated Financial Statements, pages 150 to 153, for further information.

The reported tax expense for 2019 was $9.1 million (2018: tax benefit of $20.4 million) and the adjusted tax expense was $44.3 million (2018: $56.5 million), representing an increase in the effective tax rate to 16.0% (2018: 15.7%) on adjusted profit before taxation. Further details on the reported tax expense are contained in Note 5 of the Consolidated Financial Statements.

Reported

The Group's tax expense of $9.1 million (2018: $20.4 million benefit) is based on tax rates applicable in various jurisdictions across the world in which the Group operates. The tax expense in 2019 has been influenced by a deferred tax benefit of $23.0 million arising from the Swiss tax reform, $17.7 million relating to tax losses where no deferred tax asset has been recognised and a tax expense of $24.6 million relating to the impairment of certain intangible assets in the Group where no tax relief for the costs has been taken (refer to Note 8.1 of the Consolidated Financial Statements).

In 2018, there were two discrete tax items totalling $65.7 million. These principally related to a deferred tax benefit of $35.0 million in the US following the enactment of the US Tax Cuts and Jobs Act on 22 December 2017, and released deferred tax liabilities of $30.4 million in respect of unremitted earnings related to the Dominican Republic.

Adjusted

The adjusted income tax expense for 2019 was $44.3 million (2018: $56.5 million), reflecting a 0.3% increase in the adjusted effective tax rate to 16.0% (2018: 15.7%). The adjusted income tax expense of $44.3 million excludes the deferred tax benefit of $23.0 million (as noted above) and a tax benefit of $12.2 million (2018: $11.2 million) pertaining to the tax effect of amortisation on pre-2018 intangible assets, the cost of termination benefits relating to specific Group-wide initiatives and certain components of the CEO buy-out costs.

Net profit

Reported

Reported net profit for 2019 was $9.8 million (2018: $221.6 million), a decrease of $211.8 million, reflecting a decrease of $182.3 million in reported profit before taxation (see above for explanation) and the $29.5 million increase in the reported tax charge for the year, principally driven by discrete tax adjustments including the effect of the Swiss tax reform in 2019 ($23.0 million) and the US tax reform and changes in unremitted earnings in 2018.

Adjusted

Adjusted net profit decreased $72.5 million, to $232.0 million in 2019. The decrease primarily reflects the effects of foreign exchange, headwinds in gross margin and the planned increase in operating costs arising from the Group's Transformation Initiative.

Foreign exchange

The following table summarises the exchange rates used for the translation of currencies into US dollars that have the most significant impact on the Group results:

Currency	Average rate/ Closing rate	2019	2018
EUR/USD	Average	**1.12**	1.18
	Closing	**1.12**	1.15
GBP/USD	Average	**1.28**	1.34
	Closing	**1.33**	1.28
DKK/USD	Average	**0.15**	0.16
	Closing	**0.15**	0.15

Financial position

Selected measures of financial position

The following table presents a summary of the Group's financial position at 31 December:

At 31 December	2019 $m	2018 $m	Change $m	Change %
Intangible assets and goodwill	**2,166.9**	2,377.5	**(210.6)**	(8.9)%
Other non-current assets	**474.6**	379.7	**94.9**	25.0%
Cash and cash equivalents	**385.8**	315.6	**70.2**	22.2%
Current assets excluding cash and cash equivalents	**582.5**	587.6	**(5.1)**	(0.9)%
Total assets	**3,609.8**	3,660.4	**(50.6)**	(1.4)%
Current liabilities	**(397.3)**	(330.9)	**(66.4)**	20.1%
Non-current liabilities	**(1,651.5)**	(1,712.3)	**60.8**	(3.6)%
Total equity	**(1,561.0)**	(1,617.2)	**56.2**	(3.5)%
Net equity and liabilities	**(3,609.8)**	(3,660.4)	**50.6**	(1.4)%

Intangible assets and goodwill

Intangible assets and goodwill reduced by $210.6 million to $2,166.9 million (2018: $2,377.5 million). This reflects decreases arising from the in-year amortisation of intangible assets of $151.9 million and impairment charges of $105.5 million, realised as a result of the Group's Transformation Initiative. This was partially offset by increases relating to the acquisition of intangible assets and goodwill in relation to Southlake Medical Supplies of $12.3 million, the net effect of foreign exchange of $21.2 million and other additions of $13.3 million. Other additions include the investment in technology-enabling tools and platforms which supports the business services transformation.

Other non-current assets

Other non-current assets, including property, plant and equipment, right-of-use assets, deferred tax assets, restricted cash, pension and other assets increased by $94.9 million to $474.6 million (2018: $379.7 million). This reflects a $75.4 million increase in the value of property, plant and equipment and right-of-use assets, of which $65.8 million was recognised upon adoption of IFRS 16 on 1 January 2019. The residual increase of $9.6 million is principally due to our ongoing investment in our manufacturing lines. Deferred tax assets increased by $32.1 million to $55.0 million, as a result of the $23.0 million asset recognised in respect of the Swiss tax reform. Interest rate swaps decreased by $10.3 million following the close out of the previous agreements as part of the refinancing and subsequent replacement with a new US dollar interest rate swap agreement on 5 December 2019.

Cash and cash equivalents

Cash and cash equivalents as at 31 December 2019 was $385.8 million (2018: $315.6 million). Further details are presented in Sources and uses of cash on page 65.

Current assets excluding cash and cash equivalents

Current assets excluding cash and cash equivalents decreased by $5.1 million to $582.5 million (2018: $587.6 million). The decrease is driven by a reduction in inventory levels of $21.5 million as a result of a coordinated rationalisation of inventory across the Group and the normalisation of 2018 year-end inventory levels following working capital changes at a key supplier. This was offset by a $16.4 million increase in trade and other receivables, primarily driven by sales phasing.

Liabilities

The Group adopted IFRS 16 on 1 January 2019, which introduced changes to lessee accounting by removing the distinction between operating and finance leases and required the recognition of a right-of-use asset and a lease liability at the commencement for all leases.

To more readily understand the year-on-year movement the table below outlines the effects on movements in current and non-current liabilities in relation to IFRS 16. The table presents 31 December 2018 on a reported basis and including the impact of the IFRS 16 opening lease liabilities.

	Reported 2019 $m	Reported 2018 $m	Applying IFRS 16 opening lease liabilities 2018 $m
Extract from current liabilities:			
Borrowings	**40.8**	62.0	62.0
Finance leases	**—**	1.0	
Borrowings – as reported	**40.8**	63.0	
ROU lease liabilities – current	**18.4**	—	15.8
Current lease liabilities	**18.4**	1.0	15.8
Extract from non-current liabilities:			
Borrowings	**1,445.3**	1,558.8	1,558.8
Finance leases	**—**	22.7	
Borrowings – as reported	**1,445.3**	1,581.5	
ROU lease liabilities – non-current	**70.1**	—	73.7
Non-current lease liabilities	**70.1**	22.7	73.7
Total lease liabilities	**88.5**	23.7	89.5

Current liabilities

Current liabilities increased by $66.4 million to $397.3 million (2018: $330.9 million), reflecting trade and other payables increasing by $67.8 million, principally driven from changes in accruals relating to interest payment terms on the new credit facility, increases in the accrual for employee incentives and lease liabilities recognised as at 31 December 2019 of $18.4 million following adoption of IFRS 16, offset by a reduction in current borrowings of $21.2 million as a result of the refinancing.

Non-current liabilities

Non-current liabilities have reduced by $60.8 million to $1,651.5 million (2018: $1,712.3 million). This principally reflects a reduction in non-current borrowings of $113.5 million after the refinancing and includes a change in scheduled loan repayments. The reduction was offset by an increase in deferred tax liabilities of $0.7 million and the additional non-current lease liabilities recognised upon adoption of IFRS 16 of $51.0 million.

Equity and capital maintenance

Total equity has decreased by $56.2 million to $1,561.0 million (2018: $1,617.2 million). As disclosed on page 63, this is primarily a result of the reported net profit for the year of $9.8 million, foreign currency translation gains of $25.1 million arising from the retranslation of Euro, Sterling and Danish Krone balances into US dollars being offset by dividends paid of $79.9 million, pension revaluation of $4.1 million and fair value adjustments on cash flow hedges, net of tax of $7.5 million.

The capacity of the Group to make dividend payments is derived from distributable reserves of the parent company ("the Company"), primarily arising from dividends received from subsidiary companies. The distributable reserves of the Company at 31 December 2019 are $1,528.5 million (2018: $1,574.7 million).

As discussed in the Chairman's letter, the Group's dividend policy is to target a pay-out ratio of between 35% and 45% of adjusted net profit.

In selecting the dividend policy, the Board considered the following key factors:
- Strategic objectives.
- Capital management.
- The Group's various stakeholders (for further information see the s172 statement on page 84).
- Review of our comparator peer group.

The Board reviews the appropriateness of the policy when considering dividend payments and in determining a proposed dividend the Board considers the following key factors:
- Availability of distributable reserves in the parent company and distributable resources available in subsidiary entities.
- Existing and forecast readily available cash.
- Assessment of Group viability and risk appetite.
- Dividend cover (2019: 3.8x; 2018: 3.5x), defined on page 207.
- Leverage based on the ratio of net debt to adjusted EBITDA (2019: 2.5x; 2018: 2.7x).
- Alignment with strategic objectives.

In addition to the interim dividend of 1.717 cents per share, which was declared on 1 August 2019, the Board has proposed a final dividend of 3.983 cents per share to maintain our total dividend for 2019 at 5.700 cents per share, in line with the total dividend for 2018. This represents a pay-out ratio, when compared to adjusted net profit for 2019 of 49%. This is slightly ahead of our stated pay-out policy of 35% to 45% but is a reflection of the Board's confidence in the future performance of the Group and its underlying financial strength, realised distributable reserves position and cash generation.

Sources and uses of cash

Cash flows

The following table displays cash flow information for each of the last two years:

	2019 $m	2018 $m
Net cash generated from operating activities	**401.8**	352.0
Net cash used in investing activities	**(72.8)**	(80.9)
Net cash used in financing activities	**(252.5)**	(229.4)
Net change in cash and cash equivalents	**76.5**	41.7
Cash and cash equivalents at beginning of the period	**315.6**	289.3
Effect of exchange rate changes on cash and cash equivalents	**(6.3)**	(15.4)
Cash and cash equivalents at end of the year	**385.8**	315.6

At 31 December 2019, the Group's cash and cash equivalents were $385.8 million (2018: $315.6 million). Additionally, at 31 December 2019, the Group's revolving credit facility of $200.0 million was undrawn and available (2018: $193.8 million). Restricted cash was $3.6 million (2018: $4.4 million).

Net cash generated from operating activities was $401.8 million and $352.0 million in 2019 and 2018, respectively. The increase of $49.8 million primarily reflects a decrease in working capital of $51.6 million (2018: increase of $23.2 million), offset by a net decrease in EBITDA of $39.3 million after non-cash items are added back.

The increase in cash and cash equivalents of $70.2 million is primarily driven from increased cash generated from operating activities of $49.8 million, a decrease in PP&E of $10.7 million and a reduction in realised foreign exchange movements of $9.1 million. During 2019, the Group utilised c.$100 million cash to reduce its net borrowings in the refinancing of the credit facility, which is comparable to the 2018 voluntary prepayment of $95.0 million on the previous Euro Term Loan A and $2.4 million of mandatory prepayments.

The following table summarises the components of net cash generated from operating activities for each of the last two years:

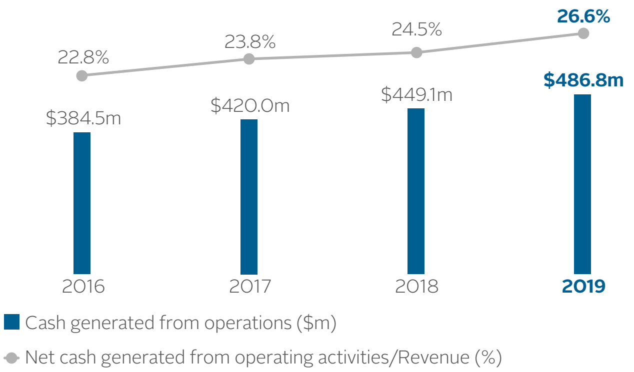
	Reported 2019 $m	Reported 2018 $m	**Adjusted 2019 $m**	Adjusted 2018 $m
EBITDA[1]	**421.0**	457.7	**443.1**	482.4
Cash interest payments	**(48.0)**	(61.3)	**(48.0)**	(61.3)
Cash tax payment	**(37.0)**	(35.8)	**(37.0)**	(35.8)
Other payments			**(8.4)**	(11.6)
Non-cash items	**14.2**	14.6	**—**	2.9
Working capital decrease/(increase)	**51.6**	(23.2)	**52.1**	(24.6)
Net cash generated from operating activities	**401.8**	352.0	**401.8**	352.0

1. EBITDA is explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS in the cash conversion table on page 187.

Sources of cash

The Group's primary source of liquidity is cash flow generated from operations. We operate in the chronic care market for which the nature of the Group's product offerings has resulted in consistent and strong recurring cash inflows.

Cash generated from operations



Our products are sold through a variety of routes to pharmacies, hospitals and other acute and post-acute healthcare service providers directly or through distributors and wholesalers. Products are also sold directly to end customers through the Group's home delivery and home services entities. Infusion Care primarily serves business-to-business customers. We own and operate nine manufacturing plants, and we also work with third-party contractors who manufacture on our behalf.

Cash conversion

Cash conversion is a measure we use to ensure we derive value from our operations and supports our decision making for potential future investments.

Our reported cash conversion was 101.0% (2018: 82.4%), which reflects our focus on reducing inventory levels during the year, increases in accruals including employee incentives, reclassification of interest payments on lease liabilities upon adoption of IFRS 16 and reduced capital spend resulting from phasing on certain projects.

Adjusted cash conversion was 97.9% (2018: 80.6%) in line with adjusted EBITDA.

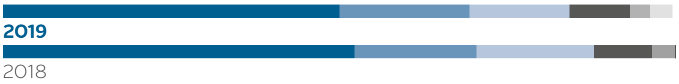
	Reported 2019 $m	Reported 2018 $m	**Adjusted[1] 2019 $m**	Adjusted[1] 2018 $m
EBITDA	**421.0**	457.7	**443.1**	482.4
Add: non-cash items	**14.2**	14.6	**—**	2.9
Working capital	**51.6**	(23.2)	**52.1**	(24.6)
PP&E	**(61.4)**	(72.1)	**(61.4)**	(72.1)
Cash generated from operations, net of PP&E	**425.4**	377.0	**433.8**	388.6
Cash conversion	**101.0%**	82.4%	**97.9%**	80.6%

1. Adjusted EBITDA, adjusted working capital and adjusted non-cash items are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS in the cash conversion table on page 187.

	Reported 2019 $m	Reported 2018 $m	**Adjusted 2019 $m**	Adjusted 2018 $m
Cash generated from operations, net of PP&E	**425.4**	377.0	**433.8**	388.6
Tax paid	**(37.0)**	(35.8)	**(37.0)**	(35.8)
Free cash flow	**388.4**	341.2	**396.8**	352.8

Uses of cash
The Group ensures that all entities within the Group have sufficient funding to deliver the Group's strategy while maximising the return to shareholders through the debt and equity balance. The following chart represents the Group's primary uses of cash.

Significant cash outflows ($m)



Debt servicing	**2019: $206.6m**	2018: $215.8m
Dividend paid	**2019: $79.9m**	2018: $74.9m
Acquisition of PP&E, capitalised software and development	**2019: $61.4m**	2018: $72.1m
Tax paid	**2019: $37.0m**	2018: $35.8m
Acquisitions, net of cash acquired	**2019: $12.3m**	2018: $14.4m
Purchase of own shares	**2019: $14.0m**	2018: $nil

Cash flows from debt servicing includes net repayments on borrowings of $137.7 million (2018: $153.7 million), lease payments recognised upon the adoption of IFRS 16 of $20.9 million (2018: finance leases, $0.8 million), and net interest payments of $48.0 million (2018: $61.3 million). The reduction in net cash on borrowings and interest reflects the timing of loan and interest repayments under the new credit agreement.

The Group's strategic investments in the year included Southlake Medical Supplies, a Texas-based independent provider of catheter-related supplies, whose trade and assets were acquired on 1 October 2019 for cash consideration of $12.3 million in comparison to the acquisition of J&R Medical in 2018 for $14.4 million.

Investments in PP&E decreased by $10.7 million to $61.4 million (2018: $72.1 million) resulting from phasing on certain projects, partially offset by proceeds from the sale of PP&E in 2018 (the Group's manufacturing plant in Greensboro was sold).

The Employee Benefit Trust purchased shares of $14.0 million to satisfy anticipated future obligations under the Group's employee share ownership programmes.

The Strategic report was approved by the Board of Directors on 27 February 2020 and signed on its behalf by:

Karim Bitar
Chief Executive Officer

Frank Schulkes
Chief Financial Officer

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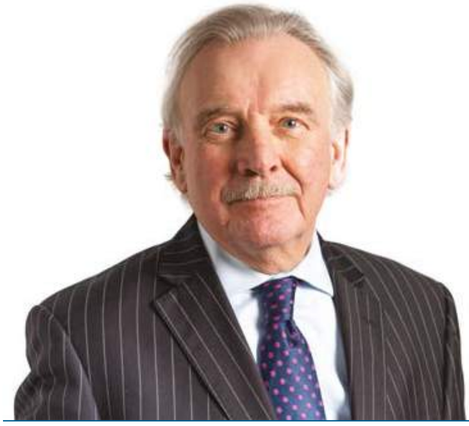
Governance report at a glance

Chairman's governance letter



Dr John McAdam
Chairman

Dear Shareholder

This is my first ConvaTec governance report since my appointment in September 2019. It covers key 2019 developments, how our governance framework has operated to support the Group's strategy and our plans to further enhance our governance processes in the coming year.

Board and leadership changes

2019 was a year of significant change. Sir Christopher Gent made the decision to retire from the Board following the 2019 Annual General Meeting (the "2019 AGM"), and a Special Nomination Committee (the "SNC") was established to identify a new Chair. Information about the SNC and its process, which concluded with my appointment on 30 September 2019, is set out on page 93.

Following an extensive global search process, on 25 March 2019 we announced the appointment of Karim Bitar as Chief Executive Officer. Karim, who also joined the Group on 30 September 2019, is an experienced leader with a proven track record of creating shareholder value and delivering transformational change within similar businesses.

At the end of September 2019, having served as our Interim Chief Executive Officer since October 2018, and then as our Executive Chairman since May 2019, Rick Anderson resumed his role as a Non-Executive Director. Once again, I would like to acknowledge and thank Rick for stepping forward to lead the Group in his executive role during its transition to a new leadership team. As highlighted in my letter on page 4, he has set the Group on an important and new trajectory of execution and change and established a critical and valuable base which we are building on.

Steve Holliday and Jesper Ovesen stepped down from the Board in March 2019 and June 2019 respectively. Following these departures Margaret Ewing was appointed our Senior Independent Director and the roles and composition of our Board committees changed. The changes in the make-up of our committees are explained in the relevant committee reports on pages 92, 95, 110 and 112.

Sir Christopher, Steve and Jesper had been members of the Board since the IPO over three years ago and, on behalf of the Board, I would like to thank them for their significant contribution during that period.

The Code

The updated Code[1] took effect from 1 January 2019 and during the year we have complied with its provisions other than:

- Division of responsibilities – provision 9 – separation of chairman and chief executive roles. Following Sir Christopher Gent's departure, Rick Anderson served as Executive Chairman from 9 May 2019 on an interim basis until Karim Bitar and I joined the Group on 30 September 2019.
- Division of responsibilities – provision 11 – at least half the board, excluding the chair, should be independent non-executive directors. Until June 2019 we were compliant with this provision. However, in the period from Jesper Ovesen stepping down at the end of June 2019 to the end of the year, our Board included only three independent Non-Executive Directors. As explained on page 86, this non-compliance has been addressed from 1 January 2020 by the Board determining that Rick Anderson should be independent from that date. It will be further supplemented by the appointment of Brian May (see page 94), who will join our Board as an independent Non-Executive Director on 2 March 2020. Our search for an additional independent Non-Executive Director is ongoing.
- Division of responsibilities – provision 12 – led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance. Due to the various changes occurring during the year, and because I have only been in the role for a short period of time, it was not deemed appropriate to undertake a formal annual appraisal of the chair's performance during 2019. However, the Senior Independent Director did gather informal initial feedback from members of the Board and discussed this with me.

We explain how we have applied the Code's core principles on pages 73 to 75. These core principles also serve as a framework for the following sections of this Annual Report which explain our governance structure and the processes we operate to support the Group's long-term success.

Vision, values and culture

As explained on page 4, following an employee consultation process we now have a clear vision statement which encapsulates our purpose and ambition and a set of values that reflect the culture we aspire to embed throughout the Group.

1. A copy of the 2018 Code is available from the Financial Reporting Council's website.

As a Board we have an important role to play in assessing and monitoring the Group's culture on an ongoing basis. During the year Ros Rivaz and Regina Benjamin led an active employee engagement programme and regularly provided updates to the Board about key issues arising from their discussions with employees across the Group. The Board also spent time considering the feedback from the Group's annual employee survey and the OHI survey, which was undertaken to support our Transformation Initiative. As a result of the feedback from the Board's employee engagement programme, and both surveys, the Board tasked the CELT with developing an action plan based on five key themes which are detailed on page 37. The action plan continues to be implemented and regular progress reports are provided to the Board. To date, a number of changes have been made as a result of the plan including the updating of the Group's vision statement and values which is referred to above.

Stakeholder engagement

The sustainable success of our business is dependent on a wide range of stakeholders. The Board and each of the Directors takes seriously their duties to consider all stakeholders' needs and concerns in its discussions and decision-making process.

As a result of our CR programme activities our key stakeholder groups are well identified. During the year we have built on this foundation and, mindful of our duty under section 172 of the Companies Act, we have improved and augmented the mechanisms available to the Board to ensure that all Directors have timely and effective access to information about our stakeholders' issues and concerns. Information about these mechanisms and how we have taken account of stakeholders in our Board discussions and decision-making processes is set out on pages 79 and 80. Our section 172 statement is on pages 84 and 85.

Governance and Board composition

As highlighted in my letter on page 4, our current governance practices are generally effective. However, there are opportunities to improve our processes and procedures in a number of areas including continuing to improve Board engagement with employees and other stakeholders, and further develop the Board's oversight of risk management. Information about the improvements we are implementing is included in the governance and committee reports that follow this letter.

In response to the findings of the 2018 Board evaluation and significant changes to the Board's membership during 2019, considerable time has been spent considering the composition of our Board to ensure that we have the right mix of skills and experience to fulfil our vision and support the delivery of our strategy. Searches for two additional independent Non-Executive Directors were commissioned and we were delighted to announce the appointment of Brian May with effect from 2 March. Our search for a further independent Non-Executive Director is ongoing. Background information about Brian and our search process is included on page 94.

People

The Board is committed to achieving diversity and inclusion across the Group. We are pleased to report that as at 31 December 2019, the proportion of women on our Board was 38% which exceeded our target of at least 30%. As the composition of our Board evolves, we will continue to monitor this proportion whilst at the same time ensuring that we have an appropriately diverse Board in terms of experience, skills, personal attributes, age and ethnicity.

We also set ourselves an objective of having 30% of senior management roles held by female executives by the end of 2020. However our progress towards achieving this objective has been slow and action is being taken to address this. The Board and the Nomination Committee will continue to review and monitor the Group's diversity profile and the implementation of its diversity and inclusion strategy.

Sustainability and climate change

In recent years we have laid strong foundations to ensure we operate in a responsible and sustainable way. Recognising that sustainability underpins the success of our business and impacts all our stakeholders, as explained on page 5, we are strengthening the way we manage and oversee our CR programme.

We acknowledge the importance stakeholders place on climate change. Our approach is based on assessing and minimising the environmental impact of our own operations, products and services and the impact of climate-related events on our business. Further information about how we minimise the negative impact of our operations on the environment, our climate change strategy and our approach to climate-related risks is set out on pages 41 to 44 and page 26 respectively.

2020 priorities

The Board's key priorities for the year ahead are:

- Overseeing and monitoring the Transformation Initiative.
- Overseeing and monitoring the implementation of the Group's new operating model which is explained on page 7.
- Supporting the new CEO in improving the focus on customers, innovation and execution excellence and pivoting to sustainable and profitable growth for the benefit of all stakeholders.

Dr John McAdam
Chairman
27 February 2020

Governance in action

Strategy and strategic drivers	The Board's governance role	Developments during the year
Strategy Focus Build Innovate Execute Simplify	Approves the Company's strategy and reviews subsequent progress. Approves decisions to support strategic delivery, including ensuring that the necessary financial and human resources are in place to enable the Company to meet its objectives.	– Approved, in early 2019, "Pivot to Growth", our refreshed execution model, to deliver our strategy more effectively. – Approved our Transformation Initiative to support our refreshed execution model through associated investments and benefits, and oversaw its activities. – Approved the acquisition of the trade and assets of Southlake Medical Supplies, Inc. ("Southlake"), a Texas-based independent provider of catheter-related supplies. Southlake is now part of our HSG business. – Approved commitment of around $150m investment for 2019 and the following two-year period, as part of the Transformation Initiative. – Following the appointment of Karim Bitar, reviewed and endorsed the development of our strategy to pivot to sustainable and profitable growth and our new operating model. – Endorsed our new vision and values and new operating model.
Good and effective governance	Promotes highest standards of good governance.	– Implemented the Code's new requirements including a Board-led employee engagement programme. – Consulted and engaged with shareholders in relation to a disappointing level of support for the 2018 Directors' Remuneration report at the AGM in May 2019. – Undertook a thorough search for a new Chair. – Approved the appointment of a new CEO following an extensive global search. – Despite the significant change in the Board's membership during 2019, ensured that at all times the composition of the Board's committees complied with the Code.
Responsible business	Ensures that at all times the Group operates in a way that will engender trust, benefit all stakeholders and contribute to society.	– Received reports on management's implementation of the requirements of the Medical Devices Regulation which aims to improve patient safety. – Received updates on the Group's health and safety performance and the initiatives in place to further improve performance in this area. – Reviewed progress against CR targets including initiatives that support the Group's climate change strategy.

Board statements

ConvaTec is subject to the requirements of the Code which requires the Board to make a number of statements. These are set out in the table below.

Code requirement	Board statement	Where further information is available
Compliance with the Code	Throughout the financial year ended 31 December 2019, except for three provisions, the Company has been in compliance with the Code.	**Code non-compliance explanation** Pages 69
Going concern basis	The Directors are satisfied that the Group has sufficient financial resources to continue operating in the foreseeable future and, therefore, have adopted the going concern basis in preparing the Group's 2019 Financial Statements.	**Audit and Risk Committee report** Page 105
Viability statement	The Directors have assessed the viability of the Group over a three-year period ending 31 December 2022, taking into account the principal risks facing the Group set out on pages 28 to 33 and the robust downside sensitivity analysis described on pages 34 and 35. This assessment leads the Board to a reasonable expectation that the Group will remain viable and continue in operation and meet its liabilities as they become due over the Viability Period through to December 2022.	**Principal risks** Pages 28 to 33 **Viability statement** Pages 34 and 35 **Audit and Risk Committee report** Page 105
Fair, balanced and understandable	The Directors consider that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the necessary information for all stakeholders to assess the Group's position and performance and its business model and strategy.	**Audit and Risk Committee report** Page 97
Assessment of the Group's principal risks	The Directors confirm that they have undertaken an assessment of the principal risks facing the Group.	**Principal risks** Pages 28 to 33 **Audit and Risk Committee report** Page 109
Annual review of risk management and internal control systems	The Board undertook a review of the Group's risk management and internal control systems and concluded that these were effective.	**Audit and Risk Committee report** Page 99
Stakeholder engagement	The Board has taken steps to understand stakeholders' views and has considered them in its discussions and decision-making process.	**Section 172 statement** Pages 84 and 85

How we have applied the Code's core principles

Principles	Application	Where further information is available
Board leadership and purpose		
A. An effective and entrepreneurial Board that promotes long-term sustainable success that generates value for shareholders and contributes to society.	The Board discharges its responsibilities through a programme of activities that include review and approval of the Group's strategy and regular progress reviews of its implementation and arising key issues.	**Key matters the Board considered during 2019** Pages 82 and 83
B. Establishment of purpose, values and strategy and promotion of desired culture.	The Board has endorsed the Group's refreshed vision statement (which encapsulates our purpose and ambition), and its values, and reviewed strategy and culture to ensure their alignment.	**Purpose, vision, values and culture** Page 78
C. Ensuring resources are in place to meet objectives, measuring performance and establishing controls which assess and manage risk.	The Board regularly reviews the Group's financial and non-financial resources to ensure that it has the resources available to deliver its strategy. The Board has approved and regularly reviews a series of KPIs. The Board has established an effective risk management framework.	**The Group's KPIs** Pages 22 and 23 **The Group's risk management framework** Pages 24 to 27
D. Effective stakeholder engagement and participation.	To fulfil its duty to promote the Group's long-term success and generate value for shareholders and wider society the Board has established a number of mechanisms to ensure that the Directors consider all relevant stakeholder issues and concerns.	**Stakeholder engagement and consideration of issues including section 172 statement** Pages 79 and 80 Pages 84 and 85
E. Ensuring workforce policies and practices are consistent with the company's values and support long-term sustainable success, and that mechanisms are in place to allow the workforce to raise concerns.	The Board has ensured that workforce policies and practices are consistent with the Group's values and has established mechanisms to allow the workforce to raise concerns.	**Culture and policies** Page 78 **Independent whistleblower hotline and web link** Page 109

Principles	Application	Where further information is available
Division of responsibilities		
F. The Chair's role.	The Chairman's role is clearly defined.	**Chair's role** Page 87
G. Clear division of responsibilities and appropriate combination of executive and non-executive roles.	The Board includes six Non-Executive Directors and two Executive Directors. Their responsibilities are clearly defined. During 2019, for part of the year, more than half of the members of the Board, excluding the Chairman, were not independent. Also, during part of the year, the roles and responsibilities of the Chairman and CEO were not separated.	**Directors' responsibilities and roles** Pages 86 and 87 **Non-Code compliance explanation** Page 69
H. Time commitment, constructive challenge and strategic guidance.	All Directors have demonstrated that they have sufficient time to fulfil their duties and responsibilities. In their roles the Non-Executive Directors have provided constructive challenge, strategic guidance and held management to account.	**Time commitment confirmation** Page 86 **How the Non-Executive Directors have fulfilled their roles** Page 78 and pages 82 and 83
I. Effective and efficient Board.	All Directors have access to an encrypted electronic portal system which enables them to receive accurate and timely information. They also have access to the advice of the Company Secretary and independent professional advice at the expense of the Group.	**Effective and efficient Board** Page 85 and 86
Composition, succession and evaluation		
J. Board appointments and succession.	Board appointments are made in accordance with a formal, rigorous and transparent procedure. During the year we undertook rigorous processes to appoint a new Chairman and CEO. Searches for two new independent Non-Executive Directors were commissioned and, as explained on page 4, we have appointed Brian May as a new independent Non-Executive Director, with effect from 2 March 2020. Our search for a further independent Non-Executive Director is ongoing. As part of these processes a thorough assessment of the skills, experience and knowledge of the existing Board was undertaken to identify skill and experience gaps.	**Board appointment procedure** Pages 93 and 94
K. Combination of skills, experience and knowledge.	Our Board members have proven leadership capabilities and relevant healthcare, operational and financial skills and experience.	**Directors' biographical information** Pages 76 and 77

Principles	Application	Where further information is available
Composition, succession and evaluation continued		
L. Annual evaluation.	An externally facilitated evaluation of the Board was undertaken in 2018. During 2019 the Board undertook an internal review of its performance and that of its Committees.	**Progress report on actions arising from 2018 Board evaluation** Pages 89 to 91 **Key findings of 2019 Board review** Page 91
Audit, risk and internal control		
M. Independent and effective internal and external audit functions.	The Board has delegated a number of responsibilities to the Audit and Risk Committee including oversight of the Group's financial reporting processes and ensuring the effectiveness and independence of the external and internal auditors.	**Audit and Risk Committee report** Pages 106 to 109
N. Fair, balanced and understandable assessment.	The Board has established arrangements to ensure that reports and other information published by the Group are fair, balanced and understandable.	**Arrangements to ensure fair, balanced and understandable reporting** Page 97
O. Risk management and internal control systems.	The Board sets the Group's risk appetite and determines the nature and extent of its principal risks. Annually the Board reviews the effectiveness of the Group's risk management and internal control systems and processes. The Audit and Risk Committee regularly reviews these systems and processes throughout the year.	**Risk management** Page 85 Pages 108 and 109
Remuneration		
P. Remuneration policy and practices. **Q. Development of remuneration policy and packages.**	The Group's revised Remuneration Policy, which will be put to shareholders for approval at the 2020 AGM, is designed to support our strategy, be aligned to our vision and our employee and shareholder interests and promote long-term sustainable success.	**Revised Remuneration Policy** Pages 117 to 123
R. Independent judgement and discretion.	Following a formal and transparent procedure, the Remuneration Committee sets the remuneration for all Executive Directors and oversees the remuneration of senior management. In doing so it applies judgement, and if required, discretion to ensure a considered outcome on remuneration issues.	**Remuneration Committee report** Pages 112 to 114

Board of Directors

A diverse Board with proven leadership capabilities and relevant healthcare, operational and financial skills and experience.

Karim Bitar
Chief Executive Officer, 55

Date of appointment
September 2019

Independent
No

Committee memberships
None

Relevant skills and experience:
- Significant board level and leadership experience including the past eight years as Chief Executive Officer of Genus plc.
- Successful business transformation track record.
- Extensive and broad management experience.
- Relevant sector knowledge and experience including 15 years with Eli Lilly where from 2008 he was President of Europe, Australia and Canada.

Current external appointments
Non-Executive Director and member of the Remuneration Committee and Nomination Committee of Spectris plc.

Frank Schulkes
Chief Financial Officer, 58

Date of appointment
November 2017

Independent
No

Committee memberships
None

Relevant skills and experience:
- Previously CFO of Wittur Group, a privately-held industrial company based in Germany and as former Executive Vice President and CFO of GE Healthcare ("GE").
- Significant global healthcare experience and strong financial background across a variety of increasingly senior financial roles which includes 27 years spent with GE.

Current external appointments
None.

Dr John McAdam
Chairman, 71

Date of appointment
September 2019

Independent
Yes (on appointment)

Committee memberships
N

Relevant skills and experience:
- Extensive chair and board leadership experience including as former Chair of Rentokil Plc and United Utilities Group PLC and as a Non-Executive Director of a number of FTSE 100 and US companies.
- Extensive experience of leading companies undergoing transformation including as Chief Executive of ICI plc between 2003 and 2008.

Current external appointments
None.

Margaret Ewing
Senior Independent Director, 64

Date of appointment
August 2017

Independent
Yes

Committee memberships
AR CR N R

Relevant skills and experience:
- Chartered Accountant with significant financial experience including as former Managing Partner of Deloitte LLP and CFO of BAA plc.
- Extensive audit and risk experience.
- Strong board experience, having served as a Non-Executive Director of Whitbread plc and Standard Chartered plc

Current external appointments
Non-Executive Director and Chair of the Audit and Risk Committee of ITV Group plc. Non-Executive Director and member of the Audit and Compliance Committee of International Consolidated Airlines Group, S.A. Member of the Board of Trustees of Great Ormond Street Hospital Children's Charity.

Rick Anderson
Non-Executive Director, 59

Date of appointment
October 2016

Independent
Yes – from 1 January 2020 (see page 86)

Committee memberships
CR N

Relevant skills and experience:
- Significant board level and leadership experience in both executive and non-executive roles.
- Extensive global healthcare knowledge and experience including as former Group Chairman of Johnson & Johnson, Worldwide Franchise Chairman of Cordis Corporation, Vice President of Global Marketing at Racal HealthCare and senior roles with Boehringer Mannheim Pharmaceuticals and Allergan Pharmaceuticals. Former Managing Director at PTV Healthcare Capital ("PTV").

Current external appointments
Chairman of Revival Healthcare Capital and Cardiva Medical and Managing Director of PTV's portfolio company Apollo Endosurgery.

Dr Regina Benjamin
Non-Executive Director, 63

Date of appointment
August 2017

Independent
Yes

Committee memberships
AR CR R

Relevant skills and experience:
- Extensive healthcare knowledge and experience both as a practising physician and in senior management roles including as former United States Surgeon General (2009 to 2013), member of the board of the Medical Association of Alabama and the first Young Physician to be elected to the American Medical Association Board of Trustees.
- In-depth knowledge of the US healthcare system.
- Holds an endowed chair in Public Health Sciences at Xavier University of Louisiana.

Current external appointments
CEO and a practising physician at the Bayou La Batre Rural Health Clinic in Alabama, which Regina founded in 1990, Non-Executive Director of Diplomat Pharmacy Inc., Computer Programs and Systems, Inc., Kaiser Foundation Hospitals and Health Plan, and Ascension Hospital System. Director of the American Heart Association and International Food Information Council.

Sten Scheibye
Non-Executive Director, 68

Date of appointment
July 2018

Independent
No

Committee memberships
None

Relevant skills and experience:
- Substantial healthcare knowledge and significant operational experience as former President and CEO of Coloplast A/S.
- Board experience including previous roles as Chair of the Novo Nordisk Foundation and of Novo Holdings A/S.
- Extensive governance experience including as a member of the Danish Corporate Governance Committee, also serving as the committee's Chair.

Current external appointments
Chair of Healthcare Denmark, BioInnovation Institute, EA/S Knud Højgaards Hus, Hojgaard Ejendomme A/S, RMIG – Rich. Müller A/S, The Danish Industry Foundation, the Knud Hojgaard Foundation and The Rich. Müller Foundation. Also, Senior Advisor to Novo Holdings A/S.

Dr Ros Rivaz
Non-Executive Director, 64

Date of appointment
June 2017

Independent
Yes

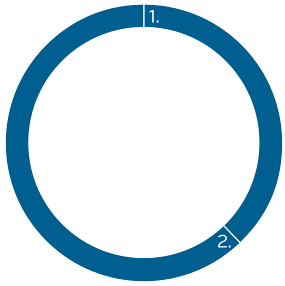
Committee memberships
R AR N

Relevant skills and experience:
- Substantial healthcare knowledge and experience as former Chief Operating Officer of Smith & Nephew plc.
- Extensive global operational experience in previous senior management positions with Smith & Nephew plc, ICI, Tate & Lyle PLC and Diageo plc.
- Board experience in current roles (see below) and as former Non-Executive Director of RPC Group plc, Rexam plc and Chair of its Remuneration Committee, and Non-Executive Director of the Government-sponsored "Your Life" initiative, which encouraged 14 to 16-year olds to pursue qualifications in mathematics and physics.
- Honorary doctorate from Southampton University where Ros was also Vice Chair of the University's Council for ten years.

Current external appointments
Non-Executive Director and a member of the Remuneration and Nomination Committees of Ministry of Defence (Defence and Support Board). Senior Independent Director of Computacenter plc, Chair of its Remuneration Committee and member of its Nomination and Audit and Risk Committees.

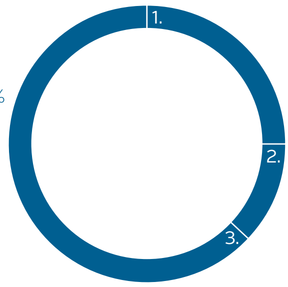
Gender

1. Female: 38%
2. Male: 62%

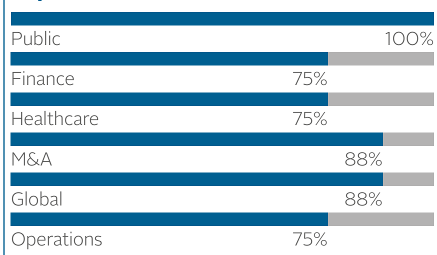


Tenure

1. < 1 year: 25%
2. > 1 year: 12%
3. > 2 years: 63%



Experience



Key to Committee

Audit and Risk Committee	AR
Corporate Responsibility Committee[1]	CR
Nomination Committee	N
Remuneration Committee	R
Committee Chair	●

1 To be disbanded with effect from 2 March 2020 – see page 5.

Board leadership and company purpose

An effective and diverse Board
Our Board includes eight Directors who have proven leadership capabilities and a range of healthcare, operational and financial skills and experience. Relevant biographical information is set out on pages 76 and 77.

Our governance framework
Our governance framework which includes the Board and the four committees it has established, is set out below. As explained on page 5, the Corporate Responsibility Committee will be disbanded with effect from 2 March 2020.

Matters reserved for the Board and Committees' terms of reference
The Board has a schedule of matters reserved for its approval and a formal structure of delegated authority. It has delegated certain responsibilities to the Board committees which all operate in accordance with Board approved terms of reference. The Board has also delegated specified management control to the Executive Directors and the CELT.

The principal activities undertaken during the year by the Nomination, Audit and Risk, Corporate Responsibility and Remuneration Committees are set out in their respective reports in this Annual Report. The paragraphs under the heading "Directors' Remuneration report" on pages 112 to 131 are incorporated by reference into this Corporate governance report.

The decisions which can only be made by the Board are clearly defined in the schedule of matters reserved for the Board. This schedule is available at www.convatecgroup.com/investors/corporate-governance, and largely relates to matters of governance and business, where independence from executive management is important. No changes were made to this schedule during the year. The written terms of reference which each of the committees operates under can also be found within the weblink referenced above and have been reviewed and updated during the year, as appropriate, to reflect the requirements of the Code.

Purpose, vision, values and culture
As explained on pages 37 and 38, to better align our culture with our purpose and our ambition to contribute more to our customers, the Group's vision statement and values have been updated following a consultation process that enabled our employees across the Group to share their views and ideas. The Board reviewed the employee feedback generated through this consultation process and, based on this feedback, endorsed the Group's updated values and new vision statement, which encapsulates in a clear and simple form the Group's purpose and ambition.

The Board assesses and monitors the Group's culture using a number of mechanisms. During the year the Board reviewed the feedback from the annual employee survey and the McKinsey-led OHI survey undertaken as part of the Transformation Initiative, both of which are described below. The Board discussed the feedback and, in particular, the actions proposed by management to address a range of issues including strengthening our operational effectiveness and driving innovation. Following a constructive discussion a number of the key actions were amended and five key areas agreed as those to focus on to better align our culture with the strategy and drive better performance (see page 37).

Governance framework

The Board

Responsible for the long-term success of the Group and for ensuring that there is a framework of appropriate and effective controls which enables risk to be assessed and managed.

Focus | Innovate | Simplify | Build | Execute

Sets the Group's strategic aims, determines resource allocation to ensure that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance.

Monitors and assesses the Group's culture and ensures that its obligations to shareholders and other stakeholders are understood and met.

Nomination Committee

Proposes appointments to the Board, reviews the Board's composition, considers succession planning for the Board and senior management and sets diversity and inclusion objectives and targets for the Board and senior management.

See pages 92 to 94.

Audit and Risk Committee

Oversees financial reporting, internal and external audit, internal controls and risk management.

See pages 95 to 109.

Corporate Responsibility Committee

Approves CR strategy, oversees its execution and monitors engagement with stakeholders.

See pages 110 and 111.

Disbanded with effect from 2 March 2020.

Remuneration Committee

Ensures Remuneration Policy and practices are designed to support the Group's strategy and promote long-term sustainable success. Oversees Remuneration Policy implementation for Executive Directors and senior management and regularly reviews its provisions. Reviews workforce remuneration and related policies.

See pages 112 to 131.

ConvaTec Executive Leadership Team

Oversees the implementation of the Group's strategy.

Responsible for day-to-day management and performance across the Group.

Monitors risk and internal controls within the Group.

Over the course of the year Ros Rivaz and Regina Benjamin, who lead our Board-level employee engagement programme, provided updates to the Board about employees' views and their observations about the Group's culture in practice. As a result of issues raised by employees, the Group's products are now made available to employees at a discount. An overview of the Board-level employee engagement activities that took place in 2019 is set out overleaf.

Stakeholder engagement

In accordance with section 172 of the Companies Act 2006, the Directors have a duty to promote the Group's long-term sustainable success including generating value for shareholders and other stakeholders and contributing to wider society. To fulfil this duty our Boardroom discussions and the decisions we make take account of the needs and concerns of all our stakeholders and the potential impact of our decisions on them.

Information about our key stakeholders and how we engage with them is set out on pages 10 to 13. The table below summarises how we as a Board gain an understanding of our stakeholders' issues, which we factor into our discussions and decision-making process. Our section 172 statement is set out on pages 84 and 85.

Stakeholders	Board-level engagement
Our people	Our Board-level employee engagement programme commenced in January 2019 and is led by Ros Rivaz and Regina Benjamin. Ros and Regina gather employees' views and formally report to the Board on a periodic basis. Details of their key engagement activities during 2019 are set out overleaf. On an annual basis we undertake a Group-wide employee survey. During 2019, to support our Transformation Initiative we also commissioned McKinsey to undertake its OHI survey which captured the views of nearly 90% of our people. As highlighted above, the findings of the surveys were presented to the Board and the proposed actions were debated and agreed. For further information about the OHI survey see page 37. Members of the management team regularly attend relevant parts of Board and Committee meetings to present on Board discussion items and provide input. The Board and the Audit and Risk Committee receive reports from the Group's compliance function detailing input from the Group's independent whistleblower hotline and web link. When relevant, the Group's compliance function provides the Audit and Risk Committee with details of investigations arising from information provided via this hotline and the resulting outcome. Further information about the hotline is included on page 44.
Investors	All members of the Board are available to meet with shareholders and during the year a number of meetings took place. Rick Anderson, whilst Interim CEO, and then in his capacity as Executive Chairman, met with many shareholders as part of our IR programme. Ros Rivaz, in her capacity as Chair of the Remuneration Committee, led a shareholder consultation process on the changes we are proposing to make to our Remuneration Policy. Shareholders representing over 70% of our share capital were involved in the process and it resulted in helpful and constructive feedback. Further information about the key proposed changes and the consultation is provided on page 113. Our Senior Independent Director, Margaret Ewing, is available to meet with shareholders and during the year she met with our two largest shareholders. The Board receives analysts' notes published about the Group and the sector, and is regularly updated by the Group's brokers, Executive Directors and Director, Investor Relations on shareholder sentiment, feedback from meetings and the Group's investor relations ("IR") programme. We implement a comprehensive IR programme including activities undertaken by the Executive Directors. Some of the key IR activities are detailed in the table below. All Directors who were serving on the Board at the time attended the 2019 AGM, when shareholders were given an opportunity to raise issues with the Board and those shareholders who were unable to attend could vote by proxy.
All stakeholders	The Board receives information relating to our identified stakeholder groups through the report from the CEO at each Board meeting plus the detailed consideration of such groups in strategy sessions, and reports from each member of the CELT on their respective areas of responsibility. The Board also receives reports from the CR Committee on stakeholder issues, including the initiatives that support the Group's climate change strategy, stakeholder survey results and progress against targets. Margaret Ewing was a member of the Advisory Board to the Brydon Review, an independent review led by Sir David Brydon into the quality and effectiveness of the UK audit market and the role of audit in addressing stakeholder needs. The Company Secretary, as a sponsor member of the All Party Parliamentary Corporate Governance and CR Groups, continues to participate in governance-related discussions with policy makers and feeds back key issues to Board members.

In 2020, to enhance understanding and ensure ongoing focus on the Directors' section 172 duty, we will launch a training programme for the CELT to make them aware of section 172 and their own responsibilities in the event that the Board delegates responsibilities to them in this area. We will also update our Board processes and procedures in a number of ways including:

- Papers requesting Board approval will be expanded to include an analysis covering the impact of the decision on relevant stakeholders.
- Board minutes documenting the Board's decision-making process will explain how stakeholder engagement activities have informed the Board's process.

Highlights of 2019 IR programme

- Undertook multi-day investor roadshows in London, Toronto, New York, Boston and Los Angeles.
- Attended industry focused investor conferences hosted by Goldman Sachs and UBS.
- Hosted investor site visit at Deeside R&D facility.
- Met with individual investors in person and by telephone.
- Hosted full and half-year results presentations, to which analysts and institutional investors were invited to attend. Both presentations were webcast and transcripts were made available.
- Hosted trading update conference calls, to which analysts and institutional investors were invited to attend, and made transcripts available.

Highlights of 2019 Board-led employee engagement programme

- Undertook site visits including plant tours and meetings with employees in the Dominican Republic and Slovakia.
- Participated in annual UK and Latin America sales meetings.
- Visited Amcare's new headquarters in the UK and the Group's manufacturing site in Deeside.
- Participated in a panel discussion that took place on International Women's Day at our head office in Reading.

During the year our UK home delivery business, Amcare, relocated its headquarters to new premises in Runcorn, Cheshire. Shortly after this relocation Ros Rivaz spent the day with the Amcare headquarter-based team, including its specialist nurses who provide daily support to people living with a stoma or urology condition.

Board meetings and attendance

During the year, the Board convened on 13 scheduled occasions, including seven in person meetings.

The adjacent table shows the number of formally scheduled Board meetings attended by each Director out of the number they were entitled to attend during the year. In addition to the formally scheduled meetings, the Board also met on other occasions (in person and via telephone conferences) to consider and approve matters outside formally scheduled meetings. Attendance at these meetings was high and those Directors unable to attend provided their input to the Chairman or SID prior to the meeting and were briefed afterward about the discussions that took place.

Rick Anderson was unable to attend one scheduled Board meeting and Regina Benjamin was unable to attend four scheduled Board meetings. However, they provided comments in advance of the meetings and were briefed afterwards about the discussions that took place.

All Directors, other than Steve Holliday who resigned from the Board in March 2019 and John McAdam and Karim Bitar who did not join the Board until September 2019, attended the AGM held in May 2019.

The Company Secretary attended all Board meetings. External advisors also attended meetings where independent guidance and expertise was required to facilitate the Board in carrying out its duties. As highlighted above, where appropriate, senior executives below Board level, including members of the CELT, also attended relevant parts of meetings to make presentations and provide their input on a range of issues.

Director	Role	Formally scheduled meetings
Sir Christopher Gent (member until 9 May 2019)	Chairman	5/5
John McAdam (joined 30 September 2019)	Chairman	3/3
Rick Anderson	Interim Chief Executive Officer (15 October 2018 – 9 May 2019) Executive Chairman (9 May 2019 – 29 September 2019) Non-Executive Director (from 30 September 2019)	12/13
Karim Bitar (joined 30 September 2019)	Chief Executive	3/3
Frank Schulkes	Chief Financial Officer	13/13
Steve Holliday (member until 31 March 2019)	Deputy Chairman, SID and Non-Executive Director	3/3
Jesper Ovesen (member until 28 June 2019)	Non-Executive Director	6/7
Ros Rivaz	Non-Executive Director	13/13
Margaret Ewing	Non-Executive Director and from 31 March 2019 and SID	13/13
Regina Benjamin	Non-Executive Director	9/13
Sten Scheibye	Non-Executive Director	13/13

Board activities

Set out below is a summary of the Board's key activities during the period including decisions made and stakeholders considered in accordance with the Directors' section 172 responsibilities.

Key Board activities

Key area of activity	Matters considered	Outcomes	Issues and concerns of stakeholders considered
Strategy	During the year significant time was spent on strategy in every in-person Board meeting. In addition, the Board participated in two dedicated strategy days which covered a range of strategic issues including structure, operating model and business performance (actual and projected). Matters considered included: – Overseeing the development of "Pivot to Growth", our refreshed execution model. – Overseeing the development of our Transformation Initiative and its implementation. – Strategy briefings provided by our AWC and Ostomy Care franchises and our HSG business. – Assessment of our corporate development strategy. – The acquisition of Southlake into our HSG business. – The development of the five strategic pillars and new operating model to pivot to sustainable and profitable growth. Separate strategy session focused on our markets, their dynamics and growth potential.	– Board approval of "Pivot to Growth" to deliver our strategy more effectively. – Board approval of the Transformation Initiative with associated investment and benefits. – Regular reporting on implementation of the Transformation Initiative detailing the nature of work streams, investments made and benefits achieved. – Board review and consideration of issues arising relating to the Transformation Initiative's implementation and management's proposals to address them. – Improved knowledge and awareness of the key market dynamics affecting the Group and the perspectives of stakeholders within healthcare systems. – Clear direction provided to management on the corporate development priorities. – Approved the acquisition of Southlake. – Following the appointment of Karim Bitar, reviewed and endorsed the development of our strategy to pivot to sustainable and profitable growth and our new operating model.	– **Consumers** – **Healthcare professionals** – **Our people** – **Suppliers, distributors and other partners** – **Investors** – **Institutional customers/buying organisations** – **MedTech regulators** – **Governments** – **Local communities** – **Industry bodies and NGOs**
Business plan	Discussed the ongoing financial strategy and business plan for the year. Regular updates were received on key external challenges and the political environment including Brexit and reimbursement of our products.	– Approval of budget and business plan.	– **Investors and debt providers** – **Consumers** – **Our people** – **Suppliers, distributors and other partners**
Financial reporting	Considered the financial performance of the Group and matters to be addressed in full year, half year and quarterly trading statements.	– Approval of Viability and Going Concern statements. – Approval of the final and interim results and quarterly trading statements. – Approval of final and interim dividends. – Approval of this Annual Report.	– **Investors and debt providers** – **Our people** – **Consumers** – **Healthcare professionals** – **Suppliers, distributors and other partners** – **Institutional customers/buying organisations** – **Local communities**

Key area of activity	Matters considered	Outcomes	Issues and concerns of stakeholders considered
People	Undertook extensive global searches for new CEO and Chairman against agreed role specifications and key capabilities. Approved commissioning of search for two new independent Non-Executive Directors. Considered feedback from annual employee and OHI surveys and discussed management's action plan to improve and drive performance.	– Approved the appointment of Karim Bitar as CEO and John McAdam as Chairman. – Endorsed management's action plan to address employee feedback. – Approved the appointment of Brian May with effect from 2 March 2020.	– **Investors** – **Our people**
Refinancing of external borrowing facilities	Led by the CFO, the Board oversaw the refinancing of the Group's external debt including reviewing the key terms of the refinancing proposal and receiving reports from the Group's debt advisers, and associated corporate restructuring and tax planning.	– Approved the new financing facilities.	– **Investors and debt providers** – **Our people** – **Suppliers, distributors and other partners**
Stakeholder engagement	Undertook employee engagement programme led by two Non-Executive Directors. Consulted and engaged with shareholders in relation to a disappointing level of support for the 2018 Directors' Remuneration report. In relation to the proposed refreshed Remuneration Policy, undertook further consultation with shareholders specifically in relation to the changes proposed to be made to the existing policy. Considered and discussed the GlobeScan stakeholder survey. Further information about this survey is included on page 13.	– Considered and discussed reports from the two Non-Executive Directors who lead the employee engagement programme. Further detail in relation to the output from these discussions is set out on page 79. – Feedback from shareholders following the remuneration policy consultations has been taken into account in the preparation of the refreshed Remuneration Policy which will be put to shareholders for approval at the 2020 AGM.	– **Consumers** – **Healthcare professionals** – **Our people** – **Suppliers, distributors and other partners** – **Investors** – **Institutional customers/buying organisations** – **MedTech regulators** – **Governments** – **Local communities** – **Industry bodies and NGOs**
Political and regulatory environment	Focused on the changing political and regulatory environment, including Brexit and its impact on the Group's strategy. Through the year the Board reviewed the impact of a "no-deal" Brexit and the mitigation planning undertaken. Received reports on management's implementation of the requirements MDR imposes.	– Board input on mitigation planning undertaken by the Brexit Steering Committee. – The Board reviewed reports on MDR implementation planning and monitored progress.	– **Consumers** – **Healthcare professionals** – **Our people** – **Suppliers, distributors and other partners** – **Investors** – **Institutional customers/buying organisations** – **MedTech regulators** – **Governments** – **Local communities** – **Industry bodies and NGOs**

Section 172(1) statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard, amongst other matters, to the:

a) Likely consequences of any decisions in the long term.
b) Interests of the company's employees.
c) Need to foster the company's business relationships with suppliers, customers and others.
d) Impact of the company's operations on the community and environment.
e) Desirability of the company maintaining a reputation for high standards of business conduct.
f) Need to act fairly as between members of the company.

In discharging our section 172 duty we have regard to the factors set out in the adjacent column. We also have regard to other factors which we consider relevant to the decision being made. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders. By considering our vision and values, together with our strategic priorities, and having a process in place for decision-making, we do, however, aim to make sure that our decisions are consistent and well-considered.

Information about our stakeholders and how we engage with them is set out on pages 10 to 13. The key matters we discussed and debated during the year, and the key stakeholders we considered as part of those discussions, are outlined on pages 79 and 80.

Set out below are some examples of how the Directors have had regard to the matters set out in s.172(1)(a)-(f) when discharging their section 172 duty and the effect of that on certain of the decisions taken by them.

a) **Likely consequences of any decisions in the long term:** When reviewing and approving the Group's Transformation Initiative to support the refreshed execution model, the Board considered the long-term consequences of its adoption, in particular the amount of investment required over a three-year period and the anticipated timing of payback. Taking account of the enhanced medium to long-term operational performance this investment is expected to deliver, the Directors approved the proposed investment levels.

   In making its decisions about capital allocation and in particular the level of the interim and final dividend, the Board considered a range of factors. These included the long-term viability of the Group, its expected cash flow and financing requirements, the realised distributable reserves available within the Group, the financial position of the Group's various pension schemes (see pages 165 to 168 for further information about the various schemes), the Transformation Initiative investment programme, employees and shareholders expectations. Taking these factors into account the Board concluded that it was appropriate to maintain the level of the 2019 dividend in line with the absolute amount paid in prior years. Whilst this is outside of our stated policy of 35% to 45% of adjusted net profit, the Board took the decision to maintain the absolute amount as a continuation of the existing dividend policy, enhanced by an override during the transformation period, to reflect the confidence of the Board in the long-term prospects of the Group. In its deliberations, the Board considered the likely long-term impact of decisions made on the Group's risk profile, as detailed on pages 28 to 33.

b) **Interests of the company's employees:** Information about our Board-led employee engagement programme is included on page 80. In its monitoring of the Group's extensive Transformation Initiative activities, the Directors have considered the quantum and scale of projects being implemented and the resulting increased demands on employees and management. In relation to the implementation of the various Transformation Initiative activities, the Board has advocated concentration on those that will deliver sustainable benefits over the long term.

   In its discussions about management's action plan to improve and drive performance, the Board reviewed and took account of employee survey feedback (see page 78). Information gathered via the Board-level engagement programme was also fed into this discussion.

   The Board challenged the action plan and, following discussions and appropriate amendments, agreed the plan with management. In relation to its decisions about capital allocation and in particular the level of the interim and final dividend, as highlighted above, the Board considered the financial position of the Company's various pension schemes.

c) **Need to foster the company's business relationships with suppliers, customers and others:** The Board reviewed and considered the findings of the GlobeScan stakeholder survey (see page 13) which includes feedback from healthcare professionals, business customers, investors, industry groups and NGOs. In relation to the reviews undertaken by the Board in connection with a "no-deal" Brexit, the Board considered the potential impact on the Group's customers and its supplier chain, including its supply partners and distributors and the associated mitigation activities. The Group's new operating model has been developed to support the Group's strategy and, in particular, to drive simplification and make the business more customer-centric, agile and accountable.

d) **Impact of the company's operations on the community and environment:** During the year the Board delegated its overall responsibility for environmental issues, including climate change, to the CR Committee. In early 2019 the CR Committee approved the Group's climate change strategy which is focused on reducing the Group's GHG emissions (see page 42). The socio-economic contribution the Group makes to society is summarised on page 3, and details of its "LIFE+ by ConvaTec" ("LIFE+") community programme, which makes funds available to support local initiatives focused on helping disadvantaged young people to have a healthier start in life, are set out on page 45. As explained on page 5, the CR Committee will be disbanded with effect from 2 March 2020, and the oversight and responsibility for CR issues will be brought back to the full Board.

e) **Desirability of the company maintaining a reputation for high standards of business conduct:** In its consideration and approval of the Group's updated values the Board considered feedback gathered from the Group-wide engagement exercise (see page 37). In approving the updated values one of the Board's prime considerations was ensuring the updated values aligned with the Group's vision, the continued promotion of high ethical standards and the Group's Code of Conduct (see page 44).

f) **Need to act fairly as between members of the company**: Information about the Company's significant shareholders is included on page 134. The Company is party to a relationship agreement with Novo Holdings A/S ("Novo") (see page 134) which ensures that arrangements with Novo are conducted at arm's length. Through the Company's comprehensive IR programme all relevant information is provided to all shareholders simultaneously.

Board assessment of risk management and internal control effectiveness

The Board is ultimately responsible for overseeing how we manage both internal and external risks that could impact our business model and strategic goals. The Board also determines the Group's risk appetite, regularly reviews the Group's principal risks and, on an annual basis, reviews the effectiveness of our risk management and internal control systems and undertakes horizon scanning to identify new emerging risks. Further information about the Group's principal risks is set out on pages 28 to 33.

During 2019, the Board has directly, or through delegated authority to the Audit and Risk Committee, monitored and reviewed the Group's risk management activities and processes, including a review of the effectiveness of all material risk mitigations and the financial, operational and compliance internal controls. The Audit and Risk Committee's activities in these areas are set out in the Audit and Risk Committee report on pages 95 to 109. Following this review the Board is satisfied that the Group's risk management and internal control framework is effective.

Statement of review

The Board's statement of annual review of effectiveness of the Group's risk management and internal control systems is set out on page 72.

Operation of the Board and its committees

The Directors have access to an encrypted electronic portal system, which enables them to receive and review Board and committee papers quickly and securely electronically.

Division of responsibilities

The Chairman and Chief Executive Officer

While there was a period of time during the year when the Chairman and Chief Executive Officer's roles were not separate (see page 69) following the appointment of John McAdam and Karim Bitar there is now a clear division of responsibility between the Chairman and the CEO. Each has Board approved roles and responsibilities and the documentation detailing their specific roles and responsibilities is available at www.convatecgroup.com/investors/corporate-governance and summarised on the adjacent page.

The role of the Senior Independent Director

Margaret Ewing was appointed Senior Independent Director with effect from 31 March 2019 following Steve Holliday's resignation from the Board. Her specific roles and responsibilities are detailed in documentation available at www.convatecgroup.com and summarised on the adjacent page.

A balanced Board including a majority of independent Non-Executive Directors

The Board includes six Non-Executive Directors and two Executive Directors. Their key roles and responsibilities are also set out on the adjacent page. Our Non-Executive Directors provide valuable constructive challenge, independent perspective and specific expertise.

The Code recommends that at least half of the Board, excluding the Chairman, should be composed of independent Non-Executive Directors. In the period from the end of June 2019, when Jesper Ovesen stepped down from the Board, to the end of 2019, at least half of the members of the Board were not independent Non-Executive Directors and, as such, the composition of the Board was not compliant with the Code. However, with effect from 1 January 2020, as explained in the paragraph below, four of our Non-Executive Directors – Margaret Ewing, Regina Benjamin, Ros Rivaz and Rick Anderson – are independent and this non-compliance has been addressed.

The Board reviewed Rick Anderson's non-independent status taking into account the factors that may affect independence as set out in the Code. The Board has determined that he should be considered independent with effect from 1 January 2020. The rationale for such determination is that Rick had undertaken an executive role only on an interim basis, following the departure of the former CEO; Karim Bitar joined the Group in September 2019 and has developed a new vision and strategy as outlined in this document; Rick has ceased to receive remuneration in addition to his standard Non-Executive Director fee; and he has taken clear and proactive steps to relinquish all executive duties upon Karim taking up the CEO role.

As explained on page 69, the number of independent Non-Executive Directors will be further supplemented when Brian May joins our Board on 2 March 2020. Background information about Brian is included on page 94. Our search to recruit a further independent Non-Executive Director is ongoing.

Time to properly fulfil their roles and responsibilities

Each of the Directors has confirmed that they have sufficient time to properly fulfil their duties including preparing for Board and committee meetings, reading all papers associated with such meetings, attending meetings scheduled to take place in 2020 and spending separate time with management.

Board support and the role of the Company Secretary

The Company Secretary, Clare Bates, attends all Board and committee meetings. She is responsible for advising and supporting the Chairman, the Board and its committees on corporate governance matters as well as ensuring that there is a smooth flow of information to enable effective decision making.

Key Board roles and responsibilities

Chairman
- Leads the Board.
- Promotes high standards of governance.
- Ensures Board effectiveness.
- Sets Board agenda.
- Supports and guides the CEO.

Senior Independent Director
- Sounding board for the Chairman.
- Serves as an intermediary for other Directors.
- Available to shareholders if they have concerns which contact through the normal channels has either failed to resolve or would be inappropriate.

Non-Executive Directors
- Provide constructive challenge and independent perspective.
- Monitor strategic execution and performance in accordance with risk and control framework.
- Serve on the Board's committees.

Chief Executive Officer
- Leads the executive management team in delivering the Group strategy and objectives as determined by the Board.
- Day-to-day responsibility of executive management matters.
- Responsible for maintaining dialogue with the Chairman, the Group's shareholders and other stakeholders.

Company Secretary
- Responsible for advising the Board on all corporate governance matters and best practice.
- Works with the Chairman to ensure Directors receive accurate and timely information to enable them to discharge their duties.
- Works with Chairman to design induction programme for new Board members and coordinates ongoing Board training.

Further details about role and responsibilities available at www.convatecgroup.com/investors/corporate-governance.

Composition, succession and evaluation

Board composition
Appointments to our Board are made solely on merit with the overriding objective of ensuring that the Board maintains the correct balance of skills, length of service and knowledge of the Group to successfully determine the Group's strategy. Appointments are made based on the recommendation of the Nomination Committee with due consideration given to the benefits of diversity in its widest sense, including gender, social and ethnic backgrounds. The Nomination Committee also reviews the ongoing commitments of candidates prior to making recommendations for the appointment of new Directors. Directors are required to seek Board approval prior to taking on additional commitments to ensure that existing roles and responsibilities continue to be met and conflicts are avoided or managed.

Chair succession
As a result of Sir Christopher Gent's decision to retire from the Board, a SNC was established to identify his successor. The SNC members were Ros Rivaz (Chair), Margaret Ewing, Regina Benjamin, Sten Scheibye and Jesper Ovesen (until his departure from the Board in June 2019). Further information about the SNC and the Chair search process, which concluded with the appointment of John McAdam, is set out on page 93.

Re-appointment of Directors
All Directors are subject to annual re-election and will be proposed for election or re-election (as appropriate) by shareholders at the AGM to be held on 7 May 2020. In relation to the re-elections, the Chairman has confirmed that following evaluation, all Directors continue to be effective and have the time available to commit to their role.

Non-Executive Directors are initially appointed for a one-year term and retiring Directors, if willing to act, will be deemed to be re-appointed unless the resolution for their re-appointment is not approved.

Board induction and development
On joining the Board all Directors participate in a formal induction programme. The programme is monitored by the Chairman (other than in relation to his own induction which is guided by the Senior Independent Director) and is the responsibility of the Company Secretary. Its purpose is to ensure that each newly appointed Director is able to contribute to Board discussions as quickly as possible. While each induction programme is tailored to the individual Director's needs based on their skills and experience, typically each programme provides new Directors with insight into the Group's strategy, culture and operations and informs them about the governance and compliance processes and procedures we operate.

CEO induction programme
Since he joined the Board at the end of September 2019, Karim Bitar has participated in an extensive induction programme covering all areas of our business.

In particular he visited our key operations across the Group, including our R&D facility in Deeside, UK, the US head office in Bridgewater, New Jersey and our HSG headquarters in Oklahoma City, US. He also spent time at our manufacturing plants in Haina in the Dominican Republic, Reynosa in Mexico and Osted in Denmark. During these visits he met senior management responsible for key business functions and also had an opportunity to engage with other employees during plant tours and town hall meetings.

Karim Bitar in discussion with employees in Bridgewater, US in October 2019.

Directors are provided with ongoing training by way of updates presented by the Company Secretary as a rolling agenda item at scheduled Board meetings. These updates cover governance and regulatory matters. During the year, the Board also received updates and training from the Group's senior management and external advisors covering corporate governance and strategic market and product issues.

During the year we continued to evolve our training programme and, in particular, its scope was expanded to include training from external advisors to both the Remuneration and Audit and Risk Committees. Training focused on matters specific to their respective committee activities, including corporate governance updates, executive remuneration, corporate reporting and audit updates.

All Directors have access to the advice and services of the Company Secretary and, through her, have access to independent professional advice in respect of their duties, at the Group's expense.

Relevant skills and expertise

The Board benefits from a wide variety of skills, experience and knowledge.

Director	Public company	Finance	Healthcare	M&A	Global	Operations
John McAdam	*	*		*	*	*
Karim Bitar	*	*	*	*	*	*
Frank Schulkes	*	*	*	*	*	*
Rick Anderson	*	*	*	*	*	*
Regina Benjamin	*		*			
Margaret Ewing	*	*		*	*	
Ros Rivaz	*		*	*	*	*
Sten Scheibye	*	*	*	*	*	*

2018 Board evaluation progress report and 2019 Board evaluation review

Linstock Limited undertook an externally facilitated review of the Board and its effectiveness during 2018. This review was conducted immediately after the Group's profit warning and immediate retirement of the Chief Executive in October 2018. The agreed action plan for 2019 set out recommendations to address that situation. However, during 2019 the Board composition further changed, with the Chairman, Deputy Chair and Senior Independent Director and Audit and Risk Committee Chair stepping down from the Board. On 30 September 2019 the Board appointed a new Chairman, John McAdam, and a new Chief Executive, Karim Bitar.

Given the changes in the Board's composition that had occurred during the first nine months of the year, the Board chose to undertake an internal evaluation of its effectiveness. The evaluation took place in early September 2019, prior to the Chairman and Chief Executive Officer joining the Group. It took the form of a questionnaire that was completed by the existing Board members. The primary focus of the questionnaire was on progress against the actions arising from the 2018 evaluation and matters that the Board considered as priority areas of focus for the new Chairman and Chief Executive during 2020. Information about the key issues arising from this internal evaluation is set out on page 91.

The changing composition of the Board and the urgent need to effect significant improvements in operational execution across the Group, naturally impacted the Board's activities in 2019, as highlighted by the conclusions of the 2019 Board effectiveness review.

The 2019 Board effectiveness evaluation highlighted progress against the action plan arising from the 2018 evaluation. This progress is summarised in the table overleaf.

Progress in relation to actions arising from 2018 Board evaluation

Action	Progress
Determine the Interim CEO's priorities in the coming months.	Successfully achieved. Interim CEO appointed and in February 2019 commenced execution of the "Pivot to Growth" approach and Transformation Initiative.
Continue the ongoing process to recruit a permanent CEO.	On 25 March 2019 announced appointment of Karim Bitar as CEO with effect from 30 September 2019.
Evolve the Board's composition, succession planning for key roles and the attributes sought in the appointment processes.	Ongoing. During the year we undertook a formal review of the composition of the Board, including its existing skills and experience and identified the need to appoint two additional independent Non-Executive Directors. Following his appointment as Chairman on 30 September 2019, John McAdam developed a detailed brief and commissioned searches for additional independent Non-Executive Directors. As highlighted on page 4, we have announced the appointment of Brian May with effect from 2 March 2020. Our search for a further independent Non-Executive Director is ongoing. This process is addressing the requirement for additional independent Non-Executive Directors to enhance skills and experience in specific areas, support succession planning for key Board roles and improve the Board's diversity of thought and ability.
Improve communication between Board members and with management, and improve the quality of the information flow to the Board, the timeliness with which papers are circulated, the analysis of data, and the communication around key opportunities and challenges.	Ongoing. The Interim CEO, Rick Anderson, facilitated significant improvements in communication with and amongst the Board, including information flow. All Board members have access to management and detailed reviews and discussions in relation to key operational issues are now a regular Board agenda item. Management participate in relevant Board meeting discussions. Further improvements are expected with the leadership of the new Chairman and CEO.
Schedule site visits for Non-Executive Directors.	The two Non-Executive Directors responsible for employee engagement visited several sites during the first half of 2019 to engage with employees and to assess the status of the culture in various locations. These visits will continue in 2020 and the number of visits will be increased to ensure that the Board is actively engaging with the Group's employees, monitoring its culture and its decisions are informed by this engagement. Further information about the employee engagement visits that took place in 2019 is included on page 80. Other Non-Executive Directors undertook site visits during the year, however, the Board determined not to hold any of its meetings away from the Group's global UK headquarters during this year of significant change in the Board's composition.
Enhance the monitoring of culture and behaviours throughout the Group, and the impact that the change in CEO has in driving cultural changes.	Completed. The Board has reviewed and debated employee feedback provided by the two surveys undertaken during the year (see page 78 for further information). During 2020 processes will be enhanced to further facilitate the Board's understanding of stakeholders' (including employees) key issues and concerns (see page 80).
Develop the quality and focus of Board-level strategic discussions.	Ongoing. In June 2019 the Board participated in a workshop which focused on key developments in the chronic care and wider healthcare sector and strategic opportunities and challenges.
Improve the clarity of the Group's strategy and the capacity of the Group to deliver on its strategic plans.	The Board approved the "Pivot to Growth" and Transformation Initiative, recognising that the Group's strategy could not be fully developed and clarified prior to Karim Bitar joining the Group as CEO. During 2020 the Board will oversee the implementation of the Group's new strategy and operating model which is focused on delivering sustainable and profitable growth. Execution of the Transformation Initiative and the strategy has been improved by the recruitment of a team of experienced change management and programme leaders.
Further develop the risk management framework and supporting processes. Enhance the Board's oversight of the Group's risk management processes and key risks.	Improvements in the Group's risk management processes are ongoing, with the appointment during the year of the Head of Enterprise Risk Management, ongoing development of the risk framework and policy and improved oversight by the Audit and Risk Committee and Board. The Board will continue to closely monitor any changes in the Group's actual and emerging risks as the Group's strategy evolves. Further information is provided on page 109.

The key findings from the 2019 Board evaluation process, including the actions agreed to address recommendations resulting from Board discussions, are set out below. While improvements continue in a number of areas noted, during the coming year the Board will respond to the Chairman and CEO's ongoing assessment of how the Board should evolve its key areas of focus to support the identification and execution of the Group's strategy.

Key findings arising from 2019 Board evaluation together with priority actions for 2020

Key findings	Priority actions for 2020
Determine a strategy for growth.	Oversee the implementation of the Group's new strategy and operating model which is focused on pivoting to sustainable and profitable growth.
Monitor the implementation and execution of the Transformation Initiative.	Significant steps have been implemented as part of the Transformation Initiative as explained on page 21. The Board will continue to monitor the progress.
Improve focus on customers, innovation and markets.	The Board is keen to develop opportunities to interact and engage with customers, and particularly patients. A programme to facilitate this will be developed for the Board.
Utilise the 2019 stakeholder survey results to provide valuable insight into our stakeholders and facilitate Board decision making.	Further information about our stakeholder survey can be found on page 13 and in our 2019 CR Report which is available on our website at www.convatecgroup.com/corporate-responsibility.
Improve engagement with employees at all levels which will also facilitate and enhance the Board's ability to monitor culture and behaviours across the Group.	Further employee engagement programmes will be developed and rolled-out in 2020, including continuing the Board-level engagement programme activities that commenced in 2019.
Enhance and develop the relationships among Board members.	Given the challenging year faced by the Board; the Board changes and new appointments, work will be undertaken to ensure the Board operates in a cohesive way. The guidance and leadership of the new Chair will significantly improve this.
Evolve the Board's composition, succession planning for key roles at Board and executive management level and identify the key attributes sought in the appointment processes.	With the Board changes during the year this matter has rolled over from 2019. As highlighted above, searches were commissioned for two new independent Non-Executive Directors with the identified skills and experience to complement the existing Board membership. As highlighted on page 4, Brian May will join our Board with effect from 2 March 2020. Our search for a further independent Non-Executive Director is ongoing.
Further develop the Board's oversight and understanding of the Group's risk management processes and key risks.	Dedicated risk management sessions will be included into the annual calendar of Board activities during 2020.
Improve the quality of the information flow to the Board, the timeliness with which papers are circulated, the analysis of data, and the communication around key opportunities and challenges.	Work commenced in 2019 but further improvements have been suggested by the Board. Standardisation around Board and committee papers will go some way in improving the quality of information going to the Board.

In compliance with the Code the Board intends to conduct the next externally facilitated evaluation in 2021.

Nomination Committee report

"If we are to realise our vision and strategic ambitions, we must ensure we have a skilled and effective leadership team and a good talent pipeline."

Dr John McAdam
Chairman of the Nomination Committee

Key areas of responsibility

- Leads the process for Board appointments.
- Reviews regularly the structure, size and composition of the Board (including its skills, knowledge, independence, experience and diversity) and recommends change.
- Considers plans and makes recommendations for orderly Board and senior management succession.
- Maintains an appropriate balance of skills and experience within the Group and on the Board.
- Reviews each year the time Non-Executive Directors are expected to spend on the Group's matters and whether each Non-Executive Director is devoting enough time to his or her duties.

Activity highlights

- Oversaw CEO recruitment process.
- Established a sub-committee of the Committee, the SNC, to oversee the Chair recruitment process.
- Reviewed the composition of the Board, developed a detailed brief and commissioned searches for additional independent Non-Executive Directors.
- Recommended to the Board, the appointment of Brian May as an independent Non-Executive Director.

2020 priorities

Following the 2019 Board effectiveness review, the Committee's principal areas of focus in 2020 include:

- Appoint an additional independent Non-Executive Director.
- Review the composition of the Board's committees and adjust as appropriate.
- Continue to review and monitor the Group's diversity profile and implementation of its diversity and inclusion strategy.
- Review development of senior management succession plan.

Committee membership, meetings and attendance

The table below shows the number of meetings attended out of the number of meetings members were eligible to attend.

Director	Member since	Attended
John McAdam (Chair from 30 September 2019)	September 2019	1/1
Margaret Ewing (Chair from 9 May 2019 until 30 September 2019)	May 2019	4/4
Ros Rivaz	August 2017	6/6
Rick Anderson	May 2019	3/4
Jesper Ovesen (member until 28 June 2019)	October 2016	2/2
Sir Christopher Gent (Chair and member until 9 May 2019)	October 2016	2/2
Steve Holliday (member until 31 March 2019)	October 2016	1/2

The Company Secretary and the Executive Vice President, Human Resources, regularly attend the Committee's meetings to provide information and support to the Committee to enable it to carry out its duties and responsibilities effectively.

Dear Shareholder

This report provides a summary of the Nomination Committee's activities during the course of the year.

Our role

If we are to pioneer trusted medical solutions that improve the lives we touch, and create sustainable value for all our stakeholders, we must ensure that we have a skilled and effective leadership team and a good pipeline of future talent. The effectiveness of our leadership team is particularly important at this stage of the Group's development. They have a crucial role to play in inspiring and motivating our people to help transform our business.

As a Committee we must ensure that we recruit the best senior management talent to lead our business. And having attracted the best we must also ensure that we develop our people and retain them.

Changes to membership

In May 2019 Sir Christopher Gent, the previous Chair of the Committee, stepped down from the Board and the Committee. At the same time, Margaret Ewing joined the Committee and assumed the role of Chair and Rick Anderson joined the Committee. Steve Holliday and Jesper Ovesen both stepped down from the Board and the Committee in March 2019 and June 2019 respectively. I became a member of the Committee and was appointed its Chair when I joined the Board on 30 September 2019.

Committee activities during the period

Key area	Activities
Appointments	Oversaw global search process led by Sir Christopher Gent and Steve Holliday, with the support of all other Board members, to identify a new CEO including reviewing potential candidates with a view to ensuring an appropriate balance of leadership and operational skills and interviewing and assessing candidates. Assisted management by interviewing and assessing key candidates for CELT roles.
Board composition	Established the SNC which oversaw the global search process to identify a new Chair including setting role specification and reviewing, interviewing and assessing candidates. Developed brief and commissioned searches for two additional independent Non-Executive Directors. Recommended to the Board, the appointment of Brian May as an independent Non-Executive Director with effect from 2 March 2020.
Diversity	Reviewed deployment of the Group's diversity and inclusion strategy and assessed key metrics to ensure continued focus on building a sustainable, diverse and inclusive organisation.

CEO succession

Supported by Russell Reynolds, our global search for a new Chief Executive continued during the first quarter of 2019. A shortlist of candidates was created and all Board members participated in the interview process. In March 2019 the Committee recommended the appointment of Karim Bitar. This recommendation was approved by the Board and announced on 25 March 2019. Karim joined the Group on 30 September 2019. He is an experienced leader with a proven track record of delivering impressive results and transformational change.

Chair succession

As a result of Sir Christopher Gent's decision to retire from the Board, a sub-committee of the Committee, the SNC, was established to oversee the global search process to identify a new Chair.

The SNC was chaired by Ros Rivaz and its members were Margaret Ewing, Regina Benjamin, Sten Scheibye and Jesper Ovesen (until his departure from the Board in June 2019), which ensured that all Non-Executive Directors participated in the process. The SNC, which met on ten occasions during the year, reported regularly to the Board and the Committee throughout the search process and made a recommendation to the Committee. Sir Christopher Gent was not involved in the selection of his successor. Rick Anderson attended the SNC's meetings at the invitation of the SNC.

The SNC developed a detailed brief based on the role specification for the Chair approved by the Committee and the Board, and Heidrick & Struggles were appointed to undertake a global search. A short list of potential candidates was created and all members of the SNC met and interviewed prospective candidates. Following this interview process, in August 2019 the SNC recommended to the Committee that I be appointed. The Committee considered this recommendation and the process undertaken and recommended my appointment to the Board. This recommendation was approved by the Board and announced on 19 August 2019.

I joined the Board on 30 September 2019. Information about my experience and background is included on page 76.

Board composition

In response to the findings of the 2018 Board effectiveness review the Committee, supported by Russell Reynolds, considered the composition of the Board, the skills and experience of existing Board members and whether areas required strengthening, particularly to support the Group's Transformation Initiative. As a result of this work the Committee made a number of recommendations which were discussed by the Board. It was identified that the Board needed more financial expertise and international, commercial and operational experience, ideally within the sector, and technology insight. Following the Board's discussions and my appointment in September 2019, we commissioned Russell Reynolds to undertake searches for two additional independent Non-Executive Directors.

As a result of this search process we have today announced the appointment of Brian May who will join our Board with effect from 2 March 2020. Brian was previously Chief Financial Officer of Bunzl plc from 2006 to 2019 and, prior to that, he held a number of senior management finance roles with Bunzl, including divisional Finance Director, Group Treasurer and Head of Internal Audit. He qualified as a Chartered Accountant with KPMG in 1988. He has extensive financial and international business experience. He has overseen significant strategic growth initiatives resulting in both organic and inorganic growth and sustained shareholder returns over the long term. Our search for an additional independent Non-Executive Director is ongoing.

When recruiting new Non-Executive Directors members of the Committee interview selected candidates, who also meet with the Executive Directors. The Committee then recommends candidates for appointment to the Board. Decisions relating to such appointments are made by the entire Board based on a number of criteria including the candidate's skills and experience and the contribution they can make to our business and their ability to devote sufficient time to properly fulfil their duties and responsibilities.

Diversity

The Board endorses the aims of the Davies' report entitled "Women on Boards", the Hampton-Alexander ("H-A") report entitled "FTSE Women Leaders – Improving Gender Balance in FTSE Leadership", and the Parker report entitled "A Report into the Ethnic Diversity of UK Boards".

At Board level we have members of various nationalities, gender and ethnicity who have a good range of skills and expertise. As at 31 December 2019, the proportion of women on our Board was 38% which exceeded our target of at least 30%. The Committee will continue to monitor this proportion and the diversity of the Board in other respects including experience, skills, personal attributes, age and ethnicity. In all instances individuals will continue to be appointed on merit and the Committee will remain focused on ensuring that at all times the Board has the relevant skills and expertise to perform effectively. The Committee acknowledges the challenge set by the Parker report for there to be one non-white director by 2024 for FTSE 250 companies, and we are pleased that we already meet this target.

To achieve diversity in other parts of the Group, in 2017 we launched our diversity and inclusion strategy which set an objective to have 30% of senior management roles held by female executives by the end of 2020. Our progress towards achieving this objective has been slow and as at 31 December 2019 women made up 25% of our senior management team. As highlighted on page 39, during 2019 a number of initiatives to accelerate progress were undertaken. The Committee supports this proactive approach to develop a broader range of activities to drive diversity.

During the year the Committee has considered diversity insights across a range of metrics including by employee population, age, length of service and talent groups. Feedback from employee groups was also discussed. We will continue to monitor developments in this area, including the Group's diversity profile and the implementation of its diversity and inclusion strategy.

External search firms

As highlighted above, from time to time we engage international search and selection firms including Heidrick & Struggles, Spencer Stuart and Russell Reynolds. On occasion Korn Ferry also conduct executive search assignments for the Group. Heidrick & Struggles, Spencer Stuart, Korn Ferry and Russell Reynolds have no connection with the Group other than they may be engaged to assist with senior management appointments from time to time.

Copies of all appointment letters are available for inspection at the Company's registered office.

On behalf of the Nomination Committee

Dr John McAdam
Chairman of the Nomination Committee
27 February 2020

Audit and Risk Committee report

"The Committee continues to provide independent and robust challenge to management and the internal and external auditors to ensure that high-quality audits are undertaken, effective controls are in place, key risks identified and managed and sound financial judgements and estimates are made."

Margaret Ewing
Chair of the Audit and Risk Committee

Key areas of responsibility

- Ensures the integrity of published financial information, including monitoring the Group's financial reporting procedures and reviewing and challenging significant financial estimates, assumptions and judgements.
- Reviews and assesses the adequacy and effectiveness of the Group's risk management and internal control processes and systems, including their effectiveness in detecting and preventing fraud.
- Monitors and reviews the effectiveness and independence of the Group's internal audit function, agrees the scope of audits to be conducted, reviews the results of such audits and monitors the implementation of agreed internal audit recommendations.
- Assesses the procedures and controls designed to ensure independence of the external auditor, reviews the external audit work plan and the findings of the external audit, assesses the quality and effectiveness of the audit and the performance of the auditor team and approves the provision of non-audit services.
- Monitors and reviews the effectiveness of the Group's compliance programme, including receiving reports on compliance weaknesses, issues identified and management actions to rectify.
- Reviews reports and responses arising from the Group's independent whistleblower hotline and web link.
- Provides advice to the Remuneration Committee on financial reporting matters and related judgements as they affect executive remuneration performance objectives.

Activity highlights

The principal matters the Committee reviewed during the financial year ended 31 December 2019 were:

- The Group's 2019 interim and final results announcements and presentations (including ancillary matters) and the 2019 Annual Report and Accounts ("2019 ARA" or "ARA"), ensuring that they were fair, balanced and understandable.
- The proposed 2019 interim and final dividends and distributable reserves planning and disclosures.
- The Viability statement of the Board for inclusion in the 2019 ARA, including the appropriateness of applied scenarios and assumptions.
- The Group's Q1 and Q3 trading update announcements.
- Implementation of and compliance with new accounting standards and associated guidance, particularly in respect of IFRS 16, *Leases* ("IFRS 16").
- The Group's refinancing of its external borrowing facilities and related Group restructuring.
- Assessment of the impairment of the Group's finite-lived intangible assets including appropriateness of valuation assumptions and useful economic life.
- Ongoing improvements in management information, data analytics and reporting.
- Alternative Performance Measures ("APMs"), including application of the Group's policy in respect of adjusted items and continued review of disclosure requirements under FRC and European Security and Markets Authority ("ESMA") guidelines.
- Continuing evolution, strengthening and embedding of the Group's internal audit and risk management functions, processes and frameworks and the structure and resourcing of the respective teams.
- The Group's tax risk profile in light of increasing Tax Authority audits, requirement for greater transparency and new tax legislation in jurisdictions where the Group has presence, including the effects of the Swiss tax reform.
- The valuation, treatment and disclosures relating to the deferred tax asset recognition as a result of the Swiss tax reform.
- The conclusions of the audits undertaken by the internal audit function during the year and the actions taken by management to address the recommendations arising from the internal audits.
- The effectiveness and quality of the external audit and the procedures and controls designed to ensure auditor independence and objectiveness including the audit scope and materiality.
- Assessment and oversight of the business case and decision to implement a business services transformation, including the transition of the existing finance shared services footprint to a single location.
- Progress in replacing legacy systems across the Group, upgrading technology capability, minimising the Group's cyber security risk and ensuring the Group remains compliant with data privacy requirements.

Committee membership, meetings and attendance

The table below shows the number of meetings attended out of the number of meetings members were eligible to attend.

Director	Member since	Attended
Margaret Ewing (Chair from 28 June 2019)	August 2017	13/13
Ros Rivaz	March 2019	11/11
Regina Benjamin	June 2019	5/6
Jesper Ovesen (Chair and member until 28 June 2019)	October 2016	7/7
Steve Holliday (member until 31 March 2019)	October 2016	1/2

During the year the following individuals also regularly attended the Committee's meetings:

- Chief Executive Officer
- Chief Financial Officer
- Chairman (including Executive Chairman Rick Anderson)
- Chief Transformation Officer and General Counsel
- Company Secretary
- Corporate Controller, and when appropriate, other members of the Controlling function
- Key audit partners and director of the external auditor, Deloitte
- Vice President, Global Tax
- Vice President, Treasury
- Chief Compliance Officer
- Vice President, Internal Audit and Enterprise Risk, and when appropriate, other members of the Internal Audit and Enterprise Risk teams
- Chief Information Officer

2020 priorities

The Committee's principal areas of focus in 2020, in addition to those areas covered in 2019 and those required within the Committee's key areas of responsibility, will include:

- Supporting management to improve the design of the internal audit function and risk management framework and processes to better reflect the transformation of the Group.
- Overseeing the continued development and embedding of fraud prevention, detection, monitoring and reporting.
- Monitoring the financial implications of the pivot to profitable and sustainable growth strategy and the Transformation Initiative.
- Overseeing further improvement in the availability and quality of financial information, data and analytics including the development of reporting required to support the transition to the business unit model.
- Overseeing improvements in the processes applied within the Group to provide enhancements to forecasting and budgeting for both the Group and for business units under the new operating model.
- Overseeing the implementation of the business services transformation including the transition of the existing finance shared services footprint to a single location.
- Designing a robust external audit tender process and determining the appropriate timetable to undertake such a tender, taking into consideration the critical activities and assignments currently being undertaken by potential audit firms and the tenure to date of the current external auditors.
- Overseeing the implementation of changes that may arise as a result of the recommendations and outputs of the Brydon Review, Competition and Markets Authority Review, Kingman Review and the Business, Energy and Industrial Strategy ("BEIS") Select Committee recommendations to the Government following their inquiries into the future of audit.
- Reviewing the implications of proposed legal and tax structure reorganisations and planning required to support transformation plans and address the Swiss tax and other reforms.
- Ongoing monitoring of the Group's investments and processes to address compliance with data privacy requirements and minimise the Group's cyber security risk.
- Continue reviewing progress in replacing legacy systems across the Group and upgrading technology capability.

Dear Shareholder

This report provides a summary of the Audit and Risk Committee's activities and the matters considered relating to the financial period ended 31 December 2019.

This is my first report and I would like to assure shareholders that the Committee is working well, despite the changes in composition during the year, and I hope this report will highlight the Committee's effectiveness. The Committee continues to provide independent and robust challenge to management and the internal and external auditors to ensure that high-quality audits are undertaken, effective controls are in place, key risks identified and managed and sound financial judgements and estimates are made.

Committee composition

The Committee is comprised entirely of Independent Non-Executive Directors and the names of the Committee members throughout the year are set out on page 95 together with the roles of the individuals who regularly attend the Committee's meetings.

Jesper Ovesen, your previous Audit and Risk Committee Chair, resigned from the Board on 28 June 2019. I was delighted to take over the Chair role from Jesper, who was a valuable member of the Board and an exceptional Audit and Risk Committee Chairman. Steve Holliday also stepped down from the Board and the Committee on 31 March 2019. On behalf of the Board and the Committee I would like to thank them for the significant contribution they made to the Group during its first years as a listed company.

The Committee welcomed Ros Rivaz and Regina Benjamin as members with effect from 31 March 2019 and 28 June 2019 respectively. Both Ros and Regina bring significant Board experience, including as audit committee members, and relevant industry experience to the Committee's deliberations and have made excellent contributions to the discussions since joining the Committee. To further enhance the effectiveness of the Committee and the financial experience of its members, the Board has today announced the appointment of Brian May as a Non-Executive Director. I am delighted that he will become a member of the Audit and Risk Committee with effect from 2 March 2020.

The Committee members have between them a wide range of financial, audit, risk management and business experience, providing the right mix of skills and experience to provide constructive challenge and support to management. Throughout the year, the Committee has considered that I have recent and relevant financial experience for the purposes of the Code. Until his resignation on 28 June 2019, the Committee also considered that Jesper Ovesen provided the required experience for the purposes of the Code.

Detailed biographies of all Committee members can be found on pages 76 and 77 and information about Brian May on page 94. The Committee will continue to review its membership to ensure the skills and experience of its members align with the business as it develops.

Committee meeting attendance

The Committee held 13 meetings during 2019, including four meetings timed to align with the financial reporting and audit cycles of the Group, two meetings to discuss accounting treatment and disclosure requirements in respect of costs related to the Transformation Initiative and the transition from the Medical Device Directive ("MDD") to the Medical Device Regulation ("MDR") respectively, and one in relation to the provisioning methodology and accounting treatment of the US distributor rebate accrual. Outside the Committee's formal meetings, I regularly met members of management, including the Chief Financial Officer, Vice President, Internal Audit and Enterprise Risk, Corporate Controller, Vice President, Global Tax and Chief Information Officer, and the lead external audit partner and senior members of the external audit team to discuss matters relating to the Committee's activities.

The Vice President, Internal Audit and Enterprise Risk and the external auditor have direct access to the Committee's members should they wish to raise any concerns outside formal meetings and at least annually, and as required, they are given the opportunity to discuss matters with the Committee without executive management being present.

In planning its own agenda and reviewing the audit plans of the internal and external auditors, the Committee takes account of significant issues and operational, compliance and financial risks likely to have an impact on the Group's Financial Statements and/or the Group's execution and delivery of its strategy. The Committee also addresses specific queries or reviews referred to it by the Board or the Remuneration Committee. Following each Committee meeting, the Chair of the Committee communicates the Committee's main discussion points and findings (including recommendations) to the Board.

Committee development and effectiveness

During the year the Committee received an update from Deloitte on corporate governance issues specifically relating to the Committee's activities, including the relevant requirements of the Code and developments arising from the recommendations and outputs of the various reviews of the audit market and future of audit.

As part of the Board's annual effectiveness review, which is explained on page 91, the Committee's effectiveness was evaluated. Overall, the review concluded that the Committee is responding appropriately to its terms of reference and will continue to develop its role. The key outputs of the review are reflected in the Committee's 2020 priorities which are detailed on page 96.

Committee activities in respect of 2019

Key area	Activities
Financial reporting 2019 interim and final results, Q1 and Q3 trading updates and APMs	Reviewed: – The Financial Statements and trading announcements released throughout the year, including all disclosures and notes, together with papers from management summarising the process for preparing the underlying Financial Statements. – The appropriateness and application of key accounting policies (particularly the recent policies IFRS 9, 15 and 16) and the areas of significant judgement, assumption and estimate, including how those judgements, assumptions and estimates were determined. – The appropriateness of items adjusted in APMs and their disclosure in the Financial Statements and results announcements. – Reports from Deloitte detailing the conclusions of the external auditor review in relation to the interim results for the half year to 30 June 2019 and audit in respect of the year ended 31 December 2019. The Deloitte reports included specific focus on areas identified as having significant audit risk or review emphasis.
Going Concern and Viability statements	Reviewed the process and scenarios and assumptions applied in the stress testing undertaken to support the Group's Viability statement and reviewed documentation prepared to support the Group's Going Concern statement. Discussed with the external auditor the scope, approach and nature of the challenge within the auditor's review of the Viability and Going Concern statements and the conclusions of their review. Concluded that the 2019 ARA had been properly prepared on a going concern basis and approved and recommended the Viability and Going Concern statements to the Board. These matters are discussed further in the "Significant issues and other accounting and financial reporting judgements" section of this report.

Fair, balanced and understandable	Considered whether the 2019 ARA, taken as a whole, is fair, balanced and understandable, and whether it provides the information necessary for shareholders and other stakeholders to assess the Group's performance, business model, strategy and the key risks that challenge the Group. The process to support the Committee's conclusions in respect of this included:
	– The ARA preparation process being led by a senior management working group, and including review by the CELT, members of this Committee and the Board and externally reviewed by Freshfields Bruckhaus Deringer in relation to the Strategic report and Governance section; Kepler Mercer, in relation to the Directors' Remuneration report, and relevant sections of the ARA audited by Deloitte.
	– A qualitative review of disclosures and internal consistency throughout the ARA, which included but was not limited to the matters below:
	  – Assessing the accuracy and integrity of the messages conveyed in the ARA and appropriateness of the level of detail and messaging in the reporting.
	  – Correlation between the key working papers and results for each of the significant issues and judgements considered by the Committee and the external auditor in the period and the disclosures in the ARA.
	  – Consistency between the Strategic report, Corporate governance report, Financial review and the Financial Statements.
	  – Balance of statutory reported results and non-IFRS measures, including a clear and comprehensive reconciliation between them and consideration of why the non-IFRS measures were being provided.

Key area	Activities
External audit	Reviewed, considered and challenged as appropriate the external auditor's planned scope of work for the audit of the Group's Financial Statements, the assessment of risk and materiality on which the plan is based and the justification for certain components of the Group not being subject to a full scope audit as part of the Group audit. Ensured the external auditor's plan for the audit was informed by the Group's business model and strategy, the Group-wide Transformation Initiative, the business risks the Group faces and the Committee's views on the expectations of the Group's investors and other stakeholders. Monitored the progress of the implementation of the audit plan throughout the year and considered issues and judgements as they arose and any resulting required changes of audit scope. Reviewed the auditor's regular reports to the Committee in respect of the interim review and annual audit and discussed key findings and conclusions with the audit partners and management. Considered the performance, effectiveness and quality of the external audit process. The Committee demands a robust, quality and effective audit with strong reporting lines to the Committee, a rigorous quality assurance process and evidence of the auditor acting with integrity, objectivity and independence. Reviewed and considered the tenure of Mark Mullins, engagement partner and Senior Statutory Auditors. Mark Mullins' tenure is two years and is therefore within the five year mandatory rotation. The Committee Chair met regularly with the external audit partners during the year to discuss plan progress, reporting, adequacy and transparency of disclosures and other relevant emerging or actual issues. The Committee Chair, CFO and Corporate Controller also collectively met with the audit partners on two occasions to discuss issues arising in respect of the US distributor rebate accrual change in estimation methodology (see page 103) and the impairment of the finite-lived intangible assets (see page 101). The Committee requested additional focus by the auditor on these two aspects of the Financial Statements during the audit for 2019 plus enhanced audit resource and leadership in the US component audit team. Approved the terms of engagement of the external auditor, including the audit and non-audit fees, ensuring that the required scope of audit work is not constrained by the cost of assurance. In September 2019, reviewed and revised the Group's policy in relation to the provision of non-audit services in response to the FRC consultation on Ethical Standards and Auditing Standards, which proposed splitting services into two categories: (i) permissible services which are not subject to a fee cap; and (ii) permissible services that are subject to a cap. The Committee approved a cap of 10% on permissible services. The Committee has reviewed and confirmed that the revised Group policy is in line with the Revised Ethical Standard 2019, published on 17 December 2019. All non-audit engagements are approved by the Committee, in strict accordance with its policy on non-audit engagements performed by the external auditor. Taking into consideration the results of the above activities, the Committee recommended to the Board that a resolution for the reappointment of Deloitte for a further year as the Group's auditor be proposed to shareholders at the AGM in May 2020.
Group's refinancing of its external borrowing facilities	Reviewed and challenged management's proposal regarding the refinancing of the entirety of the Group's previously existing external debt, noting that \$1.2 billion of a total of \$1.8 billion of this external debt was due to mature in October 2021. The proposal involved a refinancing, targeting a relationship-led banking transaction with a view to considering a debt capital issuance in the future. Reviewed the key terms of the refinancing proposal including tenure, repayment profile, interest margin, financial covenants, security and portfolio of relationship banks. Received expert reports from the Group's debt advisors (Rothschild & Co) including their view on the probability that the debt could be refinanced using the structure proposed by management, risks to the refinancing process and options available to the Group should there be an event which led to the suppression of market appetite for such a transaction. Reviewed the need for and approved the establishment of a special purpose finance company, ConvaTec Finance Holdings Limited, as the Original Borrower for the new finance facilities.

Key area	Activities
Internal controls and risk management	Reviewed the Group's system of financial, operational and governance internal controls, core IT systems on which the financial controls operate and risk management processes (which are set out on page 27) and assessed their effectiveness and assisted the Board in relation to compliance with the Code in this respect. This included reviewing: – The annual process and testing programme for financial controls including global financial controls, which included key controls applicable to the revenue recognition accounting policy, together with entity level controls and IT general controls in relation to the Group's core IT systems that underpin the Group's Financial Statements. There were no material deficiencies identified and the Committee noted a continued year-on-year improvement in the quality of reporting and the number of immaterial deficiencies identified and remediated. The Group continues to operate on a single Enterprise Resource Planning ("ERP") across 85% of the Group's subsidiary companies with a consolidation system supporting the production of financial and management reporting. – As part of the business services transformation, management has reviewed and improved end-to-end process design and is investing in optimising the ERP system and, during 2020, will be implementing work flow tools to improve process and controls through automation. The Committee has reviewed (and, where relevant, challenged) the technology solutions proposed by management and will continue to review and monitor through both the global financial controls and business services transformation programmes. – The implementation of the global financial controls improvement project, including the regular review of the results of management's testing and remediation plans for gaps identified. The review encompasses all trading subsidiaries across the Group, including emerging markets and those entities that do not operate on our standard ERP. There were no un-remediated significant control weaknesses as at 31 December 2019. Global standards for process controls have been developed and are being rolled out across the Group as part of the global financial controls programme together with a programme of evidence reviews. – The rigorous regulatory and compliance framework and the conclusions of the independent internal compliance reviews undertaken throughout the year across all aspects of the Group. – The key internal financial controls reviews included in the internal audit programme for 2019. This included an update at every Committee meeting from the Corporate Controller on the accounting issues and key aspects of the financial controls and updates on risk management from the Chief Compliance Officer and the Vice President, Internal Audit and Enterprise Risk. In addition, the Committee reviewed and discussed the reports of all the internal audits completed during the year and the findings of compliance reviews, with no major control weaknesses identified. – Financial performance throughout the year and its alignment with information received from management by the Board. – The risk management and controls software implemented across most of the Group by the Controller's function for reporting on financial controls and progress towards implementation by the internal audit and risk management functions. – The processes and framework for identifying principal and emerging risks and uncertainties and the proposed risk appetite to be applied for the various categories of principal risks. – The proposed enhancements to, and roll-out of, the risk management process, framework and governance structure. – Progress in driving the cultural change required to embed enterprise risk management as a commercial enabler. – Deep-dive presentations on certain specific risk issues including Brexit, legal and compliance processes, cyber-security and data privacy and GDPR embedding and maintenance.
Management and financial information and reporting	Monitored the ongoing implementation of improvements in the quality and availability of management and financial information (finance business intelligence) and reporting. This has included the development and roll-out of high-level executive dashboards, development of data warehousing and associated analytics improvements and Transformation Initiative implementation tracking. The Committee will continue to monitor the ongoing improvements in management information and reporting, particularly as it evolves to support the Group's strategy, transformation and operating model.
Treasury strategy and processes	Received and reviewed a paper from the recently appointed Vice President, Treasury, noting the planned transition of the small treasury team from Deeside to the Group's head office in Reading and the process improvements being initiated.
Treasury Policy	Reviewed and approved the updated Treasury Policy following the refinancing of the external borrowing facilities, including the refreshed foreign currency risk management policy, associated accounting, risk management and governance framework and the centralisation of cash management through ConvaTec Finance Holdings Limited.
Compliance and confidential reporting	Received reports from the Chief Transformation Officer and General Counsel and the Chief Compliance Officer in relation to the Group's compliance programme, monitored the implementation of the programme across the Group and discussed compliance weaknesses and issues identified and the resulting resolution of these matters, noting any themes or learnings that should be highlighted across the Group. Reviewed reports from the Group's independent whistleblower hotline and web link and management's responses, including investigating issues raised, conclusions of investigations and any required actions. Information about the whistleblower hotline and web link is included on page 44.

Key area	Activities
Tax	Received and reviewed tax updates on various issues including: – Continued Brexit planning, including mitigation plans in relation to potential dividend withholding tax and interest deductibility changes as a result of the UK exiting from the European Union and other legislative changes. – 2019 Group tax reporting and forecasting plan. – Discussion and review of the Group's tax risk profile including appropriate measures to reduce inherent tax risks where available and proportionate. – Completion of the transition of the Global Tax team lead from the US to the UK and review of tax controls and processes. – Issues emerging from audits and reviews being undertaken into prior years' tax returns by local tax regulators across the Group. – Transfer pricing and legal entity functionality evaluation, including judgements applied in allocating costs and income in legal entities and jurisdictions where the Group has taxable presence ensuring alignment of taxable results with value creation and profile, including review of uncertain tax positions with respect to transfer pricing arrangements. – Oversight of the tax compliance service provision tender process and approval of the appointment of KPMG, noting that the implementation of a global tax compliance framework improves reporting, control and compliance in all jurisdictions. – Tax judgement issues within the 2019 Financial Statements, in particular the effects of the Swiss tax reform and the resulting recognition of a deferred tax asset (see "Significant issues and other accounting and financial reporting judgements" on page 101). – Approval of the Group's annual Public Tax Statement.
Regulatory compliance	The Group Chief Compliance Officer provided the Committee with an overview of his key areas of focus for the Compliance function, being: – Clear standards, including reviewing and refreshing policies. – Improving communication between the Compliance team and the business to emphasise 'why' actions can or cannot be taken. – Robust monitoring of the compliance programme through increased field monitoring. – Monitoring of potential litigation and possible outcomes, including the Scapa Group plc lawsuit (for further information see Note 24 to the Financial Statements).
Brexit accounting and reporting considerations	Received reports from management of the ongoing risk identification and mitigation plans to address potential issues arising from the UK departing the European Union in 2020, with or without an agreement. It was noted that the overall financial impact is deemed to be low, with mitigation plans in place to minimise this.
Cyber security and GDPR	Monitored the delivery of the Group's cyber security programme, including the enhancements achieved in the implementation of improved risk mitigations, regular cyber incidents updates and the output from cyber incident response workshops held at the Group's key manufacturing sites. Oversaw the ongoing implementation and evolution of the Group's GDPR programme and received updates on the establishment of the Group's Global Privacy function, including supporting the appointment of a Global Privacy Officer.
Discussions on specific matters	Considered and reviewed (including providing approvals where appropriate) the following matters: – Dividend policy and impact on realised distributable profits. – Matters to be taken into consideration in determining appropriate timetable for a tender process to appoint external auditors by 1 January 2023. – Update on and potential impact of possible future audit reform. – Insurance management and renewal programme. – Debt covenant compliance. – Anti-bribery and corruption policy compliance. – Proposal to purchase shares through the Employee Benefit Trust to support employee share options anticipated to vest. – Pension accounting and liability risk. – Corporate governance developments.

We seek to respond to shareholders' and other stakeholders' expectations in our reporting and, as always, welcome any feedback from shareholders and other stakeholders.

Significant issues and other material accounting and financial reporting judgements considered by the Committee in relation to the Group's 2019 Financial Statements and disclosures and other areas of responsibility of the Committee

The Committee and/or the external auditor robustly challenged management and/or the external auditor in respect to certain issues referred to below. However, as disclosed in the table below, agreement on all issues was eventually reached and there were no topics where there was significant disagreement between management, the external auditor and the Committee, or unresolved issues that needed to be referred to the Board, although the Board was informed of the challenge and discussions that took place and how agreement was reached.

Set out in the table below is information on the significant matters considered during 2019 by the Committee.

Significant area considered	How the Committee challenged and addressed	Outcome
Fixed asset useful economic lives	An assessment was performed by management of the appropriateness of useful economic lives assigned to material assets in key manufacturing locations. As a consequence of the assessment, management proposed an increase in the expected lifespan of three production lines, resulting in a $4 million decrease in depreciation charge for 2019. The Committee challenged management on the appropriateness of the increase in lifespan. Management confirmed that there was evidence from the machine manufacturers and current production effectiveness and efficiencies of the machines to support the extension.	The auditors confirmed they had challenged the proposal from management and agreed with the principle of adjusting depreciation prospectively for an increase in economic life. The Committee approved the extension in the economic life of the relevant assets and, although the impact is not material in 2019, identified asset economic lives as an area requiring significant focus and consideration in 2020 during the implementation of the Group's strategy and changes in the business's operating model.
IFRS 16, *Leases*, effective 1 January 2019	Throughout the year, the Committee considered the scope, completeness and disclosures in relation to the application of IFRS 16 on the Group's Financial Statements. The Committee considered whether the disclosures effectively communicated the impact of the standard on the income statement and balance sheet of the Group, the practical expedients applied on transition were clearly identified and that there was an adequate reconciliation between the previous accounting standard IAS 17, *Leases* and IFRS 16. The Committee also reviewed and discussed the relevant IFRS 16 disclosures in the 2019 ARA with reference to the guidance given by the FRC in its "IFRS 16 Thematic Review: Review of Interim Disclosures in the First Year of Application" and in its letter to Audit Committee Chairs and Finance Directors on 30 October 2019.	The Committee concluded that the Group's disclosures in relation to IFRS 16 were compliant with the standard and in line with guidance published by the FRC. The auditor recommended certain minor improvements in the disclosures related to the impact of IFRS 16, which the Committee accepted. The Committee agreed the overall disclosure provided stakeholders with a clear understanding of the impact of IFRS 16 on the Group's net income and balance sheet.
Impairment review of finite-lived intangible assets	Considered and challenged management's rationale for a trigger for impairment reviews to be conducted of certain finite-lived intangible assets acquired at the point of the Bristol Myers Squibb spin out in 2008. Considered and challenged management's review, methodology and conclusions in determining the aggregation of certain core technologies and patents. Reviewed and challenged the basis of the valuation of the assets including estimates used in deriving future cash flows and discount rates applied to these cash flows, reflecting current market assessments of the specific risks and the time value of money, the benefit included from certain transformation initiatives and the underlying support for the useful economic lives applied. The Committee reviewed and discussed valuation reports from external specialist advisers which supported management's conclusions. Reviewed and challenged the proposed disclosures in the Financial Statements to ensure that the disclosures were compliant with IAS and more broadly to consider the transparency of the disclosures. Reviewed management's proposal to recognise the impairment charge of $103.6 million as an adjusting item on the basis that the impairment relates to intangible assets acquired in 2008 and the impairment of such assets is not representative of the cost base of the business today. This is also consistent with the treatment of the related amortisation of pre-2018 acquisition intangibles. The Committee discussed the appropriateness of aggregation, valuation and disclosure with the auditor.	The Committee requested the auditor consider management's rationale for a trigger for impairment review of these assets and for the auditor to challenge management's approach to the aggregation methodology, valuation assumptions including useful economic life, the inclusion of the benefit of certain transformation initiatives, accounting treatment and disclosures. The auditor challenged and confirmed management's rationale and proposal. After significant discussions with management, both inside and outside of Committee meetings, and following a request for further analysis, the Committee agreed with management's asset aggregation, valuation methodology and conclusion that an impairment charge of $103.6 million should be recognised in 2019. The Committee approved the treatment of the impairment charge as an adjusting item.

Significant area considered	How the Committee challenged and addressed	Outcome
Valuation of goodwill and the impairment testing thereof, including sensitivity analysis and stress testing	Management undertake an annual review, or at other times if circumstances indicate a possible issue, to determine if the carrying value of goodwill (in both the Group and parent company balance sheets) is impaired. This impairment review requires the exercise of considerable judgement and application of assumptions by management, including estimates used in deriving future cash flows and discount rates applied to these cash flows, reflecting current market assessments of the specific risks and the time value of money. The estimation process is complex due to the inherent risks and uncertainties associated with long-term forecasting. The Committee considered management's review of potential indicators of impairment of goodwill and gained an understanding of the level of headroom in that calculation and the sensitivity of that headroom to reasonably possible changes in key assumptions, such as the applicable pre-tax discount rate used and the market and company growth rate assumptions. Further information on the discount rate, growth rate assumptions and sensitivities can be found in Note 8 to the Financial Statements. Discussed the outcome of these various goodwill related reviews with management and the external auditor and received the auditor's views on the matters concerned, which were consistent with management's conclusions.	The Committee devoted significant time (both outside the formal meeting and in it) to considering the outcome of management's review of the appropriate carrying value of goodwill. Having considered the sensitivity analysis, the reasonably possible changes, the assumptions and judgements applied, the conclusions of the external advisers to management and the auditor's independent assessment and challenge of the reasonableness of the assumptions and judgements (including noting that the discount rate applied was conservative compared to peer companies), the Committee agreed with management's goodwill valuation.
Recognition of deferred tax asset arising from the Swiss tax reform	The Committee considered management's review of the effect of the Swiss tax reform on the Group's results and forecast Effective Tax Rate, including management's best estimate of the deferred tax asset expected to arise on the transition to the new tax rules in Switzerland. The Committee appreciated that the transformation changes that the Group has implemented in 2019 together with further changes expected to be realised in 2020 may impact the assessment required to measure the application of the Swiss tax reform to the Group's Swiss-based operations. Accordingly, the Committee reviewed management's proposal to adopt a specific methodology which is allowed under Swiss law to determine the best estimate of the deferred tax asset as at 31 December 2019 based on currently available information and the actual situation at that date. Management provided papers summarising the transition to the new Swiss tax rules and how they would apply to the Group's Swiss legal entities, including its ongoing dialogue with the Swiss Tax Authorities. The Committee reviewed management's best estimate of the deferred tax asset which reflects the current business model (without reflecting potential future plans) and information available, and the associated disclosures (in the ARA) including the classification of the measurement of the deferred tax asset as a critical accounting judgement and key source of estimation uncertainty. The Committee also reviewed management's proposal to recognise the deferred tax asset as an adjusting item on the basis that this is a significant item which does not reflect the underlying performance of the business. The Committee also considered the external auditor's assessment and challenge of management's position on the value and proposed treatment of the deferred tax asset.	The Committee sought additional information and explanation from management and the auditor in relation to the recognition of the deferred tax asset, including technical accounting requirements for the recognition of the asset, appropriate valuation methodology, recognition criteria, judgements and classification as a critical accounting estimate and key source of estimation uncertainty. Following detailed discussion both inside and outside of Committee meetings, the Committee agreed with the recognition of a deferred tax asset of $23.0 million and the associated disclosures within the Financial Statements. The Committee will continue to review the value of the deferred tax asset as the transformation plans develop and are implemented during 2020.
Recognition of US deferred tax assets	Considered management's proposal to recognise deferred tax assets of $75.9 million, before the offset against $90.6 million of deferred tax liabilities, in the US. Recognition of deferred tax assets is based on management's assessment of their recoverability and the timing of the reversal of deferred tax liabilities against which deferred tax assets can be utilised. Management provided papers setting out the background to the deferred tax assets and the proposed treatment thereof. The Committee also considered the external auditor's assessment and challenge of the proposed treatment of the deferred tax assets that are being recognised.	Following discussion and further analysis by management related to the recognised deferred tax assets and liabilities and considering Deloitte's assessment and challenge, the Committee agreed with management's proposals.

Significant area considered	How the Committee challenged and addressed	Outcome
US distributor rebate accrual	Considered the accounting implications of the revenue adjustment of $8.9 million (debit) in Q1 2019 in relation to the change in the basis of the estimate applied to determine the US distributor rebate accrual and related accounts receivable. Considered the basis of management's proposed change to the estimate, including applicable chargeback rates and the claims' lag period. Challenged the auditor on the robustness of the revised estimate. Considered the application of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8") and IFRS 15, *Revenue from Contracts with Customers*. Reviewed the disclosures in the Q1 2019 trading statement for adequacy and clarity of disclosure and explanation.	The Committee sought additional analysis and explanations from management and from the auditor. The Committee requested the auditor review management's approach to the change in the basis of estimate and calculation of the financial impact in Q1. In addition, the auditor undertook additional audit procedures in respect of the proposed change in basis of estimate and the accuracy of the resulting accrual adjustment and confirmed agreement with management's proposal. After detailed discussion (both formally in Committee meetings and informally outside of meetings) the Committee agreed with management's proposals in relation to the calculation of the adjustment, the revised basis of estimation and the treatment as a current period adjustment in relation to IAS 8. The Committee rejected management's request to consider this revenue adjustment as an APM item but supported the disclosures and explanation of the adjustment in the Q1 and H1 interim results.
Dividends and realised distributable reserves	Reviewed management's analysis of the reserves available for distribution in the parent company ("the Company"), noting that the Company's distributable reserves are increased by receipt of dividends from its subsidiaries. In particular, it was noted that the majority of the dividends are paid through or directly by ConvaTec International Services GmbH ("CISG"), the Swiss principal. Reviewed the forecast profitability of CISG and considered the cash resources available to the Company from which to service future dividends noting that the Group has, through improvements to the Treasury processes, started to concentrate cash resources in ConvaTec Finance Holdings Limited to more readily service dividend payments. Reviewed management's dividend proposal in relation to the full year dividend, including the matters management considered in determining the dividend. This included peer group benchmarking, the available distributable reserves of the Company and the cash resources available to meet the dividend, and input from the Group's brokers and Director of Investor Relations. The Committee considered longer-term dividend planning, particularly in relation to the Transformation Initiative. Considered the dividend disclosures required in light of FRC guidance on dividend policies.	Following review and subject to minor amendments, the Committee concluded that the disclosures in relation to dividend policy were in line with FRC guidance. The Committee concluded that it was able to advise the Board that there were sufficient distributable reserves and cash resources to enable the Board to approve a continuation of the existing dividend policy. This reflects the confidence of the Board in the long-term prospects of the Group noting that in the near term the dividend pay-out ratio may be slightly above the target ratio as investment is made in the ongoing transformation of the Group. The Committee requested that management provide regular updates from the Treasury Management Committee during 2020 to ensure that the Committee remains apprised of future developments and recommendations in respect of the recognition and availability of realised distributable reserves and liquidity to support the Group's future dividend policy and strategy.
Impairment review of CHL	In 2018, given the further fall in share price after the trading update on 15 October 2018, management assessed the Value in Use ("VIU") of Cidron Healthcare Limited ("CHL"). For the year ended 31 December 2018, management proposed, and the Committee agreed to, the recognition of an impairment charge of $1.616 billion in the Company's investment in CHL which was offset by a transfer from the merger reserve. The carrying value of the investment was reduced to $3,887.4 million. For the year ended 31 December 2019, the Committee requested that management consider whether there were further impairment triggers in relation to the same investment. The Committee considered management's supporting evidence that there were no such triggers, including a comparison of VIU and fair value (based on market capitalisation). The Committee considered management's proposal to remove the impairment of investment in subsidiaries as a key area of estimation uncertainty in the Company's Financial Statements. The Committee assessed the Group's current financial performance and forecast financial performance for the next 12 months. The Committee discussed the appropriateness of both the position on impairment triggers and the removal of impairment in investment in subsidiaries as a key area of estimation uncertainty with the external auditor.	The Committee agreed that there were no further impairment triggers in relation to the Company's investment in CHL. The Committee accepted management's proposal to remove the impairment of the investment in subsidiaries as a key area of estimation uncertainty given that no reasonably probable change in assumptions within the plan could lead to a material impairment adjustment.

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Significant area considered	How the Committee challenged and addressed	Outcome
Alternative performance measures	Continued to review the accounting treatment and disclosures of APMs with reference to the ESMA and FRC guidelines in relation to APMs, the FRC's 2018 Corporate Reporting Thematic Review, the FRC's letter in relation to our 2017 ARA and the letter to Audit Committee Chairs and Finance Directors issued 30 October 2019. Considered management's supporting evidence and arguments regarding proposed adjustments to IFRS reported measures and disclosures in light of the ESMA and FRC guidance and the Group's accounting policies, including its specific policy on APMs (which was reviewed, revised and approved during the year). In addition to the discussions regarding treatment of the Deferred Tax Asset recognised as a result of the Swiss tax reform and the impairment charge arising from the review of certain finite-lived intangible assets (both matters explained above), the Committee devoted considerable time discussing and agreeing the treatment of costs related to the transition to the MDR, the Transformation Initiative (including reconsideration of the costs related to the proposed business services transformation) and the elements of the new CEO's buy-out package (agreed on recruitment) not subject to performance or retention conditions.	The Committee sought additional explanations and supporting evidence from management for all proposed adjustments. In addition, the Committee considered the detailed analysis, nature of, and future benefits to be obtained from the proposed cost adjustments. After receiving management's further explanations and following detailed discussion of the matter (in two ad hoc Committee meetings called specifically to discuss this matter and informally outside of meetings), the Committee refused management's proposal to treat the non-recurring costs related to the transition from the MDD to the MDR and the many elements of the Transformation Initiative as adjusting items. The Committee agreed to the treatment of elements (those related to past performance in a previous employment with no retention or future performance criteria) of the CEO's buy-out package as an adjusted cost. In early 2019, the Committee had indicated it would be supportive of management's proposal to treat the costs related to the business services transformation as adjusted costs. However, as the plans for its implementation have developed during 2019 and the transformation and pivot to growth plans have also developed, these over-arching initiatives have subsumed the business services transformation programme. The Committee has, therefore, subsequently considered the costs associated with transformation and pivot to growth and has concluded that only the specific elements of the programmes related to the severance of employees (including redundancy and associated retention costs) or the costs of early termination of property leases should be treated as adjusting items and that all elements related to forward-looking and ongoing continuous improvement in effectiveness of operations should be regarded as business as usual and, therefore, it is not appropriate to treat these as adjusted costs. The external auditor challenged management's proposals and agreed with the Committee's conclusions and the overall disclosure of APMs in the Financial Statements and other parts of the 2019 ARA.

Significant area considered	How the Committee challenged and addressed	Outcome
Viability and Going Concern statements – The Group's methodology for the production of the Viability statement is set out on pages 34 to 35. – The Board's Viability statement and the Going Concern statement are included on page 35.	Since the launch of the "Pivot to Growth" programme in February 2019, the Board has received and reviewed a revised five-year financial and operating plan ('strategic plan'). Taking into consideration the Group's prospects and risks, the Board approved the Group's 'Strategic Plan 1' in July 2019. This Strategic Plan 1 has formed the basis of the Viability assessment. The Committee specifically considered: – The planning horizon and the applicability of a three or five-year assessment period. The Committee took into consideration the following in determining the appropriate viability period: a. Karim Bitar, CEO, joined the Group on 30 September 2019. Under his leadership, further development of the Transformation Initiative and our strategy are likely to impact the plans and forecasts for future years, particularly from 2022 onwards. b. Significant investments being made over the next two years under the transformation and implementation of our strategy. c. Our R&D and production cycles. d. Ability to respond in a timely manner to reasonably possible Group specific and market events. e. Implicitly it is harder to accurately forecast the latter years of the five-year plan. – The completion of the Group's refinancing, which extends our debt maturity profile to October 2024. – The continuing appropriateness and relevance of the key assumptions underlying the Strategic Plan 1. – The 2020 Annual Operating Plan (budget) reviewed and approved by the Board in February 2020 and its alignment with the forecast for 2020 inherent within, and the implications for future years, the Strategic Plan 1. – The list of principal risks (set out on pages 28 to 33) and whether the appropriate downside scenarios were encapsulated. – Stress test scenarios covering the Group's key financial performance and liquidity risks, being foreign exchange sensitivity, revenue growth (including the potential effect of climate impacts creating production shortages), gross margin downsides and higher capital investment requirements and a combined downside case sensitivity assuming simultaneous occurrence of all the above scenarios. The Committee assessed the process and stress testing to support the Viability statement and related disclosures. With regard to the Going Concern statement, the Committee considered the Group's assumptions underlying the cash flow projections after debt service costs, current cash balances and capacity available in existing sources of funding. This review included testing the covenants and assessing the adequacy of the available headroom, particularly against significant but possible downside trading scenarios.	The auditor confirmed that the Directors' statements on Viability and Going Concern had been read and concluded that they were consistent with the knowledge obtained during the course of the audit. The Committee approved and recommended the Viability statement to the Board. The Committee approved and recommended the Going Concern statement to the Board.
Auditor review of Q1 and Q3 trading update announcements	The Committee considered the need to continue obtaining a private review opinion from the auditor in respect of the Q1 and Q3 trading update announcements, given the limited financial data (being revenue only) provided within these announcements.	The Committee concluded that the assurance required in respect of the appropriateness and accuracy of the financial information provided within the Q1 and Q3 announcements would be adequately provided by management's quarterly reporting to the Committee. This conclusion reflected the implications for financial reporting of the transition of the Group's Controller function from the US to the UK in 2018 and the significant improvements that had been achieved in the quality of financial analysis and data provided to the Committee and Board. The Committee, therefore, approved management's request to no longer engage the auditor to undertake a private opinion review of the Q1 and Q3 trading update announcements.

Significant area considered	How the Committee challenged and addressed	Outcome
Cyber security	Cyber security is a dynamic risk area due to converging threats and technology advancement. Data privacy and GDPR are high-profile areas of business risk for all companies. The Committee reviewed progress against agreed plans for cyber security and data privacy. In relation to cyber security, this included: – Results from cyber incident simulation exercises, including cyber incident response workshops completed for all key manufacturing sites. – Continued programmes to educate employees. – Actions taken to further embed IT controls and deployment of improved detection tools. – Improving our detection and response capability with assistance from third-party specialists and new technology. – Transitioning systems to a cloud environment. The Committee also reviewed the status of the embedding and monitoring of data privacy and GDPR compliance across the Group. The Committee acknowledged the continued good progress that had been achieved in implementation of the cyber security strategy, including the results of the independent assessment of the Group's cyber security controls. However, it noted that additional awareness training and communication was required for all employees and suppliers. The Committee also stressed the need for additional focus on the maintenance of GDPR compliance across the Group (in particular, in respect of the Group's suppliers' compliance). The Committee sought confirmation from the Chief Information Officer that budget constraints were not inhibiting the implementation of the cyber security strategy.	The Committee supported the recruitment of a data privacy expert as the Group's Data Privacy Officer. The Committee requested regular updates on the further implementation of the cyber security strategy during 2020, with consideration also to be given to the Board's risk appetite in respect of cyber security. The Committee was assured that budget constraints were not an issue and the Transformation Initiative enabled advancement of the strategy. However, the capability and capacity of the Group to absorb faster change was noted. The Committee requested focus be given to further mitigations for both cyber security and GDPR compliance, both of which should continue to feature on the Internal Audit programme and the annual Committee agenda.
Technology modernisation	The programme of work to modernise the Group's legacy business and manufacturing systems to mitigate certain key business risks continues. The work undertaken to date is delivering significant business benefits and reduced risks. The Committee reviewed and challenged the programme, including migration of the majority of the Group's modernised applications to the cloud, and the programme for migration of the remaining legacy applications to cloud technology.	The Committee acknowledged the significant progress in modernising the Group's applications and supported the plans for the legacy applications migration. The Committee considered contingencies and further actions that could be adopted to advance the migration to cloud technology. The Committee will continue to keep this under review.

After reviewing the detailed topic papers, presentations and reports from management, the Committee is satisfied that the Financial Statements for the year ended 31 December 2019 appropriately address the critical accounting judgements and key sources of estimation uncertainty, both in respect of the amounts reported and the disclosures made. The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust. The Committee has discussed these issues with the auditor during the audit planning process and at the finalisation of the year-end audit and is satisfied that, following robust challenge, its conclusions are in line with those drawn by the auditor in relation to these issues.

As a result of its review of the significant issues and accounting judgements and estimates described above, in its advisory capacity, the Committee confirmed to the Board that the key accounting estimates, judgements and disclosures were appropriate and served to provide a true and fair view of the Group's Financial Statements and the ARA, overall, are fair, balanced and understandable. The Board's statement in relation to this confirmation is included on page 72. The Committee also confirmed to the Board that it was reasonable for the Directors to make the Viability statement and the Going Concern statement on page 35.

The Committee also concluded that the Group's internal controls and risk management processes were operating effectively throughout the year, although further improvements are planned and welcomed, and advised the Board that it could make a statement to this effect in the ARA.

External audit and tendering process

At the AGM on 9 May 2019 shareholders approved the reappointment of Deloitte LLP as the Group's external auditor.

Deloitte has acted as the Group's external auditor since the Company's Listing in October 2016 and prior to this were the Company's external auditor for the period 2008 to 2016, whilst the Company was in private equity ownership. The Company is in compliance with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Responsibilities) Order 2014, which relates to the frequency and governance of external audit tenders and the setting of a policy on the provision of non-audit services.

The Committee reviews and makes a recommendation to the Board regarding the reappointment of the external auditor each year. In making this recommendation, the Committee considers auditor effectiveness and robustness, audit quality, quality of the key audit partners and directors, independence, partner rotation and any other factors that may impact the Committee's judgement regarding the external auditor. Further information about how the Committee seeks to ensure the independence, objectivity and quality of the external auditor is set out on page 107.

The Committee intends to run a tender for the appointment of the external auditor in or before 2023 (with a decision on timing and process to be agreed by the Committee during 2020) but reserves the right to run such a tender at any time. The audit tendering process will occur at least once every ten years.

Audit process

The Committee is responsible for overseeing the relationship with the external auditor, the effectiveness, quality and robustness of the audit and the audit process. The following table summarises the steps taken by the Committee in overseeing the 2019 audit and its quality.

Significant matters for review	Decisions and actions taken by the Committee
The annual audit plan and strategy including the scope of the audit, changes in approach and methodology, emerging industry and Group specific risks and change in the audit leadership team.	Reviewed and challenged, leading to an agreed plan (see below).
Materiality level for audit including Group materiality and component materiality.	Reviewed methodology and agreed a reduced level of materiality (thereby impacting the planned scope of the audit) for 2019 resulting from the reduction in forecast reported profit before tax and certain adjusted items in 2019 versus 2018.
Tenure and composition of the US audit team following transition of the management of the audit from the US to the UK.	Reviewed and discussed the transition process and the remaining tenure of the US lead partner. To ensure continuity and audit quality in a material market, the Committee agreed with the UK-based lead audit partner that a new US partner would be introduced in 2019 to shadow the current US partner in advance of a change in the US lead partner in 2020 thus providing a managed transition through 2019 and enhanced leadership for the US component audit team.
Audit fee and terms of engagement.	Reviewed, challenged and approved the fee and terms of engagement, ensuring there was no impact on scope of audit or quality of resource engaged as a result of the agreed fee level.
Audit scope and risk assessment.	Reviewed the significant risks and audit scope for 2019 and requested that the auditor provide a benchmark of the coverage provided by the proposed scope versus industry and peer comparators in the FTSE 100 and FTSE 250 and details of the analytical reviews performed on the out-of-audit scope elements of the Group. In addition, the Committee requested an understanding of whether the results of the statutory audits of subsidiaries outside of scope would have affected the overall Group audit result (if performed prior to signing off the Group audit). Based on the scope provided and the benchmarking analysis, the Committee agreed the planned scope of the 2019 external audit.
Audit findings, significant issues and other accounting judgements.	Discussed with Deloitte and management (see above).
Deloitte's independence, objectivity and quality control procedures.	Independence and objectivity confirmed, quality control procedures reviewed (see below).

Audit independence, quality and effectiveness

The Committee seeks to ensure the independence, objectivity and quality of the external auditor throughout the year by:

- Focusing on the assignment and rotation of key personnel.
- Communicating and meeting regularly throughout the year with the audit partners and personnel involved in the audit (with and without management present).
- Reviewing and monitoring the adequacy, experience and quality of the audit resource (including requesting additional, replaced or enhanced personnel, including partners, when believed to be necessary).
- Monitoring relationships and interactions with management.
- Implementing policies in relation to non-audit work.
- Monitoring relationships with and assignments awarded to other audit firms to ensure we have sufficient choice for any future appointments.

Audit independence

All non-audit engagements are approved by the Committee in strict accordance with the Group's policy on non-audit engagements performed by the external auditor. This policy is designed to maintain the external auditor's objectivity and independence.

The Committee is responsible for developing, implementing and monitoring this policy. Through its strict enforcement the Committee believes that non-audit services do not have a direct or material effect on the auditor's independence and the audited Financial Statements.

Certain services that could compromise the external auditor's independence are not permitted to be provided by the external auditor or its network. These prohibited non-audit services include, but are not limited to:

- The provision of internal audit services, design or implementation of information technology systems relating to the production of financial statements, valuation services, actuarial valuation services, certain taxation services.
- Provision of legal services, recruitment services, restructuring services, bookkeeping and payroll services.

Until September 2019, the Group's auditor independence policy provided that the external auditor, subject to the implementation of adequate safeguards, could undertake other types of non-audit work so long as the total fees for these non-audit services did not exceed 70% of the average audit fees billed to the Group by the external auditor in the past three years.

During the year, the Committee reviewed the FRC's consultation on Ethical and Auditing Standards (the consultation proposals subsequently being adopted in the final Revised Ethical Standard issued in December 2019). The consultation proposals included the introduction of a "white" list of permissible services, including services required to be provided by UK law and regulation and a short list of other permissible services. The latter are subject to a fee cap. The Committee discussed the consultation paper and decided to early adopt the proposals. As a result, in relation to permissible services subject to a fee cap, the Committee adopted a fee cap of 10% of average audit fees billed to the Company by the auditor in the past three financial years. The policy was adopted from September 2019. The Committee has reviewed the final Revised Ethical Standard and has concluded that the revised policy is in accordance with the final FRC guidance.

Non-audit fees incurred during 2019 totalled $142,000 which is approximately 4% of the average audit fee for the last three years and 4% of the 2019 audit fee. The non-audit fees covered work in relation to the following matters:

- Certain compliance procedures in relation to environmental and other regulatory matters.
- Provision of 360 degree feedback tool and other training.
- Provision of market data.
- Review of the Group's half-year results announcement and the underlying unaudited financial statements for the six months to 30 June 2019 (incurring a fee of $113,000).

The provision of services by the auditor in relation to the 360 degree feedback tool and other training together with the provision of market data were incurred before the Group's Auditor Independence policy relating to the provision of non-audit services by the auditor was amended in September 2019. These services were permitted under the old policy but would not be permitted under the revised policy. The Group has been compliant with the revised policy since adoption.

The Committee's review of the independence of the external auditor included:

- Examining written confirmation to the Directors from Deloitte that they remained independent and objective within the context of applicable professional standards.
- Monitoring the ratio between the fees for audit work and non-audit services.
- Monitoring the tenure and rotation of audit partners and staff.
- Observing the relationship and tone of communication between management and the auditor.
- Reviewing, if relevant, the employment of former audit staff in senior finance leadership roles. No such appointments were made during 2019.

As a result of this review, the Committee concluded that Deloitte remained appropriately independent in the role of external auditor. A summary of fees paid to the external auditor is set out in Note 3 to the Financial Statements.

External audit quality and effectiveness

Audit quality and effectiveness is reviewed throughout the year and the Committee continues to use the FRC's Audit Quality Practice Aid to structure its review of audit quality.

In addition, the Committee conducted a full review of the effectiveness and quality of the external audit process, the findings of which were considered at its meeting in December 2019. As part of this review a formal (internally led) survey was undertaken to capture the views of the Committee, Executive and other Non-Executive Directors, and Group and regional senior finance management. The survey included questions on Deloitte's independence and objectivity, robustness of challenges and findings on areas that require management judgement, audit approach and methodology, communications with Deloitte, experience, technical knowledge and understanding of the Group's business and strategy (and progress in delivering the strategy).

The key findings of the audit quality and effectiveness survey were:

Strengths

- Strong engagement from lead audit partner, including investing considerable time in understanding business complexities.
- Capable senior leadership team with strong technical and business knowledge enabling appropriate levels of challenge.
- Proactive engagement in the audit planning process.
- Continuous improvement in reporting to the Committee with stronger opinions, views and insights.
- Good engagement with management, including clear evidence of robust challenge and exercise of appropriate scepticism in relation to key audit judgements and estimates.

Areas of focus

- UK audit team to work closely with new US partner to ensure robust challenge of management judgements and maintenance of audit quality in respect of the material US component during the transition period.
- Continue to challenge management on a more risk-based approach to internal controls.

Overall, the results of the external audit quality and effectiveness survey and the evidence gathered by the Committee during the year confirm that Deloitte's audit process and procedures were appropriate and effective, focused on the areas of greatest risk and that the relationships between the audit team and the Group's management continued to provide effective, robust and objective challenge. The Committee also observed that the auditor provided constructive challenge and reliably interpreted evidence provided by management and external sources to support their conclusions.

Based on the conclusions regarding the audit quality and effectiveness, the Committee is recommending that Deloitte be proposed for reappointment by shareholders at the AGM to be held on 7 May 2020.

Internal audit

The primary objective of the Group's internal audit function is to systematically and objectively assess the adequacy and effectiveness of the business controls over the Group's operations, financial reporting, risk and compliance areas and review the quality of the Group's policies, standards and procedures including their use and appropriateness.

During 2019, internal audits were undertaken in accordance with the Committee agreed plan for the year, including reviews over global and legal entity key financial and IT controls, operational and IT change management assurance, adequacy of the control environment in the operating legacy systems within entities joining the Group through acquisition, several business processes within global supply chain, data privacy and GDPR, other compliance matters and third-party distributors located in Latin America, Middle East and South East Asia. Before each audit, the scope of review, timetable and resources required were agreed with management. Regular updates were provided to management and the Committee on the status of ongoing audits and action closure. The Committee monitored progress against the plan, discussed the results of all audits undertaken, invited relevant senior management to meet with the Committee to discuss their plans to address material weaknesses identified by an internal audit review and monitored relevant follow-up actions.

There was correlation between the conclusions of several audits, providing insight for management on where actions need to be undertaken and investments made to improve policies, processes and address control weakness. Thematically, issues requiring attention included the investment in the replacement of aged legacy applications within both supply chain and sales organisations; the embedding of more robust project governance practices within operational and IT change project areas; improvements in distributor management; integration of acquisitions; and improvements in contract management across a range of business areas.

2020 Internal audit plan
The Committee has approved the 2020 internal audit plan. The plan adopts a risk-based approach using the Group's principal and emerging risks as the base. The plan will be kept under continuous review during the year and adapted to support the Group's strategic direction and any new areas of material risk identified during the year.

Enterprise risk management
The framework and processes the Group operates to manage risk are set out on pages 24 to 27. During the year, the Committee monitored and reviewed the Group's risk management activities and processes through reports at each Committee meeting. The Committee reviewed the bottom-up and top-down process utilised to identify risks, the movement of the principal risks within the risk register, emerging risks and the development and implementation of mitigation controls set against the risk appetite approved by the Board.

Led by the Vice President, Internal Audit and Enterprise Risk, the Group continues to enhance, develop and embed the risk framework, policies, risk identification and mitigation controls across the Group's operations, through:
- A strengthened team dedicated to risk management, including the appointment of a Head of Enterprise Risk Management during the year.
- Co-ordinated monitoring of risk mitigation measures by various internal functions including portfolio management, internal audit, legal and compliance, finance and IT.
- Frequent and in-depth consideration of the risk profile by the CELT.
- A refreshed Enterprise Risk Management framework, policy and supporting documents launched during the year.

In 2020, the Group will continue to improve risk management processes, including:
- Facilitating business level risk workshops (at franchise, region and function level) to refresh and calibrate business area risk profiles, controls and further mitigation plans, and identify emerging risks.
- Formalising and embedding a Risk Champion network to facilitate the risk process locally across the Group.
- Developing further and embedding a consistent risk governance and oversight structure across the Group.
- Implementing and embedding an integrated risk, control and audit digital solution to provide robust and consistent risk management and reporting.

Compliance review
The Committee also reviews the Group's compliance policies and procedures and compliance global monitoring plan and results, including the operation of the third party managed whistleblower hotline and web link to enable employees and third parties to report suspected breaches of our Code of Conduct.

The Committee received reports from the Chief Transformation Officer and General Counsel and the Chief Compliance Officer in relation to the Group's compliance programme including implementation progress updates, information about compliance audits undertaken and issues identified.

The Committee oversees the investigation and outcome of significant issues reported via the whistleblower hotline and web link referred to above. During 2019 the Committee received reports on ongoing and concluded investigations. The Committee also considered the actions taken by management as a result of the investigations and recommended additional actions where appropriate.

Further information about our compliance programme and our Code of Conduct is included on page 44 and in our Corporate Responsibility Report which is available on our website, www.convatecgroup.com/corporate-responsibility.

Dialogue with shareholders
We seek to respond to shareholders' and other stakeholders' expectations in our reporting and we welcome feedback from them on this Committee report or other related issues. Furthermore, the Committee welcomes meetings with shareholders and other stakeholders at any time.

On behalf of the Audit and Risk Committee

Margaret Ewing
Chair of the Audit and Risk Committee
27 February 2020

Corporate Responsibility ("CR") Committee report

"In recent years the Committee has made good progress in developing an effective CR strategy and stakeholder engagement programme."

Rick Anderson
Chairman of the Corporate Responsibility Committee

Key areas of responsibility

- Define ConvaTec's obligations under the headings of economic responsibility, community responsibility and environmental responsibility, and to oversee the Group's conduct in the context of these obligations.
- Monitor the Group's engagement with external stakeholders and other interested parties.
- Monitor relevant external trends and assess how these may affect ConvaTec's reputation or its ability to operate, and review how best to address these trends.
- Review the appropriateness of the Group's CR strategy and approve modifications as these arise.

Activity highlights

- Reviewed and enhanced the stakeholder engagement process.
- Analysed stakeholder survey results.
- Reviewed supplier assessment programme.
- Monitored progress against targets.

Committee membership, meetings and attendance

The table below shows the number of meetings attended out of the number of meetings members were eligible to attend.

Director	Member since	Attended
Rick Anderson (Chair from 9 May 2019)	October 2016	2/2
Regina Benjamin	August 2017	2/2
Margaret Ewing	August 2017	2/2
Sir Christopher Gent (Chair and member until 9 May 2019)	October 2016	0/0

Members of the CELT and other members of the management team were invited to attend the Committee's meetings when appropriate. The Director, Corporate Responsibility, regularly attended the Committee's meetings. In addition to the two Committee meetings during the year, two detailed written updates were provided to the Committee.

Dear Shareholder

Operating and behaving responsibly, and making a positive contribution to society, are key to ConvaTec's long-term success.

During the year we made good progress in a number of areas. Driven by our climate change strategy, we have focused on both operational energy efficiency and identifying improvement opportunities relating to product and packaging. This has involved comprehensive reviews of our current portfolios, as well as the development of "Green Design Guidelines" to support the development of more sustainable product and packaging through integration into our new product development process. We have also published a new Policy setting out our position on aspects of ethical conduct in research and development. At the same time, we have recognised the need for a change of direction to improve the effectiveness of supplier assessment against "CR" criteria, and we will report further on this in next year's Annual Report.

We have increased employee engagement in our wellness programme by over 50%, with over 2,000 employees participating. We have continued to link this level of engagement with our community investment programme, LIFE+ by ConvaTec, and have seen some innovative and effective projects.

It has been pleasing to see recognition of our efforts to improve CR performance in the steady increase in ratings provided by specialist Environmental, Social and Governance analysts, supported by our GRI-compliant reporting. A member of the CR Committee again participated in the annual CR Report assurance process.

Further information about the above initiatives and other key CR developments can be found on pages 36 to 46 and in our Corporate Responsibility Report which is available on our website, www.convatecgroup.com/corporate-responsibility.

In recent years the Committee has made good progress in developing an effective CR strategy and stakeholder engagement programme. As explained on page 5, we have strengthened our CR-related governance arrangements and our CR programme, including its strategy and implementation, will be overseen by the Board. Accordingly, this Committee will be disbanded with effect from 2 March 2020.

Committee activities during the period

Key area	Activities
Strategy	Approved the climate change strategy and GHG emission reduction target. Discussed progress and received written and face-to-face updates on the implementation of our CR strategy in February, May, September and December. Reviewed the approach to supplier assessment and discussed options for improvement.
Stakeholder engagement	In May, held an external expert-facilitated session examining the options for enhancing the Board's involvement in stakeholder engagement. All Board members participated in this session. In September, reviewed and discussed the results of the stakeholder survey and materiality analysis. Shortly after the year end, reviewed and approved our third, standalone, Corporate Responsibility Report for the year ended 31 December 2019, which is available on our website, www.convatecgroup.com/corporate-responsibility. This included a review of reported progress against our published CR-related targets.

On behalf of the Corporate Responsibility Committee

Rick Anderson
Chairman of the Corporate Responsibility Committee
27 February 2020

Our Corporate Responsibility Report

More information about our culture, people, health and safety initiatives, stakeholders, GHG emissions and what we do to conserve the planet is included in our Corporate Responsibility Report, which is available on our website, www.convatecgroup.com/corporate-responsibility.

Directors' Remuneration report

"The Committee engaged extensively with its investors and key stakeholders about its proposals to align reward with the Group's strategy to achieve sustainable and profitable growth. Our proposed Remuneration Policy, which will be put to a shareholder vote in May 2020, is intended to lay the foundation to supporting ConvaTec's journey to long-term sustainable financial health."

Dr Ros Rivaz
Chair of the Remuneration Committee

Key areas of responsibility
- Sets the Company's Remuneration Policy.
- Determines the Remuneration Policy and packages for the Executive Directors and the CELT and sets the fee for the Non-Executive Chairman.
- Oversees the implementation of the Remuneration Policy across the wider organisation.

Activity highlights
- Developed refreshed Remuneration Policy.
- Agreed remuneration arrangements for Rick Anderson, as Executive Chairman; John McAdam, Chairman; and Karim Bitar, CEO.
- Ensured remuneration arrangements appropriately supported the recruitment, retention and motivation of CELT members, and thus business continuity.
- Considered remuneration arrangements in light of the changes to the Code and evolving investor sentiment.

2020 priorities
- Keep under review the composition of the Committee to ensure it continues to benefit from the Board's wide-ranging and relevant experience.
- Continue to actively engage with shareholders, the Board, employees and other stakeholders on remuneration matters, as appropriate.
- Implement appropriately our refreshed Remuneration Policy to deliver competitive and motivational remuneration that reinforces successful delivery of our stated strategy.

In this section you will find

Committee membership, meetings and attendance
The table below shows the number of meetings attended out of the number of meetings members were eligible to attend.

Director	Member since	Attended
Dr Ros Rivaz (Chair from 31 March 2019)	August 2017	10/11
Regina Benjamin	June 2019	5/5
Margaret Ewing	May 2019	5/5
Jesper Ovesen (member until 28 June 2019)	October 2016	6/6
Sir Christopher Gent (member until 9 May 2019)	October 2016	6/6
Steve Holliday (Chair and member until 31 March 2019)	October 2016	3/4

The Chairman, CEO, EVP, Human Resources, Vice President, Compensation & Benefits and the Company Secretary attend meetings of the Committee by invitation, as does the Committee's appointed adviser; executives are absent when their own remuneration is under consideration.

Letter from the Chair of the Remuneration Committee

Dear Shareholder

On behalf of the Board, I am pleased to present the report of the Remuneration Committee for the year to 31 December 2019, my first as Chair of ConvaTec's Remuneration Committee. On behalf of the Committee, I would like to thank Steve Holliday for his stewardship of the Committee since IPO until he retired from the Board on 31 March 2019. I would also like to thank Sir Christopher Gent and Jesper Ovesen for their contributions until they too retired from the Board earlier this year.

Margaret Ewing and Regina Benjamin joined the Committee during the year, and I would like to thank them for their valuable contribution and counsel in 2019. I also look forward to working with Brian May when he joins the Committee in March 2020.

This year has been a busy one for the Committee, during which we have covered a range of matters which are described below.

Remuneration Policy

In line with the requirement to submit our Directors' Remuneration Policy (our "Remuneration Policy" or "Policy") to a binding vote at the 2020 AGM, the Committee conducted a thorough review of the Policy in 2019. Following the disappointing voting outcome on the Directors' Remuneration Report at the 2019 AGM, we undertook a consultation process involving our largest shareholders on our current Policy and our approach to its implementation since IPO. The Committee welcomed the very helpful input received as part of this exercise and used this feedback (although there was a divergence of views in some areas) to inform the Committee's review. We also took into consideration prevailing market practice and recent remuneration governance developments (including the relevant provisions of the Code). We concluded that the 2017 Policy continues to be broadly fit for purpose. It is clear, simple, and appropriately aligned with our strategy, risk appetite and culture (and incentive opportunities are appropriately capped). However, the Committee agreed that it would be appropriate to make some amendments to reflect developments in remuneration good practice since the Policy was last approved (in 2017). We subsequently re-engaged with our largest shareholders and the key proxy bodies on the proposals. On behalf of the Committee, I would like to thank our shareholders for their time, feedback and broad support.

Following the above consultation process and review, the key changes we are proposing to make to our Remuneration Policy are:

Pension contribution levels for future Executive Director appointments

In line with recent developments in the remuneration governance landscape, and the preference of a number of institutional investors, it is proposed to align the pension contribution (or cash allowance in lieu) for new Executive Director appointments from 1 January 2020 with that available to the wider workforce (currently 8.5% of salary for our UK employees). The Committee is mindful of the continued evolution in investor thinking in the area of pensions, and will keep the arrangements for the current Executive Directors under review.

Rebalancing the performance measures in the annual bonus

We have introduced greater flexibility in the Policy around measure selection for the annual bonus. At least 80% of the bonus opportunity will be linked to financial performance; and personalised strategic objectives weighted no higher than 20%. The Committee will retain discretion to select the most appropriate measures and weightings each year, subject to these parameters, to ensure continued alignment with strategic priorities and business needs as these evolve over the life of the Policy. Further details of the measures and targets attaching to the annual bonus will be disclosed in the relevant Annual Report on Remuneration.

The performance measures for the 2020 annual bonus will be: adjusted Group EBIT[1] (60% weighting), adjusted free cash flow (20%) and personalised strategic objectives (20%). The Committee selected these measures to closely align with ConvaTec's strategic aim of sustainable and profitable growth, and reinforce discipline in key areas of short-term focus for the Group. Personalised strategic objectives will be set for each Executive Director to align with the strategic priorities for the 2020 financial year that the Board believes are fundamental to longer-term value creation for our shareholders and other stakeholders.

Rebalancing the performance measures for LTIP awards

For awards to be made in 2020, the Committee is proposing a combination of relative Total Shareholder Return ("TSR") (25% weighting) and adjusted PBT growth (75%). The Committee believes that this scorecard better reinforces the key pillars of our strategy to deliver sustainable and profitable growth and will capture ConvaTec's success in delivering against our strategic goals in all these areas, thereby driving longer-term value creation for all shareholders and other stakeholders. Further information about our strategy and strategic pillars is set out on page 18 to 21.

For LTIP awards made in 2020 onwards, ConvaTec's TSR performance will be measured relative to the FTSE 350 (excluding investment trusts), to reduce the risk of vesting outcomes being unduly sensitive to TSR clustering within the comparator group. In addition, the Committee concluded from its review that, while representative of the broader MedTech sector, the tailored peer group used in previous cycles did not sufficiently reflect ConvaTec's focus on chronic care, thereby limiting the relevance and motivational impact of the benchmark.

The wording of our Policy on LTIP performance measures has also been revised to provide greater flexibility around measure selection for future award cycles, so that LTIP awards made during the life of the Policy can be structured to remain closely aligned with ConvaTec's strategic priorities for the relevant three-year period. The selection of measures (and their weighting) will also be kept under review for future cycles, and any material changes will be subject to prior shareholder consultation.

Malus and clawback

The robustness of our malus and clawback provisions was also reviewed, and the trigger events extended to include: an error in calculation; and other exceptional circumstances at the Committee's discretion.

Committee activities during 2019

Key area	Activities
Policy	Developed new Remuneration Policy.
Remuneration packages	Approved the remuneration packages for Karim Bitar, John McAdam, Rick Anderson (in relation to his appointment as Executive Chairman), and appointees to the CELT during the year.
Setting performance targets	Reviewed and set financial targets for the annual bonus and LTIP, in the context of multiple internal and external reference points for performance over the relevant period.
Equity incentives	Considered and approved 2019 LTIP awards to members of senior management. Reviewed the criteria for determining eligibility for discretionary long-term incentive awards for employees below the LTIP population.
Workforce remuneration	Reviewed wider workforce remuneration arrangements, policies and incentive plans to ensure alignment with the Company's strategy and culture.
Gender pay gap reporting	Reviewed the gender pay gap and considered a report by management on the proposed response (including the introduction of diversity scorecards).
CEO pay ratio reporting	Agreed the approach for calculating the CEO pay ratio (set out on page 129).
Review of Committee's terms of reference	Conducted a periodic review of the Committee's terms of reference and updated the same to reflect evolving best practice.

Performance in the year ended 31 December 2019 and implications for remuneration

In line with expectations, the Group's performance stabilised in 2019. Our performance and results follow the implementation of our "Pivot to Growth" execution model, establishing stronger operational excellence in core business processes, as well as the strategic orientation towards a more profitable organisation in the mid-term. Further details can be found on pages 18 to 21.

Based on performance, the Committee approved payouts under the 2019 annual bonus of 70.2% and 69.2% of maximum for the CEO and CFO respectively, as financial and personal performance were both above the threshold performance levels set at the start of the year. Karim Bitar's annual bonus was pro-rated for the period of his employment from 30 September 2019 to the end of the year.

2017 LTIP awards lapsed in full following the end of the year, as EPS and TSR performance over the three-year period to 31 December 2019 was below the threshold performance level set at the start of the period. Neither Karim Bitar nor Frank Schulkes held awards under this LTIP cycle.

During the year, the Committee determined the remuneration payable to Rick Anderson in his capacity as Executive Chairman (for the period from 9 May 2019 to 29 September 2019). The Committee was mindful in its determination of these arrangements that the Board wished Rick to resume his role as a Non-Executive Director following the conclusion of this interim appointment. After careful consideration of the guidance in the Code and criteria for independence determined by the Board, the Committee agreed that Rick's fee as Executive Chairman should remain fixed while reflecting the scope and scale of the role. Accordingly, he was paid a cash fee, was not eligible to participate in performance-related incentives and received no equity-based remuneration. On returning to his Non-Executive Director role, Rick's fee reverted to the fee policy for non-executive director remuneration in 2019.

The Committee also agreed the remuneration packages of John McAdam, our new Chairman and Karim Bitar, our new CEO, both with effect from 30 September 2019. Karim's package was considered within the parameters of our existing Remuneration Policy, as well as in relation to the scale and complexity of the role, his experience and proven track record. The buy-out awards made to Karim on his appointment replaced and, to the extent possible, replicated the value and structure of awards that were forfeited on leaving his previous employer. This approach is consistent with the provisions of our Policy.

Remuneration in 2020

The Remuneration Policy will be put to a binding vote at the 2020 AGM, and our Annual Report on Remuneration to an advisory vote. Details of how the proposed Policy will be implemented in 2020 are set out on pages 130 and 131.

On behalf of the Committee, I thank you for your support and trust you will find the Directors' Remuneration Report useful and informative. I hope that we can count on your support for the remuneration-related resolutions being put to shareholders at the 2020 AGM, where I will be available to respond to your questions on this Report. I also remain available to meet with shareholders and discuss our remuneration arrangements outside of the AGM.

On behalf of the Remuneration Committee

Dr Ros Rivaz
Chair of the Remuneration Committee
27 February 2020

Our remuneration at a glance

This section provides a summary of our proposed approach to remuneration in 2020 which is subject to shareholder approval at the forthcoming AGM.

Our remuneration principles

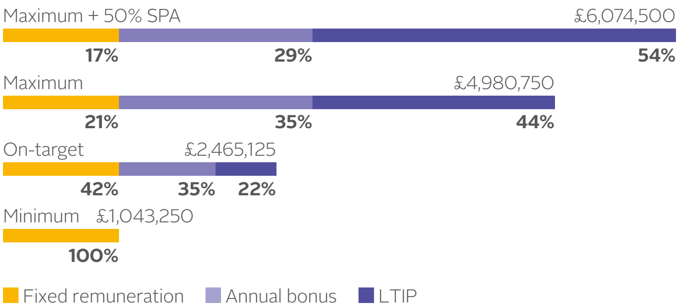
Incentivise sustained strong financial performance.	**Align rewards with the delivery of the Group's strategy.**	**Ensure employee alignment with the interests of shareholders and encourage widespread share ownership across the workforce.**	**Help attract, motivate and retain the best talent to deliver the Group's strategy and create long-term shareholder value.**	**Reflect market best practice and consistently adhere to principles of good corporate governance and encourage good risk management.**

Our approach to implementing our Remuneration Policy in 2020

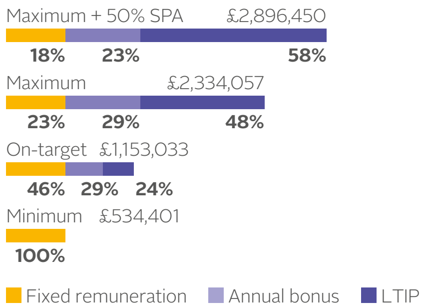
		Link to strategy
Base salary Reviewed annually	**Policy:** Benchmarked periodically against comparable roles at international MedTech peers, as well as UK-listed companies of similar size and complexity. In deciding base salary levels, the Committee considers personal performance including the individual's contribution to the achievement of the Group's strategic objectives. The Committee will also consider employment conditions and salary levels across the Group, and prevailing market conditions in the geographies in which the Group competes for talent. Any increases are normally aligned with those of the wider workforce, and effective from 1 April. **Changes to Policy for 2020:** None. **Implementation in 2020:** CEO: £875,000 (0% increase); CFO: £452,682 (2.51% increase).	Innovate Build
Pension and benefits	**Policy:** Executives may receive a contribution to a personal pension plan, a cash allowance in lieu or a combination thereof. Other benefits normally include car allowance, medical insurance and life insurance, and are set at a level considered appropriate taking into account market practice and consistent with the wider workforce. **Changes to Policy for 2020:** Any new Executive Director appointments will receive a company contribution to pension (or cash allowance in lieu) in line with that available for the wider workforce in the relevant market. **Implementation in 2020:** Unchanged from 2019 for the CEO and CFO. They receive a cash allowance of 15% of salary, and benefits including car allowance, private medical insurance, life insurance and permanent health insurance.	
Annual bonus **2020** Two-thirds paid in cash Cash bonus subject to clawback **2021–2023** One-third deferred in shares for three years Deferred shares subject to malus	**Policy:** Maximum opportunity: 200% of salary (target: 50% of maximum). Performance measures, targets and weightings are set at the start of each year. Financial performance will normally be weighted 80% of the overall opportunity, with the remainder (up to 20%) linked to the achievement of personalised strategic objectives. One-third of any bonus earned is deferred into shares for three years. Malus and clawback provisions apply. **Changes to Policy for 2020:** Flexibility around measure selection is redefined. At least 80% of the opportunity will be linked to financial performance, and personalised strategic objectives weighted no higher than 20%. **Implementation in 2020:** Maximum opportunity of 200% of salary for our CEO and 150% of salary for our CFO, based on: adjusted Group EBIT[1] (weighted 60%), adjusted free cash flow (20%), personalised strategic objectives (20%).	Focus Build Innovate Execute Simplify
Long-Term Incentive Plan **2020–2022** Three-year performance and vesting period Awards subject to malus **2023–2024** Two-year holding period Awards subject to clawback	**Policy:** Maximum opportunity: 250% of salary. Prior to awards being granted each year, the performance conditions and targets are agreed and set to ensure they remain appropriately stretching and aligned to the Group's strategy. 25% of an award will vest at threshold, with 100% vesting at maximum (and a straight-line sliding scale between these points). The minimum performance and vesting period is three years. A two-year post-vesting holding period will apply. Malus and clawback provisions apply under certain circumstances. **Changes to Policy for 2020:** Flexibility around measure selection is redefined, to help ensure that LTIP awards remain closely aligned with ConvaTec's strategic priorities for the relevant three-year period. **Implementation in 2020:** Award opportunity of 250% of salary for the CEO and 250% of salary for the CFO. Awards will vest subject to adjusted PBT growth (weighted 75%) and TSR versus the FTSE 350 excluding Investment Trusts (25%) over the three financial years to 31 December 2022.	Focus Simplify Execute
Shareholding requirement	**Policy:** Executives are required to build up shareholdings of 400% of salary for the CEO and 300% of salary for other Executive Directors. These must be retained until retirement from the Board. 50% of any net vested share awards (after sales to meet tax liabilities) must be retained until the minimum shareholding requirements are met. **Changes to Policy for 2020:** None.	Focus

2020 remuneration: performance scenarios[2]

CEO – Karim Bitar



CFO – Frank Schulkes

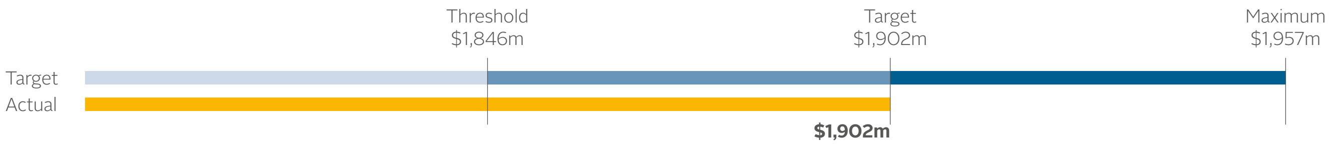


The above charts are based on the following assumptions:
"Maximum + 50% share price growth": fixed remuneration (salary, pension, other benefits), plus maximum bonus (CEO 200% of salary; CFO 150%) and full vesting of the 2020 LTIP awards (250% of salary, and reflecting 50% share price growth over the vesting period).
"Maximum": fixed remuneration (as above), plus maximum bonus (CEO: 200% of salary; CFO: 150%) and full vesting of 2020 LTIP awards (250% of salary).
"On-target": fixed remuneration as above, plus target bonus (50% of maximum) and threshold LTIP vesting (25% of maximum).
"Minimum": fixed remuneration only, being the only element of Executive Directors' remuneration not linked to performance.

2019 performance: at a glance

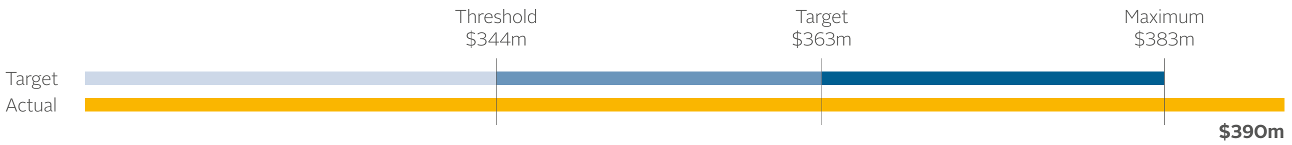
The charts below show how actual performance contributed to the bonus payouts for the Executive Directors for 2019:

Organic revenue growth[1] (40% weighting)



Outcome warranted by performance: 101% of element

Adjusted EBIT[1] (40% weighting)



Outcome warranted by performance: 200% of element

Karim Bitar's personalised strategic objectives (20% weighting)

Personalised strategic objectives set for 2019 covered the following areas:
- Strategy and operating model.
- High-performance leadership team.
- Vision and values.

Details of performance against the objectves set are on page 126

Outcome warranted by performance: 50% of maximum for this element.

Frank Schulkes' personalised strategic objectives (20% weighting)

Personalised strategic objectives set for 2019 covered the following areas:
- Group refinancing.
- Global Business Services.
- Business intelligence Phase 2.

Details of performance against the objectves set are on page 126

Outcome warranted by performance: 45% of maximum for this element.

2019 annual bonus outcomes – Karim Bitar

140% of 2019 salary (£312,000)

70% of maximum bonus opportunity.

2019 annual bonus outcomes – Frank Schulkes

104% of 2019 salary (£458,391)

69% of maximum bonus opportunity.

1. Performance measures are benchmarked on a constant currency basis and presented using a budget rate. In calculating the annual bonus outcome, the Remuneration Committee has exercised discretion in respect of certain items including relief for $8.9 million in relation to the one-off rebate provision taken in the first quarter to revise the estimate of the distributor rebate accrual offset by the net underspend versus budget in relation to specific projects including MDR ($1.6 million). Adjusted EBIT is also measured assuming an on-target Group bonus pay-out.
2. Percentages may not sum due to roundings.

Our Remuneration Policy

This section of the Directors' Remuneration report has been prepared in accordance with the Remuneration Reporting Regulations, and sets out details of the proposed 2020 Policy. The key changes compared with the 2017 Policy are set out in the Letter from the Chair of the Remuneration Committee on page 113. The proposed Policy will govern future payments that will be made to Directors, subject to shareholder approval at the AGM on 7 May 2020 ("2020 AGM"). If approved, the 2020 Policy will take effect immediately following the 2020 AGM. All remuneration (including payments made in relation to recruitment and loss of office) will only be made if they are consistent with the approved Policy in force at the time of payment or otherwise approved by ordinary resolution.

Details of how the Company implemented the 2017 Policy for the year ended 31 December 2019, and will implement the 2020 Policy for the year ending 31 December 2020, are provided in the Annual Report on Remuneration starting on page 124.

Remuneration principles

Incentivise sustained strong financial performance.

Align rewards with the delivery of the Group's strategy.

Ensure employee alignment with the interests of shareholders and encourage widespread share ownership across the workforce.

Help attract, motivate and retain the best talent to deliver the Group's strategy and create long-term shareholder value.

Reflect market best practice and consistently adhere to principles of good corporate governance and encourage good risk management.

2020 Remuneration Policy for the Executive Directors

Purpose and link to strategy	Operation	Opportunity	Performance measures
Base salary			
To attract and retain talented Executive Directors to deliver the Group's strategy, by ensuring base salaries and the implied total package are competitive in relevant talent markets, while not overpaying.	Base salaries will be reviewed by the Committee annually, and benchmarked periodically against comparable roles at international MedTech peers, as well as UK-listed companies of similar size and complexity. Any resulting changes are normally effective from 1 April, in line with the effective date for salary increases for the broader workforce. In deciding base salary levels, the Committee considers personal performance including the individual's contribution to the achievement of the Group's strategic objectives. The Committee will also consider employment conditions and salary levels across the Group, and prevailing market conditions in the geographies in which the Group competes for talent. Base salary increases for the Executive Directors will normally be aligned with those of the wider workforce, but may be made above this level in exceptional circumstances such as a material change in responsibilities, size or complexity of the role, or if a Director was intentionally appointed on a below-market salary.	The maximum salary payable to Executive Directors will be capped at the upper quartile of the benchmarking comparator group for the role under review. Salaries will be set on a case-by-case basis to reflect the role and the experience and qualifications of the individual. Base salaries for the year under review and the following year, as well as the rationale for any increases, will be disclosed in the relevant year's Annual Report on Remuneration.	n/a
Pension			
To provide an appropriate level of post-retirement benefit for Executive Directors in a cost-efficient manner, taking account of the provisions for the wider workforce.	Executive Directors may receive a contribution to a personal pension plan, a cash allowance in lieu, or a combination thereof. Salary is the only element of remuneration that is pensionable.	Karim Bitar and Frank Schulkes receive a Company contribution from the Group of 15% of salary. Executive Director appointments from 1 January 2020 will receive a Company contribution in line with that available for the wider workforce in the relevant market. Details of the pension contributions made to Executive Directors during the year are disclosed in the Annual Report on Remuneration.	n/a

Our Remuneration Policy continued

Purpose and link to strategy	Operation	Opportunity	Performance measures
Other benefits			
To provide non-cash benefits which are competitive in the market in which the Executive Director is employed.	The Group may provide benefits in kind including, but not limited to, a company car or car allowance, private medical insurance (or allowance in lieu), permanent health insurance, and life insurance. Executive Directors may also be provided certain other benefits to take account of individual circumstances such as, but not limited to, payment of financial, and/or legal adviser fees, expatriate allowance, relocation expenses, housing allowance and tax equalisation (including associated interest, penalties or fees plus, in certain circumstances or where the Committee consider it appropriate, any tax incurred on such benefits). Executive Directors may also be offered any other future benefits made available either to all senior employees globally or in the region in which the Executive Director is employed.	Benefits for Executive Directors are set at a level which the Committee considers appropriate compared to wider employee benefits, as well as competitive practices in relevant markets. The value of annual benefits will normally not exceed 10% of salary, and it is not anticipated that the costs of benefits provided will increase significantly in the financial years over which this Policy will apply, although the Committee retains discretion to approve non-material increases in cost. In addition, the Committee retains discretion to approve a higher cost in exceptional circumstances (e.g. to facilitate recruitment, relocation, expatriation, etc.) or in circumstances where factors outside the Group's control have changed (e.g. market increases in insurance costs). Benefits in respect of the year under review are disclosed in the Annual Report on Remuneration.	n/a
Annual bonus			
To incentivise Executive Directors to deliver strong financial performance on an annual basis and reward the delivery of the Group's strategic aims that will underpin the longer-term health and growth of the business. Deferral into shares enhances alignment with shareholders.	Performance measures, targets and weightings are set by the Committee at the start of the year. After the end of the financial year, the Committee determines the level of bonus to be paid, taking into account the extent to which these targets have been achieved. To the extent that the performance criteria have been met, one-third of the annual bonus earned will normally be compulsorily deferred into shares for a period of three years under the Deferred Bonus Plan. The remainder of the bonus will be paid in cash. Dividends may accrue on deferred bonus shares over the deferral period and, if so, will be paid on deferred shares at the time deferred shares are released to the Executive Director. Malus and clawback provisions apply to the annual bonus in certain circumstances (as set out in the Notes to the Policy Table).	The maximum annual bonus opportunity is 200% of base salary. The payout for on-target performance is 50% of maximum; threshold performance results in a payout of no more than 25% of maximum. The current maximum bonus opportunities for each of the Executive Directors are disclosed in the Annual Report on Remuneration.	Bonuses are based on a combination of stretching annual financial and non-financial/strategic performance measures, selected to reflect the Group's short-term KPIs, financial goals and strategic drivers. The financial element of the annual bonus will normally be weighted 80% of the overall bonus opportunity, with the remainder of the bonus linked to the achievement of personalised strategic objectives (and which shall not have a weighting of more than 20% of the overall bonus opportunity). The Committee may adjust the formulaic annual bonus outcomes (including to zero) to avoid unintended outcomes, align pay outcomes with underlying Group performance and ensure fairness to shareholders and participants. Further details will be disclosed in the relevant Annual Report on Remuneration. Performance targets set for each year will be disclosed retrospectively, usually in the Annual Report on Remuneration in respect of the year to which such performance targets relate.

Purpose and link to strategy	Operation	Opportunity	Performance measures
Long-Term Incentive Plan ("LTIP")			
To align the interests of Executive Directors and shareholders in growing the value of the Group over the long term.	Executive Directors are eligible to receive annual awards over ConvaTec Group Plc shares under the LTIP either in the form of conditional share awards or nil cost options. Prior to awards being granted each year, the performance conditions and targets are agreed and set to ensure they remain appropriately stretching and aligned to the Group's strategy. Awards granted under the LTIP to Executive Directors will have a performance period of three years and a minimum vesting period of three years. If no entitlement has been earned at the end of the relevant performance period, awards will not vest. Shares received as a result of an award vesting will normally be subject to an additional two-year holding period. Dividends may accrue on LTIP awards over the vesting period and, if so, will be delivered in shares that vest at the end of the vesting period. LTIP awards granted to Executive Directors will be subject to malus and clawback provisions, as set out in the Notes to the Policy Table.	The maximum annual LTIP opportunity is 250% of base salary. 25% of an award will vest if performance against each performance condition is at threshold and 100% if it is at maximum, with straight-line vesting in between. Further details of the LTIP awards granted to each of the Executive Directors will be disclosed in the relevant Annual Report on Remuneration.	Vesting of the LTIP is subject to continued employment during the performance period and the achievement of performance conditions aligned with the Group's strategic plan and shareholder value creation. Measures and their weightings will be determined by the Committee prior to making an award. The Committee may adjust the formulaic LTIP outcome to ensure it takes account of any major changes to the Group (e.g. as a result of M&A activity) and is a fair reflection of the underlying financial performance of the Group over the performance period. Further details, including the performance targets attached to the LTIP in respect of each year, will be disclosed in the relevant Annual Report on Remuneration.
Save-As-You-Earn ("SAYE") or equivalent scheme			
To align the interests of employees and shareholders by encouraging all employees to buy and own ConvaTec Group Plc shares.	Executive Directors are entitled to participate in the Group's all-employee share plan applicable to the jurisdiction in which they are based on identical terms as other eligible employees. A UK or Europe-based Executive Director may make monthly savings over a period of three or five years or other period set by any relevant tax authority linked to the grant of an option over Group shares. The option price will be set at a discount of up to 15% of the market value of the shares at grant (to align with similar all-employee arrangements in the US).	Employees are limited to saving a maximum in line with the maximum monthly savings limit imposed by the Committee (which will not exceed any limits imposed by legislation) at the time they are invited to participate.	n/a

Notes to the Policy Table

Malus and clawback policy

Malus and clawback may be applied to the annual bonus and LTIP awards in certain circumstances including:
- cases of fraud, negligence or gross misconduct by the Executive Director;
- material financial misstatement in the audited financial results of the Group;
- error in calculation; or
- other exceptional circumstances at the Committee's discretion.

Cash bonuses will be subject to clawback, with deferred shares being subject to malus, over the deferral period. LTIP awards will be subject to malus over the vesting period and clawback from the vesting date to the second anniversary of the relevant vesting date.

Share ownership guidelines

The Committee recognises the importance of aligning Executive Directors' and shareholders' interests through significant shareholdings in the Group. The Group's policy is to require Executive Directors to build up shareholdings worth 400% of base salary for the CEO, and 300% of base salary for other Executive Directors, and to retain these shares until retirement from the Board of Directors. 50% of any net vested share awards (after sales to meet tax liabilities) must be retained until the minimum shareholding requirements are met. Shareholdings will be valued at the higher of the acquisition price of the shares and the average share price over the last three months of the financial year.

Post exit shareholding requirement

The Committee further recognises the expectation of shareholders that a requirement is placed on Executive Directors to maintain a meaningful shareholding for a period of time after they leave the Company. The Committee believes that the current structure of the Deferred Bonus Plan and LTIP sufficiently supports this principle already; the release of unvested Deferred Bonus shares and vested-but-held LTIP awards is normally not accelerated for leavers ahead of the normal release/vesting date. For a good leaver, the pre-tax value of outstanding awards at cessation of employment could be up to 12x base salary. Where an Executive Director resigns (i.e. is a bad leaver), the pre-tax value of outstanding awards at that point could be up to 5x base salary. The Committee believes that the structure of our incentives adheres to the provisions of the Code that remuneration provides significant alignment with shareholder interests for a period after an Executive Director ceases to be employed by the Company. However, we acknowledge that market practice continues to evolve in this area and will keep our policy in this regard under periodic review.

Details of the Executive Directors' current personal shareholdings, and progress towards meeting the share ownership guidelines, are provided in the Annual Report on Remuneration.

Our Remuneration Policy continued

Use of discretion
The Committee may apply its discretion (as set out below) when agreeing remuneration outcomes, to help ensure that the implementation of our Remuneration Policy is consistent with the guiding principles for ConvaTec remuneration.

Payments from outstanding awards
The Committee reserves the right in certain circumstances to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) where the terms of the payment were agreed: before the Policy in force at that time came into effect; or at a time when the relevant individual was not a Director of the Group provided, that in the opinion of the Committee, the payment was not agreed in consideration of the individual becoming a Director of the Group. For these purposes, payments include the satisfaction of variable remuneration awards previously granted, but not vested, to an individual.

Minor changes to Policy
The Committee retains discretion to make minor, non-significant changes to the Policy set out above (for reasons including, but not limited to, regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without reverting to shareholders for approval for that amendment, where seeking such shareholder approval would be disproportionate to the discretion being exercised.

LTIP awards
The Committee may exercise its discretion as provided for in the LTIP rules approved by shareholders. The Committee may also adjust the number of shares comprising an LTIP award (or the exercise price if the award comprises options) in the event of a variation of share capital, demerger, special dividend, distribution or any other corporate event which may affect the current or future value of an award. It is intended that any adjustment will be made on a neutral basis, i.e. to not be to the benefit or detriment of participants. Any use of discretion by the Committee during a financial year will be detailed in the relevant Annual Report on Remuneration and may be the subject of consultation with the Group's major shareholders, as appropriate.

Remuneration Policy for the wider workforce
The Remuneration Policy for other employees is based on principles that are broadly consistent with those applied to Executive Director remuneration, with a common objective of driving financial performance and the achievement of strategic objectives, and contributing to the long-term success of the Group. Remuneration supports our ability to attract, motivate and retain skilled and dedicated individuals, whose contribution will be a critical factor in the Group's success. Annual salary reviews take into account Group performance, local pay and market conditions, and salary levels for similar roles in comparable companies. Pension entitlements and other benefits vary according to jurisdiction, to ensure these remain appropriately competitive for the local market.

Some employees below executive level are eligible to participate in annual bonus schemes; opportunities and performance measures vary by organisational level, geographical region and an individual's role. Employee ownership of ConvaTec Group Plc shares is promoted across the Group. Senior executives are eligible for LTIP awards on similar terms as the Executive Directors, although award opportunities are lower and vary by organisational level. Other executives are eligible for restricted share awards on a discretionary basis. ConvaTec also offers all employees the opportunity to participate in a share purchase plan, as approved by shareholders at the 2017 AGM.

Approach to target setting and performance measure selection
The Committee considers carefully the selection of performance measures at the start of each performance cycle, taking into consideration the Group's strategic objectives and the macroeconomic environment.

Annual bonus measures are selected to align with the Group's Financial KPIs (see pages 22 and 23). Adjusted EBIT and revenue growth in 2019 are benchmarked on a constant currency basis and presented using a budget rate. Measures may change from year to year (subject to the Remuneration Policy), and the rationale for any changes to the bonus measures selected will therefore be disclosed in the relevant Annual Report on Remuneration.

LTIP performance measures are selected to ensure they align with the Group's strategy and long-term shareholder value creation. LTIP awards to be granted in 2020 will be based on a blend of adjusted PBT performance and relative TSR over a three-year period. The Committee considers these measures to align executive and shareholder interests through a good balance between external and internal measures of performance, and between growth and returns in the context of the Group's strategy.

For 2020 LTIP awards, it is proposed that ConvaTec's TSR performance be measured relative to the FTSE 350 (excluding investment trusts). As part of its wider review of remuneration, the Committee assessed the ongoing appropriateness of the current TSR benchmark. Although the TSR benchmark for previous LTIP award cycles comprises ConvaTec's closest MedTech peers, the small number of constituents (now 12, following the acquisition by Becton Dickinson of C R Bard) was felt to be insufficiently robust. In particular, the Committee is mindful that vesting outcomes can be unduly sensitive to TSR clustering within a small comparator group, and therefore concluded that it would be more appropriate to use a published broader index for future award cycles.

Targets are set to be stretching but achievable over the three-year performance period, taking account of multiple relevant reference points, for example, internal forecasts, external expectations for future performance at both the Group and its closest sector peers, and typical performance ranges at other FTSE companies of comparable size and complexity. The Committee also retains discretion in exceptional circumstances to vary, substitute or waive the performance conditions attaching to incentive awards (within the relevant limits set out in the Policy table) if there is a significant and material event which causes the Committee to believe the original conditions are no longer appropriate, and the new performance conditions are deemed reasonable and not materially less difficult to satisfy than the original conditions.

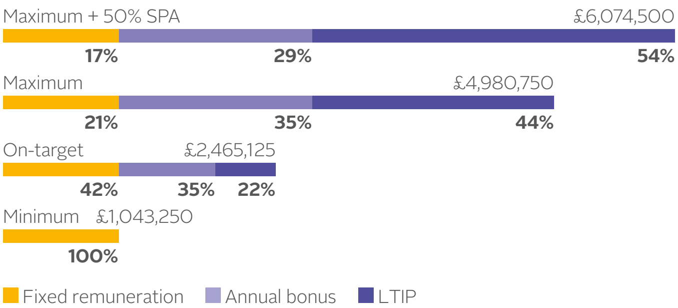
Pay-for-performance: scenario analysis[1]

The charts below provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under four different performance scenarios: "Maximum + 50% share price growth", "Maximum", "On target" and "Minimum".

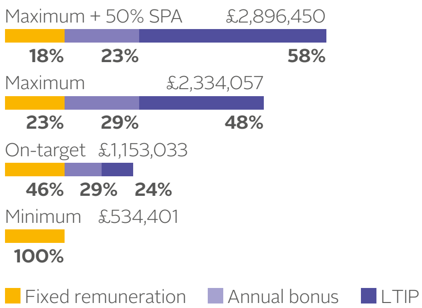
Potential reward opportunities are based on the forward-looking policy, applied to 2020 base salaries and incentive opportunities. Note that the LTIP awards granted in a year will not normally vest until the third anniversary of the date of grant, and the projected value of the "Maximum", "On target" and "Minimum" scenarios excludes the impact of share price movement.

Pay scenarios

CEO – Karim Bitar



CFO – Frank Schulkes



The above charts are based on the following assumptions:
"Maximum + 50% share price growth": fixed remuneration (salary, pension, other benefits), plus maximum bonus (CEO 200% of salary; CFO 150%) and full vesting of the 2020 LTIP awards (250% of salary, and reflecting 50% share price growth over the vesting period).
"Maximum": fixed remuneration (as above), plus maximum bonus (CEO: 200% of salary; CFO 150%) and full vesting of the 2020 LTIP awards (250% of salary).
"On-target": fixed remuneration as above, plus target bonus (50% of maximum) and threshold LTIP vesting (25% of maximum).
"Minimum": fixed remuneration only, being the only element of Executive Directors' remuneration not linked to performance.

Executive Director service contracts

In accordance with general market practice, each of the Executive Directors has a rolling service contract. Karim Bitar and Frank Schulkes have service contracts with the Company (copies of which are available to view at the Company's registered office) that are terminable on 12 months' notice from the Group and six months' notice from the Executive Director. This practice will also apply for any new Executive Directors. The following table shows the date of the service contract for each Executive Director that served during the year:

Executive Director	Position	Date of appointment	Date of service agreement
Karim Bitar	CEO	30 September 2019	24 March 2019
Frank Schulkes	CFO	1 November 2017	2 August 2017

Exit payments policy

The Group's policy on termination payments is to consider the circumstances on a case-by-case basis, taking into account the relevant contractual terms in the executive's service contract and the circumstances of termination. Executive Directors' contracts provide for the payment of a pre-determined sum in the event of termination of employment in certain circumstances (but excluding circumstances where the Group is entitled to dismiss without compensation), comprising base salary, pension allowance and benefits in respect of the unexpired portion of the notice period. Termination payments may take the form of payments in lieu of notice. Payments would normally be made on a phased basis and subject to mitigation. If the employment is terminated by the Group, the Committee retains the discretion to settle any other amount the Committee considers reasonable to the Executive Director including in settlement of claims, in respect of legal fees incurred in connection with the termination and fees for outplacement services and relocation costs.

In addition to contractual provisions, the table overleaf summarises how awards under each discretionary incentive plan are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion as provided under the rules of the plan. In the event of termination, any outstanding options granted under the SAYE, or equivalent, scheme will be treated in accordance with the rules of the scheme, which do not include discretion. Disclosure in relation to any departing Executive Director, including details of any remuneration payment made to him after he ceases to be a Director, will be made on the Company's website in accordance with Section 430(2B) of the Companies Act 2006.

1. Percentages may not sum due to roundings.

Our Remuneration Policy continued

Treatment of awards on cessation of employment

Reason for cessation	Calculation of vesting/payment	Timing of vesting/payment
Annual bonus		
Injury, disability, death, redundancy, retirement, or other such event as the Committee determines	The Committee may determine that a bonus is payable on cessation of employment (normally pro-rated for the proportion of the performance year worked) and the Committee retains discretion to determine that the bonus should be paid wholly in cash. The bonus payable will be determined based on the performance of the Group and of the individual over the relevant period, and the circumstances of the Director's loss of office.	At the normal payment date, taking into account actual Company performance for the performance period.
All other reasons (including voluntary resignation)	No bonus will be paid for the financial year.	Not applicable.
Deferred bonus shares		
Resignation or dismissal for cause	Awards normally lapse.	Not applicable.
All other reasons (e.g. injury, disability, death, redundancy, retirement, or other such event as the Committee determines)	Awards will normally vest in full (i.e. not pro-rated for time) unless the Committee determines that time pro-rating should apply.	At the normal vesting date, unless the Committee decides that awards should vest earlier (e.g. in the event of death).
Change of control	Awards will normally vest in full (i.e. not pro-rated for time). Awards may alternatively be exchanged for equivalent replacement awards, where appropriate.	On change of control.
LTIP awards		
Resignation or dismissal for cause	Awards normally lapse.	Not applicable.
All other reasons (e.g. injury, disability, death, redundancy, retirement, or other such event as the Committee determines)	Awards will normally be pro-rated for time (unless the Committee exercises discretion to disapply time pro-rating) and will vest based on performance over the original performance period (unless the Committee decides to measure performance to the date of cessation).	At the normal vesting date, unless the Committee decides that awards should vest earlier (e.g. in the event of death).
Change of control	LTIP awards will normally be pro-rated for time (unless the Committee exercises discretion to disapply time pro-rating) and will vest subject to performance over the performance period to the change of control. LTIP awards may alternatively be exchanged for equivalent replacement awards, where appropriate.	On change of control.

Approach to remuneration on recruitment

External appointments

In cases of hiring or appointing a new Executive Director from outside the Group, the Committee may make use of all existing components of remuneration set out in the Policy table, up to the disclosed maximum opportunities (where applicable).

When determining the remuneration package for a new Executive Director, the Committee will take into account all relevant factors based on the circumstances at that time to ensure that arrangements are in the best interests of the Group and its shareholders. This may include factors such as the experience and skills of the individual, internal comparisons and relevant market data.

The Committee may also make an award in respect of a new appointment to "buy-out" incentive arrangements forfeited on leaving a previous employer, i.e. over and above the maximum limits on incentive opportunities set out in the Policy table. In doing so, the Committee will consider relevant factors, including any performance conditions attached to these awards, the likelihood of those conditions being met, and the time over which they would have vested. The intention is that the expected value of any "buy-out" award would be no higher than the expected value of the forfeited arrangements, and that the structure will replicate (as far as reasonably possible) that of the awards being forfeited. The Committee may consider it appropriate to structure "buy-out" awards differently from the structure described in the Policy table, exercising its discretion under the LTIP rules to structure awards in other forms (including market value options, restricted shares, forfeitable shares or phantom awards) and may use the exemption permitted within the Listing Rules where necessary to make a one-off award to an Executive Director in this context.

Internal promotion

Where a new Executive Director is appointed by way of internal promotion, the Policy will be consistent with that for external appointees, as detailed above (other than in relation to "buy-out" awards). Any commitments made prior to an individual's promotion will continue to be honoured even if they would not otherwise be consistent with the Policy prevailing when the commitment is fulfilled, although the Group may, where appropriate, seek to revise an individual's existing service contract on promotion to ensure it aligns with other Executive Directors and good practice.

Disclosure on the remuneration structure of any new Executive Director, including details of any "buy-out" awards, will be disclosed in the RNS notification made at the time of appointment and in the Annual Report on Remuneration for the year in which recruitment occurred.

External appointments held by Executive Directors

Executive Directors may accept one external appointment subject to approval by the Board, there being no conflicts of interest and the appointment not leading to deterioration in the individual's performance. Executive Directors may retain the fees paid for such roles. Details of external appointments and the associated fees received will be included in the Annual Report on Remuneration.

Consideration of conditions elsewhere in the Group

The Committee seeks to promote and maintain good relations with employees as part of its broader employee engagement strategy, considers pay practices across the Group and is mindful of the salary increases applying across the rest of the business in relevant markets when considering any increases to salaries for Executive Directors. However, the Committee does not consult with employees on its executive remuneration policy.

Consideration of shareholder views

The Committee will take into consideration all shareholder views received during the year and at the Annual General Meeting each year, as well as guidance from shareholder representative bodies more broadly, in shaping the Group's implementation of its Remuneration Policy, as well as any future changes to Policy. It is the Committee's intention to consult with major shareholders in advance of making any material changes to remuneration arrangements for Executive Directors.

Remuneration Policy for the Non-Executive Directors

Details of the Policy on fees paid to our Non-Executive Directors are set out in the table below:

Purpose and link to strategy	Operation	Opportunity	Performance measures
Non-Executive Director fees			
To attract and retain Non-Executive Directors of the highest calibre with broad commercial and other experience relevant to the Group.	The fees of the Chairman are determined by the Committee. The fees paid to Non-Executive Directors are determined by the Chairman and Executive Directors. Additional fees are payable for acting as Senior Independent Director and for chairing or being a member of the Audit and Risk Committee or the Remuneration Committee. An additional fee is also payable for acting as a Board Level Representative for the workforce.	Fee increases will be applied taking into account the outcome of the annual review.	n/a
	Fee levels are reviewed annually (with any increases normally effective 1 April), taking into account external advice on best practice and competitive levels, in particular at other FTSE companies of comparable size and complexity. Time commitment and responsibility are also taken into account when reviewing fees. Chairman and Non-Executive Director fees are paid in cash. The Committee reimburses the Chairman and Non-Executive Directors for reasonable expenses in performing their duties and may settle any tax incurred in relation to these expenses. For any Non-Executive Director that is based overseas, the Group will meet travel and accommodation expenditure as required to fulfil their Non-Executive duties. The fees paid to the Chairman and Non-Executive Directors are disclosed in the Annual Report on Remuneration.	The maximum aggregate annual fee for all Non-Executive Directors (including the Chairman) as provided in the Group's Articles of Association is £1,500,000.	

Non-Executive Directors are not eligible to join the Group's pension, incentives or share schemes or to participate in any of the Group's other benefit arrangements.

In recruiting a new Non-Executive Director, the Committee will use the Policy set out above.

Non-Executive Director letters of appointment

None of the Non-Executive Directors has a service contract with the Group. They do have letters of appointment, and will be submitted for re-election annually. The dates relating to the appointments of the Chairman and Non-Executive Directors who served during the reporting period are as follows:

Director	Role	Date of appointment	Date of letter of appointment	Date of election/ re-election
Dr John McAdam	Non-Executive Chairman	30 September 2019	18 August 2019	N/A
Margaret Ewing[1]	Senior Independent Director	11 August 2017	17 August 2017	9 May 2019
Dr Ros Rivaz	Independent Non-Executive Director	21 June 2017	20 June 2017	9 May 2019
Dr Regina Benjamin	Independent Non-Executive Director	11 August 2017	15 August 2017	9 May 2019
Rick Anderson[2]	Non-Executive Director	31 October 2016	12 October 2016	9 May 2019
Sten Scheibye	Non-Executive Director	3 July 2018	3 July 2018	9 May 2019
Sir Christopher Gent[3]	Non-Executive Chairman	31 October 2016	18 October 2016	10 May 2018
Steve Holliday[4]	Deputy Chairman	31 October 2016	14 October 2016	10 May 2018
Jesper Ovesen[5]	Independent Non-Executive Director	31 October 2016	14 October 2016	9 May 2019

1. Margaret Ewing was appointed Senior Independent Director on 31 March 2019.
2. Rick Anderson's letter of appointment was amended on 8 November 2018 to reflect his increased fee following his appointment as Interim CEO. He returned to the role of Non-Executive Director on 30 September 2019.
3. Stepped down from the Board on 9 May 2019.
4. Stepped down from the Board on 31 March 2019.
5. Stepped down from the Board on 28 June 2019.

Our Annual Report on Remuneration

This section of the Remuneration report provides details of how our Remuneration Policy was implemented during the financial year ended 31 December 2019, and how it will be implemented during the year ending 31 December 2020. It has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). It also meets the requirements of the UKLA's Listing Rules.

In accordance with the Regulations, the following sections of the Remuneration Report are subject to audit: the single total figure of remuneration for Executive Directors and Non-Executive Directors, and accompanying notes (pages 125 and 128), scheme interests awarded during the financial year (page 127), exit payments made in the year (page 128), payments to past Directors (page 128) and the statement of Directors' shareholdings (page 131). The remaining sections of the report are not subject to audit.

Committee membership in 2019

Details about the membership of the Committee, the number of times it met during 2019 and attendance at its meetings are set out in the Committee Chair's letter on pages 113 to 114.

Committee responsibilities

The Committee's key areas of responsibility are also set out on page 112.

Committee performance evaluation

The Remuneration Committee conducted an evaluation of its performance in 2018, and identified the following areas of focus for 2019:

- Review the Committee's accountabilities, responsibilities and processes in the context of the latest Code (including the approvals process for items brought to the Committee between scheduled meetings, e.g. remuneration for new hires) and ensure these are appropriate for the Group.
- Ensure continued alignment of management incentives to the Group's strategy as it evolves, in the context of feedback received from stakeholders and the triennial review of our Remuneration Policy, as well as the appointment of the new CEO.

The results of our annual evaluation for 2019 indicated that these tasks had been completed during the year (or were completed in early 2020). Our 2019 evaluation also highlighted a number of areas for us to focus on for the coming year, including to:

- Keep under review the composition of the Committee to ensure it continues to benefit from the Board's wide-ranging and relevant experience.
- Continue to actively engage with shareholders, the Board, employees and other stakeholders on remuneration matters, as appropriate.
- Implement appropriately our new Remuneration Policy to deliver competitive and motivational remuneration that reinforces successful delivery of our stated strategy.

We will monitor our progress against these priorities and report on the outcome of the Committee's 2020 evaluation in next year's Annual Report.

Advisers

Mercer Kepler is the Committee's appointed independent advisor, having been appointed by the Committee at its first meeting following Listing in 2016. Mercer Kepler provides support to the Committee and the Group on remuneration-related matters, and reports to the Chair of the Committee. Mercer Kepler is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK (www.remunerationconsultantsgroup.com). Neither Mercer Kepler (nor its parent, Mercer) has any other remuneration-unrelated connection with the Group and is considered to be independent by the Committee. Fees paid to Mercer Kepler are determined on a time and materials basis, and totalled £85,083 (excluding expenses and VAT) for the 2019 financial year (2018: £49,250) in their capacity as advisers to the Committee.

Summary of shareholder voting

The following table shows the results at the 2019 AGM of the advisory vote on the 2018 Annual Report on Remuneration and the binding vote on the 2017 Remuneration Policy at the 2017 AGM.

Resolution	Vote 'for'	Vote 'against'	Votes withheld[1]
Approve the Directors' Remuneration Policy (2017 AGM)	99.45%	0.55%	338,007
To approve the Directors' Remuneration Report (2019 AGM)	61.55%	38.45%	377,814

1. Votes 'withheld' are not votes in law and, therefore, have not been included in the calculation of the proportion of votes 'for' or 'against' each resolution.

As announced earlier in the year, the Board was disappointed with the outcome of 61.55% votes in favour of the 2018 Annual Report on Remuneration. We engaged with a number of our shareholders and voting advisory agencies to discuss their questions and concerns in advance of the vote and, following the AGM, the Chair of the Committee consulted further with shareholders and offered to meet them to discuss their views and concerns where applicable. During this process (and as published via RNS in an Update Statement dated 7 November 2019), helpful feedback was received about the quantum of equity awards made in 2018 and 2019, annual bonus outcomes for 2018, the selection of long-term incentive and annual bonus measures, and salary levels. The Remuneration Committee welcomed this feedback and, as mentioned on page 113, has taken this into consideration in its review of the Remuneration Policy and its approach to implementing the Policy in 2020.

Single total figure of remuneration for Executive Directors (audited)

The following table sets out a single figure for the total remuneration received by each Executive Director for the 2019 financial year, and compares this with the equivalent figure for the 2018 financial year.

Director		Base salary '000	Taxable benefits[1] '000	Annual bonus[2] '000	LTIP '000	Pension benefit[3] '000	Other[4] '000	Total '000
Karim Bitar[5]	**2019**	**£222**	**£37**	**£312**	**n/a**	**£33**	**£6,274**	**£6,878**
	2018	–	–	–	–	–	–	–
Frank Schulkes	**2019**	**£439**	**£16**	**£458**	**n/a**	**£66**	**n/a**	**£979**
	2018	£430	£16	£116	n/a	£65	n/a	£627
Rick Anderson[6]	**2019**	**£938**	**£180**	**n/a**	**n/a**	**n/a**	**n/a**	**£1,118**
	2018	£235	£29	n/a	n/a	n/a	n/a	£264

1. For Karim Bitar and Frank Schulkes, benefits consist primarily of car allowance, private medical insurance, life assurance and permanent health insurance. For Karim, taxable benefits include a healthcare allowance of £30,000 payable per annum. The premium for 2019 was payable in October 2019 and is captured in full in the taxable benefits number for 2019. The next annual premium will be payable in October 2020.
2. Reflects the total bonus awarded for performance in the relevant financial year. One-third of the bonus earned by Karim Bitar and Frank Schulkes is deferred into shares for three years. See page 130 for further details.
3. Pension benefits in the year, equivalent to 15% of base salary.
4. Comprises the value of Restricted Share awards and a cash payment in respect of forfeited bonus, made in connection with Karim Bitar's appointment (see below for further details). Restricted Shares have been valued at the closing share price on the date of grant (175.20p on 30 September 2019). On this basis, the face value at grant was c.£5.19 million.
5. Appointed CEO effective 30 September 2019.
6. Appointed as Executive Chairman effective 9 May 2019. In his role as Interim CEO from 1 January 2019 to 8 May 2019, he received a fixed monthly fee of £91,667. In his role as Executive Chairman, he received a fixed monthly fee of £116,676. For the period from 1 January 2019 to 29 September 2019, he received benefits covering temporary housing costs (approximately £145,000) as well as travel expenses (approximately £35,000). Rick did not receive any pension contribution (or allowance in lieu), and was not eligible to participate in the annual bonus or the LTIP. The figures disclosed cover remuneration in relation to his executive roles for the period from 1 January to 29 September 2019.

Remuneration arrangements for the new CEO

Karim Bitar was appointed as CEO on 30 September 2019. In determining the package for Karim on his appointment, the Committee operated within the parameters of the existing remuneration policy, while taking into account the scale and complexity of the role, as well as Karim's extensive experience and proven track record.

The Committee set his salary at £875,000 (around upper quartile), with a pension contribution of 15% of salary. For 2019 Karim was eligible for an annual bonus of up to 200% of his pro-rated 2019 salary, with a mandatory deferral of one-third of the bonus into shares for a three-year period, and an annual LTIP award of 250% of his pro-rated 2019 salary, with a three-year performance period and additional two-year holding period. He has a minimum shareholding requirement of 400% of base salary.

In addition, consistent with the provisions of our Remuneration Policy, the Committee agreed to replace awards that were forfeited on his joining ConvaTec. Upon appointment, a buyout award comprising three tranches of shares was made, as follows:

- Restricted Share award of 1,869,647 shares which vested immediately. Karim sold a total of 879,817 shares to cover the income tax liability with respect to the awards which vested on 30 September 2019.
- Restricted Share award of 1,094,972 shares which will vest on 30 September 2020.
- Conditional Share award of 1,072,626 shares which will vest on 30 September 2021 to the extent that the performance conditions attaching to the 2019 LTIP cycle are met.

The details of this buyout award were agreed in early 2019 at the time of Karim's appointment, based on the prevailing share price at that time, to replicate (to the extent possible) the value and structure of awards forfeited.

Additionally, Karim received a cash payment in the value of £1,080,000, replacing the cash bonus forfeited in relation to his previous employment (of the same value).

Buyout awards

As set out above, Karim Bitar was awarded Restricted Shares and Conditional Shares to replace awards from his previous employer that were forfeited on his joining ConvaTec. Details of the three tranches are summarised in the table below.

Award	Date of grant	Number awarded	Award price	Face value £	Vesting date
Restricted Shares[1]	30 September 2019	1,869,647	175.20p	£3,275,622	30 September 2019
Restricted Shares[2]	30 September 2019	1,094,972	175.20p	£1,918,391	30 September 2020
Conditional Shares[3]	30 September 2019	1,072,626	175.20p	£1,879,241	30 September 2021

1. Restricted Shares vested on the grant date not requiring continued employment.
2. Restricted Shares vest subject to continued employment only. The number of shares comprising these awards were agreed in early 2019, but are valued above at the closing price on the date of the grant.
3. Conditional Shares awarded to Karim Bitar on 30 September 2019 vest subject to the same performance conditions as 2019 LTIP awards (set out in full on page 127).

Our Annual Report on Remuneration continued

Incentive outcomes for the year ended 31 December 2019 (audited)

Annual bonus in respect of performance in the 2019 financial year

For 2019, Karim Bitar had a maximum bonus opportunity of 200% of his 2019 pro-rated base salary and Frank Schulkes had a maximum opportunity of 150% of his 2019 base salary. Rick Anderson (in his roles of Interim CEO and Executive Chairman) was not eligible to participate in the annual bonus. Any payments under the annual bonus are normally payable two-thirds in cash and one-third in shares, deferred for three years. The on-target opportunity was 50% of maximum. The annual bonus for 2019 was based on a combination of organic revenue growth[1] (weighted 40%), Adjusted EBIT[1] (40%) and personal strategic objectives (20%).

The table below summarises the structure of the 2019 annual bonus, the targets set, our performance over the financial year and the resulting annual bonus payout.

	Performance targets						
Financial measure	Link to corporate strategy			Threshold 0% payout	Target 50% payout	Maximum 100% payout	Actual performance[1]
Organic revenue growth[1]	Focus	Build	Execute	$1,846m	$1,902m	$1,957m	$1,902m
Adjusted EBIT[1]	Focus	Innovate	Simplify	$344m	$363m	$383m	$390m

	Objectives and actual performance
Karim Bitar Personalised strategic objectives	– Strategy and operating model: introduced new Company strategy with five pillars to drive sustainable and profitable growth with detailed and robust KPIs. Changed the operating model which focuses on establishing Global Integrated Business Units, that are agile, customer oriented and have clear accountabilities. – Built a high-performance CELT. Assessed and acted at senior leadership level and attracted three new Executive leaders to ConvaTec, as well as numerous other senior leaders to transform ConvaTec. – Developed and rolled out new vison and values. Very actively engaged the whole organisation in aligning it in support of the new vision and established a set of values which focus on improving patient care and instilling an execution excellence culture.
Frank Schulkes Personalised strategic objectives	– Group debt refinancing (see page 57 for further information). The project was executed on an accelerated timeline and along agreed milestones, delivering facilities with a smaller group of relationship banks and with limited security. Delivered an associated Group structure. – Completed the end-to-end process and organisation design for the company to move to a Global Business Services model, which will commence implementation in 2020. – With the Interim CEO, co-developed the Transformation framework "Pivot to Growth" and successfully delivered Phase 2 of the business intelligence capabilities (cost, capex, sourcing).

				Earned bonus	
Director	Measure	Weighting	Maximum opportunity (% of salary)	(% of salary)	('000)
Karim Bitar	Organic revenue growth[1]	40%	80%	40.4%	£89,778
	Adjusted EBIT[1]	40%	80%	80%	£177,778
	Personalised strategic objectives	20%	40%	20%	£44,444
	Total	100%	200%	140.4%	£312,000
Frank Schulkes	Organic revenue growth[1]	40%	60%	30.3%	£133,808
	Adjusted EBIT[1]	40%	60%	60.0%	£264,966
	Personalised strategic objectives	20%	30%	13.5%	£59,617
	Total	100%	150%	103.8%	£458,391

1. Performance measures are benchmarked on a constant currency basis and presented using a budget rate. In calculating the annual bonus outcome, the Remuneration Committee has exercised discretion in respect of certain items including relief for $8.9 million in relation to the one-off rebate provision taken in the first quarter to revise the estimate of the distributor rebate accrual offset by the net underspend versus budget in relation to specific projects including MDR ($1.6 million). Adjusted EBIT is also measured assuming an on-target Group bonus pay-out.

One-third of the bonus earned by Karim Bitar and Frank Schulkes will be deferred into shares for three years. Details of this award will be disclosed in next year's Annual Report.

Scheme interests vesting in 2019

The time pro-rated 2017 LTIP award retained by Nigel Clerkin after he left the Group on 31 October 2017 lapsed in full at the end of the performance period. The Group's EPS and relative TSR performance over the three-year period to 31 December 2019 were below the threshold performance levels set at the start of the cycle and published in the 2017 Annual Report.

As disclosed last year, Paul Moraviec's 2017 LTIP award lapsed in full in April 2019, at the end of his contractual notice period. Neither Frank Schulkes nor Karim Bitar had an interest in the 2017 LTIP cycle.

Use of discretion

The Committee decided that no adjustments were needed in relation to the 2017 LTIP cycle.

Scheme interests awarded in 2019 (audited)

2019 LTIP awards

During the year ended 31 December 2019, the Executive Directors were awarded conditional share awards under the LTIP, details of which are summarised in the table below. Rick Anderson (in his roles of Interim CEO and Executive Chairman) was not eligible to receive any awards under the LTIP.

				Face value		
Director	Date of grant	Number awarded	Award price[1]	£	% of annualised salary	Vesting date
Karim Bitar[2]	30 September 2019	310,609	178.00p	£552,885	63%	30 September 2022
Frank Schulkes	8 August 2019	606,274	182.10p	£1,104,025	250%	8 August 2022

1. The LTIP face values are determined as a percentage of each Executive Director's salary and converted into numbers of conditional shares using the closing price on the trading day preceding the date of grant.
2. The award for Karim Bitar was based on 250% of annualised base salary, pro-rated for the period of employment from 30 September 2019 to 31 December 2019.

The performance conditions attached to these 2019 LTIP awards are set out in the table below.

			Vesting schedule	
Measure	Weighting	Performance period	£	% of annualised salary
Three-year Relative TSR against the following comparators: Ambu, Beckton Dickinson, Coloplast, Fresenius, Getinge, GN Store Nord, Integra Lifesciences, Smith & Nephew, Stryker, Teleflex, William Demant and Zimmer Biomet	1/3rd	1 January 2019 to 31 December 2021	< Median	0%
			Median	25%
			≥ 90th percentile	100%
			Straight-line sliding scale vesting between these points	
Three-year cumulative EPS (i.e. FY19 EPS + FY20 EPS + FY21 EPS)	1/3rd	1 January 2019 to 31 December 2021	< 39 cents	0%
			39 cents	25%
			≥ 49 cents	100%
			Straight-line sliding scale vesting between these points	
Three-year average Return on Invested Capital	1/3rd	1 January 2019 to 31 December 2021	< 7.0%	0%
			7.0%	25%
			≥ 9.0%	100%
			Straight-line sliding scale vesting between these points	

The definition of adjusted ROIC used in our LTIP is:

Adjusted ROIC = Adjusted Net Operating Profit after Tax (NOPAT) divided by Adjusted Invested Capital

Where:

Adjusted NOPAT = Adjusted EBIT less tax at the adjusted effective tax rate. Adjusted EBIT will be consistent with the definition previously published by the Company and excludes acquisition related amortisation expense. It also excludes items identified as non-recurring, infrequent or unusual in nature that management believes are not indicative of the underlying performance of the consolidated Group.

Adjusted Invested Capital = Net Assets excluding cash, debt and all amortisation related to the Group's historical acquisitions.

The impact of future acquisitions (including intangibles assets, amortisation and goodwill) will be captured in the calculations of both the numerator and denominator. However, the Remuneration Committee will review and consider adjusting for the impact of material mergers and acquisitions (M&A) activity on the Adjusted ROIC targets. Any adjustment will be made on the basis of ensuring neutrality of the LTIP to this M&A.

To the extent the 2019 LTIP awards vest, vested shares will be required to be held for a further two-year post-vesting holding period.

Fees retained for external non-executive directorships

Executive Directors may hold one external appointment and retain the fees paid for such role. During the year, Karim Bitar served as a Non-Executive Director of Spectris plc and received fees of £55,000 which he retained.

Our Annual Report on Remuneration continued

Single total figure of remuneration for Non-Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the 2019 and 2018 financial years.

	Fee		Total[1]	
Non-Executive Director	**2019 '000**	2018 '000	**2019 '000**	2018 '000
John McAdam[2]	**£81**	–	**£83**	–
Rick Anderson[3]	**£18**	£66	**£18**	£85
Ros Rivaz	**£109**	£84	**£111**	£85
Regina Benjamin	**£94**	£72	**£99**	£73
Margaret Ewing	**£123**	£84	**£124**	£84
Sten Scheibye[4]	**£60**	£30	**£62**	£30
Sir Christopher Gent[5]	**£143**	£400	**£144**	£402
Steve Holliday[6]	**£44**	£174	**£44**	£174
Jesper Ovesen[7]	**£53**	£106	**£54**	£106

1. In addition to the fees payable to each of the Directors, the Group reimburses reasonable expenses.
2. Joined the Board on 30 September 2019.
3. Rick Anderson was appointed as CEO on an interim basis on 15 October 2018, having served as a Non-Executive Director prior to that date. He stepped down as Interim CEO on 29 September 2019, returning to his Non-Executive Director role on 30 September 2019. Since that date, he has received an annualised fee of £72,000 per annum (his FY19 fees cover the period 30 September 2019 to 31 December 2019). His fees for FY18 cover the period 1 January to 14 October 2018. He receives no fees in relation to his other appointments, which are described on page 76.
4. Joined the Board on 3 July 2018 as Mr Kutay's replacement as the nominated director representative of Novo Holdings A/S.
5. Stepped down from the Board with effect from 9 May 2019.
6. Stepped down from the Board with effect from 31 March 2019.
7. Stepped down from the Board with effect from 28 June 2019.

Percentage change in CEO remuneration

The table below shows the percentage change in CEO remuneration (from 2018 to 2019) compared to the average percentage change in remuneration for all other employees over the same period.

Element of remuneration	CEO[1]	Average of employees[2]
Base salary	51%	3.2%
Benefits	343%	3.2%
Annual bonus	n/a	18,739%

1. The difference in base salary and benefits for the CEO compares the 2019 combined CEO remuneration for Rick Anderson (to 29 September 2019) and Karim Bitar (from 30 September 2019) to the combined CEO remuneration for Rick Anderson and Paul Moraviec in 2018. The Committee acknowledges that in the past two years ConvaTec has seen a number of changes in the incumbents and positions held by the Board and, as such, the figures above are not considered to be representative of the year-on-year change in remuneration that the Committee would normally expect to observe for a single incumbent. This year, the increases to both CEO salary and benefits are due to the remuneration structure agreed for Rick Anderson in his roles as Interim CEO and Executive Chair. We expect that next year's percentage change will continue to be impacted by the circumstances of 2019 but will become more representative in 2021 (i.e. once Karim has been in the role for two complete financial years).
2. The year-on-year increase in benefits reflects the Group's best estimate for the change in the average value of benefits for all employees. Although there was no change to benefits provision in 2019 compared to 2018, some benefits increased in value through being linked to employees' salaries. The increase in the value of annual bonus paid to employees reflects 2018 performance, which waranted the payment of bonuses to a small group of employees in Asia only. 2019 business performance warrants bonus payments to all eligible employees across ConvaTec.

Relative importance of spend on pay

The table below shows shareholder distributions (i.e. dividends and share buybacks) and total employee pay expenditure for the financial years ended 31 December 2018 and 31 December 2019, and the percentage change year-on-year.

	2019 $m	2018 $m	Year-on-year change
Total employee pay expenditure	**515**	473	9%
Shareholder distributions	**113**	112	1%

Exit payments made in the year (audited)

There were no exit payments made in the year.

Payments to past Directors (audited)

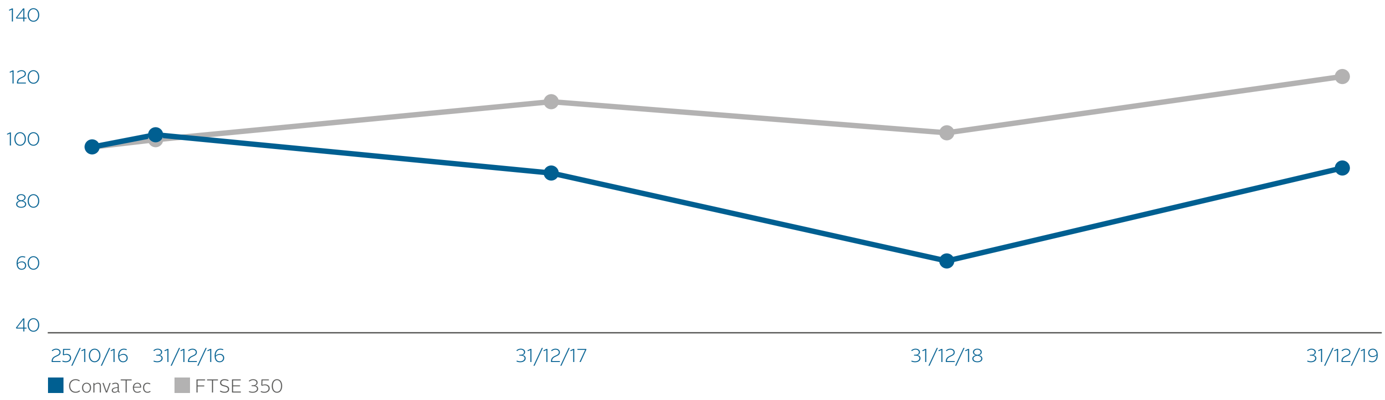
Paul Moraviec received contractual payments until he left the Group in April 2019. The total paid to Mr Moraviec in 2019 was £190,911. No further payments were (or are due to be) made to him.

Review of past performance

This graph shows the Group's Total Shareholder Return ("TSR") compared to the FTSE 350 Index. Performance, as required by legislation, is measured by TSR over the period from commencement of conditional dealing (26 October 2016) to 31 December 2019.

TSR chart for 2019 DRR – ConvaTec vs the FTSE 350 Index

Value of £100 invested on 25 October 2016 in ConvaTec and the FTSE 350 Index (£)



The table below details the CEO's single total figure of remuneration and incentive outcomes over the same period:

	2016	2017	2018	**2019**
Karim Bitar (from 30 Sept 2019)				
CEO single figure ('000)				**£6,878**
Annual bonus (% max.)				**70.2%**
LTIP vesting (% max.)				**n/a**
Rick Anderson (15 Oct 2018 – 29 Sept 2019)				
CEO single figure ('000)			£264	**£1,118**
Annual bonus (% max.)			n/a	**n/a**
LTIP vesting (% max.)			n/a	**n/a**
Paul Moraviec (to 14 October 2018)				
CEO single figure ('000)	£1,413	£917	£631	
Annual bonus (% max.)	40%	9%	n/a	
LTIP vesting (% max.)	n/a	n/a	n/a	

CEO pay ratio

The table below discloses the ratio of CEO pay for 2019, comparing the sum of the single total figures of remuneration for Karim Bitar and Rick Anderson (paid in relation to his tenure as Interim CEO and Executive Chairman during 2019) to the full-time equivalent total reward of those colleagues whose pay is ranked at the 25th, 50th and 75th percentiles in our UK workforce.

We chose Methodology Option A to calculate the ratio, as we believe it provides the best comparison of colleague pay with that of our CEO by using a consistent methodology to value remuneration and identify our colleagues ranked at the 25th, 50th and 75th percentiles. Colleague pay was calculated based on actual pay and benefits for the 12 monthly payrolls in respect of the full financial year to 31 December 2019. We are confident that the three colleagues identified are a true reflection of our UK workforce; none of these individuals received any additional or exceptional pay during 2019. We can also confirm that no adjustments were made to the calculation of the total remuneration for these employees from the methodology set out for the CEO's single total figure remuneration. Our pay ratios are set out below:

Year	Method	25th percentile	50th percentile	75th percentile
2019	Option A	**163:1**	**123:1**	**76:1**

This is the first year that ConvaTec has disclosed the pay ratio and, as such, we have no historic data against which to compare this year's ratios. However, the Committee is mindful of the change in CEO incumbent during the year and the implications of this on the ratios reported above (in particular the inclusion in the single figure of the CEO's "buyout" awards). Without sign-on bonus the CEO pay ratio would be at median 41:1, the median CEO pay ratio would be 83:1 if Karim Bitar had a "normal" full year at target. This context will be taken into consideration when reviewing the ratio next year and providing commentary on the year-on-year trend.

The table below provides information on the salary and total pay and benefits paid to our colleagues ranked at the 25th, 50th and 75th percentiles.

Year	Method	25th percentile	50th percentile	75th percentile
2019	Salary	**£23,500**	**£32,798**	**£39,542**
	Total pay and benefits	**£30,652**	**£40,601**	**£65,922**

Our Annual Report on Remuneration continued

Gender pay

Information about the Group's gender pay gap report for the year to April 2019 is provided on page 40 and on the Company's website at www.convatecgroup.com/investors/corporate-governance.

Implementation of Executive Director Remuneration Policy for 2020

Base salary

Karim Bitar's salary was set on the date of his appointment in 2019 and has not been increased for 2020. Following a review of Frank Schulkes' salary, the Committee decided to award an increase of 2.51% in line with the increases for the general employee population in the UK (increase effective 1 April 2020).

Director	Role	**2020**	2019
Karim Bitar	CEO	**£875,000**	£875,000
Frank Schulkes	CFO	**£452,682**	£441,610

Pension

Both Executive Directors will continue to receive a cash allowance of 15% of base salary in lieu of a pension contribution.

Annual bonus

For 2020, the CEO will continue to have a maximum bonus opportunity of 200% and the CFO will continue to have a maximum bonus opportunity of 150% of salary. The on-target bonus opportunity remains 50% of maximum. Two-thirds of any bonus earned will be paid in cash, with the remainder deferred into ConvaTec Group Plc shares for a further three-year period.

The annual bonus for 2020 will be based on the following measures and weightings:

Measure	Link to corporate strategy	Weighting
Adjusted EBIT[1]	Focus, Innovate, Simplify	60%
Adjusted free cash flow	Simplify, Execute	20%
Personalised strategic objectives	Focus, Build	20%

1. Performance measures are benchmarked on a constant currency basis, presented using a budget rate and assumes an on-target Group bonus payout.

The Committee believes the balance of financial measures for 2020 (as set out above) is appropriate to reflect the shift in emphasis in our strategy to profitable and sustainable growth. Upweighting EBIT ensures that the primary levers of the strategy (revenue (being volume, price and mix) and costs) are all captured in the assessment of short-term performance, while the EBIT performance targets have been set to require top-line growth in order to be met. Notwithstanding the simplification of the annual bonus, top-line performance is additionally emphasised in a number of the personalised strategic objectives that have been set for 2020 (and which will be disclosed retrospectively next year).

The Committee will normally disclose the annual bonus targets retrospectively in next year's Annual Report on Remuneration. In the event the Board considers these targets to remain commercially sensitive, they will be disclosed as soon as possible once they are no longer considered to be sensitive.

In line with our Policy, bonuses for the 2020 financial year will be subject to the Group's malus and clawback provisions (see page 119 for further details).

Long-Term Incentive Plan ("LTIP")

The Executive Directors will be eligible to receive conditional awards of shares under the ConvaTec LTIP in respect of 2020, with face values of 250% of salary for the CEO and CFO.

The 2020 LTIP will vest after three years, subject to the following targets:

Measure	Weighting	Threshold (25% vesting)	Maximum (100% vesting)
Three-year Relative TSR rank vs constituents of FTSE 350 excluding investment trusts	25%	Median	90th percentile
Three-year compound annualised growth in PBT	75%	TBD	TBD

For the 2020 cycle (as set out on page 120), ConvaTec's TSR will be measured relative to the FTSE 350 excluding investment trusts. Relative TSR will be measured over a three-year period (commencing 1 January 2020), calculated in GBP and using three-month averaging.

The three-year compound annualised growth rate in PBT will be linked to a new strategic plan and corresponding operating model for the next three years. Due to the recent launch of the new operating model, the targets for this measure for the LTIP have not yet been finalised at the time of this report going to print. The Committee expects to review and agree appropriately stretching PBT growth targets in the context of the new strategy and operating model early in Q2 2020 and to be able to make the LTIP grant to Karim Bitar and Frank Schulkes at that time. Details of the PBT and relative TSR performance ranges will be announced via RNS once they have been agreed. They will also be published on the Group's website and included in the 2020 remuneration report.

Implementation of Non-Executive Director Remuneration Policy for 2020

Non-Executive Director fees were set on Listing taking into account competitive practice for similar roles in other international MedTech companies and the FTSE 100. The Chairman's fee was reviewed and adjusted at the time of John McAdam's appointment in 2019. The current fees payable to the Non-Executive Directors are set out below:

Role	Fee
Chairman	£320,000
Non-Executive Director basic fee	£60,000
Additional fees:	
Senior Independent Director	£20,000
Chairman of the Audit Committee	£22,000
Chairman of the Remuneration Committee	£20,000
Membership of Board committees	£12,000
Fee for acting as a Board Level Representative	£10,000

Non-Executive Director fees will remain at these levels for 2020.

Directors' shareholdings (audited)

The table below sets out details of the current shareholdings of each Director (and any relevant connected persons) as at 31 December 2019 or the date of leaving. For Executive Directors, the current shareholding is compared to their shareholding guideline.

	Shares				Options			
	Owned outright or vested							
Director	31 December 2018	31 December 2019	Unvested and not subject to performance	Unvested and subject to performance	Vested but not exercised	Unvested and not subject to performance	Current shareholding[1] (% salary)	Shareholding guideline (% salary)
Current directors								
Karim Bitar	N/A	989,830	1,094,972	1,383,235			214%	400%
Frank Schulkes	165,000	165,000	35,335	1,308,840		9,782	72%	300%
Dr John McAdam	N/A	0						–
Rick Anderson	149,475	207,268						–
Dr Ros Rivaz	9,729	9,729						–
Dr Regina Benjamin	0	0						–
Margaret Ewing	0	0						–
Sten Scheibye	25,000	25,000						–
Former directors[2]								
Paul Moraviec	4,884,263	N/A						–
Sir Christopher Gent	150,000	150,000						–
Steve Holliday	88,889	88,889						–
Jesper Ovesen	133,889	133,889						–

1. Executive Director shareholdings calculated using a share price of 188.99p, being the average share price during the last three months of the 2019 financial year.
2. Reflects shareholding at the date the former Director stepped down from the Board.

Regina Benjamin purchased 10,000 shares on 8 January 2020. No further shares were acquired by the Directors between 31 December 2019 and 27 February 2020, being the latest practicable date prior to publication of this Annual Report.

Share scheme dilution limits

The Company complies with the guidelines laid down by the Investment Association. These restrict the issue of new shares under all the Company's share schemes in any ten-year period to 10% of the issued ordinary share capital and under the Company's discretionary schemes to 5% in any ten-year period. As at 31 December 2019, the headroom available under these limits was 10% and 5%, respectively.

The Directors' Remuneration Report has been approved by the Board and signed on its behalf by:

Dr Ros Rivaz
Chair of the Remuneration Committee
27 February 2020

Directors' report

The Directors present their Annual Report on the affairs of the Group, together with the Financial Statements and auditor's report, for the year ended 31 December 2019.

Taken together, the Strategic report on pages 2 to 67 and this Directors' report fulfil the requirements of the Disclosure and Transparency Rules to provide a management report.

Information incorporated by reference

The following information is provided in other sections of this Annual Report and is incorporated by reference.

Information	Section where provided	Page
Corporate governance	Corporate governance statements	72
	Nomination, Audit and Risk Committee reports	92 to 109
Post-balance sheet events	Financial Statements – Note 26	181
Likely future developments and research and development activities	Strategic report	2 to 67
Preparation and disclosure of Financial Statements and Annual Report	Directors' responsibilities statement	136
Use of financial instruments	Financial Statements – Note 21	177 and 178
Shares held by the Company's Employee Benefit Trust	Financial Statements – Note 15	169 and 170
Board membership and biographical details	Corporate governance report	76 and 77
Related party transactions	Financial Statements – Note 25	181
Employee engagement	Strategic report	38
Greenhouse emissions	Strategic report	41 to 44
Relationships with capital providers and other stakeholders	Governance section	79 and 80

Disclosure of information to the auditor

Each of the Directors, as at the date of this Annual Report, confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of Section 418 of the Companies Act 2006. Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the 2020 AGM.

Branches of the Company

The Group, through various subsidiary and related undertakings, has branches in a number of different jurisdictions in which the business operates. Further details are included in subsidiary undertakings on pages 194 to 196.

Dividends

We continue to target a pay-out ratio of between 35% and 45% of adjusted net profit. Our intention is to pay an interim and a final dividend in respect of each financial year in the approximate proportions of one-third and two-thirds, respectively, of the annual total dividend. We may periodically reassess this policy to reflect, among other things, our growth prospects, capital efficiency and the profitability of the Group, whilst also maintaining appropriate levels of dividend cover. Any decision to declare and pay dividends will be made at the discretion of the Directors and will depend on, among other things, applicable law, regulation, restrictions, realised distributable reserves available within the Group, the Group's financial position, working capital requirements, restrictions on dividends in the Group's banking facilities, finance costs, general economic conditions and other factors the Directors deem significant. During the year, the Directors resolved to pay an interim dividend of 1.717 cents per share on 17 October 2019. A scrip dividend alternative was offered in respect of the interim dividend allowing shareholders to elect by 23 September 2019 to receive their dividend in the form of new ordinary shares. On 17 October 2019, 6,159,842 ordinary shares of 10p each were allotted and issued by the Company to those shareholders who elected to receive the scrip dividend alternative. The Directors recommend a final dividend for the year of 3.983 cents per share (2018: 3.983 cents) which, together with the interim dividend, makes a total for the year of 5.700 cents per share (2018: 5.700 cents). The final dividend, if approved by the shareholders, will be paid on 14 May 2020 to shareholders on the register at the close of business on 3 April 2020. The total dividend for the year is outside our stated policy. The Directors are recommending a final dividend maintained at the same level as that paid in 2018 for the reasons outlined on page 4. The Directors note that in the near term the dividend pay-out ratio may be slightly above the target ratio as investment is made in the ongoing transformation of the Group.

Capital structure

Share capital

As at 31 December 2019, the Company's issued share capital consisted of 1,983,513,851 ordinary shares of 10p each. Further details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in Note 15 to the Financial Statements. As at 31 December 2019, the Company had only one class of share consisting of ordinary shares of 10p each.

Acquisition of Company's own shares

At the Company's AGM on 9 May 2019, the Directors' authority was renewed under shareholders' resolution to purchase through the market up to 10% of the Company's ordinary shares at a maximum price per share at the higher of: (i) an amount equal to 105% of middle market quotations of the price of shares for the five business days prior to the date of purchase; and (ii) an amount equal to the higher of the last independent trade and the highest current independent bid at the time of purchase. This authority expires at the Company's 2020 AGM and the Company will seek its renewal at the AGM. It is confirmed that no acquisition of the Company's own shares has been made under such authority.

Shareholders' rights

The rights attaching to the ordinary shares are governed by the Company's Articles of Association ("Articles") and prevailing legislation. There are no specific restrictions on the size of a holding. Subject to applicable law and the Articles, holders of ordinary shares are entitled to receive all shareholder documents, including notice of any general meeting, attend, speak and exercise voting rights at general meetings, either in person or by proxy, and participate in any distribution of income or capital.

Restrictions on voting

There are no specific restrictions on voting rights, save in situations where the Company is legally entitled to impose such restrictions (usually where amounts remain unpaid on shares after request, or the shareholder is otherwise in default of an obligation to the Company). Currently all issued ordinary shares are fully paid. There are no agreements between holders of securities in the Company that are known to the Company and may result in restrictions on transfer or on voting rights.

Restrictions on the transfer of ordinary shares

The transfer of ordinary shares is governed by the general provisions of the Company's Articles and applicable legislation. There are no restrictions on the transfer of ordinary shares other than: (i) as set out in the Articles; and (ii) certain restrictions which may from time to time be imposed by laws and regulations and pursuant to the Listing Rules whereby Directors and certain officers and employees of the Company require approval to deal in the ordinary shares in accordance with the Company's share dealing policies and the Market Abuse Regulation.

Directors' appointment, replacement and powers

The appointment and replacement of Directors of the Company is governed by its Articles, the Code, the Companies Act and related legislation. The Articles themselves may be amended by special resolution and subject to shareholder approval. Details of the powers of the Board and its Committees are described in the Corporate governance report on page 78. The powers of the Board are set out in the Articles and the Terms of Reference of each of the Board's committees set out their respective duties and responsibilities. The aforementioned documents can be found at www.convatecgroup.com/investors/corporate-governance.

Significant agreements

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, bank loan agreements, property lease arrangements and employees' share plans. Other than the Group's main funding agreements referenced below, none of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Group and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a change of control resulting from a takeover bid.

In the event of a change of control of the Company, the Group's main funding agreements allow the lenders to give notice of repayment for all outstanding amounts under the relevant facilities.

Directors' indemnities

The Group has made qualifying third party indemnity provisions for the benefit of its Directors, which were made during the year and remain in force at the date of this report.

Company Secretary

The Company Secretary provides ongoing support to the Board in relation to corporate governance issues and compliance with the Listing Rules. She is responsible for establishing, implementing and monitoring the corporate governance framework, attending all Board and committee meetings, advising on effective Board processes, advising on Directors' statutory duties, disclosure obligations and requirements under the Listing Rules, and working in conjunction with the investor relations team regarding dialogue with investors.

Political donations

No political donations, including to non-EU political parties, were made during the period. Information about the Group's lobbying and charitable activities is included in the Group's Corporate Responsibility Report, which is available on our website at www.convatecgroup.com/corporate-responsibility.

Substantial shareholdings

At 31 December 2019, the Company had been notified in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company.

Shareholder	No. of ordinary shares	Percentage of voting rights	Nature of holding
Novo Holdings A/S	395,318,793	20.25%	Direct holding
GIC Private Limited	176,899,232	8.9972%	Direct holding
BlackRock, Inc.	126,360,533	6.42%	Indirect holding/Financial instruments
Standard Life Aberdeen plc	100,871,229	5.13%	Indirect holding
The Capital Group Companies, Inc	97,418,767	4.9911%	Indirect holding
Artisan Partners Limited Partnership	97,980,658	4.98%	Indirect holding
Pelham Capital LTD.	93,526,729	4.71%	Direct holding/Financial instruments
Morgan Stanley		Below 3%	Direct holding/Financial instruments

Relationship agreement with controlling shareholders

Novo Holdings A/S ("Novo") became a significant shareholder on 31 March 2017 and the Company entered a relationship agreement with Novo on such date as required by Listing Rule 9.2.2A R(2)(a). Given its significant investment in the Company, Novo is entitled to appoint one Non-Executive Director to the Board for so long as they and their associates are entitled to exercise, or control the exercise of, 10% or more of the votes able to be cast on all or substantially all matters at general meetings of the Company. In the financial period to 31 December 2019 (and also from 31 December 2019 to 27 February 2020, being the latest practicable date prior to publication of this Annual Report), the Company has complied with the independence provisions of the relationship agreement, and so far as the Company is aware, Novo and their associates also complied with the independence provisions.

Diversity and inclusion

We are committed to creating a values-led, performance-driven culture which starts with our employees, and we aim to bring together a rich diversity of backgrounds, experiences, preferences and capabilities which unite together to improve people's lives through their work at ConvaTec. The Board considers a diverse workforce as critical to its success. Information about the Group's initiatives to achieve diversity across the business, including specific objectives, are contained on page 39 and in the Group's Corporate Responsibility Report for the year ended 31 December 2019, which is available on our website at www.convatecgroup.com/corporate-responsibility.

Employment of disabled people

Applications for employment by disabled people are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of anyone with a disability should, as far as possible, be identical to that of other employees.

Employee share schemes

In addition to the discretionary share schemes operated as part of the Group's long-term incentives, detailed in the Remuneration Policy on pages 117 to 123, the Group operates a global all-employee share scheme. The Directors believe that this scheme aligns the interests of employees and shareholders by encouraging all employees to buy and own shares in the Company, thus enabling them to benefit directly from the anticipated growth and success of the Group in the future.

Executive Directors may also participate in the UK all-employee share scheme, which is an HMRC approved savings-related share option plan, on the same basis as other eligible employees. All participants may invest up to the limits set in line with HMRC guidance and as operated by the Group.

Shares acquired through the Group's share plans rank pari passu with existing ordinary shares in issue and have no special rights with regards to voting, rights to dividend, control of the Company or otherwise.

All of the Group's employee share plans contain provisions relating to a change of control. On a change of control, options and awards granted to employees under the Group's share plans may vest and become exercisable, subject to the satisfaction of any applicable performance conditions at that time.

Listing Rules – compliance with LR 9.8.4R

The information required to be disclosed by LR 9.8.4R can be found in the following locations. There are no other disclosures required under this LR.

Section	Applicable sub-paragraph within LR 9.8.4R	Location
1	Interest capitalised	Group Financial Statements, Note 23 on pages 179 and 180
4	Details of long-term incentive schemes	Directors' Remuneration report, pages 112 to 131
14	Confirmation of relationship agreement	Directors' report, page 134

Annual General Meeting

The Annual General Meeting will be held at The Roseate Reading Hotel, Eden Room, 26 The Forbury, Reading, Berkshire RG1 3EJ, on Thursday 7 May 2020 at 11am. Notice of the meeting, containing details of the resolutions to be put to the meeting, will be available on the Group's website at www.convatecgroup.com/investors/reports/.

By order of the Board:

Clare Bates
Company Secretary
27 February 2020

ConvaTec Group Plc is registered in England No. 10361298

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

In preparing the parent company financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that Directors:
- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:
- the Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group and Company's performance and position, business model and strategy.

This responsibility statement was approved by the Board of Directors on 27 February 2020 and is signed on its behalf by:

Karim Bitar
Chief Executive Officer

Frank Schulkes
Chief Financial Officer

Financial Statements at a glance

Consolidated Income Statement

For the year ended 31 December 2019

	Notes	**2019 $m**	2018 $m
Revenue	2	**1,827.2**	1,832.1
Cost of sales		**(871.6)**	(858.3)
Gross profit		**955.6**	973.8
Selling and distribution expenses		**(433.0)**	(418.0)
General and administrative expenses		**(266.4)**	(238.2)
Research and development expenses		**(53.8)**	(49.9)
Other operating expenses	3	**(105.5)**	–
Operating profit	3	**96.9**	267.7
Finance costs, net	23	**(73.6)**	(65.2)
Non-operating expense, net	4	**(4.4)**	(1.3)
Profit before income taxes		**18.9**	201.2
Income tax (expense)/benefit	5	**(9.1)**	20.4
Net profit		**9.8**	221.6
Earnings per share			
Basic and diluted earnings per share ($ per share)	6	**$0.00**	$0.11

The accounting policies and notes on pages 143 to 181 form an integral part of the Consolidated Financial Statements. All amounts are attributable to shareholders of the Group and wholly derived from continuing operations.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Notes	**2019 $m**	2018 $m
Net profit		**9.8**	221.6
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to Consolidated Income Statement			
Remeasurement of defined benefit obligation, net of tax	13	**(3.5)**	(1.0)
Recognition of the pension assets restriction	13	**(0.6)**	0.4
Items that may be reclassified subsequently to Consolidated Income Statement			
Exchange differences on translation of foreign operations		**25.1**	(66.6)
Effective portion of changes in fair value of cash flow hedges	21	**(9.5)**	3.9
Changes in fair value of cash flow hedges reclassified to the Consolidated Income Statement	21	**(0.8)**	–
Income tax relating to items that may be reclassified		**2.8**	(1.3)
Other comprehensive income/(loss)		**13.5**	(64.6)
Total comprehensive income		**23.3**	157.0

All amounts are attributable to shareholders of the Group and wholly derived from continuing operations.

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 $m	2018 $m
Assets			
Non-current assets			
Property, plant and equipment	7	**321.6**	330.7
Right-of-use assets	1, 22	**84.5**	–
Intangible assets and goodwill	8	**2,166.9**	2,377.5
Deferred tax assets	5	**55.0**	22.9
Derivative financial assets	21	**1.0**	11.3
Restricted cash	20	**3.6**	2.4
Other non-current receivables		**8.9**	12.4
		2,641.5	2,757.2
Current assets			
Inventories	9	**281.8**	303.3
Trade and other receivables	10	**300.7**	284.3
Cash and cash equivalents	20	**385.8**	315.6
		968.3	903.2
Total assets		**3,609.8**	3,660.4
Equity and liabilities			
Current liabilities			
Trade and other payables	11	**289.3**	221.5
Borrowings	19	**40.8**	63.0
Lease liabilities	1, 22	**18.4**	–
Current tax payable		**44.6**	41.9
Provisions	12	**4.2**	4.5
		397.3	330.9
Non-current liabilities			
Borrowings	19	**1,445.3**	1,581.5
Lease liabilities	1, 22	**70.1**	–
Deferred tax liabilities	5	**107.8**	107.1
Provisions	12	**1.7**	1.5
Other non-current payables	11	**26.6**	22.2
		1,651.5	1,712.3
Total liabilities		**2,048.8**	2,043.2
Net assets		**1,561.0**	1,617.2
Equity			
Share capital	15	**242.9**	240.7
Share premium	15	**70.7**	39.8
Own shares		**(10.8)**	(6.8)
Retained deficit		**(847.7)**	(744.5)
Merger reserve		**2,098.9**	2,098.9
Cumulative translation reserve		**(99.1)**	(124.2)
Other reserves		**106.1**	113.3
Total equity		**1,561.0**	1,617.2
Total equity and liabilities		**3,609.8**	3,660.4

The Consolidated Financial Statements of ConvaTec Group Plc, company number 10361298, were approved by the Board of Directors and authorised for issue on 27 February 2020 and signed on its behalf by:

Frank Schulkes
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Notes	Share capital $m	Share premium $m	Own shares $m	Retained deficit $m	Merger reserve $m	Cumulative translation reserve $m	Other reserves $m	Total $m
At 1 January 2018		238.8	1.3	(8.1)	(850.0)	2,098.9	(58.4)	101.3	1,523.8
Net profit		–	–	–	221.6	–	–	–	221.6
Other comprehensive loss:									
Foreign currency translation adjustment, net of tax		–	–	–	(0.8)	–	(65.8)	–	(66.6)
Remeasurement of defined benefit obligation, net of tax	13	–	–	–	–	–	–	(1.0)	(1.0)
Recognition of pension assets restriction	13	–	–	–	–	–	–	0.4	0.4
Effective portion of changes in fair value of cash flow hedges, net of tax		–	–	–	–	–	–	2.6	2.6
Other comprehensive loss		–	–	–	(0.8)	–	(65.8)	2.0	(64.6)
Total comprehensive income		–	–	–	220.8	–	(65.8)	2.0	157.0
Dividends paid	16	–	–	–	(74.9)	–	–	–	(74.9)
Scrip dividend	15, 16	1.9	38.5	–	(40.4)	–	–	–	–
Share-based payments	17	–	–	–	–	–	–	11.2	11.2
Share awards vested		–	–	1.3	–	–	–	(1.3)	–
Excess tax benefits from share-based payments		–	–	–	–	–	–	0.1	0.1
At 31 December 2018		240.7	39.8	(6.8)	(744.5)	2,098.9	(124.2)	113.3	1,617.2
Net profit		**–**	**–**	**–**	**9.8**	**–**	**–**	**–**	**9.8**
Other comprehensive income:									
Foreign currency translation adjustment, net of tax		**–**	**–**	**–**	**–**	**–**	**25.1**	**–**	**25.1**
Remeasurement of defined benefit obligation, net of tax	13	**–**	**–**	**–**	**–**	**–**	**–**	**(3.5)**	**(3.5)**
Recognition of pension assets restriction	13	**–**	**–**	**–**	**–**	**–**	**–**	**(0.6)**	**(0.6)**
Effective portion of changes in fair value of cash flow hedges, net of tax		**–**	**–**	**–**	**–**	**–**	**–**	**(7.5)**	**(7.5)**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**25.1**	**(11.6)**	**13.5**
Total comprehensive income		**–**	**–**	**–**	**9.8**	**–**	**25.1**	**(11.6)**	**23.3**
Dividends paid	16	**–**	**–**	**–**	**(79.9)**	**–**	**–**	**–**	**(79.9)**
Scrip dividend	15, 16	**2.2**	**30.9**	**–**	**(33.1)**	**–**	**–**	**–**	**–**
Share-based payments	17	**–**	**–**	**–**	**–**	**–**	**–**	**14.2**	**14.2**
Share awards vested		**–**	**–**	**10.0**	**–**	**–**	**–**	**(10.0)**	**–**
Excess tax benefits from share-based payments		**–**	**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Purchase of own shares	15	**–**	**–**	**(14.0)**	**–**	**–**	**–**	**–**	**(14.0)**
At 31 December 2019		**242.9**	**70.7**	**(10.8)**	**(847.7)**	**2,098.9**	**(99.1)**	**106.1**	**1,561.0**

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	**2019 $m**	2018 $m
Cash flows from operating activities			
Net profit		**9.8**	221.6
Adjustments for			
Depreciation of property, plant and equipment	7	**35.5**	37.4
Depreciation of right-of-use assets	1, 22	**22.4**	–
Amortisation	8	**151.9**	152.6
Income tax expense/(benefit)	5	**9.1**	(20.4)
Non-operating expense, net	4	**4.4**	1.3
Finance costs, net	23	**73.6**	65.2
Share-based payment	17	**14.2**	11.2
Impairment/write-off of intangible assets	3, 8	**105.5**	–
Write-off of property, plant and equipment	7	**8.8**	–
Disposal of assets		**–**	3.4
Changes in assets and liabilities:			
Inventories		**20.4**	(33.1)
Trade and other receivables		**(13.9)**	6.7
Other non-current receivables		**1.8**	(1.6)
Trade and other payables		**43.8**	2.3
Other non-current payables		**(0.5)**	2.5
Net cash generated from operations		**486.8**	449.1
Interest paid		**(48.0)**	(61.3)
Income taxes paid		**(37.0)**	(35.8)
Net cash generated from operating activities		**401.8**	352.0
Cash flows from investing activities			
Acquisition of property, plant and equipment, capitalised software and development		**(61.4)**	(72.1)
Proceeds from sale of property, plant and equipment and other assets		**0.1**	4.3
Acquisitions, net of cash acquired	8	**(12.3)**	(14.4)
Change in restricted cash	20	**0.8**	1.3
Net cash used in investing activities		**(72.8)**	(80.9)
Cash flows from financing activities			
Repayment of borrowings	19	**(1,618.7)**	(153.7)
Proceeds from borrowings	19	**1,481.0**	–
Payment of lease liabilities[(a)]	1, 22	**(20.9)**	(0.8)
Purchase of own shares	15	**(14.0)**	–
Dividend paid	16	**(79.9)**	(74.9)
Net cash used in financing activities		**(252.5)**	(229.4)
Net change in cash and cash equivalents		**76.5**	41.7
Cash and cash equivalents at beginning of the year		**315.6**	289.3
Effect of exchange rate changes on cash and cash equivalents		**(6.3)**	(15.4)
Cash and cash equivalents at end of the year		**385.8**	315.6

(a) Payment of lease liabilities for the year ended 31 December 2019 includes $20.1 million of payments in respect of new leases recognised upon adoption of IFRS 16, *Leases*. In the year ended 31 December 2018, these payments were classified as operating leases and included in cash flows from operating activities. Payment of lease liabilities for the year ended 31 December 2018 relates to amounts previously classified as finance leases. Refer to Note 22 – Leases for further details.

Notes to the Consolidated Financial Statements

1. Basis of preparation

This section describes the Group's significant accounting policies that relate to the Consolidated Financial Statements and explains critical accounting judgements and estimates that management has identified as having a potentially material impact to the Group. Specific accounting policies relating to the Notes to the Consolidated Financial Statements are described within that note.

1.1 General information

ConvaTec Group Plc (the "Company") is a company incorporated in the United Kingdom under the Companies Act of 2006 with its registered office situated in England and Wales. The Company's registered office is 3 Forbury Place, 23 Forbury Road, Reading, RG1 3JH, United Kingdom.

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and therefore comply with Article 4 of the EU International Accounting Standards ("IAS") Regulations.

The Consolidated Financial Statements are presented in US dollars ("USD"), reflecting the profile of the Company and its subsidiaries' (collectively, the "Group") revenue and operating profit, which are primarily generated in US dollars and US dollar-linked currencies. All values are rounded to $0.1 million except where otherwise indicated.

Pages 2 and 3 provide further detail of the Group's principal activities and nature of its operations.

1.2 Significant accounting policies

The following significant accounting policies apply to the Consolidated Financial Statements as a whole:

Basis of accounting

The consolidated financial information has been prepared on a historical cost basis, except for certain financial instruments where fair value has been applied. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Basis of consolidation

The Consolidated Financial Statements include the results of the Company and all its subsidiary undertakings. Subsidiaries are entities controlled by the Group. Control exists when the Group: (i) has power over the investee; (ii) is exposed, or has rights, to variable returns from its involvement in the investee; and (iii) has the ability to use its power to affect its returns. The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The consolidated financial information of the Company's subsidiaries is included within the Group's Consolidated Financial Statements from the date that control commences until the date that control ceases and is prepared for the same year end date using consistent accounting policies.

Going concern

The Directors have, at the time of approving these Consolidated Financial Statements, a reasonable expectation that the Group and the Company have adequate liquid resources to meet its liabilities as they become due and will be able to sustain its business model and operational strategy and remain solvent for a period of at least 12 months from 27 February 2020. In October 2019, the Group refinanced its entire debt facilities to ensure adequate resources are secured to support the Group's future business, strategy and Transformation Initiative, therefore, the Directors continue to adopt the going concern basis in preparing these Consolidated Financial Statements.

Foreign currency translation and transactions

Assets and liabilities of subsidiaries whose functional currency is not US dollars are translated into US dollars at the rate of exchange at the period end. Income and expenses are translated into US dollars at the average rates of exchange prevailing during the year. Foreign currency gains and losses resulting from the translation of subsidiaries into US dollars are recognised in the Consolidated Statement of Other Comprehensive Income. Exchange differences arising from the translation of the net investment in foreign operations are taken to the cumulative translation reserve within equity. They are recycled and recognised in the Consolidated Income Statement upon disposal of the operation.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Any gain or loss arising from subsequent exchange rate movements is included as an exchange gain or loss in the Consolidated Income Statement.

Hyperinflation accounting

During the year ended 31 December 2019 and 31 December 2018, hyperinflation accounting was required for foreign operations with a functional currency of the Argentine peso as the conditions of IAS 29, *Financial Reporting in Hyperinflationary Economies* ("IAS 29") had been met. ConvaTec Argentina SRL is a subsidiary that has a functional currency of Argentine peso. However, the impact of adopting hyperinflation accounting is deemed immaterial for the Group and adjustments relating to IAS 29 have not been recognised.

1.3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements, in conformity with adopted IFRS, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported value of assets and liabilities, income and expense. Actual results may differ from these estimates or judgements of likely outcome. In preparing these Consolidated Financial Statements, two key sources of estimation uncertainty have been identified that could potentially have a material adjustment to the carrying amounts of assets and liabilities within the next financial year. No critical accounting judgements have been identified. No areas of critical accounting judgement or key sources of estimation uncertainty have been identified in relation to Brexit.

1. Basis of preparation (continued)

Impairment of finite-lived assets

As part of the Transformation Initiative, a product portfolio review has been undertaken which has resulted in the identification of impairment triggers in 2019 in relation to certain of the Group's intangible assets. As a result of these activities, an impairment review was performed in accordance with IAS 36, *Impairment of Assets*. This resulted in the Group recognising an impairment of $103.6 million for product-related intangible assets.

The impairment testing of finite-lived assets requires an assessment of the recoverable amount, which the Group determined to be fair value less costs to sell. The approach uses an excess earnings methodology where estimated future cash flows are discounted to their present value. A post-tax discount rate was based on the Group's weighted average cost of capital, adjusted to reflect the territory of the assets and risk and opportunity factors specific to the business model.

Management considers that the methodologies are robust and assumptions adopted in the valuation are supportable and reasonable. There are inherent sources of estimation uncertainty due to the inclusion of future cash flows in the valuation. IAS 1, *Presentation of Financial Statements,* requires disclosure of major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment in the next financial year.

The cash flows within the fair value model include benefits from the ongoing Transformation Initiative. Whilst management are confident in delivery of the transformation benefits, the fair value model includes an assessment of the value of the Transformation Initiative to a theoretical market participant at the valuation date. Given the early stage of the transformation, there is a reasonably possible outcome that the impact on the fair value associated with transformation activities could change in the next twelve months leading to an increase in the impairment charge of $13.0 million.

The cash flows within the fair value model also include estimates of future trading of the products related to the intangible assets. Management has assessed that there are reasonably possible increases in margin headwinds, which could negatively impact the recoverable amount and could lead to an increase in the impairment charge of $9.0 million.

Recognition of deferred tax assets

At 31 December 2019 the Group has recognised a deferred tax asset of $23.0 million following the Swiss tax reform, which was substantively enacted on 4 October 2019. The value of the deferred tax asset of $23.0 million has been calculated on a best estimate basis using a specific methodology that is permitted under Swiss law. Given the anticipated future transformative changes in the business, there is uncertainty in the calculation of the deferred tax position and this remains subject to review as a key source of estimation uncertainty. For further details on the estimation uncertainty with respect to the deferred tax asset recognised refer to Note 5.4 – Movement in deferred tax assets and liabilities.

1.4 Accounting standards

New standards and interpretations applied for the first time

On 1 January 2019, the Group adopted the following new or amended IFRS and interpretations issued by the IASB:
- IFRS 16, *Leases*
- IAS 19, *Plan Amendments, Curtailment or Settlement (Amendments to IAS 19)*
- IFRIC 23, *Uncertainty over Income Tax Treatments*
- *Annual Improvements of IFRS standards 2015-2017 Cycle (IFRS 3, IFRS 11, IAS 12, IAS 23)*

Their adoption has not had a material impact on the Consolidated Financial Statements, with the exception of IFRS 16, *Leases* ("IFRS 16"). Apart from these changes, the accounting policies set out in the Notes have been applied consistently to both years presented in these Consolidated Financial Statements.

IFRS 16

The Group adopted IFRS 16 on 1 January 2019, which introduced changes to lessee accounting by removing the distinction between operating and finance leases, and required the recognition of a right-of-use asset and a lease liability at the lease commencement for most leases.

The Group's operating leases impacted by IFRS 16 principally relate to real estate and vehicles.

Finance leases existing at the date of adoption continue to be treated as finance leases and have been reclassified from borrowings to lease liabilities in the Consolidated Statement of Financial Position. For operating leases existing at the date of adoption, the Group has applied the modified retrospective approach by measuring the right-of-use asset at an amount equal to the lease liability and therefore comparative information has not been restated. Upon transition the Group also applied the following practical expedients:
- Application of a single discount rate to a portfolio of leases with similar characteristics;
- Exclude initial direct costs from the right-of-use assets;
- Use hindsight when assessing the lease term; and
- Not to reassess whether a contract is or contains a lease.

The Group has elected to apply the recognition exemptions to all:
- Leases with a term of 12 months or less and containing no purchase options ("short-term leases"); and
- Leases where the underlying asset has a value of less than $5,000 ("low-value leases").

The lease liability was initially measured at the present value of the lease payments that were not paid at the transition date, discounted by using the rate implicit in the lease. If this rate could not be readily determined, the Group has used its incremental borrowing rate, which was 3.1% at the date of transition. Generally, the Group uses its incremental borrowing rate as the discount rate. Options such as lease extensions or terminations on lease contracts are considered on a case-by-case basis by regular management assessment. The right-of-use asset is being depreciated on a straight-line basis.

1. Basis of preparation (continued)

The following tables set out the reconciliation from operating lease commitments disclosed in the 2018 Consolidated Financial Statements and the financial impact of adopting IFRS 16 for the year ended 31 December 2019:

Reconciliation of lease liabilities

	$m
Operating lease commitments disclosed as at 31 December 2018	61.9
Add: changes in minimum lease term to expected lease term	15.7
Less: discounting using the lessees' incremental borrowing rate at the date of initial application	(11.8)
Lease liabilities recognised on adoption of IFRS 16	**65.8**
Add: finance leases recognised in borrowings as at 31 December 2018	23.7
Lease liabilities as at 1 January 2019	**89.5**
Lease additions	**21.9**
Payment of lease liabilities	**(20.9)**
Leases terminated	**(1.6)**
Interest expense on lease liabilities (Note 23)	**3.6**
Interest paid on lease liabilities	**(3.6)**
Foreign exchange	**(0.4)**
Lease liabilities as at 31 December 2019	**88.5**
Of which:	
Current lease liabilities	18.4
Non-current lease liabilities	70.1

Reconciliation of right-of-use assets

	$m
Right-of-use assets recognised on adoption of IFRS 16	65.8
Add: net book value of assets relating to finance leases recognised in PP&E as at 31 December 2018	21.1
Right-of-use assets as at 1 January 2019	**86.9**
Lease additions	**21.9**
Leases terminated	**(1.6)**
Depreciation of right-of-use assets	**(22.4)**
Foreign exchange	**(0.3)**
Right-of-use assets as at 31 December 2019	**84.5**
Of which:	
Real estate and other	68.6
Vehicles	15.9

Upon adoption of IFRS 16 at 1 January 2019, there was an increase in both deferred tax assets and deferred tax liabilities of $15.2 million.

For the year ended 31 December 2019, expenses related to short-term leases and low-value leases of $3.3 million were recognised in the Consolidated Income Statement.

The Group's Consolidated Income Statement for the year ended 31 December 2019 includes a net expense of $0.6 million as a result of adopting IFRS 16. Total cash outflow of lease liabilities including interest for the year ended 31 December 2019 was $24.5 million.

Refer to Note 22 – Leases for disclosure on the impact of IFRS 16 for the year ended 31 December 2019.

New standards and interpretations not yet applied

At the date of authorisation of these Consolidated Financial Statements, there were no new or revised IFRSs, amendments or interpretations in issue but not yet effective that are potentially relevant for the Group and which have not yet been applied.

Results of operations

This section includes disclosures explaining the Group's performance for the year, including segmental information, operating costs, other expenses, taxation and earnings per share.

2. Revenue and segmental information

2.1 Revenue recognition

The Group sells a broad range of products to a wide range of customers, including healthcare providers, patients and manufacturers. This note provides further information about how the Group generates revenue and when it is recognised in the Consolidated Income Statement.

Accounting policy

Revenue recognition

The Group measures revenue for goods sold based on the consideration specified in a contract with a customer, net of discounts, chargeback allowances and sales-related taxes. Revenue is recognised when control over a product or service is transferred to a customer, distributor or wholesaler, which is generally when goods have been delivered, as most products are insured to delivery. Due to the short-term nature of the receivables from sale of goods, the Group measures them at the original transaction price invoiced without discounting. The transaction price is the amount the Group expects to receive at that date.

Nature of goods and services

Advanced Wound Care, Ostomy Care, and Continence and Critical Care ("CCC") products are sold to pharmacies, hospitals and other acute and post-acute healthcare service providers directly or through distributors and wholesalers. Products are also sold directly to end customers through the Group's home delivery and home services entities. Infusion Care primarily serves business-to-business customers, consisting of the leading insulin pump manufacturers. A small proportion of its revenue is derived from business-to-business urology product sales.

In 2019 and 2018, no single customer generated more than 10% of the Group's revenue.

Nature, timing of satisfaction of performance obligations

Principally the Group's contracts with customers contain a single performance obligation, that is the delivery of products to customers. Revenue is typically recognised when the customer receives the product but is subject to the shipping terms in each individual contract. Where non-standard shipping arrangements exist, revenue is recognised when the goods have transferred control. Allowances for returns, where the contract specifies these terms, are made at the point of sale.

For sales to distributors, revenue is recognised when title is transferred to the distributor and the distributor has assumed control, the timing of which depends on the contractual terms with each distributor. Chargeback allowances or contractual deductions relating to end customer agreements, which may differ from distributor contracts, are made at the point of title transfer to the distributor.

A chargeback is derived when distributors buy products from ConvaTec at a contract price and sell these products to end customers at a price agreed with ConvaTec which is lower than the distributors' list price. The difference between the two contract prices is called a chargeback and a claim is submitted to ConvaTec by the distributor to keep the distributor whole. The provision for chargebacks is based on expected sell-through levels by the Group's wholesale customers to contracted customers, as well as estimated wholesaler inventory levels. Retrospective claims are reviewed against estimations to ensure provision levels are regularly updated.

Volume discounts

The Group offers certain prospective volume discounts to customers who achieve a specified volume amount or value of purchases in any given year. Volume discounts that meet the definition of a material right are recognised as a separate performance obligation. Material rights are the option to purchase additional products at a discount which would not have been given had the contract not been entered into and are incremental to the range of discounts typically given for those goods to that class of customer.

The stand-alone selling price of these volume discounts is based on the discount that the customer would obtain when exercising the option, adjusted for any discount the customer could receive without exercising the option and the likelihood that the option will be exercised. The revenue allocated to volume discounts is short-term in nature and recognised proportionally to the pattern of options exercised by the customer or when the option expires.

2. Revenue and segmental information (continued)

Contract costs

Incremental costs related to obtaining a contract with a customer principally relate to commissions paid by the Group to its sales representatives. Costs to fulfil contracts with customers are capitalised as an asset to the extent they directly relate to a specific contract, are used to generate or enhance resources used in satisfying performance obligations and are expected to be recovered.

The amortisation period for commissions can differ according to the contract term. Renewals of milestones in the contract are taken into account when determining the amortisation period. For each contract that has sales commissions paid, the Group has determined an appropriate amortisation period that is consistent with the transfer of control to the customer.

These capitalised costs amounted to $4.5 million at 31 December 2019 (2018: $3.3 million). In the year ended 31 December 2019, the amount of amortisation expense was $2.8 million (2018: $1.1 million). There was no impairment loss in relation to the costs capitalised.

Contract balances

The Group has contract liabilities that primarily relate to any advance consideration received from customers prior to transfer of the related products and material rights offered to customers for options to purchase additional goods. The contract liability balance at 31 December 2019 was $1.1 million (2018: $1.1 million).

2.2 Segment information

The Group's management considers its business to be a single segment entity engaged in the development, manufacture and sale of medical products and technologies. R&D, manufacturing and central support functions are managed globally for the Group. Revenues are managed both on a franchise and regional basis. This note presents management's view of the performance and activities of the Group as a single segment.

Pages 47 to 54 of the Strategic report provide further detail of franchise revenue.

The Group's CEO, who is the Group's Chief Operating Decision Maker, evaluates the Group's global product portfolios on a revenue basis and evaluates profitability and associated investment on an enterprise-wide basis due to shared geographic infrastructures and support functions between the franchises. Financial information relating to revenues provided to the CEO for decision-making purposes is made on both a franchise and regional basis, however profitability measures are presented and resources allocated on a Group-wide basis.

Revenue by franchise

The Group generates revenue across four major franchises.

The following chart sets out the Group's revenue for the year ended 31 December by franchise:

Revenue by franchise ($m)

Advanced wound care	**2019: $569.9m**	2018: $587.5m
Ostomy Care	**2019: $525.0m**	2018: $533.3m
Continence & Critical Care	**2019: $456.7m**	2018: $443.0m
Infusion Care	**2019: $275.6m**	2018: $268.3m

Geographic information

Geographic markets

The following chart sets out the Group's revenue in each geographic market in which customers are located:

Revenue by region ($m)

EMEA	**2019: $724.1m**	2018: $747.4m
Americas	**2019: $959.8m**	2018: $945.3m
APAC	**2019: $143.3m**	2018: $139.4m

Geographic information (continued)

Geographic regions

The following table sets out the Group's revenue on the basis of geographic regions where the legal entity resides, including countries representing over 10% of Group revenue and the UK, where the Group is domiciled:

	2019 $m	2018 $m
Geographic regions		
US	**643.9**	643.4
UK	**158.2**	166.1
Denmark	**271.9**	270.0
Other[(a)]	**753.2**	752.6
	1,827.2	1,832.1

(a) Other consists primarily of countries in Europe, Asia-Pacific ("APAC"), Latin America and Canada.

2. Revenue and segmental information (continued)

The following table sets out the Group's non-current assets by country:

	2019 $m	2018 $m
Long-lived assets[a]		
US	**1,176.7**	1,355.0
UK	**829.9**	820.9
Denmark	**249.7**	252.8
Other[b]	**316.7**	279.5
Total long-lived assets	**2,573.0**	2,708.2

(a) Long-lived assets consist of property, plant and equipment, right-of-use assets, intangible assets and goodwill.
(b) Other consists primarily of countries in Europe and Latin America.

3. Operating costs

The Group incurs operating costs associated with the day-to-day operation of the business. These operating costs are deducted from revenue to arrive at operating profit.

3.1 Operating profit

Operating profit is stated after deducting from revenue:

	Note	2019 $m	2018 $m
Depreciation:			
Property, plant and equipment	7	**35.5**	37.4
Right-of-use assets	22	**22.4**	–
Amortisation	8	**151.9**	152.6
Net loss on disposal of property, plant and equipment		**–**	3.4
Impairment/write-off of property, plant and equipment	7	**8.8**	–
Impairment/write-off of intangible assets[a]	8	**105.5**	–
Amounts related to inventory included in cost of sales		**714.9**	699.4
Adjustments to write-down inventory[b]		**17.1**	22.8
Lease expenses[c]	22	**3.3**	24.8
Staff costs:			
Wages and salaries		**420.9**	386.2
Share-based compensation expense	17	**14.2**	11.2
Social security costs		**55.3**	51.1
Defined contribution plan costs		**16.6**	16.3
Defined benefit plan costs	13	**1.8**	2.5
Recruitment and other employment-related fees		**6.1**	5.9
Total staff costs		**514.9**	473.2

(a) Other operating expenses, as disclosed in the Consolidated Income Statement represents impairment in relation to certain intangible assets of $105.5 million (Note 8 – Intangible assets and goodwill).
(b) Relates to adjustments to write down inventory to its net realisable value and is included in cost of sales.
(c) For the year ended 31 December 2019 lease expenses represent low-value leases and short-term leases. These expenses are permitted recognition exemptions in accordance with IFRS 16 and are defined in Note 1 – Basis of preparation. For the year ended 31 December 2018 this represents rentals payable under operating leases in accordance with IAS 17, *Operating Leases*.

The remuneration of the Executive Directors which is set out on pages 124 to 131, has been audited and forms part of these Consolidated Financial Statements.

3. Operating costs (continued)

3.2 Employee numbers

The average number of the Group's employees by function:

Employees by function

Operations	**2019: 5,812**	2018: 5,933
Sales and marketing	**2019: 2,643**	2018: 2,392
General and administration	**2019: 778**	2018: 845
R&D	**2019: 343**	2018: 327

The average number of the Group's employees by location:

Employees by location

EMEA	**2019: 3,962**	2018: 3,755
Americas	**2019: 5,072**	2018: 5,233
APAC	**2019: 542**	2018: 509

3.3 Auditor's remuneration

The total remuneration of the Group's auditor, Deloitte LLP, for services provided to the Group during the year ended 31 December is analysed as below:

	2019 $m	2018 $m
Fees for audit services		
Group	**0.9**	2.2
Subsidiaries	**3.0**	1.4
Total fees for audit services	**3.9**	3.6
Fees for non-audit services		
Audit-related assurance services	**0.2**	0.5
Other non-audit services	**–**	0.1
Total fees for non-audit services	**0.2**	0.6
Total auditor remuneration	**4.1**	4.2

A description of the work performed by the Audit and Risk Committee in order to safeguard auditor independence when non-audit services are provided is set out in the Audit and Risk Committee report on pages 95 to 109.

4. Non-operating expense, net

Non-operating expense, net was as follows:

	2019 $m	2018 $m
Foreign exchange losses[a]	**4.3**	2.9
Other expense/(gain)	**0.1**	(1.6)
Non-operating expense, net	**4.4**	1.3

(a) The foreign exchange losses in 2019 primarily relate to the translation of Euro denominated borrowings (refer to Note 19 – Borrowings). In 2018 foreign exchange losses relate to the foreign exchange impact on intercompany transactions, including loans transacted in non-functional currencies.

5. Income taxes

The note below sets out the current and deferred tax charges, which together comprise the total tax expense/benefit in the Consolidated Income Statement. The deferred tax section of the note also provides information on expected future tax charges or benefits and sets out the deferred tax assets and liabilities held across the Group.

Accounting policy

The tax expense/benefit represents the sum of current and deferred tax.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Taxable profit differs from reported profit because taxable profit excludes items that are either never taxable or tax deductible or items that are taxable or tax deductible in a different period.

Deferred tax

Deferred tax is recognised using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences:

- on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- arising on the initial recognition of goodwill;
- on investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to temporary differences when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Current tax and deferred tax for the year

Current tax and deferred tax are recognised in the Consolidated Income Statement, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current tax and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Tax provisions

The Group is subject to income taxes in numerous tax jurisdictions. Judgement is sometimes required in determining the worldwide provision for income taxes. There may be transactions for which the ultimate tax determination is uncertain and may be challenged by the tax authorities. The Group recognises liabilities for anticipated or actual tax audit issues based on estimates of whether additional taxes will be due. Where an outflow of funds to a tax authority is considered probable and the Group can make a reliable estimate of the outcome of the issue, management calculates the provision for the best estimate of the liability. In assessing its uncertain tax provisions, management takes into account the specific facts of each issue, the likelihood of settlement and the input of professional advice where required. The Group assumes that where a tax authority has a right to examine amounts reported to it, they will do so and will have full knowledge of all relevant information. Where the ultimate liability in result of an issue varies from the amounts provided, such differences could impact the current and deferred tax assets and liabilities in the period in which the dispute is concluded.

5. Income taxes (continued)

5.1 Taxation

The Group's income tax expense/(benefit) is the sum of the total current and deferred tax expense.

	2019 $m	2018 $m
Current tax		
UK corporation tax	**–**	–
Overseas taxation	**38.4**	56.2
Adjustment to prior years	**(1.5)**	(1.4)
Total current tax expense	**36.9**	54.8
Deferred tax		
Origination and reversal of temporary differences	**(26.4)**	(44.8)
Change in tax rates	**(4.0)**	(1.1)
Adjustment to prior years	**2.6**	(29.3)
Total deferred tax benefit	**(27.8)**	(75.2)
Income tax expense/(benefit)	**9.1**	(20.4)

The deferred tax benefit in 2019 relates predominantly to $23.0 million in relation to the tax impact following the enactment of the Swiss tax reform on 4 October 2019 which is effective from 31 December 2019. The change in tax rate relates mainly to changes in UK and Swiss tax rates in accordance with legislation that was substantially enacted on 31 December 2019. In 2018 the deferred tax benefit consisted of the recognition of previously unrecognised deferred tax assets in the US of $35.0 million following the enactment of the US Tax Cuts and Jobs Act on 22 December 2017, a release of a $30.4 million deferred tax liability in respect of unremitted earnings related to the Dominican Republic and a $10.2 million benefit in relation to the amortisation of pre-2018 intangibles.

5.2 Reconciliation of effective tax rate

The effective tax rate for the year ended 31 December 2019 was an expense of 48.1%, as compared with a benefit of 10.1% for the year ended 31 December 2018.

Tax reconciliation to UK statutory rate

The table below reconciles the UK statutory tax expense to the Group's total income tax expense/(benefit):

	2019 $m		2018 $m	
Profit before income taxes	**18.9**		201.2	
Profit before income taxes multiplied by rate of corporation tax in the UK of 19.0% (2018: 19.0%)	**3.6**		38.2	
Difference between UK and overseas tax rates[(a)]	**(13.6)**		(6.8)	
Non-deductible/non-taxable items	**2.6**		5.1	
Tax impact of impairment of certain intangibles assets	**24.6**		—	
Movement in unrecognised losses and other assets	**17.7**		(39.7)	
Tax amortisation of indefinite-life intangibles	**0.9**		5.2	
Taxes on unremitted earnings[(b)]	**0.6**		(30.4)	
Uncertain tax (benefit)/expense	**(5.3)**		10.5	
Deferred impact of the Swiss tax reform	**(23.0)**		—	
Other	**1.0**		(2.5)	
Income tax expense/(benefit) reported in the Consolidated Income Statement at the effective tax rate	**9.1**	**48.1%**	(20.4)	(10.1)%

(a) Includes changes in tax rates based on substantively enacted legislation across various tax jurisdictions as of 31 December 2019.
(b) The 2018 benefit relates predominately to the deferred tax liability release in respect of unremitted earnings related to the Dominican Republic.

The Group has worldwide operations and therefore is subject to several factors that may affect future tax charges, principally the levels and mix of profitability in different tax jurisdictions, transfer pricing regulations, tax rates imposed and tax regime reforms.

The calculation of the Group's tax expense therefore involves a degree of estimation in respect of certain items for which the tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process. In 2019, the Group provisions for uncertain tax positions relate mainly to transfer pricing positions and withholding tax liabilities. The net decrease in provisions during 2019 was driven by the reassessment of estimates and settlement of open tax issues with tax authorities in various jurisdictions.

The Group's effective tax rate in 2019 has also been influenced by a deferred tax benefit of $23.0 million arising from the Swiss tax reform, $17.7 million relating to tax losses where no deferred tax asset has been recognised and a tax expense of $24.6 million relating to the impairment of certain intangibles in the Group where no tax relief for the costs has been taken (refer to Note 8.1 – Intangible assets). In 2018, the Group's effective tax rate was mainly driven by the deferred tax benefits of $35.0 million in the US and $30.4 million in respect of unremitted earnings related to the Dominican Republic, both of which were non-recurring items.

5. Income taxes (continued)

5.3 Deferred tax

The components of deferred tax assets and liabilities at 31 December are as follows:

	2019 $m	2018 $m
Deferred tax assets	**55.0**	22.9
Deferred tax liabilities	**(107.8)**	(107.1)
Net position at the end of the period	**(52.8)**	(84.2)

The movement in deferred tax assets is principally due to $23.0 million of deferred tax asset recognised on the Swiss tax reform and $9.1 million relating to intra-group profits eliminated on inter-company inventory and other temporary differences.

5.4 Movement in deferred tax assets and liabilities

Deferred tax is measured on the basis of the tax rates enacted or substantively enacted at the reporting date. The UK corporation tax rate will reduce from 19.0% to 17.0% effective 1 April 2020 (in accordance with substantively enacted legislation). The movements in the deferred tax assets and liabilities were as follows:

	Inventory $m	Losses $m	PP&E $m	Intangibles $m	Unremitted earnings $m	Interest $m	Other $m	Total $m
At 1 January 2018	11.0	–	(9.0)	(134.6)	(30.6)	–	0.6	(162.6)
Movement in Income Statement[(a)]	2.0	53.1	6.2	(41.7)	30.4	14.5	10.7	75.2
Movement in other comprehensive income	–	–	–	–	–	–	(1.4)	(1.4)
Other	0.6	–	(2.1)	(2.7)	(0.4)	–	4.2	(0.4)
Foreign exchange	(0.5)	0.1	0.4	5.1	–	–	(0.1)	5.0
At 31 December 2018	**13.1**	**53.2**	**(4.5)**	**(173.9)**	**(0.6)**	**14.5**	**14.0**	**(84.2)**
Movement in Income Statement	**1.3**	**(5.7)**	**0.2**	**34.2**	**(0.6)**	**5.6**	**(7.2)**	**27.8**
Movement in other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**4.3**	**4.3**
Other	**(0.6)**	**–**	**–**	**(2.6)**	**–**	**–**	**3.4**	**0.2**
Foreign exchange	**0.1**	**–**	**0.3**	**(0.7)**	**–**	**–**	**(0.6)**	**(0.9)**
At 31 December 2019	**13.9**	**47.5**	**(4.0)**	**(143.0)**	**(1.2)**	**20.1**	**13.9**	**(52.8)**

(a) The 2018 balance includes previously unrecognised US deferred tax assets of $35.0 million and $30.6 million relates to prior year adjustment.

The net movement in deferred tax liability in relation to intangible assets in 2019 mainly relates to the impairment and amortisation in the year, and a deferred tax asset of $23.0 million recognised following the enactment of the Swiss tax reform. This deferred tax asset arises due to grandfathering provisions, which gives rise to future deductible amortisation on the step up of an intangible tax basis that the Swiss tax reform has introduced, with effect from 31 December 2019, to alleviate the higher Swiss tax rates that will apply from 1 January 2020. The $23.0 million deferred tax asset recognised represents management's best estimate of the impact of Swiss tax reform based on the information currently available. Given the future anticipated transformative changes in the business, there is significant estimation uncertainty in the appropriate valuation method and underlying assumptions and estimates that should be applied to calculate the deferred tax asset. The value of the asset recognised of $23.0 million has been calculated using a specific methodology that is permitted under Swiss law. This remains subject to review as a key source of estimation uncertainty and, therefore, to revaluation once the impact to the Swiss operations, as a result of the Group's Transformation Initiative, has been determined. It is not possible to provide numerical sensitivity disclosures or quantify ranges of potential outcomes; however, it is reasonably possible that outcomes within the next financial year could be different from the assumptions made at 31 December 2019 and could require a material adjustment to the carrying value of the asset.

Deferred tax on inventory predominantly relates to a deferred tax asset recognised on intra-group profits arising on inter-company inventory which are eliminated within the Consolidated Financial Statements. As intra-group profits are not eliminated from the individual entities' tax returns, a temporary difference arises that will reverse when inventory is sold externally.

Other net temporary differences include accrued expenses, employee costs and pensions for which a tax deduction is only available on a paid basis, and share-based payments.

To the extent that dividends remitted from overseas subsidiaries and branches are expected to result in additional taxes, appropriate amounts have been provided for. Deferred tax is not provided on temporary differences of $313.1 million (2018: $300.5 million) arising on unremitted earnings as management has the ability to control any future reversal and does not consider such a reversal to be probable.

5. Income taxes (continued)

5.5 Tax losses carried forward

The following table shows the total recognised and unrecognised tax losses carried forward, including expiration:

	2019			2018		
Country	**Indefinite**	**1 to 20 years**	**Total**	Indefinite	1 to 20 years	Total
UK	**39.6**	**–**	**39.6**	34.5	–	34.5
Luxembourg	**1,530.8**	**–**	**1,530.8**	1,565.5	–	1,565.5
US State Taxes	**23.2**	**213.4**	**236.6**	8.2	213.5	221.7
US Federal Tax	**35.5**	**337.0**	**372.5**	34.5	337.0	371.5
Other overseas	**6.0**	**52.0**	**58.0**	5.7	44.8	50.5
Total	**1,635.1**	**602.4**	**2,237.5**	1,648.4	595.3	2,243.7

In 2019, the movement in Luxembourg tax losses is mainly attributable to foreign exchange gains as the tax losses are Euro denominated.

Deferred tax assets are only recognised where it is probable that future taxable profit will be available to utilise the tax losses. Of the Group's total losses of $2,237.5 million, deferred tax assets have not been recognised on $1,917.2 million (2018: $1,984.9 million) of these losses.

6. Earnings per share

Basic earnings per share is calculated based on the Group's net profit for the year attributable to shareholders divided by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares is net of shares purchased by the Group and held as own shares.

Diluted earnings per share take into account the dilutive effect of all outstanding share options priced below the market price in arriving at the number of shares used in its calculation.

	2019	2018
Net profit attributable to the shareholders of the Group ($m)	**9.8**	221.6
Basic weighted average ordinary shares in issue (number)	**1,971,014,011**	1,956,085,112
Dilutive impact of share awards (number)	**5,142,363**	1,993,650
Diluted weighted average ordinary shares in issue (number)	**1,976,156,374**	1,958,078,762
Basic and diluted earnings per share	**$0.00 per share**	$0.11 per share

The calculation of diluted earnings per share excludes 10,066,660 (2018: 11,407,025) share options that were non-dilutive for the year because the exercise price exceeded the average market price of the Group's ordinary shares during the year.

Operating assets and liabilities

This section set outs the assets and liabilities that the Group holds in order to operate the business on a day-to-day basis, including long-term assets which generate future revenues and profits for the Group.

Liabilities relating to the Group's financing activities are addressed in "Capital structure and financial costs".

7. Property, plant and equipment

The Group invests in buildings, equipment and manufacturing machinery to operate the business and to generate revenue and profits. Assets are depreciated over their estimated useful economic life reflecting the reduction in value of the asset due, in particular, to wear and tear.

Accounting policy

Property, plant and equipment ("PP&E") are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of an asset including subsequent additions and improvements when it is probable that future economic benefit associated with the item will flow to the Group and the cost can be reliably measured.

Depreciation is provided on a straight-line basis from the point an asset becomes available for use. Depreciation is calculated to reduce the asset's cost to its residual value over the asset's estimated useful economic life. Assets are depreciated as follows:

Land	– not depreciated
Land improvements	– 15 to 40 years
Leasehold improvements	– shorter of useful life or lease tenure
Buildings	– 15 to 50 years
Machinery, equipment and fixtures	– 3 to 20 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds, less any selling expenses, and the carrying amount of the asset. This difference is recognised in the Consolidated Income Statement.

Assets under construction reflects the cost of construction or improvement of items of PP&E that are not yet available for use. Finance costs incurred in the construction of assets that take more than one year to complete are capitalised using the Group's weighted average borrowing cost during the period in which the asset is under construction. Capitalisation of finance costs ceases when the asset becomes available for use.

Consideration of useful economic lives

The assets' residual values, depreciation methods and useful economic lives are reviewed annually and adjusted if appropriate.

Impairment of assets

The carrying values of PP&E are reviewed for indicators of impairment annually or when events or changes in circumstances indicate the carrying value may be impaired. If any such indication exists, the recoverable amount of the asset is estimated, being the higher of an asset's fair value less costs to sell and the net present value of its expected pre-tax future cash flows ("value in use"). When an asset's recoverable amount falls below its carrying value, an impairment is charged to the Consolidated Income Statement.

7. Property, plant and equipment (continued)

The movement in the carrying value of each major category of PP&E is as follows:

	Land & land improvements $m	Building, building equipment and leasehold improvements $m	Machinery, equipment and fixtures $m	Assets under construction $m	Total $m
PP&E at cost					
1 January 2018	16.8	141.2	382.9	75.6	616.5
Additions	–	0.2	1.2	50.3	51.7
Disposals	(1.2)	(10.8)	(15.9)	(2.9)	(30.8)
Transfers	–	6.9	48.9	(55.8)	–
Foreign exchange	(0.7)	(4.8)	(14.4)	(3.4)	(23.3)
31 December 2018	**14.9**	**132.7**	**402.7**	**63.8**	**614.1**
Reclassification of right-of-use assets[(a)]	**–**	**(24.9)**	**(0.6)**	**–**	**(25.5)**
Additions	**–**	**0.4**	**1.5**	**52.7**	**54.6**
Disposals[(b)]	**–**	**(2.1)**	**(7.4)**	**(8.4)**	**(17.9)**
Transfers	**–**	**13.1**	**40.5**	**(53.6)**	**–**
Foreign exchange	**0.1**	**2.2**	**0.1**	**0.3**	**2.7**
31 December 2019	**15.0**	**121.4**	**436.8**	**54.8**	**628.0**
Accumulated depreciation					
1 January 2018	0.8	51.4	230.3	–	282.5
Depreciation	0.1	6.7	30.6	–	37.4
Disposals	(0.2)	(10.7)	(14.7)	–	(25.6)
Foreign exchange	(0.1)	(1.7)	(9.1)	–	(10.9)
31 December 2018	**0.6**	**45.7**	**237.1**	**–**	**283.4**
Reclassification of right-of-use assets[(a)]	**–**	**(4.0)**	**(0.4)**	**–**	**(4.4)**
Depreciation[(c)]	**0.1**	**5.5**	**29.9**	**–**	**35.5**
Disposals[(b)]	**–**	**(2.0)**	**(7.1)**	**–**	**(9.1)**
Foreign exchange	**0.1**	**0.8**	**0.1**	**–**	**1.0**
31 December 2019	**0.8**	**46.0**	**259.6**	**–**	**306.4**
Net carrying amount					
31 December 2018	14.3	87.0	165.6	63.8	330.7
31 December 2019	**14.2**	**75.4**	**177.2**	**54.8**	**321.6**

(a) Amounts previously recognised as finance lease assets have been reclassified to right-of-use assets upon transition to IFRS 16 on 1 January 2019. Refer to Note 22 – Leases for further details.
(b) Included within disposals is asset write-offs of $8.8 million following a reassessment by management of the ongoing value of certain projects.
(c) During the year, a review of the useful economic life of certain of the Group's manufacturing lines was undertaken resulting in an extension to the useful economic lives of some of the Group's manufacturing lines. The extension resulted in a decrease of $4.0 million in the depreciation charge in the year and is expected to decrease the depreciation charge by $3.4 million and $2.6 million in FY 2020 and FY 2021 respectively.

8. Intangible assets and goodwill

The split of intangible assets and goodwill is as follows:

	Note	2019 $m	2018 $m
Intangible assets	8.1	**1,101.3**	1,334.5
Goodwill	8.2	**1,065.6**	1,043.0
Intangible assets and goodwill		**2,166.9**	2,377.5

8.1 Intangible assets

The Group's intangible assets are those that have been recognised at fair value as part of business combinations, investment in product development and software purchased to support business operations. These are assets that are not physical in nature but can be sold separately or arise from legal rights.

During the year as part of the Transformation Initiative a review of the product portfolio has been undertaken which has resulted in the discontinuation of some product lines as well as the realignment of future investment. The review triggered a number of indicators for potential impairment of certain finite-lived assets held and has resulted in an impairment of $103.6 million. A further $1.9 million impairment charge has been recognised on trade names which ceased to be used in the year.

In addition, the Group has reviewed its intangible asset categorisations and presented an aggregation of categories which better reflect the complementary nature of the assets.

Accounting policy

Recognition

Measurement on initial recognition of intangible assets is determined at cost for assets acquired by the Group and at fair value at the date of acquisition if acquired in business combinations. Following initial recognition of the intangible asset, the asset is carried at cost less any subsequent accumulated amortisation and accumulated impairment losses.

Purchased computer software and certain costs of information technology are capitalised as intangible assets. Software that is integral to purchased computer hardware is capitalised as PP&E.

R&D

R&D expenses are comprised of all activities relating to investigative, technical, and regulatory processes related to obtaining appropriate approvals to market our products. Costs include payroll, clinical manufacturing and pre-launch clinical trial costs, manufacturing development and scale-up costs, product development, regulatory costs including costs incurred to comply with legislative changes, contract services and other outside contractors costs, research license fees, depreciation and amortisation of laboratory facilities, and laboratory supplies.

Research costs are expensed as incurred. Development costs are capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and use or sell the asset. Subsequent to initial recognition, development costs are measured at cost less accumulated amortisation and any accumulated impairment losses. Upgrades and enhancements are capitalised to the extent they will result in added functionality and probable future economic benefits.

Amortisation

Intangible assets with an indefinite life are not amortised. Amortisation of finite-lived intangible assets is calculated using the straight-line method based on the following estimated useful lives:

New asset category	Useful life	As previously reported
Product-related	3 to 20 years	Patents, trademarks and licences (3 to 20 years) Technology (10 to 18 years)
Capitalised software	3 to 10 years	
Customer relationships and non-compete agreements	2 to 20 years	
Trade names – finite	10 years	
Trade names – indefinite	indefinite	
Development costs	5 years	

Assets under construction reflects the cost of construction or improvement of intangible assets that are not yet available for use.

Impairment of assets

Finite-lived intangible assets are reviewed for indicators of impairment at each reporting period or when events or changes in circumstances indicate the carrying value may be impaired. If any such indication exists, the recoverable amount of the asset is estimated, being the higher of an asset's fair value less costs to sell and the net present value of its expected pre-tax future cash flows ("value in use").

When an asset's recoverable amount falls below its carrying value, an impairment is charged to the Consolidated Income Statement.

Refer to Note 8.4 – CGU impairment review for consideration of impairment of indefinite-lived intangible assets.

8. Intangible assets and goodwill (continued)

The movement in the carrying value of each major category of intangible assets is as follows:

	Product-related[a] $m	Capitalised software[b] $m	Customer relationships and non-compete agreements $m	Trade names $m	Development costs[c] $m	Assets under construction $m	Total $m
Intangibles at cost							
1 January 2018	2,135.9	87.9	298.3	259.7	10.8	8.4	2,801.0
Additions	0.1	3.3	0.4	–	–	9.6	13.4
Acquisitions	–	–	7.5	0.3	–	–	7.8
Disposals	–	–	(3.1)	–	–	–	(3.1)
Transfers	–	6.8	–	–	–	(6.8)	–
Foreign exchange[d]	(42.4)	–	(5.4)	(0.8)	(0.6)	(0.3)	(49.5)
31 December 2018	**2,093.6**	**98.0**	**297.7**	**259.2**	**10.2**	**10.9**	**2,769.6**
Additions	**–**	**5.0**	**0.1**	**–**	**–**	**8.2**	**13.3**
Acquisitions	**–**	**–**	**2.7**	**–**	**–**	**–**	**2.7**
Disposals	**–**	**(2.3)**	**(2.1)**	**–**	**(0.5)**	**–**	**(4.9)**
Transfers	**–**	**6.7**	**–**	**–**	**2.0**	**(8.7)**	**–**
Foreign exchange[d]	**24.3**	**0.2**	**(1.7)**	**(0.4)**	**(0.3)**	**–**	**22.1**
31 December 2019	**2,117.9**	**107.6**	**296.7**	**258.8**	**11.4**	**10.4**	**2,802.8**
Accumulated amortisation							
1 January 2018	1,116.8	68.6	119.9	2.6	5.8	–	1,313.7
Amortisation	120.7	8.2	22.1	0.5	1.1	–	152.6
Disposals	–	–	(3.0)	–	–	–	(3.0)
Foreign exchange[d]	(24.3)	(0.1)	(3.5)	(0.1)	(0.2)	–	(28.2)
31 December 2018	**1,213.2**	**76.7**	**135.5**	**3.0**	**6.7**	**–**	**1,435.1**
Amortisation	**118.4**	**9.4**	**22.0**	**1.1**	**1.0**	**–**	**151.9**
Disposals	**–**	**(2.3)**	**(2.1)**	**–**	**(0.5)**	**–**	**(4.9)**
Impairment	**103.6**	**–**	**–**	**1.9**	**–**	**–**	**105.5**
Foreign exchange[d]	**15.3**	**–**	**(1.2)**	**–**	**(0.2)**	**–**	**13.9**
31 December 2019	**1,450.5**	**83.8**	**154.2**	**6.0**	**7.0**	**–**	**1,701.5**
Net carrying amount							
31 December 2018	880.4	21.3	162.2	256.2	3.5	10.9	1,334.5
31 December 2019	**667.4**	**23.8**	**142.5**	**252.8**	**4.4**	**10.4**	**1,101.3**

(a) Product-related intangible assets are primarily comprised of patents, trademarks, licences and technological expertise that were acquired as a result of business combinations. The presentation of product-related intangible assets has been revised during the year ended 31 December 2019 to aggregate amounts that were previously presented separately as: Technology; and Patents, trademarks and licences. The revised presentation better reflects that these product-related intangible assets are complementary intangible assets with similar useful economic lives, which can be treated as single assets under IAS 38, *Intangible Assets*.
(b) Capitalised software relates to purchased software and internally generated software.
(c) Relates to internally generated development costs which have met the requirements of being in the development phase as defined in the Group accounting policy.
(d) Primarily relates to intangible assets denominated in Sterling.

As part of the Transformation Initiative a product portfolio review has been undertaken which has resulted in the identification of impairment triggers in relation to a number of the Group's intangible assets. As a result, the Group has identified an impairment indicator in respect of certain product-related intangible assets acquired as part of historical business combinations (previously disclosed as patents).

In accordance with the Group's impairment policy, the recoverable amount of the product-related intangible assets was assessed based on fair value less costs to sell. The fair value measurements are categorised as Level 3 in accordance with IFRS 13, *Fair Value Measurements*. Fair value was assessed using an income approach, reflecting the current market expectation over their remaining useful expected life. The approach uses estimated future cash flows deemed attributable to the asset, discounted to their present value using a post-tax discount rate that was based on the Group's weighted average cost of capital adjusted to reflect the territory of the assets. The post-tax discount rate used in the fair value calculation was 11.0%.

The Group has recognised an impairment of $103.6 million during the year ended 31 December 2019. Where a diminutive value was determined, the useful economic life ("UEL") was reviewed. No factors were deemed present for which to reassess the UEL.

8. Intangible assets and goodwill (continued)

During the year ended 31 December 2019, the Group refreshed the strategy of the HSG business by starting the transition to marketing through 180 Medical as a single trade name. As a result, trade names which ceased to be used during the year, with a net carrying amount of $1.9 million at 1 July 2019, were impaired (and written off). A further trade name was assessed to have a remaining useful economic life of two years under the revised strategy and was changed from indefinite-lived effective from 1 July 2019, resulting in an amortisation charge of $0.6 million in the year. A further $1.3 million of amortisation will be recognised in the year ended 31 December 2020.

Amortisation expenses related to finite-lived intangible assets for the year ended 31 December were as follows:

	2019 $m	2018 $m
Cost of sales	**122.6**	125.2
General and administrative expenses	**28.3**	26.3
Research and development expenses	**1.0**	1.1
Total amortisation expense	**151.9**	152.6

The carrying amount of indefinite-lived trade names at 31 December 2019 was $249.6 million (2018: $254.3 million). Each of these remaining trade names is considered to have an indefinite life, given the strength and durability of the current trade name and the level of marketing support. The trade names are in relatively similar stable and profitable market sectors, with similar risk profiles, and their size, diversification and market shares mean that the risk of market-related factors causing a reduction in the lives of the trade names is considered to be relatively low. The Group is not aware of any material legal, regulatory, contractual, competitive, economic or other factor which could limit their useful lives.

Individual intangible assets with a carrying value in excess of 10% of the total intangible asset carrying value were as follows:

	2019 $m	2018 $m	Remaining life
Trade names			
ConvaTec trade name	**234.6**	234.6	Indefinite
Product-related[(a)]			
Aquacel® including Hydrofibre®	**241.5**	267.8	6.6 years
Stoma care	**208.6**	277.2	6.6 years
Flexi-Seal™	**85.6**	148.1	6.6 years

(a) The presentation of product-related assets has been revised during the year ended 31 December 2019 to aggregate amounts that were previously presented separately as: Technology; and Patents, trademarks and licences. The revised presentation better reflects that these product-related intangible assets are complementary intangible assets with similar useful economic lives, which can be treated as single assets under IAS 38, *Intangible Assets*. Comparatives have been restated to reflect the revised presentation.

8.2 Goodwill

The Group recognises goodwill resulting from business combinations where there are future economic benefits from assets which cannot be individually separated and recognised. Goodwill represents the amount paid in excess of the fair value of the net assets of the acquired business.

Accounting policy

Refer to Note 8.3 – Acquisition for the Group accounting policy in relation to the initial valuation and recognition of goodwill.

Goodwill is not subject to amortisation but is tested for impairment annually or when events or changes in circumstances indicate the carrying value may be impaired. Refer to Note 8.4 – CGU impairment review for consideration of impairment of goodwill.

Goodwill is denominated in the functional currency of the acquired entity and revalued to the closing exchange rate at each reporting period date.

8. Intangible assets and goodwill (continued)

The changes in the carrying value of goodwill as at 31 December were as follows:

	Total $m
I January 2018	1,072.2
Additions	7.1
Foreign exchange	(36.3)
31 December 2018	**1,043.0**
Additions (Note 8.3)	**9.6**
Foreign exchange	**13.0**
31 December 2019	**1,065.6**

8.3 Acquisition

During the year, the Group completed the acquisition of the trade and assets of Southlake Medical Supplies Inc. ("Southlake"), an independent distributor of catheter-related supplies based in Texas. This note provides details of the transaction and the acquisition accounting that has been recorded to reflect the fair value of assets acquired and liabilities assumed as well as the intangible assets and goodwill recognised upon acquisition.

Accounting policy

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method of accounting. Consideration transferred in respect of an acquisition is measured at the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed on the date of the acquisition. Identified assets acquired and liabilities assumed are measured at their respective acquisition-date fair values.

The excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired is recorded as goodwill. If the fair value of the identifiable net assets acquired is greater than the fair value of the consideration given, the excess is recognised immediately in the Consolidated Income Statement as a bargain purchase gain. Acquisition-related costs are expensed as incurred.

The operating results of the acquired business are reflected in the Group's Consolidated Financial Statements from the date of acquisition.

On 1 October 2019, the Group acquired the trade and assets of Southlake for cash consideration of $12.3 million, no deferred consideration is payable. The Group incurred $0.6 million of transaction costs directly related to the Southlake acquisition through to 31 December 2019, which includes expenditure for advisory, legal, valuation, accounting and other similar services. These costs have been expensed as acquisition-related costs.

Identifiable assets acquired and liabilities assumed

The fair value of identifiable assets acquired and liabilities assumed were as follows:

	$m
Intangible assets	2.7
Fair value of assets acquired and liabilities assumed	–
Net identifiable assets acquired	2.7
Goodwill	9.6
Total purchase consideration	12.3

The amounts and useful lives assigned to intangible assets were as follows:

	Useful lives (years)	Provisional amounts recognised as of acquisition date $m
Finite-lived intangible assets:		
Customer relationship	3 years	2.7
Total intangible assets		2.7

If new information obtained within one year of the date of acquisition, regarding the facts and circumstances that existed at the date of acquisition, identifies adjustments to the above amounts then the accounting for the acquisition will be revised.

8. Intangible assets and goodwill (continued)

The goodwill recorded represents the cost savings, operating synergies and future growth opportunities expected to result from combining the operations of Southlake with those of the Group and intangible assets that do not qualify for separate recognition. The provisional amount of goodwill has been allocated to the HSG CGU.

Southlake contributed revenue of $1.0 million and operating profit of $0.4 million for the period between the date of acquisition and 31 December 2019. If the acquisition had taken place at 1 January 2019, reported Group revenue would have been $4.0 million higher, with a $1.8 million increase in operating profit for the year ended 31 December 2019 (excluding any potential synergies that would have been realised during the period).

8.4 Cash generating unit ("CGU") impairment review

An impairment assessment is required to be performed annually for goodwill and indefinite-lived intangibles or when events or changes in circumstances indicate the carrying value may be impaired. An impairment is a reduction in the recoverable amount of an asset compared to the carrying value of the asset. Recoverable amount is the higher of value in use and fair value less costs to sell.

This note provides details of the annual impairment assessment that has been performed.

Accounting policy

For impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Additionally, goodwill arising from a business combination is allocated to a CGU or groups of CGUs that are expected to benefit from the synergies of the combination. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The recoverable amounts of the CGUs are determined based on value in use calculations, which reflect the estimated future cash flows of each CGU discounted by an estimated weighted average cost of capital that represents the rate of return an outside investor would expect to earn. This discount rate is based on the weighted average cost of capital for comparable public companies and is adjusted for risks specific to the CGU including differences in risk due to its size, geographic concentration and trading history.

Future cash flows are determined using the latest available Board approved forecasts and strategic plans. These forecasts and strategic plans are based on specific assumptions for each CGU during the five-year planning period with respect to revenue, results of operations, working capital, capital investments and other general assumptions for the projected period. The forecast assumptions that derive the future cash flows are based on the historical results of each CGU combined with external market information and defined strategic initiatives.

If identified, impairment losses are recognised in the Consolidated Income Statement. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the remaining assets in the CGU, on a pro-rated basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The Group has not recognised any impairment reversals in 2019 or 2018.

The Group has identified six CGUs in applying the provisions of IAS 36, *Impairment of Assets:* (i) Americas, (ii) HSG, (iii) EMEA, (iv) APAC, (v) Infusion Care, and (vi) Industrial Sales.

Goodwill and indefinite-lived intangible assets are allocated to the Group's CGUs as follows:

	Goodwill		Indefinite-lived intangible assets	
	2019 $m	2018 $m	**2019 $m**	2018 $m
CGUs				
Americas	**15.3**	15.3	**234.6**	234.6
HSG	**330.6**	321.1	**–**	4.4
EMEA	**632.3**	616.4	**–**	–
Infusion Care	**48.6**	51.1	**13.3**	13.5
Industrial Sales	**38.8**	39.1	**1.7**	1.8
Total	**1,065.6**	1,043.0	**249.6**	254.3

Impairment reviews were performed for each individual CGU during the year ended 31 December 2019.

8. Intangible assets and goodwill (continued)

Determining the estimated recoverable amount of a CGU is judgmental in nature. The key assumptions used in the estimation of value in use as at 31 December were as follows:

Discount rate (pre-tax)	2019 %	2018 %
CGUs		
Americas	**12.0**	12.0
HSG	**10.0**	11.0
EMEA	**12.0**	12.0
Infusion Care	**11.0**	12.0
Industrial Sales	**12.0**	12.0
Terminal value growth rate(a)	**2.0**	2.0

(a) The estimated terminal value growth rate for the CGUs is based on expectations concerning the growth trends of the CGUs taking into account global gross domestic product growth, general long-term inflation and population expectations.

In 2019 and 2018, the Group performed its annual goodwill and indefinite-lived intangible impairment test and determined that there was no impairment of goodwill or indefinite-lived intangible assets. Sensitivity testing identified no reasonably possible changes in key assumptions that would cause the carrying amount of any CGU to exceed its recoverable amount taking into account areas of estimation uncertainty in the underlying assumptions.

9. Inventories

Inventories are the products manufactured or purchased to be sold by the Group in the ordinary course of business. Inventories include finished goods, goods which are in the process of being manufactured (work in progress) and raw materials and supplies awaiting use in production.

Accounting policy

Inventories are valued at the lower of cost or net realisable value with the cost determined using an average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and indirect production overheads. Production overhead comprises indirect material and labour costs, maintenance and depreciation of the machinery and production buildings used in the manufacturing process, as well as costs of production administration and management.

Net realisable value is defined as anticipated selling price or anticipated revenue less cost to completion. Estimates of net realisable value are based on the average selling prices at the end of the reporting period, net of applicable direct selling expenses. Subsequent events related to the fluctuation of prices and costs are also considered, if relevant. If net realisable values are below inventory costs, a provision corresponding to this difference is recognised.

Provisions are also made for obsolescence of inventories that (i) do not meet the Group's specifications, (ii) have exceeded their expiration date, or (iii) are considered slow-moving. The Group evaluates the carrying value of inventories on a regular basis, taking into account such factors as historical and anticipated future sales compared with quantities on hand, the price the Group expects to obtain for products in their respective markets compared with historical cost and the remaining shelf life of goods on hand.

The components of inventories at 31 December were as follows:

	2019 $m	2018 $m
Raw and packaging materials	**74.4**	77.4
Work in progress	**39.3**	33.0
Finished goods	**168.1**	192.9
Inventories	**281.8**	303.3

Inventories are stated net of a provision of $23.4 million (2018: $23.1 million). Adjustments to write-down inventory to its net realisable value are provided in Note 3 – Operating costs.

10. Trade and other receivables

Trade receivables consist of amounts billed and currently due from customers. Gross trade receivables are presented before allowances for bad and doubtful debts, sales discounts and chargeback allowances. Credit risk with respect to trade receivables is generally diversified due to the large dispersion and type of customers across many different geographies.

Other receivables include amounts due from third parties not related to revenue, restricted cash and prepaid expenses.

Accounting policy

Credit is extended to customers based on the evaluation of the customer's financial condition. Creditworthiness of customers is evaluated on a regular basis. Exposure to credit risk is managed through credit approvals, credit limits and monitoring procedures.

An allowance for doubtful accounts is maintained for expected lifetime credit losses that result from the failure or inability of customers to make required payments. It is not necessary for a credit event to have occurred before credit losses are recognised. Instead, the Group accounts for expected lifetime credit losses and changes in those expected lifetime credit losses. In determining the allowance, consideration includes the probability of recoverability based on past experience and general economic factors, incorporating forward-looking information and adjustments for customers who represent a lower risk of default, which includes public or private medical insurance customers and customers guaranteed by local government. The amount of expected credit losses, if any, are required to be updated at each reporting date.

Certain trade and other receivables may be fully reserved when specific collection issues are known to exist, such as pending bankruptcy. The Group writes-off uncollectable receivables at the time it is determined the receivable is no longer collectable.

Trade and other receivables are not collateralised or factored and the Group does not charge interest on past due amounts. Refer to Note 2.1 for details on the accounting policy related to chargeback allowances.

Trade and other receivables at 31 December were as follows:

	2019 $m	2018 $m
Trade receivables	**290.2**	283.4
Less: allowance for bad and doubtful debts	**(11.6)**	(12.3)
Less: sales discounts and chargebacks	**(31.5)**	(25.5)
Other receivables	**18.0**	8.1
Prepayments	**35.6**	30.6
Trade and other receivables	**300.7**	284.3

The aged analysis of trade receivables at 31 December was as follows:

	2019 $m	2018 $m
Current	**211.6**	212.8
Past due 1 to 30 days	**28.0**	27.1
Past due 31 to 90 days	**15.6**	3.7
Past due 91 to 180 days	**6.4**	9.0
Past due by more than 180 days	**28.6**	30.8
	290.2	283.4

10. Trade and other receivables (continued)

At 31 December, the unimpaired amounts that are past due are aged as follows:

	2019 $m	2018 $m
Past due 1 to 30 days	**27.6**	27.0
Past due 31 to 90 days	**14.5**	3.6
Past due 91 to 180 days	**6.0**	8.4
Past due by more than 180 days	**18.9**	19.3
	67.0	58.3

The Group believes that the unimpaired amounts that are past due are still collectible in full, based on historic payment behaviour and extensive analysis of customer credit risk.

Movements in the allowance for bad and doubtful debts for the years ended 31 December were as follows:

	2019 $m	2018 $m
At the beginning of the period	**(12.3)**	(17.1)
Charges	**(7.8)**	(9.6)
Utilisation of provision	**8.4**	13.9
Foreign exchange	**0.1**	0.5
At the end of the period	**(11.6)**	(12.3)

11. Trade and other payables

Trade payables consist of amounts owed to third-party suppliers and represent a contractual obligation to deliver cash in the future.

Other payables include taxes and social security, accruals and liabilities for other employee-related benefits.

Accounting policy

Trade payables are recognised at the value of the invoice received from the supplier and are not interest bearing. The carrying amount of trade and other payables is considered to approximate fair value, due to their short-term maturities.

The components of trade and other payables at 31 December were as follows:

	2019 $m	2018 $m
Included within current liabilities:		
Trade payables	**90.5**	89.1
Taxes and social security	**28.4**	17.6
Other employee-related liabilities	**72.5**	40.2
Accruals and other payables	**97.9**	74.6
Trade and other payables	**289.3**	221.5
Included within non-current liabilities:		
Defined benefit obligation (Note 13)	**21.4**	15.1
Other employee-related liabilities	**4.4**	4.1
Accruals and other payables	**0.8**	3.0
Other non-current liabilities	**26.6**	22.2

12. Provisions

A provision is an obligation recognised when there is uncertainty over the timing or amount that will be paid. Provisions held by the Group primarily relate to restructuring, decommissioning and dilapidation.

Accounting policy

A provision is recognised when there is a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle the obligation and that obligation can be measured reliably. Provisions are measured at the best estimate of the expenditure required to settle the obligation and are discounted to present value if the effect is material. Provisions are reviewed on a regular basis and adjusted to reflect management's best current estimates. Due to the judgemental nature of these items, future settlements may differ from amounts recognised.

When the timing of a settlement is uncertain or expected to be more than twelve months from the reporting date, amounts are classified as non-current.

The movements in provisions are as follows:

	Restructuring provisions $m	Decommissioning and dilapidation provisions $m	Total $m
1 January 2018	2.2	1.6	3.8
Charges	7.9	—	7.9
Utilisation	(5.3)	(0.1)	(5.4)
Changes in estimate	(0.3)	—	(0.3)
Foreign exchange	—	—	—
31 December 2018	**4.5**	**1.5**	**6.0**
Charges	**4.9**	**0.4**	**5.3**
Utilisation	**(4.6)**	**(0.2)**	**(4.8)**
Changes in estimate	**(0.6)**	**—**	**(0.6)**
Foreign exchange	**—**	**—**	**—**
31 December 2019	**4.2**	**1.7**	**5.9**

Provisions have been analysed between current and non-current as follows:

	2019		2018	
	Current	**Non-current**	Current	Non-current
Restructuring provisions	**4.2**	**–**	4.5	–
Decommissioning and dilapidation provisions	**–**	**1.7**	–	1.5
Total	**4.2**	**1.7**	4.5	1.5

Restructuring provisions

Restructuring provisions relate to employee termination benefits for involuntary workforce reduction relating to major change programmes and the Group's Transformation Initiative.

Decommissioning and dilapidation provisions

Decommissioning provisions are recognised when an item is purchased to represent the estimated costs of dismantling and removing PP&E and restoring the site on which it was located. Dilapidation provisions relate to legal obligations to return leased properties to the conditions which are specified in the individual leases.

13. Post-employment benefits

The Group has over 9,500 employees globally and operates a number of defined benefit and defined contribution pension plans for its employees. Each individual plan is subject to the applicable laws and regulations of the country in which the plan operates.

Defined contribution arrangements are where the Group pays fixed payments as they fall due into a separate fund on behalf of employees participating in the plan and has no further legal or constructive obligations. The cost of Group contributions to defined contribution arrangements during the year is provided in Note 3 – Operating costs.

A defined benefit plan is a pension or other post-employment benefit plan under which the Group has an obligation to provide agreed benefits to current and former employees. The Group bears the risk that its obligation may increase or that the value of the assets in the pension fund may decline. The benefit payable in the future by the Group is discounted to the present value and then the fair value of plan assets is deducted to measure the defined benefit pension position recorded by the Group.

The Group has defined benefit plans in six European countries. The most significant plans are: the UK, which is closed to new entrants and future benefit accruals; Switzerland, a state mandated plan that remains open to all Swiss employees; and Germany, with one unfunded plan, that remains open to German employees but closed to new entrants, and a funded plan put in place from April 2019. The value of the new plan in Germany is not material to the Group. The Group's other defined benefit plans are located in Austria, France and Italy (referred to as "Other" in the tables below).

For plans in the UK, Switzerland, Germany and Austria asset funds for each country are being accumulated to meet the accruing liabilities. The value of plan assets in Germany at 31 December 2019 is negligible. The assets of each of these funds are either held under trusts or managed by insurance companies and are entirely separate from the Group's assets. Surplus assets held in the UK are restricted to the extent that they are considered to be recoverable.

Accounting policy

Defined contribution pension plans

Payments to defined contribution pension plans are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit plans are treated as payments to defined contribution pension plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution pension plan.

Defined benefit pension plans

The Group records an asset or liability related to its defined benefit pension plans as the difference between the fair value of the plan assets and the present value of the plan liabilities. The obligations of the plans are calculated using the Projected Unit Credit Method, with actuarial valuations being performed by an independent actuary at the end of each reporting period. The valuation requires estimates and judgements to be made to calculate the Group's liabilities, and results in actuarial gains and losses being recorded.

Actuarial gains and losses, movements in the return on plan assets (excluding interest) and the impact of the asset ceiling (if applicable) are recognised immediately in the Consolidated Statement of Financial Position with a charge or credit to the Consolidated Statement of Other Comprehensive Income. Remeasurements recorded in the Consolidated Statement of Other Comprehensive Income are not subsequently reclassified to the Consolidated Income Statement.

Past service cost is recognised in the Consolidated Income Statement in the period of plan amendment, where relevant. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset.

The assets of the plans are held at fair value which is equal to market value, and are held in separate trustee-administered funds or similar structures in the countries concerned. Surplus assets within the plan are only recognised to the extent that they are recoverable in accordance with IFRIC Interpretation 14 – *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* ("IFRIC 14").

13. Post-employment benefits (continued)

Risks

The defined benefit plans typically expose the Group to risks. The most significant risks impacting the Group as a result of these plans are as follows:

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high-quality corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. Currently the Group's plans invest primarily in debt instruments.
Interest risk	A decrease in the bond interest rate will increase the plan liability but this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

Amounts recorded in the Consolidated Financial Statements

Consolidated Income Statement

The aggregate expense for all post-employment defined benefit plans recognised in the Consolidated Income Statement for the year ended 31 December was as follows:

	2019 $m	2018 $m
Defined benefit plans:		
Current service cost	**2.3**	2.3
Past service cost	**(0.6)**	0.1
Interest income on plan assets	**(0.5)**	(0.5)
Interest expense on defined benefit obligation	**0.6**	0.6
Total expense	**1.8**	2.5

Consolidated Statement of Comprehensive Income

Aggregate actuarial gains and losses for all defined benefit plans recognised in the Consolidated Statement of Comprehensive Income for the year ended 31 December were as follows:

	2019 $m	2018 $m
Remeasurement effect recognised in other comprehensive income:		
Actuarial loss on liabilities due to experience	**(1.9)**	(2.1)
Actuarial (loss)/gain arising from changes in financial assumptions	**(6.2)**	1.7
Actuarial gain arising from changes in demographic assumptions	**0.1**	–
Actuarial gain/(loss) on assets	**3.0**	(0.5)
Remeasurement loss recognised in other comprehensive income	**(5.0)**	(0.9)
Deferred tax on remeasurement gain/(loss) recognised in other comprehensive income	**1.5**	(0.1)
Recognition of pension assets restriction	**(0.6)**	0.4
Foreign exchange	**–**	–
Total amount recognised in other comprehensive income	**(4.1)**	(0.6)

Consolidated Statement of Financial Position

The amount recognised for each defined benefit arrangement in the Consolidated Statement of Financial Position at 31 December was as follows:

	UK		Germany		Switzerland		Other		Total	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Fair value of schemes' assets	**17.1**	15.6	**–**	–	**12.5**	8.0	**0.8**	–	**30.4**	23.6
Present value of funded schemes' liabilities	**(10.8)**	(9.9)	**–**	–	**(19.6)**	(12.1)	**(1.5)**	–	**(31.9)**	(22.0)
Surplus/(deficit) in the funded schemes	**6.3**	5.7	**–**	–	**(7.1)**	(4.1)	**(0.7)**	–	**(1.5)**	1.6
Present value of unfunded schemes' liabilities	**–**	–	**(10.9)**	(8.3)	**–**	–	**(2.7)**	(2.7)	**(13.6)**	(11.0)
Restrict recognition of asset	**(6.3)**	(5.7)	**–**	–	**–**	–	**–**	–	**(6.3)**	(5.7)
Net pension asset/(liability)	**–**	–	**(10.9)**	(8.3)	**(7.1)**	(4.1)	**(3.4)**	(2.7)	**(21.4)**	(15.1)

The weighted average duration of the Group's defined benefit obligation at the end of the year is 20 years (2018: 16 years).

13. Post-employment benefits (continued)

Fair value of assets and present value of the liabilities of the plan

The amount included in the Statement of Financial Position arising from its obligations in respect of its defined benefit plans was as follows:

	Assets $m	Liabilities $m	Total $m
At 1 January 2018	24.5	(31.6)	(7.1)
Current service cost	–	(2.3)	(2.3)
Past service cost	–	(0.1)	(0.1)
Interest income/(expense)	0.5	(0.6)	(0.1)
Remeasurement (loss)/gain	(0.5)	1.7	1.2
Contributions by employer	0.7	–	0.7
Contributions by members	0.7	(0.7)	–
Net benefits	(1.1)	1.3	0.2
Experience loss	–	(2.1)	(2.1)
Foreign exchange	(1.2)	1.4	0.2
At 31 December 2018	**23.6**	**(33.0)**	**(9.4)**
Current service cost	**–**	**(2.3)**	**(2.3)**
Past service cost	**–**	**0.6**	**0.6**
Interest income/(expense)	**0.5**	**(0.6)**	**(0.1)**
Remeasurement gain/(loss)	**3.0**	**(6.1)**	**(3.1)**
Contributions by employer	**0.8**	**–**	**0.8**
Contributions by members	**0.7**	**(0.7)**	**–**
Net benefits	**1.0**	**(1.0)**	**–**
Experience loss	**–**	**(1.9)**	**(1.9)**
Foreign exchange	**0.8**	**(0.5)**	**0.3**
At 31 December 2019	**30.4**	**(45.5)**	**(15.1)**

Plan assets

The fair value of defined benefit plan assets at 31 December, which has been determined in accordance with IFRS 13, *Fair Value Measurements*, is analysed below. All assets have a quoted market price and are categorised as a Level 1 measurement in the fair value hierarchy.

	UK		Germany		Switzerland		Other		Total	
	2019 $m	2018 $m	**2019 $m**	2018 $m	**2019 $m**	2018 $m	**2019 $m**	2018 $m	**2019 $m**	2018 $m
Equity instruments	**–**	–	**–**	–	**3.4**	2.1	**–**	–	**3.4**	2.1
Debt instruments	**16.9**	15.6	**–**	–	**4.7**	3.4	**–**	–	**21.6**	19.0
Property	**–**	–	**–**	–	**1.7**	0.8	**–**	–	**1.7**	0.8
Qualifying insurance policies	**–**	–	**–**	–	**–**	–	**0.8**	–	**0.8**	–
Other	**0.2**	–	**–**	–	**2.7**	1.7	**–**	–	**2.9**	1.7
Plan assets	**17.1**	15.6	**–**	–	**12.5**	8.0	**0.8**	–	**30.4**	23.6

Actuarial assumptions

The Group makes certain key assumptions in order to value the plan obligations, and the approach to how these are set was as follows:

	Approach taken
Discount rate	Calculated by reference to the yields on high-quality corporate bonds which match expected cash flows in each territory in which a defined benefit plan is present.
Inflation	Calculated using the difference on yields between fixed and index-linked Government bonds.
Future salary increases	Based on historical expectations and known future increases, including expected inflation rates.
Mortality	Based on mortality tables derived from assessments performed by national governments and based upon recommendations by plan actuaries.

The principal actuarial assumptions for each defined benefit arrangement used at 31 December were as follows:

	UK		Germany		Switzerland		Other	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Discount rate	**2.00%**	2.75%	**1.39%**	2.39%	**0.10%**	1.00%	**0.31% to 1.10%**	1.50% to 2.10%
Rate of price inflation	**2.25%**	2.45%	**N/A**	N/A	**0.50%**	0.50%	**1.00% to 2.00%**	2.00%
Future salary increases	**N/A**	N/A	**2.39%**	2.00%	**1.75%**	1.75%	**3.00%**	3.00%

13. Post-employment benefits (continued)

The current mortality assumptions underlying the values of the obligations in the defined benefit plans were as follows:

	UK		Germany		Switzerland		Other	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Life expectancy at Plan retirement age								
Male	**22.7 years**	23.3 years	**20.0 years**	20.0 years	**22.7 years**	22.6 years	**22.9 years**	20.7 years
Female	**23.8 years**	24.3 years	**23.6 years**	23.6 years	**25.6 years**	25.6 years	**26.4 years**	24.3 years
Life expectancy at Plan retirement age in 20 years' time								
Male	**24.0 years**	24.7 years	**22.8 years**	22.8 years	**24.3 years**	24.3 years	**24.1 years**	23.1 years
Female	**25.3 years**	25.8 years	**25.8 years**	25.8 years	**27.3 years**	27.3 years	**27.5 years**	26.2 years

Sensitivity analysis

The effect of movements in the key actuarial assumptions related to the UK, Germany and Switzerland plans at 31 December 2019 would be an (increase)/decrease to the defined benefit obligations as follows:

	UK $m		Germany $m		Switzerland $m	
	Increase 0.5%	**Decrease 0.5%**	**Increase 0.5%**	**Decrease 0.5%**	**Increase 0.5%**	**Decrease 0.5%**
Discount rate	**0.8**	**(0.8)**	**1.2**	**(1.4)**	**2.0**	**(2.2)**
Inflation	**(0.5)**	**0.5**	**N/A**	**N/A**	**(0.7)**	**0.7**
Future salary increases	**N/A**	**N/A**	**N/A**	**N/A**	**(0.5)**	**0.5**
	1 year increase	**1 year decrease**	**1 year increase**	**1 year decrease**	**1 year increase**	**1 year decrease**
Life expectancy	**(0.5)**	**0.5**	**(0.4)**	**0.4**	**(0.4)**	**0.4**

Future funding

Payments expected to be made by the Group to its defined benefit pension plans in the year ended 31 December 2020 are as follows:

	UK $m	Germany $m	Switzerland $m	Other $m	**Total $m**
Expected payments	–	0.1	0.8	–	**0.9**

Capital structure and financial costs

The Group ensures that all entities within the Group have sufficient funding to deliver the Group's strategy while maximising the return to shareholders through the debt and equity balance. The capital structure of the Group consists of debt (which includes borrowings less cash and cash equivalents) and equity of the Group, comprising issued capital, reserves and earnings as disclosed in the Consolidated Statement of Changes in Equity.

14. Capital structure and net debt

The capital structure of the Group was as follows:

	2019 $m	2018 $m
Borrowings (Note 19)	**1,486.1**	1,620.8
Less: Cash and cash equivalents (Note 20)	**385.8**	315.6
Net debt	**1,100.3**	1,305.2
Equity	**1,561.0**	1,617.2
Total capital	**2,661.3**	2,922.4

The Group's capital structure is managed to provide ongoing returns to shareholders and service debt obligations whilst maintaining maximum operational flexibility. Refer to pages 65 to 67 for discussion of the Group's sources and uses of cash.

15. Share capital and reserves

Share capital
Called up share capital is the total number of shares in issue at their par value. The rights attaching to the ordinary shares are uniform in all respects. They form a single class for all purposes, including with respect to voting and for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Group. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction from the proceeds, net of tax.

Repurchased shares are classified as own shares and are presented in the own shares reserve.

Share premium
The share premium represents amounts received in excess of the nominal value of the ordinary shares.

Own shares
Own shares are ordinary shares in the Group purchased and held by an Employee Benefit Trust to satisfy obligations under the Group's employee share ownership programmes.

Where any Group company purchases the Company's equity share capital (own shares), the consideration paid, including any directly attributable incremental costs (net of tax), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable costs and the related tax effects, is recognised in equity and the resulting surplus or deficit on the transaction is presented within share premium.

Merger reserve
In 2016, the Consolidated Financial Statements were prepared under merger accounting principles. Under these principles, no acquirer was required to be identified and all entities were included at their pre-combination carrying amounts. This accounting treatment led to differences on consolidation between issued share capital and the book value of the underlying net assets acquired. This difference is included within equity as a merger reserve.

Cumulative translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Other reserves
Includes changes in effective portion of cash flow hedges, remeasurement of defined benefit obligations and share-based payment reserve.

Share capital
Shares were allotted during the year in relation to the Group's scrip dividend offering. The movements in ordinary shares in issue of 10p each were as follows:

Issued and fully paid or credited as fully paid	Ordinary shares number	Share capital $m	Share premium $m
1 January 2018	1,951,850,599	238.8	1.3
Issue of new shares for Scrip Scheme – 2017 final dividend	9,623,305	1.3	25.1
Issue of new shares for Scrip Scheme – 2018 interim dividend	4,681,820	0.6	13.4
31 December 2018	**1,966,155,724**	**240.7**	**39.8**
Issue of new shares for Scrip Scheme – 2018 final dividend	**11,198,285**	**1.5**	**18.5**
Issue of new shares for Scrip Scheme – 2019 interim dividend	**6,159,842**	**0.7**	**12.4**
31 December 2019	**1,983,513,851**	**242.9**	**70.7**

15. Share capital and reserves (continued)

At 31 December 2019, 4,848,579 shares (2018: 2,531,339 shares) were held in the Employee Benefit Trust. The market value of own shares at 31 December 2019 was $12.8 million (2018: $4.5 million). During the year the Employee Benefit Trust purchased 6,386,097 shares for $14.0 million (2018: $nil) to satisfy requirements of the CEO buy-out and anticipated future obligations under the Group's employee share ownership programmes. Refer to page 125 for details on CEO buy-out costs.

Other reserves includes the effective portion of cash flow hedges of $0.8 million (2018: $88.3 million) and share-based payment reserve of $118.3 million (2018: $113.9 million), partially offset by remeasurement of defined benefit obligations of $13.0 million (2018: $8.9 million). A reconciliation of movements in all reserves is provided in the Consolidated Statement of Changes in Equity.

Distributable reserves

Retained and realised distributable reserves equates to the retained surplus of ConvaTec Group Plc as set out in the Company only Financial Statements on page 193. At 31 December 2019, the retained surplus of ConvaTec Group Plc (the Company) was $1,528.5 million (2018: $1,574.7 million). The capacity of the Company to make dividend payments is primarily determined by the availability of these retained and realised distributable reserves and the Group's cash resources.

16. Dividends

The Group ensures that adequate realised distributable reserves are available in the Company in order to meet proposed shareholder dividends, and the purchase of shares for employee share scheme incentives. The Company principally derives distributable reserves from dividends paid by subsidiary companies.

In determining the level of dividend in the year, the Board considers the following factors and risks that may influence the proposed dividend:

- Availability of realised distributable reserves;
- Available cash resources and commitments;
- Strategic opportunities and investments, in line with the Group's Strategic Plan; and
- Principal risks of the Group (as disclosed on pages 28 to 33).

Details of the Group's considerations and rationale for its policy in respect of the dividend distribution are given in the Directors' report on page 132.

Accounting policy

Dividends paid are included in the Group Consolidated Financial Statements at the earlier of payment of the dividends or in respect of the Company's final dividend for the year, on approval by shareholders.

The Company operates a scrip dividend scheme allowing shareholders to elect to receive their dividend in the form of new fully paid ordinary shares. For any particular dividend, the Directors may decide whether or not to make the scrip offer available.

Dividends paid and proposed were as follows:

	pence per share	cents per share	Total $m	Settled in cash $m	Settled via scrip $m	No of scrip shares issued
Final dividend 2017	3.094	4.300	81.7	55.3	26.4	9,623,305
Interim dividend 2018	1.309	1.717	33.6	19.6	14.0	4,681,820
Paid in 2018	4.403	6.017	115.3	74.9	40.4	14,305,125
Final dividend 2018	**3.097**	**3.983**	**79.1**	**59.1**	**20.0**	**11,198,285**
Interim dividend 2019	**1.404**	**1.717**	**33.9**	**20.8**	**13.1**	**6,159,842**
Paid in 2019	**4.501**	**5.700**	**113.0**	**79.9**	**33.1**	**17,358,127**
Final dividend 2019 proposed	**3.095**	**3.983**	**79.0**			

The final dividend proposed for 2019, to be distributed on 14 May 2020 to shareholders registered at the close of business on 3 April 2020, is based upon the issued and fully paid share capital as at 31 December 2019 and is subject to shareholder approval at our Annual General Meeting on 7 May 2020. The dividend will be declared in US dollars and will be paid in Sterling at the chosen exchange rate of $1.287/£1.00 determined on 27 February 2020. A scrip dividend alternative will be offered allowing shareholders to elect by 21 April 2020 to receive their dividend in the form of new ordinary shares.

The interim and final dividends for 2019 give a total dividend for the year of 5.700 cents per share (2018: 5.700 cents per share).

17. Share-based payments

The Group operates a number of plans used to award shares to Executive Directors and other senior employees as part of their remuneration package. A charge is recognised over the vesting period in the Consolidated Income Statement to record the cost of these, based on the fair value of the award at the grant date.

The Group's share-based payment schemes in place are as follows:

Long Term Incentive Plan ("LTIP")
Provides Performance Share Plan ("PSP") awards subject to Group performance and market conditions and Restricted Stock Units ("RSU") subject only to remaining employed up to the vesting date.

Deferred Bonus Plan ("DBP")
Provides for the grant of share awards to defer a portion of the participant's bonus as determined by the Remuneration Committee. The awards vest subject only to remaining employed up to the vesting date.

Matching Share Plan ("MSP")
Provides for the grant of discretionary share awards calculated as a proportion of the participant's bonus. The awards granted in 2019 and 2018 are subject to Group performance and market performance conditions.

Transition Awards
The Transition Awards were made on a one-off basis after listing in 2016 and consisted of market value options and restricted shares. The final tranche vested in November 2019 subject to the participant remaining employed up to the vesting date.

The Group also operates Employee Plans which provide eligible employees the opportunity to save up to £500 per month (or local currency equivalent) with an option to acquire shares using these savings at a 15% discount to the market price at date of grant.
The Employee Plans are available to employees under the following schemes:
– *Save-As-You-Earn ("SAYE")* – Available to all employees in the UK employed by participating Group companies.
– *Employee Stock Purchase Plan ("ESPP")* – Available to all employees in the US.
– *International Share Save Plan* – Available to all employees in the rest of the world.

Accounting policy

Equity-settled share-based payment awards are measured at the fair value of the award on the grant date, excluding the effect of non-market-based vesting conditions. The fair value of the awards at the date of the grant is expensed to general and administrative expenses in the Consolidated Income Statement over the vesting period on a straight-line basis.

Appropriate adjustments are made to reflect expected and actual forfeitures during the vesting period due to uncertainties in satisfying service conditions or non-market performance conditions. The corresponding credit is to other reserves in the Consolidated Statement of Financial Position.

All share-based compensation expenses were equity-settled and recognised in the Consolidated Income Statement as follows:

	2019 $m	2018 $m
MEP[(a)]	**–**	5.9
LTIP	**11.6**	2.5
DBP	**–**	0.1
MSP	**0.5**	1.1
Employee Plans	**2.1**	1.6
	14.2	11.2

(a) Management Executive Plan ("MEP") relates to awards granted before the listing in 2016, which became fully vested in 2018.

17. Share-based payments (continued)

Awards outstanding

The movements in the number of share and share option awards and the weighted average exercise price of share options are detailed below:

	2019		2018	
	Number of shares/ options 000's	Weighted average exercise price of options £ per share	Number of shares/ options 000's	Weighted average exercise price £ per share
Outstanding at 1 January	**25,301**	**1.04**	14,413	1.46
Granted	**19,383**	**0.42**	15,771	0.65
Forfeited	**(10,830)**	**1.46**	(4,406)	1.22
Exercised	**(4,351)**	**–**	(477)	–
Outstanding at 31 December	**29,503**	**0.57**	25,301	1.04
Exercisable at 31 December	**1,600**	**2.28**	1,702	2.09
Weighted average fair value of awards granted (£ per share)	**–**	**0.79**	–	0.86

The average share price during 2019 was £1.59 (2018: £1.99). The share price of the Company at 31 December 2019 was £1.99.

The range of exercise prices and the weighted average remaining contractual life of options outstanding at 31 December were as follows:

Range of prices	2019 Number of shares/ options 000's	2018 Number of shares/ options 000's
Nil	**19,119**	13,894
1.21	**6,532**	–
1.84	**1,532**	5,266
2.49	**1,540**	2,067
2.78	**780**	4,074
	29,503	25,301
Weighted average remaining contractual life of options outstanding	**2.4 years**	1.9 years

Valuation assumptions

All share awards granted are valued directly by reference to the share price at date of grant except:

- PSP shares awarded under the LTIP and 2018 and 2019 MSP shares that are subject to a relative Total Shareholder Return ("TSR") performance condition and are valued using a Monte Carlo simulation.
- Options granted under the Employee Plans which are valued using the Black-Scholes model.

The principal assumptions used in these valuations were:

	2019			2018		
	LTIP and MSP with TSR condition	SAYE & International Share Save Plan	ESPP	LTIP with TSR condition	SAYE & International Share Save Plan	ESPP
Share price at date of grant	**£1.37**	**£1.74**	**£1.42**	£2.08	£2.09	£2.19
Exercise price	**nil**	**£1.21**	**£1.21**	nil	£1.84	£1.84
Expected life	**3.0 years**	**3.6 years**	**2.0 years**	2.8 years	3.6 years	2.0 years
Expected volatility[(a)]	**45.0%**	**45.0%**	**45.0%**	30.2%	31.6%	31.8%
Risk free rate	**0.8%**	**0.8%**	**0.8%**	0.8%	0.8%	0.6%
Dividend yield	**3.2%**	**3.2%**	**3.2%**	nil	1.9%	1.9%
Fair value	**£0.65**	**£0.33**	**£0.20**	£0.98	£0.26	£0.26

(a) The expected volatility was determined by calculating the observed historical volatility of share prices of peer group companies (including the Company) over the expected life of the share award.

18. Financial risk management

The Group's treasury policies seek to minimise the Group's principal financial risks. No trading or speculative transactions in financial instruments are undertaken. This note presents information about the Group's exposure to financial risks, the Group's objectives, policies and processes for measuring and managing risks.

Financial risk management objectives

Based on the global operations of the Group, management consider the key financial risks to be liquidity, foreign exchange, interest rate and counterparty credit. The management of counterparty credit risk is discussed in Note 10 – Trade and other receivables.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group manages liquidity risk by continuously monitoring actual and projected cash outflows to ensure that it will have sufficient liquidity to meet its liabilities when due. As at 31 December 2019, the Group held cash and cash equivalents of $385.8 million and had access to a $200.0 million multicurrency revolving credit facility, which was undrawn.

For further detail on the Group's assessment of liquidity risk refer to the viability assessment pages 34 to 35.

Foreign exchange risk

As a result of the global nature of operations, the Group is exposed to market risk arising from changes in foreign currency exchange rates.

Where possible, the Group manages foreign exchange risk by matching same currency revenues and expenses. It will also denominate debt in certain currencies and use foreign exchange forward contracts to further minimise foreign exchange risk. As a result, the impact of the fluctuations in the market values of assets and liabilities and the settlement of foreign currency transactions are reduced.

The following exchange rates have been applied for the principal currencies at 31 December:

Currency	Average rate/ Closing rate	2019	2018
EUR/USD	Average	**1.12**	1.18
	Closing	**1.12**	1.15
GBP/USD	Average	**1.28**	1.34
	Closing	**1.33**	1.28
DKK/USD	Average	**0.15**	0.16
	Closing	**0.15**	0.15

Sensitivity analysis on foreign exchange risk

The sensitivity analysis below assumes a 10% strengthening of the US dollar against the principal currencies to highlight the sensitivity of profit before income taxes and total equity to foreign exchange risk as at 31 December, with all other variables held constant.

Currency	Sensitivity	2019 $m	2018 $m
Increase/(decrease) in profit before income taxes			
GBP/USD	+10%	**(2.8)**	(1.5)
EUR/USD	+10%	**(24.5)**	(33.5)
DKK/USD	+10%	**(9.1)**	(9.4)
Decrease/(increase) in total equity			
GBP/USD	+10%	**(84.8)**	(84.2)
EUR/USD	+10%	**(17.9)**	(18.0)
DKK/USD	+10%	**(26.0)**	(17.2)

In 2019 the Group changed the method for assessing a 10% change in foreign currency exchange rates. The sensitivity is now calculated by dividing the non-US dollar balances by adjusted foreign rates. The 2018 comparative has been provided based on the adjusted methodology. There have been no other changes in the methods and assumptions used in preparing the sensitivity analysis.

Interest rate risk

The Group's principal exposure to interest rate risk is in relation to interest expense on borrowings made under the Group's credit agreement which attract interest at floating rates plus a fixed margin. Floating rate borrowings expose the Group to interest rate cash flow and expense risk. The Group manages this exposure by using interest rate swaps designated as cash flow hedges to maintain an appropriate mix between fixed and floating rate borrowings.

Sensitivity analysis on interest rate risk

Based on the composition of the Group's borrowings as at 31 December 2019 and before the effect of interest rate swaps, if interest rates were to increase or decrease by 100 basis points, the interest expense on borrowings would increase by $13.2 million (2018: $16.3 million) or decrease by $10.5 million (2018: $16.3 million) assuming that all other variables remain constant and excluding any effect of tax.

19. Borrowings

The Group's sources of borrowing for funding and liquidity purposes derive from bank term loans together with a committed revolving credit facility. In October 2019, the Group voluntarily prepaid and discharged all outstanding contractual obligations under its previous credit agreement and refinanced under a new credit agreement.

Accounting policy

Borrowings are recognised at fair value less directly attributable costs on the date that they are entered into and subsequently measured at amortised cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial liability and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Borrowings are classified as non-current when the repayment date is more than 12 months from the period-end date or where they are drawn on a facility with more than 12 months to expiry.

The Group derecognises borrowings when its contractual obligations are discharged, terminated or expired.

The Group's consolidated borrowings as at 31 December were as follows:

	2019 $m	2018 $m
Revolving credit facility	–	–
Term loans	1,486.1	1,620.8
Total borrowings from credit facilities	**1,486.1**	1,620.8
Finance lease liabilities[a]	–	23.7
Total borrowings	**1,486.1**	1,644.5
Less: current portion of borrowings	40.8	63.0
Total non-current borrowings	**1,445.3**	1,581.5

(a) Finance lease liabilities have been reclassified from borrowings to lease liabilities in the Consolidated Statement of Financial Position as a result of the adoption of IFRS 16 on 1 January 2019. Refer to Note 1 – Basis of preparation for further details.

Credit agreement

On 24 October 2019, the Group entered into a new credit agreement and voluntarily prepaid and discharged its contractual obligations under its previous credit agreement at that date, totalling $1,587.6 million. Unamortised deferred financing fees of $11.2 million associated with the previous credit agreement have been written off – refer to Note 23 – Finance costs, net for further details.

The new credit agreement entered into by the Group is committed and available for the refinancing of certain existing financial indebtedness and general corporate purposes. Provided by a group of financial institutions, it consists of two 5-year multicurrency term loans totalling $1.5 billion and a $200.0 million multicurrency revolving credit facility. Of the $1.5 billion term loan debt, $600.0 million is amortising requiring scheduled annual repayments of the principal. The remaining $900.0 million is repayable in full at the maturity of the term loan. The revolving credit facility has an option to increase its amount by up to 50% ($100.0 million) subject to certain conditions. The revolving credit facility was undrawn as at 31 December 2019.

The credit agreement is secured by way of a share pledge and contains various provisions, covenants and representations that are customary for such a facility. The principal financial covenants are based on a net leverage and an interest cover test. At 31 December 2019 and 2018, the Group was in compliance with all financial and non-financial covenants related to the relevant credit agreement in place.

Excluding the impact of interest rate swaps, the weighted average interest rate on borrowings for the year ended 31 December 2019 was 3.8% (2018: 3.5%).

19. Borrowings (continued)

The carrying amounts of total borrowings outstanding at 31 December were as follows:

	Currency	Year of maturity	2019 Face value $m	2018 Face value $m
New facilities				
Revolving Credit Facilities	Multicurrency	2024	**–**	–
Term Loan Facility A[a]	USD/Euro	2024	**600.9**	–
Term Loan Facility B[b]	USD/Euro	2024	**901.4**	–
Previous facilities				
US dollar Term A Loan Facility	USD	2021	**–**	712.3
Euro Term A Loan Facility[c]	Euro	2021	**–**	500.9
US dollar Term B Loan Facility	USD	2023	**–**	421.4
Total interest-bearing borrowings			**1,502.3**	1,634.6
Financing fees			**(16.2)**	(13.8)
Total carrying value of borrowings from credit facilities			**1,486.1**	1,620.8

(a) Included within Term Loan Facility A is €161.3 million ($180.9 million) denominated in Euros representing 30% of facility A borrowings denominated in Euros and 70% denominated in US dollars.
(b) Included within Term Loan Facility B is €242.0 million ($271.4 million) denominated in Euros representing 30% of facility B borrowings denominated in Euros and 70% denominated in US dollars.
(c) Total face value of the borrowings outstanding under the Euro Term A Loan Facility denominated in Euros was €436.8 million ($500.9 million) at 31 December 2018.

Borrowings not measured at fair value

At 31 December 2019, the estimated fair value of the Group's borrowings, excluding leases obligations, approximated $1,513.2 million (2018: $1,586.6 million). The fair value of the Group's borrowings is based on discounted cash flows using a current borrowing rate and are categorised as a Level 2 measurement in the fair value hierarchy under IFRS 13, *Fair Value Measurements*.

Maturity of financial liabilities

The contractual undiscounted future cash flows, including contractual interest payments, related to the Group's financial liabilities were as follows:

	Contractual cash flows					
	Within 1 year or on demand $m	**1 to 2 years $m**	**2 to 5 years $m**	**More than 5 years $m**	**Total $m**	**Carrying amount $m**
At 31 December 2019						
Borrowings	**100.2**	**143.6**	**1,503.1**	**–**	**1,746.9**	**1,486.1**
Lease obligations[a]	**21.7**	**17.6**	**31.4**	**35.7**	**106.4**	**88.5**
Trade and other payables	**289.3**	**–**	**–**	**–**	**289.3**	**289.3**
Derivative financial instruments						
Forward foreign exchange contracts – outflow	**266.7**	**–**	**–**	**–**	**266.7**	**2.2**
Forward foreign exchange contracts – inflow	**(265.5)**	**–**	**–**	**–**	**(265.5)**	**(1.0)**
At 31 December 2018						
Borrowings	118.8	171.0	1,549.0	–	1,838.8	1,620.8
Finance lease obligations	2.7	2.8	8.5	23.0	37.0	23.7
Operating leases	20.7	15.7	19.1	6.4	61.9	–
Trade and other payables	116.0	–	–	–	116.0	116.0

(a) Lease obligations include right-of-use lease obligations recognised in accordance with IFRS 16 that was adopted 1 January 2019.

19. Borrowings (continued)

Reconciliation of movement in borrowings

	2019 $m	2018 $m
Borrowings at 1 January	**1,620.8**	1,797.3
Repayment of borrowings	**(1,618.7)**	(153.7)
Proceeds of new borrowings, net of financing fees	**1,481.0**	–
Foreign exchange	**(11.5)**	(27.1)
Non-cash movements[(a)]	**14.5**	4.3
Borrowings at 31 December	**1,486.1**	1,620.8

(a) Non-cash movements for the year ended 31 December 2019, includes deferred financing fees recognised upon early termination of the Group's previous credit agreement.

20. Cash and cash equivalents

Cash held at bank is used for the Group's day-to-day operations. The Group utilises bank deposits or money market funds which have a maturity of three months or less as liquid investments that enable short-term liquidity requirements to be met.

Accounting policy

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions. All liquid investments, including term deposits and money market funds, with original maturities of three months or less, subject to insignificant risk of changes in value and repayable within 24 hours with no loss of interest, are also considered cash equivalents.

	2019 $m	2018 $m
Cash at bank and in hand	**183.7**	313.4
Money market funds and bank deposits	**202.1**	2.2
Cash and cash equivalents	**385.8**	315.6

Restricted cash

Accounting policy

In certain instances, there are requirements to set aside cash for guarantees on the payment of value-added taxes, custom duties on imports, tender programmes, and vehicle/real estate leases by financial institutions on the Group's behalf.

	2019 $m	2018 $m
Current: classified as prepaid expenses and other current assets	**–**	2.0
Non-current: classified as restricted cash	**3.6**	2.4
Total restricted cash	**3.6**	4.4

21. Financial instruments

A derivative financial instrument is a contract that derives its value from the performance of an underlying variable, such as foreign exchange rates or interest rates. The Group uses derivative financial instruments to manage foreign exchange and interest rate risk arising from its operations and financing. Derivative financial instruments used by the Group are foreign exchange forwards and interest rate swaps.

The Group utilises interest rate swap agreements, designated as cash flow hedges, to manage its exposure to variability in expected future cash outflows attributable to the changes in interest rates on the Group's borrowing facilities.

Accounting policy

Derivative financial instruments are initially recognised at fair value on the derivative contract date and are remeasured at their fair value at subsequent reporting dates. Derivative financial instruments are classified at fair value through profit or loss ("FVTPL") unless they are designated and qualify as an effective cash flow hedge. The fair value of forward foreign exchange contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate from third parties at the reporting date.

Hedge accounting

The Group has elected to apply the IFRS 9, *Financial Instruments* hedge accounting requirements. Changes in the fair values resulting from changes in market interest rates are recognised in other comprehensive income. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates, the Group's current creditworthiness, as well as that of the swap counterparties.

The cumulative gain or loss is then reclassified to the Consolidated Income Statement in the same period when the relevant hedged transaction is realised. Any ineffectiveness on hedging instruments is recognised in the Consolidated Income Statement within finance costs, net as they arise. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

The transition away from LIBOR, and other IBORs (together "IBOR Reform") will remove IBOR as an interest rate benchmark for financial instruments including the interest rate swaps held by the Group (as detailed below) and floating rate debt (Note 19 – Borrowings). There is uncertainty as to the timing and the methods of transition for replacing existing IBOR benchmark rates with alternative rates. The Group has considered whether hedge accounting relationships continue to qualify for hedge accounting as at 31 December 2019. IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected transition deadline. Therefore, the Group believes the current market structure supports the continuation of hedge accounting as at 31 December 2019. The changes proposed are not considered to have an immediate impact on the Group and we will continue to monitor developments of IBOR Reform throughout 2020.

Right to offset

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Fair value measurement

Financial instruments are classified as Level 2 in the fair value hierarchy in accordance with IFRS 13, *Fair Value Measurements*, based upon the degree to which the fair value movements are observable. Level 2 fair value measurements are defined as those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (prices from third parties) or indirectly (derived from third-party prices).

At 31 December 2018 the Group held interest rate swaps with a notional amount of $833.8 million. These interest rate swap agreements were settled on 24 October 2019 at the same time as the voluntary prepayment and cancellation of the Group's previous credit agreement. The early termination of the interest rate swap agreements resulted in a $0.8 million gain reclassified to finance costs, net, in the Consolidated Income Statement, in the year ended 31 December 2019.

On 5 December 2019 the Group entered into interest rate swap agreements to fix a proportion of variable interest on US dollar denominated debt, in accordance with the Group's risk management policy. The interest rate swaps were designated as hedging instruments in a cash flow hedging relationship.

21. Financial instruments (continued)

The fair values are based on market values of equivalent instruments at 31 December 2019. The following table presents the Group's outstanding interest rate swaps at 31 December:

	Effective date	Maturity date	2019 Notional amount $m	2019 Fair value[(a)] assets $m	2018 Notional amount $m	2018 Fair value[(a)] assets $m
3 Month LIBOR Float to Fixed Interest Rate Swap	30 Jun 2017	24 Oct 2019	—	–	833.8	11.3
3 Month LIBOR Float to Fixed Interest Rate Swap	24 Jan 2020	24 Jan 2023	**275.0**	**1.0**	–	–
			275.0	**1.0**	833.8	11.3
Recognised in other comprehensive income:						
Effective portion of changes in fair value of cash flow hedges				**(9.5)**		3.9
Changes in fair value of cash flow hedges reclassified to the Consolidated Income Statement				**(0.8)**		–
Total				**(10.3)**		3.9

(a) The fair values of the interest rate swaps are shown in derivative financial assets in the Consolidated Statement of Financial Position. Finance costs, net in the Consolidated Income Statement includes the negligible ineffective impact of the interest rate swaps.

The following table presents the Group's outstanding foreign exchange forward contracts at 31 December:

	Term	Financial Statement line item	2019 Notional amount $m	2019 Fair value $m	2018 Notional amount $m	2018 Fair value $m
Foreign exchange contracts	30-45 days	Other receivables	**130.7**	**1.0**	–	–
Foreign exchange contracts	28 days	Accruals and other payables	**136.0**	**(2.2)**	–	–
			266.7	**(1.2)**	–	–

During the year ended 31 December 2019, the Group realised a net gain of $0.9 million (2018: $nil) on foreign exchange forward contracts in non-operating expenses, net, in the Consolidated Income Statement.

22. Leases

The Group principally leases real estate and vehicles. Leases are recognised as a right-of-use asset with a corresponding liability recorded at the date at which the leased asset is available for use by the Group.

Accounting policy

The lease liability is measured at the present value of future lease payments discounted using the rate implicit in the lease. If this rate is not readily determinable, the Group uses its incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Options such as lease extensions or terminations on lease contracts are considered on a case-by-case basis by regular management assessment.

Each lease payment is allocated between amounts paid for principal and interest. The interest cost is charged to the Consolidated Income Statement over the lease term to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated on a straight-line basis over the lease term.

Payments associated with short-term leases and low-value leases are recognised on a straight-line basis as an expense in the Consolidated Income Statement. Short-term leases are leases with a lease term of 12 months or less and low-value leases comprise of leases with an underlying asset value of less than $5,000. Expenses recognised for these short-term and low-value leases for the year ended 31 December 2019 were $3.3 million.

22. Leases (continued)

The movements in right-of-use assets were as follows:

	Real estate and other $m	Vehicles $m	Total $m
As at 1 January 2019	51.1	14.7	65.8
Reclassification from PP&E[a]	20.9	0.2	21.1
Lease additions	12.0	9.9	21.9
Leases terminated	(0.9)	(0.7)	(1.6)
Depreciation of right-of-use assets	(14.2)	(8.2)	(22.4)
Foreign exchange	(0.3)	–	(0.3)
As at 31 December 2019	68.6	15.9	84.5

(a) Amounts previously recognised as finance lease assets have been reclassified to right-of-use assets upon transition to IFRS 16 on 1 January 2019. Refer to Note 7 – Property, plant and equipment for further details.

Lease liabilities by category at 31 December 2019 were as follows:

	Real estate and other $m	Vehicles $m	Total $m
Current	11.4	7.0	18.4
Non-current	61.0	9.1	70.1
Total	72.4	16.1	88.5

The maturity of lease liabilities at 31 December were as follows:

	Real estate and other $m	Vehicles $m	Total $m
Within 1 year	11.4	7.0	18.4
1 to 5 years	31.0	9.1	40.1
More than 5 years	30.0	–	30.0
Total	72.4	16.1	88.5
Of which:			
Principal	55.3	15.1	70.4
Interest	17.1	1.0	18.1

23. Finance costs, net

Finance costs arise from interest on the Group's borrowings from credit facilities and lease liabilities. Finance income arises on the results of hedging transactions used to manage interest rate movements and interest earned on surplus cash balances.

Accounting policy

Finance costs, including the transaction costs for borrowings and any discount or premium on issue, are recognised in the Consolidated Income Statement using the effective interest rate method.

When existing debt is derecognised in the financial statements any transaction costs not amortised are recognised immediately in the Consolidated Income Statement.

Upon derecognition of financial liabilities, any unamortised financing fees are recognised immediately in the Consolidated Income Statement.

Interest related to qualifying assets under construction included within PP&E is capitalised (refer to Note 7 – Property, plant and equipment).

Refer to Note 22 – Leases for accounting policy on interest expense on lease liabilities.

Interest arising from interest rate swaps is recorded as either interest income or expense over the term of the agreement. When a hedging instrument expires, is sold or terminated or no longer meets the requirements for hedge accounting, the cumulative gain or loss of hedging that was reported in equity is immediately reclassified to the Consolidated Income Statement.

23. Finance costs, net (continued)

Finance costs, net for the year ended 31 December were as follows:

	2019 $m	2018 $m
Interest expense on borrowings[a]	60.7	62.6
Other financing-related fees[b][c]	17.2	5.9
Interest expense on lease liabilities[d]	3.6	1.8
Interest income on interest rate swaps	(6.0)	(4.0)
Interest income on money market funds and deposits	(1.8)	(0.9)
Capitalised interest[e]	(0.6)	(0.5)
Other expense	0.5	0.3
Finance costs, net	**73.6**	**65.2**

(a) Refer to Note 19 – Borrowings for further details.
(b) Other financing-related fees include amortisation of deferred financing fees and revolving credit facility fees associated with both the previous credit agreement and new credit agreement. The previous credit agreement also included original issue discount representing the discount from par value at the time that debt was issued.
(c) For the year ended 31 December 2019, $11.2 million of deferred financing fees were recognised upon early termination of the Group's previous credit agreement.
(d) Interest expense on lease liabilities for the year ended 31 December 2019 relates to interest on lease liabilities for right-of-use assets which have been classified as leases under IFRS 16. For the year ended 31 December 2018, the interest expense relates to the interest on finance leases. Refer to Note 22 – Leases for further details.
(e) Capitalised interest was calculated using the Group's weighted average interest rate over the year of 3.8% (2018: 3.5%).

24. Commitments and contingencies

Commitments represent the Group's future capital expenditure which is not recognised as a liability in the Consolidated Financial Statements but represents a non-cancellable commitment.

A contingent liability is a possible liability that is not sufficiently certain to qualify for recognition as a provision because the amount cannot be measured reliably or because settlement is not considered probable.

Capital commitments

The Group had the following non-cancellable commitments at 31 December:

	2019 $m	2018 $m
Property, plant and equipment, capitalised software and development	12.4	10.2
Total	**12.4**	**10.2**

Contingent liabilities

Liability claims

On 31 May 2019, ConvaTec Inc. filed a lawsuit against Scapa Group plc (trading as Scapa Tapes North America LLC) and Webtec Converting LLC seeking a declaration that the company was within its rights to terminate a contract between the parties. On 10 July 2019, the defendants filed a motion seeking dismissal of the declaratory judgement action, and Scapa Tapes North America LLC filed a separate complaint seeking damages of $83.8 million against ConvaTec Inc. in relation to the contract cancellation. The Group's Board, in conjunction with its legal advisors, do not believe the claim has merit and no provision is recognised as at 31 December 2019.

25. Related party transactions

The Directors have not identified any related parties to the Group, other than the key management personnel. The Group considers key management personnel as defined in IAS 24, *Related Party Disclosures* to be the members of the CELT as set out on page 6 and the Non-Executive Directors as set out on pages 76 to 77.

Key management personnel compensation

Key management personnel compensation for the year ended 31 December was as follows:

	2019 $m	2018 $m
Short-term employee benefits	**12.9**	7.8
Share-based expense	**10.2**	4.4
Post-employment benefits	**0.4**	0.6
Total	**23.5**	12.8

At 31 December 2018 an amount of $0.1 million was outstanding relating to a loan to the Group's former CEO, this has been repaid in full in 2019. Further details of short-term employee benefits, share-based expense, post-employment benefits and termination benefits for the Executive Directors are shown on page 125. Details of the Non-Executive Directors' fees, included in the table above, are provided on page 131.

The Group has not been a party to any other material transaction, or proposed transactions, in which any member of the key management personnel had or was to have a direct or indirect material interest.

26. Subsequent events

The Group has evaluated subsequent events through 27 February 2020, the date the Consolidated Financial Statements were approved by the Board of Directors. No subsequent events requiring disclosure have been identified other than the proposed final dividend, details of which are disclosed in Note 16 – Dividends.

Non-IFRS financial information

Non-IFRS financial information or alternative performance measures ("APMs") are used as supplemental measures in monitoring the performance of our business. These measures include adjusted cost of goods sold, adjusted gross margin, adjusted selling and distribution costs, adjusted general and administrative expenses, adjusted research and development costs, adjusted other operating expenses, adjusted operating profit ("adjusted EBIT"), adjusted EBITDA, adjusted profit before tax, adjusted finance costs, adjusted non-operating expense, net, adjusted net profit, adjusted earnings per share, adjusted working capital, adjusted cash conversion, free cash flow and net debt. The adjustments applied to IFRS measures reflect the effect of certain cash and non-cash items that Group management believe are not related to the underlying performance of the Group. Reconciliations for these adjusted measures determined under IFRS are shown on pages 184 to 187. The definitions of adjusted measures are as calculated within the reconciliation tables.

In management's and the Board's view, the APMs reflect the underlying performance of the business and provide a meaningful supplement to the reported numbers to support how the business is managed and measured on a day-to-day basis. Adjusted results exclude certain items because, if included, these items could distort the understanding of our performance for the year and the comparability between periods. Adjusted measures also form the basis for performance measures for remuneration, e.g. adjusted EBIT. For further information see pages 184 and 187.

In determining whether an item should be presented as an allowable adjustment to IFRS measures, the Group considers items which are significant either because of their size or their nature, and which are non-recurring. For an item to be considered as an allowable adjustment to IFRS measures, it must initially meet at least one of the following criteria:

- It is a significant item, which may cross more than one accounting period.
- It has been directly incurred as a result of either an acquisition, divestiture, or arises from termination benefits without condition of continuing employment related to a major business change or restructuring programme.
- It is unusual in nature, e.g. outside the normal course of business.

If an item meets at least one of the criteria, the Board, through the Audit and Risk Committee, then exercises judgement as to whether the item should be classified as an allowable adjustment to IFRS performance measures.

Key adjustments for adjusted EBIT (also referred to as adjusted operating profit) are pre-IPO costs, CEO-related compensation not subject to continuing employment, together with termination benefits arising exclusively from major change programmes. Further adjustments, which include amortisation of pre-2018 acquisition intangibles and impairments to intangible and fixed assets are also made in arriving at adjusted EBIT. The tax effect of the adjustments is reflected in the adjusted tax expense to remove their effect from adjusted net profit and adjusted earnings per share.

Adjusted EBITDA, which is used to calculate our metric of adjusted cash conversion and the effective use of our working capital, is calculated by adding back pre-IPO costs, CEO-related compensation not subject to continuing employment, share-based payment expenses, together with termination benefits and related costs to our reported EBITDA.

Adjusted items, excluding the impact of tax, for the year ended 31 December 2019 and 2018 include the following credits or costs that are reflected in the reported measures:

- Amortisation of intangible assets relating to acquisitions pre 1 January 2018 (ongoing) ($140.2 million and $142.4 million respectively).
- Impairment of assets as a result of transformation or an unusual circumstance (loss of $105.2 million and $0.5 million respectively).
- Divestiture activities including assets held for sale (gain of $1.9 million for the year ended 31 December 2018).
- Termination benefits in relation to major change programmes ($5.8 million and $12.6 million respectively).
- CEO buy-out costs reflecting non-performance-related compensation for the loss of incentive awards from previous employment ($6.2 million), not subject to continuing employment.
- Share-based payment compensation expense arising from pre-IPO equity grants. This concluded in 2018 ($6.2 million for the year ended 31 December 2018).

These items are excluded from the adjusted measures to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis. They are typically gains or losses/costs arising from events that are not considered part of the core operations of the business or are considered to be significant in nature. They may cross several accounting periods. We also adjust for the tax effect of these items.

Acquisition-related amortisation of intangible assets

Our adjusted measures exclude the amortisation of intangibles arising from acquisitions made before 1 January 2018. After 1 January 2018, amortisation in relation to incremental "bolt-on" acquisitions is not excluded as smaller acquisitions are part of our Group strategy and should be included in our reported and adjusted measures. Management will review significant acquisitions on a case-by-case basis to determine whether the exclusion of the amortisation of acquired intangibles would provide a more meaningful comparison of our results.

Impairment of assets

Impairments, write-offs and gains and losses from the disposal of fixed assets are adjusted when management consider the circumstances surrounding the adjustment are not reflective of our core business or when the adjustments relate to pre-2018 acquisition intangibles.

Divestiture activities

These include significant assets which are disposed of as a result of a sale, major business change or restructuring programme, including gains and losses resulting from classification of assets as held for sale.

Termination benefits and related costs

Termination benefits and related costs arise from Group-wide initiatives to reduce the recurring cost base and improve efficiency in the business. The Board considers each project individually to determine whether its size and nature warrants separate disclosure. Qualifying items are limited to termination benefits (including retention) without condition of continuing employment in respect of major Group-wide change programmes. Where discreet qualifying items are identified these costs are highlighted and excluded from the calculation of our adjusted measures. Restructuring-related costs not related to termination benefits are reported in the normal course of business.

CEO buy-out costs

The Group has incurred costs following the commencement of employment of Karim Bitar as CEO of ConvaTec Group Plc on 30 September 2019 to compensate for the loss of incentive awards from his previous employment. These costs relate to past performance in a previous employment, were not contingent on continuing employment with ConvaTec Group Plc, have no future performance requirements and do not represent the underlying cost base or performance of the Group in 2019. Awards granted include both cash and equity-based payment components which vested immediately.

Pre-IPO share-based payment compensation

In order to provide greater comparability and reflecting the changes within the Group as a result of the IPO (October 2016), certain IPO related costs were excluded from adjusted measures. Final residual share-based costs were incurred in 2018.

Reconciliation of reported earnings to adjusted earnings for the years ended 31 December 2019 and 2018

Year ended 31 December 2019	Revenue $m	Gross profit $m	Operating costs $m	Operating profit $m	Finance costs $m	Non-operating expense, net $m	PBT $m	Taxation $m	Net profit $m
Reported	1,827.2	955.6	(858.7)	96.9	(73.6)	(4.4)	18.9	(9.1)	9.8
Amortisation of pre-2018 acquisition intangibles	–	122.6	17.6	140.2	–	–	140.2	(10.1)	130.1
Impairment of assets	–	–	105.2	105.2	–	–	105.2	–	105.2
Termination benefits and other related costs	–	–	5.8	5.8	–	–	5.8	(0.9)	4.9
CEO buy-out costs	–	–	6.2	6.2	–	–	6.2	(1.2)	5.0
Total adjustments and their tax effect	–	122.6	134.8	257.4	–	–	257.4	(12.2)	245.2
Other discrete tax items	–	–	–	–	–	–	–	(23.0)	(23.0)
Adjusted	1,827.2	1,078.2	(723.9)	354.3	(73.6)	(4.4)	276.3	(44.3)	232.0
Software and R&D amortisation				10.4					
Post-2017 acquisition amortisation				1.3					
Depreciation				57.9					
Impairment/write-off of assets				9.1					
Post-IPO share-based payment compensation				10.1					
Adjusted EBITDA				443.1					

Impairment of assets of $105.2 million is predominantly related to a review of the product portfolio which has been undertaken as part of the Transformation Initiative which has resulted in the identification of impairment triggers in 2019 in relation to certain of the Group's intangible assets.

Termination benefits and other related costs were $5.8 million, pre-tax, in the year ended 31 December 2019. All initiatives recognised in 2018 are considered complete, $1.5 million was recognised in the current year in respect of these programmes. The Transformation Initiative is a global multi-year transformation programme which will simplify the way in which the business operates. Costs incurred for the year ended 31 December 2019 were $4.3 million. We expect to incur between $31 million and $36 million of severance and associated retention costs over 2020 and 2021.

CEO buy-out costs were $6.2 million, pre-tax, in the year ended 31 December 2019 and relate to cash paid of $2.1 million and equity-based incentive awards of $4.1 million granted to the CEO upon commencement of employment with ConvaTec Group Plc on 30 September 2019. These awards were not subject to continuing employment or performance conditions.

Other discrete tax items are a result of the Swiss tax reform which was substantively enacted on 4 October 2019 and is effective on 31 December 2019. As a result, ConvaTec International Services GmbH, is subject to a significant change in effective tax rate. The Swiss effective rate, which will increase over a ten-year period to 1 January 2030, is alleviated by grandfathering provisions which results in the estimation and recognition of a deferred tax asset. The value of the deferred tax asset of $23.0 million has been calculated on a best estimate basis using a specific methodology that is permitted under Swiss law. Given the future anticipated transformative changes in the business, there is estimation uncertainty in the calculation of the deferred tax asset and this remains subject to review as a key source of estimation uncertainty. For further details on deferred taxation, see Note 5 – Income taxes to the Consolidated Financial Statements.

Year ended 31 December 2018	Revenue $m	Gross margin $m	Operating costs $m	Operating profit $m	Finance costs $m	Non-operating expense, net $m	PBT $m	Taxation $m	Net profit $m
Reported	1,832.1	973.8	(706.1)	267.7	(65.2)	(1.3)	201.2	20.4	221.6
Amortisation of pre-2018 acquisition intangibles	–	125.1	17.3	142.4	–	–	142.4	(10.3)	132.1
Disposal of assets	–	0.4	0.1	0.5	–	–	0.5	–	0.5
Divestiture activities	–	–	–	–	–	(1.9)	(1.9)	–	(1.9)
Termination benefits and other related costs	–	2.9	9.7	12.6	–	–	12.6	(0.9)	11.7
Pre-IPO share-based payment expense	–	–	6.2	6.2	–	–	6.2	–	6.2
Total adjustments and their tax effect	–	128.4	33.3	161.7	–	(1.9)	159.8	(11.2)	148.6
Other discrete tax items	–	–	–	–	–	–	–	(65.7)	(65.7)
Adjusted	1,832.1	1,102.2	(672.8)	429.4	(65.2)	(3.2)	361.0	(56.5)	304.5
Software and R&D amortisation				9.3					
Post-2017 acquisition amortisation				0.9					
Depreciation				37.4					
Post-IPO share-based payment compensation				5.4					
Adjusted EBITDA				482.4					

Disposal of assets relates to $0.5 million for the final write-off of certain manufacturing fixed assets following the closure of the Greensboro site in 2017. Divestiture activities of $1.9 million reflect a gain from the sale of the plant in Greensboro.

Termination benefits and other related costs were $12.6 million, pre-tax, in 2018 and related to three significant programmes including:
- $2.5 million in relation to the completion of the pre-IPO Margin Improvement Programme, incurred pre-June 2018, giving total costs incurred in relation to this programme of $25.6 million from 2015 to 2018.
- $4.7 million in relation to the transition of head office support functions from the US to the UK. The programme completed in 2019 with a total cost of $5.8 million.
- $5.4 million in relation to restructuring geographical sales teams. The programme completed in 2019 with a total cost of $6.9 million.

Other discrete items principally represent tax benefits of $30.4 million and $35.0 million arising from the reassessment of deferred tax liabilities in relation to unremitted earnings and recognition of additional deferred tax assets resulting from the December 2017 US tax reform respectively.

Reconciliation of basic and diluted reported earnings per share to adjusted earnings per share for the years ended 31 December 2019 and 31 December 2018

	Reported 2019 $m	**Adjusted 2019 $m**	Reported 2018 $m	Adjusted 2018 $m
Net profit attributable to the shareholders of the Group	**9.8**	**232.0**	221.6	304.5
		Number		Number
Basic weighted average ordinary shares in issue[(a)]		**1,971,014,011**		1,956,085,112
Diluted weighted average ordinary shares in issue[(a)]		**1,976,156,374**		1,958,078,762
	$ per share	**$ per share**	$ per share	$ per share
Basic and diluted earnings per share	**0.00**	**0.12**	0.11	0.16

(a) See Note 6 – Earnings per share to the Consolidated Financial Statements.

Reconciliation of reported and adjusted operating costs for the years ended 31 December 2019 and 31 December 2018

	2019					2018				
	S&D[(a)] $m	**G&A[(b)] $m**	**R&D[(c)] $m**	**Other[(d)] $m**	**Operating costs $m**	S&D[(a)] $m	G&A[(b)] $m	R&D[(c)] $m	Other[(d)] $m	Operating costs $m
Reported	**(433.0)**	**(266.4)**	**(53.8)**	**(105.5)**	**(858.7)**	(418.0)	(238.2)	(49.9)	–	(706.1)
Amortisation of pre-2018 acquisition intangibles	**–**	**17.6**	**–**	**–**	**17.6**	–	17.2	0.1	–	17.3
Impairment of assets	**–**	**–**	**–**	**105.2**	**105.2**	–	0.1	–	–	0.1
Termination benefits and other related costs	**1.7**	**4.1**	**–**	**–**	**5.8**	2.7	6.4	0.6	–	9.7
CEO buy-out costs	**–**	**6.2**	**–**	**–**	**6.2**	–	–	–	–	–
	1.7	**27.9**	**–**	**105.2**	**134.8**	2.7	23.7	0.7	–	27.1
IPO related costs										
Pre-IPO share-based payment expense and related costs	**–**	**–**	**–**	**–**	**–**	–	6.2	–	–	6.2
Total in relation to IPO	**–**	**–**	**–**	**–**	**–**	–	6.2	–	–	6.2
Adjusted	**(431.3)**	**(238.5)**	**(53.8)**	**(0.3)**	**(723.9)**	(415.3)	(208.3)	(49.2)	–	(672.8)

(a) "S&D" represents selling and distribution expenses.
(b) "G&A" represents general and administrative expenses.
(c) "R&D" represents research and development expenses.
(d) "Other" represents other operating expenses.

Net debt

Net debt, which is used to monitor the leverage of the business, is calculated as the carrying value of current and non-current borrowings on the face of the Consolidated Statement of Financial Position, net of cash and cash equivalents.

	2019 $m Reported	2018 $m Reported	2018 $m Applying IFRS 16 opening lease liabilities[(a)]
Borrowings	**1,486.1**	1,620.8	1,620.8
Finance leases	**–**	23.7	–
IFRS 16 lease liabilities	**88.5**	–	89.5
Total interest-bearing borrowings	**1,574.6**	1,644.5	1,710.3
Cash and cash equivalents	**(385.8)**	(315.6)	(315.6)
Net debt (including leases)	**1,188.8**	1,328.9	1,394.7
Net debt	**1,100.3**	1,305.2	1,305.2

(a) On adoption of IFRS 16, an opening lease liability of $89.5 million was recognised. To more readily understand the year-on-year movement in net debt, the net debt for the year ended 31 December 2018 is presented above on both a reported basis, which includes finance lease liabilities only, and using the IFRS 16 opening lease liability which includes all leases as defined by our IFRS 16 accounting policy. For further information see Note 1 – Basis of preparation to the Consolidated Financial Statements.

Cash conversion for the years ended 31 December 2019 and 31 December 2018

	2019 $m	2018 $m
Reported Operating profit/EBIT	**96.9**	267.7
Depreciation of property, plant and equipment	**35.5**	37.4
Depreciation of right-of-use assets	**22.4**	–
Amortisation	**151.9**	152.6
Impairment of intangible assets/write-off of property, plant and equipment	**114.3**	–
Reported EBITDA	**421.0**	457.7
Non-cash items in EBITDA		
Share-based payment expense	**14.2**	11.2
Disposals	**–**	3.4
	14.2	14.6
Working capital movement	**51.6**	(23.2)
Capital expenditure	**(61.4)**	(72.1)
Reported net cash for cash conversion	**425.4**	377.0
Less: tax paid	**(37.0)**	(35.8)
Reported free cash flow	**388.4**	341.2

Reconciliation of Adjusted EBITDA, Adjusted Non-Cash Items, Adjusted Working Capital and Adjusted Net Cash (for Adjusted Cash Conversion measurement)

	2019 $m	2018 $m
Reported EBITDA	**421.0**	457.7
Share-based payment expense	**14.2**	11.2
Pre-IPO share-based payment associated costs	**–**	0.4
CEO buy-out costs	**2.1**	–
Disposals	**–**	0.5
Termination benefits and other related costs	**5.8**	12.6
Total adjustments (a)	**22.1**	24.7
Adjusted EBITDA	**443.1**	482.4
Reported non-cash items	**14.2**	14.6
Share-based payment expense	**(14.2)**	(11.2)
Disposals	**–**	(0.5)
Total adjustments (b)	**(14.2)**	(11.7)
Adjusted non-cash items	**–**	2.9
Reported working capital movement	**51.6**	(23.2)
Decrease/(increase) in severance provision	**0.3**	(3.6)
Decrease in accruals for remediation costs, corporate development and IPO-related costs	**–**	2.3
Decrease/(increase) in accruals for share-based payment associated costs	**0.1**	(0.4)
Decrease in liability for pre-IPO MIP	**0.1**	0.3
Total adjustments (c)	**0.5**	(1.4)
Adjusted working capital movement	**52.1**	(24.6)
Reported net cash for cash conversion	**425.4**	377.0
Total adjustments above (a), (b), (c)	**8.4**	11.6
Adjusted net cash for cash conversion	**433.8**	388.6
Less: tax paid	**(37.0)**	(35.8)
Adjusted free cash flow	**396.8**	352.8
Reported cash conversion	**101.0%**	82.4%
Adjusted cash conversion	**97.9%**	80.6%

Company Statement of Financial Position

As at 31 December 2019

	Notes	2019 $m	2018 $m
Assets			
Non-current assets			
Investment in subsidiaries	3	**4,046.9**	3,887.4
Deferred tax assets	4	**2.0**	2.6
		4,048.9	3,890.0
Current assets			
Other receivables	5	**20.7**	1.9
Cash and bank balances		**0.1**	0.1
		20.8	2.0
Total assets		**4,069.7**	3,892.0
Equity and liabilities			
Current liabilities			
Trade and other payables	6	**41.1**	5.8
		41.1	5.8
Total liabilities		**41.1**	5.8
Equity			
Share capital	7	**242.9**	240.7
Share premium	7	**70.7**	39.8
Own shares	7	**(10.8)**	(6.8)
Retained surplus		**1,528.5**	1,574.7
Merger reserve		**1,765.6**	1,765.6
Cumulative translation reserve		**376.3**	221.2
Other reserve		**55.4**	51.0
Total equity		**4,028.6**	3,886.2
Total equity and liabilities		**4,069.7**	3,892.0

The Company reported a net profit for the year ended 31 December 2019 of $66.8 million (2018: $1,549.0 million net loss).

The Financial Statements of ConvaTec Group Plc (registered number 10361298) were approved by the Board of Directors and authorised for issue on 27 February 2020. They were signed on its behalf by:

Frank Schulkes
Chief Financial Officer

Company Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital $m	Share premium $m	Own shares $m	Retained surplus $m	Merger reserve $m	Cumulative translation reserve $m	Other reserves $m	Total equity $m
At 1 January 2018	238.8	1.3	(8.1)	1,622.7	3,381.9	550.6	41.0	5,828.2
Net loss	–	–	–	(1,549.0)	–	–	–	(1,549.0)
Transfer impairment of investment	–	–	–	1,616.3	(1,616.3)	–	–	–
Foreign currency translation adjustment	–	–	–	–	–	(329.4)	–	(329.4)
Total comprehensive loss	–	–	–	67.3	(1,616.3)	(329.4)	–	(1,878.4)
Dividends paid	–	–	–	(74.9)	–	–	–	(74.9)
Scrip dividend	1.9	38.5	–	(40.4)	–	–	–	–
Share-based payments	–	–	–	–	–	–	11.2	11.2
Share awards vested	–	–	1.3	–	–	–	(1.3)	–
Excess tax benefits for share-based payments	–	–	–	–	–	–	0.1	0.1
At 31 December 2018	**240.7**	**39.8**	**(6.8)**	**1,574.7**	**1,765.6**	**221.2**	**51.0**	**3,886.2**
Net profit	**–**	**–**	**–**	**66.8**	**–**	**–**	**–**	**66.8**
Foreign currency translation adjustment	**–**	**–**	**–**	**–**	**–**	**155.1**	**–**	**155.1**
Total comprehensive income	**–**	**–**	**–**	**66.8**	**–**	**155.1**	**–**	**221.9**
Dividends paid	**–**	**–**	**–**	**(79.9)**	**–**	**–**	**–**	**(79.9)**
Scrip dividend	**2.2**	**30.9**	**–**	**(33.1)**	**–**	**–**	**–**	**–**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**14.2**	**14.2**
Share awards vested	**–**	**–**	**10.0**	**–**	**–**	**–**	**(10.0)**	**–**
Excess tax benefits for share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Purchase of own shares	**–**	**–**	**(14.0)**	**–**	**–**	**–**	**–**	**(14.0)**
At 31 December 2019	**242.9**	**70.7**	**(10.8)**	**1,528.5**	**1,765.6**	**376.3**	**55.4**	**4,028.6**

For further information on share-based payments, please see Note 17 – Share-based payments, and for dividends see Note 16 – Dividends to the Consolidated Financial Statements.

Notes to the Company Financial Statements

1. Basis of preparation

This section describes the Company's significant accounting policies that relate to the Company Financial Statements and explains the basis of preparation of the Company Financial Statements and any critical accounting judgements and estimates identified by management. Specific accounting policies relating to the Notes to the Company Financial Statements are described within that note.

1.1 General information

The separate Financial Statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 ("FRS 100") issued by the Financial Reporting Council ("FRC"). Accordingly, the Financial Statements have been prepared in accordance with Financial Reporting Standard 101 ("FRS 101") Reduced Disclosure Framework as issued by the FRC.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement and certain related party transactions.

As permitted by s408 of the Companies Act 2006 the Company has elected not to present its own Income Statement for the current or prior year. The profit attributable to the Company is disclosed in the footnote to the Company's Statement of Financial Position.

Where required, equivalent disclosures are given in the Consolidated Financial Statements.

The auditor's remuneration for audit and other services is disclosed in Note 3.3 – Auditor's remuneration to the Consolidated Financial Statements.

1.2 Significant accounting policies

Basis of accounting

The Financial Statements have been prepared on the historical cost basis, except for certain financial instruments where fair value has been applied. The principal accounting policies adopted are the same as those set out in the Consolidated Financial Statements except as noted below.

Foreign currencies

The functional currency of the Company is Sterling, being the currency of the primary economic environment in which it operates.

The Company has adopted US dollars as the presentation currency for its Financial Statements, in line with the presentation currency for the Consolidated Financial Statements. For the purpose of presenting individual company financial statements, assets and liabilities of the Company are translated into US dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity, the cumulative translation reserve, in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Share-based payments

The Company has implemented the generally accepted accounting principle for accounting for share-based payments with subsidiary undertakings under FRS 101, whereby the Company has granted rights to issue its shares to employees of its subsidiary undertakings under an equity-settled arrangement and the subsidiaries have not reimbursed the Company for these rights. Under this arrangement, the Company treats the share-based payment recognised in the subsidiary's financial statements as a cost of investment in the subsidiary and credits equity with an equal amount.

1.3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Company's Financial Statements in accordance with FRS 101 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported value of assets and liabilities, income and expense. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Management has concluded that the critical accounting and key sources of estimation uncertainty that were reported in the year ended 31 December 2018 would no longer result in a material adjustment in the next 12 months.

2. Staff costs

The Executive Directors of the ConvaTec Plc Group are employed by the Company. The remuneration of the Executive Directors' is set out on pages 124 to 131 within the Remuneration Committee report.

Their aggregate remuneration comprised:

	2019 $m	2018 $m
Wages and salaries[(a)(b)]	**9.5**	3.7
Social security costs	**1.3**	0.2
Pension-related costs	**0.2**	0.2
Total	**11.0**	4.1

(a) Included within wages and salaries are share-based payment charges of $4.9 million (2018: $1.8 million).
(b) CEO buy-out costs of $6.2 million are included within wages and salaries, refer to Directors Remuneration Report on page 125 for further details.

Average monthly number of employees (including Executive Directors) was 2 (2018: 2), classified as general and administrative employees.

3. Investments in subsidiaries

Investments in subsidiaries represent the cost of the Company's investment in its subsidiary undertakings, net of any impairment charges. Refer to pages 194 to 196 for details of all the Company's direct and indirect holdings.

Accounting policy

Investments in Group undertakings are stated at cost less any provision for impairment. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of the recoverable amount. If the recoverable amount of the investment is less than the carrying amount of the investment, the investment is considered to be impaired and is written down to its recoverable amount.

Any impairment loss is offset against the merger reserve in the first instance. If the merger reserve is not sufficient to cover an impairment loss the excess impairment is recognised immediately in the Income statement.

	Cost $m	**Impairment $m**	**Net book value $m**
At 1 January 2018	5,827.4	–	5,827.4
Capital contributions arising from share-based payments to employees of subsidiaries	4.5	–	4.5
Reduction due to reimbursement upon exercised awards	(0.9)	–	(0.9)
Impairment	–	(1,616.3)	(1,616.3)
Foreign exchange	(327.3)	–	(327.3)
At 31 December 2018	**5,503.7**	**(1,616.3)**	**3,887.4**
Capital contributions arising from share-based payments to employees of subsidiaries	**11.5**	**–**	**11.5**
Reduction due to reimbursement upon exercised awards	**(5.3)**	**–**	**(5.3)**
Foreign exchange	**217.0**	**(63.7)**	**153.3**
At 31 December 2019	**5,726.9**	**(1,680.0)**	**4,046.9**

The assessment of the recoverable amount performed at 31 December 2018, triggered by a decrease in the share price in October 2018 and the continued valuation of shares at the depressed value, resulted in an impairment of $1,616.3 million in the year ended 31 December 2018. The recoverable amount was determined with reference to the methodology of IAS 36, *Impairment of Assets*, by assessing the value in use of the investments based on discounted cash flows. The impact on the retained earnings was offset by a transfer of the same amount from the merger reserve.

An assessment was performed of the recoverable amount of the investments in subsidiaries at 31 December 2019 with no further impairment identified. The share price at 31 December 2019 was £1.99 (2018: £1.39).

3. Investments in subsidiaries (continued)

The following UK subsidiaries are exempt from the requirement to file audited accounts by virtue of Section 479A of the Companies Act 2006:

Name	Company registration number
SureCalm Healthcare Holdings Limited	07112438
SureCalm Healthcare Limited	07129736
Resus Positive Limited	02777441
B.C.A. Direct Limited	03244349
Alpha-Med (Medical & Surgical) Limited	02672844
ConvaTec International U.K. Limited	06622355

4. Deferred tax assets

Deferred tax assets mainly arise in relation to timing differences on the exercise of share-based awards, and taxable losses arising in the normal course of business.

	$m
At 1 January 2018	0.2
Movement in Income Statement	2.4
Movement in Statement of Other Comprehensive Income	0.1
Transfer to Group companies	(0.1)
At 31 December 2018	**2.6**
Movement in Income Statement	**(0.9)**
Movement in Statement of Other Comprehensive Income	**0.2**
Foreign exchange	**0.1**
At 31 December 2019	**2.0**

The deferred tax asset consists of deferred tax on the following items:

	2019 $m	2018 $m
Share-based payment expense	**0.5**	0.2
Tax losses	**1.5**	2.4
At 31 December	**2.0**	2.6

The deferred tax asset is recognised on the basis of an expectation of sufficient future profits in the short term against which the future reversal of the timing difference may be deducted.

5. Other receivables

Other receivables consist of amounts due from Group undertakings, other receivables and prepaid insurance.

	2019 $m	2018 $m
Amounts falling due within one year:		
Amounts owed by Group undertakings	**12.3**	0.8
Other receivables	**7.5**	0.4
Prepayments	**0.9**	0.7
	20.7	1.9

Included in the amounts owed from Group undertakings at 31 December 2019 are intercompany loans of $6.8 million (2018: $nil) with a variable interest rate of one-year LIBOR plus 1.64%. The loans are unsecured, and are repayable on demand.

6. Trade and other payables

Trade payables consist of amounts payable to third parties related predominantly to the Company being listed on the London Stock Exchange.

Other payables represent amounts owed to Group undertakings, accruals and other taxation and social security.

	2019 $m	2018 $m
Amounts falling due within one year:		
Trade payables	**0.2**	0.2
Amounts owed to Group undertakings	**36.3**	2.5
Other taxation and social security	**1.7**	1.1
Accruals	**2.9**	2.0
	41.1	5.8

7. Reserves

All reserve balances explained within this note are components of Equity and are non-distributable.

Share capital, share premium and own shares
Details of the Company's share capital, share premium and own shares are detailed in Note 15 – Share capital and reserves to the Consolidated Financial Statements.

Merger reserve
The merger reserve represents the fair value in excess of the par value of shares issued as part of a share exchange upon incorporation.

Currency translation reserve
The currency translation reserve is the exchange differences arising on the translation of the assets and liabilities of the Company into US dollars at the prevailing balance sheet rate and income and expense items being translated at the average exchange rates for the period.

Other reserves
Other reserves relates to movements on equity-settled share-based payments.

8. Distributable reserves

As the Company is a holding company with no direct operations the capacity of the Company to make dividend payments is primarily derived from dividends received from subsidiary companies.

Retained and realised distributable reserves equates to the retained surplus of the Company. The distributable reserves of the Company at 31 December 2019 are $1,528.5 million (2018: $1,574.7 million).

Details of the considerations and rationale for the distribution of dividend are given in the Directors' report on page 132.

9. Subsequent events

On 27 February 2020, the Board proposed the final dividend in respect of 2019 subject to shareholder approval at the Annual General Meeting on 7 May 2020, to be distributed on 14 May 2020. See Note 16 – Dividends to the Consolidated Financial Statements for further details.

Subsidiary and related undertakings

Details of the Company's subsidiaries and associated undertakings at 31 December 2019 are as follows:

Name	Place of business and registered office	Portion of ownership interest %	Portion of voting power held %
Directly held investments			
ConvaTec Management Holdings Limited[34]	United Kingdom	100%	100%
ConvaTec Finance Holdings Limited[34]	United Kingdom	100%	100%
Cidron Healthcare Limited[15]	Jersey	100%	100%
Indirectly held investments			
180 Medical Acquisition Inc.[1]	US	100%	100%
180 Medical Holdings Inc.[1]	US	100%	100%
180 Medical Inc.[1]	US	100%	100%
AbViser Medical, LLC[2]	US	100%	100%
Akers & Dickinson Limited[3]	United Kingdom	100%	100%
Allied Medical (UK) Services Limited[3]	United Kingdom	100%	100%
Alpha-Med (Medical & Surgical) Limited[3]	United Kingdom	100%	100%
Amcare Limited[3]	United Kingdom	100%	100%
Arthur Wood Limited[3]	United Kingdom	100%	100%
B.C.A. Direct Limited[3]	United Kingdom	100%	100%
BMD Comercio de Productos Medicos Ltda.[4]	Brazil	100%	100%
Boston Medical Care de Chile S.P.A[5]	Chile	100%	100%
Boston Medical Care, S. de R.L. de C.V.[6]	Mexico	100%	100%
Boston Medical Care S.A.S IPS[7]	Colombia	100%	100%
Boston Medical Device de Chile S.A.[5]	Chile	100%	100%
Boston Medical Device de México, S. de R.L. de C.V.[6]	Mexico	100%	100%
Boston Medical Device de Venezuela, C.A.[9]	Venezuela	100%	100%
Boston Medical Device Dominicana S.R.L.[10]	Dominican Republic	100%	100%
Boston Medical Device Ecuador S.A.[11]	Ecuador	100%	100%
Boston Medical Device, Inc.[2]	US	100%	100%
Boston Medical Device International, LLC[12]	US	100%	100%
Boston Medical Devices Columbia Ltda.[13]	Colombia	100%	100%
Boston Medical Devices LLC[2]	US	100%	100%
Bradgate-Unitech Limited[3]	United Kingdom	100%	100%
Cidron Healthcare GP, Inc.[14]	US	100%	100%
ConvaTec (Australia) PTY Limited[16]	Australia	100%	100%
ConvaTec (Austria) GmbH[17]	Austria	100%	100%
ConvaTec (Germany) GmbH[18]	Germany	100%	100%
ConvaTec (New Zealand) Limited[19]	New Zealand	100%	100%
ConvaTec (Singapore) PTE Limited[20]	Singapore	100%	100%
ConvaTec (Singapore) PTE Limited (Taiwan Branch)[21]	Taiwan	100%	Branch
ConvaTec (Sweden) AB[22]	Sweden	100%	100%
ConvaTec (Switzerland) GmbH[23]	Switzerland	100%	100%
ConvaTec (Thailand) Co. Limited[24]	Thailand	100%	100%
ConvaTec Accessories Limited[3]	United Kingdom	100%	100%
ConvaTec Argentina SRL[25]	Argentina	100%	100%
ConvaTec Belgium BVBA[26]	Belgium	100%	100%
ConvaTec Canada Limited[27]	Canada	100%	100%
ConvaTec Ceska Republika s.r.o.[28]	Czech Republic	100%	100%
ConvaTec China Limited[29]	China	100%	100%
Convatec China Limited (Bei Jing Branch)[30]	China	100%	Branch
Convatec China Limited (Guang Zhou Branch)[31]	China	100%	Branch
ConvaTec Denmark A/S[32]	Denmark	100%	100%
ConvaTec Dominican Republic Inc.[33]	Dominican Republic	100%	100%
ConvaTec France Holdings SAS[35]	France	100%	100%
ConvaTec Healthcare D S.à.r.l.[36]	Luxembourg	100%	100%
ConvaTec Healthcare Ireland Limited[37]	Ireland	100%	100%
ConvaTec Hellas Medical Products S.A.[38]	Greece	100%	100%

Name	Place of business and registered office	Portion of ownership interest %	Portion of voting power held %
ConvaTec Holdings U.K. Limited[3]	United Kingdom	100%	100%
ConvaTec Hong Kong Limited[39]	Hong Kong	100%	100%
ConvaTec Inc.[2]	US	100%	100%
ConvaTec India Private Limited[40]	India	100%	100%
ConvaTec International Services GmbH[23]	Switzerland	100%	100%
ConvaTec International U.K. Limited[34]	United Kingdom	100%	100%
ConvaTec Italia S.r.l.[41]	Italy	100%	100%
ConvaTec Japan KK[42]	Japan	100%	100%
ConvaTec Korea, Ltd[43]	Korea	100%	100%
ConvaTec Limited[3]	United Kingdom	100%	100%
ConvaTec Malaysia Sdn Bhd[44]	Malaysia	100%	100%
ConvaTec Middle East & Africa LLC[45]	Egypt	100%	100%
ConvaTec Nederland B.V.[46]	Netherlands	100%	100%
ConvaTec Norway AS[47]	Norway	100%	100%
ConvaTec OY[48]	Finland	100%	100%
ConvaTec Peru S.A.C.[49]	Peru	100%	100%
ConvaTec Polska Sp. Z.o.o[50]	Poland	100%	100%
ConvaTec Spain S.L.[51]	Spain	100%	100%
ConvaTec Sağlik Ürünleri Limited Şirketi[52]	Turkey	100%	100%
ConvaTec South Africa (PTY) Limited[53]	South Africa	100%	100%
ConvaTec Spain Holdings, S.L.[51]	Spain	100%	100%
ConvaTec Speciality Fibres Limited[3]	United Kingdom	100%	100%
ConvaTec Technologies Inc.[54]	US	100%	100%
CVT Business Services, Unipessoal Lda.[55]	Portugal	100%	100%
EuroTec Beheer B.V.[56]	Netherlands	100%	100%
EuroTec B.V.[56]	Netherlands	100%	100%
EuroTec BV – Belgium Branch[57]	Belgium	100%	Branch
EuroTec GmbH[58]	Germany	100%	100%
Farnhurst Medical Limited[3]	United Kingdom	100%	100%
FE Unomedical Limited[59]	Belarus	99%	99%
In-Home Products, Inc.[60]	US	100%	100%
J&R Medical, LLC[61]	US	100%	100%
KVTech Portugal – Produtos Medicos Unipessoal Ltda[62]	Portugal	100%	100%
Laboratoires ConvaTec SAS[35]	France	100%	100%
Lance Blades Limited[3]	United Kingdom	100%	100%
M.S.B. Limited[3]	United Kingdom	100%	100%
Needle Industries (Sheffield) Limited[3]	United Kingdom	100%	100%
Nottingham Medical Equipment Limited[3]	United Kingdom	100%	100%
Novacare UK Limited[3]	United Kingdom	100%	100%
Papyro-Tex A/S[63]	Denmark	100%	100%
Personally Delivered, Inc.[64]	US	100%	100%
Pharma-Plast Limited[3]	United Kingdom	100%	100%
PRN Medical Services, LLC[65]	US	100%	100%
PRNMS Investments LLC[65]	US	100%	100%
Resus Positive Limited[3]	United Kingdom	100%	100%
Rotax Razor Company Limited[3]	United Kingdom	100%	100%
Shrimpton & Fletcher Limited[3]	United Kingdom	100%	100%
South Shore Medical Supply, Inc.[66]	US	100%	100%
Steriseal Limited[3]	United Kingdom	100%	100%
SureCalm Healthcare Holdings Limited[3]	United Kingdom	100%	100%
SureCalm Healthcare Ltd[3]	United Kingdom	100%	100%
SureCalm Pharmacy Limited[3]	United Kingdom	100%	100%
Symbius Medical Inc.[65]	US	100%	100%

Subsidiary and related undertakings (continued)

Name	Place of business and registered office	Portion of ownership interest %	Portion of voting power held %
Unomedical America, Inc.[67]	US	100%	100%
Unomedical A/S[68]	Denmark	100%	100%
Unomedical Developments Limited[3]	United Kingdom	100%	100%
Unomedical Devices S.A. de C.V.[69]	Mexico	100%	100%
Unomedical Holdings Limited[3]	United Kingdom	100%	100%
Unomedical, Inc.[67]	US	100%	100%
Unomedical Limited[3]	United Kingdom	100%	100%
Unomedical s.r.o.[70]	Slovakia	100%	100%
Unomedical S.A de C.V.[71]	Mexico	100%	100%
Unoplast (U.K.) Limited[3]	United Kingdom	100%	100%
Wilmington Medical Supply, Inc.[72]	US	100%	100%
Woodbury Holdings, Inc.[73]	US	100%	100%
WPI Acquisition Corporation[73]	US	100%	100%
WPI Holdings Corporation[73]	US	100%	100%
ZAO ConvaTec[74]	Russia	100%	100%

1 8516 Northwest Expressway, Oklahoma City, OK 73162, US
2 1160 Route 22 East, Suite 304, Bridgewater, NJ 08807, US
3 GDC First Avenue, Deeside Industrial Park, Deeside, Flintshire CH5 2NU, UK
4 Rua Alexandre Dumas, 2100,15º. Andar, Ed Corporate Plaza, Conj 151 e 152, – Chácará Stº Antonio – São Paulo, Brazil Cep: 04717-913
5 Av Suecia 0181, Providencia, Santiago, Chile
6 Avenida Insurgentes sur 619, 3° Piso, CIUDAD DE MEXICO, Nápoles, 03810, MEXICO
7 Calle 82 # 18-31, Bogotá, Colombia
8 Av Andres Bello 2325, oficina 8, piso 2, Providencia, Santiago, Chile
9 Av. Sorocaima, Libertador con Venezuela, Edif Atrium. Piso 3, Oficina 3G, Urb El Rosal, Municipio Chacao, Edo, Miranda, Venezuela
10 Avenida Wiston Churchill ES1. 27 de Febrero, Apto Plaza Central, Tercer Nivel, del Sector PIANTINI de la Ciudad de Santo Domingo de Guzman, República Dominicana Suite A-368
11 Pedro Ponce Carrasco E8- 06 y Av. Diego de Almagro Piso 12 Of 1204
12 2315 NW 107th Avenue Suite A30, Doral, Florida 33172, US
13 Torre los Nogales, Calle 76 # 11-17, Fifth and Second Floor, Bogota, Colombia
14 The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, Delaware 19801, US
15 44 Esplanade, St. Helier, Jersey JE4 9WG, Channel Islands
16 Level 2 Building 5, Brandon Office Park, 530-540 Springvale Road, Glen Waverley VIC 3150, Australia
17 Schubertring 6, 1010 Wien, Austria
18 Gisela-Stein-Strasse 6, 81671 Munich, Germany
19 Crowe Horwath, Level 29, 188 Quay Street, Auckland 1010, New Zealand
20 456 Alexandra Road, Fragrance Empire Building #18-01/02, Singapore 119962
21 5F.-4, No. 57, Fuxing N. Rd, Songshan Dist., Taipei City, Taiwan (Post code :10595)
22 Gårdsfogdevägen 18B, 168 67 Bromma, Sweden
23 Mühlentalstrasse 36/38, 8200 Schaffhausen, Switzerland
24 Unit 5, 9th Floor M. Thai Tower, All Seasons Place, No. 87 Wireless Road, Lumpini, Phatumwan, Bangkok 10330, Thailand
25 CERRITO 1070 Piso:3 Dpto:71, 1010-CIUDAD AUTONOMA BUENOS AIRES
26 Parc d'Alliance, Boulevard de France 9, B-1420 Braine l'Alleud, Belgium
27 900-1959 Upper Water Street, Halifax, Nova Scotia B3J 2N2
28 Olivova 2096/4, Prague 1, 110 00, Praha 1, Czech Republic
29 Unit 1105-1106, Crystal Plaza Office Tower 1, No.1359 Yaolong Road, Pudong District, Shanghai 200124, P.R.C
30 Unit 805, 8F Jinbao Tower, No.89 Jinbao Street Dongcheng District, Beijing 100005, P.R.C.
31 Unit 808, Level 8, Fortune Plaza, No.116 Ti Yu Dong Road, Tianhe District, Guangzhou City, Guangdong Province, 510620, P.R.C.
32 Lautruphøj 1 DK-2750 Ballerup, Denmark
33 Carretera Sanchez km 18 ½, Parque Industrial Itabo, Haina, San Cristóbal, Dominican Republic
34 3 Forbury Place, 23 Forbury Road, Reading, RG1 3JH, UK
35 90, Boulevard National, La Garenne Colombes, F-92250, Paris, France
36 12C, rue Guillaume Kroll, L-1882 Luxembourg
37 10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland
38 392A Mesogeion Avenue, Ag. Paraskevi, 15341, Athens, Greece
39 Unit 1901 Yue Xiu Bldg 160–174, Lockhart Road, Wan Chai, Hong Kong
40 S – 604, 6th Floor, Brigade Gateway, World Trade Center, Dr Raj Kumar Road, Malleswaram, Yeshwantpur, Bangalore-560055, India
41 Via della Sierra Nevada, 60-00144 Rome, Italy
42 8–7, Roppongi 1-chome, Minato-ku, Tokyo 106-0032, Japan
43 4F, American Standard B/D, Yeongdongdaero 112gil 66, Gangnam-Gu, Seoul, Republic of Korea 06083
44 10th floor, Menara Hap Seng, No. 1 & 3, Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia
45 22 Kamal El Din Hussein St, 3rd Floor, Heliopolis Sheraton, Post Code 11977, Cairo, Egypt
46 Houttuinlaan 5F, 3447 GM Woerden, Netherlands
47 Nils Hansen vei 2, 0667 Oslo, Norway
48 Life Science Center, Keilaranta 16 B, 02150 Espoo, Finland
49 Av. La Encalada 1010 of. 806, Santiago de Surco, Lima 15023, Perú
50 Al. Armii Ludowej 26, 00-609 Warszawa, Poland
51 Constitucion 1, 3ªPlanta, 08960 Sant Just Desvern, Barcelona, Spain
52 Şehit İlknur Keles Sokak, Hüseyin Bağdatlioğlu Plaza 7/3, Kozyatagi, Istanbul, Turkey 34742
53 Workshop 17 Office 1-4, 16 Baker Street, Rosebank, Johannesburg, Gauteng 2196, Republic of South Africa
54 3993 Howard Hughes Parkway Suite 250, Las Vagas, Nevada 89169-6754, US
55 Avenida da Liberdade, 249 -1, 1250-143 Lisbon, Portugal
56 Schotsbossenstraat 8, 4705AG Roosendaal, Nederland
57 Stationsstraat 35, 2950 Kapellen, Belgium
58 Solinger Strasse 93 40764 Langenfeld, Germany
59 Zavodskaya Street., 50, 222750, Fanipol, Dzerzhinsk region., Minsk district, Republic of Belarus
60 14330 Midway Road, Building 1, Suite 100, Farmers Branch, TX 75244-3513, US (*Company in liquidation)
61 4635 Southwest Freeway, Suite 800, Houston, TX 77027-7105, US
62 Avenida da Libertade, 144, 7º 1250-146, Lisbon, Portugal
63 c/o ConvaTec Harlev Skinderskovvej 32-36, 2730 Herlev, Denmark
64 725 Primera Blvd, Suite 230, Lake Mary, FL 32746-2127, US
65 20333 N. 19th Avenue, Suite 101, Phoenix, AZ 85027-3627, US
66 58 Norfolk Avenue, Unit 2, South Easton, MA 02375-1907, US
67 5701-1 S Ware RD, McAllen, TX 78504, US
68 Åholmvej 1-3, 4320 Lejre, Denmark
69 Av. Fomento Industrial L9 M3, Parque Industrial del Norte, Reynosa Tamps, Mexico C.P. 88736
70 Priemyselný Park 3, 071 01 Michalovce, Slovakia
71 Avenida Industrial Falcón, L7, Parque Industrial del Norte, Reynosa Tamps, Mexico C.P. 88736
72 1206 N. 23rd Street, Wilmington, NC 28405-1810, US
73 725 Primera Blvd., Suite 200, Lake Mary, FL 32746-2127, US
74 Kosmodamianskaya nab. 52, building 1, 9th floor, 115054, Moscow, Russia

Independent auditor’s report

to the members of ConvaTec Group Plc

Report on the audit of the Financial Statements

1. Opinion

In our opinion:

- the Financial Statements of ConvaTec Group plc (the “Parent Company”) and its subsidiaries (the “Group”) give a true and fair view of the state of the Group’s and of the Parent Company’s affairs as at 31 December 2019 and of the Group’s profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101, *Reduced Disclosure Framework*; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the Financial Statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Company Statements of Financial Position;
- the Consolidated and Company Statements of Changes in Equity;
- the Consolidated Statement of Cash Flows; and
- the related Notes 1 to 26 of the Consolidated Financial Statements and Notes 1 to 9 of the Company Financial Statements.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101, *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council’s (the “FRC’s”) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – Revenue recognition – focusing on whether sales are valid in certain US and UK components, with increased risk in the recording of revenue for sales and, or shipments that either did not occur, or did not occur at the level recorded by management, or for which the risks and rewards have not passed to the customer. – Taxation – focusing on the recognition of deferred tax assets in a US component and the related impact on taxation charge and balance sheet amounts. – Taxation – focusing on the uncertain tax positions in connection with transfer pricing. – Impairment of certain finite-lived intangible assets – focusing on the judgements over the remaining useful life of the products and the extent of inclusion of benefits from the Transformation Initiatives in management’s forecasts. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the group financial statements was $6.9 million which was determined on the basis of 5.3% of an adjusted pre-tax profit measure.
Scoping	We performed full scope audit procedures on fourteen components, as well as the Parent Company, covering a total of eight countries. In addition, we have performed specified audit procedures in nine components across nine countries. Together, these accounted for 82% of revenue, 91% of profit before tax and 87% of net assets.

3. Summary of our audit approach (continued)

Significant changes in our approach	During the 2018 audit, we identified a key audit matter relating to the recoverability of the Parent Company's investments in its subsidiaries. This was driven by the October 2018 trading update following which the ConvaTec Group Plc share price fell substantially. The share price has since recovered and therefore, the risk of further indicators of impairment to the carrying value of the investment in subsidiary undertakings has reduced. As such, we no longer consider this to be a key audit matter. In the current year, we have identified two additional key audit matters. The first additional key audit matter relates to taxation focusing on uncertain tax positions in connection with transfer pricing. This is driven by a change in the Group's operating model to focus more on business performance at the franchise level, rather than on geographical markets. The second additional key audit matter relates to the impairment of certain finite-lived intangible assets related to acquired product technology. During 2019, as part of the Group's Transformation Initiative, a product portfolio review has been undertaken which has resulted in the identification of impairment triggers in relation to a number of the Group's intangible assets.

4. Conclusions relating to going concern, principal risks and viability statement

4.1. Going concern

We have reviewed the Directors' statement in Note 1 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the potential impacts of Brexit and COVID-19, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least twelve months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2. Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:
– the disclosures on pages 24 to 33 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
– the Directors' confirmation on page 72 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
– the Directors' explanation on pages 34 to 35 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the group to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Revenue recognition	
Key audit matter description	We have identified the risk of revenue recognition, specifically focused on the risk as to whether sales are valid in certain US and UK components with increased risk in the area of recording revenue for sales/shipments that either did not occur, or did not occur at the level recorded by management, or for which performance obligations have not been satisfied. The risk is higher in these US and UK components based on the amount of revenue generated and the level of complexity in recognising the revenue relative to other Group components. The revenue earned in the US and UK in 2019 was $802.1 million (2018: $809.5 million). Following the October 2018 trading update we reconsidered our assessment of risk on revenue recognition. Whilst the risk of misstatement is reduced through the Group achieving its amended revenue target in 2018 and meeting its original revenue guidance for 2019, we continue to believe that there is a risk, whether due to fraud or error, revenue could be recognised before a performance obligation is satisfied in order to meet investor expectations on revenue. Therefore we consider this to be a key audit matter. *The associated disclosure by franchise and geographical region is included within Note 2. The Audit and Risk Committee has included their assessment of this risk on page 99. For specific detail on the Group's accounting policy, please see Note 2.*
How the scope of our audit responded to the key audit matter	In response to this key audit matter, we performed a risk assessment across the Group to identify specific areas of risk, focusing our testing accordingly. Our audit response consisted of several procedures including those summarised below. The specific combination of procedures performed varied by location. We performed walkthroughs of the revenue cycle at full scope components to gain an understanding of when the revenue should be recognised, to map out the relevant controls and the end-to-end processes in place. We performed detailed transaction testing on a sample basis, agreeing sales through to invoice, final sales contracts or purchase orders. We compared invoice prices to Company price lists on a sample basis to validate levels of discounting, agreeing the net revenue amount recorded by management to underlying accounting records and remittance. We performed analytical reviews in certain components to identify any unusual sales trends and obtained an explanation for any such movements. We also reviewed a sample of distributor contracts to assess the terms of sale and to support recalculation of rebates and chargebacks associated with the revenue. We held interviews with a selection of sales personnel to determine the existence of any side agreements or unusual arrangements which may impact when revenue can be recognised. We held quarterly review calls with franchise and geographic market leaders to identify changes in customer demand and new product introductions that might impact sales patterns. The procedures performed allowed us to gain a thorough understanding of the revenue cycle with a variety of procedures performed to minimise the risk associated to potential fraud.
Key observations	Based on the procedures we have performed, we were satisfied that revenue is appropriately recognised, specifically with regard to the validity of sales in certain US and UK entities. We noted no instances above our reporting threshold to the Audit Committee of inappropriate revenue recognition arising from our testing.

5.2. Taxation – recognition of US deferred tax assets (US DTAs)

Key audit matter description	There is management judgement in the recognition of deferred tax assets (DTAs) in a US component, as the recognition of these assets is based on management's assessment of their recoverability. This is further complicated by the fact that the Group trades across multiple tax jurisdictions, which makes management's judgements subject to challenge by various local tax authorities. Total recognised US DTAs at 31 December 2019 were \$76.9 million (2018: \$109 million). At 31 December 2019 management assessed that unrecognised temporary differences of \$372.5 million (2018: \$371.5 million) relating to the US were irrecoverable as management did not anticipate future taxable income in the regions giving rise to this balance, therefore no DTA was recognised for these tax attributes. *The associated disclosure is included within Note 5. The Audit and Risk Committee has included their assessment of this risk on page 102. For specific detail on the Group's accounting policy, please see Note 5.*
How the scope of our audit responded to the key audit matter	We have obtained an understanding of the key controls and evaluated the design and implementation of relevant key controls that are involved in assessing whether DTAs can be recognised. With the involvement of our internal tax audit specialists, we have reviewed and challenged management's judgements regarding the recoverability of temporary deferred tax differences. We have obtained and challenged management's forecasts showing the expected utilisation of key unrecognised temporary differences in order to further assess their recoverability. We have challenged management's assessment of the appropriateness of offsetting DTAs and deferred tax liabilities (DTLs). We assessed the appropriateness of the related Financial Statement disclosures.
Key observations	Based on the work we have performed, we concurred with the treatment adopted by management for both recognised and unrecognised DTAs.

5.3. Taxation – uncertain tax positions (UTPs) in connection with transfer pricing arrangements

Key audit matter description	At 31 December 2019, within the current tax payable balance of \$44.6 million (2018: \$41.9 million), there were provisions for uncertain tax positions (UTPs) held related to transfer pricing arrangements. There are a number of tax judgements inherent in the calculation of the tax charge which result in the existence of UTPs. Transfer pricing is the primary area of taxation uncertainty, driven largely by the global nature of the Group and the historical business model. The operating model is changing to focus more on business performance at the franchise level, rather than on geographical markets. Changes to the business model increase management judgement, and hence risk, in relation to the impact on transfer pricing and related uncertain tax positions. *The associated disclosure is included within Note 5. The Audit and Risk Committee has included their assessment of this risk on page 100. For specific detail on the Group's accounting policy, please see Note 5.*
How the scope of our audit responded to the key audit matter	We obtained an understanding of the key controls and have evaluated the design and implementation of relevant key controls that are involved in assessing whether management is appropriately identifying and quantifying UTPs. With involvement of our internal tax audit specialists, including internal transfer pricing specialists, we have reviewed and challenged management's judgements regarding the identification and quantification of uncertain tax treatments in relation to transfer pricing that they consider will lead to a probable economic outflow. We obtained management's technical support for the source of the estimation uncertainty in order to challenge their assessment of the probability that the tax positions will ultimately be accepted by the tax authorities. The support included value chain analysis of the creation of value across the group and where taxable profits arise which is a key judgement in assessing transfer pricing risk. We challenged management's approach to determine whether the methodology for assessing provisions is consistent with IFRIC 23, *Uncertainty over Income Tax Treatments*. We assessed the appropriateness of the related Financial Statement disclosures.
Key observations	Based on the work we have performed, we are satisfied that management have appropriately considered the risk of a transfer pricing challenge.

5.4. Impairment of certain finite-lived intangible assets

Key audit matter description	The Group holds finite-lived intangible assets related to acquired product technology valued at $667.4 million at 31 December 2019 (31 December 2018: $880 million). During 2019, as part of the Group's Transformation Initiative, a product portfolio review has been undertaken. Through this review, management identified a triggering event that the carrying value of certain assets could be impaired. Management performed an impairment review and determined that an impairment charge of $103.6 million should be recorded in 2019. $92.1 million of this impairment reflects the partial impairment of composite product assets within the CCC and Ostomy portfolios. Based on our analysis of the review, we have determined that the judgements over the remaining useful life of the products and the extent of inclusion of benefits from the ongoing Transformation Initiative in management's forecasts, to be a significant audit risk. *The associated disclosure is included within Note 8. The Audit and Risk Committee has included their assessment of this risk on page 101. For specific detail on the Group's accounting policy, please see Note 8.*
How the scope of our audit responded to the key audit matter	Our procedures for challenging management's impairment valuation methodology and assumptions included the following: We have obtained an understanding of the key controls and evaluated the design and implementation of the controls and governance over the Annual Operating Plan and Strategic Plan and challenged the assumptions in the Strategic Plan. We considered triggers for impairment with reference to business developments in 2019. We also considered the appropriateness of the fair value less cost to sell model used in the valuation and the aggregation of intangible assets into product groups. We agreed the base cashflows in the model to the Annual Operating Plan and Strategic Plan. With the involvement of our valuation specialists, we reviewed the application of the impairment valuation methodology and prepared independent estimates for key market observable assumptions, including life of equivalent products, functional returns, discount rate and cost to sell. We challenged the judgements in the fair value model over the extent of recognition of planned benefit from the Transformation Initiative with reference to the current state of and the governance over those programs. We challenged the adequacy of disclosures around sensitivity to management's estimates and the consistency of that disclosure with the findings from our work.
Key observations	Based on the work performed, we consider the key assumptions applied by management, including the useful economic lives and the benefit of the Transformation Initiative, to be within an acceptable range and when taken in aggregate, to be reasonable and supportable. We are satisfied that the impairment charge represents an appropriate assessment of the fair value less costs to sell for the affected assets.

6. Our application of materiality

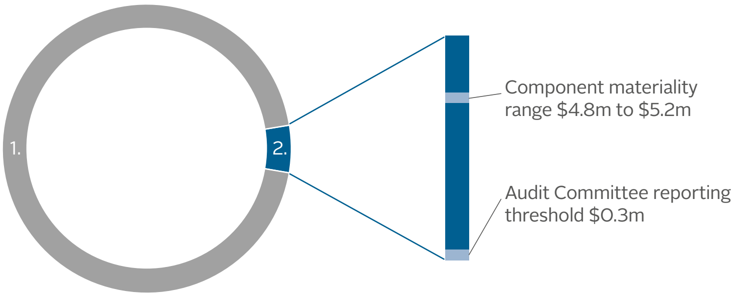
6.1. Materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	$6.9m (2018: $12.3m)	$5.2m (2018: $9.2m)
Basis for determining materiality	5.3% (2018: 5.9%) of pre-tax profit, adjusted for costs associated with impairment charges and the remuneration of the newly appointed CEO.	Parent Company materiality equates to 0.3% (2018: 0.2%) of net assets, which is capped at 75% of Group materiality.
Rationale for the benchmark applied	In determining our materiality benchmark, we considered the focus of the users of the financial statements. Pre-tax profit is the base from which key performance measures are calculated as well as key metrics used in providing trading updates. We have adjusted pre-tax profit for certain non-recurring items as summarised above.	In determining our materiality, based on professional judgement, we have considered net assets as the appropriate benchmark given the Parent Company is primarily a holding company for the Group. We then capped materiality at the highest component materiality for the Group.

1. Adjusted PBT: $130.3m
2. Group materiality: $6.9m



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole. Group performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered factors such as our risk assessment, including our assessment of the Company's overall control environment.

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of $0.3m (2018: $0.6m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our Group audit was scoped on an entity level basis, assessing components against the risk of material misstatement at the Group level. We have also considered the quantum of Financial Statement balances and individual financial transactions of a significant nature. In performing our assessment, we have considered the geographical spread of the Group and any risks presented within each region.

Based on this assessment, we focused our work on fourteen (2018: twelve) components covering eight (2018: eight) countries, 73% (2018: 70%) of revenue, 89% (2018: 84%) of profit before tax and 81% (2018: 73%) of net assets. All fourteen (2018: twelve) components were subject to a full scope audit. The fourteen (2018: twelve) components are located in: the United States of America, the United Kingdom, Switzerland, Denmark, Germany, Italy, France, and Japan, representing the principal operating units of the Group.

In addition, we have performed specified audit procedures in nine (2018: ten) components covering nine (2018: eight) countries, 9% (2018: 11%) of revenue, 2% (2018: 4%) of PBT, and 6% (2018: 6%) of net assets. The nine (2018: ten) components are located in: the United States of America, the United Kingdom, Denmark, Spain, Canada, Brazil, the Dominican Republic, Australia, and Slovakia.

The difference in the number of components subject to full scope audit procedures and specified audit procedures between 2019 and 2018 is as a result of two United Kingdom entities being legally combined into one, and therefore being subject to full scope procedures rather than specified audit procedures. We also performed full scope audit procedures on a new United Kingdom entity introduced into the Group to hold the Group's external debt and intra-group balances.

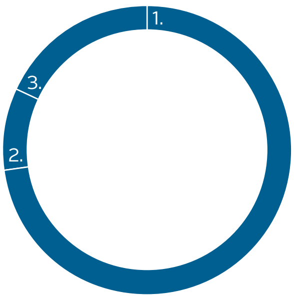
We performed testing at a Group level at the head office, based in Reading, United Kingdom. This included testing the consolidation process and carrying out analytical review procedures on those entities other than those noted above. Any movements in account balances, which did not corroborate our initial risk assessment, were investigated further. This testing confirmed our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full scope audit or specified procedures.

7.2. Working with other auditors

As part of our audit, a senior member of the Group audit team visited a number of the most significant components of the Group, including the United Kingdom, the United States of America, Denmark and Switzerland. These locations were also visited during our prior year audit. They encompass 55% (2018: 55%) of the Group's revenue. As part of these visits, meetings were held with both component management and the component audit team. In addition to our visits, we issued detailed instructions to all our component audit teams, included them in our team briefings and reviewed audit workpapers to the extent deemed necessary.

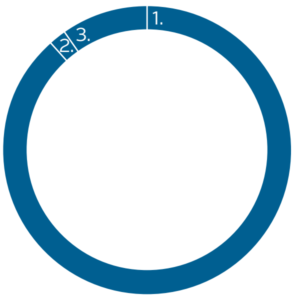
Revenue %

1. Full audit scope: 73%
2. Specified audit procedures: 9%
3. Review at Group level 18%



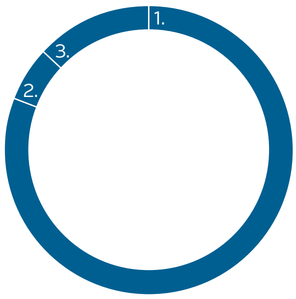
Profit before tax %

1. Full audit scope: 89%
2. Specified audit procedures: 2%
3. Review at Group level 9%



Net assets %

1. Full audit scope: 81%
2. Specified audit procedures: 6%
3. Review at Group level 13%



8. Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report including the Overview, Strategic report and Governance sections, other than the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams in the UK, Denmark, USA and Switzerland and involving relevant internal specialists, including tax, valuations and IT specialists regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: revenue recognition regarding the validity of the sales and/or shipments in certain US and UK components. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the group's operating licence.

11.2. Audit response to risks identified

As a result of performing the above, we identified revenue recognition regarding the validity of the sales and/or shipments in certain US and UK components as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

Our procedures to respond to risks identified included the following:
- reviewing the Financial Statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- enquiring of management, the Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and all component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic report and the Directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: – we have not received all the information and explanations we require for our audit; or – adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or – the Parent Company Financial Statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.
13.2. Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.

14. Other matters

14.1. Auditor tenure

Following the recommendation of the Audit and Risk Committee, we were appointed to audit the Financial Statements for the year ended 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is four years, covering the years ended 31 December 2016 to 31 December 2019.

14.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the Audit and Risk Committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Mullins FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory auditor
London, United Kingdom
27 February 2020

Shareholder information

Our corporate website – www.convatecgroup.com

Information about our Stock Exchange announcements, key dates in our financial calendar, our share price information and background information is available on our corporate website by clicking www.convatecgroup.com/investors.

The date for the release of our interim results for the six months ended 30 June 2020 will be posted in due course on our website.

Shareholders may also receive information by email by signing up to the news alert service available on our corporate website at www.convatecgroup.com/investors/sign-up-for-more-information.

Share price information

Our closing share price as at 31 December 2019 was 198.45p.

Managing your shareholding

You can manage your shareholding online by registering to use Investor Centre, a free and secure website. Investor Centre is available 24 hours a day, 365 days a year. To find out more about Investor Centre visit www.investorcentre.co.uk. Registration is a straightforward process and all you will need is your shareholder reference number (the "SRN") and registered address details.

Shareholders who prefer not to manage their shareholding online can contact our Registrars, Computershare Investor Services PLC, who manage our share register. The shareholder helpline number is +44 (0) 370 703 6219 and further information about Computershare Investor Services PLC is set out below.

Internet share dealing

Please note that, at present, this service is only available to shareholders in certain jurisdictions, including the UK. Please refer to the website for an up to date list of these countries. This service provides shareholders with a convenient way to buy or sell the Company's ordinary shares on the London Stock Exchange. The commission is 1.0%, subject to a minimum charge of £30. In addition, stamp duty, currently 0.5%, is payable on purchases. Real-time dealing is available during market hours. In addition, there is a convenient facility to place your order outside of market hours.

Up to 90-day limit orders are available for sales. Before you can trade you will need to register for the service. To access the service log on to www.computershare.com/dealing/uk.

Shareholders should have their SRN available. The SRN appears on share certificates as it will be required as part of the registration process. A bank debit card will be required for purchases.

Telephone share dealing

Please note this service is, at present, only available to shareholders resident in certain jurisdictions. The commission is 1% plus a charge of £50. In addition, stamp duty, currently 0.5%, is payable on purchases. The service is available from 8.00am to 4.30pm Monday to Friday, excluding bank holidays, on telephone number +44 (0) 370 703 0084. Before you trade you will need to register for this service. This can be done by going online at www.computershare.trade. Shareholders should have their SRN ready when making the call. The SRN appears on share certificates. A bank debit card will be required for purchases. Detailed terms and conditions are available on request by telephoning +44 (0) 370 703 0084.

Please note that due to the regulations in the UK, Computershare are required to check that you have read and accepted their Terms and Conditions before being able to trade, which could delay your first telephone trade. If you wish to trade quickly, we suggest visiting their website and registering online first.

Share fraud

We would like to warn all of our shareholders to be very wary of any unsolicited telephone calls or letters which offer investment advice, offer to buy your shares at a discounted price, or sell them at an inflated price or offers free company reports. This type of call should be treated as an investment scam. Further information about investment scams and how they should be reported is available on our corporate website at www.convatecgroup.com/investors/shareholder-services/.

Company Secretary and registered office

Clare Bates
3 Forbury Place
23 Forbury Road
Reading RG1 3JH

Registrar

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Glossary

Adjusted free cash flow	Adjusted cash generated from operations, net of PP&E and tax paid.
Adjusted or alternative performance measures ("APMs")	Certain financial measures in this Annual Report and Accounts not prepared in accordance with IFRS and used as a meaningful supplement to reported measures.
Advanced Wound Care ("AWC")	Advanced wound dressings and skin care products for the management of acute and chronic wounds resulting from ongoing conditions such as diabetes and acute conditions resulting from traumatic injury and burns.
AGM	Annual General Meeting of the Company.
APAC	Countries located in Asia-Pacific.
ARC	Audit and Risk Committee
Articles	The Articles of Association of the Company for the time being in force.
Base erosion and profit shifting ("BEPS") initiative	OECD initiative which seeks to close gaps in international taxation for companies that allegedly avoid tax or reduce tax burden in their home country by engaging in tax inversions.
Basic earnings per share	Net profit available for ConvaTec shareholders divided by the weighted average number of ordinary shares in issue during the year.
Basis points ("bps")	One hundredth of a percentage point. Used, for example, in quoting movements in margin percentages.
Board	The Board of Directors of ConvaTec Group Plc.
Brexit	The UK's withdrawal from the European Union.
Compound annual growth rate ("CAGR")	CAGR shows the rate of return of an investment or growth in revenue and profit over a certain period of time, expressed in annual percentage terms.
Capital expenditure ("capex")	Purchases of property, plant and equipment and intangible assets.
Cash conversion	Cash generated from operations, net of PP&E divided by EBITDA.
Cash-generating units ("CGUs")	The smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
CE mark	Certification mark that indicates conformity with health, safety, and environmental protection standards for products sold within the European Economic Area.
Cidron Healthcare Limited ("CHL")	ConvaTec Group Plc owns the entire share capital of CHL. CHL owns the rest of the ConvaTec Group, with the exception of ConvaTec Management Holdings Limited.
Code	UK Corporate Governance Code 2018 in effect from 1 January 2019, issued by the FRC.
Code of Conduct	Our code of conduct which covers business conduct and compliance issues, including bribery and corruption.
Companies Act	Companies Act 2006, as amended, of England and Wales.
Company or parent company	ConvaTec Group Plc.
Constant exchange rates ("CER") growth	CER growth is calculated by applying the applicable prior period average exchange rates to the Group's actual performance in the respective period.
Continence & Critical Care ("CCC")	Products and services for people with urinary continence issues related to spinal cord injuries, multiple sclerosis, spina bifida and other causes, and devices and products used in intensive care units and hospital settings.
CELT	ConvaTec Executive Leadership Team (see page 6).
CR	Corporate responsibility.
Derivatives	Financial instruments used to reduce risk, the price of which is derived from an underlying asset, index or rate.
Diluted earnings per share	The calculation of diluted earnings per share includes the dilutive impact of share awards where the average market price of the Group's ordinary shares exceeds the exercise price.
Director	A member of the Board of Directors of ConvaTec Group Plc.
Disclosure guidance and transparency rules ("DTRs")	FCA disclosure guidance and transparency rules with which the Group must comply.
Dividend cover	Adjusted cash generated from operations, net of PP&E (see page 66) divided by dividend paid (dividend payable), excluding the effect of a scrip option
EBIT or operating profit	Earnings before interest and tax, also defined as operating profit.
EBIT margin	EBIT divided by revenue.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
Effective tax rate	The tax charge in the income statement as a percentage of profit before tax.
EMEA	Countries located in Europe, Middle East and Africa.
ESMA	European Securities and Markets Authority.
EU	The European Union.
FDA	US Food and Drug Administration.
Franchises	The Group has four franchises, being Advanced Wound Care, Ostomy Care, Continence & Critical Care and Infusion Care.
FRC	Financial Reporting Council.
FX	Foreign exchange.
GDPR	General Data Protection Regulation.
GHG emissions	Greenhouse gas emissions.

Group	The Company and its subsidiaries.
GPO	Group purchasing organisations.
H&S	Health and safety.
Home Services Group ("HSG")	The Group's US home services business unit for catheter and incontinence products. Formerly Home Distribution Group.
IASB	International Accounting Standards Board – the independent standard setting body of the IFRS Foundation.
IFRS	International Financial Reporting Standards as adopted by the EU and as issued by the IASB.
IFRIC	International Financial Reporting Interpretations as adopted by the EU and as issued by the IASB.
Infusion Care ("IC")	Disposable infusion sets for diabetes insulin pumps, similar pumps used in continuous infusion treatments for conditions such as Parkinson's disease and a range of products for hospital and home healthcare markets.
IP	Intellectual property.
IPO	Initial public offering.
IR	Investor relations.
KPI – Key Performance Indicator	Financial and non-financial measures that the Group uses to assess performance and strategic progress.
LIBOR	London Inter-bank Offered Rate
LEAN manufacturing	Methodology employed by the Group in the manufacturing process to improve operational efficiency by maximising productivity and minimising waste.
Leverage ratio	Net debt divided by adjusted EBITDA.
LTIP	Long-term incentive plan.
M&A	Mergers and acquisitions.
MAR	Market abuse regulation.
MDR	Medical Device Regulations introduced in the EU with required transition by May 2020. MDR imposes rigorous requirements in relation to a number of areas including clinical data and post-market surveillance.
Medium term	The period covering two to three years.
Medium to long term	The period covering three to five years.
MedTech	Medical technology.
MIP	Margin Improvement Programme.
Net debt	Borrowings less cash and cash equivalents.
NHS	The UK National Health Service.
OECD	Organisation for Economic Co-operation and Development.
Opex	Operating expenses, being the total of selling and distribution expenses, general administrative expenses and research and development, and other operating expenses.
Organic growth	Period over period growth at CER, excluding M&A activities.
Organisational Health Index ("OHI")	An index tracking the organisational elements that drive performance.
Ostomy Care ("OC")	Devices, accessories and services for people with a stoma (surgically-created opening where bodily waste is discharged), commonly resulting from causes such as colorectal cancer, inflammatory bowel disease and bladder cancer.
PBT	Profit before income taxes.
PP&E	Property, plant and equipment.
QARAC	The Group's Quality, Assurance, Regulatory Affairs and Clinical function.
R&D	The research and development of safe and reliable products and technologies.
ROIC	Return on invested capital.
SID	Senior Independent Director.
SKU	Stock keeping unit
SNC	Special nomination committee
Sterling, £, pence or p	The pound sterling, the currency of the UK.
Subsidiary	A company over which the Group exercises control.
Transformation Initiative	Initiatives and associated investment focused on transforming the business to deliver sustainable and profitable growth.
TSR	Total shareholder return.
UKLA	The UK's Listing Authority.
US dollar, $, cent or ¢	The currency of the United States of America.
Viability Period	The three-year period from January 2020 to December 2022.

Important information for readers of this Annual Report

Cautionary statement regarding forward-looking statements

The purpose of this Annual Report is to provide information to the members of the Company. The Group and its Directors, employees, agents and advisors do not accept or assume responsibility to any other person to whom this Annual Report is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. In order, among other things, to utilise the "safe harbour" provisions of the US Private Securities Litigation Reform Act 1995 and the UK Companies Act 2006, we are providing the following cautionary statement: This Annual Report contains statements that are, or may be deemed to be, "forward-looking" statements with respect to the operations, performance and financial condition of the Group, including among other things, statements about expected revenues, margins, earnings per share or other financial or other measures. Forward-looking statements are statements relating to the future which are based on information available at the time such statements are made, including information relating to risks and uncertainties. Although we believe that the forward-looking statements in this Annual Report are based on reasonable assumptions, the matters discussed in the forward-looking statements may be influenced by factors that could cause actual outcomes and results to be materially different from those expressed or implied by these statements, many of which are beyond the Group's control. The forward-looking statements reflect knowledge and information available at the date of the preparation of this Annual Report and the Group undertakes no obligation to update these forward-looking statements. We identify the forward-looking statements by using the words "anticipates", "believes", "expects", "intends" and similar expressions in such statements. Important factors that could cause actual results to differ materially from those contained in forward-looking statements, certain of which are beyond our control include, among other things, those factors identified in the Principal Risks section which begins on page 28. Forward-looking statements are not guarantees of future performance and the actual results of operations, financial condition and liquidity, and the development of the industry in which the Group operates, may differ materially from those made or suggested by the forward-looking statements set out in this Annual Report. Past performance of the Group cannot be relied on as a guide to future performance. Nothing in this Annual Report should be construed as a profit forecast.

Third-party data

To the extent available, the industry and market data contained in this Annual Report has come from third-party sources. Third-party industry publications, studies and surveys generally state that the data contained therein has been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. In addition, certain industry and market data in this Annual Report came from the Group's own internal research and estimates based on the knowledge and experience of the Group's management in the market in which the Group operates. While the Group believes that such research and estimates are reasonable and reliable, they, and their underlying methodology and assumptions, have not been verified by any independent source for accuracy or completeness and are subject to change without notice. Accordingly, undue reliance should not be placed on any of the industry or market data in this Annual Report.

ConvaTec website

Information on or accessible through our website www.convatecgroup.com and other websites mentioned in this Annual Report, does not form part of and is not incorporated into this Annual Report.

Figures

Figures in parentheses in tables and in the Financial Statements are used to represent negative numbers.

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Some of the photographs in this Annual Report and Accounts show our employees and facilities.

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