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4 August 2022

Convatec Group Plc

Interim Results for the six months ended 30 June 2022

Strong revenue growth, stable adjusted operating profit and continued strategic progress

- Good financial performance in H1 2022 notwithstanding the challenging inflationary backdrop and continued investment in Innovation, Sales & Marketing
- Continued execution of FISBE (Focus, Innovate, Simplify, Build, Execute) strategy in H1, notably:
    - Entry into Wound Biologics[1] segment; exit from non-core hospital care and related industrial sales activities
    - Further progress with our new product pipeline; launch of GentleCath Air Male in France and InnovaMatrix in US; acquired a minority stake in BlueWind Medical
    - Simplification and efficiency initiatives supporting reduction in adjusted G&A to 9.7% of sales (H1 2021: 11.1%)
    - Positive pricing performance and new Convatec masterbrand launched
    - Progress embedding 'Convatec Cares', our new Environmental, Social & Governance (ESG) framework
- On track to deliver full year guidance - further demonstration Convatec is pivoting to sustainable and profitable growth

Key financial highlights

	Reported results			Adjusted[2] results			
	H1 2022	H1 2021	Change	H1 2022	H1 2021	Change	CC Change[3]
Revenue	$1045m	$1008m	3.6%	$1045m	$1008m	3.6%	8.0%
Operating profit	$87m	$136m	(36.0)%	$204m	$204m	0.0%	1.1%
Operating profit margin	8.3%	13.4%	(510)bps	*19.6%*	*20.3%*	(70)bps	(130)bps
Diluted earnings per share	2.4	4.2	(43.9)%	6.5 cents	7.2 cents	(10.0)%	-
Dividend per share	1.717	1.717	0.0%				

- Strong revenue growth: Reported +3.6% although significant FX headwind. +8.0% on a constant currency[4] basis and +6.4% on an organic[4] basis with positive performances across all divisions
- Reported operating profit 35.7% lower primarily reflecting hospital care exit costs
- Stable adjusted[2] operating profit: +0.0% and +1.1% on a constant currency[3] basis despite significant COGS inflation of c.7% and investments in Sales & Marketing and R&D operating expense of 15% on a constant currency basis
- Adjusted[2] operating profit margin was 19.6% (H1 2021: 20.3%) with price/mix, productivity improvement, G&A reduction and FX tailwind more than offset by inflation and the operating expense investments. Operating costs will be more evenly phased across the year in 2022 than in 2021.
- Reported diluted EPS down 43.9% principally owing to the hospital care exit cost. Adjusted[2] diluted EPS down 10.0% primarily owing to treatment of US deferred tax; excluding the recognition of deferred tax assets post the acquisitions, the adjusted EPS would have been down 2.7%
- Net debt[2] increased by $196 million largely owing to strategic M&A investments: leverage of 2.3x net debt[2]/adjusted EBITDA[2] (FY 2021: 1.9x)
- Interim dividend of 1.717 cents declared (H1 2021: 1.717)

2022 outlook confirmed

Convatec is on track to deliver organic[4] revenue growth of 4.0-5.5% and constant currency adjusted operating profit[3] margin of at least 18%, as indicated in March 2022, notwithstanding the current inflationary backdrop.

Karim Bitar, Chief Executive Officer, commented:

"This performance demonstrates that Convatec is continuing to pivot to sustainable and profitable growth. Our competitive position and financial performance are strengthening as we successfully execute our FISBE strategy. Convatec has achieved strong sales growth and, despite the significant inflationary back drop, a robust profit performance. We are confirming our guidance for the full year."

"We remain focused on executing our strategy and are confident in Convatec's ability to grow in line or faster than its markets and to improve its operating margin to mid-20% over time."

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(1) Wound Biologics segment as defined by SmartTRAK. Includes skin substitutes, active collagen dressings and topical drug delivery.

(2) Certain financial measures in this document, including adjusted results above, are not prepared in accordance with International Financial Reporting Standards ("IFRS"). All adjusted measures are reconciled to the most directly comparable measure prepared in accordance with IFRS in the Non-IFRS Financial Information below (pages 37 to 43).

(3) Constant currency 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 constant currency, adjusted for: Triad Life Sciences (Mar'22), Cure Medical (Mar'21) and Patient Care Medical (Dec'21) acquisitions; Incontinence divestment (Dec'21) and, from 31st May, the discontinuation of Hospital care and related industrial sales and the reconfigured business in Russia.

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Investor and analyst presentation

The results presentation will be held in person at UBS, 5 Broadgate Circle, London, EC2M 2QS at 9am (UK time). The event will be simultaneously webcast and the link can be found here.

If you would like to ask a question please use the following dial-in details:
United Kingdom - 0330 165 4012
United States - 800-289-0720
Access code: 9879873

The full text of this announcement and the presentation for the analyst and investors meeting can be found on the 'Results, Reports & Presentations' page of the Convatec website www.convatecgroup.com/investors/reports.

Forthcoming Events

Trading update (for 10 months)	10 November 2022
Capital Markets Event - to be hosted in London	17 November 2022

As highlighted in FY results in order to more evenly space the cadence of financial communication and better represent management's focus on long-term sustainable growth, the Group have replaced quarterly reporting with trading updates.

About Convatec

Pioneering trusted medical solutions to improve the lives we touch: Convatec is a FTSE 250 global medical products and technologies company, focused on solutions for the management of chronic conditions, with leading positions in advanced wound care, ostomy care, continence and critical care, and infusion care. Group revenues in 2021 were over $2 billion. With around 10,000 colleagues, we provide our products and services in over 100 countries, united by a promise to be forever caring. Our products provide a range of benefits, from infection prevention and protection of at-risk skin, to improved patient outcomes and reduced care costs. To learn more about Convatec, please visit http://www.convatecgroup.com

convatec
— forever caring —

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 that are difficult to predict and many of which are outside the Group's control. 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 document. Past performance of the Group cannot be relied on as a guide to future performance. Forward-looking statements are based only on information currently available to the Group and 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.

Operating Review for the six months ended 30 June 2022

Revenue

Total Group revenue increased by 3.6% on a reported basis to $1,045 million. There was a significant FX headwind during the period and on a constant currency basis revenue rose 8.0%. Adjusting for M&A and business restructuring (see footnote 4 above) Group revenue rose 6.4% on an organic basis.

	Six months ended 30 June					
	H1 2022 $m	H1 2021 $m	Reported growth / (decline)	Foreign Exchange impact	Constant Currency[2] growth / (decline)	Organic[4] growth / (decline)
Revenue by Category						
Advanced Wound Care	307	294	4.4%	(6.2)%	10.6%	7.3%
Ostomy Care	265	273	(3.1)%	(5.8)%	2.7%	3.0%
Continence and Critical Care	277	266	4.1%	(2.0)%	6.1%	3.6%
Infusion Care	196	175	12.2%	(2.3)%	14.5%	14.4%
Total	1045	1008	3.6%	(4.4)%	8.0%	6.4%

Advanced Wound Care revenue of $307 million increased 4.4% on a reported basis or 10.6% on a constant currency basis. This performance was enhanced by the acquisition of Triad Life Sciences on 14 March and on an organic basis revenue rose by 7.3%.

The business achieved strong growth in Global Emerging Markets and Europe. This more than offset a decline in North America where shortages of healthcare practitioners impacted procedure volumes and our limited position in the foam segment continued to weigh on performance. Convatec will be launching ConvaFoam in the US in Q4, which we anticipate will have strong exudate and adhesion properties.

Ostomy Care revenue of $265 million declined 3.1% on a reported basis but increased 2.7% on a constant currency basis and 3.0% on an organic basis.

During the period the business achieved continued strong growth in Global Emerging Markets while Europe achieved a robust performance, notwithstanding further rationalisation of less profitable activities within Amcare UK. In North America, HSG continued to grow referrals with new Ostomy patients although the impact of planned SKU rationalisation continued to reduce reported performance. Overall we are improving the mix and consequently the margins. Across all geographies revenue from Convatec ostomy products grew 4.3% on a constant currency basis.

Continence & Critical Care revenue of $277 million rose 4.1% on a reported basis, 6.1% on a constant currency basis and 3.6% on an organic basis. A strong operating performance was supported by contributions from the Cure Medical and Patient Care Medical acquisitions partially offset by the non-core incontinence disposal and adjustments for the hospital care exit from 31st May, when the Belarus factory closed.

Continence Care achieved revenue of $197 million, up 4.3% on an organic basis with good levels of new patient starts. Critical Care revenue rose 1.8% on an organic basis to $80 million during the period with Flexi-Seal™ declining, as expected following strong growth during COVID-19, whilst the hospital care products saw a temporary increase in sales immediately following the announcement of Convatec's decision to exit this product range.

Infusion Care revenue of $196 million increased 12.2% on a reported basis, 14.5% on a constant currency basis and 14.4% on an organic basis after adjusting for the exit of industrial sales from 31st May. This growth was primarily driven by continued strong demand from diabetic customers for our innovative infusion sets supported by favourable order phasing from key customers.

Historic revenue data

Reported Revenue $m	H1 2020	H2 2020	H1 2021	H2 2021	H1 2022
Advanced Wound Care	251	296	294	298	307
Ostomy Care	252	274	273	273	265
Continence and Critical Care	244	254	266	277	277
Infusion Care	161	162	175	182	196
Group	908	986	1008	1030	1045

Organic[4] growth/(decline) %	H1 2020	H2 2020	H1 2021	H2 2021	H1 2022
Advanced Wound Care	-4.8%	-0.8%	16.3%	3.4%	7.3%
Ostomy Care	3.1%	-0.5%	3.7%	-0.1%	3.0%
Continence and Critical Care	10.6%	6.9%	3.0%	1.2%	3.6%
Infusion Care	12.6%	21.2%	6.5%	12.5%	14.4%
Group	4.1%	4.3%	7.4%	3.4%	6.4%

Pivoting to sustainable and profitable growth

The execution of our FISBE (Focus, Innovate, Simplify, Build, Execute) strategy is progressing well.

Focus

- We have **continued to invest in our top 12 markets**, particularly in Sales and Marketing, and achieved faster growth in these countries.
- We **entered the large and rapidly growing wound biologics segment**[1] through the acquisition of Triad Life Sciences - strengthening our Advanced Wound Care position in the US and securing access to a complementary and innovative technology platform. The integration is progressing well and we have now renamed the business Advanced Tissue Technologies ('ATT'). We are optimistic about the prospects in the biologics space and the potential for our ATT business.
- In May, we announced the **decision to withdraw from non-core hospital care** activities and related industrial sales during the remainder of 2022. Following the exit of these products, which last year generated approximately $100 million of revenue, the Group will be almost entirely focused on higher-growth and more profitable chronic care markets.

Innovate

- We have continued to invest to strengthen our Technology & Innovation capabilities and advance our pipeline; we **increased R&D expenditure by 15%** to $47 million in H1 (H1 2021: $41 million).
- During H1 we started launching **two new products**:
  - **InnovaMatrix™** , our new ATT product, in the US. The take up by healthcare providers has been promising.
  - **GentleCath™ Air Male**, our new hydrophyllic (proprietary FeelClean™ Technology) compact male catheter, in France. It is early days, but the initial feedback from users has been positive and we are now building out our commercial infrastructure in Europe, expanding to the UK in the second half of the year. During H2 we shall also be launching GC Air Male in the US.
- We acquired a **minority stake in BlueWind Medical** Ltd, the developer of an innovative implantable tibial neuromodulation device for the over-active bladder segment, securing a relationship with a company developing a proprietary and differentiated solution to treat over-active bladders in the US Continence space.

Simplify

- During H1 our adjusted **G&A expenditure reduced by 5.1%** on a constant currency basis to 9.7% of sales.
- We continued to transition more finance and IT activities to our Global Business Services ('GBS') centre in Lisbon and made good progress with simplification of processes.
- We also **continued to simplify our product portfolio.** The rationalisation of SKUs reduced growth in Ostomy Care by approximately 80bps. This is expected to be more impactful in the second half given the phasing of the rationalisation.

Build

- Our Pricing Centre of Excellence ('CoE'), in collaboration with our business units, **achieved 60bps of pricing improvement**.
- We **launched the refreshed Convatec brand** and our new company promise of 'forever caring' which have been well received by customers.
- The **Convatec Executive Leadership Team was strengthened** in April. Anne Belcher joined the Group from GSK to lead our Global Emerging Markets business and Bruno Pinheiro, who led our successful LATAM business before acting as Interim President for GEM last year, has taken over Ostomy Care. John Haller joined us as EVP, Chief Quality and Operations Officer, having previously been at Stryker Corporation.
- Our Salesforce CoE has now established a single CRM platform in N.America and Europe and is **driving enhanced salesforce productivity** by increasing call rates and improving targeting.

Execution

- We delivered positive **manufacturing productivity improvements** in the face of significant COGS inflation and continue to improve the resilience of the supply chain.
- We made further progress with our Environmental, Social & Governance (ESG) agenda:
  - **Embedding 'Convatec Cares'**, our new ESG framework; elevating ESG through our strategic planning process and engaging all business units and functional areas on priorities, targets and commitments.
  - **Launched a new Diversity, Equity & Inclusion (DE&I) and Wellbeing approach** including strengthening our Employee Resource Groups with executive level sponsors and creating programmes such as our Black Education Leadership Programme (BELP).
  - In line with our commitment to reduce emissions and set Science Based Targets (SBTs), we **completed our Scope 3 materiality assessment** during the period and are on track to set our Scope 1 and 2 SBTs this year.
  - Consistent with our commitment to support our communities, we **provided a humanitarian relief response** for Ukraine valued at over $1.1 million.

Operating profit

Adjusted gross profit rose 2.9% to $628 million (H1 2021: $611 million). Adjusted gross profit margin of 60.1% was 50bps lower than the prior year with significant COGS inflation (of approximately 7%) more than offsetting foreign exchange benefit of 50bps, pricing, mix and productivity benefits. Reported gross profit was $555 million (H1 2021: $555 million).

Operational expenditure increased $18 million, or 4.4% year on year on a reported basis or 9.2% on a constant currency basis, driven by additional investment in growth initiatives across the business partially offset by the reduction in G&A.

Total adjusted operating profit was unchanged at $204 million (H1 2021: $204 million). The adjusted operating profit margin was 19.6% in the first half, a decrease of 70 bps versus prior year or 130bps on a constant currency basis. Reported operating profit was $87 million (H1 2021: $136 million) primarily driven by the closure costs and impairments relating to the exit of hospital care and industrial sales activities.

Dividend

The Board is declaring an unchanged interim dividend of 1.717 cents per share (H1 2021: 1.717) reflecting continued confidence in the future performance of the Group and cash generation.

Cash flow and leverage

Adjusted free cash flow post tax was $80 million (H1 2021: $113m) during the first half with the decrease principally reflecting higher working capital in the first half as well as increased investment in capital expenditure.

The Group was also strengthened through inorganic investment - spending $148 million on the Triad Life Sciences acquisition and investing $31 million in the preference shares of BlueWind Medical. A further $10 million of cash was used for lease payments and $59 million for dividends to shareholders.

The Group ended the period with total interest-bearing liabilities, including IFRS 16 lease liabilities, of $1,438 million (31 December 2021: $1,435 million). Offsetting cash of $272 million (31 December 2021: $463 million) and excluding lease liabilities, net debt was $1,077 million (31

December 2021: $881 million), equivalent to 2.3x adjusted EBITDA (31 December 2021: 1.9x adjusted EBITDA).

Group 2022 outlook

We are pleased with the growth we have achieved in 2022 and we confirm our full year guidance.

We continue to expect full year organic revenue growth of 4.0-5.5% as growth in the second half is anticipated to be slower. This is primarily owing to order phasing in Infusion Care coupled with other light headwinds such as increased SKU and customer rationalisation, US sequestration and French reimbursement cut.

We are on track to achieve our full year targeted constant currency adjusted[2] operating profit margin of at least 18%, notwithstanding the inflationary backdrop (estimated 8-9% COGS increase for Convatec for the full year, as previously guided). The margin in the second half is expected to be lower than H1 driven by the lagging impact of COGS inflation. Operating expenses are expected to be more evenly phased than last year. The currency tailwind on the margin is currently c.60 bps.

We continue to expect adjusted net finance expense for the full year to be $50-55 million. The cash tax rate for the year is still expected to be 18-19%, however the adjusted book tax rate for the year is expected to be approximately 25%, following accounting adjustments on the acquisition of Triad. Capex guidance is unchanged at $100-120 million for the full year. We expect leverage to trend down towards our target of around 2x over time.

We are confident about the future prospects for the Group as we continue to pivot to sustainable and profitable growth.

Principal risks

The Board reviews and agrees our principal risks on a bi-annual basis, taking account of our risk appetite together with our evolving strategy, current business environment and any emerging risks that could impact the business. Our framework and system of risk management and internal control continue to develop and updates to the principal risks and mitigation plans are made as required in response to changes in our risk landscape. Details of our enterprise risk management framework are set out in the Group's 2021 Annual Report and Accounts on pages 64 to 73.

The Board has reviewed the principal risks as at 30 June 2022, taking into consideration the risks that existed during the first six months of 2022 and those that it believes will have an impact on the business over the remaining six months of the current financial year. The principal risks have been assessed against the context of the global inflationary pressures and volatile political environment that are impacting all businesses at present. The overall profile for the risks set out below remains largely unchanged over the financial year in terms of their potential impact on our ability to successfully deliver on our strategy:

- Operational Resilience and Quality;
- Innovation and Regulatory;
- Information Systems, Security and Privacy;
- Customer and Markets;
- Legal and Compliance;
- People;
- Strategy and Change Management;
- Environment and Communities; and,
- Tax and Treasury.

However, as indicated in our May 2022 trading update the risk landscape has changed in respect of our Political and Economic Environment risk and People risk since the Annual Report was published in March. The Political and Economic risk has been elevated reflecting the continuing harshening environment created by global inflationary pressures on all aspects of our business, specifically our supply chain and cost of goods. In addition, we are experiencing increased pressures on our ability to attract, retain and maintain competitive remuneration for talent and skills in light of the continuing squeeze on the cost of living for our workforce.

We responded quickly to the evolving situation in Ukraine and the surrounding region when it first emerged at the beginning of the year. We reported the closure of our manufacturing plant in Belarus that supplied products for our Critical Care and Ostomy portfolios. We continue to assess any potential impacts on our business with appropriate mitigation plans. We are fully committed to continuing to comply with all applicable laws and regulations, including any impacts of new sanctions relating to the ongoing situation.

The Board assesses the overall risk profile of the Group to ensure it is within our risk appetite. Principal risks continue to be appropriately mitigated and work continues to reduce the net exposure to the business to ensure that each risk remains within our risk appetite.

Financial Review for six months ended 30 June 2022

The following table sets forth the Group's revenue and expense items for the six months ended 30 June 2022 and 2021:

	Six months ended 30 June			
	Reported 2022 $m	Reported 2021 $m	**Adjusted 2022 $m**	Adjusted 2021 $m
Revenue	1,044.5	1,008.0	1,044.5	1,008.0
Cost of sales	(489.6)	(452.7)	(416.4)	(397.5)
Gross profit	554.9	555.3	628.1	610.5
Gross margin %	53.1%	55.1%	60.1%	60.6%
Operating expenses	(467.8)	(419.8)	(423.8)	(406.1)
Operating profit	87.1	135.5	204.3	204.4
Operating margin %	8.3%	13.4%	19.6%	20.3%
Net finance expense	(28.2)	(19.8)	(23.0)	(19.8)
Non-operating expense, net	(12.8)	(3.6)	(7.0)	(3.6)
Profit before income taxes	46.1	112.1	174.3	181.0
Income tax benefit/(expense)	2.2	(26.3)	(43.2)	(35.8)
Effective tax rate %	(4.8%)	23.5%	24.8%	19.8%
Profit for the period (net profit)	48.3	85.8	131.1	145.2
Net profit %	4.6%	8.5%	12.6%	14.4%
Basic earnings per share (cents per share)	2.4	4.3	6.5	7.2
Diluted earnings per share (cents per share)	2.4	4.2	6.5	7.2
Dividend per share (cents)	1.717	1.717		

Reported and Adjusted results

The Group's financial performance measured in accordance with IFRS (IAS 34 *Interim Financial Reporting* as adopted by the United Kingdom) is set out in the Condensed Consolidated Interim Financial Statements and Notes and is referred to in this review as "reported".

The commentary in this review includes discussion of the Group's reported results and alternative performance measures (or adjusted measures) ('APMs'). Management and the Board use APMs as meaningful supplemental measures in monitoring the performance of the business. These measures are disclosed in accordance with the ESMA guidelines and are explained and reconciled to the most directly comparable reported measure prepared in accordance with IFRS in the Non-IFRS financial information section.

The commentary includes discussion on revenue on a constant currency basis. Constant currency removes the effect of fluctuations in exchange rates to focus on underlying revenue performance. Constant currency information is calculated by applying the applicable prior period average exchange rates to the Group's performance in the respective period. Revenue and revenue growth on a constant currency basis are non-IFRS financial measures and should not be viewed as a replacement of IFRS reported revenue. Organic growth represents period-on-period growth at constant currency, excluding acquisition and divestiture activities.

Revenue

Group reported revenue for the six months ended 30 June 2022 of $1,044.5 million (H1 2021: $1,008.0 million) increased 3.6% year-on-year or 8.0% on a constant currency basis. Group revenue grew by 6.4% on an organic basis, driven by strong growth in Advanced Wound Care and Infusion Care, good growth in Continence & Critical Care and robust growth in Ostomy Care. For more details about the category revenue performance, refer to the Operating Review.

	Six months ended 30 June					
	2022 $m	2021[b] $m	Reported growth %	Foreign exchange impact %	Constant currency growth %	Organic growth[a] %
North America	**527.0**	495.3	6.4%	(0.1)%	6.5%	3.5%
Europe	**363.7**	374.8	(3.0)%	(9.1)%	6.1%	6.0%
Rest of World ("RoW")	**153.8**	137.9	11.6%	(6.9)%	18.5%	18.3%
Total	**1,044.5**	1,008.0	3.6%	(4.4)%	8.0%	6.4%

(a) Adjusted for the acquisition of Triad Life Sciences ("Triad"), Cure Medical and Patient Care Medical, as well as the divestment of the incontinence activities in 2021, and the exit from hospital care and industrial sales, and restructuring of activities in Russia during H1 2022.

(b) During the year ended 31 December 2021, the geographical revenue information provided to the Group's CEO was changed to better reflect the way in which the Group managed its operations. The change was driven by the ongoing transformation initiatives and aligns with the current management and reporting structure. The six months to 30 June 2021 comparative revenue information has been re-presented to reflect this change. Europe includes Russia, North America comprises United States and Canada, and Rest of World ("RoW") comprises all countries in Asia Pacific, Latin America (including Mexico and the Caribbean), South America, the Middle East (including Turkey) and Africa.

North America revenue grew by 6.4% on a reported basis and 6.5% on a constant currency basis. This primarily reflected the strong revenue performance in Infusion Care and includes the acquisitions of Triad, Cure Medical and Patient Care Medical, as well as the impact of divestment of incontinence activities in 2021.

Europe revenue decreased by 3.0% on a reported basis which was primarily driven by currency headwinds. The growth was 6.1% on a constant currency basis, reflecting the strong revenue performance in Advanced Wound Care and supported by positive growth in all other categories.

Rest of World ("RoW") reported revenue grew by 11.6% and 18.5% on a constant currency basis, driven by strong growth in both Advanced Wound Care and Ostomy Care in Asia and Latin America.

Reported net profit

Reported operating profit was $87.1 million, a decrease of $48.4 million as compared to the prior year. This reflects the 200bps decrease in gross margin, which more than offset the 3.6% growth in revenue. The decrease in gross margin was driven by 120bps of divestiture and termination costs primarily relating to the exit from hospital care and industrial sales activities, with the remaining 80bps owing to significant inflationary pressures on both raw material and freight costs, partially offset by productivity/pricing/mix benefits.

Operating expenses increased $48.0 million to $467.8 million (H1 2021: $419.8 million) primarily reflecting $25.7 million of closure costs and impairments for hospital care and industrial sales activities, $22.0 million increase in selling and distribution costs associated with higher revenues, the inclusion of acquired businesses and higher labour costs in some areas. In addition, there was a $6.3 million increased investment in research and development to continue to develop the future pipeline of new products, offset by $6.9 million decrease in general and administrative expenses.

Reported net finance expenses increased by $8.4 million to $28.2 million in the six months to 30 June 2022 (H1 2021: $19.8 million), reflecting increased interest rates and $5.2 million for the unwind of discount relating to the contingent consideration for Triad. Non-operating expenses increased by $9.2 million to $12.8 million (H1 2021: $3.6 million) driven by $3.4 million of FX losses and a $5.8 million increase in contingent consideration relating to the 2021 acquisition of Cure Medical.

The income tax benefit for the six months to 30 June 2022 was $2.2 million (H1 2021: $26.3 million expense), resulting in reported net profit of $48.3 million (H1 2021: $85.8 million) and basic reported earnings per share of 2.4 cents (H1 2021: 4.3 cents).

Adjusted net profit

Adjusted gross profit was $628.1 million (H1 2021: $610.5 million) and the adjusted gross margin was 60.1% (H1 2021: 60.6%), resulting from significant inflationary pressures on both raw material and freight costs which more than offset productivity/pricing/mix benefits and FX tailwinds.

The Group achieved adjusted operating profit of $204.3 million (H1 2021: $204.4 million) with an adjusted operating margin of 19.6% (H1 2021: 20.3%). The 3.6% growth in revenue was offset by the 50bps decrease in adjusted gross margin and increases of $22.0 million and $6.3 million in selling and distribution and research and development expenses respectively.

Adjusted net profit fell 9.7% to $131.1 million (H1 2021: $145.2 million), driven by a $7.4 million increase in adjusted income tax expense and a $3.2 million increase in the net finance expense. The adjusted effective tax rate ("ETR") increased from 19.8% to 24.8% principally due to the increase in US deferred tax expense (non-cash) for the utilisation of federal tax losses that were fully recognised as deferred tax assets following the acquisition of Triad and profit mix between jurisdictions with different tax rates.

Adjusted basic and diluted EPS at 30 June 2022 was 6.5 cents (H1 2021: 7.2 cents).

Taxation

	Six months ended 30 June			
	2022		2021	
	$m	Effective tax rate	$m	Effective tax rate
Reported income tax benefit/(expense)	2.2	(4.8%)	(26.3)	23.5%
Tax effect of adjustments	(25.7)		(7.5)	
Other discrete tax items	(19.7)		(2.0)	
Adjusted income tax expense	(43.2)	24.8%	(35.8)	19.8%

The Group's reported income tax benefit for the six months ended 30 June 2022 was $2.2 million (H1 2021: $26.3 million expense) driven by recognition of deferred tax assets in respect of previously unrecognised tax losses in the US, partially offset by the increase in US tax expenses following the acquisition of Triad.

After adjusting for certain financial measures that the Group believes are useful supplemental indicators of future operating performance, the adjusted effective tax rate was 24.8% for the six months ended 30 June 2022 (H1 2021: 19.8%). The increase in adjusted effective tax rate was principally driven by the non-cash deferred tax expenses due to the utilisation of US Federal tax losses which are now fully recognised as deferred tax assets following the acquisition of Triad, and the profit mix between jurisdictions with different tax rates.

Acquisitions and investments

Triad Life Sciences Inc ("Triad"), a US-based medical device company, was acquired on 14 March 2022 for an initial consideration of $125.3 million. The acquisition of Triad strengthens the Group's Advanced Wound Care position in the US, securing access to a complementary and innovative technology platform that enhances advanced wound management and patient outcomes. In addition to the initial consideration, there could be further contingent consideration of up to $325.0 million based on two short-term milestones and the performance during the first two years post-completion, of which $25.0 million was paid in April 2022. Refer to Note 7 - Acquisitions in the Condensed Consolidated Finance Statements for further details.

The Group has contingent consideration of up to $10.0 million in respect of Cure Medical, which is based upon post-acquisition performance targets and to be paid by 2024. The contingent consideration was increased by $5.8 million to $8.9 million (discounted) in the period to 30 June 2022 (31 December 2021: $3.1 million), as a result of strong performance and forecast financials which are expected to exceed previous expectations.

On 9 May 2022, the Group invested $30.7 million in preference shares of BlueWind Medical Limited ("BlueWind Medical"). This represents an investment into an innovative technology in the large and growing over-active bladder market and strengthening of the Group's Continence & Critical Care category. The investment is held at fair value in the Condensed Consolidated Financial Statements, which has not changed since the date of the investment.

Strategic decision to exit from hospital care and industrial sales

On 12 May 2022, it was announced that the Group would be withdrawing from its hospital care activities and related industrial sales during the remainder of 2022. The withdrawal from these low margin activities is consistent with the Group's FISBE strategy, with the Group focusing on higher-growth chronic care markets with improved margins and higher levels of recurring revenue.

Given the geopolitical situation in the region, the manufacturing plant in Belarus which produces hospital care goods ceased manufacturing on 31 May 2022 alongside a significant restructuring of all operations in Russia. The remainder of the hospital care and industrial sales activities will be mostly phased out in the second half of 2022. Given this phased exit of the hospital care and related industrial sales products, reported revenue in 2022 is expected to be approximately $10 million to $20 million lower as a result of the exit, with the adjusted operating profit impact of the exit being a decrease of $3 million to $5 million in 2022. At 30 June 2022, $38.4 million of closure costs had been recognised, primarily related to asset impairments and restructuring provisions.

Dividends

We are maintaining our interim 2022 dividend at 1.717 cents per share, in line with the interim dividend for 2021. The decision to maintain the dividend reflects the underlying financial strength and cash generation of the Group, as well as the progress on pivoting to sustainable and profitable growth and confidence in the future prospects of the Group.

Free cash flow

Adjusted free cash flow, post tax, is one of the four key performance indicators we use to monitor the delivery of our strategy.

	Six months ended 30 June			
	Reported 2022 $m	Reported 2021 $m	Adjusted[(a)] 2022 $m	Adjusted[(a)] 2021 $m
EBITDA	207.9	242.4	251.7	252.9
Share based payments	8.2	7.1	-	-
Working capital movement	(66.0)	(69.8)	(92.4)	(66.2)
Gain/(loss) on foreign exchange derivatives	3.4	(0.9)	3.4	(0.9)
Capital expenditure	(64.1)	(43.6)	(64.1)	(43.6)
Net cash generated from operations, net of capital	89.4	135.2	98.6	142.2
Cash conversion	43.0%	55.8%	39.2%	56.2%
Tax paid	(19.1)	(29.0)	(19.1)	(29.0)
Free cash flow, post tax	70.3	106.2	79.5	113.2

(a) Adjusted EBITDA, adjusted working capital and adjusted non-cash items are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS in the cash conversion table in the Non-IFRS financial information section.

Adjusted free cash flow, post tax, was $79.5 million (H1 2021: $113.2million), with the decrease of $33.7 million principally driven by the increase in investment in capital programmes, as well as increase in working capital primarily reflecting the build of inventory to improve resilience.

Sources and uses of cash

Sources of cash

The Group's primary source of liquidity is net cash generated from operations.

Net cash generated from operations

	Six months ended 30 June			
	Reported 2022 $m	Reported 2021 $m	Adjusted 2022 $m	Adjusted 2021 $m
EBITDA[(a)]	207.9	242.4	251.7	252.9
Share based payments	8.2	7.1	-	-
Working capital movement	(66.0)	(69.8)	(92.4)	(66.2)
Gain/(loss) on foreign exchange derivatives	3.4	(0.9)	3.4	(0.9)
Net cash generated from operations	153.5	178.8	162.7	185.8
Net interest paid	(21.9)	(18.8)	(21.9)	(18.8)
Tax paid	(19.1)	(29.0)	(19.1)	(29.0)
Net cash generated from operating activities	112.5	131.0	121.7	138.0

(a) EBITDA is explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS in the cash conversion table in the Non-IFRS financial information section.

Reported net cash generated from operating activities was $112.5 million (H1 2021: $131.0 million). The decrease of $18.5 million primarily reflects a decrease in net cash generated from operations of $25.3 million. The decrease in EBITDA of $34.5 million was partially offset by $4.3 million of additional cash inflows from foreign exchange derivatives in the six months to 30 June 2022 as compared to the prior year, as well as $3.8 million of more favourable working capital movements resulting from increases in liabilities relating to strategic projects such as the exit from hospital care and industrial sales activities, partially offset by increases in inventory to improve resilience. Tax paid decreased by $9.9 million to $19.1 million as a result of the timing of payments on account and decrease in tax payments in the US, which is partially offset by net interest paid which increased by $3.1 million, reflecting higher interest costs on the Group's borrowings.

On an adjusted basis, the net cash generated from operating activities decreased by $16.3 million to $121.7 million (H1 2021: $138.0 million), primarily reflecting the $1.2 million decrease in adjusted EBITDA and $26.2 million increase in working capital, offset by $9.9 million decrease in tax paid.

Uses of cash

Cash and cash equivalents have decreased by $191.8 million to $271.6 million at 30 June 2022 (31 December 2021: $463.4 million). The $112.5 million of net cash generated from operations, together with the decrease in cash and cash equivalents, was used to acquire Triad for $123.2 million, pay the first $25.0 million milestone in relation to Triad, invest in preference shares of BlueWind Medical for $30.7 million, invest $64.1 million of capital expenditure in our manufacturing lines and digital technologies, pay $10.4 million in lease payments and $58.9 million in dividends to shareholders. The year-on-year increase of $5.3 million in the cash dividend payment reflects the increase in the 2021 final dividend and the level of uptake of the scrip alternative as compared to the prior year.

Liquidity and net debt

As at 30 June 2022, the Group's cash and cash equivalents were $271.6 million (31 December 2021: $463.4 million) and the debt outstanding on our borrowings was $1,348.8 million (31 December 2021: $1,344.6 million). Borrowings reflect a $500 million unsecured senior note maturing in October 2029 and two five-year multi-currency committed loan facilities which expire in October 2024. The Group has a $200 million revolving credit facility which remained undrawn as at 30 June 2022 and also expires in October 2024. This, combined with cash of $271.6 million, provided the Group with total liquidity of $471.6 million at that date. Of this, $29.3 million is held in territories where there are restrictions related to repatriation (31 December 2021: $37.5 million). From time to time we review our balance sheet structure including debt maturity profile, cost of capital and liquidity needs, and to the extent we deem appropriate may consider various financing alternatives, including opportunistically accessing the loan and debt capital markets.

At 30 June 2022, the Group was in compliance with all financial and non-financial covenants associated with the Group's outstanding debt.

The Group ended the period with total interest-bearing liabilities, including IFRS 16 lease liabilities, of $1,437.8 million (31 December 2021: $1,435.1 million). Offsetting cash of $271.6 million (31 December 2021: $463.4 million) and excluding lease liabilities, net debt was $1,077.2 million (31 December 2021: $881.2 million), equivalent to 2.3x adjusted EBITDA (31 December 2021: 1.9x adjusted EBITDA), with the increase being driven by strategic investments such as the acquisition of Triad, purchase of preference shares in BlueWind Medical and increased investment in capital expenditure.

	2022		
	Borrowings	Cash and cash equivalents	Net debt
	$m	$m	$m
At 1 January	(1,344.6)	463.4	(881.2)
Net cash outflow	(15.5)	(184.3)	(199.8)
Foreign exchange	13.3	(7.5)	5.8
Non-cash movement	(2.0)	-	(2.0)
At 30 June	(1,348.8)	271.6	(1,077.2)
Lease liabilities	(89.0)		
Total interest-bearing liabilities at 30 June	(1,437.8)		
Net debt/adjusted EBITDA[a]			2.3x

(a) Based on net debt, excluding lease liabilities, and the last 12 months adjusted EBITDA.

2022 Condensed Consolidated Interim Financial Statements

Condensed Consolidated Income Statement

	Notes	Six months ended 30 June 2022 $m	2021 $m
		(unaudited)	*(unaudited)*
Revenue	2	1,044.5	1,008.0
Cost of sales		(489.6)	(452.7)
Gross profit		554.9	555.3
Selling and distribution expenses		(287.3)	(252.9)
General and administrative expenses		(119.1)	(126.0)
Research and development expenses		(47.2)	(40.9)
Other operating expenses	3	(14.2)	-
Operating profit		87.1	135.5
Finance income		0.7	0.5
Finance expense		(28.9)	(20.3)
Non-operating expense, net	4	(12.8)	(3.6)
Profit before income taxes		46.1	112.1
Income tax benefit/(expense)	5	2.2	(26.3)
Profit for the period		48.3	85.8
Earnings per share			
Basic earnings per share (cents per share)		2.4¢	4.3¢
Diluted earnings per share (cents per share)		2.4¢	4.2¢

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

Condensed Consolidated Statement of Comprehensive Income

	Notes	Six months ended 30 June 2022 $m	2021 $m
		(unaudited)	*(unaudited)*
Profit for the period		**48.3**	85.8
Other comprehensive (loss)/income			
Items that will not be reclassified subsequently to the Consolidated Income Statement:			
Remeasurement of defined benefit pension plans		-	(0.1)
Change in pension asset restriction		-	0.1
Items that may be reclassified subsequently to the Consolidated Income Statement:			
Exchange differences on translation of foreign operations		(110.8)	3.4
Effective portion of changes in fair value of cash flow hedges		(7.7)	(2.0)
Costs of hedging		0.2	(0.2)
Changes in fair value of cash flow hedges reclassified to the Consolidated Income Statement		10.2	0.7
Income tax relating to items that may be reclassified		(0.9)	(0.5)
Other comprehensive (loss)/income		(109.0)	1.4
Total comprehensive (loss)/income		(60.7)	87.2

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

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2022 $m *(unaudited)*	31 December 2021 $m *(audited)*
Assets			
Non-current assets			
Property, plant and equipment		360.1	366.7
Right-of-use assets		81.0	83.6
Intangible assets and goodwill		2,195.5	2,058.5
Investment in financial assets	9	30.7	-
Deferred tax assets		26.5	28.9
Restricted cash		20.2	13.6
Other non-current receivables		8.3	11.9
		2,722.3	2,563.2
Current assets			
Inventories		319.7	308.8
Trade and other receivables		348.3	323.5
Derivative financial assets	11	23.7	15.1
Cash and cash equivalents		271.6	463.4
		963.3	1,110.8
Total assets		3,685.6	3,674.0
Equity and liabilities			
Current liabilities			
Trade and other payables		301.7	342.5
Borrowings	10	142.5	144.8
Lease liabilities		19.5	19.7
Current tax payable		42.8	45.5
Derivative financial liabilities	11	21.9	11.7
Provisions	12	119.3	5.0
		647.7	569.2
Non-current liabilities			
Borrowings	10	1,206.3	1,199.8
Lease liabilities		69.5	70.8
Deferred tax liabilities		97.2	87.2
Provisions	12	31.7	1.7
Derivative financial liabilities	11	-	2.9
Other non-current payables		49.8	47.6
		1,454.5	1,410.0
Total liabilities		2,102.2	1,979.2
Net assets		1,583.4	1,694.8
Equity			
Share capital		250.5	247.0
Share premium		160.3	142.3
Own shares		(2.2)	(2.2)
Retained deficit		(871.5)	(842.0)
Merger reserve		2,098.9	2,098.9
Cumulative translation reserve		(186.5)	(75.7)
Other reserves		133.9	126.5
Total equity		1,583.4	1,694.8
Total equity and liabilities		3,685.6	3,674.0

Condensed Consolidated Statement of Changes in Equity

	Notes	Share capital $m	Share premium $m	Own shares $m	Retained deficit $m	Merger reserve $m	Cumulative translation reserve $m	Other reserves $m	Total $m
At 1 January 2022 *(audited)*		247.0	142.3	(2.2)	(842.0)	2,098.9	(75.7)	126.5	1,694.8
Profit for the period		-	-	-	48.3	-	-	-	48.3
Other comprehensive loss:									
Foreign currency translation adjustment, net of tax		-	-	-	-	-	(110.8)	-	(110.8)
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	-	-	-	-	1.8	1.8
Other comprehensive loss		-	-	-	-	-	(110.8)	1.8	(109.0)
Total comprehensive loss		-	-	-	48.3	-	(110.8)	1.8	(60.7)
Dividends paid	6	-	-	-	(58.9)	-	-	-	(58.9)
Scrip dividend	6	0.9	18.0	-	(18.9)	-	-	-	-
Issue of shares to employee benefit trust		2.6	-	(2.6)	-	-	-	-	-
Share-based payments		-	-	-	-	-	-	8.1	8.1
Share awards vested		-	-	2.6	-	-	-	(2.5)	0.1
At 30 June 2022 *(unaudited)*		250.5	160.3	(2.2)	(871.5)	2,098.9	(186.5)	133.9	1,583.4

	Notes	Share capital $m	Share premium $m	Own shares $m	Retained deficit $m	Merger reserve $m	Cumulative translation reserve $m	Other reserves $m	Total $m
At 1 January 2021 *(audited)*		245.5	115.3	(6.7)	(845.3)	2,098.9	(46.1)	109.1	1,670.7
Profit for the period		-	-	-	85.8	-	-	-	85.8
Other comprehensive income:									
Foreign currency translation adjustment, net of tax		-	-	-	-	-	3.4	-	3.4
Remeasurement of defined benefit pension plans, net of tax		-	-	-	-	-	-	(0.1)	(0.1)
Change in pension asset restriction		-	-	-	-	-	-	0.1	0.1
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	-	-	-	-	(2.0)	(2.0)
Other comprehensive income		-	-	-	-	-	3.4	(2.0)	1.4
Total comprehensive income		-	-	-	85.8	-	3.4	(2.0)	87.2
Dividends paid	6	-	-	-	(53.6)	-	-	-	(53.6)
Scrip dividend	6	1.3	24.8	-	(26.1)	-	-	-	-
Share-based payments		-	-	-	-	-	-	7.0	7.0
Share awards vested		-	-	1.7	-	-	-	(1.7)	-
At 30 June 2021 (unaudited)		246.8	140.1	(5.0)	(839.2)	2,098.9	(42.7)	112.4	1,711.3

Condensed Consolidated Statement of Cash Flows

	Notes	Six months ended 30 June 2022 $m	2021 $m
Cash flows from operating activities		*(unaudited)*	*(unaudited)*
Profit for the period		48.3	85.8
Adjustments for			
Depreciation of property, plant and equipment		20.0	19.8
Depreciation of right-of-use assets		11.0	11.7
Amortisation of intangible assets		75.6	73.7
Income tax (benefit)/expense	5	(2.2)	26.3
Non-operating expense, net		16.2	2.7
Finance costs, net		28.2	19.8
Share-based payments		8.2	7.1
Impairment/write-off of intangible assets	3	5.6	-
Impairment/write-off of property, plant and equipment	3	8.6	1.7
Change in assets and liabilities:			
Inventories		(21.6)	6.9
Trade and other receivables		(39.1)	(21.8)
Other non-current receivables		3.3	(1.7)
Restricted cash		(13.5)	(2.3)
Trade and other payables		(0.2)	(51.4)
Other non-current payables		5.1	0.5
Net cash generated from operations		153.5	178.8
Interest received		0.7	0.5
Interest paid		(22.6)	(19.3)
Income taxes paid		(19.1)	(29.0)
Net cash generated from operating activities		112.5	131.0
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(64.1)	(43.6)
Acquisitions, net of cash acquired	7	(123.2)	(85.1)
Payment of contingent consideration from acquisitions	7	(25.0)	-
Investment in financial assets	9	(30.7)	-
Net cash used in investing activities		(243.0)	(128.7)
Cash flows from financing activities			
Proceeds from borrowings	10	15.5	-
Payment of lease liabilities		(10.4)	(10.9)
Dividends paid	6	(58.9)	(53.6)
Net cash used in financing activities		(53.8)	(64.5)
Net change in cash and cash equivalents		(184.3)	(62.2)
Cash and cash equivalents at beginning of the period		463.4	565.4
Effect of exchange rate changes on cash and cash equivalents		(7.5)	(2.1)
Cash and cash equivalents at end of the period		271.6	501.1

1. Basis of preparation and accounting standards

Convatec Group Plc (the "Company") is a company incorporated in the United Kingdom. The accompanying unaudited Condensed Consolidated Interim Financial Statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2022 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, Interim Financial Reporting as adopted by the United Kingdom.

The Condensed Consolidated Interim Financial Statements should be read in conjunction with the 2021 Convatec Group Plc Annual Report and Accounts, which were prepared in accordance with the United Kingdom adopted international accounting standards. The accounting policies adopted by the Group in preparation of these Condensed Consolidated Interim Financial Statements are consistent with those set out in the 2021 Annual Report and Accounts, except for those described below as new standards and interpretations applied for the first time, as well as the new Group policy on equity investments (Note 9 - Investment in financial assets).

These Condensed Consolidated Interim Financial Statements and the comparatives are unaudited, except where otherwise indicated, and do not constitute statutory financial statements. The statutory financial statements for the Group in respect of the year ended 31 December 2021 have been reported on by the Group'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 auditors have carried out a review of the financial information in accordance with the guidance contained in ISRE (UK and Ireland) 2410 'Review of Interim Financial Information Performance by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom.

The Condensed Consolidated Interim Financial Statements are presented in US dollars ("USD"), reflecting the profile of the Group's revenue and operating profit, which are primarily generated in US dollars and US dollar-linked currencies. All values are rounded to the nearest $0.1 million except where otherwise indicated.

The Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2022 were approved by the Board on 3 August 2022.

New standards and interpretations applied for the first time

On 1 January 2022, the Group adopted the three mandatory pronouncements, *Reference to the Conceptual Framework - Amendments to IFRS 3*, *Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16*, and *Onerous Contracts - Costs of Fulfilling a Contract - Amendments to IAS 37*, and the annual improvements to the IFRS standards 2018-2020. The adoptions have not had a material impact on the Condensed Consolidated Interim Financial Statements. Apart from these changes, the accounting policies set out in the 2021 Annual Report and Accounts have been applied consistently to both periods presented in these Condensed Consolidated Interim Financial Statements.

New standards and interpretations not yet applied

There were no new or revised IFRSs, amendments or interpretations in issue but not yet effective that are potentially material for the Group and which have not yet been applied.

Going concern

The overall financial performance of the business remains robust with a strong liquidity position maintained throughout the period.

As at 30 June 2022, the Group held cash and cash equivalents of $271.6 million (31 December 2021: $463.4 million), unsecured senior notes of $500.0 million repayable in 2029, and two multicurrency term loans totalling $860.1 million, of which $397.8 million is due to be repaid in October 2024 and the remainder is amortising and requires a capital repayment of $149.2 million within the next 12 months. The Group also has access to a $200.0 million multicurrency revolving credit facility, which remains undrawn and is available until October 2024.

In preparing their assessment of going concern, the Directors have considered available cash resources, financial performance and forecast performance, including continued implementation of the FISBE strategy, together with the Group's financial covenant compliance requirements and principal risks and uncertainties. The Directors have used cash flow forecasts derived from actual performance year to date, the Board approved 2022 budget and longer-term strategic plan as foundations, which reflected the funding requirements in relation to the remaining contingent consideration for the Triad Life Sciences Inc ("Triad") acquisition, which is dependent on short-term milestones and performance over two years post completion. The cash flow forecasts also include the impact of the exit from the low margin hospital care and industrial sales portfolio.

In accordance with FRC guidance, management applied severe but plausible downside scenarios linked to the Group's principal and emerging risks, including supply chain disruption, cyber security disruption, delivery of transformation initiatives, regulatory breaches and geopolitical events leading to reduced revenues and increased costs from inflationary pressures. Further details of the specific scenarios are provided on pages 74 to 76 of the 2021 Annual Report and Accounts. The Board has reviewed these scenarios in the preparation of the interim results and as part of the going concern review and has concluded that these scenarios remain in line with the Group's principal emerging risks and continue to reflect the financial risk of downside events and circumstances during the going concern period. Under each scenario the Group retains significant liquidity and covenant headroom throughout the going concern period. A reverse stress test, before mitigation, was also considered which demonstrated that a reduction of >$182.0 million in EBITDA would be required in the next 12 months to create conditions which may lead to a potential covenant breach. This is considered to be implausible given the Group's strong market position and diversified portfolio of products. There are no key sources of estimation uncertainty in arriving at the going concern conclusion and no significant judgements have been required.

Accordingly, at the time of approving these Condensed Consolidated Interim Financial Statements, the Directors have a reasonable expectation that the Group will have adequate liquid resources to meet their respective 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 3 August 2022.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Condensed Consolidated Interim Financial Statements, in conformity with adopted IFRS, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported value of assets and liabilities, income and expense. Actual results may differ from these estimates or judgements of likely outcome. Management regularly reviews, and revises as necessary, the accounting judgements that significantly impact the amounts recognised in the Condensed Consolidated Interim Financial Statements and the sources of estimation uncertainty that are considered to be "key estimates" due to their potential to give rise to material adjustments in the Group's Consolidated Financial Statements within the next financial year.

In preparing the Condensed Consolidated Interim Financial Statements, no critical accounting judgements have been identified, which is consistent with the Consolidated Financial Statements for the year ended 31 December 2021. A key estimate has been identified in relation to the valuation of the contingent consideration in relation to the acquisition of Triad.

Valuation of the contingent consideration in relation to the acquisition of Triad

The contingent consideration is based on both specified post-acquisition financial and non-financial performance targets as defined by the Merger Agreement. The contingent consideration is fair valued at the date of acquisition with key inputs including a weighted probability of different scenarios and revenue projections based on internal forecasts, discounted using appropriate discount rates.

Actual revenue results may differ from estimates, leading to a change in the fair value of the contingent consideration. Management have identified that reasonably possible changes in certain key assumptions and forecasts may cause the calculated fair value of the contingent consideration to vary materially within the next financial year. Management have determined that the potential range of discounted outcomes within the next financial year is between $66.7 million and $213.1million, from a maximum undiscounted contingent consideration of $325.0 million. Management recorded $141.8 million as the discounted fair value consideration, of which $25.0 million has been paid during the year.

The timing and amount of future contingent elements of consideration is therefore considered a key source of estimation uncertainty. Refer to Note 7 - Acquisitions for more information.

2. Segment information

The Board considers the Group’s business to be a single segment entity engaged in the development, manufacture and sale of medical products and technologies. R&D, manufacturing and central support functions are managed globally for the Group. Revenues are managed both on a category and geographic basis. This note presents the performance and activities of the Group as a single segment.

The Group's CEO, who is the Group's Chief Operating Decision Maker, evaluates the Group's global product portfolios on a revenue basis and evaluates profitability and associated investment on an enterprise-wide basis due to shared infrastructures and support functions between the categories. Financial information in respect of revenues provided to the CEO for decision-making purposes is made on both a category and geographic basis. Resources are allocated on a Group-wide basis, with a focus on both category and the key markets but primarily based on the merits of individual proposals.

Revenue by category

The following table sets out the Group's revenue by category:

	Six months ended 30 June	
	2022 $m	2021 $m
Advanced Wound Care	**306.7**	293.8
Ostomy Care	**264.9**	273.4
Continence and Critical Care	**276.8**	266.0
Infusion Care	**196.1**	174.8
Total	**1,044.5**	1,008.0

Revenue by geography[(a)]

The following table sets out the Group's revenue by regional geographic market in which third-party customers are located:

	Six months ended 30 June	
	2022 $m	2021 $m
North America	527.0	495.3
Europe	363.7	374.8
Rest of World ("RoW")	153.8	137.9
Total	1,044.5	1,008.0

(a) During the year ended 31 December 2021, the geographical revenue information provided to the Group's CEO was changed to better reflect the way in which the Group managed its operations. The change was driven by the ongoing transformation initiatives and aligns with the current management and reporting structure. The six months to 30 June 2021 comparative revenue information has been re-presented to reflect this change. Europe includes Russia, North America comprises United States and Canada, and Rest of World ("RoW") comprises all countries in Asia Pacific, Latin America (including Mexico and the Caribbean), South America, the Middle East (including Turkey) and Africa.

Details on revenue performance are discussed in the Financial Review.

3. Other operating expenses

Other operating expenses were as follows:

	Six months ended 30 June	
	2022 $m	2021 $m
Divestiture related activities	12.8	-
Impairment of other intangible assets	1.4	-
Other operating expenses	14.2	-

As a result of the exit from hospital care and industrial sales related activities, impairments of $8.6 million to property, plant and equipment and $4.2 million to intangible assets have been recognised during the period. See Note 8 - Divestiture for further details.

4. Non-operating expense, net

Non-operating expense, net was as follows:

	Six months ended 30 June	
	2022	2021
	$m	$m
Net foreign exchange losses[(a)]	(8.6)	(2.0)
Gain/(loss) on foreign exchange forward contracts[(a)]	11.7	(0.9)
Loss on foreign exchange cash flow hedges	(10.1)	(0.7)
Change in contingent consideration[(b)]	(5.8)	-
Non-operating expense, net	(12.8)	(3.6)

(a) Net foreign exchange losses primarily relate to the foreign exchange impact on intercompany transactions, including loans transacted in non-functional currencies. The Group uses foreign exchange forward contracts to manage these exposures in accordance with the Group's foreign exchange risk management policy.

(b) The $5.8 million expense relates to the change in fair value of the contingent consideration for the Cure Medical acquisition, as described in Note 7 - Acquisitions.

5. Income taxes

The Group's income tax expense is accrued using the tax rate that would be applicable to expected annual total earnings (i.e. the estimated average annual effective income tax rate applied to the profit before tax).

The tax charge for the six months ended 30 June 2022 has been calculated by applying the effective rate of tax which is expected to apply to the Group for the year ended 31 December 2022 using rates substantively enacted as at 30 June 2022.

For the six months ended 30 June 2022, the Group recorded an income tax benefit of $2.2 million (2021: $26.3 million expense). The Group's reported effective tax rate for the period ended 30 June 2022 was a benefit of 4.8% as compared with an expense of 23.5% for the period ended 30 June 2021, as the current period's tax benefit includes recognition of $19.7 million of deferred tax in respect of previously unrecognised tax losses in the US, which is offset by the tax expense on the current period's utilisation of US Federal tax losses that are fully recognised as deferred tax asset following the acquisition of Triad. The prior year expense included a net tax benefit for a deferred tax asset recognition in the US upon the acquisition of Cure Medical, which was offset by the tax expense on the revaluation of net deferred tax liability for the increase in UK corporation tax rate from 19% to 25% (effective 1 April 2023).

The Group continues to believe it has made adequate provision for uncertain tax positions on open issues in accordance with IFRIC 23 *Uncertainty over Income Tax Treatments.* The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of discussions with relevant tax authorities or, where applicable, appeal proceedings.

The Group continues to monitor tax reforms driven by the OECD's BEPS Pillar 1 and 2 project to reform international taxation rules. The Group has performed an initial analysis of the potential tax impact of the proposed tax rules to the Group but is awaiting expected new legislation in the jurisdictions in which the Group operates to finalise the analysis. This has no impact on the Group's result for the six months ended 30 June 2022.

6. Dividends

The Group ensures that adequate realised distributable reserves are available in the Company in order to meet proposed shareholder dividends, and the purchase of shares for employee share scheme incentives. The Company principally derives distributable reserves from dividends received from subsidiary companies.

In determining the level of dividend in the year, the Board considers the following factors and risks that may influence the proposed dividend:

- Availability of realised distributable reserves;
- Available cash resources and commitments;
- Strategic opportunities and investments, in line with the Group's strategic plan; and
- Principal risks of the Group.

The Board paid the 2021 final dividend in May 2022 and declared an interim dividend to be paid in October 2022. The Board has taken into consideration balancing the return to shareholders, the potential impact on other stakeholders and the additional investment in transformation in the period. The Board reviewed the financial strength the Group, the Group's dividend policy together with s172 considerations and has reviewed the realised distributable reserves position of the Company and the forecast cash generation of the Group for the next two years from the date of the dividend payment.

Dividends paid and proposed were as follows:

	pence per share	cents per share	Total $m	Settled in cash $m	Settled via scrip $m	No of scrip shares issued
Final dividend 2020	2.845	3.983	79.7	53.6	26.1	9,475,532
Interim dividend 2021	1.229	1.717	34.6	32.2	2.4	750,265
Paid in 2021	4.074	5.700	114.3	85.8	28.5	10,225,797
Final dividend 2021	3.161	4.154	77.8	58.9	18.9	7,192,010
Paid in 2022 to date	**3.161**	**4.154**	**77.8**	**58.9**	**18.9**	**7,192,010**
Interim dividend 2022	1.410	1.717	35.1			

The Company operates a scrip dividend scheme allowing shareholders to elect to receive their dividend in the form of new fully paid ordinary shares. For any particular dividend, the Directors may decide whether or not to make the scrip offer available.

The proposed interim dividend for 2022, to be distributed on 6 October 2022 to shareholders registered at the close of business on 26 August 2022, is based upon the issued and fully paid share capital as at 30 June 2022. The dividend will be declared in US dollars and will be paid in Sterling at the chosen exchange rate of $1.218/£1.00 determined on 3 August 2022. A scrip dividend alternative will be offered allowing shareholders to elect by 13 September 2022 to receive their dividend in the form of new ordinary shares.

Distributable reserves

Realised distributable reserves equate to the retained surplus of the Company, Convatec Group Plc. The capacity of the Company to make dividend payments is primarily determined by the availability of these distributable reserves (which are fully realised) and cash resources. The Company principally derives distributable reserves from dividends paid by subsidiary companies, with the dividends being paid out of the realised distributable reserves of the subsidiary companies.

At 30 June 2022, the retained surplus of Convatec Group Plc (the Company) was $1,494.8 million (31 December 2021: $1,590.3 million). The movements in distributable reserves were as follows:

	$m
At 1 January 2022	1,590.3
Total comprehensive loss for the period	(17.7)
Dividends paid	(58.9)
Scrip dividend	(18.9)
Retained surplus at 30 June 2022	1,494.8

7. Acquisitions

Triad Life Sciences Inc ("Triad")

Description of the transaction

On 14 March 2022, the Group completed its acquisition of 100% of the share capital of Triad Life Sciences Inc ("Triad"). The acquisition of Triad strengthens the Group's Advanced Wound Care position in the US, securing access to a complementary and innovative technology platform that enhances advanced wound management and patient outcomes.

In addition to the initial consideration of $125.3 million, the sellers may earn contingent consideration up to a maximum of $325.0 million, in the form of (i) two additional payments of $25.0 million each relating to short-term milestones; and (ii) two earnout payments conditional on performance during year 1 and year 2 post completion, with the maximum earnout of $275.0 million based on stretching financial performance over the period.

The discounted fair value of the contingent consideration at the date of acquisition was $141.8 million, of which $25.0 million was paid in April 2022 following attainment of the first short-term milestone. Any additional contingent consideration is due to be paid within three years of the acquisition date, subject to achieving the specified targets.

Following completion of acquisition accounting, any changes in the fair value of the contingent consideration will be recorded in the Consolidated Income Statement in accordance with the Group's accounting policies.

Assets acquired and liabilities assumed

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

	$m
	Provisional
Non-current assets	
Property, plant and equipment	0.5
Right-of-use assets	2.2
Intangible assets - product related	154.8
Current assets	
Trade and other receivables	4.1
Inventories	10.8
Cash and cash equivalents	15.9
Total assets acquired	188.3
Current liabilities	
Trade and other payables	(2.9)
Lease liabilities	(0.2)
Non-current liabilities	
Lease liabilities	(2.7)
Deferred tax liabilities	(34.8)
Total liabilities assumed	(40.6)
Net assets acquired	147.7
Goodwill	132.3
Total	280.0

Initial cash consideration	125.3
Deferred purchase consideration paid into escrow[(a)]	13.8
Working capital adjustment[(b)]	(0.9)
Contingent consideration	141.8
Total consideration	280.0

Analysis of cash outflow in the Condensed Consolidated Statement of Cash Flows	**$m**
Initial cash consideration	125.3
Deferred purchase consideration paid into escrow[(a)]	13.8
Cash and cash equivalents acquired	(15.9)
Net cash outflow from acquisitions, net of cash acquired	123.2

(a) $13.8 million was paid on closing into escrow as security and indemnity by the seller for its obligations under the Merger Agreement. It is expected that $1.3 million will be released within the next 12 months once the closing statement is agreed and the remaining balance will be released thereafter in accordance with the terms of the Merger Agreement.

(b) This is the Group's calculation of the working capital adjustment and forms part of the initial consideration. The final amount will be determined in accordance with the terms of the Merger Agreement and this has not yet been finalised at the reporting date.

The fair values of the assets acquired and liabilities assumed remain provisional due to the proximity of the acquisition to the date of approval of the Condensed Consolidated Financial Statements. The Group will finalise these amounts as it obtains the information necessary to complete the measurement process. Any changes resulting from facts and circumstances that existed as of the acquisition date may result in retrospective adjustments to the provisional amounts recognised at the acquisition date. The Group will finalise these amounts no later than one year from the acquisition date.

The goodwill recorded, which is not deductible for tax purposes, represents the cost savings, operating synergies and future growth opportunities expected to result from combining the operations of Triad with those of the Group.

The carrying value of the Group's goodwill increased to $1,226.7 million at 30 June 2022 (31 December 2021: $1,156.3 million) as a result of the acquisition of Triad ($132.3 million), offset by foreign exchange movements ($61.9 million).

Acquisition-related costs

The Group incurred $2.8 million of acquisition-related costs directly related to the Triad acquisition in the period to 30 June 2022, primarily related to advisors' fees. These acquisition-related costs have been recognised in general and administrative expenses in the Condensed Consolidated Income Statement.

As part of the acquisition accounting, a $10.2 million increase to the carrying value of inventories was required to reflect the fair value of $10.8 million at acquisition, of which $4.0 million was expensed to cost of sales in the Condensed Consolidated Income Statement in the period to 30 June 2022 as the inventories were sold.

Revenue and profit

The revenue of Triad for the period from the acquisition date to 30 June 2022 was $9.6 million and net profit for the period was $1.2 million, before recognising acquisition-related intangible asset amortisation charge of $4.0 million and the inventory fair value uplift release of $4.0 million. If the acquisition had been completed at 1 January 2022, reported Group revenue would have been $4.4 million higher and the Group profit for the period would have been $0.9 million lower for the six month period to 30 June 2022, before recognising acquisition-related intangible asset amortisation additional charge of $2.0 million.

Contingent consideration for Cure Medical LLC ("Cure Medical")

On 15 March 2021, the Group acquired 100% of the share capital of Cure Medical.

In addition to the initial consideration, the sellers may earn contingent consideration of up to $10.0 million based upon post-acquisition performance targets included in the Share Purchase Agreement. The fair value of contingent consideration at the date of acquisition and at 31 December 2021 was $3.1 million, which is due to be paid within three years of the acquisition date.

As at 30 June 2022, management reviewed the expectation of the contingent consideration based on the most recent Board approved strategic plan and forecast information. The Cure Medical business has outperformed its performance targets to date and the forecast financials are expected to exceed the original expectations. The discounted fair value of the contingent consideration has been revised to $8.9 million and the remeasurement charge of $5.8 million has been recognised in non-operating expenses in the Condensed Consolidated Income Statement.

8. Divestiture

Exit from hospital care and industrial sales activities

On 12 May 2022, following a strategic review, it was announced that the Group would be withdrawing from its hospital care activities and related industrial sales during the remainder of 2022. These low margin activities generated $101.4 million of revenue in the year ended 31 December 2021 and do not represent a separate major line of business or component of the Group.

As a result of the exit from the hospital care and industrial sales activities, the Group recognised impairment losses in the period ended 30 June 2022 in relation to the following:

- $8.6 million was recognised, within other operating expenses, as an impairment to property, plant and equipment, primarily in relation to manufacturing equipment in Belarus and Slovakia.
- $4.2 million was recognised, within other operating expenses, as an impairment to product-related intangible assets.
- $7.5 million was recognised, within cost of sales, in relation to the write-off of inventories which are not expected to be sold.

In addition, the Group recognised $17.0 million of provisions in relation to severance and contract exit costs in the period ended 30 June 2022. In the period to 30 June 2022, the Group has incurred $1.1 million of divestiture-related costs in relation to legal fees and administrative closing down costs.

Upon completion of the exit from all hospital care and related industrial sales activities, the cumulative amount of exchange differences recognised in other comprehensive income relating to those operations will be recognised in the consolidated income statement as a non-operating expense. The balance as at 30 June 2022 would have been a $15.8 million expense to the income statement. The actual balance transferred will be calculated on completion of the exit and will be classified as an adjusted item in accordance with our APM policy.

9. Investment in financial assets

Accounting policy

The Group has made an irrevocable election to designate its equity investment in BlueWind Medical at fair value through other comprehensive income (FVOCI). It has been initially recorded at fair value plus transaction costs and will be remeasured at subsequent reporting dates to fair value.

Unrealised gains and losses are recognised in other comprehensive income.

On disposal of the equity investment, any gains and losses that have been deferred in other comprehensive income are transferred directly to retained earnings.

Dividends on equity investments are recognised in the income statement when the Group's right to receive payment is established, it is probable the economic benefits will flow to the entity and the amount can be measured reliably.

On 9 May 2022, the Group invested $30.0 million in preference shares of BlueWind Medical Limited ("BlueWind Medical"). BlueWind Medical is developing an implantable tibial neuromodulation device, for the treatment of urge incontinence and urinary urgency. This represents an investment into an innovative technology in the large and growing over-active bladder market and strengthening of the Group's Continence and Critical Care category.

In line with IFRS 9 *Financial Instruments*, the investment met the definition of an equity instrument and the Group has made an irrevocable election on initial recognition to measure the investment at FVOCI. The Group considers this investment to be strategic in nature and it is not held for trading.

In line with IFRS 13 *Fair value measurement*, this investment has been classified as Level 3. As at the date of the transaction, the equity investment was recorded at its cost of investment which approximates to fair value plus transaction costs of $0.7 million. Due to the proximity of the date of transaction to 30 June 2022, the Group has considered applicable criteria for impairment triggers for the investment and concluded that the fair value of the investment approximates the cost of the investment.

10. Borrowings

The Group's sources of borrowing for funding and liquidity purposes derive from senior notes and drawn credit facilities including an undrawn committed revolving credit facility.

The Group's consolidated borrowings were as follows:

	Currency	Year of maturity	30 June 2022 $m	31 December 2021 $m
Revolving Credit Facility	Multicurrency	2024	-	-
Senior Notes	USD	2029	500.0	500.0
Term Loan Facility A[(a)]	USD/Euro	2024	462.4	461.2
Term Loan Facility B[(b)]	USD/Euro	2024	397.7	396.7
Interest-bearing borrowings			1,360.1	1,357.9
Financing fees			(11.3)	(13.3)
Carrying value of borrowings			1,348.8	1,344.6
Current portion of borrowings			142.5	144.8
Non-current borrowings			1,206.3	1,199.8

(a) Included within Term Loan Facility A is €86.2 million ($90.4 million) and €78.4 million ($89.2 million) at 30 June 2022 and 31 December 2021 respectively, denominated in Euros. This represents 20% (2021: 19%) denominated in Euros and 80% (2021: 81%) denominated in US dollars.
(b) Included within Term Loan Facility B is €74.2 million ($77.8 million) and €67.5 million ($76.7 million) at 30 June 2022 and 31 December 2021 respectively, denominated in Euros. This represents 20% (2021: 19%) denominated in Euros and 80% (2021: 81%) denominated in US dollars.

Senior notes

Unsecured senior notes of $500.0 million are subject to an interest cover financial covenant as defined in the indentures which is a minimum of 2.0 times, with testing required annually at 31 December on the last 12 calendar months' financial performances.

Credit facilities

The two term loan credit facilities are subject to financial covenants based on a permitted net debt to adjusted EBITDA ratio and interest cover test as defined in the credit facilities agreement. Testing is required on a semi-annual basis, at June and December, based on the last 12 months' financial performance. At 30 June 2022, the permitted net debt to adjusted EBITDA ratio was a maximum of 3.5 times and the interest cover a minimum of 3.5 times, terms as defined by the credit facilities agreement.

The Group was in compliance with all financial and non-financial covenants at 30 June 2022 and 31 December 2021, with significant available headroom on the financial covenants ($470.0 million debt headroom on the net debt to adjusted EBITDA ratio (30%) as at 30 June 2022).

In the six months period to 30 June 2022, $15.5 million of proceeds from borrowings was received in respect of the Euro-denominated facilities relating to foreign exchange restatement triggered by the movement on the USD to EUR exchange rate.

Borrowings measured at fair value

The senior notes are listed and their fair value of $434.0 million at 30 June 2022 (31 December 2021: $507.7 million) has been obtained from quoted market data and therefore categorised as a Level 1 measurement in the fair value hierarchy under IFRS 13 *Fair Value Measurements*.

For the Group's other borrowings, the estimated fair value at 30 June 2022 is $840.8 million (31 December 2021: $847.3 million). The fair value of the Group's other borrowings is based on discounted cash flows using a current borrowing rate and are categorised as a Level 2 measurement in the fair value hierarchy under IFRS 13 *Fair Value Measurements*.

11. Financial instruments

A derivative financial instrument is a contract that derives its value from the performance of an underlying variable, such as foreign exchange rates or interest rates. The Group uses derivative financial instruments to manage foreign exchange and interest rate risk arising from its operations and financing. Derivative financial instruments used by the Group are foreign exchange forwards and swaps and interest rate swaps.

The Group utilises interest rate swap agreements, designated as cash flow hedges, to manage its exposure to variability in expected future cash outflows attributable to the changes in interest rates on the Group's borrowing facilities.

Financial instruments are classified as Level 1, Level 2, or Level 3 in the fair value hierarchy in accordance with IFRS 13 *Fair Value Measurements*, based upon the degree to which the fair value movements are observable. Level 1 fair value measures are defined as those with quoted (unadjusted) market prices in active markets for identical assets or liabilities. 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). Level 3 fair value measurements are defined as those derived from significant unobservable inputs. The only instrument classified as Level 1 are the senior notes, given the availability of quoted market price (Note 10 - Borrowings). The Group's derivative financial instruments, discussed below, are classified as Level 2, and the Group's equity investment in preference shares is classified as Level 3 (Note 9 - Investment in financial assets).

The Group holds interest rate swap agreements to fix a proportion of variable interest on US dollar denominated debt, in accordance with the Group's risk management policy. The interest rate swaps are designated as hedging instruments in a cash flow hedging relationship.

In accordance with Group policy, the Group uses forward foreign exchange contracts, designated as cash flow hedges, to hedge certain forecast third-party foreign currency transactions for up to one year. When a commitment is entered into, a layered approach is taken when hedging the currency exposure, ensuring that no more than 100% of the transaction exposure is covered. The currencies hedged by forward foreign exchange contracts are US dollars, Swiss Francs and Japanese Yen.

The Group further utilises foreign exchange contracts and swaps classified as fair value through profit or loss ("FVTPL") to manage short-term foreign exchange exposure.

The fair values are based on market values of equivalent instruments. The following table presents the Group's outstanding interest rate swaps, which are designated as cash flow hedges, at 30 June 2022 and 31 December 2021 respectively:

			30 June 2022		31 December 2021	
	Effective date	Maturity date	Notional amount $m	Fair value[(a)] assets / (liabilities) $m	Notional amount $m	Fair value[(a)] assets / (liabilities) $m
3 Month LIBOR Float to Fixed Interest Rate Swap	24 Jan 2020	24 Jan 2023	275.0	1.8	275.0	(2.9)

(a) The fair values of the interest rate swaps are shown in current derivative financial liabilities in the Condensed Consolidated Statement of Financial Position. There is no ineffectiveness recognised in the Condensed Consolidated Income Statement.

The following table presents the Group's outstanding foreign exchange forward contracts valued at FVTPL and foreign currency forward contracts designated as cash flow hedges, which form part of current derivative financial assets and current derivative financial liabilities:

		30 June 2022		31 December 2021	
	Term	Notional amount $m	Fair value assets / (liabilities) $m	Notional amount $m	Fair value assets / (liabilities) $m
Foreign exchange contracts designated as FVTPL	≤ 3 months	706.0	20.8	864.6	14.5
Foreign currency forward exchange contracts designated as cash flow hedges	≤ 12 months	18.5	1.1	40.8	0.6
Derivative financial assets		724.5	21.9	905.4	15.1
Foreign exchange contracts designated as FVTPL	≤ 3 months	539.7	(12.3)	695.9	(6.5)
Foreign currency forward exchange contracts designated as cash flow hedges	≤ 12 months	168.8	(9.6)	130.2	(5.2)
Derivative financial liabilities		708.5	(21.9)	826.1	(11.7)

12. Provisions

A provision is an obligation recognised when there is uncertainty over the timing or amount that will be paid. Provisions held by the Group are primarily in respect of restructuring, onerous contracts, decommissioning, dilapidations, legal liabilities and contingent consideration relating to acquisitions.

The movements in provisions are as follows:

	Decommissioning and dilapidations $m	Restructuring $m	Legal $m	Contingent consideration $m	Total $m
31 December 2021	1.2	5.0	0.5	-	6.7
Contingent consideration from acquisitions	-	-	-	141.8	141.8
Charged to the income statement	0.5	19.7	-	5.8	26.0
Utilised	-	(6.6)	-	(25.0)	(31.6)
Discount unwind	-	-	-	5.2	5.2
Reclassification from trade and other payables[(a)]	-	-	-	3.1	3.1
Foreign exchange	(0.1)	(0.1)	-	-	(0.2)
30 June 2022	1.6	18.0	0.5	130.9	151.0
Current provision	-	18.0	-	101.3	119.3
Non-current provision	1.6	-	0.5	29.6	31.7

(a) During the period ended 30 June 2022, $3.1 million has been reclassified from trade and other payables in relation to the Cure Medical acquisition to better reflect the estimation uncertainty of the contingent consideration.

Decommissioning and dilapidation provisions

Decommissioning provisions are recognised when an item is purchased to represent the estimated costs of dismantling and removing PP&E and restoring the site on which it was located. Dilapidation provisions are in respect of legal obligations, on the expiry of a lease, to return leased properties in the condition which is specified in the individual leases.

Restructuring provisions

Restructuring provisions are in respect of two restructuring programmes in place during the period: the Group's Transformation Initiative which is a global multi-year transformation programme that commenced in 2019, and the exit from the low margin hospital care and industrial sales portfolio. Further details in Note 8 - Divestiture. All restructuring provisions are supported by detailed plans and a valid expectation has been raised in those affected as required by the Group's accounting policy.

Legal provision

Legal provision of $0.5 million is in respect of an ongoing case. Legal issues are often subject to uncertainties over the timing and the final amounts of any settlement.

Contingent consideration

Contingent consideration arising from business combinations are fair valued on acquisition and at each reporting period. As a result of the acquisition of Triad on 14 March 2022, the sellers may earn contingent consideration as described in Note 7 - Acquisitions.

During the period ended 30 June 2022, the contingent consideration for the Cure Medical acquisition has been fair valued to $8.9 million (discounted), resulting in an increase of $5.8 million to the previously recognised amount of $3.1 million. This has been charged to the Condensed Consolidated Income Statement. Refer to Note 7 - Acquisitions for further details.

13. Foreign exchange

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

		Six months ended 30 June		Year ended 31 December
Currency	Average rate/ Closing rate	**2022**	2021	2021
USD/EUR	Average	**1.09**	1.21	1.18
	Closing	**1.05**	1.19	1.14
USD/GBP	Average	**1.30**	1.39	1.38
	Closing	**1.22**	1.38	1.35
USD/DKK	Average	**0.15**	0.16	0.16
	Closing	**0.14**	0.16	0.15

14. Commitments and contingencies

Capital commitments

At 30 June 2022, the Group had non-cancellable commitments for the purchase of property, plant and equipment, capitalised software and development of $19.5 million (31 December 2021: $32.1 million).

Contingent liabilities

There are no contingent liabilities recognised as at 30 June 2022.

15. Subsequent events

The Group has evaluated subsequent events through to 3 August 2022, the date the Condensed Consolidated Interim Financial Statements were approved by the Board of Directors.

On 3 August 2022, the Board declared the interim dividend to be distributed on 6 October 2022. Refer to Note 6 - Dividends for further details.

Non-IFRS financial information

Non-IFRS financial information or alternative performance measures ("APMs") are those measures used by management on a day-to-day basis in their assessment of profit and performance and comparison between periods. The adjustments applied to IFRS measures reflect the effect of certain cash and non-cash items that the Board believes distort the understanding of the quality of earnings and cashflows as, by their size or nature, they are not considered part of the core operations of the business. Adjusted measures also form the basis for performance measures for remuneration, e.g. adjusted operating profit. Reconciliations for these adjusted measures determined under IFRS are shown on pages 40 to 42. The definitions of adjusted measures are as calculated within the reconciliation tables.

It should be noted that the Group's APMs may not be comparable to other similarly titled measures used by other companies and should not be considered in isolation or as a substitute for the equivalent measures calculated and presented in accordance with IFRS.

In determining whether an item should be presented as an allowable adjustment to IFRS measures, the Group considers items which are significant either because of their size or their nature and arise from events that are not considered part of the core operations of the business. These tend to be one-off events but may still cross more than one accounting period. Recurring items may be considered in respect of the amortisation of acquisition related intangibles assets in order to provide comparability between peer groups where such assets may have been internally generated and therefore, are not reflected on that company's balance sheet with a resulting amortisation charge. If an item meets at least one of these criteria, the Board, through the Audit and Risk Committee, then exercises judgement as to whether the item should be classified as an allowable adjustment to IFRS performance measures.

The APMs are consistent with those disclosed in the 2021 Annual Report and Accounts.

Adjustments to derive adjusted operating profit for the six months ended 30 June 2022 and 2021 comprise the following credits or costs:

- Amortisation of intangible assets in respect of material acquisitions ($67.4 million and $65.5 million respectively).
- Costs incurred in respect of acquisition activities ($21.2 million and $1.7 million respectively).
- Costs incurred in respect of divestiture activities in respect of the exit from hospital care business and related industrial sales activities ($31.5 million and nil respectively).
- Termination benefits in respect of the Group's transformation programme and exit from hospital care and related industrial sales activities ($6.7 million and $1.7 million respectively).
- Impairment of assets ($1.4 million and nil respectively).

The tax effect of the adjustments is reflected in the adjusted tax expense to remove the tax impact from adjusted net profit and adjusted earnings per share.

Adjusted EBITDA, which is used to calculate the metric of adjusted cash conversion and adjusted working capital, is calculated by adding back share-based payments to adjusted operating profit, together with the annual depreciation and amortisation charge.

Amortisation of acquisition-related intangible assets

The Group's strategy is to grow both organically and through acquisition, with larger acquisitions being targeted to strengthen our position in key geographies and/or business categories or which provide access to new technology. The nature of the businesses acquired includes the acquisition of significant intangible assets, which are required to be amortised. The Board and management regard the amortisation as a distortion to the quality of earnings and it has no cash implications in the year. The amortisation also distorts comparability with peer groups where such assets may have been internally generated and, therefore, not reflected on their balance sheet. Amortisation of acquisition-related intangible assets is, by its nature, a recurring adjustment.

Acquisitions related activities

Costs directly related to potential and actual strategic transactions which have been executed, aborted or are in-flight and which would improve the strategic positioning of the Group are deemed adjusting items.

Acquisition-related costs relate to deal costs, integration costs and earn-out adjustments which are incurred directly as a result of the Group undertaking or pursuing an acquisition. Deal costs are wholly attributable to the deal, including legal fees, due diligence fees, bankers' fees/commissions and other direct costs incurred as a result of the actual or potential transaction. Integration costs are wholly attributable to the integration of the target and based on integration plans presented at the point of acquisition, including the cost of retention of key people where this is in excess of normal compensation, redundancy of target staff and early lease termination payments.

Divestiture related activities

Divesture related activities comprise of any gains or losses made on disposal, impairment of directly related assets, contract exit costs/penalties and any directly attributable transaction costs resulting from the in-flight, aborted or completion of disposal or exit of a business or market during the year. Directly attributable transactions costs incurred as a result of divestitures include legal and professional fees which are directly related to the divestiture.

Impairment of assets

Impairments, write-offs and gains and losses from defined programmes and where the Group considers the circumstances of such event are not reflective of normal business trading performance or when transactions relate to acquisition-related intangible assets where the amortisation is already excluded from the calculation of adjusted measures.

Termination benefits and related costs

Termination benefits and other related costs arise from Group-wide initiatives to reduce the ongoing cost base and improve efficiency in the business, including divestitures from non-strategic activities. The Board considers each project individually to determine whether its size and nature warrants separate disclosure. Qualifying items are limited to termination benefits (including retention) without condition of continuing employment in respect of major Group-wide change programmes. Where discrete qualifying items are identified these costs are highlighted and excluded from the calculation of adjusted measures. Due to their nature, these adjusted costs may span more than one year. Restructuring costs not related to termination benefits are reported in the normal course of business and are not adjusted.

Reconciliation of reported earnings to adjusted earnings for the six months ended 30 June 2022 and 2021

Six months ended 30 June 2022	Revenue $m	Gross profit $m	Operating costs $m	**Operating profit $m**	Finance expense, net $m	Non-operating expense, net $m	**PBT $m**	Taxation $m	**Profit for the period $m**
As reported	1,044.5	554.9	(467.8)	**87.1**	(28.2)	(12.8)	**46.1**	2.2	**48.3**
Amortisation of acquired intangibles	–	56.9	10.5	**67.4**	–	–	**67.4**	(15.0)	**52.4**
Acquisition related costs	–	4.0	6.2	**10.2**	5.2	5.8	**21.2**	(1.6)	**19.6**
Divestiture related costs	–	7.6	23.9	**31.5**	–	–	**31.5**	(7.5)	**24.0**
Impairment of assets	–	–	1.4	**1.4**	–	–	**1.4**	–	**1.4**
Termination benefits and related costs	–	4.7	2.0	**6.7**	–	–	**6.7**	(1.6)	**5.1**
Total adjustments including tax effect	**–**	**73.2**	**44.0**	**117.2**	**5.2**	**5.8**	**128.2**	**(25.7)**	**102.5**
Other discrete tax items	–	–	–	**–**	–	–	**–**	(19.7)	**(19.7)**
Adjusted	**1,044.5**	**628.1**	**(423.8)**	**204.3**	**(23.0)**	**(7.0)**	**174.3**	**(43.2)**	**131.1**

	$m
Software and R&D amortisation	**8.2**
Depreciation	**31.0**
Share-based payments	**8.2**
Adjusted EBITDA	**251.7**

Six months ended 30 June 2021	Revenue $m	Gross profit $m	Operating costs $m	Operating profit $m	Finance expense, net $m	Non-operating expense, net $m	PBT $m	Taxation $m	Profit for the period $m
As reported	1,008.0	555.3	(419.8)	135.5	(19.8)	(3.6)	112.1	(26.3)	85.8
Amortisation of acquired intangibles	–	55.0	10.5	65.5	–	–	65.5	(7.1)	58.4
Acquisition related costs	–	–	1.7	1.7	–	–	1.7	–	1.7
Termination benefits and other related costs	–	0.2	1.5	1.7	–	–	1.7	(0.4)	1.3
Total adjustments and their tax effect	–	55.2	13.7	68.9	–	–	68.9	(7.5)	61.4
Other discrete tax items	–	–	–	–	–	–	–	(2.0)	(2.0)
Adjusted	1,008.0	610.5	(406.1)	204.4	(19.8)	(3.6)	181.0	(35.8)	145.2

	$m
Software and R&D amortisation	8.2
Depreciation	31.5
Impairment/write-off of assets	1.7
Share-based payments	7.1
Adjusted EBITDA	252.9

Acquisition related costs of $21.2 million (six months to 30 June 2021: $1.7 million) are directly related to actual strategic transactions which have been executed and which seek to improve the strategic positioning of the Group. The majority of the costs are related to the deal and integration costs incurred on the acquisition of Triad on 14 March 2022 and the discounting unwind of the related contingent consideration. The impact on gross profit of $4.0 million relates to the release of the acquisition fair value uplift on inventories in relation to those which have been sold in the period to 30 June 2022. Additionally, the fair value of the contingent consideration in respect of the 2021 Cure Medical acquisition has been increased by $5.8 million and has been recognised as a non-operating expense and excluded in calculating adjusted profit for the period. The net cash impact in relation to acquisition costs was $2.5 million in the period. In the six months ended 30 June 2021, the acquisition costs are in respect of the Cure Medical acquisition.

Divestiture related costs of $31.5 million are directly related to the phased exit from the low margin hospital care business and industrial sales portfolio, and includes the impairment of property, plant and equipment and intangible assets, write-off of inventories, and contract exit costs (refer to Note 8 - Divestiture). The exit will be completed over the remainder of the year. The net cash impact in relation to this was $0.6 million in the period.

Impairment of assets of $1.4 million relates to a legacy acquisition related customer relationship asset which was impaired as part of rationalisation activities in the portfolio.

Termination benefits and other related costs of $6.7 million (six months to 30 June 2021: $1.7 million) are primarily in respect of the severance costs from the Group's withdrawal from its hospital care and industrial sales portfolio. The net cash impact of these costs was $6.0 million in the period.

Other discrete tax items relate to the tax benefit of $19.7 million from the recognition of deferred tax upon the acquisition of Triad. In the six months to 30 June 2021, other discrete tax items relate to the tax benefit of $9.3 million resulting from recognition of deferred tax following the acquisition of Cure Medical, partially offset by a $6.9 million tax expense relating to revaluation of deferred tax liabilities for acquisition intangibles in the UK following the enactment of Finance Act 2021 on 10 June 2021 and $0.4 million tax expense which arose as a result of adjustment to the Swiss deferred tax asset following formal agreement with the Swiss Tax Authorities in 2021.

Reconciliation of operating costs to adjusted operating costs for the six months ended 30 June 2022 and 2021

	Six months ended 30 June								
	2022					2021			
	S&D[a]	G&A[b]	R&D[c]	Other[d]	Operating costs	S&D[a]	G&A[b]	R&D[c]	Operating costs
	$m	$m	$m	$m	$m	$m	$m	$m	$m
As reported	(287.3)	(119.1)	(47.2)	(14.2)	(467.8)	(252.9)	(126.0)	(40.9)	(419.8)
Amortisation of acquired intangibles	-	10.5	-	-	10.5	-	10.5	-	10.5
Acquisition related costs	-	6.2	-	-	6.2	-	1.7	-	1.7
Divestiture related costs	10.7	0.4	-	12.8	23.9				
Impairment of assets	-	-	-	1.4	1.4	-	-	-	-
Termination benefits and related costs	1.7	0.3	-	-	2.0	-	1.5	-	1.5
Adjusted	(274.9)	(101.7)	(47.2)	0.0	(423.8)	(252.9)	(112.3)	(40.9)	(406.1)

(a) "S&D" represents selling and distribution expenses.
(b) "G&A" represents general and administrative expenses.
(c) "R&D" represents research and development expenses.
(d) "Other" relates to the impairment of assets from the Group's withdrawal from the hospital care and industrial sales portfolio.

Reconciliation of basic and diluted earnings per share to adjusted earnings per share for the six months ended 30 June 2022 and 2021

	Six months ended 30 June			
	2022	Adjusted 2022	2021	Adjusted 2021
	$m	$m	$m	$m
Net profit for the period attributable to the shareholders of the Group	48.3	131.1	85.8	145.2
		Number		Number
Basic weighted average ordinary shares in issue		2,018,377,510		2,004,985,601
Diluted weighted average ordinary shares in issue		2,031,279,646		2,024,506,676
	cents per share	cents per share	cents per share	cents per share
Basic earnings per share	2.4	6.5	4.3	7.2
Diluted earnings per share[a]	2.4	6.5	4.2	7.2

(a) Excluding the deferred tax asset recognition following the Group's acquisitions, adjusted diluted EPS decreased by 2.7% to 7.4¢ for the six months ended 30 June 2022 (six months ended 30 June 2021: 7.6¢).

Cash conversion for the six months ended 30 June 2022 and 30 June 2021

	Six months ended 30 June	
	2022	2021
	$m	$m
Operating profit	87.1	135.5
Depreciation of property, plant and equipment	20.0	19.8
Depreciation of right-of-use assets	11.0	11.7
Amortisation of intangible assets	75.6	73.7
Impairment/write-off of property, plant and equipment and intangible assets	14.2	1.7
EBITDA	207.9	242.4
Non-cash items		
Share-based payments	8.2	7.1
Working capital movement	(66.0)	(69.8)
Gain/(loss) on foreign exchange derivatives	3.4	(0.9)
Net cash generated from operations	153.5	178.8
Acquisitions of property, plant and equipment and intangibles assets	(64.1)	(43.6)
Net cash for cash conversion	89.4	135.2
Income taxes paid	(19.1)	(29.0)
Free cash flow	70.3	106.2

Reconciliation of Adjusted net cash and Adjusted free cash flow (to calculate Adjusted cash conversion)

	Six months ended 30 June	
	2022	2021
	$m	$m
Net cash for cash conversion	89.4	135.2
Acquisition and divestitures adjustments	2.6	1.3
Termination benefits and related costs adjustments	6.6	5.7
Adjusted net cash for cash conversion	98.6	142.2
Income taxes paid	(19.1)	(29.0)
Adjusted free cash flow, post tax	79.5	113.2
EBITDA	207.9	242.4
Adjusted EBITDA	251.7	252.9
Cash conversion	43.0%	55.8%
Adjusted cash conversion	39.2%	56.2%

Reconciliation of Adjusted working capital

	Six months ended 30 June	
	2022	2021
	$m	$m
Working capital movement[(a)]	(66.0)	(69.8)
(Increase)/decrease in termination benefits[(b)]	(0.7)	4.0
Increase in respect of acquisitions and divestitures[(b)]	(25.7)	(0.4)
Adjusted working capital movement	(92.4)	(66.2)

(a) Working capital movement is the change in assets and liabilities total within the Condensed Consolidated Statement of Cash Flows on page 20.
(b) These are the cash flow impacts to the adjusted items shown in the reconciliation of earnings to adjusted earnings tables on page 38.

Net debt

Net debt is calculated as the carrying value of current and non-current borrowings, net of cash and cash equivalents and excluding lease liabilities.

	30 June 2022 $m	31 December 2021 $m
Borrowings	1,348.8	1,344.6
Lease liabilities	89.0	90.5
Total carrying value of borrowings	1,437.8	1,435.1
Cash and cash equivalents	(271.6)	(463.4)
Net debt (including lease liabilities)	1,166.2	971.7
Net debt	1,077.2	881.2
Net debt/adjusted EBITDA[(a)]	2.3	1.9

(a) Net debt excludes lease liabilities, and adjusted EBITDA for the 12 months to 30 June 2022 has been used in this calculation.

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 United Kingdom; 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 composition of the Board of Directors of Convatec Group plc has changed since reported in the 2021 Annual Report and Accounts. A list of current Directors is maintained on our corporate website (www.convatecgroup.com).

By order of the Board:

Karim Bitar   Chief Executive Officer   3 August 2022

Jonny Mason   Chief Financial Officer   3 August 2022

INDEPENDENT REVIEW REPORT TO CONVATEC GROUP PLC

We have been engaged by the Group to review the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 which comprises the Condensed Consolidated Income Statement, 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 15.

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 2022 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council 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.

As disclosed in note 1, the annual financial statements of the Group will be prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE (UK), however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the Group a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company 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 company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

Deloitte LLP

Statutory Auditor

London, United Kingdom

3 August 2022