ConvaTec

2 August 2018

ConvaTec Group Plc First Half Results 2018
Solid performance - full year guidance confirmed

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 first half results for the six months ended 30 June 2018 in line with expectations, with guidance for the full year confirmed, despite a challenging environment in certain key markets.

Key points:

- Group reported revenue of $921.3 million grew 10.8% year on year, 6.4%[2] CER or 2.6%[3] organically;
- Mixed results in Advanced Wound Care with a strong performance in AQUACEL™ Foam and Silver offset by challenges in our older DuoDERM™ and base AQUACEL™ dressings; good recovery in Ostomy Care and strong organic revenue growth from Continence & Critical Care and Infusion Devices;
- Good progress on reducing backorders – now at normal level;
- Adjusted[1] gross margin % decreased by 100 bps, 30 bps negative foreign exchange impact and 70 bps operational impact, as a result of expected headwinds. Reported gross margin increased 50 bps due to lower restructuring costs year on year.
- Reported operating profit / EBIT $122.0 million, an increase of 31.5% year on year;
- Adjusted[1] operating profit / EBIT $203.5 million, 5.2% higher year on year; Adjusted[1] EBIT margin 22.1% (2017: 23.3%), in line with expectations;
- Interim dividend 1.717 cents, payout ratio of 35% of adjusted net income (annualised), in line with policy;
- Guidance for the full year confirmed: organic revenue growth 2.5% - 3.0%, adjusted EBIT margin 24% – 25%.

Paul Moraviec, Group Chief Executive Officer, commented

"In the first half of 2018, we delivered a solid performance and made good progress in many areas. Our Continence & Critical Care and Infusion Devices franchises delivered strong results and in the second quarter Ostomy Care returned to positive organic revenue growth. Within Advanced Wound Care we have seen strong demand for our newer Foam and Silver dressings, although this was offset by headwinds in our older DuoDERM™ hydrocolloid and base AQUACEL™ dressings, as a result of the supply constraints of last year and challenging market dynamics. However, recent positive trends and early results from our growth initiatives give us confidence that we will see an improved performance in Advanced Wound Care in the second half.

"The backorders which arose last year continued to fall during the second quarter and are now at a normal level, as planned. Despite the modest decline in adjusted gross margin in the first half, we are making good progress with our cost out programmes. We continue to invest in the commercial areas of the business and in new product development, whilst further reducing leverage. We are well positioned to deliver on our plans during the remainder of the year and consequently our guidance for the full year is unchanged."

Franchise Summary:

Group reported revenue grew 10.8% in the first six months of 2018, 6.4%[2] CER or 2.6%[3] organically and 8.1% reported growth in the second quarter, 5.3% CER[2] or 1.7%[3] organically.

• **Advanced Wound Care** ("AWC") revenue grew 6.6% on a reported basis, or 1.0%[3] organically in the first half of 2018, and grew 3.3% on a reported basis and declined by 0.2%[3] organically, in the second quarter. Our AQUACEL™ Foam and anti-biofilm Silver platforms performed well, offset by challenges in our older DuoDERM™ and base AQUACEL™ dressings as a result of the supply constraints of last year and challenging market dynamics, most notably in the UK. Performance in the US post-acute channel continues to be a drag on growth, and we are taking action by rolling out a national US wound acceleration plan. We anticipate an improved performance from AWC in the second half of the year.

• **Ostomy Care** ("OC") revenue grew 4.4% on a reported basis, but declined 1.0%[3] organically in the first six months of 2018, and in the second quarter grew by 3.8% on a reported basis or 0.3%[3] organically. We made further progress in reducing orders on hold in the second quarter, which provided a tailwind to performance. We continue to execute our strategy to return the franchise to consistent growth, with a good performance in Latin America and Asia Pacific and positive trends in some European markets.

• **Continence & Critical Care** ("CCC") revenue grew 25.7% on a reported basis, 23.4%[2] CER or 5.7%[3] organically in the first half of 2018, and by 24.7% on a reported basis, 23.3%[2] CER or 5.9%[3] organically in the second quarter, with a strong Continence Care performance from our Home Distribution Group ("HDG") being partially offset by planned product rationalisation, which reduced CCC revenue by c. $1 million in the first half.

• **Infusion Devices** ("ID") revenue grew 12.2% on a reported basis, 9.2%[3] organically, in the first half of 2018 and by 4.6% on a reported basis and 2.7%[3] organically in the second quarter, a strong performance driven by one-off tailwinds and continued growth in the insulin pump market.

	Six months ended 30 June			
	2018	**2017**	**Growth**	
Adjusted results[1]	**$m (unless stated)**		**Reported**	**Organic[3]**
Revenue	921.3	831.3	10.8%	2.6%
Gross margin	*59.3%*	*60.3%*	(100) bps	
EBIT/Operating profit	203.5	193.5	5.2%	1.0%
EBIT margin	22.1%	23.3%	(120) bps	
Earnings per share ($)	0.07	0.06		

	Six months ended 30 June			
	2018	**2017**	**Growth**	
Reported results	**$m (unless stated)**		**Reported**	**Organic[3]**
Revenue	921.3	831.3	10.8%	2.6%
Gross margin	*52.1%*	*51.6%*	50 bps	
EBIT/Operating profit	122.0	92.8	31.5%	28.6%
EBIT margin	13.2%	11.2%	200 bps	
Earnings per share ($)	0.05	0.01		
Dividend per share[2] (cents)	1.717 cents	1.400 cents		

There will be an analysts and investors 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.

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

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Financial Calendar

Ex-dividend date	6 September 2018
Dividend record date	7 September 2018
Scrip dividend election date	21 September 2018
Dividend payment date	12 October 2018
Q3 trading update	31 October 2018

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

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(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 (page 14).

(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) Last 12 months adjusted EBITDA of $517.8m

Operating Review
For the six months ended 30 June 2018

In the first half both our Continence & Critical Care and Infusion Devices franchises delivered strong performances. Ostomy Care is regaining momentum while Advanced Wound Care performance reflected a challenging environment in certain markets.

Organic revenue grew by 2.6%[3] in the first half of 2018, and 1.7%[3] in the second quarter, with a stronger than anticipated performance in Ostomy Care offset by a weaker performance in Advanced Wound Care, demonstrating the benefits of our diversified portfolio.

	Six months ended 30 June				
	2018	2017	Growth		Q2
	$m	$m	Reported	Organic[3]	Organic growth[3]
Revenue by Franchise					
Advanced Wound Care	290.0	272.1	6.6%	1.0%	(0.2)%
Ostomy Care	266.0	254.7	4.4%	(1.0)%	0.3%
Continence and Critical Care	220.1	175.1	25.7%	5.7%	5.9%
Infusion Devices	145.2	129.4	12.2%	9.2%	2.7%
Total	**921.3**	**831.3**	**10.8%**	**2.6%**	**1.7%**

Advanced Wound Care ("AWC")

Organic revenue growth in our AWC franchise in the first half of 2018 was 1.0%[3], with a decline of 0.2%[3] in organic revenue in the second quarter versus the prior year. Reported revenue of $290.0 million grew 6.6% compared to the first half of 2017, and reported revenue of $142.9 million in the second quarter grew 3.3% versus the prior year.

We saw a mixed performance in the first half of 2018. While we continued to see strong demand for our growth products AQUACEL™ Foam and anti-biofilm Silver, this was offset by headwinds in our older DuoDERM™ hydrocolloid and base AQUACEL™ Hydrofiber™ dressings. DuoDERM™ has taken longer than anticipated to recover from the supply constraints and consequent lost accounts of last year, and we have seen challenging market dynamics, such as increased competition in the UK, which has impacted our base AQUACEL™ Hydrofiber™ dressings.

Growth in AQUACEL™ surgical cover dressing improved during the first half, and while well above the overall franchise growth rate of 1.0%, is not yet at the double-digit growth rates seen in 2017 before the supply constraints took effect.

Recent trends in DuoDERM™ have been positive, and we expect AQUACEL™ surgical cover dressing to continue to build momentum.

As noted in February in our FY17 results announcement, we are focused on improving performance in the US post-acute channel and we are taking action with the national rollout of a programme to drive account conversion in this channel and expand our Foam portfolio, following a successful pilot.

We recently gained 510(k) approval for our AQUACEL™ Ag+ anti-biofilm dressing for the US, which we will brand and market as AQUACEL™ Ag Advantage.

We continued the rollout of our Avelle™ Negative Pressure Wound Therapy ("NPWT") system, which is now selling in 23 markets around the world, and continue to see revenues grow.

As a result of the actions we are taking, we anticipate AWC revenue performance will improve in the second half compared to the first six months.

Ostomy Care ("OC")

Organic revenue in our Ostomy Care franchise declined in the first half by 1.0%[3], but grew 0.3%[3] in the second quarter. Reported revenue of $266.0 million in the first six months grew 4.4% compared to the same period in 2017. Reported revenue of $138.0 million in the second quarter grew 3.8% year on year.

We continue to execute on our strategy to return the OC franchise to consistent growth, with momentum returning to the franchise and a good performance in the second quarter, particularly in Latin America and Asia Pacific and positive trends in some European markets. This is supported by growth in our me+™ direct-to-consumer programme and good traction with our recent product launches Esteem™+ Flex Convex one-piece system, Natura™ Convex Accordion Flange and Varimate strips.

We made further progress in reducing orders on hold in the second quarter, which provided a tailwind to growth, and backorders which arose in the second half of 2017 are now back to a normal level. We continue to stabilise and optimise our manufacturing and supply chain. We anticipate Ostomy revenue performance will continue to improve in the second half.

Continence & Critical Care ("CCC")

Growth in CCC continues to be driven by strong Continence Care performance by HDG in the first half. On a reported basis revenue grew 25.7% to $220.1 million in the first half, and included a $33.0 million contribution from Woodbury Holdings ("Woodbury") acquired on 1 September 2017, and J&R Medical, which was acquired on 1 March of this year. Reported revenue in the second quarter was $111.7 million, growth of 24.7% year on year and included a $17.1 million contribution from Woodbury and J&R Medical.

On 1 March 2018, the Group also divested its Symbius Medical respiratory business - revenue for this business during the period 1 March to 30 June 2017 was $2.0 million, and in the second quarter of 2017 was $1.5 million.

At constant exchange rates, revenues in the first half grew 23.4%[2], which reflected the contribution from Woodbury and J&R Medical.

Organic revenue grew 5.7%[3] in the first half, including the impact of by planned product rationalisation, which reduced revenue by c. $1 million. In the second quarter organic revenue growth was 5.9%[3] or 23.3%[2] at CER.

We continue to rollout GentleCath™ Glide in European markets and expect to begin the launch of our next generation catheter product in the second half of 2018.

While undertaking scheduled testing of certain Critical Care hospital products manufactured in our Slovakia plant, we found an issue with some product packaging. To uphold our high standards of patient care we have decided to withdraw the affected products and change the packaging. While this is not anticipated to be material to the Group, it is possible there will be an impact on CCC growth in the second half.

Infusion Devices ("ID")

In our ID franchise, revenue grew by 9.2%[3] on an organic basis in the first half of 2018, with growth of 2.7%[3] in the second quarter. On a reported basis revenue of $145.2 million in the first half grew 12.2% year on year. Reported revenue for the second quarter of $70.5 million increased 4.6% year on year. Performance was boosted by one-off tailwinds in the first half, and we expect growth for the full year to be in line with the insulin pump market.

Reaction to the MiniMed™ Mio™ Advance infusion set launched in the first quarter by our partner Medtronic has been extremely positive, with patients reporting it is quicker and easier to use and less painful to insert than other infusion sets.

We continue to see good growth in the insulin pump market, driven by new product launches by pump manufacturers.

Regional Revenue

	Six months ended 30 June				
	2018	**2017**	**Growth**		**Q2**
	$m	**$m**	**Reported**	**Organic[3]**	**Organic[3] growth**
Geographic markets					
EMEA	378.3	349.2	8.3%	(1.5)%	(2.1)%
Americas	475.1	417.5	13.8%	6.0%	4.8%
APAC	67.9	64.6	5.1%	1.1%	1.8%
Total	**921.3**	**831.3**	**10.8%**	**2.6%**	**1.7%**

Revenue in Europe, Middle East and Africa ("EMEA") declined by 1.5% on an organic basis in the first six months of the year, with both AWC and OC lower year on year, and CCC impacted by product rationalisation. On a reported basis revenue grew 8.3%, due to favourable foreign exchange.

Revenue in Americas grew 6.0% on an organic basis, with a strong performance from HDG and growth in AWC partially offset by weakness in OC. On a reported basis revenue grew by 13.8% with the inclusion of Woodbury and J&R Medical.

Revenue in Asia Pacific ("APAC") grew 1.1% on an organic basis, with growth in AWC and OC partially offset by product rationalisation in CCC. On a reported basis revenue grew by 5.1% due to favourable foreign exchange.

Adjusted gross margin

Adjusted gross margin was 59.3% in the first six months, 100 basis points lower compared to the prior year.

There was a negative impact from foreign exchange of 30 basis points, and a negative 70 basis points operational impact. Combined price and mix effects were broadly in line with expectations, and while productivity programmes delivered a cost out benefit, this was more than offset by headwinds previously outlined, such as inflation, deprecation and increased freight, as we continued to fulfil backorders.

On a reported basis gross margin was 52.1% in the first six months, 50 bps higher compared to the prior year, with the impacts summarised above offset by a decrease in restructuring costs and other costs related to the MIP programme.

Operating expenditure

In line with guidance, total adjusted operating costs represented 37.2% of revenue (2017: 37.0%), an increase of 20 bps. Reported operating costs represented 38.9% of revenue (2017: 40.4%), a decrease of 150 bps.

Adjusted sales and distribution expenses increased by $25.8 million or 13.8% in the first half as we continued to invest in commercial initiatives in EMEA, the Americas and China. Adjusted general and administrative expenses grew by $6.3 million or 6.3%, reflecting investments to support growth and productivity, along with the inclusion of the cost base of Woodbury and J&R Medical.

Adjusted R&D expenses increased by $3.3 million or 15.1% to support new product development.

This resulted in an adjusted operating profit margin for the year of 22.1% (2017: 23.3%). In the second half of the year we anticipate margin will be higher than the first six months, as a result of revenue seasonality, a number of the headwinds previously outlined diminishing, and efficiency programmes continuing to deliver expected benefits.

Reported operating profit margin increased to 13.2% (2017: 11.2%) due to higher revenue year on year and lower restructuring costs and share based compensation arising from pre-IPO employee equity grants.

Cash generation and leverage

Net cash from operating activities was $164.9 million (2017: $120.9 million), $44.0 million higher year on year primarily due to timing of interest payments and other payments including MIP-related activities, IPO costs and pre-IPO share awards, partially offset by an increase in working capital. Cash conversion was 75.2% (2017: 75.0%).

The Group ended the period with total interest bearing liabilities of $1,819.1 million. Excluding finance leases of $24.6 million net of cash of $339.1 million, net debt was $1,455.4 million. This amounted to 2.8x adjusted EBITDA[4].

Dividend

On 1 August 2018, the Board declared an interim dividend 1.717 cents per share, in line with our dividend policy to target a payout ratio of 35% to 45% of adjusted net income over time. This interim dividend will be distributed on 12 October to shareholders registered at the close of business on 7 September 2018. See Note 6 – Dividends, for more detail.

People

On 3 July 2018 Novo Holdings effected a rotation in its Board representative. As such, Kasim Kutay resigned his position as a Non-Executive Director to be replaced by Sten Scheibye, with the approval of the Nominations Committee and the Board. Sten Scheibye was Chairman of the Novo Nordisk Foundation and of Novo Holdings A/S from 2013 and has recently retired from both these positions. He currently holds the position of Senior Advisor to Novo Holdings. He was appointed Chairman of Healthcare Denmark in 2015. He was a member of the Danish Corporate Governance Committee from 2003 - 2011, serving the last two years as Chairman, and from 1995 - 2008 he was the President and CEO of Coloplast A/S.

Stephan Bonnelycke joined the Group as President of Ostomy Care, on 1 August 2018. He is also a member of the Executive Committee. He joins from Hollister, where from 2000 he held a number of senior commercial and marketing roles, one of which was as Global Business Director, running Hollister's Global Ostomy Business. He will lead the development and delivery of our Ostomy strategy, working closely with the other Franchise and Regional Presidents and other key functional areas.

Acquisitions

On March 1 2018 the Group acquired J&R Medical LLC ("J&R Medical"), a Texas-based independent distributor of catheter-related supplies. The addition of J&R Medical strengthens our presence in a substantial and important US market. Concurrently the Group divested its Symbius Medical respiratory business. For the year ended 31 December 2017 J&R Medical delivered revenues of approximately $9.0 million.

Outlook and Guidance

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

Full year 2018 guidance of organic revenue growth of 2.5% to 3.0% and adjusted EBIT margin of 24% - 25% is confirmed.

We also re-iterate 2018 technical guidance:

- Capex broadly in line with 2017
- Effective tax rate around 15%

Principal risks and uncertainties

The Group has a robust risk management process in place to identify, evaluate and manage the identified risks that could impact the Group's performance. The current principal risks and uncertainties, together with an explanation of the impact and mitigation actions, are set out in the 2017 Annual Report on pages 30 to 36. The risks associated with the current uncertainty around global trade and Brexit are included under macroeconomic and foreign exchange. The Group has reviewed these risks and concluded that they represent the current position and remain relevant for the first half of the financial year.

A summary of the relevant areas of principal key risks and uncertainties is:

- Operational and supply chain;
- Macroeconomic and foreign exchange;
- Governmental social health care policy;
- Intellectual property and product innovation;
- Regulatory;
- Product quality and safety;
- Ethics, bribery and corruption;
- Budgeting and forecasting;
- Data loss/mistreatment.

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.

Financial Review
For the six months ended 30 June 2018

The following table sets forth the Group's revenue and expense items for the six months ended 30 June 2018 and 2017:

	Adjusted results[1]				**Reported results**			
	Six months ended 30 June				**Six months ended 30 June**			
	2018	**2017**	**Growth**	**Organic[4]**	**2018**	**2017**	**Growth**	**Organic[4]**
	$m (unless stated)		**CER[3]**	**Growth**	**$m (unless stated)**		**CER[3]**	**Growth**
Revenue	**921.3**	**831.3**	**6.4%**	**2.6%**	**921.3**	**831.3**	**6.4%**	**2.6%**
Cost of goods sold	(374.7)	(330.1)			(440.9)	(402.3)		
Gross profit	546.6	501.2			**480.4**	**429.0**		
Gross margin %	*59.3%*	*60.3%*			*52.1%*	*51.6%*		
Operating expenses	(343.1)	(307.7)			(358.4)	(336.2)		
EBIT/Operating profit	**203.5**	**193.5**	**3.1%**	**1.0%**	**122.0**	**92.8**	**29.9%**	**28.6%**
EBIT/Operating	*22.1%*	*23.3%*			*13.2%*	*11.2%*		
Finance costs	(32.9)	(29.3)			(32.9)	(29.3)		
Other expense, net	(2.5)	(20.6)			(0.6)	(18.0)		
Profit before income taxes	168.1	143.6			88.5	45.5		
Income tax (expense) benefit	(23.8)	(25.0)			16.1	(21.3)		
Net profit	**144.3**	**118.6**			**104.6**	**24.2**		
Basic EPS ($ per share)	**0.07**	**0.06**			**0.05**	**0.01**		
Diluted EPS ($ per share)	**0.07**	**0.06**			**0.05**	**0.01**		
Dividend per share[2]	**1.717 cents**	**1.400 cents**			**1.717 cents**	**1.400 cents**		

(1) Refer to Non-IFRS Financial Information for information related to adjustments, page 14 onwards.

(2) On 1 August 2018 the Board declared an interim dividend to be distributed on 12 October 2018 in the total amount of $33.7 million, representing 1.717 cents per share based upon the issued and fully paid share capital as at 30 June 2018 of 1,961,473,904. Please see Note 6 - Dividends for further information.

(3) 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.

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

Non-IFRS financial information

The statement contains certain financial measures that are not defined or recognised under IFRS. These measures are referred to as “Adjusted” measures and this information has been provided to permit a more complete and comprehensive analysis of the Group’s operating performance, consistent with how the Group’s business performance is evaluated by management. All adjusted measures are explained and reconciled to the most directly comparable measure prepared in accordance with IFRS on pages 14 to 18.

Revenue

On a reported basis revenue increased 10.8% to $921.3 million for the six months to 30 June 2018 from $831.3 million in the prior year. On a constant exchange rate basis revenue increased 6.4%[2] for the six months to 30 June 2018, including a $33.0 million contribution from the acquisitions of Woodbury and J&R Medical. Organic revenue growth for the period was 2.6%[3]. Reported revenue reflected the contribution of Woodbury and J&R Medical, and favourable foreign exchange movement in the Pound Sterling and Euro, compared to the US dollar.

Gross profit margin and cost of goods sold

Adjusted gross profit margin for the six months to 30 June 2018 was 59.3% compared with 60.3% for the prior year. The 100 bps decline in the Group's adjusted gross margin percentage reflected a modest performance benefit to adjusted gross margin from productivity programmes which was more than offset by pricing, mix effects and other cost headwinds. Overall there was a negative impact on adjusted gross margin of 70 basis points as a result of operational effects, and a negative 30 bps foreign exchange impact. Refer to *Non-IFRS Financial Information* from page 14 for further information.

Adjusted cost of goods sold of $374.7 million for the six months to 30 June 2018 increased 13.5% or $44.6 million on the prior year, driven by the headwinds and cost increases outlined above, and increased volume of goods sold, as well as unfavourable foreign exchange.

Reported cost of goods sold increased 9.6% or $38.6 million for the six months to 30 June 2018, to $440.9 million, from $402.3 million in the prior year, with the increases summarised above offset by a decrease in restructuring costs and other costs related to the MIP programme. Refer to page 15 for further information. As a percentage of revenue, reported cost of goods sold decreased to 47.9% for the six months to 30 June 2018 from 48.4% in the prior year.

On a reported basis, gross profit increased $51.4 million or 12.0% and gross profit margin was 52.1% and 51.6% for the six months ended 30 June 2018 and 2017 respectively.

Operating costs and expenses

The following is a summary of operating costs and expenses for the six months to 30 June 2018 and 2017, and the percentage of each category compared with total revenue in the respective period. Percentages may not sum due to rounding.

Operating costs and expenses – adjusted[1]:	Six months ended 30 June 2018 $m	2017 $m	2018[2]	2017[2]
Selling and distribution expenses	(212.3)	(186.5)	23.0 %	22.4 %
General and administrative expenses	(105.6)	(99.3)	11.5 %	11.9 %
Research and development expenses	(25.2)	(21.9)	2.7 %	2.6 %
Total operating costs and expenses - adjusted[1]	(343.1)	(307.7)	37.2 %	37.0 %

Operating costs and expenses – reported:	Six months ended 30 June 2018 $m	2017 $m	2018[2]	2017[2]
Selling and distribution expenses	(212.3)	(186.5)	23.0 %	22.4 %
General and administrative expenses	(120.9)	(127.3)	13.1 %	15.3 %
Research and development expenses	(25.2)	(22.4)	2.7 %	2.7 %
Total operating costs and expenses - reported	(358.4)	(336.2)	38.9 %	40.4 %

[1] Refer to Non-IFRS Financial Information from page 14 for information related to adjustments
[2] Represents the percentage of revenue

Adjusted operating costs and expenses as a percentage of sales was 37.2% for the six months ended 30 June 2018, an increase of 20 bps on the prior year reflecting the increased investment in costs to promote growth and new products, as outlined below.

Selling and distribution expenses

Adjusted selling and distribution expenses increased $25.8 million or 13.8% for the six months ended 30 June 2018 to $212.3 million. This increase was driven by investments in growth in EMEA, the Americas and China, as well as the inclusion of Woodbury and J&R Medical. As a percentage of revenue, adjusted selling and distribution expenses were 23.0% and 22.4% for the six months ended 30 June 2018 and 2017 respectively. On a constant exchange rate basis, adjusted selling and distribution expenses increased $15.5 million or 8.3%[3]. Reported selling and distribution expenses also increased $25.8 million for the six months ended 30 June 2018 to $212.3 million, due to the increases described above.

General and administrative expenses

Adjusted general and administrative expenses increased $6.3 million or 6.3% for the six months ended 30 June 2018 to $105.6 million. This increase was driven by investments to support growth and productivity, and the inclusion of the cost base of Woodbury and J&R Medical. As a percentage of revenue, adjusted general and administrative expenses were 11.5% and 11.9% for the six months ended 30 June 2018 and 2017 respectively. On a constant exchange rate basis, adjusted general and administrative expenses increased $2.6 million or 2.7%[3]. Reported general and administrative expenses decreased $6.4 million for the six months ended 30 June 2018 due primarily to a reduction in share-based compensation arising from pre-IPO employee equity grants, offset by the increases noted above.

Research and development expenses (“R&D”)

Adjusted R&D expenses increased $3.3 million or 15.1% for the six months ended 30 June 2018 to $25.2 million, to support new product development. As a percentage of revenue, adjusted R&D expenses were 2.7% and 2.6% for the six months ended 30 June 2018 and 2017 respectively. On a constant exchange rate basis, adjusted R&D expenses increased $1.6 million or 7.4%[3]. Reported research and development expenses increased $2.8 million for the six months ended 30 June 2018.

Operating profit

Adjusted operating profit increased $10.0 million or 5.2%[3] at CER to $203.5 million for the six months ended 30 June 2018 due to the $90 million increase in revenue, partially offset by increases in the Group's operating costs and expenses as outlined above.

Adjusted operating profit margin for the six months ended 30 June 2018 of 22.1% decreased 120 bps from the prior year. On a constant exchange rate basis, adjusted operating profit increased $6.0 million or 3.1% for the six months ended 30 June 2018.

Reported operating profit increased $29.2 million for six months ended 30 June 2018 to $122.0 million primarily due to an increase in revenue, partially offset by higher operating costs and expenses as outlined above.

Other costs and net expenses

	Six months ended 30 June	
	2018	2017
Other costs and net expenses - reported	**$m**	**$m**
Finance costs	(32.9)	(29.3)
Other expense, net	(0.6)	(18.0)
Income tax benefit/(expense)	16.1	(21.3)

Finance costs

Finance costs increased $3.6 million, to $32.9 million for the six months ended 30 June 2018 from $29.3 million for the six months ended 30 June 2017, primarily due to an increase in the floating rates on the US Dollar Term A Loan Facility and US Dollar Term B Loan Facility.

Other expense, net

Reported other expense, net decreased $17.4 million, to $0.6 million for the six months ended 30 June 2018, from $18.0 million for the six months ended 30 June 2017, primarily driven by decreases in (i) the foreign exchange net losses related to intercompany transactions, including loans transacted in non-functional currencies and (ii) foreign exchange losses as a result of hyperinflation accounting. Refer to Note 4 - Other Expense, Net for further information.

Income tax benefit (expense)

For the six months ended 30 June 2018, the Group recorded an income tax benefit of $16.1 million and for the six months ended 30 June 2017, the Group recorded an income tax expense of $21.3 million. The $37.4 million decrease in income tax expense was primarily impacted by an adjustment for prior years in respect of previously unrecognised deferred tax assets of $30.6 million resulting from the US Tax Cuts and Jobs Act enacted on 22 December 2017.

After adjusting for certain financial measures that the Group believes are useful supplemental indicators of future operating performance (see reconciliation to adjusted earnings for the six months ended 30 June 2018 and 2017), the adjusted tax rate on continuing operations was 14.2% and 17.4% for these periods, respectively.

Net profit

As a result of the above factors, reported net profit was $104.6 million in the first six months of 2018, compared to net profit of $24.2 million in 2017, an increase of $80.4 million.

Adjusted net profit increased by $25.7 million to $144.3 million in the first six months of 2018, from $118.6 million in 2017. As a percentage of revenue, adjusted net profit was 15.7% and 14.3% respectively. The increase was primarily driven by (i) higher adjusted gross profit, partially offset by higher operating expenses (discussed above) (ii) higher finance costs more than offset by a reduction in other expense, net.

Exchange rates

The table set out below summarises the exchange rates used for the translation of currencies into USD that have the most significant impact on the Group's results:

		30 June		31 December
Currency	**Average rate/Closing rate**	**2018**	**2017**	**2017**
EUR/USD	Average	1.21	1.08	1.13
	Closing	1.17	1.14	1.20
GBP/USD	Average	1.38	1.26	1.29
	Closing	1.32	1.30	1.35
DKK/USD	Average	0.16	0.15	0.15
	Closing	0.16	0.15	0.16

Non-IFRS Financial Information

This report contains certain financial measures that are not defined or recognised under IFRS. These measures are referred to as “Adjusted” measures and include: Adjusted Cost of goods sold, Adjusted Gross margin, Adjusted Selling and distribution expenses, Adjusted General and administrative expenses, Adjusted Research and development expenses, Adjusted Operating profit ("Adjusted EBIT"), Adjusted Profit before tax, Adjusted Finance costs, Adjusted Other expense, net, Adjusted Net profit, Adjusted Earnings per share (shown collectively in the reconciliation to adjusted earnings, below), Adjusted EBITDA (defined below), and Cash conversion (defined below) which exclude the effect of certain cash and non-cash items that Group management believes are not related to the underlying performance of the Group. These non-IFRS financial measures are also used by management to make operating decisions because they facilitate internal comparison of performance to historical results on a consolidated Group basis. These measures are not measurements of financial performance or liquidity under IFRS and should not replace measures of liquidity or financial performance that are derived in accordance with IFRS.

The Group believes these measures are useful supplemental indicators that may be used to assist in evaluating the Group’s financial performance on a consistent basis, similar to the way in which the Group’s management evaluates performance, that is not otherwise apparent on an IFRS basis, given that certain non-recurring, infrequent or unusual items that management does not otherwise believe are indicative of the underlying performance of the consolidated Group may not be excluded when preparing financial measures under IFRS.

Items adjusted for the six months ended 30 June 2018 and 2017 include pre-2018 acquisition-related amortisation, share-based compensation expense arising from pre-IPO employee equity grants, restructuring and other costs primarily related to the MIP Programme, and the tax impact of certain items as further described under (f) below.

Reconciliation to adjusted earnings - for the six months ended 30 June 2018 and 2017

		Adjustments					
	Reported	(a)	(b)	(c)	(d)	(e)	**Adjusted**
Six months ended 30 June 2018	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Revenue	921.3	—	—	—	—	—	921.3
Cost of goods sold	(440.9)	63.6	2.6	—	—	—	(374.7)
Gross profit	**480.4**	**63.6**	**2.6**	**—**	**—**	**—**	**546.6**
Gross Margin %	*52.1%*						*59.3%*
Selling and distribution expenses	(212.3)	—	—	—	—	—	(212.3)
General and administrative expenses	(120.9)	8.7	2.4	—	4.2	—	(105.6)
Research and development expenses	(25.2)	—	—	—	—	—	(25.2)
Operating profit	**122.0**	**72.3**	**5.0**	**—**	**4.2**	**—**	**203.5**
Operating Profit %	*13.2%*						*22.1%*
Finance costs	(32.9)	—	—	—	—	—	(32.9)
Other expense, net	(0.6)	(1.9)	—	—	—	—	(2.5)
Profit before income taxes	**88.5**	**70.4**	**5.0**	**—**	**4.2**	**—**	**168.1**
Income tax benefit (expense)[f]	16.1						(23.8)
Net profit	**104.6**						**144.3**
Net Profit %	*11.4%*						*15.7%*
Basic Earnings Per Share *($ per share)*[g]	**0.05**						**0.07**
Diluted Earnings Per Share *($ per share)*[g]	**0.05**						**0.07**

		Adjustments					
	Reported	(a)	(b)	(c)	(d)	(e)	**Adjusted**
Six months ended 30 June 2017	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Revenue	831.3	—	—	—	—	—	831.3
Cost of goods sold	(402.3)	63.3	8.7	0.2	—	—	(330.1)
Gross profit	**429.0**	**63.3**	**8.7**	**0.2**	**—**	**—**	**501.2**
Gross Margin %	*51.6%*						*60.3%*
Selling and distribution expenses	(186.5)	—	—	—	—	—	(186.5)
General and administrative expenses	(127.3)	6.2	0.8	1.9	18.0	1.1	(99.3)
Research and development expenses	(22.4)	—	0.5	—	—	—	(21.9)
Operating profit	**92.8**	**69.5**	**10.0**	**2.1**	**18.0**	**1.1**	**193.5**
Operating Profit %	*11.2%*						*23.3%*
Finance costs	(29.3)	—	—	—	—	—	(29.3)
Other expense, net	(18.0)	(2.6)	—	—	—	—	(20.6)
Profit before income taxes	**45.5**	**66.9**	**10.0**	**2.1**	**18.0**	**1.1**	**143.6**
Income tax expense[f]	(21.3)						(25.0)
Net profit	**24.2**						**118.6**
Net Profit %	*2.9%*						*14.3%*
Basic Earnings Per Share *($ per share)*[g]	**0.01**						**0.06**
Diluted Earnings Per Share *($ per share)*[g]	**0.01**						**0.06**

(a) Represents an adjustment to exclude items primarily related to amortisation, asset write offs and accelerated depreciation, including (i) pre-2018 acquisition-related amortisation expense of $71.9 million and $67.2 million for the six months ended 30 June 2018 and 2017, respectively, (ii) accelerated depreciation of $1.3 million for the six months ended 30 June 2017 related to the closure of certain manufacturing facilities, (iii) impairment charges and assets write-offs related to property, plant and equipment of $0.4 million, in the aggregate, for the six months ended 30 June 2018, (iv) net gain on the sales of assets of $1.9 million and $2.6 million during the six months ended 30 June 2018 and 2017, respectively, and (v) an acquisition accounting adjustment of $1.0 million related to acquired inventories that were sold during the six months ended 30 June 2017. Refer to Note 4 - Other Expense, Net for further information.

(b) Represents restructuring costs and other-related costs (excluding accelerated depreciation described above under (a)) primarily incurred in connection with the MIP Programme and also includes other termination and leaver costs relating to organisation structure changes and other-related costs.

(c) Represents remediation costs, which include regulatory compliance costs related to Food and Drug Administration 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 its control environment within finance.

(d) Represents an adjustment to exclude (i) share-based compensation expense of $4.2 million and $18.0 million for the six months ended 30 June 2018 and 2017, respectively, arising from pre-IPO employee equity grants.

(e) Represents IPO related costs, primarily advisory fees.

(f) Adjusted income tax benefit (expense) is income tax benefit (expense) net of tax adjustments. In addition to the tax impact of items (a) to (e), there were tax benefits resulting from an adjustment for prior years in respect of previously unrecognised deferred tax assets of $30.6 million plus alternative minimum tax credit of $0.6 million resulting from the US Tax Cuts and Jobs Act enacted on 22 December 2017, and hedging interest volatility on external borrowings of $2.3 million. Refer to Note 5 - Income Taxes for further information.

(g) Adjusted earnings per share and adjusted diluted earnings per share have been calculated by dividing adjusted net profit by the weighted average ordinary shares in issue and the diluted weighted average ordinary shares in issue, respectively, as calculated in Note 7 - Earnings Per Share.

Adjusted EBITDA

Adjusted EBITDA is defined as Adjusted EBIT (defined above) further adjusted to exclude (i) software and R&D amortisation, (ii) post-2017 acquisition amortisation, (iii) depreciation, and (iv) post-IPO employee share-based compensation.

The following table reconciles the Group's Adjusted EBIT to Adjusted EBITDA.

	Six months ended 30 June	
	2018	**2017**
	$m	**$m**
Adjusted EBIT	**203.5**	**193.5**
Software and R&D amortisation[a]	4.4	3.7
Post-2017 acquisition amortisation[b]	0.3	—
Depreciation[c]	18.1	15.9
Post-IPO share-based compensation[d]	2.9	3.3
Adjusted EBITDA	**229.2**	**216.4**

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(a) The following is a summary of software and R&D amortisation as recorded in the Condensed Consolidated Statement of Profit or Loss for the six months ended 30 June 2018 and 2017:

	Six months ended 30 June	
	2018	**2017**
	$m	**$m**
General and administrative expenses	3.8	3.6
Research and development expenses	0.6	0.1
Software and R&D amortisation	4.4	3.7

(b) The post-2017 acquisition amortisation was recorded in General and administrative expenses in the Condensed Consolidated Statement of Profit or Loss.

(c) The following is a summary of depreciation (excluding accelerated depreciation), as recorded in the Condensed Consolidated Statement of Profit or Loss for the six months ended 30 June 2018 and 2017:

	Six months ended 30 June	
	2018	**2017**
	$m	**$m**
Cost of goods sold	15.4	13.5
Selling and distribution expenses	0.1	0.1
General and administrative expenses	2.2	1.9
Research and development expenses	0.4	0.4
Depreciation, excluding accelerated depreciation	18.1	15.9

(d) The post-IPO share-based compensation was recorded in General and administrative expenses in the Condensed Consolidated Statement of Profit or Loss.

Cash conversion

The Group believes that cash conversion is a useful supplemental metric that provides a measure of efficiency by which the Group is able to turn profit from operations into cash flow to service the requirements of debt and equity investors, as well as paying for the Group's tax obligations, re-investing in the business for growth and enhancing dividend capacity.

Cash conversion is computed as the ratio of Adjusted EBITDA less change in working capital and capital expenditure to Adjusted EBITDA.

The computation of cash conversion for the six months ended 30 June 2018 and 2017 is as follows:

	Six months ended 30 June	
	2018	**2017**
	$m	**$m**
Adjusted EBITDA	229.2	216.4
Working capital increase	(21.6)	(15.6)
PP&E purchases	(35.3)	(38.5)
	172.3	**162.3**
Cash conversion	**75.2%**	**75.0%**

Cash conversion is also computed as the ratio of net cash generated from operating activities adjusted for (i) cash interest payments, (ii) cash tax payments, and (iii) other payments within operating activities, less capital expenditure to Adjusted EBITDA. The resulting cash conversion figures are the same under either definition.

The computation of cash conversion for the six months ended 30 June 2018 and 2017 on this basis is as follows:

	Six months ended 30 June	
	2018	**2017**
	$m	**$m**
Net cash generated from operating activities	**164.9**	**120.9**
Add:		
Cash interest payments	22.4	36.0
Cash tax payments	13.6	15.4
Other payments[(a)]	6.7	28.5
Less:		
PP&E Purchases	(35.3)	(38.5)
	172.3	**162.3**
Adjusted EBITDA	**229.2**	**216.4**
Cash conversion	**75.2%**	**75.0%**

(a) Other payments primarily represent payments related to restructuring and other related costs incurred in connection with the MIP Programme.

FINANCIAL POSITION

Selected measures of financial position

The following table presents a summary of the Group's financial position at 30 June 2018 and 31 December 2017:

	30 June 2018	31 December 2017	Change	
Asset (liability)	**$m**	**$m**	**$m**	**%**
Long-lived assets[(a)]	2,805.8	2,893.5	(87.7)	(3.0)%
Cash and cash equivalents	339.1	289.3	49.8	17.2%
Borrowings, including current portion	(1,803.1)	(1,822.9)	19.8	(1.1)%

(a) Long-lived assets consist of property, plant and equipment, intangible assets, and goodwill.

Long-lived assets

Long-lived assets decreased $87.7 million, or 3.0%, to $2,805.8 million at 30 June 2018, from $2,893.5 million at 31 December 2017, primarily due to (i) the depreciation of property, plant, and equipment and amortisation of intangible assets of $94.7 million, in the aggregate, and (ii) a decrease from foreign currency exchange of $31.7 million. These decreases were partially offset by (i) additions of property, plant, and equipment and intangible assets of $26.4 million, in the aggregate, and (ii) long-lived assets from J&R Medical acquisition of $14.9 million.

Cash and cash equivalents

Cash and cash equivalents increased $49.8 million, or 17.2%, to $339.1 million at 30 June 2018, from $289.3 million at 31 December 2017, primarily due to cash generated from operating activities of $164.9 million, partially offset by (i) dividend paid of $55.3 million, (ii) purchases of property, plant, and equipment and capitalised software of $35.3 million, (iii) $14.4 million paid in connection with the J&R Medical acquisition in March 2018, and (iv) the effect of exchange rate changes on cash and cash equivalents of $10.2 million.

Borrowings

Borrowings decreased $19.8 million, or 1.1%, to $1,803.1 million at 30 June 2018, from $1,822.9 million at 31 December 2017, primarily due to (i) the foreign currency impact on the Euro-denominated long-term borrowings, (ii) the mandatory prepayment for excess cash retained in the business, and (iii) scheduled June 2018 loan amortisation payment for the US Dollar Term B Loan Facility (refer to Note 9 - Borrowings for further information). These decreases were partially offset by the non-cash amortisation of deferred financing fees and debt discounts.

Liquidity and Capital Resources

Overview

At 30 June 2018, the Group's cash and cash equivalents were $339.1 million. Additionally, at 30 June 2018, the Group had $192.9 million of availability under the revolving credit facility. Restricted cash was $4.8 million and $5.7 million at 30 June 2018 and 31 December 2017, respectively.

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 significant recurring cash inflows. The Group generated $164.9 million of cash from operating activities for the six months ended 30 June 2018. Significant cash uses for the six months ended 30 June 2018 included (i) dividend paid of $55.3 million, (ii) capital expenditures of $35.3 million, (iii) interest payments of $22.4 million, (iv) $14.4 million paid in connection with the J&R Medical acquisition, and (v) income tax payments of $13.6 million.

The Group's business may not continue to generate cash flow at current levels and, if it is unable to generate sufficient cash flow from operations to service its debt, the Group may be required to reduce costs and expenses, sell assets, reduce capital expenditures, refinance all or a portion of existing debt or obtain additional financing. The Group may not be able to complete these initiatives on a timely basis, on satisfactory terms, or at all. The Group's ability to make scheduled principal payments or to pay interest on or to refinance its indebtedness depends on the Group's future performance and financial results, which, to a certain extent, are subject to general conditions in or affecting the healthcare industry and to general economic, political, financial, competitive, legislative and regulatory factors beyond the Group's control.

The Group believes that the business has characteristics of strong cash flow generation. The Group's strengths include the recurring, non-discretionary nature of its products, its diverse product offering and geographic footprint, and the strong market position of the Group's leading brands. The Group believes that its existing cash on hand, combined with the Group's operating cash flow and available borrowings under the credit facilities will provide sufficient liquidity to fund current obligations, working capital and capital expenditure requirements, as well as future investment opportunities in the foreseeable future.

Cash flows

The following table displays cash flow information for the six months ended 30 June 2018 and 2017:

	Six months ended 30 June	
	2018 $m	2017 $m
Net cash generated from operating activities	164.9	120.9
Net cash used in investing activities	(45.2)	(62.2)
Net cash used in financing activities	(59.7)	(31.7)
Net change in cash and cash equivalents	60.0	27.0
Cash and cash equivalents at beginning of the period	289.3	264.1
Effect of exchange rate changes on cash and cash equivalents	(10.2)	11.4
Cash and cash equivalents at end of the period	339.1	302.5

Cash flows from operating activities

Net cash generated from operating activities was $164.9 million and $120.9 million for the six months ended 30 June 2018 and 2017, respectively. The following table sets forth the components of net cash generated from operating activities for the six months ended 30 June 2018 and 2017:

	Six months ended 30 June	
	2018	**2017**
	$m	**$m**
Adjusted EBITDA	**229.2**	**216.4**
Cash interest payments	(22.4)	(36.0)
Cash tax payment	(13.6)	(15.4)
Other payments	(6.7)	(28.5)
Working capital increase	(21.6)	(15.6)
Net cash generated from operating activities	**164.9**	**120.9**

Cash interest payments decreased $13.6 million, to $22.4 million for the six months ended 30 June 2018, from $36.0 million for the six months ended 30 June 2017, due to (i) the timing of interest payment on the US Dollar Term A Loan Facility as the interest payment was made in July 2018 and (ii) the incremental interest payments related to the Group's credit facilities, as the first interest payment was made in March 2017 since the October 2016 financing. These decreases were partially offset by an increase in the floating rates on the US Dollar Term A Loan Facility and US Dollar Term B Loan Facility.

Other payments decreased $21.8 million, to $6.7 million for the six months ended 30 June 2018, from $28.5 million for the six months ended 30 June 2017, primarily driven by a decrease in payments related to (i) service fees associated with MIP-related activities, (ii) the Group's 2016 IPO costs, and (iii) cash-settled pre-IPO awards.

The working capital increase of $21.6 million and $15.6 million for the six months ended 30 June 2018 and 2017, respectively, was primarily related to timing of receipts, purchases, and payments in the ordinary course of business.

Cash flows from investing activities

Net cash used in investing activities decreased $17.0 million, to $45.2 million for the six months ended 30 June 2018, from $62.2 million for the six months ended 30 June 2017. The decrease was primarily related to (i) lower acquisition spending in the six months ended 30 June 2018 and (ii) a decrease in capital expenditures.

Cash flows from financing activities

Net cash used in financing activities increased $28.0 million, to $59.7 million for the six months ended 30 June 2018, from $31.7 million for the six months ended 30 June 2017, primarily due to (i) $55.3 million of dividend paid, (ii) mandatory prepayment of $2.4 million for excess cash retained in the business under the Group's credit facilities, and (iii) scheduled June 2018 loan amortisation payment of $1.6 million for the US Dollar Term B Loan Facility. These increases were partially offset by (i) scheduled June 2017 loan amortisation payments of $19.6 million, in the aggregate, related to the credit facilities, (ii) $10.5 million of accrued costs paid in the six months ended 30 June 2017 in connection with issue of share capital in October 2016, and (iii) $1.4 million of deferred financing fees paid in the six months ended 30 June 2017.

INDEPENDENT REVIEW REPORT TO CONVATEC GROUP PLC

We have been engaged by the group to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the Condensed Consolidated Statement of Profit or Loss, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Cash Flows and related notes 1 to 12. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the group in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the group those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the group, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the group a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Deloitte LLP
Statutory Auditor
Reading, United Kingdom
1 August 2018

Condensed Consolidated Statement of Profit or Loss

	Notes	Six months ended 30 June 2018 $m	Six months ended 30 June 2017 $m	Year ended 31 December 2017 $m
		(unaudited)	*(unaudited)*	*(audited)*
Revenue	2	921.3	831.3	1,764.6
Cost of goods sold		(440.9)	(402.3)	(838.3)
Gross profit		**480.4**	**429.0**	**926.3**
Selling and distribution expenses		(212.3)	(186.5)	(377.5)
General and administrative expenses		(120.9)	(127.3)	(259.8)
Research and development expenses		(25.2)	(22.4)	(41.2)
Operating profit		**122.0**	**92.8**	**247.8**
Finance costs	3	(32.9)	(29.3)	(62.1)
Other expense, net	4	(0.6)	(18.0)	(21.7)
Profit before income taxes		**88.5**	**45.5**	**164.0**
Income tax benefit (expense)	5	16.1	(21.3)	(5.6)
Net profit		**104.6**	**24.2**	**158.4**
Earnings Per Share				
Basic earnings per share ($ per share)	7	0.05	0.01	0.08
Diluted earnings per share ($ per share)	7	0.05	0.01	0.08

All results are attributable to equity holders of the Group and wholly derived from continuing operations. The Notes on pages 28 to 42 form an integral part of the Condensed Consolidated Financial Statements.

Condensed Consolidated Statement of Comprehensive Income

	Notes	Six months ended 30 June 2018 $m	Six months ended 30 June 2017 $m	Year ended 31 December 2017 $m
		(unaudited)	*(unaudited)*	*(audited)*
Net profit		**104.6**	**24.2**	**158.4**
Other comprehensive (loss) income				
Items that will not be reclassified subsequently to Statement of Profit or Loss				
Remeasurement of defined benefit obligation, net of tax		0.7	(0.1)	2.4
Recognition of the pension assets restriction		(0.8)	(0.1)	0.2
Items that may be reclassified subsequently to Statement of Profit or Loss				
Exchange differences on translation of foreign operations		(30.5)	73.9	109.7
Effective portion of changes in fair value of cash flow hedges	10	9.8	(0.7)	7.4
Income tax relating to items that may be reclassified		(2.3)	0.4	(1.7)
Other comprehensive (loss) income		**(23.1)**	**73.4**	**118.0**
Total comprehensive income		**81.5**	**97.6**	**276.4**

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

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2018 $m (unaudited)	31 December 2017 $m (audited)
Assets			
Non-current assets			
Property, plant and equipment		327.5	334.0
Intangible assets		1,415.7	1,487.3
Goodwill		1,062.6	1,072.2
Other assets		48.3	32.3
		2,854.1	2,925.8
Current assets			
Inventories		293.3	284.5
Trade and other receivables		279.2	269.0
Prepaid expenses and other current assets		32.9	32.3
Cash and cash equivalents		339.1	289.3
		944.5	875.1
Total Assets		**3,798.6**	**3,800.9**
Equity and Liabilities			
Current liabilities			
Trade and other payables	10	125.2	122.0
Borrowings	9, 10	126.5	78.2
Accrued expenses and other current liabilities		77.4	68.0
Accrued compensation		53.7	52.7
Provisions		2.9	2.2
		385.7	323.1
Non-current liabilities			
Borrowings	9, 10	1,676.6	1,744.7
Deferred tax liabilities		141.1	172.2
Provisions		1.5	1.6
Other liabilities		36.6	35.5
		1,855.8	1,954.0
Total Liabilities		**2,241.5**	**2,277.1**
Equity			
Share capital		240.1	238.8
Share premium		26.4	1.3
Own shares		(7.9)	(8.1)
Retained deficit		(827.8)	(850.0)
Merger reserve		2,098.9	2,098.9
Cumulative translation reserve		(88.2)	(58.4)
Other reserves		115.6	101.3
Total Equity		**1,557.1**	**1,523.8**
Total Equity and Liabilities		**3,798.6**	**3,800.9**

Condensed Consolidated Statement of Changes in Equity

	Share capital	Share premium	Own shares	Retained deficit	Merger reserve	Cumulative translation reserve	Other reserves	Total
	$m	$m	$m	$m	$m	$m	$m	$m
At 1 January 2018 *(audited)*	**238.8**	**1.3**	**(8.1)**	**(850.0)**	**2,098.9**	**(58.4)**	**101.3**	**1,523.8**
Net profit	**—**	**—**	**—**	**104.6**	**—**	**—**	**—**	**104.6**
Other comprehensive (loss)/income:								
Foreign currency translation adjustment, net of tax	—	—	—	(0.7)	—	(29.8)	—	(30.5)
Remeasurement of defined benefit obligation, net of tax	—	—	—	—	—	—	0.7	0.7
Recognition of pension assets restriction	—	—	—	—	—	—	(0.8)	(0.8)
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	—	—	—	—	7.5	7.5
Total other comprehensive (loss)/income	**—**	**—**	**—**	**(0.7)**	**—**	**(29.8)**	**7.4**	**(23.1)**
Total comprehensive income	**—**	**—**	**—**	**103.9**	**—**	**(29.8)**	**7.4**	**81.5**
Dividends paid	—	—	—	(55.3)	—	—	—	(55.3)
Scrip dividend	1.3	25.1	—	(26.4)	—	—	—	—
Share-based payments	—	—	—	—	—	—	7.1	7.1
Share awards vested	—	—	0.2	—	—	—	(0.2)	—
At 30 June 2018 *(unaudited)*	**240.1**	**26.4**	**(7.9)**	**(827.8)**	**2,098.9**	**(88.2)**	**115.6**	**1,557.1**

	Share capital	Share premium	Own shares	Retained deficit	Merger reserve	Cumulative translation reserve	Other reserves	Total
	$m	$m	$m	$m	$m	$m	$m	$m
At 1 January 2017 *(audited)*	**238.8**	**1,674.1**	**—**	**(2,650.2)**	**2,098.9**	**(172.8)**	**57.4**	**1,246.2**
Net profit	**—**	**—**	**—**	**24.2**	**—**	**—**	**—**	**24.2**
Other comprehensive (loss)/income:								
Foreign currency translation adjustment, net of tax	—	—	—	(2.1)	—	76.4	—	74.3
Remeasurement of defined benefit obligation, net of tax	—	—	—	—	—	—	(0.1)	(0.1)
Recognition of pension assets restriction	—	—	—	—	—	—	(0.1)	(0.1)
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	—	—	—	—	(0.7)	(0.7)
Total other comprehensive (loss)/income	**—**	**—**	**—**	**(2.1)**	**—**	**76.4**	**(0.9)**	**73.4**
Total comprehensive income	**—**	**—**	**—**	**22.1**	**—**	**76.4**	**(0.9)**	**97.6**
Capital reduction of share premium[1]	—	(1,674.1)	—	1,674.1	—	—	—	—
Share-based payments	—	—	—	—	—	—	21.3	21.3
At 30 June 2017 *(unaudited)*	**238.8**	**—**	**—**	**(954.0)**	**2,098.9**	**(96.4)**	**77.8**	**1,365.1**

[1] In February 2017, the Company carried out a capital reduction, which resulted in distributable earnings being increased by $1,674.1 million as described in Note 22 of the Annual Accounts of the Group for the year ended 31 December 2017.

Condensed Consolidated Statement of Cash Flows

	Notes	Six months ended 30 June 2018 $m	2017 $m
Cash flows from operating activities		*(unaudited)*	*(unaudited)*
Net profit		104.6	24.2
Adjustments for			
Depreciation		18.1	17.2
Amortisation		76.6	70.9
Acquisition accounting adjustment on inventory sold		—	1.0
Income tax (benefit) expense	5	(16.1)	21.3
Impairment losses		0.1	—
Other expense, net	4	0.6	18.0
Finance costs	3	32.9	29.3
Share-based compensation		7.1	21.3
Write-off/disposal of assets		0.3	1.3
Changes in assets and liabilities:			
Inventories		(17.0)	(4.5)
Trade and other receivables		(16.8)	(1.0)
Other assets		0.2	(2.9)
Deferred revenue		2.9	0.9
Accounts payable and accrued expenses		6.2	(23.9)
Other liabilities		1.2	(0.8)
Cash generated from operations		200.9	172.3
Interest paid		(22.4)	(36.0)
Income taxes paid		(13.6)	(15.4)
Net cash generated from operating activities		**164.9**	**120.9**
Cash flows from investing activities			
Acquisition of property, plant and equipment and capitalised software		(35.3)	(38.5)
Acquisitions, net of cash acquired	8	(14.4)	(25.4)
Proceeds from sale of property, plant and equipment and other assets		2.9	2.6
Proceeds from divestiture		1.4	—
Change in restricted cash		0.9	—
Capitalised development expenditure		(0.7)	(0.9)
Net cash used in investing activities		**(45.2)**	**(62.2)**
Cash flows from financing activities			
Repayment of borrowings	9	(4.0)	(19.6)
Payment of accrued share capital issue costs		—	(10.5)
Payment of deferred financing fees		—	(1.4)
Dividend paid		(55.3)	—
Payment of finance lease liabilities	9	(0.4)	(0.2)
Net cash used in financing activities		**(59.7)**	**(31.7)**
Net change in cash and cash equivalents		**60.0**	**27.0**
Cash and cash equivalents at beginning of the period		**289.3**	**264.1**
Effect of exchange rate changes on cash and cash equivalents		**(10.2)**	**11.4**
Cash and cash equivalents at end of the period		**339.1**	**302.5**
Supplemental cash flow information:			
Non-cash investing activities			
Accrued capital expenditures included in accounts payable and accrued expenses		5.6	10.1

1. Basis of presentation and accounting policies

ConvaTec Group Plc (the "Company") is a company incorporated in the UK. The accompanying unaudited Condensed Consolidated Financial Statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union. The accounting policies are consistent with those set out in the ConvaTec Group Plc Annual Report and Accounts 2017 (the "2017 Annual Report"), except as described below under "Accounting standards" and "Changes in Accounting Policies".

The comparative figures for the year ended 31 December 2017 are based on the Group's Financial Statements for that period and do not constitute the Group's statutory Financial Statements for that financial year as defined in sections 434 and 435 of the Companies Act 2006. The statutory Consolidated Financial Statements for the Company in respect of the year ended 31 December 2017, which were prepared under IFRS, have been reported on by the Company's auditor and delivered to the Registrar of Companies. The audit report on those accounts was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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

The Condensed Consolidated Financial Statements for the six months ended 30 June 2018 were authorised by the Board on 1 August 2018.

Accounting standards

During the six months ended 30 June 2018, the Group has applied the following IFRSs issued by the International Accounting Standards Board: (i) IFRS 2 (amendments), Share-based Payment, (ii) IFRS 9, Financial Instruments: Classification and Measurement, and (iii) IFRS 15, Revenue from Contracts with Customers. Their adoption has not had a material impact on the disclosure or the amounts reported in these Condensed Consolidated Financial Statements.

Future accounting developments

As discussed in the 2017 Annual Report on page 115, IFRS 16, *Leases*, will be effective for accounting periods beginning on or after 1 January 2019 and will bring a significant portion of the Group's operating leases onto the statement of financial position.

The Group continues to assess the full impact of IFRS 16, however, the impact will greatly depend on the facts and circumstances at the time of adoption and upon transition choices adopted. It is therefore not yet practicable to provide a reliable estimate of the financial impact on the Group's consolidated results.

Changes in accounting policies

IFRS 15

The Group adopted IFRS 15 *Revenue from Contracts with Customers* with a date of the initial application of 1 January 2018.

The Group measures revenue for goods sold based on the consideration specified in a contract with a customer. Revenue is recognised when control over a product or service is transferred to a customer. Generally, products are insured to delivery. Amounts collected on behalf of third parties, such as value-added taxes for government authorities, are excluded from revenue and presented on a net basis. Due to the short-term nature of the receivables from sale of goods, the Group measures them at the original transaction price invoiced without discounting.

Nature of goods and services

Advanced Wound Care, Ostomy Care, and CCC products are sold to pharmacies, hospitals and other acute and post-acute healthcare service providers directly or through distributors and wholesalers. Infusion Devices primarily serves business-to-business customers, consisting of the leading insulin pump manufacturers. A minority of its revenue is derived from business-to-business urology product sales.

Product	Nature, timing of satisfaction of performance obligations, and significant payment terms
Group Products: - Advanced Wound Care - Ostomy Care - CCC - Infusion Devices	In general, the Group's contracts with customers contain a single performance obligation, that is the delivery of products to customers. The Group recognises revenue when a customer (the contracted party) takes possession of the product and the performance obligation is satisfied. This will depend on shipping terms for each individual contract, however, it typically occurs upon the delivery of product (date of receipt) by the customer. There are instances where alternative shipping arrangements are made, however revenue is only recognised at the point that the customer has arranged to collect the product, or when it can be deemed that the customer has obtained control over the product. Allowances for returns, where the contract specifies these terms, are made at the point of sale.
Material rights - volume discounts:	The Group offers certain prospective volume discounts to customers who achieve a specified volume amount or value of purchases. After the customer meets the sales volume or value, any additional purchase above this amount is discounted for the remainder of the discount period. Volume discounts that meet the definition of a material right constitute a separate performance obligation. Material rights are options to purchase additional products at a discount which would not have been given had the contract not been entered into; are considered significant to customers; and are incremental to the range of discounts typically given for those goods to that class of customer. The Group allocates the transaction price to the performance obligations on a relative stand-alone selling price basis. The stand-alone selling price of these volume discounts is based on the discount that the customer would obtain when exercising the option, adjusted for any discount the customer could receive without exercising the option and the likelihood that the option will be exercised. The revenue allocated to the volume discount is recognised proportionately to the pattern of options exercised by the customer or when the option expires.

Disaggregation of revenue

The Group has disclosed product franchise and geographical market disaggregation information about revenues from contracts with customers in accordance with IFRS 8, *Operating Segments*, in Note 2 - Segment Information.

Contract balances

The Group does not typically have any contract assets. The Group has contract liabilities that primarily relate to any advance consideration received from customers prior to transfer of the related products and material rights offered to customers for options to purchase additional goods. The contract liability balance was $5.0 million at 30 June 2018 and represents the changes during the period.

Contract costs

The incremental costs of obtaining a contract are recognised as an asset if the Group expects to recover them, either directly or indirectly. Costs to fulfill contracts with customers either give rise to an asset or are expensed as incurred. If the cost is not already covered by other applicable accounting literature, fulfilment costs are capitalised to the extent they directly relate to a specific contract, are used to generate or enhance resources used in satisfying performance obligations and are expected to be recovered.

The asset created, if any, is amortised over the period that the related goods or services transfer to the customer and are periodically reviewed for impairment. However, IFRS 15 offers a practical expedient to recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the Group otherwise would have recognised is one year or less.

Incremental costs related to obtaining a contract with a customer principally relate to commissions paid by the Group to its sales representatives. The amortisation period for commissions can differ from the contract term, as expected renewals of the contract need to be taken into account when determining the amortisation period. For each contract that has sales commissions paid, the Group has determined an appropriate amortization period that is consistent with the pattern of transfer to the customer of the goods to which the asset relates.

Incremental commission fees that the Group has deemed to be recoverable and are expected to provide economic benefit for a period of greater than one year have been capitalised. These capitalised costs amounted to $1.9 million at 30 June 2018. Capitalised commission costs are amortised over the same period as the recognition of the related revenues. In the six months ended 30 June 2018, the amount of amortisation expense was $0.3 million. There was no impairment loss in relation to the costs capitalised. For commissions related to contracts which have an amortisation period of one year or less, the Group applies the practical expedient and recognises the incremental costs of obtaining contracts as an expense when incurred.

Impacts on financial statements

Revenue recognition under IFRS 15 is considered to be consistent with the Group's current accounting policy. 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 - i.e., by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18. 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 previously recognised an accrual for volume discounts on a straight-line basis. The Group has determined that the option to purchase additional products with a volume discount represents a material right and separate performance obligation. Refer to the table above "Material rights - volume discounts" for further information.

- *Commission fees payable* - The Group previously recognised commission fees payable as selling expenses when they were incurred. As discussed above under "Contract costs", 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.

IFRS 9

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 30 June 2018, did not have any impact on the Condensed Consolidated Financial Statements.

Classification and measurement

With respect to the classification and measurement of financial assets, the number of categories of financial assets under IFRS 9 has been reduced compared to IAS 39. Under IFRS 9, the classification of financial assets is based both on the business model within which the asset is held and the contractual cash flow characteristics of the asset. There are three principal classification categories for financial assets that are debt instruments: (i) amortised cost, (ii) fair value through other comprehensive income (FVTOCI) and (iii) fair value through profit or loss (FVTPL). Equity investments in scope of IFRS 9 are measured at fair value with gains and losses recognised in profit or loss unless an irrevocable election is made to recognise gains or losses in other comprehensive income. Under IFRS 9, derivatives embedded in financial assets are not bifurcated, but instead the whole hybrid contract is assessed for classification. Under IFRS 9, financial assets can be designated as at FVTPL to mitigate an accounting mismatch.

In respect to classification and measurement of financial liabilities, changes in the fair value of a financial liability designated as at FVTPL due to credit risk are presented in other comprehensive income unless such presentation would create or enlarge an accounting mismatch in profit or loss.

There is no change and/or impact on the classification, measurement or accounting for any financial assets or liabilities held by the Group at 30 June 2018. Refer to Note 10 - Financial Instruments for further details.

Impairment

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses, if any, should be updated at each reporting date. There is no quantitative impact at 30 June 2018.

Hedge accounting

On initial application of IFRS 9, the Group has elected to apply the IFRS 9 hedge accounting requirements because they align more closely with the Group's risk management policies. Under IFRS 9, greater range of economic hedges will be eligible for hedge accounting. In particular, the Group will be able to apply hedge accounting for certain risk exposures, such as changes in the price or exchange rate for inputs required for its operations or changes in the costs of financing arising from changes in market interest rates.

The Group's hedging relationships under IAS 39 qualify as continuing hedging relationships under IFRS 9.

Going concern

The Directors have, at the time of approving these Condensed Consolidated Financial Statements, a reasonable expectation and a high level of confidence that the Group has the adequate liquid resources to meet its liabilities as they become due and will be able to sustain its business model, strategy and operations and remain solvent for a period of at least 12 months from 1 August 2018. Thus, the Directors continue to adopt the going concern basis in preparing these Condensed Consolidated Financial Statements.

Significant accounting judgements and estimates

The preparation of financial statements, in conformity with adopted IFRS, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these Condensed Consolidated Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements for the year ended 31 December 2017.

2. Segment information

IFRS 8 *Operating Segments* requires the segmental information presented in the financial statements to be that used by the Chief Operating Decision Maker ("CODM") to evaluate the performance of the business and decide how to allocate resources. The Group has identified our CEO as CODM. The Group's CEO evaluates the Group's global product portfolios on a revenue basis and generally evaluates profitability and associated investment on an enterprise-wide basis due to shared geographic infrastructures between the franchises. In making these decisions, 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 a combination of a franchise and regional basis, however, profitability measures are presented on a global basis.

Revenue by franchise

The following table sets forth the Group's revenue for the six months ended 30 June 2018 and 2017 by market franchise:

	Six months ended 30 June	
Revenue by market franchise	**2018 $m**	**2017 $m**
Advanced Wound Care	290.0	272.1
Ostomy Care	266.0	254.7
Continence and Critical Care	220.1	175.1
Infusion Devices	145.2	129.4
	921.3	**831.3**

Geographic information

Geographic markets

The following table sets forth the Group's revenue for the six months ended 30 June 2018 and 2017 in each geographic market in which customers are located:

	Six months ended 30 June	
Geographic markets	**2018 $m**	**2017 $m**
Americas	475.1	417.5
EMEA	378.3	349.2
APAC	67.9	64.6
	921.3	**831.3**

3. Finance costs

Finance costs for the six months ended 30 June 2018 and 2017 were as follows:

	Six months ended 30 June	
	2018 $m	**2017 $m**
Interest expense on borrowings[(a)]	(31.2)	(26.7)
Amortisation of deferred financing fees and OID	(2.5)	(2.4)
Interest expense on finance leases	(0.9)	(0.8)
Interest income on derivative financial instruments	1.3	—
Other income	0.6	0.6
Other expense	(0.2)	—
Finance costs	**(32.9)**	**(29.3)**

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(a) Refer to Note 9 - Borrowings for further details.

4. Other expense, net

Other expense, net for the six months ended 30 June 2018 and 2017 was as follows:

	Six months ended 30 June	
	2018 $m	**2017 $m**
Foreign exchange losses[(a)]	(2.3)	(20.0)
Net gain on sale of assets[(b)]	1.9	2.6
Other	(0.2)	(0.6)
Other expense, net	**(0.6)**	**(18.0)**

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(a) The foreign exchange losses for the six months ended 30 June 2017 primarily relate to the foreign currency impact on intercompany transactions, including loans transacted in non-functional currencies and foreign exchange losses as a result of hyperinflation accounting.

(b) The net gain on sale of assets for the six months ended 30 June 2018 relates to (i) a gain on sale of the Group's manufacturing plant in Greensboro, US, partially offset by (ii) a loss related to the divestiture of certain assets of the Group's respiratory therapy business. The gain on sale of assets for the six months ended 30 June 2017 relates to the sale of fully depreciated assets in Malaysia.

5. Income taxes

The Group's income tax benefit (expense) is accrued using the tax rate that would be applicable to expected total annual earnings. For the six months ended 30 June 2018, the Group recorded an income tax benefit of $16.1 million and for the six months ended 30 June 2017, the Group recorded an income tax expense of $21.3 million. The income tax benefit in the six months ended 30 June 2018 was primarily driven by an adjustment for prior years in respect of previously unrecognised deferred tax assets of $30.6 million resulting from the US Tax Cuts and Jobs Act enacted 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-lived assets, can be used as a source of future taxable income when assessing indefinite loss carry forwards. As at 31 December 2017 the Group did not recognise the deferred tax asset which resulted in a conservative position. The recognition of the $30.6 million asset has no cash tax impact.

6. Dividends

The Company's dividend policy is set out in the 2017 Annual Report.

On 13 February 2018, the Board proposed the final dividend in respect of 2017, which was approved by shareholders at the Group's Annual General Meeting on 10 May 2018 in the total amount of $83.9 million, representing 4.3 cents per share based upon the issued and fully paid share capital as at 31 December 2017. The dividend on ordinary shares was declared in USD and was paid in Sterling at the chosen exchange rate of $1.39/£1.00 determined on 13 February 2018. A scrip dividend alternative was offered in respect of the final dividend, allowing shareholders to elect to receive their dividend in the form of new ordinary shares at a Calculation Price of 202.62 pence for each new ordinary share which was equivalent to one new share for approximately 65.36 shares held prior to the ex-dividend date of 5 April 2018. On 17 May 2018, 9,623,305 ordinary shares of 10 pence each were allotted and issued by the Company to those shareholders who elected to receive the scrip dividend alternative. The interim dividend (declared by the Board on 2 August 2017) of 1.4 cents per share and the final dividend of 4.3 cents per share give a total dividend for the year of 5.7 cents per share.

On 1 August 2018, the Board declared the interim dividend to be distributed on 12 October 2018 to shareholders registered at the close of business on 7 September 2018 in the total amount of $33.7 million, representing 1.717 cents per share based upon the issued and fully paid share capital as at 30 June 2018. The dividend on ordinary shares was declared in USD and will be paid in Sterling at the chosen exchange rate of $1.312/£1.00 determined on 1 August 2018. A scrip dividend alternative shall be offered in respect of the interim dividend, allowing shareholders to elect by 21 September 2018 to receive their dividend in the form of new ordinary shares.

7. Earnings per share

Basic and diluted earnings per ordinary share for the six months ended 30 June 2018 and 2017 were calculated as follows:

	Six months ended 30 June	
	2018 $m	2017 $m
	(except share data)	
Net profit attributable to the equity holders of the Group	104.6	24.2
Basic weighted average ordinary shares in issue (net of shares purchased by the Company and held as Own shares)	1,951,323,985	1,951,472,651
Diluted impact of share awards	2,883,522	2,966,548
Diluted weighted average ordinary shares in issue	1,954,207,507	1,954,439,199
Basic earnings per share ($ per share)	0.05	0.01
Diluted earnings per share ($ per share)	0.05	0.01

Share options to purchase approximately 6,835,000 ordinary shares of the Group were not included in the computation of diluted earnings per share for the six months ended 30 June 2018 because the exercise prices of the share options were greater than the average market price of the Group's ordinary shares and, therefore, the effect would have been anti-dilutive.

8. Acquisition of subsidiaries

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

Description of the transaction

On 1 March 2018, the Group acquired the entire membership interests of J&R Medical for a total cash consideration of $14.6 million, including $0.2 million 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 unit 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:

	Provisional Amounts Recognised as of Acquisition Date $m
Non-current assets	
Intangible assets[(a)]	7.8
Current assets	
Trade and other receivables[(b)]	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[(c)]	12.3
Deferred purchase consideration paid into escrow[(d)]	2.3
Total consideration	**14.6**
Goodwill arising on acquisition[(e)]	**7.1**

Analysis of cash outflow in the Condensed Consolidated Cash Flow Statement	**Six months ended 30 June 2018 $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 Condensed Consolidated Cash Flow Statement)	**14.4**

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(a) The following table summarises the amounts and useful lives assigned to identifiable intangible assets:

	Weighted Average Useful Lives (Years)	Amounts Recognised as of Acquisition Date $m
Finite-lived intangible assets:		
Customer relationship	7 years	7.5
Indefinite-lived intangible assets:		
Trade name[(1)]	Indefinite lived	0.3
Total Intangible Assets		7.8

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(1) The amount of indefinite-lived trade name has been allocated to the Group's J&R Medical Catheter cash generated unit ("CGU").

(b) The fair value of receivables acquired approximates the amount of gross contractual receivables. The amount of gross contractual receivables not expected to be recovered is immaterial.

(c) The initial cash consideration includes cash at closing of $0.2 million.

(d) $2.3 million was paid on closing into escrow as security for the due and punctual fulfilment by the seller of its obligations under the Securities Purchase Agreement. The escrow account will be released to seller on 1 September 2019.

(e) Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. The goodwill is expected to be deductible for tax purposes. The goodwill recorded represents the following:

- costs savings and operating synergies expected to result from combining the operations of J&R Medical with those of the Group; and
- intangible assets that do not qualify for separate recognition (for instance, J&R Medical's assembled workforce).

Acquisition-related costs

The Group incurred $0.5 million of transaction costs directly related to the J&R Medical acquisition through 30 June 2018, which include expenditures for advisory, legal, valuation, accounting, and other similar services. These costs have been expensed as acquisition-related costs.

Revenue and net profit of J&R Medical

The revenue of J&R Medical for the period from the acquisition date to 30 June 2018 was $3.5 million and net profit was $0.6 million.

Woodbury Holdings ("Woodbury")

On 1 September 2017, the Group acquired the entire share capital of Woodbury for a total cash consideration of approximately $84.8 million, including $4.7 million cash and cash equivalents acquired. The transaction has been accounted for as a business combination under the acquisition method of accounting. At 31 January 2018, the Group finalised the fair values of the assets acquired and liabilities assumed as of the acquisition date. No measurement period adjustments were recorded to the amounts recognised at 31 December 2017. Refer to Note 13 of the 2017 Annual Report for further details.

Eurotec Beheer B.V. ("EuroTec")

On 3 January 2017, the Group acquired the entire share capital of EuroTec for a total cash consideration of approximately $30.4 million (€29.3 million), including $5.0 million (€4.9 million) cash and cash equivalents acquired. EuroTec manufactures ostomy care systems and commercialises its products directly in the Benelux region and through distributor partners in other markets. The acquisition was made to complement the product portfolio and services provided to the ostomy market. The transaction has been accounted for as a business combination under the acquisition method of accounting. The fair values of the assets acquired and liabilities assumed as of the acquisition date are described in Note 13 of the 2017 Annual Report.

9. Borrowings

A summary of the Group's consolidated borrowings at 30 June 2018 and 31 December 2017 is outlined in the table below:

	30 June 2018	31 December 2017
	$m	$m
Credit Facilities Agreement:		
Revolving Credit Facility	—	—
US Dollar Term A Loan Facility	743.2	743.3
Euro Term A Loan Facility	615.9	632.9
US Dollar Term B Loan Facility	419.4	421.1
Total credit facilities	1,778.5	1,797.3
Finance lease obligations	24.6	25.6
Total borrowings	**1,803.1**	**1,822.9**
Less: Current portion of borrowings	126.5	78.2
Total non-current borrowings	**1,676.6**	**1,744.7**

The terms and conditions of total borrowings outstanding at 30 June 2018 and 31 December 2017 are as follows:

			30 June 2018		31 December 2017	
	Currency	Year of maturity	Face value $m	Carrying amount $m	Face value $m	Carrying amount $m
Revolving Credit Facilities		2021	—	—	—	—
US Dollar Term A Loan Facility	USD	2021	749.8	743.2	750.8	743.3
Euro Term A Loan Facility[a]	EURO	2021	621.1	615.9	639.1	632.9
US Dollar Term B Loan Facility	USD	2023	423.6	419.4	425.7	421.1
Finance lease obligations	EURO/USD	—	24.6	24.6	25.6	25.6
Total interest-bearing liabilities			**1,819.1**	**1,803.1**	**1,841.2**	**1,822.9**

(a) Total face value of the borrowings outstanding under the Euro Term A Loan Facility denominated in euros was €531.7 million ($621.1 million) at 30 June 2018 and €532.4 million ($639.1 million) at 31 December 2017, respectively.

At 30 June 2018, the Group was in compliance with all financial covenants associated with the Group's outstanding debt.

In the six months ended 30 June 2018, the Group made (i) mandatory prepayment of $2.4 million for excess cash retained in the business and (ii) scheduled June 2018 loan amortisation payment of $1.6 million for the US Dollar Term B Loan Facility. On 2 July 2018, the Group made scheduled June 2018 loan amortisation payments of $33.3 million, in the aggregate, for the US Dollar Term A Loan Facility and Euro Term A Loan Facility.

In the six months ended 30 June 2017, the Group made scheduled June 2017 loan amortisation payments of $19.6 million, in the aggregate.

10. Financial instruments

Cash flow hedges

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 B Loan Facility, in May 2017, the Group entered into interest rate swap agreements. The Group interest rate swaps do not contain credit-risk related contingent features and are not subject to master netting arrangements. The interest rate swaps are designated as hedging instruments in a cash flow hedging relationship. As such, changes in the fair value will be recognised in other comprehensive income and accumulated in the other reserve, with the fair value of the interest rate derivatives recorded in the statement of financial position.

The following table presents the Group's outstanding interest rate swap agreements, notional amounts and related fair values at 30 June 2018. The fair values are based on market values of equivalent instruments at 30 June 2018. These financial instruments are classified as level 2 based upon the degree to which the fair value movements are observable. Level 2 fair value measurements are defined as those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (prices from third parties) or indirectly (derived from third party prices).

	Effective date	Maturity date	Notional amount at 30 June 2018 $m	Fair value[c] assets/(liabilities) $m
3 Month LIBOR Float to Fixed Interest Rate Swap[a]	30 June 2017	30 June 2020	559.9	11.3
3 Month LIBOR Float to Fixed Interest Rate Swap[b]	30 June 2017	30 June 2020	290.4	5.9
Amounts recognised in Condensed Consolidated Statement of Profit or Loss				—
Amounts recognised in Condensed Consolidated Comprehensive Income				9.8

(a) Under the interest rate swap agreement, commencing on 29 September 2017, the Group is entitled to receive quarterly interest payments at a variable rate equal to the 3-month LIBOR, subject to an interest rate floor of 0%, and is required to make quarterly interest payments at a fixed rate of 1.709%. In addition, for hedging purposes, the notional amount is split into six equal tranches.

(b) Under the interest rate swap agreement, commencing on 29 September 2017, the Group is entitled to receive quarterly interest payments at a variable rate equal to the 3-month LIBOR, subject to an interest rate floor of 0.75%, and is required to make quarterly interest payments at a fixed rate of 1.749%. In addition, for hedging purposes, the notional amount is split into three equal tranches.

(c) The fair values of the interest rate swaps are included in non-current Other assets in the Condensed Consolidated Statement of Financial Position.

Other financial instruments

The carrying amounts reflected in the Condensed Consolidated Statement of Financial Position at 30 June 2018 and 31 December 2017 for cash and cash equivalents, trade and other receivables, restricted cash, trade and other payables, and certain accrued expenses and other current liabilities 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 30 June 2018 and 31 December 2017, the estimated fair value of the Group's borrowings, excluding finance leases, approximated $1,794.0 million and $1,819.5 million, in the aggregate, respectively. 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 measurements in the fair value hierarchy under IFRS 13 *Fair Value Measurements*. See Note 9 - Borrowings for the face and carrying values of the Group’s borrowings.

11. Related party transactions

Full details of the Group's related party transactions and balances are given in the 2017 Annual Report. As at 30 June 2018, Nordic Capital is no longer considered to be a related party under IAS24.

12. Subsequent events

The Group has evaluated subsequent events through 1 August 2018, the date the Condensed Consolidated Financial Statements were approved by the Board of Directors.

On 1 August 2018, the Board declared the interim dividend to be distributed on 12 October 2018. Refer to Note 6 - Dividends for further details.

Directors' Responsibilities Statement

The Directors confirm that to the best of their knowledge:

- the Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 as adopted by the European Union; and
- the interim management report includes a fair review of the information required by:

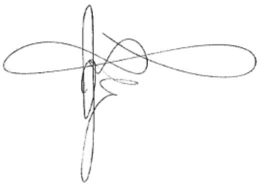
  a. DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the Condensed Consolidated Financial Statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  b. DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.

The Board of Directors of ConvaTec Group Plc on 1 August 2018 are the same as those listed in the 2017 Annual Report with the exception of Kasim Kutay who stepped down on 3 July 2018 and Sten Scheibye who was appointed on 3 July 2018.

By order of the Board:

Paul Moraviec	Chief Executive Officer	1 August 2018



Frank Schulkes	Chief Financial Officer	1 August 2018