14 February 2019

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION FOR THE PURPOSES OF ARTICLE 7 OF THE MARKET ABUSE REGULATION (EU) 596/2014

ConvaTec Group Plc Fourth Quarter and Annual Results 2018

ConvaTec Group Plc and its subsidiaries ("ConvaTec" or the "Group"), a leading global medical products and technologies company focused on therapies for the management of chronic conditions, today reports audited Annual Results for the twelve months ended 31 December 2018 in line with the revised guidance provided in October 2018.

FY2018 key points:

- Group reported revenue of $1,832.1 million grew 3.8% year on year, 2.7%[2] CER or 0.2%[3] organically;
- Reported EBIT[5] of $267.7 million, grew 8.0% year on year due to lower restructuring and pre-IPO share-based payments;
- Adjusted[1] EBIT[5] of $429.4 million was down 6.0% year on year primarily due to increased levels of investment in commercial activities and negative mix, more than offsetting increased revenue; adjusted[1] EBIT margin 23.4% (2017: 25.9%);

Actions to address strategy execution issues:

- Transformation Initiative established to implement a refreshed execution model “Pivot to Growth” to deliver strategy more effectively and drive higher revenue growth and profitability;
    - Investment: total of around $150 million over three years, with a two to three year payback expected. Around 30% of this total will be capex investment, with the remaining 70% being operational spend related to restructuring, project management and other transformation costs which will cease at the end of the three year period;
    - By year three of the Transformation Initiative we also expect to incur $50 million of ongoing annual costs related to commercial spend and R&D, building from $15 million in 2019;
    - Benefits: higher revenue growth, $80 million gross annual cost savings by year three, (increasing to $120 million gross annual savings by 2023), and improved profit margin;

Guidance:

- Guidance for FY2019: organic revenue growth expected to be 1% to 2.5%, adjusted EBIT margin 18% to 20%, including $50 million of operational spend associated with the Transformation Initiative and costs related to MDR (Medical Device Regulation). Excluding these transformation costs and MDR, the adjusted EBIT margin would be 21% to 22.5%;
- Medium to long term[4], targeting revenue growth in line with or above market and adjusted EBIT margin expansion.

Rick Anderson, Group Chief Executive Officer, commented
“These are disappointing results, in light of our revenue and margin guidance at the beginning of 2018. With the Executive Committee, I have undertaken an extensive review of the business since my appointment as CEO and it is clear that swift and strong action is required to address the failures in execution which have caused the Company to underperform.

“Following Board approval, we are now implementing a refreshed execution model to support our strategy and deliver sustainable and profitable growth. We will achieve this by concentrating on those product and market segments which offer the best returns, developing a strong and innovative pipeline of new products, simplifying our business to run it more efficiently and investing to strengthen our commercial and operational execution. This model can be leveraged by an incoming CEO, without constraining any potential strategic changes they may wish to implement.

"We have solid fundamentals, robust cash flows and we have reduced our leverage, but need to invest in the business over the next three years. I fully believe the changes we are making to our execution model will deliver the returns that our shareholders and other stakeholders rightly expect in the future.

"The search for a permanent CEO has made significant progress since October, with a very strong short-list of candidates. The Board is moving quickly on this key appointment."

Franchise Summary:

Group reported revenue in 2018 grew 3.8%, 2.7%[2] CER or 0.2%[3] organically and in the fourth quarter declined by 6.0% on a reported basis, 3.8% CER[2] or 4.0%[3] organically.

• **Advanced Wound Care** ("AWC") revenue grew 1.7% on a reported basis, or 0.2%[3] organically in 2018. Our AQUACEL™ Foam and anti-biofilm silver dressings performed well, offset by challenges in our older DuoDERM™ and base AQUACEL™ dressings, as a result of the supply constraints of 2017 and challenging market dynamics, most notably in the UK. Performance in the US continued to be below expectations, driven primarily by weak sales of surgical cover dressing and disappointing progress on the wound acceleration plan. Revenue declined 4.5% on a reported basis and 1.8%[3] organically in the fourth quarter.

• **Ostomy Care** ("OC") revenue grew 0.8% on a reported basis, but fell 0.5%[3] year on year on an organic basis. This was primarily driven by lost patients, a result of the supply constraints in the second half of 2017. We also saw some weakness in the US retail channel and the recent trend in new patient capture rates in US hospitals. However, we delivered good results in both Latin America and certain markets in Asia Pacific and Europe. There were encouraging results from our recent product launches such as Esteem™ + Flex Convex. Revenue in the fourth quarter declined 4.4% on a reported basis or 1.5%[3] organically.

• **Continence and Critical Care** ("CCC") revenue grew 15.7% on a reported basis, 15.2%[2] CER or 4.1%[3] organically in 2018, with a strong performance from our Home Distribution Group ("HDG") in the US being partially offset by continuing planned product rationalisation and the impact of a packaging recall in the second half of 2018, which together negatively impacted revenue by c. $6 million. Reported revenue grew by 15.7% primarily as a result of the inclusion of Woodbury Holdings, which was acquired on 1 September 2017, and J&R Medical, which was acquired on 1 March 2018 net of the Symbius Medical divestiture on 1 March 2018. In the fourth quarter revenue grew by 3.3% on a reported basis, 4.6%[2] CER or 3.9%[3] organically.

• **Infusion Devices** ("ID") revenue fell by 2.4% on a reported basis, and 3.5%[3] on an organic basis in 2018, and in the fourth quarter declined 25.6% on a reported basis and 24.9%[3] organically, with good underlying growth offset by significantly reduced orders in the fourth quarter, due to an unexpected change in inventory policy by our largest customer.

Reported results	Twelve months ended 31 December 2018	2017	Growth Reported	Organic[3]
	$m (unless stated)			
Revenue	1,832.1	1,764.6	3.8%	0.2%
Gross margin	*53.2%*	*52.5%*	80 bps	
EBIT	267.7	247.8	8.0%	4.9%
EBIT margin	14.6%	14.0%	60bps	
Earnings per share ($ per share)	0.11	0.08		
Dividend per share (cents)	5.7 cents	5.7 cents		

Adjusted results[1]	Twelve months ended 31 December 2018	2017	Growth Reported	Organic[3]
	$m (unless stated)			
Revenue	1,832.1	1,764.6	3.8%	0.2%
Gross margin	*60.2%*	*61.0%*	(80) bps	
EBIT	429.4	456.8	(6.0)%	(9.0)%
EBIT margin	23.4%	25.9%	(250) bps	
Earnings per share ($ per share)	0.16	0.16		

There will be an analyst and investor meeting today at 9.00am GMT at The Auditorium, UBS, 5 Broadgate Street, London, which can be viewed live through the ConvaTec website www.convatecgroup.com/investors/reports. A recording will be available on the site shortly afterwards. A dial-in is also available for the meeting:

United Kingdom: 020 3936 2999
United States: 1 845 709 8568
All other locations: +44 20 3936 2999

Access code: 047595

The full text of this announcement and the presentation for the analyst and investors meeting can also be downloaded from the website above.

---

(1) Certain financial measures in this document, including adjusted results above, are not prepared in accordance with International Financial Reporting Standards ("IFRS"). All adjusted measures are reconciled to the most directly comparable measure prepared in accordance with IFRS in the Non-IFRS Financial Information below (pages 29 to 35).

(2) Constant exchange rates ("CER") growth is calculated by applying the applicable prior period average exchange rates to the Group's actual performance in the respective period.

(3) Organic growth presents period over period growth at CER, excluding M&A activities.

(4) Medium to long term is 3 to 5 years.

(5) Adjusted EBIT is equivalent to adjusted operating profit and reported EBIT is equivalent to reported operating profit.

Analysts and Investors

John Crosse, VP Investor Relations	+44 (0)7500 141435
Mark Reynolds, Director Investor Relations	+44 (0)7551 036625
Kirsty Law, Director Investor Relations	+44(0)7470 909582

investorrelations@convatec.com

Media

Bobby Leach, VP Group Corporate Affairs	+44 (0)7770 842226
Finsbury	+44 (0)207 2513801

Financial Calendar

Ex-dividend date*	4 April 2019
Dividend record date*	5 April 2019
Scrip dividend election date*	23 April 2019
Q1 trading update	3 May 2019
Annual General Meeting	9 May 2019
Dividend payment date*	16 May 2019

** subject to approval at AGM.*

About ConvaTec

ConvaTec is a global medical products and technologies company focused on therapies for the management of chronic conditions, with leading market positions in advanced wound care, ostomy care, continence and critical care, and infusion devices. Our products provide a range of clinical and economic benefits including infection prevention, protection of at-risk skin, improved patient outcomes and reduced total cost of care. To learn more about ConvaTec, please visit www.convatecgroup.com

Chief Executive's Review
For the twelve months ended 31 December 2018
We did not deliver our original targets for revenue growth and operational improvements in 2018 due to poor execution. The Board and the Executive Committee were disappointed with the Group's performance and we are addressing these failures with a series of immediate actions.

Following the departure of Paul Moraviec in October 2018, the Board immediately initiated the search for a new CEO. To ensure that we address the Group's poor performance without delay, I was appointed Interim CEO. The fundamental opportunities of our markets, products and brands remain sound. Our strategy to leverage our product portfolio for growth in attractive segments and geographies, develop and commercialise new technologies and services, and reduce complexity while increasing efficiency is also sound. However, our execution failures need to be urgently addressed. Accordingly the Board gave me a mandate to develop a plan to improve, on a sustainable basis, the Group's commercial and operational performance, in order to deliver better financial results for shareholders over the medium to long term[4] and to develop an execution model that our new CEO, once appointed, can immediately leverage without constraining any potential strategic changes they may wish to implement.

Over the past four months, along with the Executive Committee, I have undertaken an extensive review of all aspects of our business and, following Board approval, we are now implementing a refreshed execution model to support our strategy. We will focus on delivering sustainable and profitable growth by concentrating on those geographies, products and market segments that offer the best returns, simplifying our business and running it more effectively and efficiently whilst increasing our investment to drive growth and substantially improve the performance of the business.

Increased investment to drive growth will be needed over the next three years whilst we transform the business and ensure all elements of the Group are operating at an optimal level, enabling the company to deliver the returns that our shareholders and other stakeholders rightly expect. This is expected to be funded by reinvestment of anticipated cost savings from our cost out and efficiency programmes, detailed below.

We have a values-led culture and this is a core strength of our business. However, we also need to implement a high-performance culture, focused on continuous improvement in both operational and commercial excellence, with significantly better execution and delivery of profitable growth. This will require improved performance management, with personal performance targets focused on each individual's contribution to the delivery of our strategy. People will be held personally accountable for the delivery of their targets.

Group reported revenue in 2018 of $1,832.1 million grew 3.8% year on year, 2.7%[2] CER or 0.2%[3] organically, in-line with the revised guidance provided in October but below our initial expectations given in February 2018. Significantly reduced orders in Infusion Devices, due to an unexpected change in inventory policy in the fourth quarter by our largest customer, was the main driver of reduced guidance. Continued underperformance in our US AWC business, challenging market dynamics for AWC in the UK and, to a lesser extent, weakness in OC also contributed to this result.

Reported EBIT margin was 14.6% (2017: 14.0%), a result of higher revenues, lower costs related to manufacturing plant consolidation, a reduction in costs from pre-IPO share-based payments and the absence of any further costs related to the compliance and control remediation programme resulting from the IPO.

Adjusted[1] EBIT margin was 23.4%, (2017: 25.9%), again in-line with the revised guidance given in October 2018 but below our initial expectations. Increased investment in commercial initiatives, the internal infrastructure and capability of the business and negative sales mix were the main drivers of lower adjusted[1]

EBIT margin, along with lower than expected revenues. Despite this, cashflow remained robust, with adjusted cash conversion at 81%[1] (2017: 77%).

Franchise revenue performance

Revenue by Franchise	Twelve months ended 31 December 2018 $m	2017 $m	Growth Reported	Organic[3]	Q4 Organic growth[3]
Advanced Wound Care	587.5	577.8	1.7%	0.2%	(1.8)%
Ostomy Care	533.3	528.9	0.8%	(0.5)%	(1.5)%
Continence and Critical Care	443.0	382.9	15.7%	4.1%	3.9%
Infusion Devices	268.3	275.0	(2.4)%	(3.5)%	(24.9)%
Total	**1,832.1**	**1,764.6**	**3.8%**	**0.2%**	**(4.0)%**

Advanced Wound Care ("AWC")
2018 was a very disappointing year in terms of revenue growth. Our AQUACEL™ brand remains strong. We are the leaders in market share in a number of categories, including silver, and we continue to build our position and grow our market share in foam. We also saw good growth in our emerging markets in APAC and Latin America. However, in the UK competitive dynamics have increased, impacting 2018 performance, with local competition and pricing pressure. We also significantly underperformed in the US due to the recovery from supply constraints in 2017 taking much longer than anticipated and our acceleration programme not performing as expected, taking longer to implement and translate into improved financial performance.

AWC 2018 revenue performance
In 2018 we remained focused on three priorities to drive our growth in AWC:

- Expand our AQUACEL™ dressings offering through the extension of AQUACEL™ Ag+ dressing with anti-biofilm technology and the expansion of the AQUACEL™ Surgical product portfolio into new surgical areas.
- Continue to accelerate growth in the foam market and expand our portfolio of dressings, targeting the fast-growing protection and prevention foam segments.
- Build on our initial entry into the fast-growing disposable segment of the Negative Pressure Wound Therapy ("NPWT") market.

Reported revenue of $587.5 million grew 1.7% compared to the prior year. On an organic basis revenue grew 0.2%.

The franchise's older DuoDERM™ and base AQUACEL™ Hydrofiber™ products, together with its skin care business, make up around 40% of AWC revenues and were a significant drag on revenue growth in 2018. DuoDERM™ made slow progress in recovering from the 2017 supply issues and, whilst we saw some improvement during the year, in the fourth quarter its performance was still below historic growth rates. AQUACEL™ Hydrofiber™ was particularly impacted by ongoing and challenging UK market dynamics, including NHS supply chain tendering activity and new market entrants, and although performance did improve in the third quarter following a weak first half, in the fourth quarter negative channel inventory movements along with further pricing pressure impacted growth. We expect these pressures to remain in 2019. Skin care performance was adversely impacted by competitor activity in the US, which particularly weighed on franchise performance in the second half, which we anticipate will also continue in 2019.

Growth in AQUACEL™ surgical cover dressing was significantly below prior years and this was a material contributing factor to our ongoing weak US performance. Recovery from the supply constraints of 2017 was much slower than anticipated and the entry of alternative treatment protocols, such as glues and NPWT, has made the competitive landscape in this segment more challenging.

During the year we rolled-out our wound acceleration plan across the US. The plan aimed to address performance issues and focused on account conversion, re-positioning our foam offering, addressing salesforce effectiveness and expanding our reach into the post-acute channel. Although the plan delivered benefits during the year, overall it was a disappointing outcome, as the nationwide rollout took longer than initially planned. We expect further benefits in 2019, in particular as a result of better targeting and training for a specialist salesforce focused around AQUACEL™ Ag Advantage, Avelle™ and surgical cover dressing, which should deliver an improved performance.

Our foam range of dressings and AQUACEL™ anti-biofilm silver delivered good growth. In October we launched AQUACEL™ Ag Advantage in the US, with an initial positive response in line with our expectations.

Avelle™, our disposable NPWT product, is now selling in 30 markets around the world. Whilst Avelle™ revenues are currently modest, they continue to grow and represent an attractive opportunity over the medium to longer-term. In October we received 510(k) approval for the US. While the global rollout of Avelle™ to date has taken longer than anticipated and not been as successful as planned, we have refined our take-to-market approach and have now commenced its rollout in the US, the largest market for NPWT.

In the fourth quarter revenue declined by 1.8% on an organic basis, driven primarily by negative channel inventory movements in the UK. Performance in the US also continued to be weak.

AWC revenue outlook

Addressing the underperformance in the US is a key priority of the Board and Executive team. George Poole has recently been appointed President Americas, following his success in APAC, and the US will also be a key focus for David Shepherd, AWC President since November 2018. We anticipate an improved AWC performance in 2019 and a higher level of revenue growth, driven by the US launches of Avelle™ and AQUACEL™ Ag Advantage, albeit we expect some level of cannibalisation of existing silver products by the latter. We expect an improved surgical cover dressing performance, as noted above. However, we also anticipate that the channel inventory movements in the UK, which negatively impacted growth in the fourth quarter, could continue into the first quarter of 2019.

Ostomy Care ("OC")

Performance was impacted, as expected, by the supply constraints that occurred in the second half of 2017 and resulting lost patients. Underperformance in the US retail channel also contributed to a disappointing performance in 2018. Recent trends in the level of new patient capture in the US also showed some signs of weakness.

We saw good performances in Latin America and in certain markets in Asia Pacific and Europe. We continue to see good traction with our recent product launches such as Esteem™ + Flex Convex.

OC 2018 revenue performance

During the year we focused on three priorities to drive our growth:

- Continue 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.

- Expand our me+™ direct-to-consumer programmes to engage directly and frequently with ostomates to build strong and long term customer relationships.
- Continue to enhance our product portfolio by leveraging our adhesive technology and investing in consumer-led design and enhancements.

Revenue of $533.3 million grew 0.8% against the prior year on a reported basis, due to favorable foreign exchange rate movements, but on an organic basis revenue declined 0.5%

We worked hard with distributors, hospitals, clinicians and patients to mitigate the disruption caused by the 2017 supply issues. However, the negative impact on 2018 growth of these supply constraints and associated patient losses was towards the upper end of our expectations. We also saw underperformance in the US retail channel, due to patient switching, and the trend in our level of new patient capture in the US also saw some weakness, based on most recent data. To address this, we are implementing changes to our commercial approach, including flattening our organisational structure to get closer to the customer, improved segmentation and revised sales incentive programmes.

We were pleased to agree a two-year extension to the Vizient GPO (General Purchasing Organisation) contract for Ostomy Care in the US in September. This is the largest GPO contract in the US covering around 50% of hospitals and our contract now runs until June 2021.

We saw good performances in Latin America and in certain markets in Asia Pacific and Europe. Ongoing investment in our me+™ platform is leading to a continued increase in the number of enrolled patients and we continue to see good traction with our recent product launches including Esteem™ + Flex Convex, Natura™ Convex Accordion Flange and Varimate strips.

In the fourth quarter revenue declined by 1.5% on an organic basis, driven primarily by strong orders from Japan in the same period of 2017 and weaker US performance.

OC revenue outlook
We continue to focus on delivering year on year improvements in revenue performance. We anticipate an improved performance in 2019 as we move further away from the 2017 supply issues. We expect continuing momentum in me+™ enrolments, as we continue to invest in our direct-to-consumer platform. We will focus on driving sales of newer products, such as Esteem+ Flex Convex, and implementing the changes to our commercial approach as detailed above. We will look to further leverage our GPO contracts in the US. The Premier GPO contract, covering c. 30% of US hospitals is up for renewal in December 2019.

Continence & Critical Care ("CCC")
We delivered another year of good growth, driven by HDG in the US. However, our overall performance during the year was negatively impacted by a packaging recall, which reduced revenue by c. $4 million. J & R Medical, which we acquired in March, has performed well and we are now beginning launch activity for our next generation catheter in Europe.

CCC 2018 revenue performance
Growth was focused on three priorities:
- Continue 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.
- Leverage the reach of HDG, the largest medical equipment distributor of intermittent catheters in the US.
- Build on the success of GentleCath™ through launching in other markets.

On a reported basis revenue of $443.0 million grew 15.7%; this includes a combined year-on-year revenue contribution of $43.5million from Woodbury Holdings, which was acquired on 1 September 2017, and J&R Medical, which was acquired on 1 March 2018, net of the Symbius Medical respiratory business which the Group divested on 1 March 2018; revenue for this business in 2017 was $5.0 million. Revenue grew 4.1% year on year on an organic basis.

HDG continues to be the principal driver of growth in the franchise. It aims to deliver better patient experiences by providing direct support and advice and liaison with clinicians, insurance companies and state funded health coverage programmes on reimbursement. This high-touch patient care model continues to drive organic growth. We will seek to supplement this organic growth by extending our reach and patient offering through value-adding targeted bolt-on acquisitions like J&R Medical.

While undertaking scheduled testing of certain hospital care products in the second quarter we found an issue with some product packaging. To uphold our high standards of patient care, we withdrew the affected products and changed the packaging. To date 85% of the affected products have been repackaged and released to market. We expect the majority of the remaining 15% will be completed in the first quarter of 2019. The impact on revenue of the packaging recall was c. $4 million.

Ongoing product rationalisation also impacted revenue in the year by c. $2 million.

In the fourth quarter revenue grew by 3.9% on an organic basis, driven primarily by strong growth in HDG, partially offset by a reduced impact from the packaging recall.

CCC revenue outlook
We were pleased that the female version of our next generation catheter recently won an iF Design award. It is already CE marked and launch activity in Europe will be ramped up in the coming months. This will be our first entry into the c. $800 million European market. Feedback from patients has been strong, and whilst we do not expect material revenues in the first year, this represents a significant growth opportunity for us over the medium to long term[4].

We anticipate HDG will continue to perform well in the US.

Infusion Devices ("ID")
Underlying performance in 2018 was good, driven by the successful launch of MiniMed™ Mio™ Advance with our partner Medtronic and growth in the durable insulin pump market. However, an unexpected change to the ordering patterns of our largest customer late in the year had a material negative impact on revenue growth.

ID 2018 revenue performance
We focused on three priorities to drive our growth:

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

Revenue of $268.3 million declined 2.4% year on year on a reported basis and 3.5% on an organic basis.

The first six months of the year were boosted by tailwinds of positive customer inventory movements and, to a lesser extent, the completion of a customer voluntary product recall for which we supplied replacement product. This led to growth of 9.2% on an organic basis in the first half of 2018. However, growth was weaker in the second half due to a strong prior year comparator in the third quarter. Furthermore, in early October we were advised of a change to the expected ordering patterns of our largest customer, due to a change in its inventory policy, which had a material negative impact on revenue growth in the fourth quarter and for the year overall.

Our MiniMed™ Mio™ Advance infusion set, launched by our partner Medtronic, has delivered a very successful first year with positive patient feedback and good levels of demand.

In the fourth quarter revenue declined by 24.9 % on an organic basis, driven by the reduced orders from our largest customer's change in its inventory policy. The negative impact in the quarter was c. $20 million, around the mid-point of our estimate of $18 million to $24 million. We expect a more normal ordering pattern going forward, although the exit of Animas from the insulin durable pump market will impact 2019, as outlined below.

ID revenue outlook

Infusion Devices has historically grown around 4% to 5% per annum, which is in line with the durable insulin pump market. Due to the exit of Animas, one of our key customers, from the durable pump market and the resulting termination of support for existing Animas customers in 2019, we expect a lower level of growth in 2019, albeit above the level seen in 2018. At this stage, it is not possible to quantify the scale of the impact of the Animas withdrawal from the market. We believe that the change in inventory policy at our biggest customer was a one-off event, with the impact being predominantly in the final quarter of 2018.

Regional Revenue

	Twelve months ended 31 December		Growth		Q4
	2018 $m	2017 $m	Reported	Organic[3]	Organic[3] growth
Geographic markets					
EMEA	747.4	733.0	2.0%	(1.3)%	(3.5)%
Americas	945.3	898.1	5.3%	1.0%	(6.0)%
APAC	139.4	133.5	4.4%	3.8%	7.3%
Total	**1,832.1**	**1,764.6**	**3.8%**	**0.2%**	**(4.0)%**

Revenue in Europe, Middle East and Africa ("EMEA") in 2018 grew 2.0% on a reported basis due to favourable foreign exchange, more than offsetting a decline of 1.3% on an organic basis. Weakness in CCC, due to product rationalisation and the packaging recall and, to a lesser extent, in OC was partially offset by ID performance, driven by our neria™ guard insertion set. In the fourth quarter EMEA organic revenue declined by 3.5% driven by channel movements in AWC and timing of orders in OC.

Revenue in Americas in 2018 grew 5.3% on a reported basis, but only 1.0% on an organic basis. Reported revenue growth reflects primarily the acquisitions of Woodbury in September 2017 and J&R Medical in March 2018. Organic growth of 1.0% was the result of underperformance in AWC and lower ID revenues, due to the change in customer ordering patterns outlined above, offset by a strong HDG performance. In the fourth quarter revenue declined by 6.0% on an organic basis, driven primarily by the lower ID revenues outlined above.

Revenue in Asia Pacific ("APAC") in 2018 grew 4.4% on a reported basis and 3.8% on an organic basis driven by growth in AWC and to a lesser extent OC, partially offset by CCC due to product rationalisation and the packaging recall. In the fourth quarter, APAC revenue grew by 7.3% organically driven by a strong performance in AWC.

Adjusted Costs and EBIT

Following the supply issues in Haina in the second half of 2017, stability in our manufacturing lines improved during 2018 and we delivered $20 million in gross cost benefits. However, we are still experiencing cost headwinds such as higher depreciation, excess freight, inflation and negative mix, coupled with costs related to the CCC packaging recall and some additional inventory write-downs. These headwinds more than offset cost benefits and resulted in a lower adjusted gross margin year on year.

As we had previously indicated, adjusted opex as a percentage of sales increased to 36.7% of revenue (2017: 35.1%), while on a reported basis it was flat at 38.5%. This increase in adjusted opex was driven primarily by the inclusion of Woodbury and J&R Medical and commercial investments in US wound, HDG, and China, as well as increased R&D in part to support new product development, particularly our next generation of Ostomy products. We also saw increased freight costs as we dealt with back orders built up due to the 2017 supply issues and the packaging recall.

As a result, adjusted[1] EBIT margin was 23.4%, compared to 25.9% in the prior year.

A refreshed execution model to deliver our strategy

As highlighted above, the Board gave me a mandate to develop a plan to improve, on a sustainable basis, the Group's commercial and operational performance, to deliver better financial results for shareholders over the medium to long term[4]. In the past four months, along with the Executive Committee, I have undertaken an extensive review of all aspects of our business and, following Board approval, we are now implementing a refreshed execution model called "Pivot to Growth".

Our strategy and the fundamentals of our markets, our products and brands remain sound. Our CCC and ID franchises are fundamentally performing well, although AWC and OC are clearly not. A number of execution issues need to be urgently addressed, such as delayed product launches, a focus on topline growth at the expense of margin, inefficiencies and cost headwinds in our manufacturing facilities, and our commercial and go-to-market approach including price and segmentation. These have all negatively impacted our business, not only in terms of sales and margin, but also in management time, reputation and credibility with our stakeholders.

Consequently, the objective of Pivot to Growth is to deliver sustainable profitable growth and long term value for all stakeholders by better capitalising on ConvaTec's core strengths: leading 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 robust cash generation capabilities. The core principles of Pivot to Growth, which will improve our execution capabilities and ensure we deliver on our strategy, are:

- **Simplify:** we produce a large number of products that deliver little revenue and/or profit. We have made some progress in product rationalisation in CCC but further opportunities remain across the Group. We will simplify our business across a number of areas, including product range, packaging and supply chain. We have duplicate back office functions across our regions and geographies. We are making improvements to both our management information processes and forecasting capability, and we will take a more centralised approach through our Businesses Services transformation project. This project which will deliver a more efficient use of our spend through higher quality, more responsive and lower cost support functions. We will also seek to optimise our structure to ensure we are closer to our customers, more responsive and able to make faster decisions. Our goal is focused franchises with leading market positions; a simpler and flatter management structure; a business services approach to support functions and high quality information for decision-making and more reliable forecasting; and a clear "ConvaTec way" of doing business, to ensure operational excellence and consistency.

- **Innovate:** we have been late to market with a number of recent products, such as Avelle™ and our next generation catheters, with the success of in-country market launches varying from market to market. We have focused too heavily on internal product pipelines developed in-house and our new product pipeline is lower than in 2017. Going forward, we will build on our R&D capabilities to ensure that we are the leading technologies and product developer in our chosen markets. We will supplement our own pipelines with acquired or licensed products and technologies. A strong, innovative pipeline will make the business more resilient to pricing pressure or generic incursion, and will also enhance the value of the ConvaTec brand. We will upgrade our new product launch capabilities and methodology by establishing a center of excellence that will create a template across the Group for product launches based on best practice and we will increase our investment in R&D.

- **Segment:** we have not approached markets in a targeted way, and not effectively sold the differentiated nature of our products to command a price premium. We have too often focused on topline growth at the expense of price and margin. In future, we will focus on premium markets, segments and geographies that have the potential to deliver the most profitable growth on a sustainable basis. We will invest in higher growth, higher margin opportunities, rather than being distracted by smaller or less valuable ones. This will help support pricing power longer term by reducing our exposure to commoditisation, and develop more of an end customer "pull" than channel "push". We will also be more disciplined on price. We will invest in value-based clinical evidence and manage our portfolio more actively.

- **Invest:** over the next three years we will invest in our Transformation Initiative, as detailed below, to enhance our capability to deliver short and long term improvements to operating performance. Over the medium to long term[4] we are targeting increased investment as a proportion of sales in key areas such as Sales and Distribution and Research and Development. This is intended to drive higher revenue growth over time and make us more efficient, with General and Administrative costs falling as a proportion of sales. We will partially fund these investments through cost out and efficiency programmes as part of our Transformation Initiative, detailed below.

Our Transformation Initiative, which is CEO led, will implement the core principles of Pivot to Growth through four workstreams:

- Commercial excellence, led by David Shepherd, President AWC, and Kjersti Grimsrud, President EMEA, to drive more effective product launches, improve pricing strategy and to ensure that we are more focused on our customers
- Operational Excellence, led by Donal Balfe, Vice President Global Operations, which includes our cost out and efficiency programmes as detailed below;
- Business Services Transformation, led by Frank Schulkes, CFO, which aims to deliver savings in the back office;
- Portfolio Optimisation, led by Stephan Bonnelycke, President Ostomy, to move our focus to high growth, high margin segments and geographies.

The investment required for our Transformation Initiative will be around $150 million over three years, with a two to three year payback expected. We expect around 30% of this total will be capex investment, with the remaining 70% being operational spend related to restructuring, project management and other transformation costs which will cease at the end of the three year period.

By year three of the Transformation Initiative we will also expect to incur $50 million of ongoing annual costs related to commercial spend and R&D, building from $15 million in 2019.

Benefits will be higher revenue growth, $80 million in gross annual cost savings by year three, (increasing to $120 million gross annual cost savings by 2023) and improved profit margin. The gross cost benefits will be partially offset by headwinds including inflation, higher depreciation and price/mix, but will also lead to improved margins. We will provide regular updates on our progress in delivering against our target for gross cost savings.

People

To deliver improved performance and better execution we need the right people in the right positions. Over the past 18 months our Executive Committee has been greatly strengthened. David Shepherd was appointed Group President of AWC in November. David joins from Johnson & Johnson, where he worked for 26 years in a variety of sales, marketing, strategic and operations roles. Most recently he was the Area Vice President, Southern EMEA with responsibility for 15 businesses. David will lead the development and delivery of our AWC strategy, working closely with the other Franchise and Regional Presidents and other key functional areas.

In January 2019 George Poole, previously President, APAC, became President, Americas. George joined ConvaTec in 2015 from Medtronic, where he spent nearly 16 years in leadership roles in commercial, marketing, operations and general management. He has implemented a successful commercial strategy in our APAC region over the past three years.

Supratim Bose joined the Group in December as Executive Vice President and President, APAC, from Boston Scientific Corporation, where he served as Executive Vice President & President of Asia Pacific, Japan, Middle East and Africa. Prior to Boston Scientific, Supratim spent 29 years with Johnson & Johnson.

I am impressed with the quality of the Executive Committee. The additions over the last 18 months bring significantly improved capability and experience. Working alongside myself and Frank Schulkes, our CFO, I am confident that we will be able to drive improved performance through our refreshed execution model, which provides much greater clarity and direction to our strengthened management team.

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

During my short time as CEO I have visited many parts of the business and met with local management. I have been consistently impressed by the passion and commitment of our people to our core Purpose, to improve the lives of the people we touch, and their absolute desire to do the right thing.

Corporate responsibility

Since my appointment as an independent non-executive director in 2016, I have been a member of the Board's CR Committee. As CEO I now have an executive role in guiding and driving our CR performance to achieve our medium-term objectives namely:

- To strengthen our management of CR-related risk;
- To improve our transparency;

- To develop our employee and community engagement; and
- To improve the sustainability performance of our products.

It has been a very positive year in respect of the advancements we have made as we continue to drive our CR programme forward. We have made good progress in our management of health and safety. Our approach to respecting the labour rights of our employees and those who work in our supply chains has been recognised in an independent assessment conducted by one of our key customers. We are now increasing our efforts to reduce our impact on the environment, and I was delighted with our move to procure renewable energy for all our UK operations.

One of the highlights of the year has been the successful launch of our global community programme, 'LIFE+ by ConvaTec' and you can read more about this on page 25 of the 2018 Annual Report and Accounts, and in more detail in the 2018 Corporate Responsibility Report, which will shortly be available on our website.

Acquisitions

On 1 March 2018 the Group acquired J&R Medical, a Texas-based independent distributor of catheter-related supplies. The addition of J&R Medical strengthens our presence in the substantial and important US market. Concurrently, the Group divested its Symbius Medical respiratory business.

UK withdrawal from the European Union ("Brexit")

For some time we have been monitoring the potential outcomes of the Brexit negotiations, assessing the potential effects on our business, whatever the circumstances under which the UK will cease to be a member of the EU, 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. However, it remains unclear what will be the position for the UK on 29 March 2019 and our planning will continue to evolve and adapt in light of political developments.

Our Brexit risk assessment process identified several key areas of focus for potential impact, including:

- Regulatory frameworks and compliance
- Customs duties and tariffs
- Supply chain
- Employees and mobility
- Tax and treasury

Our products are CE marked for sale through a Notified Body. Our Notified Body at present is BSI UK, which has set up a sister company in the Netherlands, BSI NL, which has completed the process to be a designated EU Notified Body, and a migration process with the respective National Competent Authorities has been agreed for CE certifications. This is an administrative process, which has recently been put in motion by BSI on the advice of the MHRA (Medicines and Healthcare products Regulatory Agency). This means, for our products that are sold in the EU, that CE certification would be migrated to BSI NL and existing certificate numbers would be retained. BSI have also confirmed that a protracted period will be allowed in which to make associated labelling and packaging changes. In addition, a ConvaTec Group company located within the EEA/EU will be designated as the Authorised Representative in the EU for those products where ConvaTec Limited is the legal manufacturer.

The UK authorities have recently made arrangements to allow continued sales in the UK of existing medical products manufactured in the EU. EU standards and regulations will continue to be accepted and thus we expect our products manufactured within the EU and exported to the UK will be not be impacted from a regulatory and compliance perspective.

ConvaTec has undertaken an indirect tax assessment in conjunction with external advisors to establish the potential duty impact on the flow of its products that move in and out of the UK. We manufacture our products in eight countries around the world, with the UK being one of those locations. This means that the potential duty impact only affects a modest proportion of our imports and exports.

We do buy raw materials in the EU that are shipped to the UK, for use in the manufacture of our Advanced Wound Care products. However, the final duty costs will not be known until the mechanism for effecting Brexit has been confirmed. The inventory levels required during a "No-Deal" Brexit transition have been assessed and we are working to have these in place at the appropriate time.

It is reasonable to expect that there shall be delays at the custom borders into and out of the UK on and after 29 March 2019 for a limited period. We have assessed the potential impact of such delays on our supply chain and have put in place mitigation plans, including reviewing inventory and appropriate stock positioning.

We recognise that there remains significant uncertainty around the eventual Brexit outcome. However, based on our understanding today we do not believe that Brexit will generate unmanageable risks for our business.

Group Outlook and 2019 Guidance

As mentioned previously, our strategy and the fundamentals of our markets, products and brands remain sound.

Whilst CCC and ID are fundamentally performing well, AWC and OC are not. A number of execution issues across the Group need to be addressed. We have developed a refreshed execution model Pivot to Growth, which will focus on four principles: Simplify, Innovate, Segment and Invest, to deliver sustainable and profitable growth through concentrating on those product and market segments that offer the best returns, simplifying our business and running it more effectively and efficiently, whilst continuing to invest to drive growth.

Our Transformation Initiative set out above contain four workstreams which will improve our operational and commercial execution. However, we will need to invest in the business over three years whilst we address performance issues, enabling the company to deliver the returns that our shareholders and other stakeholders rightly expect.

In 2019 we expect organic revenue growth of 1% to 2.5%, with an improved performance year on year in AWC, OC and CCC. Whilst ID will be impacted by the exit of Animas, we expect growth to be above the level seen in 2018. Adjusted EBIT margin is expected to be 18% to 20%, including $50 million of operational spend associated with the Transformation Initiative and costs related to MDR. Excluding these transformation costs and MDR, the adjusted EBIT margin would be 21% to 22.5%, reflecting a positive contribution from cost out initiatives, partially offset by price and increased negative mix and ongoing commercial investments and other cost increases.

Our opportunity over the medium to long term is to drive organic revenue growth in line with or higher than market growth rates and we continue to see adjusted EBIT margin expansion potential.

There is a lot to do to execute our strategy more effectively but I am confident that the energy and commitment of all our people, allied to a refreshed execution model, will help us to deliver an improved performance and move us to a position where we can deliver the sustainable returns that shareholders and other stakeholders deserve. In doing so we will continue to do the right thing for our business and all our stakeholders. I am confident we are now set on that course.

Principal risks and uncertainties

The Group's risk management process is in place to identify, evaluate and manage the identified risks that could impact the Group's performance. Principal risks and uncertainties, together with an explanation of the impact and mitigation actions, are included in the Group's 2017 Annual Report and Accounts on pages 30 to 36 (www.convatecgroup.com/ investors/reports), and they will be disclosed in the 2018 Annual Report and Accounts on pages 34 to 43 and are summarised below.

The principal risks and uncertainties which will be disclosed in the 2018 Annual Report and Accounts are listed below. In line with the development of our refreshed execution model, we have reviewed the risks that could impact our four strategic drivers. As a result of this review, although the nature of the key risks have not altered, the substance and management of certain risks has changed.

- Change and transformation;
- Attract, engage and retain leadership talent;
- Brexit;
- Legal and Compliance;
- Global Operational and Supply Chain;
- Product Innovation and Intellectual Property;
- Pricing and reimbursement;
- Forecasting and Process;
- Information security;
- Macroeconomic and foreign exchange;
- Quality and Regulatory.

There are 11 principal risks and uncertainties for 2018 including three new risks, these are discussed in further detail below.

- Change and transformation - the large and significant change and transformation programmes being implemented across the Group do not deliver the required impact and results within our planned timescale and budget.

  The potential impact of this risk is: failure to deliver our strategy, growth targets and market expectations; failure to fully integrate new acquisitions could result in inconsistent policies and management and costly operations, which could impede our ability to fully realise the benefits of the acquisition; failure to deliver our efficiency programme could adversely impact our ability to invest in our infrastructure and the capabilities required to improve our execution and delivery of our strategy and our ability to meet shareholders' expectations.

  Our risk mitigation is: we have established Franchise Councils and steering committees to enhance governance and review performance; we have recruited additional resources to support key functions to proactively manage risk, enable timely communications and activate contingency planning where needed; senior management are focused on driving a cultural change in relation to strategic decision-making, planning, execution and review of key deliverables to ensure alignment against timelines, expectations and contingency planning; we have established a Transformation Initiative to oversee the execution of a number of key strategic projects. We are also increasing our project management capabilities through the recruitment of additional employees who are skilled in this area, and the engagement of specialist third-party project managers.

- Attract, engage and retain leadership talent - failing to attract, retain and align the right leadership talent to the value we seek to create in the business.

  The potential impact of this risk is: lack of appropriately skilled and experienced leaders, due to inability to attract and retain talented leadership could adversely impact our performance and delay delivery of our strategy; loss of corporate knowledge due to poor retention of talented employees; lack of top talent could impact the ability to develop effective succession plans for the future.

  Our risk mitigation is: we are implementing a new people strategy; talent management reviews are completed annually in May and are updated in October. Key findings from both reviews are reported to the Board; we undertake employee surveys to monitor employee engagement. Any issues are assessed and addressed by the People Leadership Committee which has a global membership; Executive Committee members have scorecards which include three people related KPIs covering employee engagement, diversity and inclusion, and talent succession and retention; we seek to offer market competitive terms to ensure leadership talent is attracted, retained and remains engaged; we undertake workforce planning; performance, talent and succession initiatives; learning and development programmes; and we promote our culture and core values; we assess and update our people processes regularly to ensure there is strong linkage between our talent and the value we seek to create, underpinned with robust performance management processes.

- Brexit – Brexit introduces a high level of uncertainty regarding trading conditions which will impact our EU and UK production plants and potentially our logistics hub based in the Netherlands and our sales in all EU countries. Brexit may cause some key customers to significantly change and increase their purchasing demands in the short term to build their own safety stock piles to ensure supply continuity after 29 March 2019.

  The potential impact of this risk is: border controls and tariff changes could cause supply chain delays and delivery of products to customers could be delayed; trading performance could be adversely impacted by increases in tariffs on products and delays in their global movement; delay may be caused in the processing of product changes by our Notified Body whilst migration of CE certifications is undertaken which, if not addressed by increased supply and production, could cause back orders and disruption to supply to customers; product labelling requirements could be required as a result of regulatory changes; trading performance could be adversely impacted by the potential instability of the global currency market and changes in foreign exchange rates; stockpiling by key customers could result in a reduction of our inventory levels which, if not addressed by increased supply and production, could cause back orders and disruption to supply to customers; our employees may encounter delays or restrictions on their movements in Europe and the UK.

  Our risk mitigation is: our Brexit Steering Committee, which includes representatives from all key functions, has developed a plan to prepare for Brexit based on the assessment of potential impacts and possible mitigating actions. The plan identified a number of actions which we are now implementing; progress reports are regularly provided to the Brexit Steering Committee which monitors the progress of the different workstreams across the business and assesses our preparedness for post-Brexit trade; the Brexit Steering Committee is monitoring the status of the Government’s negotiations and amending our approach where required; Quality and Regulatory Affairs are continuing to monitor the potential regulatory impact. We have commenced the process with BSI UK to migrate our CE certifications for sales of products in the EU to its sister company based in the Netherlands and expect the migration to be completed before 29 March 2019. The associated product labelling changes are being made to products that will not be placed on the market by 29 March 2019. Further, a Group company located within the EEA/EU will be designated as the Authorised Representative in the EU for those products where ConvaTec Limited is the legal manufacturer; we have undertaken an indirect tax assessment in conjunction with an external advisor to establish the potential duty impact on the flow of our raw materials and products that move in and out of the UK, and are taking actions to mitigate the tariff and custom charges; we are working with the NHS supply chain and the Department of Health supply chain to assist with their contingency planning and understand their projected product demands; the global supply chain and manufacturing team have modelled various possible scenarios of product demand to address border delays and regulatory delays and created contingency plans to manage projected impacts including appropriate stock positioning; we have undertaken an initial review of the impact on our people and taking account of our skilled workforce and low levels of mobility between countries, we consider the impact to be limited.

Forward Looking Statements

This document includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Group’s control. “Forward-looking statements” are sometimes identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “aims”, “anticipates”, “expects”, “intends”, “plans”, “predicts”, “may”, “will”, “could”, “shall”, “risk”, “targets”, “forecasts”, “should”, “guidance”, “continues”, “assumes” or “positioned” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places and include, but are not limited to, statements regarding the Group’s intentions, beliefs or current expectations concerning, amongst other things, results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy of the Group and the industry in which it operates.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. These statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies. As such, no assurance can be given that such future results, including guidance provided by the Group, will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed, or implied in such forward-looking statements. 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 in or suggested by the forward-looking statements set out in this Presentation. Past performance of the Group cannot be relied on as a guide to future performance. Forward-looking statements speak only as at the date of this document and the Group and its directors, officers, employees, agents, affiliates and advisers expressly disclaim any obligations or undertaking to release any update of, or revisions to, any forward-looking statements in this document.

Finance Review
For the 12 months ended 31 December 2018

The Finance 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 European Securities and Markets Authority guidelines and are explained and reconciled to the most directly comparable measure prepared in accordance with IFRS on pages 29 to 35 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 36 to 52.

In addition, the discussion below includes commentary on revenue on a constant currency basis and on an organic basis. Constant currency removes the effect of fluctuations in exchange rates. Organic removes the effect of fluctuations in exchange rate and the impact of acquisitions and disposals. 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 an organic basis is a non-IFRS financial measure and should not be viewed as a replacement of IFRS reported revenue.

Results of operations
The following table summarises the Group's performance for each of the last two years on a reported and adjusted basis.

	Reported 2018 $m	Reported 2017 $m	**Adjusted [1] 2018 $m**	Adjusted[1] 2017 $m
Revenue	**1,832.1**	1,764.6	**1,832.1**	1,764.6
Cost of goods sold	**(858.3)**	(838.3)	**(729.9)**	(688.3)
Gross profit	**973.8**	926.3	**1,102.2**	1,076.3
Gross margin %	***53.2%***	*52.5%*	***60.2%***	*61.0%*
Selling and distribution expenses	**(418.0)**	(377.5)	**(415.3)**	(377.2)
General and administration expenses	**(238.2)**	(259.8)	**(208.3)**	(202.0)
Research and development expenses	**(49.9)**	(41.2)	**(49.2)**	(40.3)
Operating profit	**267.7**	247.8	**429.4**	456.8
Operating margin %	***14.6%***	*14.0%*	***23.4%***	*25.9%*
Finance costs	**(65.2)**	(62.1)	**(65.2)**	(62.1)
Other expenses, net	**(1.3)**	(21.7)	**(3.2)**	(24.3)
Profit before tax	**201.2**	164.0	**361.0**	370.4
Taxation	**20.4**	(5.6)	**(56.5)**	(54.4)
Net profit	**221.6**	158.4	**304.5**	316.0
Net profit %	***12.1%***	*9.0%*	***16.6%***	*17.9%*
Basic and diluted Earnings per Share ($ per share)	**0.11**	0.08	**0.16**	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 29 to 35

Revenue
On a reported basis revenue increased by 3.8% to $1,832.1 million (2017: $1,764.6 million). On a constant exchange basis revenue increased by 2.7% and 0.2% on an organic basis. Reported revenue included a year on year increase of $43.5 million in the contribution from the acquisitions of Woodbury and J&R Medical and benefited from $20.5 million favourable foreign exchange movements in 2018.

Revenue by franchise

The following table summarises the Group's revenue by franchise for 2018 and 2017 and the percentage change on a reported, constant exchange rate and organic basis.

	2018 $m	2017 $m	Organic growth	M&A	Exchange rates	Reported growth
Advanced Wound Care	**587.5**	577.8	**0.2%**	**0.0%**	**1.5%**	**1.7%**
Ostomy Care	**533.3**	528.9	**(0.5)%**	**0.0%**	**1.3%**	**0.8%**
Continence & Critical Care	**443.0**	382.9	**4.1%**	**11.1%**	**0.5%**	**15.7%**
Infusion Devices	**268.3**	275.0	**(3.5)%**	**0.0%**	**1.1%**	**(2.4)%**
Total revenue	**1,832.1**	1,764.6	**0.2%**	**2.5%**	**1.1%**	**3.8%**

Cost of goods sold

Reported

Reported cost of goods sold increased 2.4% or $20.0 million to $858.3 million (2017: $838.3 million). Performance benefits from our cost out programmes have been more than offset by headwinds and cost increases. These include negative product mix effects, inflation, higher depreciation and higher costs related to our recovery from the supply constraints of 2017, including increased freight as we fulfilled back orders, coupled with costs related to the CCC packaging recall and some additional inventory write-downs. These increases were offset by favourable foreign exchange.

On a reported basis, gross profit increased by $47.5 million, 5.1%, and gross profit margin improved to 53.2% (2017: 52.5%) due primarily to lower restructuring costs in relation to our pre-IPO MIP programme.

Adjusted

Adjusted cost of goods sold of $729.9 million in 2018 increased 6.0% or $41.6 million compared to 2017, driven by headwinds and cost increases outlined above offset by favourable foreign exchange.

This led to adjusted gross margin for 2018 of 60.2%, compared with 61.0% for the prior year. Overall, there was a net negative impact on adjusted gross margin of 100 bps of headwinds and cost increases, offset by a 20 bps foreign exchange benefit.

Operating costs and expenses

The following is a summary of operating costs and expenses for 2018 and 2017 and the percentage of each category compared with total revenue in the respective period.

	Reported 2018 $m	Reported 2017 $m	**Adjusted 2018 $m**	Adjusted 2017 $m
Selling & distribution	**418.0**	377.5	**415.3**	377.2
% revenue	***22.8%***	*21.4%*	***22.7%***	*21.4%*
General & administration	**238.2**	259.8	**208.3**	202.0
% revenue	***13.0%***	*14.7%*	***11.4%***	*11.4%*
Research & development	**49.9**	41.2	**49.2**	40.3
% revenue	***2.7%***	*2.3%*	***2.7%***	*2.3%*
Total operating costs	**706.1**	678.5	**672.8**	619.5
% revenue	***38.5%***	*38.5%*	***36.7%***	*35.1%*

1 These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 29 to 35

Reported

Selling & distribution

On a reported basis, selling and distribution expenses increased by $40.5 million to $418.0 million (2017: $377.5 million). This increase was driven by continued investments in our commercial infrastructure to drive revenue growth in EMEA, the Americas and China as well as the inclusion of the cost base of Woodbury and J&R Medical. We also increased freight spend as we both increased volume and fulfilled back orders.

General & administration

On a reported basis, general and administrative expenses reduced by $21.6 million to $238.2 million (2017: $259.8 million) principally reflecting the fall in the pre-IPO share-based payment charge ($23.1 million) partially offset by an increase in the cost base reflecting the inclusion of the Woodbury and J&R Medical acquisitions.

Research and development ("R&D")

R&D costs increased by $8.7 million to $49.9 million (2017: $41.2 million).

R&D expenses increased to support new product development, in particular the development of our next generation Ostomy products, and project write-offs as part of our more focused approach to products, segments and markets.

Adjusted

Selling & distribution

Adjusted selling and distribution expenses increased $38.1 million or 10.1% in 2018 to $415.3 million. As a percentage of revenue, adjusted selling and distribution expenses were 22.7% and 21.4% for the years 2018 and 2017 respectively due to increased commercial investment and higher freight costs, as outlined above.

General & administration

Adjusted general and administration expenses (which exclude the pre-IPO share-based payment charges) increased $6.3 million, or 3.1%, in 2018 to $208.3 million. The increase in adjusted costs reflects the inclusion of the cost base of Woodbury and J&R Medical. Excluding these costs, general and administrative expenses declined as IT and strategic project investments to support growth and productivity were more than offset by tight cost control across the Group and a reduction in employee bonuses. As a percentage of revenue, adjusted general and administration expenses were flat year on year at 11.4%.

Research & development ("R&D")

On an adjusted basis, research and development expenses increased $8.9 million, or 22.1%, in 2018 to $49.2 million. As a percentage of revenue, adjusted research and development expenses were 2.7% and 2.3% for the years 2018 and 2017 respectively.

Operating profit

Reported

On a reported basis, operating profit was $267.7 million, an increase of $19.9 million (2017: $247.8 million) reflecting the increase in gross margin being partially offset by an increase in the Group's operating cost base. The comparator in 2017 included restructuring costs in relation to the Group's MIP programme and pre-IPO share-based payment charges. Reported operating profit in 2018 includes only $2.5 million in respect of costs in relation to the Group's MIP programme (no further costs for this programme have been incurred since June 2018).

Adjusted

Adjusted operating profit was $429.4 million, a reduction of $27.4 million (2017: $456.8 million). This reflects the very small increase in revenue offset by the headwinds in gross margin previously discussed and an increase in the operating cost base.

Finance and other expenses

The table below presents a summary of finance and other expenses, net on a reported and adjusted basis.

	Reported 2018 $m	Reported 2017 $m	**Adjusted 2018 $m**	Adjusted 2017 $m
Finance costs	**(65.2)**	(62.1)	**(65.2)**	(62.1)
Other expenses, net	**(1.3)**	(21.7)	**(3.2)**	(24.3)
Total	**(66.5)**	(83.8)	**(68.4)**	(86.4)

1 These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages **29 to 35**

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.

Reported

Finance costs increased $3.1 million to $65.2 million in 2018 from $62.1 million in 2017. This reflects an increase of 40 bps to 3.5% (2017: 3.1%) in the weighted average borrowing cost for the year offset by the benefit of the interest rate swap and lower borrowings resulting from both scheduled and voluntary loan repayments.

Other Expenses, net

Other expenses, net primarily consists of net gains and losses resulting from:

- The re-measurement or settlement of transactions that are denominated in a currency that is not the functional currency of a transacting subsidiary; and
- Gains and losses on disposal of assets.

Reported

Other expenses, net on a reported basis decreased $20.4 million to $1.3 million in 2018 primarily due to a reduction in foreign exchange losses related to intercompany transactions, reflecting our improving management of such balances. Offsetting the foreign exchange loss in 2018 is a net gain of $1.9 million which represents the profit on the sale of equipment at our Greensboro site and the loss on disposal of Symbius.

Adjusted

On an adjusted basis, other expenses, net of $3.2 million (2017: $24.3 million), principally represent foreign exchange losses.

Taxation

	Reported 2018 $m	Reported 2017 $m	**Adjusted 2018 $m**	Adjusted 2017 $m
Profit before taxation	**201.2**	164.0	**361.0**	370.4
Income tax benefit/(expense)	**20.4**	(5.6)	**(56.5)**	(54.4)
Effective tax rate	**(10.1)%**	3.4%	**15.7%**	14.7%

Reconciliation of reported income tax benefit/(expense) to adjusted tax charge

	2018 $m	2017 $m
Reported income tax benefit/(expense)	**20.4**	**(5.6)**
Tax effect of adjustments[1]	(11.2)	(12.2)
Other discrete tax items[2]	(65.7)	(36.6)
Adjusted income tax expense	**(56.5)**	**(54.4)**

1. The tax effects of the adjustments relating to non-IFRS financial measures are explained and reconciled on pages 29 to 35

2. Other discrete items in 2018 includes income tax benefits of $30.4 million and $35.0 million respectively arising from the reassessment of deferred tax liabilities in respect of unremitted earnings and recognition of additional deferred tax assets resulting from the US tax reform respectively. In 2017, other discrete items includes the tax effect of the benefits arising from US tax reform. Refer to Note 4 of the Financial Statements for further information.

For 2018, on a reported basis, the Group recorded an income tax benefit of $20.4 million (2017: expense of $5.6 million) and an adjusted income tax expense of $56.5 million (2017: $54.4 million) on adjusted profits. Further details on reported income tax are contained in Note 4 of the Financial Statements.

Reported income tax benefit/(expense)

The reported income tax benefit for 2018 of $20.4 million (2017: expense of $5.6 million) is based on tax rates applicable in various jurisdictions across the world in which the Group operates. The lower tax rates in Switzerland drive the overall tax expense down, partially offset by higher tax rates in other jurisdictions (e.g. Denmark). The reported income tax benefit for 2018 is also impacted by permanent disallowances and temporary adjustments, such as tax depreciation versus IFRS accounting depreciation.

The reported income tax also includes other discrete tax items that are not a direct result of the profits for the year. In 2018 there were two discrete tax items totalling $65.7 million. These were principally previously unrecognised deferred tax assets 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 on unremitted earnings. Excluding these two discrete tax items noted above, the reported income tax would be an expense of $45.3 million.

In 2017 there were also two significant discrete tax items, totalling $34.9 million, included within the reported tax expense of $5.6 million. These were $25.0 million benefit from US Tax Reform and the recognition of a deferred tax asset of $9.9 million in respect of the Woodbury group acquisition. Excluding other discrete tax items, the reported income tax would be an expense of $42.2 million.

The difference between the income tax benefit of $20.4 million in 2018 compared to the income tax expense of $5.6 million in 2017 is therefore mainly attributable to these other discrete tax items.

Adjusted income tax expense

The adjusted income tax expense for 2018 of $56.5 million (2017: $54.4 million) excludes the discrete tax items noted above which total $65.7 million (2017: $36.6 million) and a further annual tax credit of $11.2 million (2017: $12.2 million) arising from deferred tax liabilities in relation to the amortisation of pre-2018 acquisition intangibles and restructuring costs. All of these adjusted items generated a non-cash benefit to the Group.

The adjusted tax rate for 2018 is 15.7% (2017: 14.7%).

Net profit

Reported

Reported net profit for 2018 was $221.6 million (2017: $158.4 million), an increase of $63.2 million, reflecting an increase of $37.4 million in reported profit before tax and the impact on the reported tax expense for the year of significant deferred tax asset and liability credits.

Adjusted

Adjusted net profit decreased $11.5 million to $304.5 million in 2018. As a percentage of revenue, adjusted net profit was 16.6% and 17.9% for the years 2018 and 2017 respectively. The decrease reflects the increase in revenue offset by the headwinds in gross margin and increase in operating costs described above.

Foreign exchange

The table below summarises the exchange rates used for the translation of currencies (that have the most significant impact on the Group results) into USD:

Currency	Average rate/Closing rate	2018	2017
EUR/USD	Average	**1.18**	1.13
	Closing	**1.15**	1.20
GBP/USD	Average	**1.34**	1.29
	Closing	**1.28**	1.35
DKK/USD	Average	**0.16**	0.15
	Closing	**0.15**	0.16

Financial Position

The following table presents a summary of the Group's Financial Position at 31 December 2018 and 2017.

	2018 $m	2017 $m	**Change $m**	**Change %**
Goodwill and intangibles	**2,377.5**	2,559.5	(182.0)	-7.1%
Other non-current assets	**379.7**	366.3	13.4	3.7%
Cash and cash equivalents	**315.6**	289.3	26.3	9.1%
Current assets excluding cash and cash equivalents	***587.6***	585.8	*1.8*	0.3%
Total assets	**3,660.4**	3,800.9	(140.5)	-3.7%
Current liabilities	**(330.9)**	(338.5)	7.6	2.2%
Non-current liabilities	**(1,712.3)**	(1,938.6)	226.3	11.7%
Total equity	**(1,617.2)**	(1,523.8)	(93.4)	-6.1%
Net equity & liabilities	**(3,660.4)**	(3,800.9)	140.5	3.7%

Goodwill and intangibles

Goodwill and intangibles reduced by $182.0 million to $2,377.5 million (2017: $2,559.5 million). This reflects decreases arising from both the in-year amortisation of intangible assets of $152.6 million and the net effect of foreign exchange of $56.4 million, partially offset by increases relating to the acquisition of intangible assets and goodwill in relation to J&R Medical of $14.9 million and other additions of $13.4 million, including investment in data warehousing, as part of our financial and management reporting improvement plan, and continued roll out of our SAP platform.

Other non-current assets

Other non-current assets, including property, plant and equipment, deferred tax assets, restricted cash, pension and other assets increased by $13.4 million to $379.7 million (2017: $366.3 million). An increase in the deferred tax assets balance of $13.3 million to $22.9 million, together with an increase in the value of the interest rate swap of $3.9 million, are offset by a small reduction in the value of property, plant and equipment of $3.3 million due to depreciation being higher than our ongoing investment in our manufacturing lines.

Cash and cash equivalents

Cash and cash equivalents as at 31 December 2018 was $315.6 million (2017: $289.3 million). The improvement of $26.3 million reflects good cash conversion (see page 29), offset by the principal cash outgoings of tax payments of $35.8 million (2017: $46.9 million), $14.4 million investment in the J&R Medical acquisition, dividend payment of $74.9 million and $153.7 million of borrowing repayments, including the voluntary debt repayment on our Euro term loan.

Current assets excluding cash and cash equivalents

Other current assets excluding cash and cash equivalents increased by $1.8 million to $587.6 million (2017: $585.8 million). Excluding the effects of foreign exchange, the underlying increase was $28.8 million. The key component of this movement is an increase in inventory of $18.8 million which represents an underlying increase of $32.7 million offset by foreign exchange movements of $13.9 million. The increase in inventory held reflects changes in working capital policy by a key supplier in the fourth quarter of 2018 and a return to normal inventory levels following the back orders at the end of 2017. During the year inventory write-offs increased to $22.8 million (2017: $11.8 million), principally reflecting inventory associated with the packaging recall in September 2018 and a review of inventory following the transition of manufacturing to Haina in 2017.

Current liabilities

Current liabilities reduced by $7.6 million to $330.9 million (2017: $338.5 million). A reduction in current borrowings of $15.2 million is offset by a net increase of $7.9 million across other current liabilities. The decrease in current borrowings is disclosed further in Note 7 in the Financial Statements. The decrease in other current liabilities and accruals is principally driven by foreign exchange movements of $8.5 million.

Non-current liabilities

Non-current liabilities have reduced by $226.3 million to $1,712.3 million (2017: $1,938.6 million). This principally reflects a reduction in non-current borrowings of $163.2 million and a net reduction of $65.1 million in deferred tax liabilities. The movement in non-current borrowings is disclosed further in Note 20 in the Financial Statements. The reduction of $65.1 million in the net deferred tax liabilities is in respect of $35.0 million of tax losses now recognised following the enactment of the US Tax Cuts and Jobs Act on 22 December 2017 and the release of a $30.4 million deferred tax liability in respect of unremitted earnings. The $35.0 million movement has been accounted for as a reduction in deferred tax liabilities (which are in respect of indefinite life liabilities), rather than as an increase in deferred tax assets, as we offset deferred tax assets against deferred tax liabilities that relate to the same tax authority.

Equity

Total equity has increased by $93.4 million to $1,617.2 million (2017: $1,523.8 million). As disclosed on page 39, this is primarily a result of the net profit for the year of $221.6 million and $11.2 million shares issued under share-based payment awards, offset by dividends paid of $74.9 million and foreign currency translation adjustments of $66.6 million arising from the retranslation of Euro, GBP and DKK balances into USD.

Liquidity and capital resources

Overview

At 31 December 2018, the Group's cash and cash equivalents were $315.6 million (2017: $289.3 million). Additionally, at 31 December 2018, the Group had $193.8 million (2017: $192.9 million) of availability under the revolving credit facility. Restricted cash was $4.4 million at (2017: $5.7 million).

The Group's primary source of liquidity is cash flow generated from operations. Historically, the non-elective nature of the Group's product offerings has resulted in recurring cash inflows. In 2018, the Group generated $352.0 million of cash from operating activities. Significant cash uses in 2018 included (i) $14.4 million paid in connection with the J&R Medical acquisition (net of cash acquired), (ii) property, plant and equipment expenditure of $70.9 million, (iii) interest payments of $61.3 million, (iv) income tax payments of $35.8 million, (v) scheduled 2018 loan amortisation payments of $56.3 million, (vi) $2.4 million mandatory loan repayments, (vii) $95.0 million voluntary prepayment on the Euro Term A loan and (viii) dividend payment of $74.9 million.

Cash flows

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

	2018	**2017**
	$m	**$m**
Net cash generated from operating activities	**352.0**	306.6
Net cash used in investing activities	**(80.9)**	(182.6)
Net cash used in financing activities	**(229.4)**	(119.3)
Net change in cash and cash equivalents	**41.7**	4.7
Cash and cash equivalents at the beginning of the period	**289.3**	264.1
Effect of exchange rate changes on cash and cash equivalents	**(15.4)**	20.5
Cash and cash equivalents at the end of the year	**315.6**	289.3

Cash flows from operating activities

Net cash generated from operating activities was $352.0 million and $306.6 million in 2018 and 2017, respectively. The increase of $45.4 million, principally reflects the reduction in payments relating to adjusted items "other payments" of $41.5 million. The following summarises the components of net cash generated from operating activities for each of the last two years:

	Reported	Reported	**Adjusted**	Adjusted
	2018	2017	**2018**	2017
	$m	$m	**$m**	$m
EBITDA	**457.7**	427.2	**482.4**	505.0
Cash interest payments	**(61.3)**	(66.5)	**(61.3)**	(66.5)
Cash tax payment	**(35.8)**	(46.9)	**(35.8)**	(46.9)
Other payments			**(11.6)**	(53.1)
Non-cash items	**14.6**	41.0	**2.9**	2.0
Working capital increase	**(23.2)**	(48.2)	**(24.6)**	(33.9)
Net cash generated from operating activities	**352.0**	306.6	**352.0**	306.6

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 reconciliation on page 35

Cash interest payments

On a reported and an adjusted basis, cash interest payments decreased $5.2 million, to $61.3 million in 2018 (2017: $66.5 million). This reflects an increase in the weighted average borrowing cost for the year to 3.5% (2017: 3.1%) offset by the benefit of the interest rate swap and lower borrowings resulting from both scheduled and voluntary loan repayments.

Other payments

Other payments, which reflect cash outflows in relation to adjusted items, decreased $41.5 million, to $11.6 million (2017: $53.1 million). This reflects a reduction in restructuring cash payments of $29.6 million, principally reflecting the reduction in MIP programme activity in 2018, $5.0 million payment in 2017 in relation to IPO-related costs and a reduction in remediation of controls and compliance costs as a result of IPO of $4.8 million.

Non-cash items

Reported

Non-cash items decreased by $26.4 million to $14.6 million (2017: $41.0 million). This principally reflects the reduction in the share-based payment charge from $36.9 million in 2017 to $11.2 million in 2018. For further information see page 35.

Adjusted

Adjusted non-cash items increased by $0.9 million to $2.9 million (2017: $2.0 million) and reflects the net adjustment for impairment and write-offs. For further information see page 35.

Working capital

Reported

The reported working capital increase of $23.2 million ($2017: 48.2 million) principally reflects an increase in inventory held in the US as inventory levels return to normal following back orders at the end of 2017, together with an increase in inventory held by ID resulting from a change in working capital policy by one of our key suppliers. In addition, other current liabilities and accruals decreased as a result of the reduction in bonus payments and the disposal of Symbius.

Adjusted

On an adjusted basis, the working capital increase also includes an increase in the severance provision in relation to the transition of Group finance functions from the US to the UK and restructuring geographical sales teams partially offset by a reduction in accruals in relation to IPO related activity. For further information see page [35].

Cash flows from investing activities

Net cash used in investing activities decreased $101.7 million, to $80.9 million, in 2018 (2017: $182.6 million). This reflects a comparatively lower investment in the J&R Medical acquisition of $14.4 million versus $105.5 million for Woodbury and EuroTec in 2017 and a return to normalised levels of investment in property, plant and equipment of $70.9 million (2017: $82.7 million) following the investment in MIP in 2017.

Cash flows from financing activities

Net cash applied in financing activities was $229.4 million (2017: $119.3 million) in 2018, an increase of $110.1 million primarily due to (i) an increase of $48.6 million to $74.9 million in the dividend paid in the year (2017: $26.3 million), 2018 being the first full year of payment under our dividend policy (ii) an increase in the repayment of borrowings of $82.8 million, principally reflecting the voluntary debt repayment on our Euro borrowings offset by (iii) in 2017, the Company purchased own shares of $9.6 million and settled $10.5 million of accrued share capital costs. These transactions were not repeated in 2018.

Cash conversion

	Reported 2018 $m	Reported 2017 $m	Adjusted 2018 $m	Adjusted 2017 $m
EBITDA	457.7	427.2	482.4	505.0
Add: non-cash items	14.6	41.0	2.9	2.0
Working capital	(23.2)	(48.2)	(24.6)	(33.9)
PP&E	(70.9)	(82.7)	(70.9)	(82.7)
Cash generated from operations, net of PP&E	378.2	337.3	389.8	390.4
Cash conversion	82.6%	79.0%	80.8%	77.3%

1 These non-IFRS financial measures in relation to cash conversion are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on page 35

Reported

The effect of the cash flows described above generates a reported cash conversion of 82.6%, an improvement on the prior year (2017: 79.0%).

Adjusted

Adjusted cash conversion improved to 80.8% in 2018 (2017: 77.3%).

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 operating profit ("adjusted EBIT"), adjusted EBITDA, adjusted profit before tax, adjusted finance costs, adjusted other expenses, net, adjusted net profit, adjusted earnings per share, adjusted working capital and adjusted cash conversion 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 to measures determined under IFRS are shown on pages 32 to 35. The definitions of the various adjusted measures (or APMs) used are as calculated within the reconciliation tables.

In management'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 32 to 33.

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. 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; or
- It is unusual in nature e.g., outside the normal course of business.

If an item meets at least one of the criteria, the Group then exercises judgement as to whether the item should be classified as an allowable adjustment to IFRS measures.

Key adjustments for adjusted EBIT (also known as adjusted operating profit) are pre-IPO costs, IPO related costs and the post-IPO improvement programme together with restructuring and related costs. Further adjustments, which include amortisation of pre-2018 acquisition intangibles and adjustments 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 EPS.

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, IPO related costs and the post- IPO improvement programme together with restructuring and related costs to our reported EBITDA.

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, less the carrying value of finance leases net of cash and cash equivalents.

These adjustments are detailed below.

Adjusted items

These include the following credits or costs that are reflected in the reported measures:

- acquisition-related amortisation of intangible assets relating to acquisitions pre-1 January 2018;
- share-based compensation expense arising from pre-IPO employee equity grants;
- change and restructuring programme related costs;
- costs in relation to a control and compliance remediation programme required as a direct result of the IPO; and
- gains/losses in relation to the sale, impairment or write-off of intangible and fixed assets, the sale, write-off or impairment arising as a result of a major change or restructuring programme or an unusual circumstance.

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 and 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 acquisition 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. We 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.

Adjustments to intangible and fixed assets

Gains and losses from the disposal of fixed assets, together with accelerated depreciation and impairment and write-offs in relation to intangible and fixed assets, are adjusted when management consider the circumstances surrounding the adjustment unusual and not reflective of our core business.

Change and restructuring programme related costs

These arise from Group-wide initiatives to reduce the ongoing cost base and improve efficiency in the business. We consider each project individually to determine whether its size and nature warrants separate disclosure. Where there has been a significant change in the organisational structure of a business area or a material Group-wide initiative, these costs are highlighted and are excluded from our adjusted measures.

Pre-IPO, IPO related costs and post-IPO remediation programmes

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 have been excluded from adjusted measures. These are:

- Expenses directly related to the IPO;
- Pre-IPO shared based payment expense;
- Pre-IPO margin improvement programme (“MIP”); and
- Post-IPO control and compliance remediation programme, which included regulatory compliance costs in relation to FDA activities, IT enhancement costs and professional service fees associated with activities that were undertaken in respect of the Group’s compliance function and to strengthen the control environment within the finance function. These costs were incurred as a direct result of the standards required by the IPO.

These costs were incurred and concluded in the years ended 31 December 2016 and 31 December 2017 with the exception of the pre-IPO share-based payment expense which concluded in 2018. There will be no adjustments in future years in relation to IPO related costs.

Reconciliation of reported earnings to adjusted earnings for the years ended 31 December 2018 and 2017

Year ended 31 December 2018	Revenue	Gross margin	Operating costs	Operating profit	Finance costs	Other expenses, net	PBT	Taxation	Net profit
	$m	$m	$m	**$m**	$m	$m	**$m**	$m	**$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**
Impairments/write-offs		0.4	0.1	**0.5**			**0.5**		**0.5**
Gain/loss on disposal of fixed assets				**-**		(1.9)	**(1.9)**		**(1.9)**
Restructuring and other related costs		2.9	9.7	**12.6**			**12.6**	(0.9)	**11.7**
Pre IPO share based payment expense and related costs			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-2018 acquisition amortisation				**0.9**					
Depreciation				**37.4**					
Post-IPO share based-payment compensation				**5.4**					
Adjusted EBITDA				**482.4**					

Restructuring and other related costs were $12.6 million, pre-tax, in 2018 and related to three significant restructuring programmes:

- $2.5 million in relation to the completion of the pre-IPO MIP 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 is expected to complete in 2019 with a total cost of c. $5.8 million; and
- $5.4 million in relation to restructuring geographical sales teams. The programme is expected to complete in 2019 with a total cost of $6.9 million.

The impairment/write-off charge of $0.5 million relates to the final write-off of certain manufacturing fixed assets following the closure of the Greensboro site in 2017.

Other discrete tax items principally represent tax benefits of $30.4 million and $35.0 million respectively 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. Refer to Note 4 of the Financial Statements for further information.

Year ended 31 December 2017	Revenue	Gross margin	Operating costs	Operating profit	Finance costs	Other expenses, net	PBT	Taxation	Net profit
	$m	$m	$m	**$m**	$m	$m	**$m**	$m	**$m**
Reported	1,764.6	926.3	(678.5)	**247.8**	(62.1)	(21.7)	**164.0**	(5.6)	**158.4**
Amortisation of pre-2018 acquisition intangibles		123.7	13.8	**137.5**			**137.5**	(10.5)	**127.0**
Accelerated depreciation		1.3		**1.3**			**1.3**		**1.3**
Impairment/write-offs			0.5	**0.5**			**0.5**		**0.5**
Gain/loss on disposal of fixed assets				**-**		(2.6)	**(2.6)**		**(2.6)**
Restructuring and other related costs			6.8	**6.8**			**6.8**	(0.3)	**6.5**
		125.0	**21.1**	**146.1**		**(2.6)**	**143.5**	**(10.8)**	**132.7**
IPO related costs									
Pre-IPO MIP programme		22.7	0.4	**23.1**			**23.1**	(0.9)	**22.2**
Compliance and control improvement		0.7	7.0	**7.7**			**7.7**	(0.2)	**7.5**
Acquisition accounting adjustment		1.6		**1.6**			**1.6**		**1.6**
Pre-IPO share-based payment expense			29.3	**29.3**			**29.3**		**29.3**
IPO costs			1.2	**1.2**			**1.2**	(0.3)	**0.9**
Total in relation to IPO		**25.0**	**37.9**	**62.9**			**62.9**	**(1.4)**	**61.5**
Total adjustments and their tax effect	**-**	**150.0**	**59.0**	**209.0**	**-**	**(2.6)**	**206.4**	**(12.2)**	**194.2**
Other discrete tax items								(36.6)	**(36.6)**
Adjusted	1,764.6	1,076.3	(619.5)	**456.8**	(62.1)	(24.3)	**370.4**	(54.4)	**316.0**
Software and R&D amortisation				**7.3**					
Post-2017 acquisition amortisation				**-**					
Depreciation				**33.3**					
Post-IPO share-based payment compensation				**7.6**					
Adjusted EBITDA				**505.0**					

Accelerated depreciation of $1.3 million relates to the closure of certain manufacturing facilities.

The gain on disposal of assets of $2.6 million represents the sale of fully depreciated assets in Malaysia.

Restructuring and other related costs were $29.9 million in 2017 of which $23.1 million related to costs incurred in connection with the pre-IPO MIP and $6.8 million relating to restructuring and other related costs. The pre-IPO MIP programme commenced in the fourth quarter of 2015 and completed by June 2018.

Post-IPO compliance and control remediation costs were $7.7 million in 2017. The nature of these costs is described above.

The acquisition accounting adjustment of $1.6 million relates to acquired inventories that were sold in 2017.

Other discrete tax items principally represent tax benefits of $25.0 million and $9.9 million, respectively, arising from the US Tax Reform and Jobs Act and the recognition of a deferred tax asset in respect of the Woodbury group acquisition.

Reconciliation of basic and diluted reported earnings per share to adjusted earnings per share for the years ended 31 December 2018 and 31 December 2017

Diluted and Basic Earnings Per Share	Reported 2018 $m	Adjusted 2018 $m	Reported 2017 $m	Adjusted 2017 $m
Net profit	**221.6**	**304.5**	158.4	316.0
Basic weighted average ordinary shares in issue	**1,956,085,112**		1,951,006,350	
Diluted weighted average ordinary shares in issue	**1,958,078,762**		1,953,941,810	
	$/share	**$/share**	**$/share**	**$/share**
Basic earnings per share	**0.11**	**0.16**	0.08	0.16
Diluted earnings per share	**0.11**	**0.16**	0.08	0.16

Reconciliation of reported operating costs to adjusted operating costs for the years ended 31 December 2018 and 31 December 2017

	2018				2017			
	Selling & distribution $m	General and administration $m	Research and development $m	**Operating costs $m**	Selling & distribution $m	General and administration $m	Research and development $m	**Operating costs $m**
Reported	(418.0)	(238.2)	(49.9)	**(706.1)**	(377.5)	(259.8)	(41.2)	**(678.5)**
Amortisation of pre-2018 acquisition intangibles		17.2	0.1	**17.3**		13.8		**13.8**
Impairments/write-offs		0.1		**0.1**		0.5		**0.5**
Restructuring and other related costs	2.7	6.4	0.6	**9.7**	0.3	5.6	0.9	**6.8**
	2.7	23.7	0.7	**27.1**	0.3	19.9	0.9	**21.1**
IPO related costs								
Pre-IPO MIP programme				-		0.4		**0.4**
Compliance and control improvement				-		7.0		**7.0**
Pre-IPO share-based payment expense		6.2		**6.2**		29.3		**29.3**
IPO costs				-		1.2		**1.2**
Total in relation to IPO	**-**	**6.2**	**-**	**6.2**	**-**	**37.9**	**-**	**37.9**
Adjusted	(415.3)	(208.3)	(49.2)	**(672.8)**	(377.2)	(202.0)	(40.3)	**(619.5)**

Cash conversion for the years ended 31 December 2018 and 31 December 2017

	2018	2017
	$m	$m
Reported Operating profit/EBIT	**267.7**	247.8
Depreciation	**37.4**	34.6
Amortisation	**152.6**	144.8
Reported EBITDA	**457.7**	427.2
Non-cash items in EBITDA		
Share-based compensation	**11.2**	36.9
Write-off/disposal of property, plant and equipment	**3.4**	2.5
Acquisition accounting adjustment	**-**	1.6
	14.6	41.0
Working capital movement	**(23.2)**	(48.2)
Capital expenditure	**(70.9)**	(82.7)
Reported net cash for cash conversion	**378.2**	337.3

Reconciliation of Adjusted EBITDA, Adjusted Non-Cash Items, Adjusted Working Capital and Adjusted Net Cash for Cash Conversion

	2018	2017
Reported EBITDA	**457.7**	427.2
Pre- IPO share-based payment expense	**11.2**	36.9
Pre- IPO share-based payment associated costs	**0.4**	-
Acquisition accounting adjustment	**-**	1.6
Impairment/write-offs	**0.5**	0.5
Restructuring and other related costs	**12.6**	29.9
Compliance and control improvements	**-**	7.7
IPO-related costs	**-**	1.2
Total adjustments (a)	**24.7**	77.8
Adjusted EBITDA	**482.4**	505.0
Reported Non-cash Items	**14.6**	41.0
Share-based compensation	**(11.2)**	(36.9)
Impairment/write-offs	**(0.5)**	(0.5)
Acquisition accounting adjustment	**-**	(1.6)
Total adjustments (b)	**(11.7)**	(39.0)
Adjusted Non-cash Items	**2.9**	2.0
Reported Working Capital	**(23.2)**	(48.2)
(Increase)/decrease in severance provision	**(3.6)**	7.8
Decrease in accruals for remediation costs, corporate development and IPO-related costs	**2.3**	3.5
(Increase) in accruals for share based payment associated costs	**(0.4)**	-
Decrease in liability for pre-IPO MIP	**0.3**	3.0
Total adjustments (c)	**(1.4)**	14.3
Adjusted Working Capital	**(24.6)**	(33.9)
Reported net cash for cash conversion	**378.2**	337.3
Total adjustments above (a), (b), (c)	**11.6**	53.1
Adjusted net cash for cash conversion	**389.8**	390.4
Reported cash conversion	**82.6%**	79.0%
Adjusted cash conversion	**80.8%**	77.3%

FINANCIAL INFORMATION

TABLE OF CONTENTS

Audited Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Notes	2018 $m	2017 $m
Revenue	3	1,832.1	1,764.6
Cost of sales		(858.3)	(838.3)
Gross profit		973.8	926.3
Selling and distribution expenses		(418.0)	(377.5)
General and administrative expenses		(238.2)	(259.8)
Research and development expenses		(49.9)	(41.2)
Operating profit		267.7	247.8
Finance costs		(65.2)	(62.1)
Other expense, net		(1.3)	(21.7)
Profit before income taxes		201.2	164.0
Income tax benefit/(expense)	4	20.4	(5.6)
Net profit		221.6	158.4
Earnings Per Share			
Basic and diluted earnings per share ($ per share)	5	0.11	0.08

All results are attributable to equity holders of the Group and wholly derived from continuing operations.

Audited Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 $m	2017 $m
Net profit		**221.6**	158.4
Other comprehensive (loss)/income			
Items that will not be reclassified subsequently to Consolidated Statement of Profit or Loss			
Remeasurement of defined benefit obligation, net of tax		(1.0)	2.4
Recognition of the pension assets restriction		0.4	0.2
Items that may be reclassified subsequently to Consolidated Statement of Profit or Loss			
Exchange differences on translation of foreign operations		(66.6)	109.7
Effective portion of changes in fair value of cash flow hedges		3.9	7.4
Income tax relating to items that may be reclassified		(1.3)	(1.7)
Other comprehensive (loss)/income		**(64.6)**	118.0
Total comprehensive income		**157.0**	276.4

All amounts are attributable to equity holders of the Group and wholly derived from continuing operations.

Audited Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 $m	2017 restated[a] $m	2016 restated[a] $m
Assets				
Non-current assets				
Property, plant and equipment		330.7	334.0	264.8
Intangible assets		1,334.5	1,487.3	1,521.4
Goodwill		1,043.0	1,072.2	921.0
Deferred tax assets		22.9	9.6	22.0
Derivative financial assets		11.3	7.4	—
Restricted cash		2.4	3.8	2.5
Other assets		12.4	11.5	11.4
		2,757.2	2,925.8	2,743.1
Current assets				
Inventories		303.3	284.5	247.5
Trade and other receivables		253.7	269.0	233.7
Prepaid expenses and other current assets		30.6	32.3	19.9
Cash and cash equivalents		315.6	289.3	264.1
Assets held for sale		—	—	5.6
		903.2	875.1	770.8
Total Assets		3,660.4	3,800.9	3,513.9
Equity and Liabilities				
Current liabilities				
Trade and other payables		116.0	122.0	111.6
Borrowings	7	63.0	78.2	38.5
Other current liabilities and accruals		105.5	114.2	134.9
Current tax payable[a]		41.9	21.9	24.7
Provisions		4.5	2.2	9.4
		330.9	338.5	319.1
Non-current liabilities				
Borrowings	7	1,581.5	1,744.7	1,737.1
Deferred tax liabilities		107.1	172.2	192.2
Provisions		1.5	1.6	1.1
Other non-current liabilities[a]		22.2	20.1	18.2
		1,712.3	1,938.6	1,948.6
Total Liabilities		2,043.2	2,277.1	2,267.7
Equity				
Share capital		240.7	238.8	238.8
Share premium		39.8	1.3	1,674.1
Own shares		(6.8)	(8.1)	—
Retained deficit		(744.5)	(850.0)	(2,650.2)
Merger reserve		2,098.9	2,098.9	2,098.9
Cumulative translation reserve		(124.2)	(58.4)	(172.8)
Other reserves		113.3	101.3	57.4
Total Equity		1,617.2	1,523.8	1,246.2
Total Equity and Liabilities		3,660.4	3,800.9	3,513.9

(a) 2017 and 2016 have been restated to aid comparability

Audited Consolidated Statement of Changes in Equity
For the year ended 31 December 2018

	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 2017		**238.8**	**1,674.1**	**—**	**(2,650.2)**	**2,098.9**	**(172.8)**	**57.4**	**1,246.2**
Net profit		**—**	**—**	**—**	**158.4**	**—**	**—**	**—**	**158.4**
Other comprehensive income:									
Foreign currency translation adjustment, net of tax		**—**	**—**	**—**	**(4.7)**	**—**	**114.4**	**—**	**109.7**
Remeasurement of defined benefit obligation, net of tax		**—**	**—**	**—**	**—**	**—**	**—**	**2.4**	**2.4**
Recognition of pension assets restriction		**—**	**—**	**—**	**—**	**—**	**—**	**0.2**	**0.2**
Effective portion of changes in fair value of cash flow hedges, net of tax	8	**—**	**—**	**—**	**—**	**—**	**—**	**5.7**	**5.7**
Total other comprehensive income		**—**	**—**	**—**	**(4.7)**	**—**	**114.4**	**8.3**	**118.0**
Total comprehensive income		**—**	**—**	**—**	**153.7**	**—**	**114.4**	**8.3**	**276.4**
Capital reduction of share premium		**—**	**(1,674.1)**	**—**	**1,674.1**	**—**	**—**	**—**	**—**
Dividends paid	5	**—**	**—**	**—**	**(26.3)**	**—**	**—**	**—**	**(26.3)**
Scrip dividend	5	**—**	**1.3**	**—**	**(1.3)**	**—**	**—**	**—**	**—**
Share-based payments		**—**	**—**	**—**	**—**	**—**	**—**	**36.9**	**36.9**
Share awards vested		**—**	**—**	**1.5**	**—**	**—**	**—**	**(1.5)**	**—**
Excess tax benefits from share-based compensation		**—**	**—**	**—**	**—**	**—**	**—**	**0.2**	**0.2**
Purchase of own shares		**—**	**—**	**(9.6)**	**—**	**—**	**—**	**—**	**(9.6)**
At 31 December 2017		**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		**—**	**—**	**—**	**—**	**—**	**—**	**(1.0)**	**(1.0)**
Recognition of pension assets restriction		**—**	**—**	**—**	**—**	**—**	**—**	**0.4**	**0.4**
Effective portion of changes in fair value of cash flow hedges, net of tax	8	**—**	**—**	**—**	**—**	**—**	**—**	**2.6**	**2.6**
Total other comprehensive loss		**—**	**—**	**—**	**(0.8)**	**—**	**(65.8)**	**2.0**	**(64.6)**
Total comprehensive income		**—**	**—**	**—**	**220.8**	**—**	**(65.8)**	**2.0**	**157.0**
Dividends paid	5	**—**	**—**	**—**	**(74.9)**	**—**	**—**	**—**	**(74.9)**
Scrip dividend	5	**1.9**	**38.5**	**—**	**(40.4)**	**—**	**—**	**—**	**—**
Share-based payments		**—**	**—**	**—**	**—**	**—**	**—**	**11.2**	**11.2**
Share awards vested		**—**	**—**	**1.3**	**—**	**—**	**—**	**(1.3)**	**—**
Excess tax benefits from share-based compensation		**—**	**—**	**—**	**—**	**—**	**—**	**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**

Audited Consolidated Statement of Cash Flows
For the year ended 31 December 2018

	Notes	2018 $m	2017 $m
Cash flows from operating activities			
Net profit		**221.6**	158.4
Adjustments for			
Depreciation		**37.4**	34.6
Amortisation		**152.6**	144.8
Acquisition accounting adjustment on inventory sold		**—**	1.6
Income tax (benefit)/expense	4	**(20.4)**	5.6
Other expense, net		**1.3**	21.7
Finance costs		**65.2**	62.1
Share-based compensation		**11.2**	36.9
Write-off/disposal of assets		**3.4**	2.5
Changes in assets and liabilities:			
Inventories		**(33.1)**	(10.9)
Trade and other receivables		**3.7**	(6.2)
Prepaid expenses and other current assets		**3.0**	(5.3)
Other non-current assets		**(1.6)**	(1.0)
Trade and other payables		**4.1**	(1.9)
Other current liabilities and accruals		**(1.8)**	(24.5)
Other non-current liabilities		**2.5**	1.6
Cash generated from operations		**449.1**	420.0
Interest paid		**(61.3)**	(66.5)
Income taxes paid		**(35.8)**	(46.9)
Net cash generated from operating activities		**352.0**	306.6
Cash flows from investing activities			
Acquisition of property, plant and equipment and capitalised software		**(70.9)**	(82.7)
Proceeds from sale of property, plant and equipment and other assets		**4.3**	2.6
Acquisitions, net of cash acquired	6	**(14.4)**	(105.5)
Proceeds from assets held for sale		**—**	5.7
Change in restricted cash		**1.3**	(0.6)
Capitalised development expenditure		**(1.2)**	(2.1)
Net cash used in investing activities		**(80.9)**	(182.6)
Cash flows from financing activities			
Repayment of borrowings	7	**(153.7)**	(70.9)
Payment of accrued share capital issue costs		**—**	(10.5)
Payment of finance lease liabilities		**(0.8)**	(0.6)
Payments of deferred financing fees		**—**	(1.4)
Dividend paid	5	**(74.9)**	(26.3)
Purchase of own shares		**—**	(9.6)
Net cash used in financing activities		**(229.4)**	(119.3)
Net change in cash and cash equivalents		**41.7**	4.7
Cash and cash equivalents at beginning of the year		**289.3**	264.1
Effect of exchange rate changes on cash and cash equivalents		**(15.4)**	20.5
Cash and cash equivalents at end of the year		**315.6**	289.3

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 and principal place of business is at 3 Forbury Place, 23 Forbury Road, Reading, RG1 3JH, United Kingdom.

The Company and its subsidiaries (collectively, the "Group") are a global medical products and technologies group focused on therapies for the management of chronic conditions, including products used for advanced chronic and acute wound care, ostomy care, continence and critical care and infusion devices used in the treatment of diabetes and other conditions.

The Consolidated Financial Statements are presented in US dollars ("USD"), being the functional currency of the primary economic environment in which the Group operates. All values are rounded to $0.1 million except where otherwise indicated.

This announcement is based on the Group's financial statements which are prepared in accordance with IFRS as adopted by EU and therefore comply with Article 4 of the EU IAS Regulations. IFRS includes the standards and interpretations approved by the IASB including International Accounting Standards ("IAS") and interpretations issued by the IFRS Interpretations Committee ("IFRIC"). With the exception of the new standards adopted in the year, as discussed in Note 2, there have been no significant changes in accounting policies from those set out in ConvaTec's Annual Report and Accounts 2017.

The financial information set out in this announcement does not constitute the Group's statutory accounts for the years ended 31 December 2018 or 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the Company's Annual General Meeting. The auditor's report on the 2018 and 2017 accounts were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

2. New Accounting Standards

New standards and interpretations applied for the first time

In the current year the Group adopted the following new or amended International Financial Reporting Standards ("IFRS" or "IFRSs") and interpretations issued by the International Accounting Standards Board ("IASB"):

- IFRS 2, *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*
- IFRS 9, *Financial Instruments: Classification and measurement*
- IFRS 15, *Revenue from Contracts with Customers*
- IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

Other than changes for new standards and interpretations applied for the first time, the accounting policies have been applied consistently to both years presented in the Consolidated Financial Statements.

IFRS 2, Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

The Group applied *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*, from 1 January 2018. The amendments related to the following areas:

- The accounting for the effects of vesting conditions on cash-settled share-based payment transactions;
- The classification of share-based payment transactions with net settlement features for withholding tax obligations; and
- The accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled.

The adoption of these amendments did not have any impact on the Consolidated Financial Statements.

IFRS 9, Financial Instruments: Classification and measurement

The Group applied IFRS 9, *Financial Instruments,* from 1 January 2018. The adoption of IFRS 9, based on the financial instruments and hedging relationships as at the date of initial application of IFRS 9 (1 January 2018) and at 31 December 2018, did not have a material impact on the Consolidated Financial Statements.

IFRS 15, Revenue from Contracts with Customers

The Group applied IFRS 15, *Revenue from Contracts with Customers,* from 1 January 2018.

Upon application of IFRS 15, the Group's revenue recognition policy has been expanded to include the accounting for material rights and contract costs. The Group applied IFRS 15 using the cumulative effect method, however an adjustment to the opening balance of equity at 1 January 2018 was not made as the Group determined that this adjustment was immaterial.

The details of the changes in accounting policies are disclosed below:

- *Material rights (volume discounts)* - The Group has determined that the option to purchase additional products with a volume discount represents a material right and a separate performance obligation. The Group allocates the transaction price to the performance obligations on a relative stand-alone selling price basis.
- *Contract costs (commission fees payable)* - The Group previously recognised commission fees payable as selling expenses when they were incurred. Under IFRS 15, the Group capitalises those commission fees as costs of obtaining a contract when they are incremental, and - if they are expected to be recovered - it amortises them consistently with the pattern of revenue for the related contract. If the expected amortisation period is one year or less, then the commission fee is expensed when incurred.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

The Group applied IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, from 1 January 2018. The interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income.

The adoption of this interpretation did not have any impact on the Consolidated Financial Statements.

New standards and interpretations not yet applied

At the date of authorisation of these Consolidated Financial Statements, the following new and revised IFRSs, amendments and interpretations that are potentially relevant to the Group, and which have not been applied in these Consolidated Financial Statements, were in issue but not yet effective. All are effective for accounting periods beginning on or after 1 January 2019:

– 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).*

The Directors anticipate that the adoption of these in 2019 will have no material impact on the Consolidated Financial Statements of the Group except for IFRS 16, *Leases*.

IFRS 16, Leases

IFRS 16, *Leases*, will be effective for accounting periods beginning on or after 1 January 2019, and will introduce changes to lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases.

The Group's operating leases impacted by IFRS 16 principally include real estate and vehicles.

Existing finance leases continue to be treated as finance leases. For existing operating leases, the Group will apply the modified retrospective approach by measuring the right-of-use asset at an amount equal to the lease liability at the date of transition and therefore comparative information will not be restated. Upon transition the Group will also apply 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 estimates that the financial impact of adopting IFRS 16 will be to:

- Recognise a $71.4 million right-of-use asset and a $71.4 million additional lease liability on adoption;
- Recognise a related deferred tax liability and deferred tax asset of $16.3 million on adoption. The net deferred tax impact on adoption will therefore be nil;
- Increase FY2019 Operating profit by $1.3 million net; and
- Increase FY2019 Finance costs by $1.9 million.

The estimated deferred tax movement in 2019 in respect of the transitional amounts of deferred tax is expected to be immaterial.

3. 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. The CEO evaluates the financial information on a Group-wide basis to determine the most appropriate allocation of resources. This 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 on a global basis.

The following table sets out the Group's revenue for the years ended 31 December 2018 and 2017 by market franchise:

	2018 **$m**	2017 $m
Revenue by franchise		
Advanced Wound Care	**587.5**	577.8
Ostomy Care	**533.3**	528.9
Continence and Critical Care	**443.0**	382.9
Infusion Devices	**268.3**	275.0
Total	**1,832.1**	1,764.6

The following table sets out the Group's revenue in each geographic market in which customers are located:

	2018	2017
	$m	$m
Geographic markets		
EMEA	**747.4**	733.0
Americas	**945.3**	898.1
APAC	**139.4**	133.5
	1,832.1	1,764.6

Geographic regions

The following table sets out the Group's revenue on the basis of geographic regions where the legal entity resides and from which those revenues were made, and separately shows countries representing over 10% of Group revenue:

	2018	2017
	$m	$m
Geographic regions		
US	**643.4**	591.1
Denmark	**270.0**	298.0
Other[(a)]	**918.7**	875.5
	1,832.1	1,764.6

(a) Other consists primarily of countries in Europe, Asia-Pacific ("APAC"), Latin America and Canada.

4. Income Taxes

A. Tax on profit for the year

Current tax on profit before income taxes in 2018 and 2017 is recognised in the Consolidated Statement of Profit or Loss, along with any change in the provision for deferred tax, and is inclusive of provision for uncertain tax positions:

	2018	2017
	$m	$m
Current		
UK current year charge	**—**	2.3
Overseas taxation	**56.2**	35.7
Adjustment for prior years	**(1.4)**	0.1
Total current tax expense	**54.8**	38.1
Deferred		
Origination and reversal of temporary differences	**(44.8)**	(9.1)
Change in tax rate	**(1.1)**	(22.8)
Adjustment for prior years	**(29.3)**	(0.6)
Total deferred tax benefit	**(75.2)**	(32.5)
Income tax (benefit)/expense	**(20.4)**	5.6

B. Reconciliation of effective tax rate

The effective tax rate for the year ended 31 December 2018 was a benefit of 10.1%, as compared with an expense of 3.4% for the year ended 31 December 2017.

Included within the current tax expense for the year is a provision for uncertain tax positions of $10.5 million. The majority of the remainder of the current tax expense is in respect of the current tax charge on taxable profits for the year in the various jurisdictions in which the Group is required to account for tax. The current tax charge for the year is reduced by the impact of government tax incentives such as substance-based tax concessions, tax depreciation and the use of tax losses to reduce taxable profits. These elements also reduce the overall effective tax rate of the Group to the extent that they do not have a corresponding deferred tax effect.

The most material deferred tax movements are the $44.8 million benefit included in origination and reversal of temporary differences and the $29.3 million adjustment for prior years, which drive the variance in the effective tax rate in 2018 when compared to 2017. These consist of the recognition of previously unrecognised deferred tax assets in the US of $35.0 million (of which $30.6 million relates to an adjustment for prior years) now recognised following the enactment of the US Tax Cuts and Jobs Act on 22 December 2017. The asset is offset against the deferred tax liability and arises because net operating losses carried forward became indefinite but limited to 80% of taxable income in any year and since deferred tax liabilities related to indefinite life assets can be used as a source of income when assessing indefinite loss carry forwards. In addition, there was a release of a $30.4 million deferred tax liability primarily in respect of unremitted earnings related to the Dominican Republic. This arises as management reviewed the current overseas unremitted earnings position and has concluded that it is unlikely that dividends will be paid in the foreseeable future in relation to the Dominican Republic unremitted earnings, which has resulted in the derecognition of the associated deferred tax liability. The remaining $10.2 million benefit is primarily in relation to the amortisation of pre-2018 acquisition intangibles. All these items generated a non-cash benefit to the group in 2018.

Details of key items that affect the overall tax benefit for the year and the effective tax rate for the Group are shown in the note on the following page.

	2018		2017	
	$m		$m	
Profit before income taxes	**201.2**		164.0	
Profit before tax multiplied by rate of corporation tax in the UK of 19.00% (2017: 19.25%)	**38.2**		31.5	
Difference between UK and rest of world tax rates	**(6.8)**		(10.4)	
Non-deductible/non-taxable items	**5.1**		4.1	
Previously unrecognised losses and other assets(a)	**(39.7)**		5.0	
Amortisation of indefinite life intangibles	**5.2**		8.1	
Taxes on unremitted earnings benefit(b)	**(30.4)**		(2.4)	
Deferred impact of tax rate changes	**—**		(22.8)	
Uncertain tax expense/(benefit)(c)	**10.5**		(4.2)	
Other	**(2.5)**		(3.3)	
Income tax (benefit)/expense reported in the Consolidated Statement of Profit or Loss at the effective tax rate	**(20.4)**	**(10.1)%**	5.6	3.4 %

(a) Previously unrecognised US deferred tax assets of $35.0 million, of which $30.6 million relates to an adjustment for the prior year.

(b) Includes the deferred tax liability release in respect of the Dominican Republic.

(c) Uncertain tax provisions are included in current tax liabilities. The movement in uncertain tax provisions is included in the calculation of current tax liabilities and relates predominantly to transfer pricing positions and withholding tax liabilities.

The Group's tax rate is sensitive to the geographic mix of profits and its ability to utilise tax losses in the year in countries such as the US, UK, China and India. Other key factors that influence the effective tax rate include tax incentives around the world (such as substance-based tax concessions that the Group benefits from), changes in tax legislation and regulations in jurisdictions where the Group operates (such as US Tax Reform following the enactment of the US Tax Cuts and Jobs Act on 22 December 2017, and reduction of UK tax rates to 17%), evolving developments and implementation of the Organisation for Economic Co-operation and Development's Base Erosion and Profit Shifting ("OECD's BEPS") actions by various jurisdictions (impact on transfer pricing methodologies), unfavourable tax disputes and provision for uncertain tax positions.

5. Dividends

	pence per share	**cents per share**	**Total**	**Settled in cash**	**Settled via scrip**	**No of scrip shares issued**
			$m	**$m**	$m	
Interim dividend 2017	1.061	1.400	27.6	26.3	1.3	377,948
Paid in 2017	**1.061**	**1.400**	**27.6**	**26.3**	**1.3**	**377,948**
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 proposed	3.097	3.983	78.3			

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.

The proposed final dividend for 2018 is subject to shareholder approval at our Annual General Meeting on 9 May 2019. The dividend will be declared in US dollar and will be paid in Sterling at the chosen exchange rate of $1.286/£1.00 determined on 13 February 2019. A scrip dividend alternative will be offered allowing shareholders to elect by 23 April 2019 to receive their dividend in the form of new ordinary shares.

The interim and final dividends for 2018 give a total dividend for the year of 5.700 cents per share (2017: 5.700 cents per share).

Distributable reserves

Retained distributable reserves equates to the retained surplus of ConvaTec Group Plc. At 31 December 2018, the retained surplus of ConvaTec Group Plc was $1,574.7 million (2017: $1,622.7 million). The capacity of the Company to make dividend payments is primarily determined by the availability of these retained distributable reserves and cash resources.

Earnings Per Share

Basic and diluted earnings per ordinary share were calculated as follows:

	2018	2017
	$m	$m
Net profit attributable to the equity holders of the Group	**221.6**	158.4
	Number	Number
Basic weighted average ordinary shares in issue (net of shares purchased by the Company and held as Own shares)	**1,956,085,112**	1,951,006,350
Dilutive impact of share awards	**1,993,650**	2,935,460
Diluted weighted average ordinary shares in issue	**1,958,078,762**	1,953,941,810
	$ per share	$ per share
Basic earnings per share	**0.11**	0.08
Diluted earnings per share	**0.11**	0.08

The calculation of diluted earnings per share excludes 11,407,025 (2017: 5,231,000) 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.

6. Acquisition of Subsidiaries

J&R Medical LLC ("J&R Medical")

Description of the transaction

On 1 March 2018, the Group acquired the entire share capital of J&R Medical for a total cash consideration of $14.6 million, including $0.2 million of the cash and cash equivalents acquired. J&R Medical is an independent distributor of catheter-related supplies based in Texas. The addition of J&R Medical to the Group's US Home Distribution Group strengthens our home delivery presence in the substantial and important market of Texas. The acquisition of J&R Medical further reinforces the Group's position as a leading home distributor of urinary catheters and continence-related supplies in the large US market.

Assets acquired and liabilities assumed

The transaction has been accounted for as a business combination under the acquisition method of accounting. The following table summarises the fair values of the assets acquired and liabilities assumed as of the acquisition date:

	Fair values acquired $m
Non-current assets	
Intangible assets	7.8
Current assets	
Trade and other receivables	1.2
Cash and cash equivalents	0.2
Total assets	9.2
Current liabilities	
Trade and other payables	(0.6)
Accrued expenses and other current liabilities	(1.1)
Total liabilities	**(1.7)**
Net assets acquired	**7.5**
Initial cash consideration	12.3
Deferred purchase consideration paid into escrow	2.3
Total consideration	**14.6**
Goodwill arising on acquisition	**7.1**

	2018
Analysis of cash outflow in the Consolidated Statement of Cash Flow	**$m**
Initial cash consideration	12.3
Cash acquired on acquisition	(0.2)
Deferred purchase consideration paid into escrow	2.3
Net cash outflow on acquisition (per Consolidated Statement of Cash Flow)	14.4

7. Borrowings

A summary of the Group's consolidated borrowings at 31 December 2018 and 2017 is outlined in the table below:

	2018 $m	2017 $m
Credit Facilities Agreement:		
Revolving Credit Facility	—	—
US Dollar Term A Loan Facility	706.7	743.3
Euro Term A Loan Facility	496.5	632.9
US Dollar Term B Loan Facility	417.6	421.1
Total borrowings from Credit Facilities	1,620.8	1,797.3
Finance Lease Obligations	23.7	25.6
Total borrowings	1,644.5	1,822.9
Less: Current portion of borrowings	63.0	78.2
Total non-current borrowings	**1,581.5**	**1,744.7**

At 31 December 2018 and 2017, the Group was in compliance with all financial and non-financial covenants associated with the Group's outstanding debt.

Subject to certain conditions, the Group may voluntarily prepay their utilisations under the Credit Facilities in a minimum amount of $1.0 million (or its equivalent) for term loans or revolving facilities. Amounts repaid under the Term Loan Facilities may not be re-borrowed. In 2018, the Group made voluntary prepayments of $95.0 million on the euro Term A Loan (2017: nil). In addition to voluntary prepayments, the Credit Agreement requires mandatory prepayment in full or in part in certain circumstances including, in relation to the Term Loan Facilities and subject to certain criteria, from the proceeds of asset sales in excess of $20.0 million and the issuance or incurrence of debt and from excess cash flow. In 2018, the Group made mandatory prepayments of $2.4 million (2017: nil). In 2018, the Group made scheduled loan amortisation payments related to the Credit Facilities of $56.3 million (2017: $39.6 million).

8. Financial Instruments

Policy

The Group's treasury policies seek to minimise financial risks and to ensure sufficient liquidity for the Group's operations and strategic plans. No complex derivative financial instruments are used, and no trading or speculative transactions in financial instruments are undertaken. Where the Group does use financial instruments these are mainly to manage the currency risks arising from normal operations and its financing. Operations are financed mainly through term loans and retained profits. The Group's policies have remained unchanged since the beginning of the year.

Derivative financial assets

Derivative financial assets consist of interest rate swaps. The Group has variable rate debt instruments and is exposed to market risks resulting from interest rate fluctuations. In order to manage its exposure to variability in expected future cash outflows attributable to the changes in LIBOR rates on the US Dollar Term A and Term B Loan Facility, in May 2017, the Group entered into interest rate swap agreements. At 31 December 2018, the notional amount of the interest rate swap agreements was $833.8 million (2017: $882.0 million).

Fair values of financial assets and financial liabilities

The carrying amounts reflected in the Consolidated Statement of Financial Position at 31 December 2018 and 2017 for cash and cash equivalents, trade and other receivables, restricted cash, and trade and other payables approximate fair value due to their short-term maturities. There are no other assets or liabilities measured at fair value on a recurring or non-recurring basis.

Liabilities not Measured at Fair Value

The borrowings are initially carried at fair value less any directly attributable transaction costs and subsequently at amortised cost. At 31 December 2018, the estimated fair value of the Group's borrowings, excluding finance leases approximated $1,586.6 million (2017: $1,819.5 million). The fair values were estimated using the quoted market prices and current interest rates offered for similar debt issuances. Borrowings are categorised as Level 2 measurement in the fair value hierarchy under IFRS 13 *Fair Value Measurements*.

9. Related Party Transactions

In 2017, Nordic Capital, a shareholder and former equity sponsor of the Group, was considered to be a related party. In 2017, Group revenue included $8.6 million and purchases of inventory included $6.3 million with companies affiliated to Nordic Capital. The Consolidated Statement of Financial Position at 31 December 2017 included trade receivables of $2.1 million and trade payables of $0.1 million in relation to these transactions. As at 31 December 2018, Nordic Capital is no longer considered to be a related party under IAS 24.

Key management personnel compensation

Key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the Group. The definition of key management personnel includes Directors (both executive and non-executive) and other executives from the management team with significant authority and responsibility for planning, directing and controlling the Group's activities.

Key management personnel compensation for the years ended 31 December 2018 and 2017 comprised the following:

	2018	2017
	$m	$m
Short-term employee benefits	**7.8**	9.7
Share-based expense	**4.4**	26.2
Post-employment benefits	**0.6**	0.5
Termination benefits	**—**	2.6
Total	**12.8**	39.0

10. Subsequent Events

The Group has evaluated subsequent events through to 14 February 2019, the date the Consolidated Financial Statements were approved by the Board of Directors.

On 12 February 2019, the Board proposed the final dividend in respect of 2018 subject to shareholder approval at our Annual General Meeting on 9 May 2019, to be distributed on 16 May 2019