ConvaTec

Improving the lives of the people we touch

ConvaTec Group Plc
Annual Report and Accounts 2018

2018 highlights

Financial highlights[1]

Revenue
$1,832m +3.8%

2018	**$1,832m**
2017	$1,765m

Operating profit
$268m +8.0%

2018	**$268m**
2017	$248m

Earnings per share
$0.11 +37.5%

2018	**$0.11**
2017	$0.08

Adjusted EBIT[2]
$429m -6.0%

2018	**$429m**
2017	$457m

Adjusted EBIT margin
23.4%

2018	**23.4%**
2017	25.9%

Adjusted earnings per share
$0.16

2018	**$0.16**
2017	$0.16

1. Certain financial measures in this Annual Report and Accounts, including adjusted performance measures above, are not prepared in accordance with IFRS. All adjusted performance measures are reconciled to the most directly comparable measure prepared in accordance with IFRS on pages 66 to 71.
2. Adjusted EBIT is equivalent to adjusted operating profit as reconciled on pages 68 to 69.

Contents

Introduction

"2018 was another challenging and disappointing year for ConvaTec. We did not deliver our financial and operational targets primarily due to ineffective execution. Following an extensive review of all aspects of our business, we immediately took action to address our underperformance. Information about our refreshed execution model is included in this Annual Report.

"ConvaTec has the fundamentals to be a strong business. We are confident that our refreshed execution model, including the investments we will make in our core capabilities, will enable us to better capitalise on our strengths and market opportunities to deliver sustainable profitable growth in the medium to long term[1]."

Rick Anderson
Chief Executive Officer

1. In the context of this Annual Report and Accounts "medium term" is two to three years and "medium to long term" is three to five years.

Our business at a glance

ConvaTec is a MedTech business, focused on the chronic care market, with leading positions in advanced wound care, ostomy care, continence and critical care and infusion devices.

Our Purpose
We exist to improve the lives of the people we touch.

Our Vision
To be recognised as the most respected and successful MedTech company worldwide.

Our Mission
We drive for excellence in all we do – anticipating and addressing our customers' needs with advanced technologies and best-in-class products and services.

Our strategy
We aim to drive sales and earnings momentum by leveraging our portfolio of differentiated products and our leading positions in structurally growing markets. Our refreshed execution model is focused on four strategic drivers: Simplify, Innovate, Segment and Invest.

Simplify | Innovate | Segment | Invest

Read more about our strategy on pages 28 to 31.

Group reported revenue by geography

1. EMEA: 41% $747.4m
2. Americas: 51% $945.3m
3. APAC: 8% $139.4m

Group reported revenue by franchise

1. Advanced Wound Care: 32% $587.5m
2. Ostomy Care: 29% $533.3m
3. Continence & Critical Care: 24% $443.0m
4. Infusion Devices: 15% $268.3m

110+
Countries where our products are marketed and sold

9,400+
Employees around the world

No.1

Our position in six markets

Global leader

Silver dressings, alginate and gelling fibre dressings, hydrocolloid dressings and disposable infusion sets for insulin pumps

US leader

Intermittent catheter retailer and fecal management systems

9

Manufacturing plants

We market and sell our products through our four franchises detailed below.

Advanced Wound Care ("AWC")

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

Key brands:
AQUACEL™, AQUACEL™ Ag+, AQUACEL™ Ag Foam, AQUACEL™ Ag Advantage, Avelle™ System, DuoDERM™, Sensi-Care™ and Aloe Vesta™

Ostomy Care

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

Key brands:
Esteem™, Esteem™+, Natura™, Natura™+, Stomahesive™, Durahesive™, InvisiClose™ and me+™

Continence & Critical Care ("CCC")

Products and services for people with urinary continence issues related to spinal cord injuries, multiple sclerosis, spina bifida and other causes, and devices and products used in intensive care units and hospital settings.

Key brands:
GentleCath™, Flexi-Seal™, UnoMeter™ and me+™

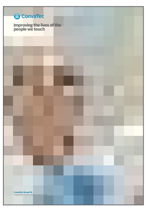
Infusion Devices

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

Key brands:
inset™, comfort™ and neria™

Corporate responsibility ("CR")

Our overall approach to CR is aimed at supporting the fulfilment of our Purpose. Read about how we do this throughout this report and in our Corporate Responsibility Report which is available on our website at www.convatecgroup.com/corporate-responsibility.



Our investment case

Focused on delivering sustainable profitable growth in the medium to long term.

Leading market positions in large and structurally growing chronic care markets

Our chronic care marketplace is:
- Valued at c. $10 billion.
- Growing, on average, at 4%–5% per annum over the next five years due to fundamental structural trends including ageing populations, increasing incidence of chronic conditions and better access to healthcare.

We are the leader in six key markets and have strong brands and a number of market leading products. See page 12 for further information about our market positions.

Our refreshed execution model is focused on capitalising on our market leadership positions and opportunities in the growing chronic care marketplace.

Research and development ("R&D") capabilities

In recent years we have developed and commercialised a number of innovative products that deliver proven outcomes. We own an extensive IP portfolio. See pages 22 and 23 for further information about our R&D capabilities, our new product development pipeline and our IP portfolio.

Our refreshed execution model aims to enhance our R&D capabilities and strengthen our innovation pipeline and development processes. See page 30 for information about how we will deploy our R&D capabilities more effectively to drive our strategy.

Diversified, balanced business with strong brands and differentiated products

Our differentiated products and technologies portfolio addresses a wide range of increasingly prevalent chronic conditions.

Our product portfolio includes market-leading brands such as AQUACEL™, Avelle™, Esteem™, Natura™, GentleCath™, Flexi-Seal™ and neria™.

We operate globally across all key geographies, either with a direct presence or through distribution partnerships.

In line with our refreshed execution model we will focus on premium markets, segments and geographies to deliver the most profitable growth on a sustainable basis.

Focused on delivering sustainable profitable growth

The objective of our refreshed execution model is to better capitalise on our core strengths and market opportunities, to deliver sustainable profitable growth and long-term value for all stakeholders. See pages 28 to 31 for further information about our strategy and our refreshed execution model.

We are a cash-generative business, with an adjusted cash conversion rate of 81%.[1]

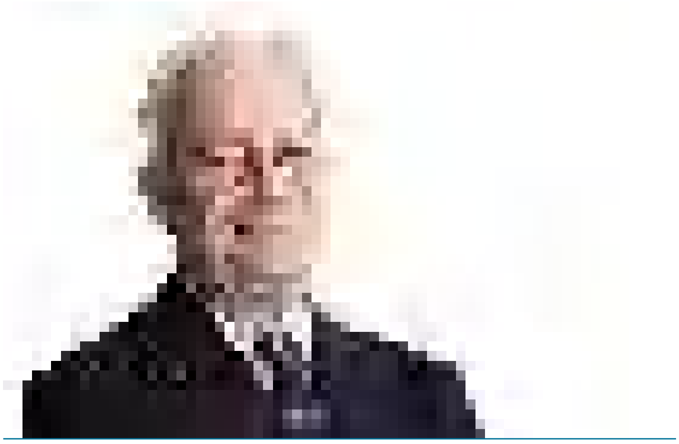
Establishing trust with our stakeholders and with broader society is key to our long-term success. This means that we must act with integrity and behave responsibly at all times.

1. Adjusted cash conversion is reconciled on page 71.

Strategic report overview

In this Strategic report we cover our development and performance during the year and provide information about key aspects of our business.

Chairman's letter



Sir Christopher Gent
Chairman

Dear Shareholder

2018 performance

I regret that for the second consecutive year ConvaTec has delivered a disappointing performance. We have not met shareholders' and the Board's expectations and we have not capitalised on the Group's leading positions in growing chronic care markets. While the core strengths of our business remain unchanged, our strategy has not been effectively executed. The Chief Executive Officer's review on page 8 provides a detailed explanation of the issues that we encountered during the year in this regard, and the immediate steps that the Board and the Executive Committee are implementing to address the Group's performance.

Despite this disappointing performance, on a reported basis the Group generated an operating profit of $268 million (on an adjusted basis, $429 million) on revenue of $1,832 million, and generated cash flow from operating activities of $352 million. The Group remains financially sound with a robust balance sheet and net assets of $1,617 million, including net debt of $1,305 million. The Board remains confident in the Group's ability to improve both revenue growth and operating margins. The fundamentals of our business and the markets in which ConvaTec operates support this view. However, in the short term, there is a requirement to invest in the Group's core capabilities and processes, to enable it to take advantage of and deliver on our potential as well as to address the failures in execution which have led to a diminution in the Group's value. Consequently, 2019 will see a lower operating margin.

Dividend

Reflecting our view on the potential of the Group over the medium to long term and its financial strength, the Board is proposing a final dividend of 3.983 cents per share in respect of 2018, subject to shareholder approval at our Annual General Meeting on 9 May 2019. This is in addition to the Company's first interim dividend of 1.717 cents per share, which was declared on 2 August 2018. This gives a total dividend for the year of 5.700 cents per share, in line with our dividend policy to target a payout ratio of 35% to 45% of adjusted net profit over time.

Developments during the year

Paul Moraviec decided to retire as Chief Executive Officer ("CEO") in October 2018. The Board was pleased to appoint Rick Anderson as Interim CEO until a permanent candidate for the role has been identified. Rick has 25 years of senior executive leadership experience in the medical device industry. Having served as a Non-Executive Director on our Board since our IPO, Rick also has immediate and close knowledge of ConvaTec. Further information about his background is set out on page 80. The search to find a permanent successor for the CEO role is ongoing.

The Board mandated Rick to develop a plan to transform the Group's commercial and operational performance. He, together with the Executive Committee, has undertaken an extensive review of our strategy and business and has developed a refreshed execution model to better capitalise on our core strengths and market opportunities and deliver sustainable profitable growth and long-term value for all stakeholders. Further information about our refreshed execution model is set out on pages 28 to 31.

In addition, Rick has continued to strengthen our management team and I am delighted to welcome Supratim Bose as Executive Vice President and President, APAC and David Shepherd as President, Advanced Wound Care to ConvaTec, as well as congratulating George Poole as the new President of the Americas Region.

The Board and governance

In July, our strategic investor Novo Holdings A/S, who is entitled to nominate a Non-Executive Director to serve on our Board, advised that it wished to change its Board representative. Accordingly, Kasim Kutay resigned as a Non-Executive Director in July and was replaced by Sten Scheibye. Sten has significant healthcare experience. His previous roles include serving as President and CEO of Coloplast A/S from 1995 to 2008. Further information about Sten's background is set out on page 81.

With effect from 1 January 2019, Ros Rivaz and Regina Benjamin assumed responsibility for Board-led employee engagement. Information about the programme of activities they will undertake is included on page 99.

“I regret that for the second consecutive year ConvaTec has delivered a disappointing performance. ConvaTec is a fundamentally sound business and we now have a refreshed execution model to ensure the Group better capitalises on its core strengths and market opportunities.”

Corporate responsibility

Our Purpose is to improve the lives of the people we touch, and this sets the context for our approach to CR. Our most important stakeholders are the people who experience the various chronic conditions that our products and services aim to help – enabling them to live an improved life by giving them more confidence, mobility and freedom. Our task in meeting their needs is constantly growing as populations in developed markets age, as the users of our products live longer, and as more people in developing economies demand improved healthcare options. We aim to meet this increasing demand for our products in ways which also generate value for other stakeholder groups such as healthcare professionals and administrators, our shareholders, our employees and the people who work in our supply chains, whilst respecting the natural environment on which we all rely.

We are making good progress in our CR programme and have seen continued improvement in the external assessment of our performance, including our entrance to the FTSE4Good Index Series in June. We believe our main challenge now lies in strengthening our approach to environmental protection. We have approved a new climate change strategy which seeks to limit the environmental impact of our operations and our products and packaging, and to better identify business vulnerabilities driven by environmental issues.

As Chairman of our CR Committee, I receive regular progress reports on implementation of the programme and you can read more about the activity of this Committee on page 100.

Our employees

In a difficult period, our employees have continued to serve and deliver for our customers and I wish to pay tribute to their hard work and to the contribution that they continue to make in achieving our Purpose. They will play a key role in delivering the improvements in our performance which we now plan and I wish to place on record the Board’s gratitude for all of our employees’ continuing dedication and support.

In conclusion

Your Board continues to believe that ConvaTec is a fundamentally sound business with good potential for growth and creation of shareholder value in the long term and is committed to providing the resources, capabilities and investment required to achieve this.

Sir Christopher Gent
Chairman
14 February 2019

Governance highlights

Information about our governance framework and how it supports our strategy is set out on pages 78 and 79. Key governance activities during the year included:

The Board

- Reviewed strategy and commissioned the development of a plan to improve commercial and operational performance.
- Approved refreshed execution model.
- Participated in externally facilitated Board effectiveness review.

Nomination Committee

- Considered interim leadership arrangements.
- Undertaking global search to identify new CEO.
- Approved Board-led employee engagement process.
- Reviewed the Group’s new people strategy.

Further information on page 86.

Audit and Risk Committee

- Reviewed transition of certain Group functions from the US to the UK.
- Considered Financial Reporting Council’s reviews.
- Oversaw improvements in management information and reporting.

Further information on page 90.

Corporate Responsibility Committee

- Reviewed inaugural climate change strategy.
- Reviewed CR positioning against best practice and peer performance.

Further information on page 100.

Remuneration Committee

- Agreed retirement arrangements for Paul Moraviec.
- Ensured remuneration arrangements appropriately support retention and motivation of executive team members.
- Considered impact of share price performance on LTIP allocation for 2019.

Further information on page 102.

Chief Executive Officer's review

Rick Anderson
Chief Executive Officer

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

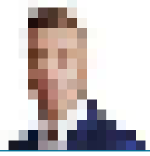
Following the departure of Paul Moraviec in October 2018, the Board immediately initiated the search for a new CEO. To ensure that we address the Group's poor performance without delay, I was appointed Interim CEO. The fundamental opportunities of our markets, products and brands remain sound. Our strategy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

Over the past four months, along with the Executive Committee, I have undertaken an extensive review of all aspects of our business and, following Board approval, we are now implementing a refreshed execution model to support our strategy. We will focus on delivering sustainable and profitable growth by concentrating on those geographies, product and market segments that offer the best returns, simplifying our business and running it more effectively and efficiently whilst increasing our investment to drive growth and substantially improve the performance of the business. Further information about our refreshed execution model is provided on the next page and on pages 28 to 31.

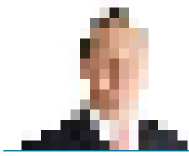
Increased investment to drive growth will be needed over the next three years whilst we transform the business and ensure all elements of the Group are operating at an optimal level, enabling the Company to deliver the returns that our shareholders and other stakeholders rightly expect. This is expected to be funded by reinvestment of anticipated cost savings from our cost out and efficiency programmes, which are outlined on page 31.

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

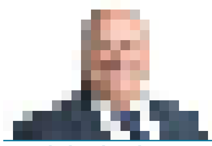
Our Executive Committee



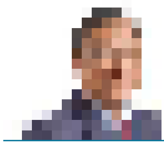
Frank Schulkes
Chief Financial Officer



George Poole
President, Americas

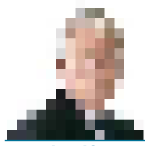


David Shepherd[a]
Franchise President, Advanced Wound Care

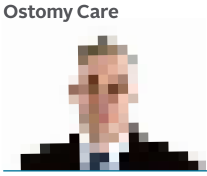


Supratim Bose[c]
Executive Vice President and President, APAC

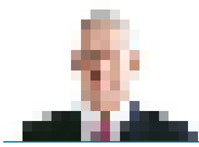
Stephan Bonnelycke[b]
Franchise President, Ostomy Care



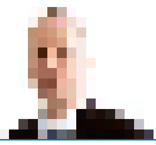
Donal Balfe
Executive Vice President, Global Operations



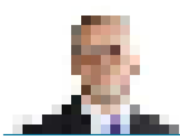
Frank Gehres
Franchise President, Continence & Critical Care



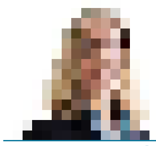
Sean McGrath
Executive Vice President, Human Resources



John Lindskog
Franchise President, B2B and Infusion Devices



Robert Steele
Executive Vice President, Quality, Regulatory & Clinical Affairs



Kjersti Grimsrud
President, EMEA

Adam Deutsch
Executive Vice President, General Counsel and Corporate Development

a. Joined Executive Committee on 19 November 2018.
b. Joined Executive Committee on 1 August 2018.
c. Joined Executive Committee on 17 December 2018.

“We will focus on delivering sustainable profitable growth by concentrating on product and market segments and geographies that offer the best returns, running our business more effectively and efficiently and continuing to invest to drive profitable growth.”

2018 results overview

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

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

Adjusted EBIT margin was 23.4% (2017: 25.9%), again in-line with the revised guidance given in October 2018 but below our initial expectations. Increased investment in commercial initiatives, the internal infrastructure and capability of the business and negative sales mix were the main drivers of lower adjusted EBIT margin, along with lower than expected revenues. Despite this cashflow remained robust with adjusted cash conversion at 81% (2017: 77%).

Advanced Wound Care

Revenue grew 1.7% on a reported basis, or 0.2%[2] organically in 2018.

Our AQUACEL™ Foam and anti-biofilm silver dressings performed well, offset by challenges in our older DuoDERM™ and base AQUACEL™ dressings, as a result of the supply constraints of 2017 and challenging market dynamics, most notably in the UK. Performance in the US continued to be below expectations, driven primarily by weak sales of surgical cover dressing and disappointing progress on the wound acceleration plan.

For more information on AWC performance see page 48.

Ostomy Care

Revenue grew 0.8% on a reported basis, but fell 0.5%[2] year-on-year on an organic basis.

This was primarily driven by lost patients, a result of the supply constraints in the second half of 2017. We also saw some weakness in the US retail channel and the recent trend in new patient capture rates in US hospitals. However, we saw good results in both Latin America and certain markets in Asia Pacific and Europe. There were encouraging results from our recent product launches such as Esteem™+ Flex Convex.

For more information on Ostomy Care performance see page 50.

Continence & Critical Care

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

For more information on CCC performance see page 52.

Infusion Devices

Revenue fell by 2.4% on a reported basis, and 3.5%[2] on an organic basis in 2018, and in the fourth quarter declined 25.6% on a reported basis and 24.9%[2] organically, with good underlying growth offset by significantly reduced orders in the fourth quarter, due to an unexpected change in inventory policy by our largest customer.

For more information on Infusion Devices performance see page 54.

Adjusted Costs and EBIT

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

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

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

A refreshed execution model to deliver our strategy

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

1. Constant exchange rates (“CER”) growth is calculated by applying the applicable prior period average exchange rates to the Group’s actual performance in the respective period.
2. Organic growth presents year-on-year growth at CER, excluding M&A activities.

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

Consequently, the objective of Pivot to Growth is to deliver sustainable profitable growth and long-term value for all stakeholders by better capitalising on ConvaTec's core strengths: leading positions in large, structurally growing markets; strong brands and a range of differentiated products; a well-diversified business platform across a range of market segments and geographies; and robust cash generation capabilities. The core principles of Pivot to Growth, which will improve our execution capabilities and ensure we deliver on our strategy, are: Simplify, Innovate, Segment and Invest. Information about each of these pillars is set out on pages 28 to 31.

People

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

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

Supratim Bose joined the Group in December 2018 as Executive Vice President and President, APAC, from Boston Scientific Corporation, where he served as Executive Vice President & President of Asia Pacific, Japan, Middle East and Africa. Prior to Boston Scientific, Supratim spent 29 years with Johnson & Johnson.

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

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

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

Corporate responsibility

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

- To strengthen our management of CR-related risk.
- To improve our transparency.
- To develop our employee and community engagement.
- To improve the sustainability performance of our products.

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

One of the highlights of the year has been the successful launch of our global community programme, "LIFE+ by ConvaTec" and you can read more about this on page 25.

Acquisitions

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

UK withdrawal from the European Union ("Brexit")

For some time we have been monitoring the potential outcomes of the Brexit negotiations, assessing the potential effects on our business, whatever the circumstances under which the UK will cease to be a member of the EU, and preparing contingency plans to address the potential outcomes. Our Brexit taskforce is actively preparing for a "No-Deal" scenario with external advisory support as required. However, it remains unclear what will be the position for the UK on 29 March 2019 and our planning will continue to evolve and adapt in light of political developments.

Our Brexit risk assessment process identified several key areas of focus for potential impact, including:
- Regulatory frameworks and compliance
- Customs duties and tariffs
- Supply chain
- Employees and mobility
- Tax and treasury

Our products are CE marked for sale through a Notified Body[3]. Our Notified Body at present is BSI UK, which has set up a sister company in the Netherlands, BSI NL, which has completed the process to be a designated EU Notified Body, and a migration process with the respective National Competent Authorities has been agreed for CE certifications. This is an administrative process, which has recently now been put in motion by BSI on the advice of the MHRA ("Medicines and Healthcare products Regulatory Agency"). This means, for our products that are sold in the EU, that CE certification would be migrated to BSI NL and existing certificate numbers would be retained. BSI have also confirmed that a protracted period will be allowed in which to make associated labelling and packaging changes. In addition, a ConvaTec Group company located within the EEA/EU will be designated as the Authorised Representative in the EU for those products where ConvaTec Limited is the legal manufacturer.

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

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

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

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

3. An organisation designated by an EU country to assess the conformity of certain products before being placed on the market.

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

Group outlook and 2019 guidance

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

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

Our Transformation Initiative, which is described on page 31, will contain four workstreams which will improve our operational and commercial execution. However, we will need to invest in the business over three years whilst we address performance issues, enabling the Company to deliver the returns that our shareholders and other stakeholders rightly expect.

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

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

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

Rick Anderson
Chief Executive Officer
14 February 2019

Our market environment

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

Our chronic care marketplace

Our chronic care marketplace is valued at c. $10 billion and is projected to grow, on average, at 4%–5% per annum over the next five years. We hold leading positions in each of our markets.[1]

Advanced Wound Care[2]

Market size
$5.3bn

Market growth
4–5%

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

2018 revenue
$587.5m

Market position/market share
- Global advanced wound dressings #2/17%
- Global silver dressings #1/32%
- Global hydrocolloid dressings #1/45%
- Global alginate and gelling fibre dressings #1/44%

For further information see page 48

Ostomy Care[3]

Market size
$2.6bn

Market growth
c.4%

Key competitors
- Coloplast
- Hollister/Dansac
- Others

2018 revenue
$533.3m

Market position/market share
- Global ostomy #3/20%
- US #2
- UK and France #3

For further information see page 50

Continence & Critical Care[4]

Market size
$1.9bn

Market growth
3–5%

Key competitors
- Coloplast
- Bard
- Wellspect

2018 revenue
$443.0m

Market position/market share
- Retailer in intermittent catheters in the US #1/31%
- US fecal management systems #1/67%

For further information see page 52

Infusion Devices[5]

Market size
$0.5bn

Market growth
4–5%

Key competitors
- Smiths
- Ypsomed

2018 revenue
$268.3m

Market position/market share
- Global disposable infusion sets for insulin pumps #1/85%

For further information see page 54

1. Information is based on publicly available sources and internal analysis.
2. The AWC market includes advanced dressings (global alginate and gelling fibre dressing sectors (combined), contact layers, hydrogels, hydrocolloids and super absorbents (other advanced dressings), silver/antimicrobials and foam), biologics and negative pressure wound therapy. Expected CAGR is for the period from 2017 to 2022. Source: BioMedGPS.
3. The Ostomy Care market includes pouching systems and ostomy care accessories (including deodorants, skin barriers and clothing) but excludes irrigation products. Expected CAGR is for the period from 2016 to 2021. Source: GIA.
4. The CCC market comprises the US and Europe intermittent catheter and fecal management market. Expected CAGR is for the period from 2015 to 2022 in the United States and 2015 to 2019 in Europe. Source: iData Research and GHX.
5. The Infusion Devices market size refers to disposables for insulin infusion pumps. Expected CAGR is for the period from 2016 to 2020 and refers to the insulin pump market. Source: Daedal Research.

The global trends driving growth in our markets

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

Trends	Impact on our business
Populations are getting older By 2050 the world's population aged over 60 is projected to more than double. Global population aged 60+ — 2017: 0.9 billion; 2050: 2.1 billion Source: United Nations, World Population Prospects, 2017 revision.	There is a strong correlation between age and the incidence of chronic conditions that require wound, ostomy and incontinence treatment and infusion products. Source: Gist, Tio-Matos, Falzgraf, Cameron, Beebe (2009).
Chronic conditions are on the increase Since 1975 the proportion of the world's population that is obese has almost tripled (source: World Health Organisation ("WHO")). The prevalence of obesity is forecast to increase. For example in the US it is forecast to increase by 26% (from a 2013 base) by 2030. Source: Organisation for Economic Co-operation and Development, Obesity update 2017. By 2030 the incidence of diabetes across the global adult population is forecast to increase to approximately 10%. Source: Euromonitor.	The increasing prevalence of chronic conditions, which are often experienced over a long period of time and generally progress slowly, is driving demand for our products. The conditions that each of our franchises focus on are detailed below. In 2018 we generated approximately 77% of our revenues from products used by people with chronic care conditions. **Advanced Wound Care**: – Diabetes and vascular disease – Chronic ulcers **Ostomy Care**: – Colorectal cancer – Bladder cancer – Crohn's disease – Ulcerative colitis **Continence & Critical Care**: – Multiple Sclerosis – Benign Prostatic Hyperplasia (BPH) – Spinal Cord Injury **Infusion Devices**: – Diabetes
People are living longer Due to earlier detection and more effective treatment, people with chronic conditions are living longer. Average life expectancy of people with type 1 diabetes — 53 (1950–1964); 69 (1956–1980) Source: The Pittsburgh Epidemiology of Diabetes Complications Study, Cohort (2012).	Many of our customers stay with us throughout their lives, and as they live longer, the period during which they are reliant on our products is extended. Commercially this gives us long-term visibility of the underlying demand for our products.

Globally there are 50 million reported cases of patients suffering from hard-to-heal wounds, including foot ulcers and venous leg ulcers.

Source: Frost & Sullivan.

By 2020 chronic conditions are expected to account for 60% of the global burden of disease (43% in 2002).

Source: WHO

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

Dynamic	How it is shaping our business
Innovation with proven outcomes The increasing prevalence of chronic conditions is driving demand for products which better enhance quality of life and reduce the risk of more serious health problems. Treatment protocols are moving from traditional products to more advanced offerings, which provide optimal outcomes.	Innovation is one of our strategic drivers. Increasingly we are concentrating our offering on advanced solutions that deliver the best clinical performance and ease of use. Further information about our R&D capabilities and our plans to enhance our product pipeline and development processes is set out on pages 22 and 23. Read about some of our technologies on pages 23, 31 and 49.
Pressure on healthcare costs Due to the growing demand for care and treatment, combined with worldwide government austerity programmes, healthcare systems around the world are accelerating efforts to reduce overall spending. Increasingly healthcare providers are putting more emphasis on value-based healthcare solutions that deliver better outcomes at lower costs. They are also applying increasing price pressure across the entire care continuum and focusing more on out-patient care.	In response to the demand for products that deliver better outcomes, we focus on developing advanced solutions that provide optimal outcomes. We also strive to ensure that we develop and manufacture our products in the most efficient way to ensure that our offering is competitive. In addition we offer healthcare providers solutions that help them deliver their services effectively and in the most cost effective way. An example of how we do this is set out on the next page. During 2018, in response to ongoing pricing pressure, we implemented price reductions in relation to a number of our products which adversely impacted our revenue and margin performance.
Greater access to healthcare The use of healthcare products and services is increasing as a large proportion of the growing middle class in emerging markets are gaining access to private medical insurance.	In key emerging markets we are strengthening our position including appointing senior, locally based management who have significant knowledge and experience of local markets and developing trends.
Consumer influence Consumers are becoming more engaged in their healthcare and are actively seeking out products and technologies that not only address their needs, but do so in a convenient way that fits with their lifestyle.	We continue to build and strengthen our direct-to-consumer channels. Through engagement with the people who use our products we obtain valuable feedback, which helps us better understand and meet their needs. Read about our enhanced GentleCath™ Glide product range on page 53. We also offer consumers a broad range of products that they can purchase very easily.
Increasing regulation and compliance Our industry is subject to rigorous and diverse regulation by Governmental authorities including the Food and Drug Administration in the US, notified bodies in the European Union and other national and global competent authorities in the countries where we manufacture and sell our products. These regulations, which cover all aspects of our business, are subject to change and generally are becoming more onerous. In 2017 MDR was introduced in the EU with transition required by May 2020. MDR imposes rigorous requirements in relation to a number of areas, including clinical data and post-market surveillance of our products. Furthermore, across our industry enforcement is increasing. We must comply with a wide range of anti-competition, anti-fraud and anti-bribery laws including the US Foreign Corrupt Practices Act, the UK Bribery Act and similar laws in other countries that relate to anti-corruption compliance.	We operate a rigorous regulatory and compliance risk management framework. This helps us manage and mitigate the regulatory and compliance risks that could impact delivery of our strategy. In relation to MDR we are working with our Notified Body and external consultants to adapt our quality system processes and technical documentation to implement the required changes and ensure compliance. As a result of MDR we will incur additional compliance costs over the next two years. Further information about how we manage risks to protect the value we create is set out on pages 34 to 43.

Helping to provide more cost effective patient care

In the UK, local hospital and community NHS services are overseen by a number of Clinical Commissioning Groups ("CCGs"), who are each responsible for a geographic area. Given the pressure on healthcare costs, CCGs are constantly looking for ways to provide more cost effective patient care.

Recent research has shown that when patients obtain their medical products using a prescription from a medical practitioner, stockpiling of product can occur and wastage levels can be significant.

Through our total purchase initiative, we supply our products directly to the CCGs (usually the community nurse) rather than the patient. The community nurse will take and use only what is required for their patient visits, which significantly reduces the potential for waste. And as we supply products within 48 hours across the UK, stockpiling of products is avoided.

Giving customers more choice

As highlighted on page 13, obesity is becoming increasingly prevalent. As a result, the demand for convex ostomy products that fit the contours of the abdomen and adhere more securely to soft skin surfaces is continuing to grow.

In response to this growing demand and to ensure that customers have the widest choice, we are continuing to develop our extensive convex product range. This range includes our Esteem™+ Flex Convex product, which is flexible and discreet combining the skin barrier and pouch in a single unit, making it simple to use and secure and comfortable to wear.

We have further enhanced our convex product offering with the launch of Esteem™+ Soft Convex, the latest addition to our range of one piece convexity solutions. The flexibility of Esteem™+ Soft Convex, combined with a shallow convexity, is designed to be gentle on the skin and deliver comfort to customers.

Our business model

At the heart of everything we do is our Purpose – to improve the lives of the people we touch. We run our business to fulfil this Purpose and create value for all our stakeholders.

The resources and relationships we need to create value

Our values-led, performance-driven culture
Earning trust, behaving responsibly with integrity and executing effectively underpin our ability to deliver long-term sustainable value for all our stakeholders.

Read more about how we will improve our performance culture and our execution capabilities on pages 19, 30 and 31.

Our 9,400+ employees
Our skilled and dedicated people.

Innovation and IP – $49.9 million invested in R&D in 2018
Our R&D capabilities and diverse product portfolio which includes market-leading brands.

Stakeholder relationships
In addition to our people, relationships with a range of other stakeholders including our customers, healthcare professionals, suppliers, distributors and the communities where we operate. Read more about our stakeholders on page 24.

Dedicated sales teams and extensive distribution network covering over 110 countries
Our four franchises market and sell our products around the globe through a number of channels. We have a direct presence in certain markets and an extensive network of wholesalers and distributors. Read more about our sales channels on page 26.

Manufacturing footprint and operational processes – $120 million annual gross cost savings by 2023
Our manufacturing footprint and our arrangements with third-party contract manufacturers give us significant operational flexibility. Our refreshed execution model is focused on embedding simplified, standardised and efficient operating practices.

Financial resources – $352 million net cash flow generated from operating activities
We generate significant free cash flow and have access to capital through our shareholder base and other providers of capital and debt.

How we create, optimise, monitor and protect value

Create
We create value by managing and developing our key resources and relationships in a responsible way, to build trust and a platform for sustainable growth.

Read more about how we do this on pages 18 to 27.

Optimise
We aim to optimise value by focusing on four strategic drivers.

Simplify Innovate Segment Invest

Read more about our strategy on pages 28 to 31.

Monitor
We monitor our performance using a number of financial and non-financial key performance indicators ("KPIs").

Read more about our KPIs on pages 32 and 33.

Protect
We protect our business and its ability to create value by actively implementing and evolving a framework of processes and controls to manage and mitigate the risks that could threaten our performance and reputation.

Read more about how we manage our risks on pages 34 to 43.

The value we generate for our stakeholders

Consumers
Our products and services give people living with chronic conditions greater confidence, mobility and freedom. For more information about how our products help consumers read the case studies on pages 51, 53 and 55.

People
We offer our employees training and development opportunities in a positive work environment which encourages high engagement. Read about our 2018 employee engagement survey on page 21 and in our CR Report which is available on our website at www.convatecgroup.com/corporate-responsibility.

Shareholders
We generate returns for investors.

$111.9m
Dividends paid and proposed for the year ended 31 December 2018

Healthcare providers
We provide value-add solutions and support and advice that help healthcare providers deliver better outcomes in a cost effective way. An example of how we do this is included on page 15.

People living with chronic conditions and the medical profession
We increase awareness and understanding of certain chronic conditions through our engagement programmes and our R&D capabilities, which advance clinical outcomes and practices. Read more about our R&D capabilities on pages 22 and 23.

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

Read about our "LIFE+ by ConvaTec" community programme on page 25 and in our CR Report which is available on our website at www.convatecgroup.com/corporate-responsibility.

$35.8m
Income taxes paid

Meeting our customers' needs
In 2017 we launched our GentleCath™ Glide intermittent catheter, with our innovative FeelClean™ Technology, which was developed to make catheterisation simpler and more convenient. The product has been very well received and is now available in over 20 countries.

During 2018 sales in the US have been particularly strong and customer feedback continues to be very positive.

"The reason I called was to tell you that my life is much happier with the new GentleCath™ Glide catheter. It is just plain perfect." Garith Fox

Our resources and relationships

How we manage and develop our key resources and relationships to create value

Our Values

Our values run through everything we do. Caring for our customers and developing innovative products and technologies that anticipate and respond to their needs are essential ways of working if we are to deliver value for all our stakeholders. In our business, we must also earn trust which means at all times we must act with integrity, behave responsibly and do what we say we will do.

Caring for people
We are passionate about improving people's lives and we put people at the centre of everything we do.

Driving innovation and excellence
We are dedicated to finding innovative solutions that anticipate and address our customers' needs and to delivering best-in-class execution.

Earning trust
We earn trust by delivering quality products and services that our customers can rely on. Our personal actions underpin this trust.

Corporate responsibility

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

Our culture

Promoting and embedding our culture

We promote our values and culture by helping our employees fully understand our Purpose, Vision and Mission (which are explained on page 2) and how our values translate into desired behaviours. To embed our culture across our business we reward our people on both achievement of objectives (the what) and the demonstration of our values and behaviours in delivering (the how). Our formal performance management process includes an assessment of behaviours and employees identified with improvement needs in this area are supported through a 90-day performance feedback, coaching and improvement planning process.

Our People Leadership Committee, which is made up of representatives from all parts of the Group, monitors our culture. The committee's activities include taking regular pulse checks across our business, acting as a sounding board for our leaders and employees and helping implement important changes that affect our culture and our people. During the year the committee contributed to the development of our new people strategy and reviewed the results of our 2018 employee engagement survey and made recommendations in relation to some of its findings. Further information about our new people strategy and the 2018 survey is detailed below.

Ensuring a positive working environment

To embed our values and culture, we implement a number of policies and procedures, including our Code of Ethics and Business Conduct (our "Code of Conduct") which covers business conduct and compliance issues, including bribery and corruption. Annually all employees are required to undertake training in relation to our Code of Conduct. This training is undertaken either online, with electronic acknowledgement of completion, or through participation in town hall meetings. We also make available an independent whistleblower hotline, which can be used by employees and third parties, to report suspected breaches of our Code of Conduct.

We deploy policies and procedures that are consistent with our Code of Conduct, which cover the third parties we rely upon to fulfil our Purpose. These policies and procedures include our Global Third Party Compliance Manual, which mitigates the risk of unethical behaviour when marketing our products, our Supplier Code of Conduct which covers a number of areas, including prohibition of compulsory or forced labour and modern slavery, and our Human Rights and Labour Standards Policy. We mandate that our distributors and certain vendors undergo training on our policies and procedures and agree to permit us to audit their practices and compliance in accordance with our policies and procedures.

We are committed to creating a working environment where everyone is treated fairly with respect, dignity and consideration and where there are opportunities for all. Our Human Rights and Labour Standards Policy, which incorporates principles and guidelines set out in the United Nations Universal Declaration of Human Rights, and the UN Guiding Principles on Business and Human Rights, addresses a range of issues including equal opportunities, anti-harassment and dignity at work. Many elements of our Human Rights and Labour Standards Policy are reflected in our Code of Conduct, which as highlighted above, all employees receive training on annually.

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

Our people

The people we employ around the world are key to our success. Every day their skill and dedication enables us to fulfil our Purpose and create value for all stakeholders.

During the year we developed a new people strategy that sets out how we will manage and develop our people over the next three years. Its purpose is twofold: firstly, to ensure that every employee has the opportunity to develop and fulfil their potential and secondly, in line with our refreshed execution model, to improve our execution capabilities and operational performance.

Our new people strategy is focused on the following key elements:
- Improving the effectiveness of our organisation by simplifying our Human Resources ("HR") structure and processes.
- Building talent to ensure that we have the right people in the right places.
- Developing capability by managing and engaging our people more effectively.
- Ensuring that our employer reputation internally and externally is aligned with our Vision: to be recognised as the most respected and successful MedTech company in the world.
- Improving our approach to diversity and inclusion.

Diversity and inclusion

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

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

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

Engaging employees on diversity and inclusion

A key part of creating a more inclusive workplace is consulting with employees on how best to approach the issue, and establishing communities and support groups to help gather feedback on our progress. During 2018 we set up a series of employee resource groups ("ERGs") to begin a dialogue around gender and LBGTQ inclusion issues across our business.

Approximately 130 employees have volunteered to join ERGs. Following initial briefing calls we are now putting in place governance and communication systems to underpin the ERGs going forward.

In 2017 we updated our Board Diversity Policy to provide for a minimum of 30% female Board representation. We achieved this target in 2017 and we have continued to maintain it throughout 2018. We also set an objective to have 30% of senior management roles held by female executives by 2020. While to date progress has been limited, we remain committed to achieving this target through continuous and effective implementation of our diversity and inclusion strategy. In particular, the Board will continue to review metrics as part of their assessment of executive management.

Our gender diversity profile as at 31 December 2018 is set out below.

		Male		Female	
	Total	Number	%	Number	%
Board[a]	9	6	67	3	33
Executive Committee[b]	11	10	91	1	9
Senior management	71	53	75	18	25
Other employees	9,322	3,465	37	5,857	63
Total	9,413	3,534	38	5,879	62

a. Includes seven Non-Executive Directors.
b. For the purposes of this table the Chief Executive Officer and the Chief Financial Officer are included as members of the Board.

Gender pay

As highlighted above we are committed to creating a positive and diverse working environment where everyone is treated fairly. Specifically in relation to pay and our recruitment, performance review and reward processes, we strive to ensure that regardless of gender, employees are paid the same or similar for the same or similar positions.

Definition and calculation of a gender pay gap

The "gender pay gap" is the difference in the average hourly rate of pay between all relevant fully paid men and women in a company. It reflects the gender composition of our workforce. It is different to "equal pay" which is the difference in pay between a man and a woman who carry out the same or similar role or work of equal value in a company.

Our gender pay and bonus gap

The table on the next page shows our overall mean and median gender pay gap based on hourly rates of pay as at the "snapshot date"[1], 5 April 2018. It also captures the mean and median differences between bonuses paid to our male and female employees in the year up to the snapshot date, i.e. for the year up to 5 April 2018. The data provided only relates to our UK employees.

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

	Percentage difference mean	Percentage difference median
Hourly rate of pay	18.16%	15.75%
Bonus	35.28%	11.73%

In 2018 the median hourly pay difference between our male and female employees was 15.75% (2017: 12.4%), which is below the UK median pay gap of 18.4% across all public and private sectors in April 2018 (source: Office for National Statistics).

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

	Proportion of females and males in each quartile band			
	£8.63 < £13.32	£13.32 < £17.45	£17.47 < £26.03	£26.06 < £211.97
Total in band	204	201	201	201
Male total: 426	93	98	114	121
Female total: 381	111	103	87	80
% male	46%	49%	57%	60%
% female	54%	51%	43%	40%
% difference mean	(0.7)%	0.1%	(3.7)%	12.7%
% difference median	(0.4)%	0.1%	(4.7)%	0.6%

The year-on-year change in the median hourly pay difference reflects a change in the demographic make-up of our UK-based workforce. During 2018 we centralised a number of our key corporate functions in the UK. In particular a large number of corporate finance and IT roles were transferred from Bridgewater in the US to Reading in the UK. As part of this process a number of roles were filled by male colleagues. Since April 2018, in line with our Diversity and Inclusion strategy, we have actively sourced a diverse range of candidates for all senior roles, including senior finance leadership roles, and next year's report will reflect this.

As detailed in the table below, 80.33% of our female employees and 87.97% of our male employees received a bonus payment. Both figures are above the UK reported average.

	Females	Males
Proportion of females and males receiving a bonus payment	80.33%	87.97%
Eligible population for a bonus during the relevant bonus pay period[1]	361	399

1. 47 individuals were not eligible for bonus payments because they were new hires during the final quarter of the financial year ended 31 December 2017.

In view of the year-on-year change in the median hourly pay difference, we undertook an in-depth analysis of our pay structure in the UK. In keeping with our commitment to fair treatment and pay equality, we have also reviewed the pay structures we operate across our global footprint. We are confident that our pay rates are fair and that male and female colleagues in comparable roles are paid equitably and fairly.

As highlighted above, to address the demographic imbalance reflected in this gender pay data we are actively sourcing a diverse range of candidates for all senior roles. In addition, our management performance programme now includes diversity objectives for each Executive Committee member and our HR leaders across the Group. These objectives are aimed at supporting our overall Group objective which is to have 30% of senior management roles held by female executives by 2020.

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

Employee engagement

During the year over 86% of our employees participated in our 2018 employee engagement survey. Compared to the feedback gathered during a similar survey undertaken in 2015, scores in key areas were significantly improved and above our sector benchmark. In particular 87% of employees recognised our Purpose, to improve the lives of the people we touch, as relevant and meaningful.

Key feedback from the survey has helped inform our new people strategy and a number of actions are being implemented to address some of the issues the feedback highlighted. In particular, to address a desire for more regular, relevant and accessible business updates, we are migrating our computer-based global intranet to a mobile app, "MyConvaTec", which can be accessed by any employee using a smartphone and read in their own language.

As highlighted in the Chairman's letter on page 6, with effect from 1 January 2019, Regina Benjamin and Ros Rivaz will take on specific responsibility for ensuring Board-led employee engagement. Further information about the Board-led employee engagement programme is included on page 99.

Development

Building talent and developing the capabilities of our people are core elements of our people strategy. We offer all employees training and development opportunities to help them progress their careers and also to ensure that we have the right experience and skills across the Group and a pipeline of talent for the future. During 2018 we have enhanced the training and development opportunities we provide including:

- We designed and launched the "ConvaTec Management Experience", a global development programme targeted at new and early career managers across all our business areas.
- We also designed a career framework approach for our sales and marketing teams, which maps out individual career development across our commercial operations.
- We successfully piloted a performance management programme (appraisals and personal development plans) for UK-based manufacturing employees. This programme, which will be extended to our other manufacturing sites during 2019, supports our aim to provide development opportunities for all employees.

Succession planning

We continue to focus on our critical leadership roles and succession planning. To support this activity, during 2018 the Nomination Committee undertook a detailed review of succession planning and talent development across the Group's senior management team. Further information about this review is included on page 87. We also implemented a new relocation policy to encourage employee mobility across all parts of our business.

Health and safety and employee well-being

The health and safety ("H&S") of our employees and others who visit our sites is a priority. We run regular H&S training courses and, through our global H&S programme, 22 core H&S standards are embedded throughout our operations.

During the year we introduced a new safety performance database which covers our manufacturing operations, headquarters and primary commercial locations. This tool standardises our approach to H&S reporting and enables enhanced diagnostics. In particular, it provides a common platform for documenting accident investigations, root cause analysis and data reporting, including near miss events and hazard observations.

During 2018 there were no fatalities and we saw a reduction in the number of recordable and lost time injuries. Information about our 2018 H&S performance is set out below.

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

We operate employee wellness programmes in a number of countries and during 2018 we launched our "LIFE+ by ConvaTec" community programme. Further information about this programme is provided on page 25.

Innovation and intellectual property

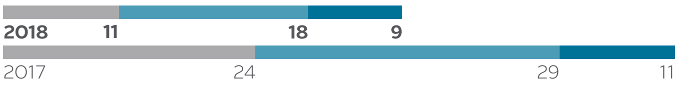
Our R&D team is dedicated to developing safe and reliable products and technologies that improve people's lives and advance clinical outcomes and practices. The team continuously gathers feedback from customers and healthcare professionals, including through focus groups, anthropological studies and surveys, all three of which help to inform the various stages of the R&D process.

Our R&D team includes over 300 people and is located across two locations. At Deeside in Wales our R&D activities are focused on our AWC, Ostomy Care and CCC franchises, and Osted in Denmark is the centre for our Infusion Devices' R&D activities. We also have process development and lifecycle management teams based at our manufacturing facilities in Slovakia and Belarus.

To fulfil our Purpose and create value for our stakeholders, including our shareholders, we must continuously develop and maintain an innovative pipeline of new products and technologies. We have successfully commercialised a number of innovative products, however recently we have not harnessed our R&D capabilities effectively and, as a result, our current new product development pipeline is smaller than in previous years. In particular our "Gateway" new product development programme has not been robustly implemented and, as a result, we have been late to market with a number of recent launches, including Avelle™ and our next generation catheters. Information about our current new product development pipeline is included below.

In 2018 we launched 11 new products.

Our new product development pipeline



1. Including product expansions into new geographies and/or new indications.

Our refreshed execution model aims to enhance our R&D capabilities, strengthen our innovative product pipeline and improve our development processes. We will also supplement our pipeline through licensing arrangements and acquisitions. Further information about how we will deploy our R&D capabilities more effectively to drive our strategy is included on page 30.

We own an extensive intellectual property portfolio which we actively protect and defend. Currently it includes over 240 active patent families, 2,700 patents and patent applications globally and over 6,000 registered trademarks globally. The majority of our portfolio relates to our key technologies including: our core Hydrofiber™ Technology, our infusion device technologies, our AWC negative pressure wound therapy ("NPWT") technologies, the ConvaTec Moldable Technology™ used in our ostomy products, our GentleCath™ Glide and Feel Clean Technology™ as well as compositions, processes or product features.

When patents expire, historically we have been successful in bringing new, commercially viable and patentable features to market, effectively upgrading our older product offerings. In addition to patent protection, we rely on trade secrets and manufacturing know-how (in particular with respect to our products that incorporate our Hydrofiber™ Technology, which is produced using complex manufacturing and chemical processes) to protect the competitive position of our products.

2018 innovation highlights

Continuing to innovate to address customers' needs

Our next generation female catheter incorporates our proprietary FeelClean™ Technology and contains a number of unique features which provide simple, convenient hydrophilic catheterisation. This innovative product is small, easy to use and is designed to provide maximum discretion for users. It is currently being piloted and will be launched in Europe during Spring 2019.

Recognising the product's outstanding innovative design, in January 2019 it received an iF Design Award. First awarded in 1953, an iF Design Award is the oldest independent design seal in the world. It is a symbol of outstanding design achievements that focus on the innovative power of design.

Award winning technology

In the Spanish market in October, the neria™ Soft90 infusion set was awarded "Product of the Year" by ANERCOM (Asociación Nacional de Enfermería Coordinadora de Recursos Materiales) the National Association of Nursing Responsible for Product Procurement. The award was made at ANERCOM's annual national congress and more than 500 nurses participated in the voting. Neria™ Soft90 incorporates a soft cannula inserted at a 90 degree angle with an introducer needle that can be secured after use for increased needle safety.

Stakeholder relationships

Our ability to deliver long-term success is dependent on a wide range of stakeholder relationships. These are detailed on page 24 and include our employees and the people who use and interact across all aspects of our business. Within the relevant ethical and regulatory frameworks, we aim to work with our stakeholders collaboratively and build long-term relationships based on trust.

Through our engagement with our stakeholders we identify the key issues that matter to them. These issues inform how we run our business day-to-day and we develop strategies and initiatives to address them.

Feedback we receive from stakeholders enables us to enhance our product offering and better understand and meet their needs. This approach also differentiates our offering and enhances our ability to win new customers and retain them.

We engage directly with customers through a number of channels. Our me+™ consumer-focused programmes, which are operated by our Ostomy Care and CCC franchises, provide access to services and support and a diverse inspirational community network. Our Home Distribution Group in the US, which includes 180 Medical, and Amcare, our UK distribution business, supplies catheter and incontinence-related products directly to customers.

Our dedicated sales teams also engage regularly with the healthcare professionals who prescribe our products and customers who buy our products for end users (including government healthcare providers and private organisations). To support these stakeholders we publish educational materials, run specialist training programmes and operate a number of call centres.

Specifically in relation to specialist training, during 2018 our Deeside-based R&D team hosted seven clinician and customer visits which focused on a range of issues including advanced dressing technologies, negative wound pressure therapy, ostomy care and continence care products and infection prevention technologies. Valuable feedback from these visits helps inform our R&D process.

In addition, our Ostomy Care franchise ran Nurse Advisory Boards on a bi-annual basis in a number of countries including the US, UK, Japan and France. During these sessions the latest developments and practices are shared and specialist stoma nurses provide insight and feedback about our products. In September 2018 we also launched our first nationwide ostomy advanced training programme in India. The programme included three one-day seminars held in Bangalore, Mumbai and Delhi and covered new technological advances and practices in relation to ostomy care, both before and after surgery. Over 250 healthcare professionals participated.

Our stakeholders and how we engage with them

Our stakeholders and how we engage with them

Consumers – the people who use our products and rely on our services	Supply of products via our direct-to-consumer channels including our home delivery companies and websites. Provision of services via various channels including our me+™ programmes, our specialist nurses, our call centres, our home delivery companies and websites and the targeted consumer research we undertake to gather feedback.
Our people	Interaction via our Group intranet, regular town hall meetings, People Leadership Committee, annual performance reviews, our ERG groups and email briefings. Also, where relevant, through union representatives and works councils.
Shareholders	Regular meetings and calls, roadshows, presentations and site visits. Engagement with specialist SRI/ESG investors and analysts on specific CR topics. Feedback from corporate brokers.
Healthcare professionals	Ongoing dialogue including via our sales teams, targeted research, training sessions and through our Nurse Advisory Boards.
Institutional customers/buying organisations	Interaction via our sales and marketing process, including formal tender processes.
Suppliers, distributors and other partners	Ongoing dialogue via our commercial teams, as well as through assessments against our Supplier Code, due diligence reviews of distributors and compliance training.
MedTech regulators	Regular and ad hoc dialogue in relation to product approvals and other matters.
Governments	Ad hoc dialogue in relation to specific matters including Brexit, fiscal (e.g. taxation), employment (e.g. apprenticeships) and corporate governance.
Local communities	Ad hoc dialogue in relation to specific matters and through our LIFE+ by ConvaTec community programme, which is explained on the next page.
Industry bodies and non-government organisations ("NGOs")	Membership of several industry bodies and participation in meetings and discussions in relation to industry issues including best practice. Engagement with NGOs on issues of concern, where appropriate.

Some of our 2018 stakeholder engagement activities

Consumers:
Expanding our customer engagement channels
During the year we expanded our GentleCath™ me+™ programme for intermittent catheter users. Originally launched in 2017 to support our GentleCath™ product portfolio in the US, the programme is now available in a number of other countries including the UK and Australia.

At the core of this award-winning programme are digital tools that aim to provide relief from the impact and stress of life as an intermittent catheter user. We developed these tools based on feedback from both users and healthcare providers, which indicated a strong demand for training support for new catheter users. In 2018 over 34,000 users accessed the programme's personalised video user guides, FAQ videos and an alternative light-relief view on cathing from our award-winning, sitcom writing blogger, Paul Young.

Healthcare professionals:
Providing specialist training about our Ag+ Technology
In Italy during July, we launched a specialist eLearning programme to enhance understanding of our AWC products and, in particular, our proprietary Ag+ Technology. The programme was launched on Nurse24.it, a key digital channel for nursing professionals in Italy, which has more than 68,000 registered users and is accredited by the Italian Ministry of Health to provide education and training. Within three months of its launch 3,000 nurses subscribed to the ConvaTec AWC programme, which provides training in a convenient and easy way.

Local communities:
Enhancing our involvement in the local communities where we operate
To enhance our involvement in the local communities where we operate, in 2018 we launched our "LIFE+ by ConvaTec" community programme. The programme, which makes funds available to support local initiatives, is focused on helping disadvantaged young people get a healthier start in life. To reinforce our goal of an "employee-led" programme we linked the allocation of our community fund to our employees' engagement in the Global Challenge wellbeing programme, which is managed by Virgin Pulse.

More than 1,350 employees entered the Global Challenge programme. They formed into 194 teams and spent one hundred days walking, running, cycling, and swimming, and working through online wellbeing educational materials. The programme, which will continue through 2019, delivered a number of positive benefits including:
- Supporting our employees to improve their health and wellbeing by working through modules connected with exercise, nutrition, stress and sleep.
- Engaging our employees in our philanthropic programme by using their level of engagement in the Global Challenge, and in particular the number of physical steps taken, to determine how our community fund is dispersed in local communities.
- Building teamwork and encouraging engagement with our Purpose and Values.

How we run our operations

Dedicated sales and marketing and extensive distribution network
Our products are marketed and sold in over 110 countries through our four franchises. We utilise a number of sales channels including our own sales and marketing function and a network of distributors and wholesalers, who sell our products and manage the entire distribution process on our behalf. Further information about how we market and sell our products is set out on page 47.

All members of our sales teams participate in regular training sessions throughout the year and attend national sales meetings, to gain information about our strategic direction and business priorities. To coincide with new product launches, our sales teams receive formal training which covers product design features, instructions for use and clinical value.

Our sales teams engage regularly with our customers and with the healthcare professionals who prescribe our products. The feedback they obtain from this engagement is a critical part of our product development process and enables us to deliver products and services that meet our customers' needs. Information about our sales teams' engagement activities is included on page 23.

Our manufacturing footprint, operations and how we manage our environmental impact
In recent years we have endeavoured to optimise our manufacturing footprint and deliver cost savings, by relocating our manufacturing plants to lower cost countries. While the majority of these relocations have been executed to plan, in 2017 the relocation of production lines from our Greensboro plant in the US to Haina in the Dominican Republic was not executed well. While the supply issues related to this relocation are now resolved, we have not delivered the anticipated benefits of the move and it has continued to impact our 2018 performance, as explained on page 9.

In the past 18 months we have focused on introducing LEAN manufacturing processes across all operations to improve our operational efficiency. While LEAN manufacturing processes are operational in a number of our plants there is still much work to be done to move our operational platform towards the world-class standards to which we aspire.

Our refreshed execution model intensifies our focus on operational excellence to improve our performance capabilities. In particular we will focus on embedding operational excellence across all our plants and simplifying and standardising our processes, to improve efficiency and productivity. Read more about these initiatives on pages 30 and 31.

Prestigious award recognises strong cooperative long-term relationship
In November Infusion Devices won the 2018 Medtronic Supplier Excellence Award. Medtronic, the largest manufacturer of insulin pumps for type 1 diabetes, is one of our key long-term partners.

The award recognises the strong cooperative relationship we have with Medtronic, particularly in relation to key areas including quality, delivery, cost, and innovation, all of which enable Medtronic to meet the needs of its customers and patients around the world.

"Outstanding performance by our supplier base has a dramatic impact on our ability to exceed the expectation of our customers and shareholders. We know that we cannot do this alone and your partnership and commitment to continuous improvement in all areas positions Medtronic to deliver on its goals and improve patients' lives."

Chief Procurement Officer
Medtronic

The safety and reliability of our products is critical. We operate comprehensive quality management programmes focused on the efficacy of the products we supply, their constituent materials, the manufacturing environment and the supply chain that supports this.

We also operate a rigorous and robust compliance and audit process which focuses on the various design control stages of product R&D, and operates in parallel with our comprehensive quality management approach. We conducted a total of 125 audits during 2018 (2017: 99), including 89 audits of our own facilities (2017: 74) and 36 audits (2017: 25) of third-party facilities, which included facilities belonging to our contract manufacturers and suppliers.

We recognise that we must minimise the negative impact of our operations (including GHG emissions) on the environment. Our environmental policy statement which is set out on our website (www.convatecgroup.com/corporate-responsibility/conserving-our-planet) explains our approach, and reflects a more detailed internal environmental policy document which provides direction to our major facilities on how to structure their environmental management programmes.

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

Dedicated Environment, Health and Safety Managers operate across our manufacturing facilities, and we are developing environmental management systems in line with corporate requirement and referencing ISO 14001.

Our GHG emissions

Our GHG emissions relate mainly to the consumption of natural gas and electricity to power, heat and cool our facilities. At this stage we are not generating any renewable energy but we are pleased to report that we now source virtually all of our UK energy from renewable sources. In 2018, the scope of our GHG reporting covers our manufacturing locations, R&D centres, major offices and distribution centres. The table below sets out our emissions on both a location, and a market basis.

From 2017 to 2018 we have seen a like-for-like increase in GHG emissions of 3% which has been driven by increases in production-related activities in certain manufacturing locations, offset by efficiency savings, the procurement of renewable energy in the UK and other factors. In accordance with the target set in our 2017 Corporate Responsibility Report, we have developed a climate change strategy for the business and published a GHG reduction target.

Our GHG emissions have been calculated in accordance with the GHG Protocol and using conversion factors published by the International Energy Agency and the UK Government. Further details of our environmental performance, and the scope and methodologies we have adopted for our GHG accounting and reporting are detailed in our 2018 Corporate Responsibility Report.

Greenhouse gas emissions (location-based method) (tonnes CO_2e)

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

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

Greenhouse gas emissions (market-based method) (tonnes CO_2e)

	2018
Scope 1	**4,901**
Scope 2	**28.283**
Total GHG emissions	**33,184**

Our strategy

Our strategy is designed to drive sales and earnings momentum by better capitalising on our core strengths including our leading positions in large structurally-growing markets and our differentiated product portfolio. This strategy is sound, however we have failed to execute it effectively. Following an extensive review we have developed Pivot to Growth, our refreshed execution model, to improve our operational performance and drive higher revenue growth and profitability. Our refreshed execution model is focused on four strategic drivers: Simplify, Innovate, Segment and Invest.

Our Purpose

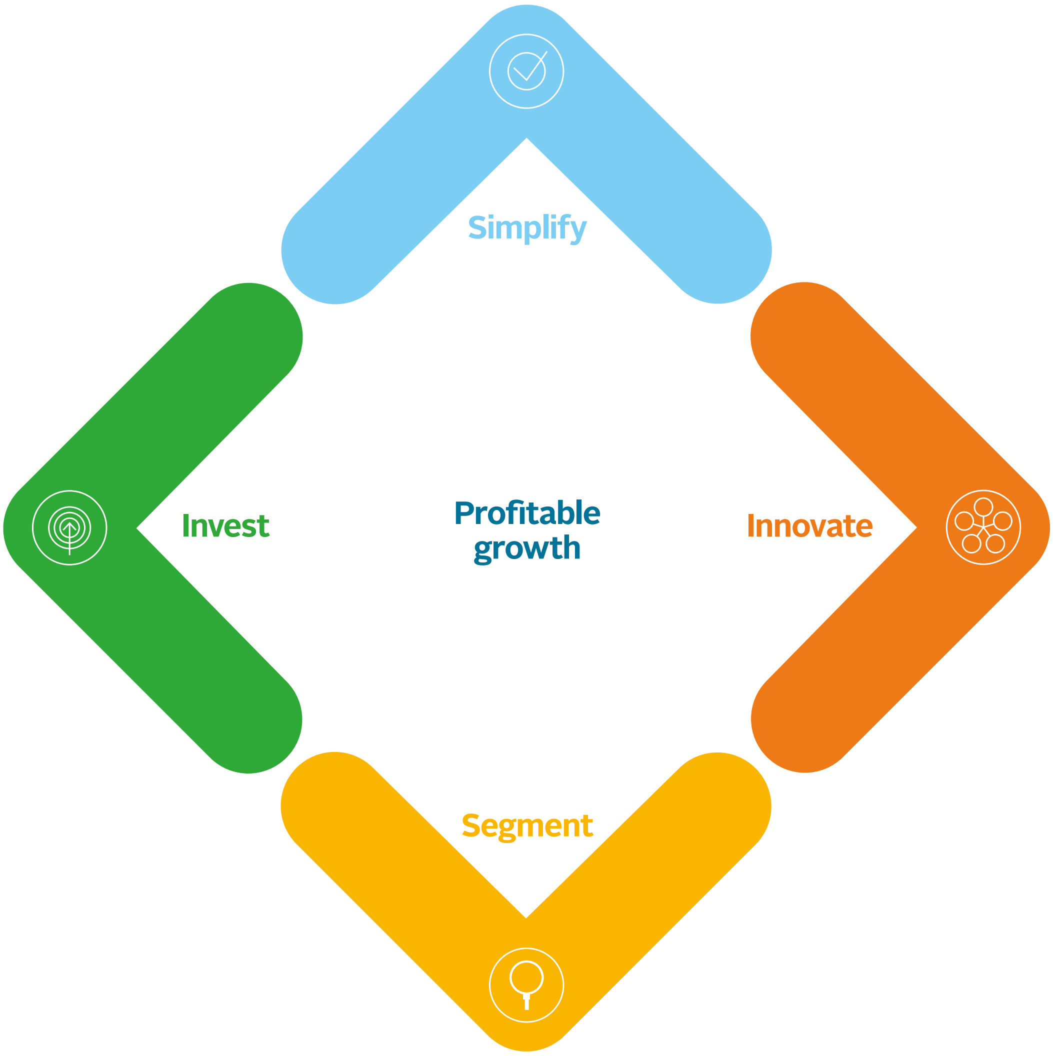
Our Purpose is to improve the lives of the people we touch. We do that by designing, manufacturing and selling products and services that give people confidence, freedom and mobility, enabling them to live the lives they want. By delivering value for our customers, we deliver value for shareholders, employees and other stakeholders.

Our goal

Our goal is to deliver sustainable profitable growth and long-term value for all stakeholders. We will do that by implementing our refreshed execution model, which is focused on the four strategic drivers highlighted below. Further information about these drivers is included on pages 29 to 31.

Our strategic drivers

Our four strategic drivers are aimed at enhancing key aspects of our business: our product and service offering, our competitive market positions, the geographies in which we operate and how we run our business. If our products and services offer our customers the best outcomes we will grow our market positions and our sales. By running our business in the most efficient way we will ensure that our growth is profitable.



Our strategic drivers

Simplify

Overview
Simplify our business in a number of areas, including our corporate structure, to improve our execution capabilities.

Relevant KPI
– Delivery of gross annual cost savings through operational excellence programme

Link to risk
1, 2, 3, 5, 8, 9, 11

Since our Listing in 2016, simplifying our business to reduce complexity, increase efficiency and drive cost savings has been a key focus. However, the various initiatives launched to achieve these ambitions have been executed with limited success. We continue to believe that there are significant opportunities to improve the way we run our business. Read about how we plan to better harness these opportunities on page 30.

Innovate

Overview
Build on our R&D capabilities to be the leading product and technologies developer in our chosen markets.

Relevant KPIs
– Product launches
– Number of new product development programmes

Link to risk
3, 6, 7, 11

As explained on page 22, we have not harnessed our R&D capabilities effectively. Our ambition is to become the leading product and technologies developer in our chosen markets. To achieve this ambition and deliver profitable growth, we must strengthen our product pipeline and make our new product development and launch processes more effective. Read about how we plan to enhance our R&D capabilities, strengthen our product pipeline and improve our development and launch processes on page 30.

Segment

Overview
Focus on products and geographies with potential for sustainable profitable growth.

Relevant KPIs
– Group revenue growth
– Adjusted EBIT margin

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

We have not approached markets in a targeted way, and not effectively sold the differentiated nature of our products to command a price premium. We have too often focused on topline growth at the expense of price and margin. In the future we will focus on premium markets, segments and geographies that have the potential to deliver the most profitable returns. Read more about our refreshed market approach on page 30.

Invest

Overview
Invest in our infrastructure to improve our execution capabilities. Implement an efficiency programme to fund these investments.

Relevant KPIs
– Group revenue growth
– Adjusted EBIT margin

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

Since our Listing we have made investments across our business to enhance our productivity. To support future growth and profitability we will continue to invest to strengthen our operational and commercial execution. To partially fund these investments we will implement cost out and efficiency programmes. Read about our growth enabling investments and our efficiency programme on page 31.

Key to risks – see pages 36 to 43

1. Change and transformation
2. Attract, engage and retain leadership talent
3. Brexit
4. Legal and Compliance
5. Global Operational and Supply Chain
6. Product Innovation and Intellectual Property ("IP")
7. Pricing and reimbursement
8. Forecasting Process
9. Information security
10. Macroeconomic and foreign exchange ("FX")
11. Quality and Regulatory

Our refreshed execution model focuses on four drivers.

Simplify

How we will improve our execution capabilities

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

Innovate

How we will drive innovation

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

Segment

How we will approach our markets

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

Invest

How we will invest for and fund growth

- Over the next three years we will invest in our Transformation Initiative to enhance our capability to deliver short and long-term improvements to operating performance.
- Over the medium to long term we are targeting increased investment as a proportion of sales in key areas such as Sales and Distribution and, as highlighted on the previous page, R&D. This is intended to drive higher revenue growth over time and make us more efficient, with General and Administrative costs falling as a proportion of sales.
- We expect to fund these investments through cost out and efficiency programmes as part of our Transformation Initiative.

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

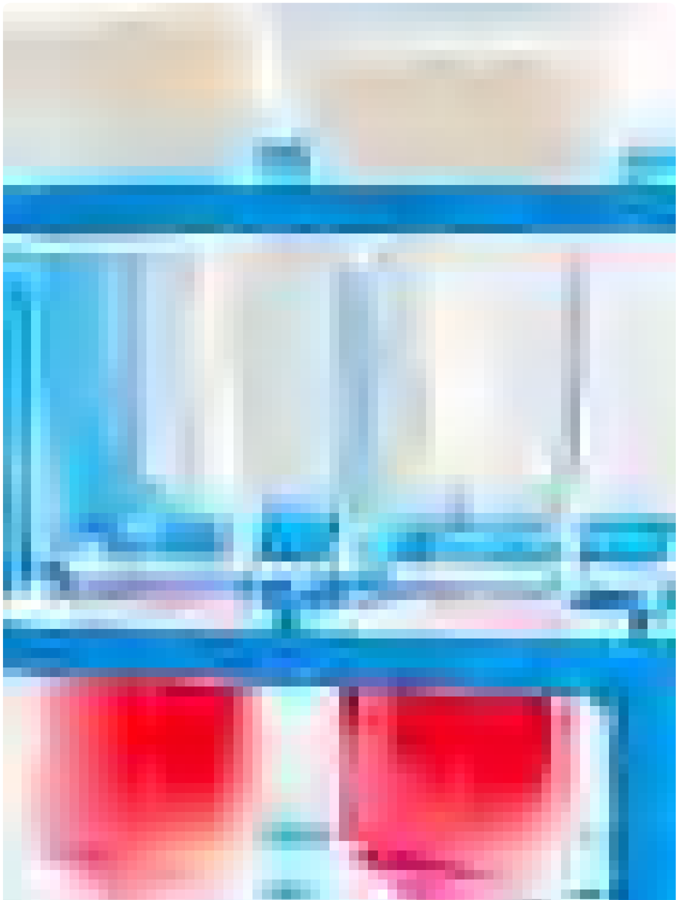
- Operational Excellence, led by Donal Balfe, Vice President Global Operations, which includes our cost out and efficiency programmes which are explained below.
- Commercial Excellence, led by David Shepherd, President AWC, and Kjersti Grimsrud, President EMEA, to drive more effective product launches,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

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

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

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

Our evolving product portfolio



Developing innovative products that deliver proven outcomes

Our AQUACEL™ Ag Advantage dressing is the culmination of many years of research and collaboration with clinicians to more effectively address the most difficult and persistent wound management challenges. This innovative dressing combines two powerful technologies: our proprietary Hydrofiber™ Technology, which absorbs and retains wound exudate and which micro-contours to the wound bed to maintain a moist wound environment to support the healing process and our new unique Advantage Technology. Our Advantage Technology provides rapid and sustained antimicrobial activity within the dressing, which has been shown to kill a broad spectrum of bacteria within the dressing, including antibiotic resistant superbugs, and which has been shown in vitro to have sustained antimicrobial activity to prevent microbial reformation.

Our key performance indicators

We will monitor delivery of our strategy and the effectiveness of our refreshed execution model using both financial and non-financial KPIs.

Strategic driver:
Simplify

Simplify our business in a number of areas, including our corporate structure, to improve our execution capabilities.

Delivery of gross annual cost savings through our Operational Excellence programme

To both fund growth and to deliver medium to long term margin improvement, we are aiming to simplify our business in a number of areas including product range, packaging and supply chain, as well as corporate structure. As part of this aim, we have implemented an Operational Excellence programme, targeting $120m in gross annual cost savings by 2023, which will be partially offset by price/mix, inflation and increased depreciation. This programme includes actions across a range of activities and functions, following several key themes:

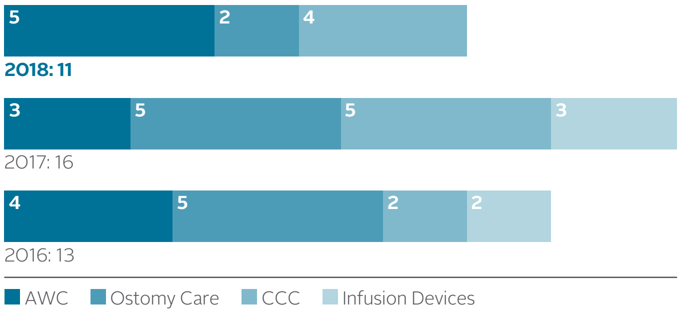
- Sourcing (including improving purchasing strategies and reviewing "make versus buy" decisions).
- Supply Chain (optimising supplier relationships and freight/distribution spend).
- Manufacturing (driving LEAN benefits in production, improving overall equipment effectiveness and automating manufacturing, where appropriate).
- Footprint (considering 'move/automate/replace' decisions and site consolidations).
- Simplicity (rationalising the number of product codes and standardising, where appropriate).

Link to risk
1, 2, 3, 5, 8, 9, 11

Strategic driver:
Innovate

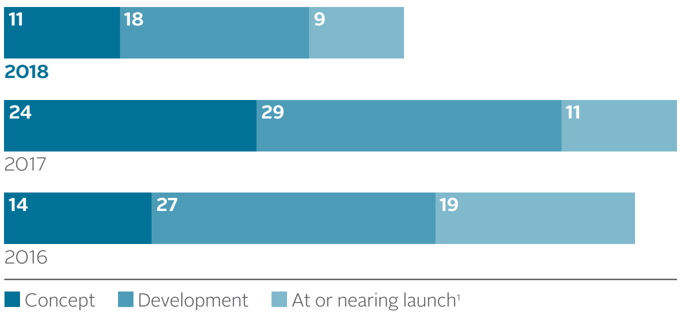
Build on our R&D capabilities to be the leading product and technologies developer in our chosen markets.

Product launches



During 2018 we launched 11 new products. AWC launched five new products including our Avelle™ NPWT System and AQUACEL™ Ag Advantage in the US market. CCC and Ostomy Care launched four and two new products respectively. There were no new product launches in Infusion Devices during the year. As explained on page 30, through implementation of our refreshed execution model, we will improve our launch processes to ensure that our R&D capabilities are effectively balanced with strategic planning, effective governance and commercial execution.

Number of new product development programmes



1. Including product expansions into new geographies and/or new indications.

Details of our new product development pipeline are shown above. Compared to our 2017 pipeline our 2018 concept and development categories contain significantly fewer products. As explained on page 30, through implementation of our refreshed execution model, we will strengthen our pipeline and improve our development processes.

Link to risk
3, 6, 7, 11

Key to risks – see pages 36 to 43

1. Change and transformation
2. Attract, engage and retain leadership talent
3. Brexit
4. Legal and Compliance
5. Global Operational and Supply Chain
6. Product Innovation and Intellectual Property ("IP")
7. Pricing and reimbursement
8. Forecasting Process
9. Information security
10. Macroeconomic and foreign exchange ("FX")
11. Quality and Regulatory

Strategic drivers:
Segment and Invest

Focus on products and geographies with potential for sustainable profitable growth.
Invest in our infrastructure to improve our execution capabilities.
Implement an efficiency programme to fund these investments.

Group revenue growth[1] $

2018	**1,832m**	**+2.7%**
2017	1,765m	+4.1%
2016	1,688m	+4.0%

At constant currency, revenue grew 2.7% to $1,832m, and 0.2% organically. AWC organic revenues grew 0.2% with our AQUACEL™ Foam and anti-biofilm silver dressings performing well, offset by challenges in our older DuoDERM™ and base AQUACEL™ dressings, as a result of the supply constraints of 2017 and challenging market dynamics, most notably in the UK. Performance in the US continued to be below expectations, driven primarily by weak sales of surgical cover dressing and disappointing progress on the wound acceleration plan. Ostomy Care organic revenue declined 0.5% primarily driven by lost patients, a result of the supply constraints in the second half of 2017. We also saw some weakness in the US retail channel and the recent trend in new patient capture rates in US hospitals. However, we delivered good results in both Latin America and certain markets in Asia Pacific and Europe. There were encouraging results from our recent product launches such as Esteem™ + Flex Convex. At constant currency, CCC revenue grew 15.2% (4.1% organic), with a strong performance from HDG in the US being partially offset by continuing planned product rationalisation and the impact of the packaging recall in the second half of 2018, which together negatively impacted revenue by c. $6 million. Infusion Devices organic revenue fell by 3.5%, with good underlying growth offset by significantly reduced orders in the fourth quarter, due to an unexpected change in inventory policy by our largest customer.

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

Adjusted EBIT margin[2] %

2018	**23.4**	**-2.5%**
2017	25.9	-2.1%
2016	28.0	+1.5%

Adjusted EBIT margin fell by 2.5% to 23.4%, due to a combination of factors. Increased investment in commercial initiatives, the internal infrastructure and capability of the business and negative sales mix were the main drivers of lower adjusted EBIT margin, along with lower than expected revenues.

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

1. Revenue growth is stated at constant currency.
2. Certain financial measures in this Annual Report and Accounts, including the adjusted performance measure above, are not prepared in accordance with IFRS. All adjusted performance measures are reconciled to the most directly comparable measure prepared in accordance with IFRS on pages 66 to 71.

Risk management and our principal risks and uncertainties

To achieve our strategic goals and business objectives, and protect value, it is essential that we manage the risks that are inherent in our business and the markets where we operate.

Risk management

The Board is responsible for determining our risk appetite and assessing the principal risks that could threaten the delivery of our strategy, our performance and reputation. The Board is also ultimately responsible for monitoring and reviewing the processes and internal controls we operate to manage and mitigate such risks. Further information about the role and responsibilities of the Board is set out on pages 78 to 79.

The Audit and Risk Committee supports the Board in monitoring and reviewing the adequacy and effectiveness of our risk management framework, which is developing and embedding in all our operations around the world.

Risk appetite

The Board considers the level of risk that is appropriate for us to accept to achieve our strategic goals and business objectives on an ongoing basis.

Our risk appetite is summarised in the adjacent panel.

Principal risks

Our principal risks, which the Board has assessed as part of our risk management framework, are set out on pages 36 to 43.

Supporting delivery of our strategy

In line with the development of our refreshed execution model, we have reviewed the risks that could impact our four strategic drivers. As a result of this review, although the nature of our key risks has not altered, the substance and management of certain risks has changed. For further information about our strategy, see page 28.

There are 11 principal risks and uncertainties (2017: nine) including three new risks. Two prior year risks have been combined into one. The new risks relate to Brexit, the attraction, engagement and retention of leadership talent and change and transformation. In terms of the risk profile: seven risks have increased, three have decreased and one has remained stable.

Other factors

For further information about our market environment, see page 12.

For further information about our key performance indicators, see page 32.

Our risk appetite

Risk category	Risk parameters
Strategic Moderate to high	We have a moderate to high risk appetite with regard to product innovation and exploring and adopting commercial strategies that bring enhanced value to our customers and which contribute to the delivery of a higher quality of care to patients around the world.
Operational Low to moderate	We maintain a low to moderate risk tolerance when assessing our suppliers and managing our overall production costs, quality and effectiveness. We strive to operate as efficiently as possible without compromising product quality or disturbing effective inventory management processes.
Financial Low to moderate	We have a low to moderate risk tolerance in respect of our financial processes. We maintain financial controls to help ensure that our financial processes are well designed, controlled and support accurate financial reporting to management, the Board and external stakeholders. We have a low risk tolerance with respect to safeguarding our assets. Our Treasury policies explicitly focus on asset security as the principal concern in all Treasury transactions. We aim to ensure that our Treasury policies are always supportive of underlying business activities while being prohibitive of speculation via complex financial instruments. We aim to keep tax risks low through the early assessment and appraisal of changes to tax legislation, business decisions and the external environment within which we operate. We apply risk management controls over the Group's tax affairs and processes and monitor the effectiveness of tax compliance activities of all Group companies. Our tax arrangements are derived from the commercial needs of our business operating model, as ConvaTec does not engage in artificial tax arrangements. In addition our policies and procedures support this approach and are monitored by the tax team working closely with the business and other Group functions to ensure compliance and consistency.
Compliance and safety Extremely low (zero)	We have an extremely low (zero) risk tolerance with respect to any activities or conduct that are not compliant with all anti-corruption and anti-bribery laws. We promote the highest ethical standards and impose such standards on all employees, agents and contractors. Similarly, we have an extremely low (zero) risk tolerance with regard to conduct that may compromise product quality or patient and employee safety.

Brexit

Brexit is now disclosed as a separate stand-alone risk. Previously it was included within the Macroeconomic and foreign exchange risk. This change reflects the increased risk and uncertainty given the very short period of time before the UK exits the EU on 29 March 2019 and the current status of the Government's negotiations. Pending the conclusion of the negotiations we have assessed our Brexit-related risks and planned actions based on a number of potential outcomes.

Risk management framework

The risk management framework was implemented in conjunction with the Group's initial public offering in October 2016. In the period since the IPO, the risk management processes have continued to evolve and mature through application coupled with increased levels of oversight from senior management and regular review by the Audit and Risk Committee.

The principal risks and uncertainties have been collated through a two-pronged process to collect risk information from across the business. The first process is bottom-up, which is the process of risk management at operational level and the second process is top-down, which is the governance of risk by the Board and the Executive Committee. The resulting list of principal risks are reviewed and agreed by the senior management team overseen by the Executive Committee, and reviewed and approved by the Audit and Risk Committee before being presented to, and discussed by the Board.

The Group's risk register is reviewed and maintained on an ongoing basis by management, with the Board retaining oversight and responsibility over the risk register and the risk management process.

Depending on the nature of the risk, a variety of risk mitigation measures are implemented including, for example, insurance, standardised processes, delegation of authorities, auditing and monitoring, succession plans, diversification in business and revenue streams. The Audit and Risk Committee assess the effectiveness and applicability of the risk mitigation measures through the internal monitoring undertaken by various functions including Internal Audit, Legal and Compliance, Finance and IT. Where the Audit and Risk Committee is unable to obtain assurance from internal monitoring functions, it requests deep dive presentations and discussions of specific risks with relevant management. For certain risks, the Board will also request deep dive presentations to examine the effectiveness of mitigating actions such as the presentation covering our Brexit plan.

On an ongoing basis both the Board and the Audit and Risk Committee assess whether the Group's risk profile accords with the determined risk appetite.

Internal control

The Board has overall responsibility for the Group's internal controls and regularly reviews the processes the Group operates. The Board has delegated responsibility for monitoring and assessing the effectiveness of the internal controls to the Audit and Risk Committee, including operational and compliance controls, risk management and compliance with the UK Corporate Governance Code 2016. The risk management framework assists in the ongoing process of the Board's identification, evaluation, and management of the Group's principal risks.

Roles and responsibilities

Board

- Oversees the Group's risk management framework.
- Reviews the principal risks on a six-monthly basis.
- Sets the Group's risk appetite.
- Assesses whether the Group's risk profile accords with its risk appetite.
- Oversees risk management processes.
- Horizon scans will be completed on a regular basis in accordance with the risk management framework.

Audit and Risk Committee

- Monitors, assesses and reviews the Group's internal control and risk management systems.
- Assesses whether the Group's risk profile accords with its risk appetite.
- Reviews key risks on a regular basis.
- Reviews internal audit reports on effectiveness of mitigations and controls related to certain key risks.
- Reports its findings and recommendations to the Board.

Further information about the role and responsibilities of the Audit and Risk Committee is set out on pages 90 to 98.

Executive Committee

- Undertakes top-down risk reviews and manages the risks.
- Reviews and approves bottom-up risks.
- Participates in risk workshops to identify, evaluate and approve the principal risks to ensure that all necessary actions, mitigations and controls are being effectively applied to minimise residual risk exposure. Each principal risk has a "risk owner" who is a member of the Executive Committee and is accountable for overall management of the relevant risk and the associated mitigating actions.
- Horizon scans will be completed on a regular basis in accordance with the risk management framework.

Internal Audit and Enterprise Risk team

- Facilitates risk management workshops to collate top-down risks.
- Reviews and collates bottom-up risks from operations, supports management and assesses when risks require escalation.
- Prepares annual internal audit plan based on principal risks.
- Reports to the Executive Committee and the Audit and Risk Committee.
- Supports the Executive Committee in fulfilling its risk management responsibilities.
- Assists operations management in embedding risk management processes and maintaining and improving them.
- Reviews annually the effectiveness of the risk management framework.

Operations management within Group functions, franchises and business units

- Undertakes day-to-day risk management activities.
- Identifies risks, assesses the level of risk and determines when risks require escalation.
- Identifies the current controls operating to mitigate the risk within a business area.
- Identifies actions to be implemented to further mitigate and reduce the risk exposure.
- Assigns risk owners to lead mitigation actions.
- Assigns control owners to monitor the effectiveness of the control.

Principal risks and uncertainties

Detailed here is an overview of the principal risks we believe could threaten our strategy, performance and reputation and the actions we are taking to respond to and mitigate those risks.

Risk and oversight	Link to strategy Risk profile change	Potential impact	Risk mitigation
1. Change and transformation The large and significant change and transformation programmes being implemented across the Group do not deliver the required impact and results within our planned timescale and budget. **Oversight and responsibility for managing** – Board – CEO	Simplify Segment Invest **Risk profile change during 2018** ↑ **New**	– Failure to deliver our strategy, growth targets and market expectations. – Failure to fully integrate new acquisitions could result in inconsistent policies and management and costly operations, which could impede our ability to fully realise the benefits of the acquisition. – Failure to deliver our efficiency programme could adversely impact our ability to invest in our infrastructure and the capabilities required to improve our execution and delivery of our strategy and our ability to meet shareholders' expectations.	– We have established Franchise Councils and steering committees to enhance governance and review performance. – We have recruited additional resources to support key functions to proactively manage risk, enable timely communications and activate contingency planning where needed. – Senior management are focused on driving a cultural change in relation to strategic decision-making, planning, execution and review of key deliverables to ensure alignment against timelines, expectations and contingency planning. – We have established a Transformation Initiative to oversee the execution of a number of key strategic projects. We are also increasing our project management capabilities through the recruitment of additional employees who are skilled in this area, and the engagement of specialist third-party project managers.
2. Attract, engage and retain leadership talent Failing to attract, retain and align the right leadership talent to the value we seek to create in the business. **Oversight and responsibility for managing** – Board – Executive Vice President, Human Resources – People Leadership Committee	Simplify Segment Invest **Risk profile change during 2018** ↑ **New**	– Lack of appropriately skilled and experienced leaders, due to inability to attract and retain talented leadership could adversely impact our performance and delay delivery of our strategy. – Loss of corporate knowledge due to poor retention of talented employees. – Lack of top talent could impact the ability to develop effective succession plans for the future.	– We are implementing a new people strategy which is described on page 19. – Talent management reviews are completed annually in May and are updated in October. Key findings from both reviews are reported to the Board. – We undertake employee surveys to monitor employee engagement. Any issues are assessed and addressed by the People Leadership Committee which has a global membership. – Executive Committee members have scorecards which include three people-related KPIs covering employee engagement, diversity and inclusion and talent succession and retention. – We seek to offer market competitive terms to ensure leadership talent is attracted, retained and remains engaged. – We undertake workforce planning; performance, talent and succession initiatives; learning and development programmes; and we promote our culture and core values. – We assess and update our people processes regularly to ensure there is strong linkage between our talent and the value we seek to create, underpinned with robust performance management processes.

Risk profile change

Increase	↑
Stable	↔
Decrease	↓

Risk and oversight

3. Brexit

Brexit introduces a high level of uncertainty regarding trading conditions which will impact our EU and UK production plants and potentially our logistics hub based in the Netherlands and our sales in all EU countries.

Brexit may cause some key customers to significantly change and increase their purchasing demands in the short term to build their own safety stock piles to ensure supply continuity after 29 March 2019.

Oversight and responsibility for managing

- Board
- CEO
- Brexit Steering Committee

Link to strategy

Simplify

Innovate

Segment

Invest

Risk profile change during 2018

↑

New

Potential impact

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

Risk mitigation

- Our Brexit Steering Committee, which includes representatives from all key functions, has developed a plan to prepare for Brexit based on the assessment of potential impacts and possible mitigating actions.
- The plan identified a number of actions which we are now implementing. Further information about these actions is set out on pages 10 and 11.
- Progress reports are regularly provided to the Brexit Steering Committee which monitors the progress of the different workstreams across the business and assesses our preparedness for post-Brexit trade.
- The Brexit Steering Committee is monitoring the status of the Government's negotiations and amending our approach where required.
- Quality and Regulatory Affairs are continuing to monitor the potential regulatory impact. As explained on page 11 we have commenced the process with BSI UK to migrate our CE certifications for sales of products in the EU to its sister company based in the Netherlands and expect the migration to be completed before 29 March 2019. The associated product labelling changes are being made to products that will not be placed on the market by 29 March 2019. Further, a Group company located within the EEA/EU will be designated as the Authorised Representative in the EU for those products where ConvaTec Limited is the legal manufacturer.
- We have undertaken an indirect tax assessment in conjunction with an external advisor to establish the potential duty impact on the flow of our raw materials and products that move in and out of the UK, and are taking actions to mitigate the tariff and custom charges.
- We are working with the NHS supply chain and the Department of Health supply chain to assist with their contingency planning and understand their projected product demands.
- The global supply chain and manufacturing team have modelled various possible scenarios of product demand to address border delays and regulatory delays and created contingency plans to manage projected impacts including appropriate stock positioning.
- We have undertaken an initial review of the impact on our people and taking account of our skilled workforce and low levels of mobility between countries, we consider the impact to be limited.

Risk and oversight	Link to strategy Risk profile change	Potential impact	Risk mitigation
4. Legal and Compliance We are a global company and must comply with complex and changing laws across multiple jurisdictions. These regulations cover a myriad of issues including anti-bribery and corruption, market abuse and inside information. We must comply with obligations that arise as a result of being a company listed on the London Stock Exchange. **Oversight and responsibility for managing** – Executive Vice President, General Counsel and Corporate Development – Company Secretary reporting to the Board	**Segment** **Invest** **Risk profile change during 2018** ↑	– The healthcare industry is heavily scrutinised by governmental bodies around the globe and bribery, or other violations of anti-corruption laws, could result in enforcement actions that could negatively impact our financial position and reputation. – Enforcement actions related to bribery could result in an inability to participate in tenders or sell our products to entities that are directly or indirectly reimbursed by a governmental body. – Violations of anti-corruption laws could result in criminal exposure for our employees and cause material disruption to our operations. – Breaches of the Listing rules, Disclosure Guidance and Transparency Rules ("DTRs"), the Market Abuse Regulation ("MAR") and other associated obligations relating to being a listed company could result in enforcement actions that could negatively impact our financial position and reputation.	– We implement a number of policies and procedures to reinforce our values and culture including our Code of Conduct. – We operate top-down leadership of compliance initiatives through a compliance steering committee that is comprised of senior leadership. – We provide ongoing compliance training for all employees, including an annual attestation and annual live training for customer-facing employees. – We operate a confidential and anonymous whistleblower hotline which is run by an independent third party, and other vehicles to escalate complaints. These channels are available to all employees to report potential breaches of our Code of Conduct. – We operate a global compliance risk assessment team and an annual monitoring programme. – We perform due diligence of third parties, require training modules for distributors, audit select distributors in high-risk markets and undertake internal audit reviews of relationships with certain third parties and employee adherence to our Code of Conduct. – We have processes in place in relation to the classification and escalation of information that may constitute inside information and require disclosure. These are set out in our Market Disclosure Policy which is available to all employees. We also provide training as described on page 19.
5. Global Operational and Supply Chain A number of our key products are reliant on single source suppliers or manufacturing facilities which could be significantly impacted if there was an event that either resulted in production delays or adversely impacted product quality. Examples of such events include extreme weather and availability of raw materials (which could be increasingly impacted by climate change), natural disasters, political uncertainty and plant IT failure. **Oversight and responsibility for managing** – Executive Vice President, Operations – Vice President Global Sourcing & Supply Chain – Sustaining Engineering Group	**Simplify** **Segment** **Invest** **Risk profile change during 2018** ↔	– Disruption in our operational supply chain may result in significant production delays causing back orders, delays in delivery to customers, permanent loss of customers and additional costs. – Disruption in our manufacturing facilities could adversely impact quality and require product recalls which could impact our reputation, increase costs and lead to permanent loss of customers. – Disruption within our supply chain could impact our ability to meet customers' requirements due to back orders which could result in permanent loss of customers, reputational damage and financial loss. – Disruption in our operational supply chain may impair our ability to manufacture products within our planned budget and result in lower profitability.	– We have business continuity plans in place for all facilities and key suppliers across our franchises. – We monitor our suppliers and locations via a "Risk Methods" tool to identify potential supply base risk. – We work closely with our Sustaining Engineering Group to proactively assess and address risk. – Our Sales Operation Planning Process seeks to balance supply with demand and facilitates action in relation to constrained lines. – When we relocate product manufacturing we build additional inventory to cover transfer, start-up and registration time. – On an ongoing basis we review inventory against demand and regulatory timing to minimise supply disruption risk and to ensure business continuity. – We operate procedures which enable products to be shipped to and stored at regional distribution centres. – In 2018 we developed a new climate change strategy which seeks to limit the environmental impact of our operations, products and packaging and better identify business vulnerabilities driven by environmental issues. We are monitoring the implementation of this strategy and progress reports are provided on a regular basis to the CR Committee.

Risk and oversight	Link to strategy Risk profile change	Potential impact	Risk mitigation
6. Product Innovation and Intellectual Property (“IP”) Our R&D centres do not develop safe, effective, profitable long lifetime products. Our products do not address market needs. We fail to successfully launch new, safe and effective products on a timely basis to achieve continued growth. We fail to maintain sufficient IP protection for our products and/or our competitors fail to respect our IP rights. **Oversight and responsibility for managing** – Franchise Presidents – Franchise R&D and Legal	**Innovate** **Segment** **Invest** **Risk profile change during 2018** ↑	– Insufficient investment in R&D, or incorrect allocation of investment, or inadequate innovation, could adversely impact our ability to successfully develop and launch new products and our ability to deliver our strategy in future years. – Unsuccessful product launches could adversely impact financial performance in the year of launch as well as future years, as profit margins reduce on ageing products. – Delayed product launches could adversely impact financial performance compared to planned forecast, as the new revenue streams may not be achieved. – Our competitors could secure or assert IP rights which negatively impact the launch of our new product(s) and/or our financial performance. – Our proprietary IP could be subject to misappropriation by a competitor, thereby reducing our competitive advantage. – Governmental entities could require disclosure of our IP which may reduce our competitive advantage or negatively impact our growth.	– We operate R&D centres of excellence and assigned Franchise R&D organisations, which have been enhanced within our Franchise organisational model. – In line with our refreshed execution model, our product development process is being improved to enhance the effectiveness of our launch capabilities. – We continually test new products during their development to ensure their safety and effectiveness. We continually develop new products to address the challenges of ageing product mix. We continue to assess product safety and effectiveness post-launch to ensure that our products best meet the needs of our customers. – We continue to invest in R&D, product development and new product launches to cultivate an adequate product pipeline and to deliver business growth. – We monitor and oppose competitor IP as appropriate and conduct IP assessments throughout our R&D work and prior to product launches to reduce the risk of IP litigation and blocking IP. – We pursue appropriate patent protection for our IP developments, defend against opposition to our IP rights and monitor and assess market activity for violation of our IP rights and whether to assert such rights. – We deploy internal protections against the improper dissemination of our confidential information, including IT protections and confidentiality agreements. – We deploy resources to limit the scope of any mandatory disclosure of our proprietary information to governmental organisations.

Risk and oversight	Link to strategy Risk profile change	Potential impact	Risk mitigation
7. Pricing and reimbursement Globally while populations are growing older and the incidence of chronic conditions are increasing, healthcare budgets are being reduced. This creates a natural need for cost containment. Our financial performance and profitability are reliant on continuing to sell our products profitably to our customers. In line with other MedTech companies, we are heavily reliant on large private institutions and commercial payers, including Group Purchasing Organisations ("GPOs") and consolidated large healthcare systems (Integrated Delivery Networks), all of which have consolidated pricing power and, as they drive cost containment and lower prices, are increasingly subjecting us to price pressure. Reimbursement rates for products sold into the home care setting remain a risk as government or commercial payers try to manage and reduce their costs. In addition we are facing challenges from consolidation of buying groups in the market place as well as competition from other product suppliers, both of which are increasing competition for sales and reducing prices and margins. **Oversight and responsibility for managing** – Franchises Presidents – Regional Presidents	**Innovate** **Segment** **Invest** **Risk profile change during 2018** ↑	– Reductions in governmental budgets, other changes to government reimbursement policy or enhanced government audits, could adversely affect our financial performance and demand for our products which could then impact our growth, our ability to innovate and could result in financial losses. – Due to our competitive markets our inability to increase product prices could result in reduced profitability if there are unforeseen increases in operational costs such as foreign exchange rate movements.	– We continue to drive manufacturing cost efficiencies to improve profit margin. – We are developing multi-source material vendors to leverage scale and reduce dependencies. – We focus on R&D and targeted bolt-on acquisitions to expand our market position in higher value spaces. – We focus on health economics and clinical data to develop and clinically prove value propositions that save healthcare providers money while enhancing outcomes. – We are continuing to invest in greater clinical evidence and health economic studies to differentiate our products and prove economic value and clinical effectiveness. – We are completing portfolio rationalisation reviews for early detection of low margin products to improve our product portfolio to higher value growth orientated spaces which will help to reduce price compression.

Risk and oversight	Link to strategy Risk profile change	Potential impact	Risk mitigation
8. Forecasting Process Our commercial processes do not identify or react to changes in market conditions or changes in customer demand on a timely basis which could lead to inaccurate forecasts and announcement of unexpected and adverse trading results to the market. Our commercial and supply planning processes do not assess demand effectively and plan supply accordingly. Our processes that link commercial planning to operational manufacturing and delivery fail to respond to changes in demand on a timely basis. **Oversight and responsibility for managing** – Global finance – Franchises	**Simplify** **Segment** **Invest** **Risk profile change during 2018** ↓	– Trading performance does not meet forecast and could result in adverse trading results and issue of a profit warning. – Issuance of a profit warning could cause significant harm to shareholder value and damage our reputation with key stakeholders and investors. – Failure to meet budget and forecasts could restrict our ability to raise finance in the future to support further growth and development.	– On an annual basis, as part of our financial planning processes, we prepare a Guidance Memorandum that contains budgeting and forecasting assumptions including guidance on product costs, foreign exchange, new product launches, market share information, competitive activity, franchise strategies and operating expenses. – To drive effective communication and insight across all parts of our business, each month we undertake an operating review process which is led by the CFO and includes senior management and global supply chain. – The monthly forecast review process utilises enhanced and consistent analytics and includes a broad range of sensitivity analysis. – There is ongoing focus in relation to improving the depth and quality of management information and analysis available to the key stakeholders in the business. A continuing iterative process of review, challenge and improvement has been adopted during the year. – The Executive Committee, their direct reports and other key functions (including senior finance personnel) receive training with regard to the identification of potentially inside information and the need to escalate appropriately. Refresher training, covering the relevant provisions of MAR, the Listing rules and DTRs and their implications on reporting, is provided on an ongoing basis to the Executive Committee and key individuals. The Board receive advice on the consideration of potentially inside information from the Company Secretary, the Company's brokers and external lawyers. – We provide guidance about inside information as part of our annual operational planning process and reforecasting process. – The metrics, processes and reporting in relation to the sales and operational planning ("S&OP") process are being reviewed and amended to ensure alignment between commercial planning and supply planning. The S&OP team meet regularly to discuss gaps and trends to ensure that they are addressed in a timely manner.

Risk and oversight	Link to strategy Risk profile change	Potential impact	Risk mitigation
9. Information security Risk of loss of our IP, sensitive business data or fraud following a phishing or cyber-attack. Failure to comply with General Data Protection Regulation ("GDPR") which has significantly raised the requirements organisations must comply with to embed data privacy and information security controls and processes. **Oversight and responsibility for managing** – CFO – Chief Information Officer	Simplify Segment Invest **Risk profile change during 2018** ↓	– A major cyber incident causing a prolonged loss of IT services could significantly disrupt our business and adversely impact financial performance. – A cyber-attack could result in data loss and possible breach of the GDPR regulations, resulting in a potentially significant fine, thereby materially impacting the Group's financial performance. – A major cyber incident could result in significant adverse publicity which may damage our brand and reputation. – Non-compliance with GDPR regulations could result in adverse reporting and could damage our reputation.	– We are implementing a security improvements plan to better secure critical manufacturing systems including encryption, network separation and deployment of a secure Windows 10 environment. – We deploy internal and external resources to address cyber security risks, including commissioning independent cyber assessments. – We obtained the Cyber Essentials Plus Certificate in 2018. – During the year we introduced two factor authentication and increased internet browser security. – We operate a cross-functional steering committee that assesses and reviews on an ongoing basis new and emerging information security and cyber risks and implements measures designed to protect sensitive data and our systems. – We conduct periodic reviews of our networks and stored data to ensure highly sensitive data is maintained in secure locations. – The GDPR compliance programme continues to be implemented with a focus on embedding data privacy throughout the organisation. A risk assessment of data protection practices has been conducted Europe-wide. Markets and functions are implementing further actions to strengthen the control environment.
10. Macroeconomic and foreign exchange ("FX") We are a UK-headquartered group, reporting in US dollars and trading globally. Therefore, our financial performance and results could be adversely impacted by changes in macroeconomics, particularly FX and interest rate movements. As we operate across the globe, changes in tax law and regulations, such as the US tax reform, the OECD Base Erosion and Profit Shifting ("BEPS") and Brexit, impact our tax liabilities (including duties and/or tariffs) and increase filing requirements and obligations. **Oversight and responsibility for managing** – CFO reporting to the Audit and Risk Committee	Segment Invest **Risk profile change during 2018** ↓	– Movements in exchange rates between foreign currencies and the US dollar (our reporting currency) could have a negative effect on our financial performance. – A negative economic climate in our key markets could contribute to reduced demand for our products and negatively impact revenue. – A negative economic climate could result in governments reducing their spending/budgets and/or individual income which could reduce sales of our products. – Disruption in the financial markets could adversely affect our suppliers, increase our purchasing costs and impact our financial performance. – Changes in macroeconomics could result in increases in interest rates that could increase the cost of servicing loans and reduce our financial performance. – Adverse changes in tax rates or law could increase the amount of tax due and payable. This could be linked with an increase in filing obligations in various jurisdictions and the need to retain additional in-house documentation to support our commercial transactions. The failure to comply could result in tax penalties and increased tax audits.	– Diversification of trading across many geographies reduces our reliance upon any single market. – We run sensitivity analysis based on FX movements which provide management with estimates of the impact of FX movements on our financial results. – We carry out monthly forecasting, management reporting and operational processes which enable us to detect potentially adverse FX trends and develop strategies to offset the impact on our financials. – We are improving the robustness of the strategic planning process that monitors market and regulatory developments and enables us to develop strategies to manage the impact on our business. – In overall terms our aim is to maintain fixed rate debt for no less than 25% and no more than 75% of the Group's total debt. – We are implementing an appropriate and Audit and Risk Committee approved FX risk management policy to cover balance sheet exposures. The Treasury Committee will review performance on at least a quarterly basis. – Our Group tax function works closely with our businesses and external advisors to constantly review the changes in the tax environment in which we operate to ensure that we are compliant and report the correct tax position.

Risk and oversight	Link to strategy Risk profile change	Potential impact	Risk mitigation
11. Quality and Regulatory There is a risk that our products are unsafe and cause, or have the potential to cause, harm to the people who use them. We operate across multiple and diverse jurisdictions which set operational regulations that we must comply with. Inadequate procedures for monitoring manufacturing facilities compliance with the provisions of the Federal Food, Drug and Cosmetic Act or MDR resulting in fines and civil penalties, injunctions and criminal prosecution. These regulations cover the development, manufacture, clinical trialling, labelling, launch of products and regulatory approvals, marketing and sale of products. Inadequate processes for creating and managing Quality System documentation and master data resulting in an inability to demonstrate compliance and/or control. There is a risk that developed products and/or packaging do not meet regulation and/or societal expectation in relation to environmental standards. **Oversight and responsibility for managing** – Executive Vice President, Quality Assurance, Regulatory Affairs and Clinical ("QARAC") – Chair of the Non-Conformance – Corrective Action/Preventive Action review board	Simplify Innovate Segment Invest **Risk profile change during 2018** ↑	– Defects in the quality of our products arising from either design or production could result in harm to users of our products and adversely impact our reputation and our brand. – Harm to users of our products could result in fines, product recalls, the disposal of impacted product stock, production interruption and plant shut downs. These events could adversely impact financial performance through increased costs and loss of sales. – Regulatory approval processes could delay, or otherwise negatively impact, the marketing and sale of our products which could impact our growth. – Failure to obtain appropriate regulatory clearances upon a change to a product, could result in negative regulatory action impacting our ability to market and sell products. – Regulatory scrutiny could delay product launches or negatively disrupt our operations.	– Throughout each phase of our product development process we monitor product manufacturing and implement timely corrective action(s) where necessary. – Relevant employees are trained on policies and procedures related to manufacturing and adverse event handling. – We operate processes to manage product complaints. – We maintain records for all products including evidence of development, testing, product and process qualification and market clearance. – We coordinate regulatory approvals on an ongoing basis, including scheduling appropriate review periods with regulatory bodies in advance of certification requirements. – We deploy processes which aim to ensure that all regulatory and clinical trial requirements are considered and addressed prior to product launch. – Relevant employees are trained on processes related to regulatory clearances, marketing claims related to products and regulatory inspections. – We employ regional regulatory specialists with local expertise in all our major markets to facilitate regulatory clearance. – We deploy processes to ensure marketing collateral receives thorough and adequate review prior to launch in relevant jurisdictions. – We are working with our Notified Body and external consultants to adapt our quality system processes and technical documentation to implement the required changes and ensure compliance with MDR.

Viability statement

The Group's future prospects and viability

An understanding of the Group's strategy, and particularly its refreshed execution model (pages 28 to 31), and its business model (pages 16 and 17) is central in allowing the Board to assess the Group's prospects and viability. The principal risks affecting the Company (pages 36 to 43) are central to the determination of the Group's strategy.

Assessment of Future Prospects

The Group's normal annual planning process consists of monthly monitoring of progress against the financial budget and key objectives for the current year by the Executive Committee and the Board, reforecasting throughout the year in respect of the expected outcome for the current year, preparing a detailed budget for the following year and updating a rolling five-year strategic plan, which forms the main basis on which to assess the longer-term prospects of the Group. However, the 2018 annual corporate planning process has been enhanced during the past four months to address the response required by the Board and Company to the very disappointing Group performance in 2018, primarily due to poor execution.

Since his appointment as the Group's Interim CEO in October 2018, Rick Anderson, with all members of the Executive Committee, has undertaken an extensive review of all aspects of our business, resulting in a Board approved detailed operational plan and refreshed execution model to deliver better financial results over the medium to long term (details are set out on pages 28 to 31). The Board subsequently approved the resulting revised five-year strategic plan in January 2019 and the 2019 budget in February 2019, both of which forecast the Group's profitability, cash flows and funding requirements for the relevant period.

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

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

- The fundamentals of our markets, our products and brands remain sound, as does our strategy of leveraging our product portfolio for growth in attractive segments and geographies, developing and commercialising new technologies and services and striving to reduce complexity and increase efficiency.
- Our refreshed execution model is better able to capitalise on the Group's core strengths: leading positions in large, structurally growing markets; strong brands and a range of differentiated products; a well-diversified business platform across a range of market segments and geographies; and cash generation capabilities.
- The four key strategic drivers that will support the delivery of the strategy, which are set out on pages 28 to 31.

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

- Our markets remain structurally sound and continue to grow at existing levels with no significant change to re-imbursement environments.
- Margin improvement is driven by successful execution of our operational excellence programmes in order to deliver productivity gains in excess of pricing and other headwinds.
- Through the execution of our strategy we simplify our business and re-invest in future innovation.
- No change in capital structure with the Group able to refinance term debt and its revolving-credit facility over the next three years.
- Continued adherence to dividend policy.

Viability Assessment

Throughout the year, the Board has undertaken a robust assessment of the principal risks affecting the Group, particularly those that could threaten the business model and the Group's viability over an extended period, including an assessment of the likelihood of them materialising. These risks and the actions being taken to manage or mitigate these risks are explained in detail on pages 36 to 43 of this Annual Report. This analysis has then been applied to allow the Board to assess the ability of the Group to continue in operation and meet its obligations. The assessment covers the three-year period from January 2019 to December 2021 ("the Viability Period"). Although the Directors have no reason to believe that the Group will not be viable over a longer period, the Board has chosen to conduct the assessment for this three-year period because:

- A large proportion of Group debt matures in October 2021.
- Significant investments being made over the next two to three years under the refreshed execution model to deliver better financial results over the medium to long term.
- Our R&D and production cycles.
- Ability to respond in a timely manner to reasonably possible Group specific and market events.
- Implicitly it is harder to accurately forecast the latter years of the five-year plan.

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

Individual and combined scenarios were reviewed against the current and projected liquidity and funding position. These tests enabled the Board to conclude on the Group's viability. The scenarios and sensitivity testing have been based upon the current Board-approved strategic plan and balance sheet together with the assumption that the existing finance facilities maturing in October 2021 will be refinanced on similar terms within the Viability Period.

The sensitivity analysis included the following potential scenarios:

Scenarios	Linkage to risks on page 36 to 43
Appreciation of the US dollar by 20% against all other currencies – Impacts of a global change in macroeconomic trends.	– Macroeconomic and foreign exchange – Brexit
Impact of commercial execution headwinds leading to flat revenue growth. Includes plausible combinations of: – Pricing pressures. – Lower uptake of new products. – Production shortages e.g. due to cyber-attack or other unexpected shutdowns. – Potential impacts from Brexit e.g. border delays.	– Pricing and reimbursement – Product Innovation and Intellectual Property ("IP") – Global Operational and Supply Chain – Information security – Quality and Regulatory – Brexit – Change and transformation
Reduced cost out benefits fail to offset gross margin headwinds – Operational excellence programmes fail to deliver anticipated savings e.g. efficiency and material pricing projects are not realised. – Increased costs associated with Brexit from increased border controls and tariffs.	– Global Operational and Supply Chain – Change and transformation – Brexit
Capital overspend – Overruns associated with refreshed execution model and efficiency programmes. – Increased cost to mitigate Global Operational and Supply Chain risk.	– Change and transformation – Global Operational and Supply Chain

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

The individual and combined scenario took no account of the likely mitigating actions available to the Directors through adjustments to the refreshed execution model and other means in the normal course of business. However they did take account of the impact of changes in performance on returns to shareholders, matching our current dividend pay-out level.

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

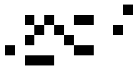
Viability statement

The results of the sensitivity analysis, including a plausible combination of the individual scenarios and assuming a successful refinancing by October 2021, demonstrated that due to the Group's level of cash generation and existing financing facilities, and the timing of the peak cash outflows, it would be able to withstand the impact in each case.

Having assessed the Group's principal risks and the consolidated financial impact of the sensitivity analysis and associated mitigating actions, as described in detail for each principal risk on pages 36 to 43, the Board has determined that it has a reasonable expectation that the Group will be able to continue to operate within its existing bank covenants and meet its liabilities over the Viability Period to December 2021.

The Group's Going Concern statement is detailed on page 75.

The Strategic report was approved by the Board of Directors on 14 February 2019 and signed on its behalf by:



Rick Anderson
Chief Executive Officer

Frank Schulkes
Chief Financial Officer

Operational review

The performance of our franchises during 2018 and how their products and services are improving lives.

How we market and sell our products

We market and sell our products in over 110 countries through our four franchises.

Our Infusion Devices franchise, which has a concentrated business-to-business customer base, sells its products directly to its customers which are primarily the leading insulin pump manufacturers. Our other franchises have two main customer groups – people with chronic conditions and healthcare professionals. They sell their products through a range of direct, wholesale and distribution channels. Further information about our sales channels is contained in the graphic below.

Strong brands and differentiated products
Marketed and sold through our four franchises

Advanced Wound Care

Ostomy Care

Continence & Critical Care

Infusion Devices

AWC, Ostomy Care and CCC products sold through a variety of channels

Hospitals Wound care clinics Intensive care

- Product decision maker is usually a doctor or specialist nurse.
- Our dedicated sales team provide support, advice and training.

Distributors and wholesalers

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

Specialist medical stores Pharmacies Homecare agencies

- In many markets, once a patient leaves hospital, they obtain medical device products directly through homecare agencies, specialist medical stores or pharmacies and retail distributors catering to the homecare market.

Direct-to-consumers

- In the UK via Amcare, our home delivery company.
- In the US via our Home Distribution Group, our home care company.
- In our own shops in a number of markets including Central and Eastern Europe, Latin America and parts of Asia.
- Through our digital sales platforms including ostomysecrets.com.

Consumer-focused service and support

Providing consumer-focused service and support.

Call centres

Ostomy

Continence

Leading insulin pump manufacturers

Advanced Wound Care

Revenue $587.5m +1.7%

2018 **$587.5m**

2017 $577.8m

Key developments in the year

- Launch of AQUACEL™ Ag Advantage in the US
- 510(k) approval for Avelle™ in US
- Patented a highly innovative new foam design

Overview

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

2018 revenue performance

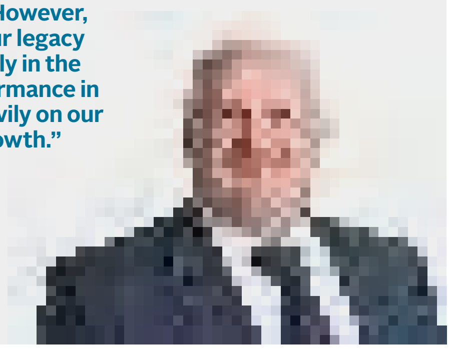
In 2018 we remained focused on three priorities to drive our growth in AWC:

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

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

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

"During 2018 our foam and antimicrobial products continued to grow. However, price pressure on our legacy products, particularly in the UK, and underperformance in the US weighed heavily on our overall franchise growth."



David Shepherd
Franchise President,
Advanced Wound Care

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

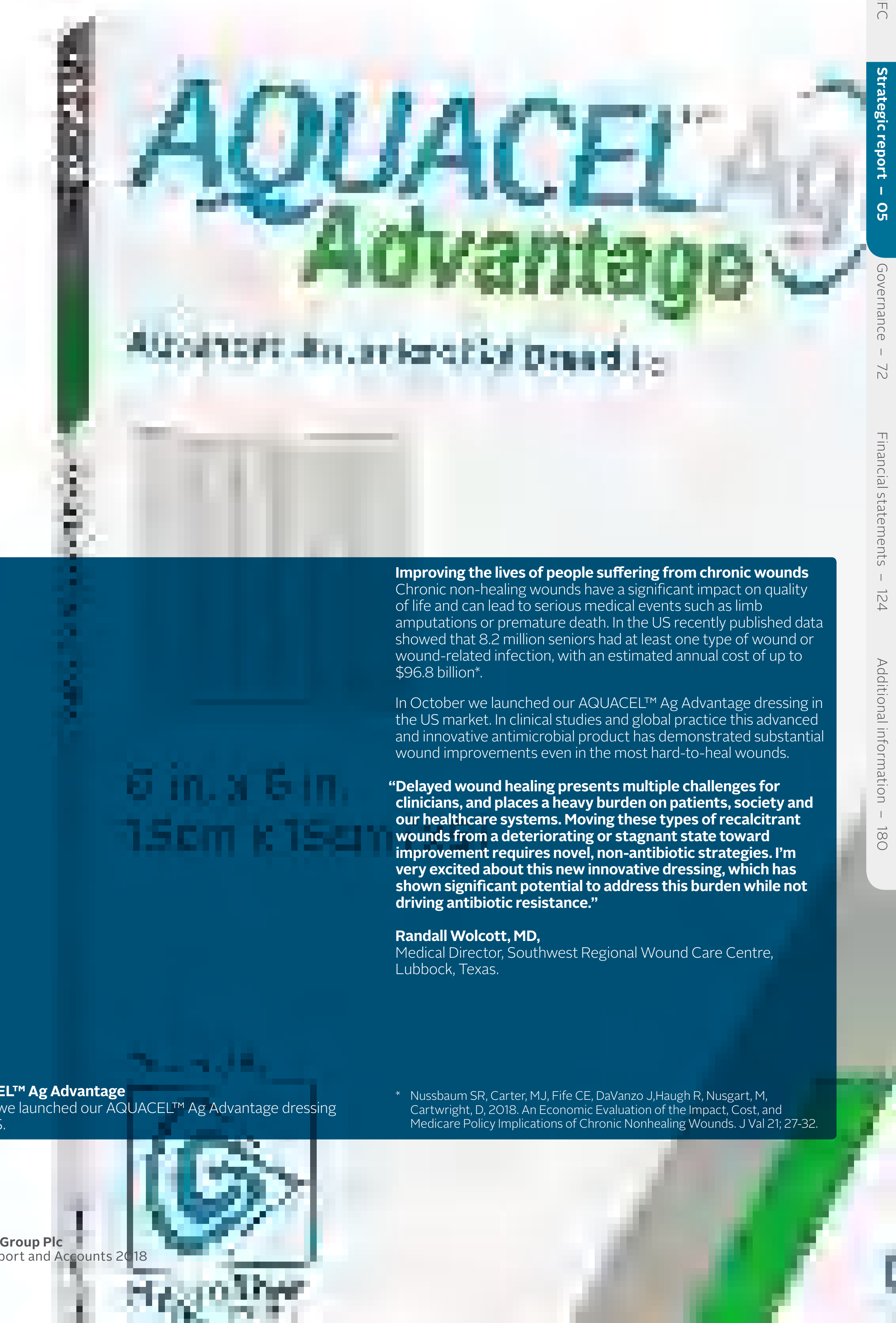
During the year we rolled-out our wound acceleration plan across the US. The plan aimed to address performance issues and focused on account conversion, re-positioning our foam offering, addressing salesforce effectiveness and expanding our reach into the post-acute channel. Although the plan delivered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

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

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

Revenue outlook

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



Improving the lives of people suffering from chronic wounds
Chronic non-healing wounds have a significant impact on quality of life and can lead to serious medical events such as limb amputations or premature death. In the US recently published data showed that 8.2 million seniors had at least one type of wound or wound-related infection, with an estimated annual cost of up to $96.8 billion*.

In October we launched our AQUACEL™ Ag Advantage dressing in the US market. In clinical studies and global practice this advanced and innovative antimicrobial product has demonstrated substantial wound improvements even in the most hard-to-heal wounds.

"Delayed wound healing presents multiple challenges for clinicians, and places a heavy burden on patients, society and our healthcare systems. Moving these types of recalcitrant wounds from a deteriorating or stagnant state toward improvement requires novel, non-antibiotic strategies. I'm very excited about this new innovative dressing, which has shown significant potential to address this burden while not driving antibiotic resistance."

Randall Wolcott, MD,
Medical Director, Southwest Regional Wound Care Centre, Lubbock, Texas.

AQUACEL™ Ag Advantage
In 2018 we launched our AQUACEL™ Ag Advantage dressing in the US.

* Nussbaum SR, Carter, MJ, Fife CE, DaVanzo J,Haugh R, Nusgart, M, Cartwright, D, 2018. An Economic Evaluation of the Impact, Cost, and Medicare Policy Implications of Chronic Nonhealing Wounds. J Val 21; 27-32.

Ostomy Care

Revenue $533.3m +0.8%

2018	**$533.3m**
2017	$528.9m

Key developments in the year
– Continuing momentum in me+™ enrolments
– Good traction with new products

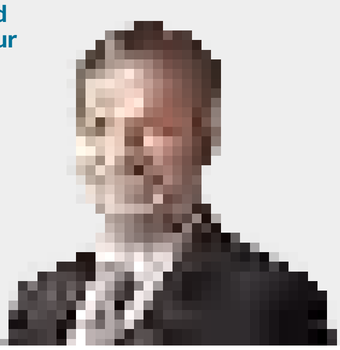
Overview
Performance was impacted, as expected, by the supply constraints that occurred in the second half of 2017 and resulting lost patients. Underperformance in the US retail channel also contributed to a disappointing performance in 2018. Recent trends in the level of new patient capture in the US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

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

2018 revenue performance
During the year we focused on three priorities to drive our growth:
– Continue to strengthen relationships with ostomy nurses in hospitals to increase familiarity with our products and to provide them with the tools to make ostomy care simple, easy and accessible.
– Expand our me+™ direct-to-consumer programmes to engage directly and frequently with ostomates to build strong and long-term customer relationships.
– Continue to enhance our product portfolio by leveraging our adhesive technology and investing in consumer-led design and enhancements.

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

"Despite legacy issues relating to the 2017 supply constraints which impacted our overall performance, our new products continued to perform well and we saw continuing momentum in me+™ enrolments."



Stephan Bonnelycke
Franchise President,
Ostomy Care

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

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

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

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

Providing enhanced customer support
Since its launch in the US in 2015, we have continued to develop and expand our me+™ programme which supports people with ostomies at all stages, including prior to their surgery through to regaining quality of life well beyond surgery.

During 2018 we enhanced the programme's online resources, which initially included helping people identify the right products and providing access to a team of specialised ostomy nurses and support specialists. In the US we launched a dedicated magazine for ostomates and expanded our online resources to include a me+™ hub (www.mepluscare.com).

In the US we have over 150,000 me+™ members and, following the programme's roll-out in a number of other markets, membership worldwide exceeds 250,000 people.

"Again, you guys have been a rock for me. Right down to giving me education as a new ostomy wearer, even more so than the social worker at my hospital following my surgery. Your expert insight and help picking the right product for my needs has been crucial at setting my mind at ease, and feeling that even with this significant life change that it's all going to be alright. To say my regard for your customer service and ConvaTec is stratospheric is an understatement. Thank you and God bless you all."

me+™ programme participant

Esteem™+ Soft Convex
Esteem™+ Soft Convex is the latest addition to our one-piece solutions portfolio.

Continence & Critical Care

> **"In the US we continued to extend our geographic reach and grew ahead of the US market mainly due to a strong performance by HDG and GentleCath™."**

Frank Gehres
Franchise President,
Continence & Critical Care

Revenue $443.0m +15.7%

2018	**$443.0m**
2017	$382.9m

Key developments in the year
- Further expanded our distribution network
- CE mark and completion of final trials for next generation female catheter
- Expanded GentleCath™ Glide range

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

2018 revenue performance
Growth was focused on three priorities:
- Continue to innovate and expand the GentleCath™ intermittent catheter portfolio to cover a wider range of needs together with expanding our me+™ platform for intermittent catheter users.
- Leverage the reach of HDG, the largest medical equipment distributor of intermittent catheters in the US.
- Build on the success of GentleCath™ through launching in other markets.

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

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

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

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

Revenue outlook
As highlighted on page 23 we were pleased that the female version of our next generation catheter recently won an iF Design award. It is already CE marked and launch activity in Europe will be ramped up in the coming months. This will be our first entry into the c. $800 million European market. Feedback from patients has been strong, and whilst we do not expect material revenues in the first year, this represents a significant growth opportunity for us over the medium to long term.

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

GentleCath™ Glide v2.0
Our recently launched GentleCath™ Glide v2.0 catheter has enhanced our product portfolio providing further ease of use enhancements based on end-user and healthcare professional feedback.

World class customer service drives success
Our 180 Medical business is part of our Home Distribution Group. Each week it delivers products to approximately 18,500 customers across the US. Delivering exceptional customer service to every customer every day improves lives and drives the business' success.

During the year 180 Medical achieved a Net Promoter Score of 85. This world class score, which measures customers' experience of the business' products and customer service, is substantially higher than many global consumer brands. Recent customer feedback has included the comments below.

"Without a doubt the most helpful, friendliest people I have ever dealt with. Always accurate, always on time, always friendly and helpful no matter what problem arises. I used to manage a huge distribution centre, and always reminded my people of the importance of accuracy, on time shipments and to be helpful, understanding and courteous on the phone. My people were really good, yours are even better. Thanks."

"All of the personnel that I have spoken with at 180 Medical are caring, patient, and kind – from ordering, to billing, to support questions. I still remember the anxiety of my first call. My voice was shaky, my hands were shaky. The person from 180 Medical was reassuring, understanding and calmed me, so that I could ask my questions and make decisions about which product to start with. Ever since that day, it has never been different. The online re-order system is so easy, convenient, and fast. I never ever give a second thought to my supply or running low. 180 Medical makes sure that I always have product and that my delivery comes with time to spare. Integrity and honesty coupled with fantastic service."

Infusion Devices

Revenue $268.3m -2.4%

2018 **$268.3m**
2017 $275.0m

Key developments in the year

- Further progress in utilising neria™ guard for non-insulin therapies
- Entered into new long-term distribution agreements with significant players in the diabetes device industry

Overview

Underlying performance in 2018 was good, driven by the successful launch of MiniMed™ Mio™ Advance[1] with our partner Medtronic and growth in the durable insulin pump market. However, an unexpected change to the ordering patterns of our largest customer late in the year had a material negative impact on revenue growth.

2018 revenue performance

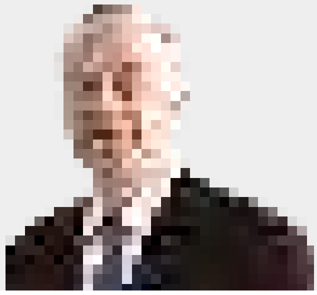
We focused on three priorities to drive our growth:
- Maintain our strong and long-term partnerships with insulin pump manufacturers to secure long-term business.
- Continue to develop innovative products for both insulin and other drug delivery.
- Leverage our leading industry position to ensure that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

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

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

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

"Whilst 2018 was significantly impacted by a change in ordering pattern from our biggest customer, the business performed well and we continue to ramp-up our production of MiniMed™ Mio™ Advance, our most successful product launch."



John Lindskog
Franchise President,
Infusion Devices

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

Revenue outlook

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

1. MiniMed™ Mio™ Advance – trademarks of Medtronic MiniMed, Inc.

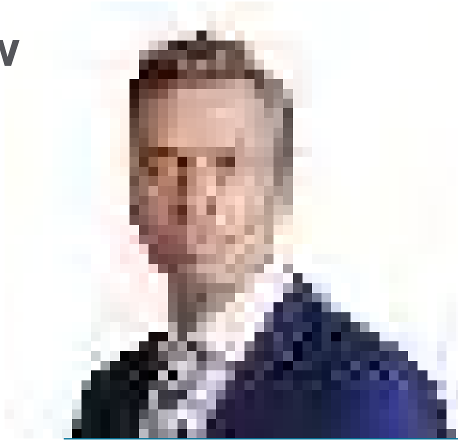
Giving people independence and improving their lives
To make continuous subcutaneous infusion simpler, comfortable, safe and efficient we developed our neria™ guard infusion set. Launched last year, neria™ guard is a soft cannula infusion set with an integrated insertion device for simple insertions by the touch of a button. It has easy-to-use features, including a retractable needle which may help prevent accidental needle sticks and increase comfort during insertion. neria™ guard is now available in ten markets and feedback continues to be very positive.

"I have had Parkinson's disease for over 14 years. Initially I had an infusion set that required me to press the needle in myself. In some places it was very painful and I was finding it very hard to insert the needle. I also started experiencing other problems with the device. It was failing to administer my medication which was affecting my ability to move. I started to feel very insecure and I was reluctant to go out on my own. I then started using neria™ guard. I don't have to insert the needle myself – by simply pressing a button it is inserted automatically. The device fixes onto my body very well and is easy to remove because it is wider and has a bigger surface area. neria™ guard works, it is secure and I can move around more easily on my own and for me that is the most important thing. It has made a huge difference."

Berit Oqvist

neria™ guard
Our neria™ guard infusion set can be used to deliver continuous medication to manage a number of chronic diseases.

Chief Financial Officer's review



Frank Schulkes
Chief Financial Officer

2018 results

As already noted, our overall financial result for the year was disappointing. Although organic revenue growth and the adjusted EBIT margin were in line with our revised guidance, given in October 2018, the outcome for the year was unacceptable.

On an organic basis, Group revenue grew by only 0.2% to $1,832.1 million (2017: $1,764.6 million). This compares to our October guidance of flat to 1% growth and 2% to 3% growth guidance given in February 2018. Adjusted operating profit declined by $27.4 million to $429.4 million (2017: $456.8 million), resulting in an adjusted EBIT margin of 23.4% (2017: 25.9%). This compares to our guidance in October 2018 of 23% to 24% and February 2018 guidance for the year of 24% to 25%.

On a reported basis, our revenue grew by 3.8% to $1,832.1 million (2017: $1,764.6 million) including the year-on-year increase in the contribution of Woodbury and J&R Medical, net of Symbius, of $43.5 million and favourable foreign exchange of $20.5 million. Reported operating profit increased by $19.9 million to $267.7 million (2017: $247.8 million) reflecting a reduction in costs associated with the Group's Margin Improvement Programme ("MIP") and pre-IPO share-based payment charge.

Revenue performance across our franchises was mixed but overall disappointing. The organic revenues of AWC grew by only 0.2%, with the US underperforming and challenging market conditions in the UK. Ostomy Care was negatively impacted by the loss of patients in 2017, as a result of supply issues, and weak underlying performance in the US resulting in a decline in organic revenues of 0.5%. CCC delivered a good performance. However, this was partially offset by the packaging recall in September that affected supplies in the fourth quarter, resulting in an organic revenue growth of 4.1% for the year. Infusion Devices experienced an overall decline in organic revenues of 3.5%. However, this masks strong underlying growth that was materially offset by significantly reduced orders in the fourth quarter, due to an unexpected change in inventory policy by ID's largest customer.

The decline in adjusted operating profit in 2018 reflects the increase in revenue being more than offset by headwinds and cost increases in gross margin and an increase in the operating cost base resulting from the inclusion of the Woodbury and J&R Medical acquisitions, investment in revenue growth and new product development support.

Despite our weak trading performance, we continue to deliver good net cash generation. Reported net cash generated from operating activities was $352.0 million (2017: $306.6 million) and adjusted cash conversion was 80.8% (2017: 77.3%). In 2017, the net cash we generated was used to acquire Woodbury and EuroTec ($105.5 million), make scheduled loan repayments and invest in our restructuring programmes ($53.1 million). In 2018, the net cash we generated enabled us to make a voluntary repayment of $95.0 million on our Euro term loan, acquire J&R Medical and pay out dividends in line with our policy of $74.9 million (2017: $26.3 million).

2018 review

Despite the challenging financial performance, we have made progress in a number of key areas across our finance function. We have successfully transitioned the Group central finance functions from the US to our headquarters in Reading, improved our data warehousing capabilities, are a substantial way through our business intelligence programme and developed a detailed plan for Business Services transformation. These important significant enhancements to our analytical and reporting capability will be instrumental to supporting our refreshed execution model by aligning management and financial information and quality robust forecasting for our four core pillars. Within the Transformation Initiative, I am leading and committed to delivering Business Services transformation. This programme will fundamentally transform our back office functions to create an efficient, effective and scalable support service which responds to business needs and provides development opportunities for our people.

In the second half of 2018 we appointed a very experienced Vice President, Internal Audit and Enterprise Risk, who is currently enhancing the Internal Audit and Risk Management teams by recruiting outstanding experienced people across our global business and redesigning the related processes and frameworks to ensure that risk management is properly embedded in all parts of the Group. Internal Audit provides valuable assurance on the Group's internal controls and management of risks to the Board and supports the governance and management of our refreshed execution model.

Dividends

During 2018, the Group has continued to declare dividends in line with its policy of 35% of adjusted net profit. In August 2018, the Board declared an interim dividend of 1.717 cents per share and has proposed a final dividend of 3.983 cents per share. Further information about our dividend policy and on dividends paid can be found on page 119.

“Whilst 2018 has been a disappointing year in terms of the Group’s financial performance, I am confident that our refreshed execution model will deliver sustainable and profitable growth in the structurally-growing chronic care market.”

Acquisitions

J&R Medical, a Texas-based independent distributor of catheter-related supplies, was acquired on 1 March 2018 for cash consideration of $14.4 million, net of cash acquired. The addition of this company strengthens our presence in a substantial and important US market as it further reinforces the Group’s position as a leading US distributor of urinary catheters and continence-related supplies. Performance of this acquisition has been in line with our expectations, contributing $8.6 million to revenue and $1.6 million to net profit since acquisition, with good progress on integrating the business into HDG.

Borrowings and net debt

The Group ended the year with total interest bearing liabilities of $1,644.5 million (2017: $1,822.9 million). Excluding finance leases of $23.7 million (2017: $25.6 million) included in interest bearing liabilities and including cash of $315.6 million (2017: $289.3 million), net debt was $1,305.2 million (2017: $1,508.0 million). This amounted to 2.7x adjusted EBITDA (2017: 3.0x adjusted EBITDA). At 31 December 2018, the Group was in compliance with all financial and non-financial covenants associated with the Group’s outstanding debt.

Our debt consists of a USD and Euro denominated Term A Loan Facility which matures in 2021 and a USD Term B Loan Facility which matures in 2023. As at 31 December 2018, the debt outstanding on the loans was $1,203.2 million and $417.6 million respectively. In addition, we have a $200.0 million revolving credit facility of which $193.8 million was available as at 31 December 2018. For further information on our borrowings see Note 20 to the Financial Statements.

Given the maturity profile of our loans, we will start the process of refinancing the Group during 2019 and expect our plans to be at an advanced stage by the end of the year.

Company only impairment of investment in subsidiaries

The company only financial statements of ConvaTec Group Plc can be found on pages 172 to 179. These accounts are presented as required by the Companies Act 2006 and prepared in accordance with FRS 101 (Financial Reporting Standard 101) *Reduced Disclosure Framework.* As part of the reorganisation of the Group in 2016, in preparation for the IPO, ConvaTec Group Plc acquired the entire share capital of Cidron Healthcare Limited (“CHL”). CHL owns the rest of the ConvaTec Group, with the exception of ConvaTec Management Holdings Limited. The acquisition by ConvaTec Group Plc of CHL was accounted for in the Company’s Financial Statements using merger accounting principles. The fair value of the shares acquired (representing the fair value of the Group on the date of the IPO) was recorded as the fair value of the investment held in CHL. The difference between the fair value and the nominal value of the shares acquired was taken to the merger reserve. The carrying value of the investment in CHL was established based on the Company’s IPO offer share price of £2.250.

The market share price of the Company at 31 December 2018 was £1.390, reflecting the market’s view of the current and future value of the Group. The fall in share price is, therefore, an indicator of possible impairment. We have, therefore, assessed the recoverable amount of the Company’s investment in CHL. The recoverable value has been determined using value in use. Value in use is the enterprise value, which has been calculated by applying a 12.1% discount rate to Board approved forecasts for the next five years, and then into perpetuity applying a long-term growth rate of 2%, less net debt to give an equity value. The outcome was benchmarked against the market capitalisation of the Group. As a result of this review, we have recognised an impairment charge of $1.616 billion which is offset by a transfer from the merger reserve to retained earnings, thus reducing the value of the investment to $3,887.4 million.

Determining the estimated recoverable amount of CHL is judgemental in nature and requires the use of certain estimated inputs that represent key sources of estimation uncertainty. It is reasonably possible that the estimations and assumptions used in determining the impairment as at 31 December 2018, including discount rate assumptions, may result, within the next financial year, in a material further impairment to the carrying amount of the investment value. The distributable reserves position of the Group is unaffected.

As at 31 December 2018, the retained surplus of ConvaTec Group Plc was $1,574.7 million (2017: $1,622.7 million) which is distributable.

Accounting standards

During the year, the Group has applied several changes in accounting standards. These were (i) IFRS 9, *Financial Instruments: Classification and Measurement* (ii) IFRS 15, *Revenue from Contracts with Customers* and (iii) IFRS 2 *(amendments), Share-based Payments*. Their adoption has not had a material impact on our Financial Statements. Further details can be found on pages 138 and 139.

In addition, the Group has evaluated the impact of the changes of IFRS 16, *Leases*, which is effective from 1 January 2019. The primary changes are to the Group’s Statement of Financial Position. A right-of-use asset of $71.4 million will be recognised as of 1 January 2019 with a corresponding lease liability. For the year to 31 December 2019, we expect operating profit to increase by $1.3 million offset by an increase in interest expense within finance costs of $1.9 million as a result of the adoption of IFRS 16. Full details of the expected effects of the implementation can be found on page 139.

Financial Reporting Council ("FRC") Reviews

The FRC's Audit Quality Team selected Deloitte's audit of the 2017 Financial Statements for review, as part of its annual programme of promoting improvement in the overall quality of auditing in the UK. The scope of the review and points raised are detailed in the Audit and Risk Committee report on page 96. I am pleased that the points raised have been addressed and that Deloitte continue to provide an effective and independent audit.

In September 2018, we received a letter from the FRC's Corporate Reporting Review team, which raised a number of queries following its review of the 2017 Annual Report and Accounts. The Audit Committee assisted management in reviewing and drafting a response to the letter, which included commitments to provide additional information in the 2018 Annual Report and Accounts. The Corporate Reporting Review team confirmed that it had closed its enquiry in January 2019. A number of suggestions for improvements were noted, and these have been taken into account in preparing our 2018 Annual Report and Accounts.

Brexit

In order to understand the potential risks to the business from Brexit, we established a multi-disciplinary Brexit Steering Committee. Together with external advisers, this committee has reviewed possible issues that may arise as a result of Brexit including customs, people, regulatory and supply chain together with their mitigations under the various Brexit scenarios. Management is confident that there is no material financial effect on our business or significant operational issues which could arise as a result of Brexit. As a result, we have concluded that Brexit is not a key source of estimation uncertainty. We will continue to monitor and review the evolving situation.

Outlook and Guidance

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

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

Frank Schulkes
Chief Financial Officer
14 February 2019

Financial review

The commentary in the Chief Financial Officer's review and this Finance review includes discussion of reported and alternative performance measures. Management uses alternative performance measures as a meaningful supplement to reported measures. These measures are disclosed in accordance with the European Securities and Markets Authority guidelines and are explained and reconciled to the most directly comparable measure prepared in accordance with IFRS on pages 66 to 71. Further detail on the Group's financial performance, measured in accordance with IFRS, is set out in the Financial Statements and Notes thereto on pages 133 to 171.

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

Results of operations

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

	Reported 2018 $m	Reported 2017 $m	**Adjusted[1] 2018 $m**	Adjusted[1] 2017 $m
Revenue	**1,832.1**	1,764.6	**1,832.1**	1,764.6
Cost of goods sold	**(858.3)**	(838.3)	**(729.9)**	(688.3)
Gross profit	**973.8**	926.3	**1,102.2**	1,076.3
Gross margin %	**53.2%**	52.5%	**60.2%**	61.0%
Selling and distribution expenses	**(418.0)**	(377.5)	**(415.3)**	(377.2)
General and administration expenses	**(238.2)**	(259.8)	**(208.3)**	(202.0)
Research and development expenses	**(49.9)**	(41.2)	**(49.2)**	(40.3)
Operating profit	**267.7**	247.8	**429.4**	456.8
Operating margin %	**14.6%**	14.0%	**23.4%**	25.9%
Finance costs	**(65.2)**	(62.1)	**(65.2)**	(62.1)
Other expenses, net	**(1.3)**	(21.7)	**(3.2)**	(24.3)
Profit before tax	**201.2**	164.0	**361.0**	370.4
Taxation	**20.4**	(5.6)	**(56.5)**	(54.4)
Net profit	**221.6**	158.4	**304.5**	316.0
Net profit %	**12.1%**	9.0%	**16.6%**	17.9%
Basic and diluted earnings per share ($ per share)	**0.11**	0.08	**0.16**	0.16
Dividend per share (cents)	**5.7**	5.7		

1. These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 66 to 71.

Revenue

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

Revenue by franchise

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

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

AWC
Our AWC franchise delivered reported revenue of $587.5 million in 2018, growth of 1.7% on 2017. Organic growth was only 0.2% in 2018 with the remaining growth coming from favourable exchange rate movements. The performance of the AWC franchise is discussed in detail in the Operational review on page 48.

Ostomy Care
Revenue of $533.3 million grew 0.8% against the prior year on a reported basis but on an organic basis revenue declined by 0.5%, with the difference between reported and organic movements being entirely due to foreign exchange rate movements. Our 2018 revenue performance was impacted, as expected, by the supply chain constraints that occurred in the second half of 2017 and underlying weakness in the US retail channel. A full discussion of the performance of the Ostomy Care franchise is presented in the Operational review on page 50.

CCC
On a reported basis revenue of $443.0 million grew 15.7%. This includes a combined increase in revenue contribution of $43.5 million from the acquisitions of Woodbury Holdings (acquired on 1 September 2017) and J&R Medical (acquired on 1 March 2018), net of Symbius. Revenue grew 4.1% on an organic basis, principally driven by HDG. The revenue performance for the CCC franchise is further explained in the Operational review on page 52.

Infusion Devices
Revenue of $268.3 million declined 2.4% on a reported basis and 3.5% on an organic basis. Whilst underlying performance in 2018 was good, an unexpected change to the ordering patterns of our largest customer late in the year had a material negative impact on revenue growth. A more detailed analysis of the revenue performance for Infusion Devices can be found in the Operational review on page 54.

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

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

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

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

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

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

These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 66 to 71.

Reported

Selling & distribution

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

General & administration

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

R&D

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

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

Adjusted

Selling & distribution

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

General & administration

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

R&D

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

Operating profit

Reported

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

Adjusted

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

Finance and other expenses

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

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

These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 66 to 71.

Finance costs

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

Reported

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

Other expenses, net

Other expenses, net primarily consists of net gains and losses resulting from:
- The remeasurement or settlement of transactions that are denominated in a currency that is not the functional currency of a transacting subsidiary; and
- Gains and losses on disposal of assets.

Reported

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

Adjusted

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

Taxation

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

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

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

1. The tax effects of the adjustments relating to non-IFRS financial measures are explained and reconciled on pages 66 to 71.
2. Other discrete items in 2018 include income tax benefits of $30.4 million and $35.0 million respectively arising from the reassessment of deferred tax liabilities in respect of unremitted earnings and recognition of additional deferred tax assets resulting from the US tax reform respectively. In 2017, other discrete items includes the tax effect of the benefits arising from US tax reform. Refer to Note 10 of the Financial Statements for further information.

For the year ended 31 December 2018, on a reported basis the Group recorded an income tax benefit of $20.4 million (2017: expense of $5.6 million) and an adjusted tax expense of $56.5 million (2017: $54.4 million) on adjusted profits. Further details on reported income tax are contained in Note 10 of the Financial Statements.

Reported income tax benefit/(expense)

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

The reported income tax also includes other discrete tax items that are not a direct result of the profits for the year. In 2018 there were two discrete tax items totalling $65.7 million. These were principally previously unrecognised deferred tax assets of $35.0 million in the US following the enactment of the US Tax Cuts and Jobs Act on 22 December 2017, and released deferred tax liabilities of $30.4 million on unremitted earnings. Excluding these two discrete tax items noted above, the reported income tax would be an expense of $45.3 million.

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

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

Adjusted income tax expense

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

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

Net profit

Reported

Reported net profit for 2018 was $221.6 million (2017: $158.4 million), an increase of $63.2 million, reflecting an increase of $37.2 million in reported profit before tax and the impact on the reported tax expense for the year of significant deferred tax asset and liability credits.

Adjusted

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

Foreign exchange

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

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

Financial position

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

At 31 December	2018 $m	2017 $m	Change $m	Change %
Goodwill and intangibles	**2,377.5**	2,559.5	**(182.0)**	-7.1%
Other non-current assets	**379.7**	366.3	**13.4**	3.7%
Cash and cash equivalents	**315.6**	289.3	**26.3**	9.1%
Current assets excluding cash and cash equivalents	**587.6**	585.8	**1.8**	0.3%
Total assets	**3,660.4**	3,800.9	**(140.5)**	-3.7%
Current liabilities	**(330.9)**	(338.5)	**7.6**	2.2%
Non-current liabilities	**(1,712.3)**	(1,938.6)	**226.3**	11.7%
Total equity	**(1,617.2)**	(1,523.8)	**(93.4)**	-6.1%
Net equity and liabilities	**(3,660.4)**	(3,800.9)	**140.5**	3.7%

Goodwill and intangibles

Goodwill and intangibles reduced by $182.0 million to $2,377.5 million (2017: $2,559.5 million). This reflects decreases arising from both the in-year amortisation of intangible assets of $152.6 million and the net effect of foreign exchange of $57.6 million, partially offset by increases relating to the acquisition of intangible assets and goodwill in relation to J&R Medical of $14.9 million and other additions of $13.4 million, including investment in data warehousing, as part of our financial and management reporting improvement plan, and continued roll out of our SAP platform.

Other non-current assets

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

Cash and cash equivalents

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

Current assets excluding cash and cash equivalents

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

Current liabilities

Current liabilities reduced by $7.6 million to $330.9 million (2017: $338.5 million). A reduction in current borrowings of $15.2 million is offset by a net increase of $7.6 million across other current liabilities. The decrease in current borrowings is discussed in the Chief Financial Officer's review and disclosed further in Note 20 in the Financial Statements. The decrease in other current liabilities and accruals is principally driven by foreign exchange movements of $8.5 million.

Non-current liabilities

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

Equity

Total equity has increased by $93.4 million to $1,617.2 million (2017: $1,523.8 million). As disclosed on page 136, this is primarily a result of the net profit for the year of $221.6 million and $11.2 million shares issued under share-based payment awards, offset by dividends paid of $74.9 million and foreign currency translation adjustments of $66.6 million arising from the retranslation of Euro, GBP and DKK balances into USD.

Liquidity and capital resources

Overview

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

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

Cash flows

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

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

Cash flows from operating activities

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

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

Adjusted EBITDA, adjusted working capital and adjusted non-cash items are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS in the cash conversion reconciliation on page 71.

Cash interest payments

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

Other payments

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

Non-cash items

Reported

Non-cash items decreased by $26.4 million to $14.6 million (2017: $41.0 million). This principally reflects the reduction in the share-based payment charge from $36.9 million in 2017 to $11.2 million in 2018. For further information see page 71.

Adjusted

Adjusted non-cash items increased by $0.9 million to $2.9 million (2017: $2.0 million) and reflects the net adjustment for impairment and write-offs. For further information see page 71.

Working capital

Reported

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

Adjusted

On an adjusted basis, the working capital increase also includes an increase in the severance provision in relation to the transition of Group finance functions from the US to the UK and restructuring geographical sales teams partially offset by a reduction in accruals in relation to IPO related activity. For further information see page 71.

Cash flows from investing activities

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

Cash flows from financing activities

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

Cash conversion

	Reported 2018 $m	Reported 2017 $m	**Adjusted[1] 2018 $m**	Adjusted[1] 2017 $m
EBITDA	**457.7**	427.2	**482.4**	505.0
Add: non-cash items	**14.6**	41.0	**2.9**	2.0
Working capital	**(23.2)**	(48.2)	**(24.6)**	(33.9)
PP&E	**(70.9)**	(82.7)	**(70.9)**	(82.7)
Cash generated from operations, net of PP&E	**378.2**	337.3	**389.8**	390.4
Cash conversion	**82.6%**	79.0%	**80.8%**	77.3%

1. These non-IFRS financial measures in relation to cash conversion are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 66 to 71.

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

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

Non-IFRS financial information
Non-IFRS financial information or alternative performance measures ("APMs") are used as supplemental measures in monitoring the performance of our business. These measures include adjusted cost of goods sold, adjusted gross margin, adjusted selling and distribution costs, adjusted general and administrative expenses, adjusted research and development costs, adjusted operating profit ("adjusted EBIT"), adjusted EBITDA, adjusted profit before tax, adjusted finance costs, adjusted other expenses, net, adjusted net profit, adjusted earnings per share, adjusted working capital and adjusted cash conversion and net debt. The adjustments applied to IFRS measures reflect the effect of certain cash and non-cash items that Group management believe are not related to the underlying performance of the Group. Reconciliations for these adjusted measures to measures determined under IFRS are shown on pages 68 to 71. The definitions of adjusted measures are as calculated within the reconciliation tables.

In management's view, the APMs reflect the underlying performance of the business and provide a meaningful supplement to the reported numbers to support how the business is managed and measured on a day-to-day basis. Adjusted results exclude certain items because, if included, these items could distort the understanding of our performance for the year and the comparability between periods. Adjusted measures also form the basis for performance measures for remuneration e.g. adjusted EBIT. For further information see pages 68 and 69.

In determining whether an item should be presented as an allowable adjustment to IFRS measures, the Group considers items which are significant, either because of their size or their nature. For an item to be considered as an allowable adjustment to IFRS measures, it must initially meet at least one of the following criteria:
- It is a one-off significant item, which may cross more than one accounting period.
- It has been directly incurred as a result of either an acquisition, divestiture, or arises from termination benefits without condition of continuing employment related to a major business change or restructuring programme.
- It is unusual in nature e.g., outside the normal course of business.

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

Key adjustments for adjusted EBIT (also known as adjusted operating profit) are pre-IPO costs, IPO related costs and the post-IPO improvement programme together with restructuring and related costs. Further adjustments, which include amortisation of pre-2018 acquisition intangibles and adjustments to intangible and fixed assets are also made in arriving at adjusted EBIT. The tax effect of the adjustments is reflected in the adjusted tax expense to remove their effect from adjusted net profit and adjusted earnings per share.

Adjusted EBITDA, which is used to calculate our metric of adjusted cash conversion and the effective use of our working capital, is calculated by adding back pre-IPO costs, IPO related costs and the post-IPO improvement programme together with restructuring and related costs to our reported EBITDA.

These adjustments are detailed below.

Adjusted items

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

These items are excluded, from the adjusted measures, to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis. They are typically gains or losses/costs arising from events that are not considered part of the core operations of the business or are considered to be significant in nature, and may cross several accounting periods. We also adjust for the tax effect of these items.

Net debt, which is used to monitor the leverage of the business, is calculated as the carrying value of current and non-current borrowings on the face of the Consolidated Statement of Financial Position, less the carrying value of finance leases (Note 20) net of cash and cash equivalents.

Acquisition related amortisation of intangible assets

Our adjusted measures exclude the amortisation of acquisition intangibles arising from acquisitions made before 1 January 2018. After 1 January 2018, amortisation in relation to incremental "bolt-on" acquisitions is not excluded as smaller acquisitions are part of our Group strategy and should be included in our reported and adjusted measures. We will review significant acquisitions on a case by case basis to determine whether the exclusion of the amortisation of acquired intangibles would provide a more meaningful comparison of our results.

Adjustments to intangible and fixed assets

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

Change and restructuring programme related costs

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

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

In order to provide greater comparability and reflecting the changes within the Group as a result of the IPO (October 2016), certain IPO related costs have been excluded from adjusted measures. These are:
- Expenses directly related to the IPO.
- Pre-IPO shared based payment expense.
- Pre-IPO margin improvement programme ("MIP").
- Post-IPO control and compliance remediation programme, which included regulatory compliance costs in relation to FDA activities, IT enhancement costs and professional service fees associated with activities that were undertaken in respect of the Group's compliance function and to strengthen the control environment within the finance function. These costs were incurred as a direct result of the standards required by the IPO.

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

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

Year ended 31 December 2018	Revenue $m	Gross margin $m	Operating costs $m	**Operating profit $m**	Finance costs $m	Other expenses, net $m	**PBT $m**	Taxation $m	**Net profit $m**
Reported	1,832.1	973.8	(706.1)	**267.7**	(65.2)	(1.3)	**201.2**	20.4	**221.6**
Amortisation of pre-2018 acquisition intangibles		125.1	17.3	**142.4**			**142.4**	(10.3)	**132.1**
Impairments/write-offs		0.4	0.1	**0.5**			**0.5**		**0.5**
Gain/loss on disposal of fixed assets				**–**		(1.9)	**(1.9)**		**(1.9)**
Restructuring and other related costs		2.9	9.7	**12.6**			**12.6**	(0.9)	**11.7**
Pre-IPO share based payment expense and related costs			6.2	**6.2**			**6.2**		**6.2**
Total adjustments and their tax effect	–	128.4	33.3	**161.7**	–	(1.9)	**159.8**	(11.2)	**148.6**
Other discrete tax items				**–**			**–**	(65.7)	**(65.7)**
Adjusted	1,832.1	1,102.2	(672.8)	**429.4**	(65.2)	(3.2)	**361.0**	(56.5)	**304.5**
Software and R&D amortisation				**9.3**					
Post-2018 acquisition amortisation				**0.9**					
Depreciation				**37.4**					
Post-IPO share-based payment compensation				**5.4**					
Adjusted EBITDA				**482.4**					

Restructuring and other related costs were $12.6 million, pre-tax, in 2018 and related to three significant restructuring programmes:
- $2.5 million in relation to the completion of the pre-IPO MIP programme, incurred pre-June 2018, giving total costs incurred in relation to this programme of $25.6 million from 2015 to 2018.
- $4.7 million in relation to the transition of head office support functions from the US to the UK. The programme is expected to complete in 2019 with a total cost of c. $5.8 million.
- $5.4 million in relation to restructuring geographical sales teams. The programme is expected to complete in 2019 with a total cost of $6.9 million.

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

Other discrete tax items principally represent tax benefits of $30.4 million and $35.0 million respectively arising from the reassessment of deferred tax liabilities in relation to unremitted earnings and recognition of additional deferred tax assets resulting from the December 2017 US tax reform respectively. Refer to Note 10 of the Financial Statements for further information.

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

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

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

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

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

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

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

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

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

1. See Note 12 of the Notes to the Consolidated Financial Statements.

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

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

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

	2018 $m	2017 $m
Reported Operating profit/EBIT	**267.7**	247.8
Depreciation	**37.4**	34.6
Amortisation	**152.6**	144.8
Reported EBITDA	**457.7**	427.2
Non-cash items in EBITDA		
Share-based compensation	**11.2**	36.9
Write-off/disposal of property, plant and equipment	**3.4**	2.5
Acquisition accounting adjustment	**–**	1.6
	14.6	41.0
Working capital movement	**(23.2)**	(48.2)
Capital expenditure	**(70.9)**	(82.7)
Reported net cash for cash conversion	**378.2**	337.3
Reconciliation of Adjusted EBITDA, Adjusted Non-Cash Items, Adjusted Working Capital and Adjusted Net Cash for Cash Conversion		
Reported EBITDA	**457.7**	427.2
Share-based payment expense	**11.2**	36.9
Pre-IPO share-based payment associated costs	**0.4**	–
Acquisition accounting adjustment	**–**	1.6
Impairment/write-offs	**0.5**	0.5
Restructuring and other related costs	**12.6**	29.9
Compliance and control improvements	**–**	7.7
IPO-related costs	**–**	1.2
Total adjustments (a)	**24.7**	77.8
Adjusted EBITDA	**482.4**	505.0
Reported Non-cash Items	**14.6**	41.0
Share-based compensation	**(11.2)**	(36.9)
Impairment/write-offs	**(0.5)**	(0.5)
Acquisition accounting adjustment	**–**	(1.6)
Total adjustments (b)	**(11.7)**	(39.0)
Adjusted Non-cash Items	**2.9**	2.0
Reported Working Capital	**(23.2)**	(48.2)
(Increase)/decrease in severance provision	**(3.6)**	7.8
Decrease in accruals for remediation costs, corporate development and IPO-related costs	**2.3**	3.5
(Increase) in accruals for share-based payment associated costs	**(0.4)**	–
Decrease in liability for pre-IPO MIP	**0.3**	3.0
Total adjustments (c)	**(1.4)**	14.3
Adjusted Working Capital	**(24.6)**	(33.9)
Reported net cash for cash conversion	**378.2**	337.3
Total adjustments above (a), (b), (c)	**11.6**	53.1
Adjusted net cash for cash conversion	**389.8**	390.4
Reported cash conversion	**82.6%**	79.0%
Adjusted cash conversion	**80.8%**	77.3%

Governance report at a glance

Chairman's governance letter

Sir Christopher Gent
Chairman

Dear Shareholder

Using the core principles of the Code as a framework, in the following sections of this Annual Report we explain the governance structure we have established and how your Board operates to support the Group's long-term success. Further information about the Board's role in relation to specific developments during the year, including considering and approving the Group's refreshed execution model, is set out on pages 28 to 31.

We have explained how we have applied the Code's core principles on pages 76 and 77. We have reviewed the 2018 UK Corporate Governance Code ("2018 Code")[1], which took effect from 1 January 2019, and we are implementing changes to our governance structure to realign with its provisions.

Culture

Earning trust and behaving responsibly and with integrity underpins our ability to deliver long-term sustainable value for all our stakeholders. As a Board we have an important role to play in relation to the Group's culture. We must ensure that a healthy values-driven culture is thriving in all parts of our business, including the Boardroom, and that our interactions with all our stakeholders, and society as a whole, are open and transparent. As explained on page 21, we undertook an employee engagement survey during the year which revealed a number of positive findings, including 87% of our employees recognising our Purpose as meaningful and relevant.

As explained in my letter on pages 6 and 7 and the CEO's review on pages 8 to 11, we must significantly improve our execution capabilities and our culture must focus more on delivery and performance. Our new people strategy, which is explained on page 19, is designed to achieve this and your Board will closely monitor its execution.

Leadership

In October 2018 we announced the retirement of Paul Moraviec and we are now undertaking a global search to identify his successor.

Strategy

Following Paul Moraviec's departure, the Board asked Rick Anderson to undertake a detailed review of all parts of the Group's business. Based on this review, Rick, together with the Executive Committee, developed a refreshed execution model to better execute our strategy. The Board considered this model and, following discussions and challenges to management in relation to its key provisions, the Board approved the Group's refreshed execution model. Further information about how the Group will better capitalise on its core strengths and market opportunities is included on pages 28 to 31.

Effectiveness and accountability

During the year we undertook an externally facilitated review of the Board's effectiveness. Information about this review process and its key findings are included on page 85. In particular, the review found that we need to focus more on Board level succession planning and consider the composition of the Board to ensure that we have the relevant skills and experience to support the delivery of the Group's revised strategy. As explained on page 87, in the coming year the Nomination Committee will prioritise this issue.

Shareholder and other stakeholder engagement

During the year I have held a number of meetings with shareholders, with a large proportion of these meetings taking place after the profit warning in October 2018. Further information about our shareholder engagement activities are set out on page 99.

Our Board level employee engagement programme, which is led by Ros Rivaz and Regina Benjamin, was designed during 2018 and commenced in January. Information about the programme is included on page 99. Currently we are putting in place channels and processes to enable the Board to engage effectively with other stakeholders and we will report on these next year.

I look forward to meeting shareholders at our forthcoming AGM.

Sir Christopher Gent
Chairman
14 February 2019

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

Governance in action

Strategy and strategic drivers	The Board's governance role	Developments during the year
Strategy	Approves the Company's strategy, reviews subsequent progress and makes decisions to support strategic delivery, including ensuring that the necessary financial and human resources are in place to enable the Company to meet its objectives.	– Reviewed strategy and commissioned the development of a plan to improve commercial and operational performance. – In November reviewed full diagnostic and update to develop "Pivot to Growth", our refreshed execution model. – Reviewed and approved J&R Medical acquisition, including valuation and associated accounting implications. – Oversaw appointment of new Executive Committee members.
Innovate	Challenges management to drive innovation to enable the Company's future growth through the development of new products and services to continue to meet evolving customer and healthcare professional needs.	– Reviewed success (or otherwise) of new product launches and impact on gross margin. – Requested acceleration in the roll-out of certain new products and improvements in product launch execution to deliver greater success.
Simplify **Invest**	Sets operational and financial targets and reviews the Company's performance against these targets.	– Reviewed, challenged and approved the efficiency programme to be implemented as part of our refreshed execution model. – Reviewed and approved the key change programmes which are detailed on pages 30 and 31. – Oversaw the implementation of first phase improvements in financial management information and data analytics to enable better monitoring of performance.
Good and effective governance	Promotes highest standards of good governance.	– Undertook externally facilitated Board effectiveness review and identified areas for improvement. – Considered enhanced internal processes and procedures and the appointment of a new head of Internal Audit and Enterprise Risk and the recruitment of a new team to support her. – Audit and Risk Committee oversaw structured transition of key corporate finance functions from the US to UK.
Responsible business	Ensures that at all times the Group operates in a way that will engender trust, benefit all stakeholders and contribute to society.	– CR Committee reviewed and reconfirmed CR strategy. – Reviewed inaugural climate change strategy. – Nomination Committee approved 2019 Board employee engagement programme.

Board statements

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

Code requirement	Board statement	Where further information is available
Compliance with the Code	Throughout the financial year ended 31 December 2018, the Company has been in compliance with the provisions set out in the Code.	**How we have applied the core principles of the Code** Pages 76 and 77
Going concern basis	The Directors are satisfied that the Group has sufficient financial resources to continue operating in the foreseeable future and, therefore, have adopted the going concern basis in preparing the Group's 2018 Financial Statements.	**Audit and Risk Committee report** Pages 90 to 98
Viability statement	The Directors have assessed the viability of the Group over a three-year period ending 31 December 2021, taking into account the principal risks facing the Group set out on pages 36 to 43 and the robust downside sensitivity analysis described on pages 44 and 45. This assessment leads the Board to a reasonable expectation that the Group will remain viable and continue in operation and meet its liabilities as they become due over the Viability Period through to December 2021.	**Principal risks and uncertainties** Pages 36 to 43 **Viability statement** Pages 44 and 45 **Audit and Risk Committee report** Pages 90 to 98
Fair, balanced and understandable	The Directors consider that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the necessary information for the shareholders to assess the Group's position and performance and its business model and strategy.	**Audit and Risk Committee report** Pages 90 to 98
Assessment of the Group's principal risks	The Directors confirm that they have undertaken an assessment of the principal risks facing the Group.	**Principal risks and uncertainties** Pages 36 to 43 **Audit and Risk Committee report** Pages 90 to 98
Annual review of risk management and internal control systems	The Board undertook a review of the Group's risk management and internal control systems and concluded that these were effective.	**Audit and Risk Committee report** Pages 90 to 98

How we have applied the Code's core principles

A. Leadership

A1 The role of the Board
The Board held nine scheduled meetings during the year, of which six were held in-person. They also met on numerous other occasions in line with business needs, either in person or by telephone. The Board's committees also met during the year. The Board has a schedule of matters reserved for its approval and a formal structure of delegated authority.

A2 A clear division of responsibilities
The roles of the Chairman and Chief Executive are clearly defined. Sir Christopher Gent, the Chairman, is responsible for leading the Board and Rick Anderson, Interim Chief Executive Officer, is responsible for the day-to-day management of the Group, in line with the strategy set by the Board.

A3 The Chairman's role
The Chairman sets the agenda for meetings, manages the meetings (in conjunction with the Company Secretary), facilitates an open and constructive dialogue during them and ensures that the Board operates effectively. The Board considered Sir Christopher Gent independent on appointment in accordance with the independence criteria set out in provision B.1.1 of the Code.

A4 Non-Executive Directors
The Non-Executive Directors provide constructive challenge to management and independent perspective and meet in the absence of the Executive Directors. The Chairman and the Senior Independent Director and Chair of the Remuneration Committee, Steve Holliday, and Jesper Ovesen, Chair of the Audit and Risk Committee, are available to engage with shareholders on behalf of the Group.

B. Effectiveness

B1 The Board's composition
The Nomination Committee is responsible for regularly reviewing the composition of the Board and its committees to ensure they have the appropriate balance of skills, experience, knowledge and diversity to discharge their respective duties and responsibilities effectively.

B2 Appointments to the Board
The Nomination Committee is responsible for leading the Board appointments process. Information about the Nomination Committee's activities during the year is contained on pages 86 to 88.

B3 Time commitment
On appointment Non-Executive Directors are notified of the time commitment expected from them and this is reviewed regularly. Other appointments that may impact existing time commitments must be agreed in advance with the Chairman. All Directors have confirmed that they have sufficient time to fulfil their duties and responsibilities. Potential conflicts of interest are reviewed prior to recommending any new Director for appointment and Directors are required to discuss with the Chairman any additional commitments on an ongoing basis, to ensure conflicts of interest are managed or avoided. The Directors' external appointments are detailed on pages 80 and 81.

B4 Development
All new Directors participate in a formal induction programme which is monitored by the Chairman. In addition, on an ongoing basis Directors receive regular training and updates in order to refresh their skills and knowledge. Further information about these development activities is set out on page 84.

B5 Provision of information and support
The Directors have access to a fully encrypted electronic portal system which enables them to receive accurate and timely information. All Directors have access to the advice of the Company Secretary and independent professional advice at the expense of the Group.

B6 Board evaluation
During 2018 the Board undertook an independent evaluation of its performance. This was facilitated by Lintstock Limited. Information about this evaluation is set out on pages 84 and 85.

B7 Directors' re-election
All Directors are subject to annual shareholder election or re-election at the AGM.

C. Accountability

C1 Financial and business reporting
The Board has established arrangements to ensure that reports and other information published by the Group are fair, balanced and understandable. Please see page 92 for further information. The Strategic report on pages 5 to 71 provides information about the Group's performance, business model, strategy and the risks and uncertainties relating to its future prospects.

C2 Risk management and internal control systems
The Board sets the Group's risk appetite and monitors and annually reviews the effectiveness of its risk management and internal control systems. The activities of the Audit and Risk Committee, which assists the Board with its responsibilities in a number of areas including risk management, are set out on pages 90 to 98.

C3 Audit Committee and auditors
The Board has delegated a number of responsibilities to the Audit and Risk Committee including oversight of the Group's financial reporting processes, internal control systems, annual review of the risk management framework and the work undertaken by the external and internal auditors. The activities of the Audit and Risk Committee during the year are set out on pages 90 to 98.

D. Remuneration

D1 The level and components of remuneration
The Group's remuneration policy, which is set out on pages 112 to 118, is designed to incentivise strong financial performance, align employee and shareholder interests, reflect good governance and risk management and promote long-term sustainable success. Shareholders adopted the Group's remuneration policy in 2017 and the remuneration report set out on pages 102 to 111 will be put before shareholders for an advisory vote at the 2019 AGM.

D2 Development of remuneration policy and packages
The Remuneration Committee sets the remuneration for all Executive Directors and oversees the remuneration of senior management. Details of the Remuneration Committee's composition and its activities during the year are set on pages 102 to 111.

E. Relations with shareholders

E1 Dialogue with shareholders and other stakeholders
The Board is committed to maintaining an active dialogue with shareholders and the Chairman ensures that the Board is kept informed about shareholders' views. Furthermore, as behaving responsibly and making a positive contribution to society is key to the Group's long-term success, the Board actively engages with other stakeholders. Further information about shareholder and other stakeholder engagement activities is set out on page 99.

E2 Constructive use of the AGM
The AGM is a key event which provides an opportunity for the Board to engage with shareholders. Shareholders are encouraged to participate in the meeting by asking questions and are invited to meet the Board after the meeting's formal business has been concluded.

Leadership

Our governance framework which includes the Board and the four committees it has established, is set out below.

Governance framework

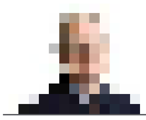
The Board

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

Simplify | Innovate | Segment | Invest

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

Sets the Group's vision, values and culture and ensures that its obligations to shareholders and other stakeholders are understood and met.



Nomination Committee

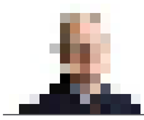
Proposes appointments to the Board, reviews Board's composition, considers succession planning and reviews time each Non-Executive devotes to the Group.

See page 86

Audit and Risk Committee

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

See page 90



Corporate Responsibility Committee

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

See page 100

Remuneration Committee

Sets Remuneration Policy, oversees its implementation and regularly reviews its provisions.

See page 102

Executive Committee

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

Oversees the implementation of the Group's strategy.

Monitors risk and internal controls within the Group.

Matters reserved for the Board and Committees' terms of reference

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

The principal activities undertaken during the year by the Nomination, Audit and Risk, Corporate Responsibility and Remuneration Committees are set out in their respective reports in this Annual Report. The paragraphs under the heading "The Remuneration Committee" on pages 102 to 111 are incorporated by reference into this Corporate Governance report.

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

Overview – IFC
Strategic report – 05
Governance – 72
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Key Board roles and responsibilities

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

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

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

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

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

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

Board of Directors

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

Key to Committee

Audit and Risk Committee AR
Corporate Responsibility Committee CR
Nomination Committee N
Remuneration Committee R
Committee Chair

Rick Anderson
Interim Chief Executive Officer, 58

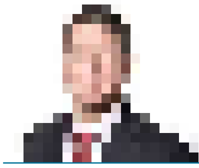
Date of appointment
October 2016

Independent
No

Committee memberships
CR

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

Current external appointments
Chairman of Revival Healthcare Capital and Cardiva Medical, serves on the board of PTV's portfolio company Apollo Endosurgery.



Steve Holliday
Deputy Chairman and Senior Independent Non-Executive Director, 62

Date of appointment
October 2016

Independent
Yes

Committee memberships
R AR N

Relevant skills and experience:
- Significant board level experience in both executive and non-executive roles including as former Chief Executive of National Grid plc for over nine years until his retirement in July 2016, Non-Executive Director of Marks and Spencer Group plc, a board member of British Borneo Oil and Gas and the lead Non-Executive Director at Defra.
- Operational experience gained during senior management roles with Exxon in refining, shipping and international gas.
- Fellow of the Royal Academy of Engineering.

Current external appointments
Vice Chairman of the Careers and Enterprise Company, Chairman of the Board of Trustees at Crisis, the homeless charity, Vice Chairman and Trustee of Business in the Community, Trustee of Step Up to Serve and Chairman of Senvion S.A.

Sir Christopher Gent
Chairman, 70

Date of appointment
October 2016

Independent
Yes (on appointment)

Committee memberships
N CR R

Relevant skills and experience:
- Particular knowledge and experience of the healthcare sector, serving as Non-Executive Director of GlaxoSmithKline before being appointed as Chairman (2005 to 2015).
- Significant board level experience in both executive and non-executive roles. Sir Christopher was a member of the Board of Directors of Vodafone Group Plc (1985 to 2003), also serving as its Chief Executive Officer (1997 to 2003), Director of Verizon Wireless and of Ferrari SpA and Non-Executive Director of China Mobile (Hong Kong) Limited and of Lehman Brothers.
- Extensive experience running and overseeing global operations.
- Experienced in mergers and acquisitions and strategy development, as former CEO of Vodafone Group Plc and Senior Adviser to Bain & Company.

Current external appointments
None.

Frank Schulkes
Chief Financial Officer, 57

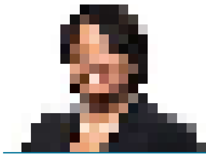
Date of appointment
November 2017

Independent
No

Committee memberships
None

Relevant skills and experience:
- Previously CFO of Wittur Group, a privately-held industrial company based in Germany and as former Executive Vice President and CFO of GE Healthcare (GE) (2007 to 2015).
- Significant global healthcare experience and strong financial background across a variety of increasingly senior financial roles which includes 27 years spent with GE.

Current external appointments
None.



Dr Regina Benjamin
Non-Executive Director, 62

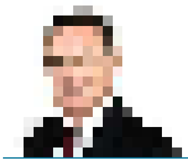
Date of appointment
August 2017

Independent
Yes

Committee memberships
CR

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

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



Sten Scheibye
Non-Executive Director, 67

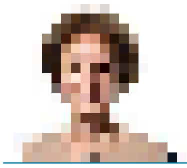
Date of appointment
July 2018

Independent
No

Committee memberships
None

Relevant skills and experience:
- Substantial healthcare knowledge and significant operational experience as former President and CEO of Coloplast A/S (1995 to 2008).
- Board experience including previous roles as Chairman of the Novo Nordisk Foundation and of Novo Holdings A/S.
- Extensive governance experience including as a member of the Danish Corporate Governance Committee (2003 to 2011), also serving as the committee's Chair (2009 to 2011).

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



Dr Ros Rivaz
Non-Executive Director, 63

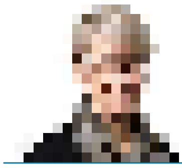
Date of appointment
June 2017

Independent
Yes

Committee memberships
N R

Relevant skills and experience:
- Substantial healthcare knowledge and experience as former Chief Operating Officer of Smith & Nephew plc (2011 to 2014).
- Extensive global operational experience in previous senior management positions with Smith & Nephew, ICI, Tate & Lyle and Diageo.
- Board experience in current roles (see below) and as former Non-Executive Director of Rexam plc and Chair of its Remuneration Committee, and Non-Executive Director of the Government sponsored 'Your Life initiative', which encouraged 14 to 16 year olds to pursue qualifications in mathematics and physics.
- Honorary doctorate from Southampton University where Ros was also Vice Chair of the University's Council until stepping down in July 2017.

Current external appointments
Non-Executive Director of RPC Group plc, Boparan Holdings, MoD Defence Equipment and Support Board, and of CEVA Logistics AG. Senior Independent Director of Computercenter plc and Chair of its Remuneration Committee. Ros is also a member of the Audit and Risk, Remuneration and Nominations Committees on a number of boards on which she serves.



Margaret Ewing
Non-Executive Director, 63

Date of appointment
August 2017

Independent
Yes

Committee memberships
CR AR

Relevant skills and experience:
- Margaret, a Chartered Accountant, has significant financial experience including as Vice Chairman and Managing Partner of Deloitte LLP (2007 to 2012), Group Chief Financial Officer of BAA plc (2002 to 2006) and Trinity Mirror plc (2000 to 2002).
- Strong board experience, having served as Non-Executive Director of Whitbread plc, Standard Chartered plc and the CBI.
- Particular board level audit and risk experience including as a former member of the Audit and Risk Committees of Standard Chartered plc, Whitbread plc (as Chair of the Committee), CBI (as Chair), the John Lewis Partnership and The Lawn Tennis Association, and in current roles (see below).

Current external appointments
Non-Executive Director and Chair of the Audit and Risk Committee of ITV Group plc and a Trustee of the Board, Chair of the Finance and Audit Committee and a member of the Investment Committee and the Governance, Reputation and Risk Committee of Great Ormond Street Hospital Children's Charity.

Jesper Ovesen
Non-Executive Director, 61

Date of appointment
October 2016

Independent
Yes

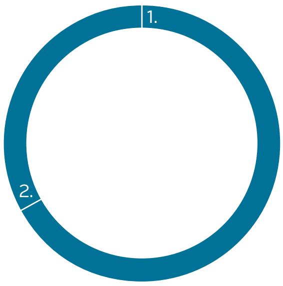
Committee memberships
AR N R

Relevant skills and experience:
- Chartered accountant and extensive financial knowledge and experience including in the roles below and previously as a Director of Corporate Finance for Novo Nordisk A/S.
- Substantial executive experience as former Executive Chairman of Nokia Siemens Networks (2011 to 2014), Chief Financial Officer of TDC (2008 to 2011), Chief Executive of Kirkbi Group, Chief Financial Officer of The Lego Group, Denmark/Switzerland (2004 to 2007) and of Danske Bank, Denmark (1998 to 2004).
- Non-executive board level experience as Audit Chair of Lundbeck.

Current external appointments
Deputy Chairman of SEB, one of the largest banks in the Nordic region, and Audit Chair of Sunrise Communications Group.

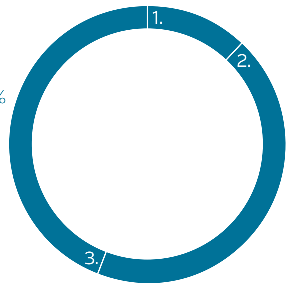
Gender

1. Male: 67%
2. Female: 33%

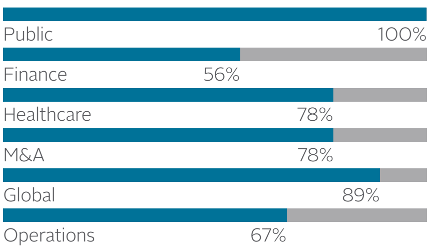


Tenure

1. < 1 year: 12%
2. > 1 year: 44%
3. > 2 years: 44%



Experience



Board composition

At the end of the year the Board comprised nine Directors: the Chairman, two Executive Directors (of which the CEO is a Non-Executive Director performing the CEO role on an interim basis), five Independent Non-Executive Directors and one Non-Executive Director.

The Chairman and Chief Executive Officer

In accordance with the Code there is a clear division of responsibility between the Chairman and the Chief Executive Officer. Each have Board approved roles and responsibilities and the documentation detailing their specific roles and responsibilities is available at www.convatecgroup.com/investors/corporate-governance.

Board changes during the year

Changes to the Board during the year included the appointment of Sten Scheibye as Non-Executive Director in place of Kasim Kutay, who resigned from his position as Non-Executive Director with effect from 3 July 2018, following Novo Holdings A/S' ("Novo") desire to effect a rotation in their nominated Board representative. As a significant shareholder in the Company, Novo is entitled to appoint one Non-Executive Director to the Board for so long as it and its associates are entitled to exercise, or control the exercise of, 10% or more of the votes able to be cast on all or substantially all matters at general meetings of the Group.

Sten was appointed on 3 July 2018 and has substantial experience within the healthcare industry, holding executive and director roles. Further information about Sten is set out on page 81. Sten is not a member of any Board committee.

In October 2018, we announced Paul Moraviec's retirement as Chief Executive Officer and cessation as a Director of the Group. The Board approved the appointment of Rick Anderson as Interim Chief Executive Officer. At the same time the Chairman and Deputy Chairman commenced a search for a permanent Chief Executive and appointed an external search agency, Russell Reynolds, to assist with the process. Rick, who was a Non-Executive Director of ConvaTec and a former Group Chairman of Johnson & Johnson, has significant operational and board level healthcare experience.

The search, selection and appointment process for Executive Directors and independent Non-Executive Directors is described in the Nomination Committee report on page 88.

Committee membership changes during the year

There was one change to committee membership during the year. Rick Anderson ceased to be a member of the Audit and Risk Committee on his appointment as Interim CEO. The current members of each Board committee are detailed in the relevant committee reports on pages 86, 90, 100 and 102.

Relevant skills and expertise

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

Director	Public company	Finance	Healthcare	M&A	Global	Operational
Sir Christopher Gent	*		*	*	*	*
Frank Schulkes	*	*	*	*	*	*
Steve Holliday	*	*		*	*	*
Rick Anderson	*	*	*	*	*	*
Regina Benjamin	*		*			
Margaret Ewing	*	*		*	*	
Jesper Ovesen	*	*	*	*	*	
Ros Rivaz	*		*	*	*	*
Sten Scheibye (appointed 3 July 2018)	*		*		*	*

Board meetings and attendance

During the year, the Board convened on nine scheduled occasions, including six in person meetings. One of these scheduled meetings was held at our office in Bridgewater, New Jersey, when the business of the meeting included an in-depth review of the Americas region and the newly formed Home Distribution Group.

The Company Secretary attends all meetings. External advisors are also invited at the request of the Chairman where further independent guidance and expertise is required to facilitate the Board in carrying out its duties. Where appropriate, senior executives below Board level, including members of the Executive Committee, attend relevant parts of meetings to make presentations on a range of issues. During the year presentations covered the Brexit planning process, health and safety, global supply chain efficiency plans, a review of the EMEA region, people strategy review including talent development and diversity and inclusion, and reviews of each franchise. Involving senior management in these meetings provides the Board with direct access to a broader group of executives and facilitates assessments when considering succession plans.

The table below shows the number of formally scheduled Board meetings attended by each Director out of the number they were entitled to attend during the year. In addition to the formally scheduled meetings, the Board also met on 12 other occasions (in person and via telephone conferences) to consider and approve matters outside formally scheduled meetings. The matters discussed at these meetings included the annual review of the Group's strategy, the review and approval of our refreshed execution model, the approval of the J&R Medical acquisition and other ad hoc items. Attendance at these meeting was high and those Directors unable to attend provided their input to the Chairman or SID prior to the meeting and were briefed afterward on the meeting discussions.

Director	Role	Formally scheduled meetings
Sir Christopher Gent	Chairman	9/9
Rick Anderson	Interim Chief Executive Officer	9/9
Paul Moraviec (member until 14 October 2018)	Chief Executive Officer	8/8
Frank Schulkes	Chief Financial Officer	9/9
Steve Holliday	Deputy Chairman, SID and Non-Executive Director	8/9
Jesper Ovesen	Non-Executive Director	9/9
Ros Rivaz	Non-Executive Director	9/9
Margaret Ewing	Non-Executive Director	9/9
Regina Benjamin	Non-Executive Director	9/9
Sten Scheibye (appointed 3 July 2018)	Non-Executive Director	4/4
Kasim Kutay (member until 3 July 2018)	Non-Executive Director	4/5

Steve Holliday and Kasim Kutay were unable to attend one scheduled Board meeting each. On each occasion, they provided comments in advance of the meeting.

All Directors, other than Sten Scheibye who joined the Board in July 2018, attended the AGM held in May 2018.

Board activities in 2018

Set out below is a summary of the Board's activities during the year. This is intended to provide an overview of the key areas the Board focuses on and the role the Board plays in overseeing the execution of ConvaTec's strategy.

Key matters the Board considered during 2018

Key area	
Strategy	– Reviewed and approved J&R Medical acquisition. – Reviewed and approved refreshed execution model. – Oversaw appointment of new Executive Committee members.
Performance	– Monitored trading and financial performance and discussed and approved management actions to address underperformance. – Reviewed and approved 2019 annual operating plan. – Reviewed Global Operations. – Reviewed efficiency programme. – Reviewed each franchise and their respective new product development programmes.
Stakeholder engagement	– Regularly discussed shareholder feedback with Investor Relations team and brokers. – Executive Directors, Chairman, SID and Chair of the Audit and Risk Committee held meetings with key shareholders. – Oversight of work conducted by CR Committee including approval of CR strategy, inaugural climate change strategy and CR objectives.
People	– Oversight of CEO recruitment process. – Approval of people strategy including talent development and diversity and inclusion. – Reviewed succession planning for Executive Directors and Executive Committee. – Reviewed outputs from employee engagement survey. – Discussed and approved Remuneration Committee recommendations.
Governance and risk	– Externally facilitated Board effectiveness review. – Reviewed risk appetite and approval of the Group's principal risks. – Update on Brexit planning and risk mitigation. – Update and consideration of key corporate governance developments. – Appointment of Non-Executive Director. – Oversight of work conducted by, and reports from, the Board's Audit and Risk Committee, Nomination and Remuneration Committees.

Effectiveness

Confirmation of Director independence and time commitment

The Board considers Steve Holliday, Jesper Ovesen, Ros Rivaz, Margaret Ewing and Regina Benjamin to be independent of management and free from business relationships that could interfere with the exercise of independent judgement. The Board believes that any shares held by these Directors serve to align their interests with those of the Group's shareholders. Rick Anderson is not considered independent while he undertakes the role of Interim CEO. His independence will be reassessed when he steps down from the role.

Each of the Directors has confirmed that they have sufficient time to properly fulfil their duties including preparing for Board and committee meetings, reading all papers associated with such meetings, attending meetings scheduled to take place in 2019 and spending separate time with management.

Directors' conflicts of interest

The Nomination Committee reviews the interests of candidates prior to making recommendations for the appointment of new Directors. Directors are required to discuss any additional commitments with the Chairman on an ongoing basis to ensure that any conflicts can be avoided or managed. The Nomination Committee continues to be satisfied that all Non-Executive Directors have sufficient time to meet their commitments to the Group.

Re-appointment of Directors

All Directors are subject to annual re-election and will be proposed for election or re-election (as appropriate) by shareholders at the AGM to be held on 9 May 2019. In relation to the re-elections, the Chairman has confirmed that following evaluation, including the Board effectiveness review process described below, all Directors continue to be effective and have the time available to commit to their role.

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

Board induction and development

All new Directors participate in a formal induction programme which is monitored by the Chairman and is the responsibility of the Company Secretary.

The induction programme includes an on-site meeting and briefing meetings with members of the Executive Committee and other senior management.

Supported by ongoing training.	Receive updates from the 's senior management.	Receive updates from external advisors.

All new Directors participate in a formal induction programme which is monitored by the Chairman and is the responsibility of the Company Secretary. Its purpose is to familiarise new Directors with ConvaTec and its operations and provide key information in relation to the governance and compliance processes and procedures we operate. Typically the induction programme includes an on-site meeting at our Deeside R&D facility, thorough briefing meetings with members of the Executive Committee and other senior management and bespoke sessions to ensure that each newly appointed Director is able to contribute to the Board's discussions as quickly as possible.

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

During the year we continued to evolve our training programme and, in particular, its scope was expanded to include training from external advisors to both the Remuneration and Audit and Risk Committees. Training focused on matters specific to their respective committee activities, including corporate governance updates, executive remuneration, corporate reporting and audit updates. Board members have also increased the number and frequency of their visits to the Group's sites to enhance their understanding of the Group's products and operations.

Operation of the Board and its committees

The Directors have access to a fully encrypted electronic portal system, which enables them to receive and review Board and committee papers quickly and securely electronically. We aim to hold at least six of our formally scheduled Board meetings in person and where required, ad hoc Board and committee meetings are held by telephone or in person. The Company Secretary attends all Board and committee meetings.

The Company Secretary is responsible for advising and supporting the Chairman, the Board and its committees on corporate governance matters as well as ensuring that there is a smooth flow of information to enable effective decision making. All Directors have access to the advice and services of the Company Secretary and, through her, have access to independent professional advice in respect of their duties, at the Group's expense.

Board evaluation

Following our Listing in October 2016 and in line with previous commitments, during the course of the year the first externally facilitated review of the Board and its effectiveness was undertaken by Lintstock Limited ("Lintstock"), who was chosen following a selection process directed by the Company Secretary. The selection process involved three firms who met with the SID and the Company Secretary. Lintstock, and the members of the firm who undertook the review, have no connection with the Group.

2018 Board effectiveness review

Areas of focus

- **Composition of the Board and the dynamics between members**
- **Understanding of, and engagement with, key stakeholder groups**
- **Quality of information and support available to the Board**
- **Management and focus of Board meetings**
- **Oversight of strategy, risk and human resources**

Process

Establishment of context for the evaluation and creation of online survey covering the performance of the Board and its committees.
(September to November 2018)

Completion of online survey by all Board members.
(November to December 2018)

Interviews with each Board member, undertaken by two Lintstock representatives, to expand upon their online survey responses. Respondents' anonymity ensured throughout the process to promote an open and frank exchange of views.
(November to December 2018)

Written report summarising the review's findings. Lintstock facilitated a discussion of the findings at January 2019 Board meeting and was also available to speak with each committee chair to discuss individual committee performance.
(January 2019)

Conclusions

Action plan agreed by the Board to address the review's recommendations as follows:

- **Determine the Interim CEO's priorities in the coming months and continue the ongoing process to recruit a permanent CEO.**
- **Evolve the Board's composition, succession planning for key roles and the attributes sought in the appointment processes.**
- **Improve communication from management to the Board, and amongst the Board, outside formal meetings.**
- **Schedule site visits for Non-Executive Directors.**
- **Enhance the monitoring of culture and behaviours throughout the Group, and the impact that the change in CEO has in driving cultural changes.**
- **Improve the quality of information flow to the Board, the timeliness with which papers are circulated, the analysis of data, and the communication around key opportunities and challenges.**
- **Develop the quality and focus of Board-level strategic discussions.**
- **Improve the clarity of the Group's strategy and the capacity of the Group to deliver on its strategic plans.**
- **Further develop the risk management framework and supporting processes and enhance the Board's oversight of the key risks facing the Group, and associated mitigation plans.**

Nomination Committee report

"Delivery of our strategy is dependent on a talented and effective leadership team and a pipeline of future talent. The Committee plays a key role in ensuring that we have the best people and a development programme that enables progression."

Sir Christopher Gent
Chairman of the Nomination Committee

Key areas of responsibility

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

Activity highlights

- Oversaw change of Novo representative.
- Reviewed diversity and inclusion strategy.
- Reviewed succession planning and talent management arrangements.
- Considered and determined Board-led employee engagement.

2019 priorities

Following the 2018 Board effectiveness review, the Committee's principal areas of focus in 2019 include:

- Overseeing the recruitment of a permanent CEO.
- Board-level succession planning.

Committee membership, meetings and attendance

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

Director	Member since	Attended
Sir Christopher Gent	October 2016	3/3
Jesper Ovesen	October 2016	3/3
Steve Holliday	October 2016	3/3
Ros Rivaz	August 2017	3/3

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

Dear Shareholder

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

Our role

Delivery of our strategy is dependent on a talented and effective leadership team and a pipeline of future talent. The Committee plays a key role in ensuring that we have the best people to lead our business and a development programme that enables our people to progress and be promoted to senior management roles.

Committee activities during the period

Key area	Matter
Appointments	Considered interim leadership arrangements following the retirement of Paul Moraveic. Undertaking global search process, led by the Chairman and Deputy Chairman with the support of other Board members, to identify a new CEO including reviewing potential candidates with a view to ensuring an appropriate balance of leadership and operational skills and interviewing and assessing candidates. Assisted management by interviewing and assessing key candidates for Executive Committee roles. Oversaw the change of Novo's representative director.
Succession planning	Reviewed succession planning for the senior management team and talent management arrangements.
Diversity	Reviewed deployment of the Group's diversity and inclusion strategy and assessed key metrics to ensure continued focus on building a sustainable, diverse and inclusive organisation.
Employee engagement	Reviewed outputs from employee engagement survey. Considered and approved the employee engagement process to be undertaken by Regina Benjamin and Ros Rivaz.
People strategy	Reviewed the Group's new people strategy which sets out the strategic direction of the Group's HR function for the period to 2021.

Effectiveness

As part of the Board's effectiveness review, which is explained on page 85, the Committee's effectiveness was evaluated. The evaluation indicated that while the Committee was effective in relation to its activities with regard to senior management and other employees, its focus on Board-level succession planning needed to increase. Key outputs from the evaluation are reflected in the Committee's 2019 priorities which are detailed on page 86. In particular the Board-level succession planning will include consideration of the composition of the Board, skills and experience of existing Board members and whether areas require strengthening, particularly to support the Group's various significant strategic change programmes.

Diversity

The Board endorses the aims of the Davies' report entitled "Women on Boards", the Hampton-Alexander ("H-A") report entitled "FTSE Women Leaders – Improving Gender Balance in FTSE Leadership", and the Parker report entitled "A Report into the Ethnic Diversity of UK Boards". The Board reports its gender data for the H-A review and was marked as having "potential to be on target" in the 2018 H-A report.

At Board level we have members of various nationalities, gender and ethnicity who have a good range of skills and expertise. The Committee will continue to monitor the composition of the Board and ensure any individuals appointed are appointed on merit and the Board at all times has relevant skills and expertise to perform effectively.

To achieve diversity in other parts of the Group, in 2017 we launched our diversity and inclusion strategy which set an objective to have 30% of senior management roles held by female executives by 2020. While our progress to date in achieving this objective has been slow, we remain committed to achieving it. Information about the implementation of our diversity and inclusion strategy is included on page 20.

Succession planning and talent review

The Committee undertook a detailed review of succession planning and talent development across the Group's entire senior management team. The Group uses a talent assessment framework based on learning agility and sustained performance, whilst also continuing to focus on achieving wider diversity. This framework is used to generate matrix scores for employees which are linked to, and support, succession planning activities.

Outputs from the succession planning review enabled the Committee to challenge and support changes made during the year to both the Executive Committee and the wider senior management team.

Employee engagement

An all employee engagement survey was undertaken during the year. The Committee reviewed and considered the feedback from the survey including the plans developed to respond to the feedback. In addition, the Committee has overseen the implementation of Board-led employee engagement activities as required by the 2018 Code. The Committee determined that two Non-Executive Directors will have specific responsibility for such engagement and a programme of activities which covers the Group's international operations has been developed. With effect from January 2019 Ros Rivaz and Regina Benjamin assumed responsibility for this programme in addition to their existing responsibilities.

People strategy

The Committee undertook a detailed review of the new people strategy for the period up to 2021. The goal of this strategy is to improve employee and organisational performance, support the Group's Purpose, Vision and Mission and create a values-led performance-driven culture within a diverse and inclusive organisation. The Committee will monitor the implementation of the strategy and its effect over the period.

Non-Executive Director appointments

In July our strategic investor Novo Holdings A/S advised that it wished to change its Board representative. Accordingly Kasim Kutay resigned as a Non-Executive Director in July and was replaced by Sten Scheibye. Sten has significant healthcare experience as former CEO of Coloplast A/S and advisor to Novo. Further information about Sten's background is set out on page 81.

In terms of our Non-Executive Director recruitment process: members of the Committee interview selected candidates who also meet with the Executive Directors. The Committee then recommend candidates for appointment to the Board.

From time to time we engage international search and selection firms including Heidrick & Struggles, Spencer Stuart and Russell Reynolds to identify a range of suitable candidates for Non-Executive Director roles. On occasion Korn Ferry also conduct executive search assignments for the Group. Heidrick & Struggles, Spencer Stuart, Korn Ferry and Russell Reynolds have no connection with the Group other than they may be engaged to assist with senior management appointments from time to time.

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

On behalf of the Nomination Committee

Sir Christopher Gent
Chairman of the Nomination Committee
14 February 2019

Accountability

How we manage risk

Our risk management framework and the processes we operate to manage risks are set out on this page.

Board assessment of risk management and internal control effectiveness

The Board is ultimately responsible for overseeing how we manage both internal and external risks that could impact our business model and strategic goals. The Board also determines the Group's risk appetite, regularly reviews the Group's principal risks and, on an annual basis, reviews the effectiveness of our risk management and internal control systems and undertakes horizon scanning to identify new emerging risks. Further information about the Group's principal risks is set out on pages 34 to 43. During 2018, the Board has directly, or through delegated authority to the Audit and Risk Committee, monitored and reviewed the Group's risk management activities and processes, including a review of the effectiveness of all material risk mitigations and the financial, operational and compliance internal controls. The Audit and Risk Committee's activities in these areas are set out in the Audit and Risk Committee report on pages 90 to 98. Following this review the Board is satisfied that the Group's risk management and internal control framework is effective.

Statement of review

The Board's statement of annual review of effectiveness of the Group's risk management and internal control systems is set out on page 75.

Roles and responsibilities

Board

- Oversees the Group's risk management framework.
- Reviews the principal risks on a six-monthly basis.
- Sets the Group's risk appetite.
- Assesses whether the Group's risk profile accords with its risk appetite.
- Oversees risk management processes.
- Horizon scans will be completed on a regular basis in accordance with the risk management framework.

Audit and Risk Committee

- Monitors, assesses and reviews the Group's internal control and risk management systems.
- Assesses whether the Group's risk profile accords with its risk appetite.
- Reviews key risks on a regular basis.
- Reviews internal audit reports on effectiveness of mitigations and controls related to certain key risks.
- Reports its findings and recommendations to the Board.

Further information about the role and responsibilities of the Audit and Risk Committee is set out on pages 90 to 98.

Executive Committee

- Undertakes top-down risk reviews and manages the risks.
- Reviews and approves bottom-up risks.
- Participates in risk workshops to identify, evaluate and approve the principal risks to ensure that all necessary actions, mitigations and controls are being effectively applied to minimise residual risk exposure. Each principal risk has a "risk owner" who is a member of the Executive Committee and is accountable for overall management of the relevant risk and the associated mitigating actions.
- Horizon scans will be completed on a regular basis in accordance with the risk management framework.

Internal Audit and Enterprise Risk team

- Facilitates risk management workshops to collate top-down risks.
- Reviews and collates bottom-up risks from operations, supports management and assesses when risks require escalation.
- Prepares annual internal audit plan based on principal risks.
- Reports to the Executive Committee and the Audit and Risk Committee.
- Supports the Executive Committee in fulfilling its risk management responsibilities.
- Assists operations management in embedding risk management processes and maintaining and improving them.
- Reviews annually the effectiveness of the risk management framework.

Operations management within Group functions, franchises and business units

- Undertakes day-to-day risk management activities.
- Identifies risks, assesses the level of risk and determines when risks require escalation.
- Identifies the current controls operating to mitigate the risk within a business area.
- Identifies actions to be implemented to further mitigate and reduce the risk exposure.
- Assigns risk owners to lead mitigation actions.
- Assigns control owners to monitor the effectiveness of the control.

Audit and Risk Committee report

"The Committee plays a key role in ensuring the integrity of the Group's financial reporting, the effectiveness and independence of the audit process and monitoring and reviewing all risk management processes."

Jesper Ovesen
Chairman of the Audit and Risk Committee

Key areas of responsibility

- Ensuring the integrity of financial information published by the Group, including monitoring the Group's financial reporting procedures and reviewing and challenging significant financial estimates, assumptions and judgements.
- Reviewing and assessing the adequacy and effectiveness of the Group's risk management and internal control processes and systems.
- Monitoring and reviewing the effectiveness and independence of the Group's internal audit function, agreeing the scope of audits to be conducted each year, reviewing the results of such audits and monitoring the implementation of agreed internal audit recommendations.
- Assessing the procedures and controls designed to ensure independence and effectiveness of the external auditors, reviewing the external audit work plan and the findings of the external audit, assessing the quality and effectiveness of the audit and the performance of the auditors and approving the provision of all non-audit services.

Activity highlights

The principal matters the Committee reviewed relating to the financial year ended 31 December 2018 were:

- The Group's 2018 interim and final results announcements and presentations (and ancillary matters) and the 2018 Annual Report and Accounts ensuring that they were fair, balanced and understandable.
- The proposed 2018 interim and final dividends and distributable reserves planning.
- The Viability statement of the Board for inclusion in the 2018 Annual Report and Accounts.
- The Group's Q1 and Q3 trading update announcements.
- Assessment of the impairment of the Company's investment in its immediate subsidiary, Cidron Healthcare Limited.
- Transition of the Corporate Finance, Tax and Internal Audit functions from the US to the UK.
- The Financial Reporting Council's ("FRC") Audit Quality Review of the external auditor's audit of the 2017 Financial Statements.
- The FRC's corporate reporting review of the Company's 2017 Annual Report and Accounts.
- Improvements in management information and reporting.
- Alternative Performance Measures ("APMs"), including strengthening disclosure requirements under FRC and European Security and Markets Authority ("ESMA") guidelines and the Group's internal policies.
- Evolution of the Group's internal audit and risk management functions, processes and frameworks and the structure and resourcing of the respective teams.
- The audits undertaken by the internal audit function during the year.
- The effectiveness and quality of the external audit.

In addition, and following receipt of the FRC's letter referred to on page 96, the Committee has, during the preparation of the 2018 Annual Report and Accounts, overseen the implementation of all recommendations made by the FRC.

Pages 92 and 93 provide more detail on the Committee's activities.

Committee membership, meetings and attendance

Director	Member since	Attended
Jesper Ovesen	October 2016	8/8
Steve Holliday	October 2016	7/8
Rick Anderson[1]	October 2016	7/7
Margaret Ewing	August 2017	8/8

1. Rick Anderson stepped down from the Committee on 15 October 2018 following his appointment as Interim CEO.

During the year the following individuals also regularly, or when relevant, attended the Committee's meetings:

- CFO
- CEO
- Executive Vice President, General Counsel and Corporate Development
- Company Secretary
- Corporate Controller, and where appropriate, other members of the Controlling function
- Key audit partners of the external auditor, Deloitte
- Chief Compliance Officer
- Vice President, Internal Audit and Enterprise Risk
- Chief Information Officer
- Vice President, Tax

2019 priorities

The Committee's principal areas of focus in 2019, in addition to those areas covered in 2018 and those required within the Committee's key areas of responsibility, will include:

- Ensuring the continuing development and improvement of the Group's systems and resourcing of risk management (including the identification and review of emerging and business specific risks) and internal audit and the further embedding of risk management across the Group.
- Overseeing improvement in the availability and quality of financial information, data and analytics.
- Overseeing improvements in the processes applied within the Group to provide reliable forecasts and budgets.
- Reviewing and agreeing plans for the refinancing of the Group's borrowing facilities that expire in 2021.
- Overseeing developments in the use of APMs.
- Continuing to build a constructive interaction between management and the Committee outside formal meetings.

Dear Shareholder

This report provides a summary of the Audit and Risk Committee's activities relating to the financial period ended 31 December 2018.

Committee composition and meeting attendance

The Committee is comprised entirely of Independent Non-Executive Directors.

The names of the Committee members are set out on page 90 together with the roles of the individuals who attend relevant parts of the Committee's meetings. Rick Anderson stepped down from the Committee on his appointment as Interim CEO.

The Committee members have between them a wide range of financial, audit, risk management and business experience. The Committee considers that Margaret Ewing and I have recent and relevant financial experience for the purposes of the Code.

I have chaired the Committee since October 2016. I am a qualified Chartered Accountant with over 37 years financial experience. Previously I have held a number of board level financial positions in large global companies including CFO of TDC, The Lego Group and Danske Bank. In addition I have significant audit committee and corporate finance experience. My fellow committee members also have extensive relevant financial, audit and risk management expertise. In particular Margaret Ewing was formerly CFO of BAA plc and Trinity Mirror plc and Managing Partner of Deloitte LLP. Margaret also has substantial audit committee experience and currently chairs ITV Group plc's Audit and Risk Committee.

Steve Holliday has significant board level experience, including as Chief Executive Officer of National Grid plc for over nine years until his retirement in July 2016. This role required him to have a very strong financial understanding coupled with operational capability.

Detailed biographies of all Committee members can be found on pages 80 and 81. The Committee will continue to review its membership to ensure the skills and experience of its members align with the business as it develops.

The Committee held eight formal meetings, with three meetings timed to align with the financial and audit cycles of the Group. Outside the Committee's formal meetings, I regularly met members of management, including the Chief Financial Officer, Vice President, Internal Audit and Enterprise Risk, Corporate Controller and the lead external audit partner and senior members of the audit team to discuss matters relating to the Committee's activities. Other members of the Committee also met with management and the external auditors during the year.

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

The secretary of the Committee is Clare Bates, the Group's Company Secretary.

In planning its own agenda, and reviewing the audit plans of the internal and external auditors, the Committee takes account of significant issues and risks, both operational and financial, likely to have an impact on the Company's financial statements and/or the Company's execution and delivery of its strategy. The Committee also addresses specific queries or reviews referred to it by the Board or the Remuneration Committee.

Development and effectiveness

During the year the Committee received an update from Deloitte on corporate governance issues specifically relating to the Committee's activities, including the relevant requirements of the 2018 UK Corporate Governance Code.

As part of the Board's annual effectiveness review, which is explained on page 85, the Committee's effectiveness was evaluated. Overall, the review concluded that the Committee is responding appropriately to its terms of reference and will continue to develop its role. The key outputs of the review are reflected in the Committee's 2019 priorities which are detailed on page 90.

Committee activities

Key area	Activities
Financial reporting (2018 interim and final results, Q1 and Q3 results and Alternative Performance Measures)	Reviewed: – The financial statements and trading announcements released throughout the year, including all disclosures and notes, and related public presentations and scripts, together with papers from management summarising the process for preparing the underlying Financial Statements. – The appropriateness and application of key accounting policies and the areas of significant judgement, assumption and estimate, including how those judgements, assumptions and estimates were determined. – Review of the appropriateness of items adjusted in APMs and their disclosure in the Financial Statements. This matter is discussed in detail in the "Significant issues and other accounting judgements" table below. – Reports from Deloitte following the completion of their review in relation to the interim results and audit in respect of the final results and their audit process. The Deloitte reports on the interim and full year results included specific focus on areas identified as having significant audit risk or other audit emphasis.
Going concern and viability statements	Reviewed the process and stress testing undertaken to support the Group's Viability Statement and reviewed documentation prepared to support the Group's Going Concern statements. Concluded that the 2018 Annual Report and Accounts had been properly prepared on a going concern basis and approved and recommended the draft Viability statement to the Board. These matters are discussed further in the "Significant issues and other accounting judgements" section of this report.
Impairment review of Cidron Healthcare Limited ("CHL") in the Company only accounts of ConvaTec Group Plc	As part of the pre-IPO reorganisation of the Group in October 2016, ConvaTec Group Plc acquired the entire share capital of CHL. CHL owns the rest of the ConvaTec Group companies with the exception of ConvaTec Holdings Limited. The acquisition was accounted for using merger accounting and the difference between the fair value and the nominal value of the shares acquired was taken to the merger reserve. The carrying value of the investment in CHL was established based on the Company's IPO offer share price of £2.250. Following the profit warning in October 2018 and the subsequent fall in share price, management identified an impairment trigger for the review of CHL in the company only accounts of ConvaTec Group Plc. The Committee reviewed, considered and challenged management's impairment review of CHL. This matter is discussed in the "Significant issues and other accounting judgements" section of this report.
Fair, balanced and understandable	Considered whether the 2018 Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and whether they provide the information necessary for shareholders and other stakeholders to assess the Group's performance, business model and strategy. The process to support the Committee's conclusions in respect of this included: – The Annual Report and Accounts preparation process being led by a senior management working group, and including review by the Executive Committee, members of this Committee and the Board and externally reviewed by Deloitte, Freshfields Bruckhaus Deringer and, in relation to the Directors' Remuneration report, Kepler Mercer. – A qualitative review of disclosures and internal consistency throughout the Annual Report and Accounts. The qualitative review included but was not limited to the following matters: – Assessing the accuracy and integrity of the messages conveyed in the report and appropriateness of the level of detail in the reporting. – Correlation between the key working papers and results for each of the significant issues and judgements considered by the Audit and Risk Committee and the external auditors in the period and the disclosures in the report. – Consistency between the Strategic report, Corporate Governance report, Financial review and the Financial Statements. – Balance of statutory reported results and non-IFRS measures, including a clear and comprehensive reconciliation between them and consideration of why the non-IFRS measures were being provided.
External audit	Reviewed and carefully considered the external auditor's planned scope of work for the audit of the Group's Financial Statements and the assessment of risk and materiality on which the plan is based. Monitored the progress of the implementation of the audit plan throughout the year and considered issues and judgements as they arose and any resulting required changes of audit scope. Reviewed the auditor's regular reports to the Committee, in particular in respect of the interim review and annual audit, and discussed key findings and conclusions with the audit partners and management. Considered the performance, effectiveness and quality of the external audit process. The Committee demands a robust, quality and effective audit with strong reporting lines to the Committee. Approved the terms of engagement of the external auditors, including the audit and non-audit fees, ensuring that the required scope of audit work is not constrained by the cost of assurance. All non-audit engagements are approved by the Committee, in strict accordance with its policy on non-audit engagements performed by the external auditors. Taking into consideration the results of the above activities, recommended to the Board that a resolution for the reappointment of Deloitte for a further year as the Company's auditor be proposed to shareholders at the AGM in May 2019.

Key area	Activities
Internal controls and risk management	Reviewed the Group's system of financial internal controls and risk management (which are set out on page 89) and their effectiveness and assisted the Board in relation to compliance with the Code in this respect. This included reviewing: – The annual process and testing programme for financial controls. Continued year-on-year improvement in non-material deficiencies previously identified was noted. – The ongoing Global Financial Controls improvement project, including the top-down risk assessment process and the development of global standards. – The internal audits completed during the year with no major control weaknesses identified. – The rigorous regulatory and compliance framework and the conclusions of the independent internal compliance reviews undertaken throughout the year across all aspects of the Group. – The key internal financial controls, which were included in the internal audit programme. This review included an update at every Committee meeting from the Corporate Controller on the accounting issues and key aspects of the financial controls and updates on risk management from the Chief Compliance Officer and the Vice President Internal Audit and Enterprise Risk. – The preparation work for the adoption of the new IFRS 16 *Leases* effective 1 January 2019, including a financial impact assessment and tax impacts. The Committee concluded that the Group has taken the necessary steps for the implementation of the new standard and identification of the financial implications of adoption of the standard. – Monitoring of financial performance throughout the year and its alignment with information received from management by the Board. – The risk management and controls software being implemented for reporting on financial controls, internal audit and risk management. – The evolving and improving risk management process and framework. – Deep dive presentations on a number of specific issues including Brexit, anti-bribery and corruption processes, cyber-security and GDPR implementation.
Management and financial information and reporting	Oversaw the planning and ongoing implementation of improvements to be made in the quality and availability of management and financial information and reporting, including implementation of SAP data warehouse, recruitment of function specialists to manage the data warehouse and ongoing development of a real-time dashboard for key financial and non-financial metrics. The Committee will continue to monitor the ongoing improvements in management information and reporting.
Treasury Policy – foreign exchange hedging	Reviewed reports from management regarding evaluation of foreign currency exposures across the Group and proposed solutions to mitigate exposures, both short and long-term. The Committee approved the proposed short-term option and use of simple short form forward contracts as required. Approved foreign currency risk management policy including accounting and governance framework.
Compliance and Whistleblowing	Received reports from the Executive Vice President, General Counsel and Corporate Development and the Chief Compliance Officer in relation to the Group's compliance programme, and monitored the implementation of the programme across the Group. Reviewed reports from the Group's independent confidential whistleblower hotline and management's responses, including investigating issues raised via the hotline, conclusions of investigations and any required actions. Information about this hotline is included on page 19.
Tax	Received and reviewed tax updates on various issues including: – Brexit planning, including mitigation plans in relation to potential dividend withholding tax changes. – Tax judgement issues within the 2018 Financial Statements. Oversaw the transition of the tax function from the US to the UK following the appointment of the new UK based Vice President, Tax. Approved the Group's refreshed global tax statement.
Cyber security and GDPR	Oversaw the progression of the Group's cyber-security programme including a review of the Group's cyber security strategy and plans by external advisers and implementation of their recommendations. Oversaw implementation of the Group's GDPR programme and tracked progress against a phased plan.
Discussions on specific matters	Considered and reviewed the following matters: – The FRC's letter related to its corporate reporting review in relation to the 2017 Annual Report and Accounts. – Conclusions of the FRC's Audit Quality Review of Deloitte's audit of the 2017 Financial Statements. – Home Distribution Group's ("HDG's") revenue cycle. – Insurance, treasury and debt covenant compliance. – Anti-bribery and corruption policy compliance. – Corporate governance development.

The Committee did not hold any meetings with shareholders during the year, however the Chair of the Committee participated in a shareholder governance meeting in November 2018.

Significant issues and other accounting judgements considered by the Committee in relation to the Group's 2018 Financial Statements and disclosures

Other than in respect of the initial consideration of the proposed treatment of certain costs as APMs (see the table below), in relation to which agreement was eventually reached, there were no topics where there was significant disagreement between management, the external auditor and the Committee, or unresolved issues that needed to be referred to the Board.

Set out in the table below is information on the key matters considered relating to the financial period ended 31 December 2018.

Significant area considered	How the Committee challenged and addressed	Outcome
Revenue recognition in accordance with IFRS 15 "Revenue from Contracts with Customers", effective 1 January 2018	Considered the revenue recognition policy and monitoring controls in place to ensure adherence to the policy. Received an in-depth report on HDG's revenue cycle, being an identified risk area in relation to revenue recognition and complexity. Considered the reports provided by Deloitte on revenue recognition review procedures performed during the interim review and full year audit.	The Committee agreed that the appropriate controls and monitoring processes were in place to ensure the correct application of the revenue recognition accounting policy.
IFRS 9 "Financial Instruments", effective 1 January 2018	Considered the impact of the new statement on the classification and measurement of financial assets, the related impairment model and hedge accounting required. Also, the impact assessment on the Group's financial statements and accounting policies and managements' conclusions on the impact on existing accounting treatment. Discussed with the external auditors, the review they had undertaken to assure themselves that management's assessment of impact was appropriate.	The Committee concluded that the Group's existing accounting policy in relation to financial instruments was materially aligned to IFRS 9 and adoption of IFRS 9 would not have a material impact on the financial statements.
IFRS 16 "Leases", effective 1 January 2019	The Committee considered the scope and completeness of the internal review that had been undertaken by management to assess the financial impact of applying IFRS 16 on the Group's Financial Statements. The Committee also considered the practical expedients to be applied on transition, initial measurement and discount rate assumptions. Deloitte undertook progress reviews during the year to assess management's readiness to adopt IFRS 16 and the quality of appropriate disclosures during the year on the expected financial impact of adopting the Standard. The Committee discussed the progress reviews with the auditors. The Committee also reviewed and discussed the relevant IFRS 16 disclosures in the 2018 Annual Report and Accounts with reference to the guidance given by the FRC in their letter to Audit Committee Chairs and Finance Directors on 24 October 2018.	The Committee accepted management's proposal in relation to practical expedients, initial measurement and discount rates and concluded the disclosures, including expected financial implications, in the 2018 Annual Report and Accounts were appropriate. The Committee also reviewed and approved management's plans in relation to the implementation of appropriate controls and systems to ensure ongoing compliance and accurate reporting in respect of IFRS 16.
Valuation of goodwill and the impairment testing thereof, including sensitivity analysis and stress testing	Management undertake an annual review, or at other times if circumstances indicate a possible issue, to determine if the carrying value of goodwill is impaired (assisted by external advisers). This impairment review requires the exercise of considerable judgement and application of assumptions by management, including estimates used in deriving future cash flows and discount rates applied to these cash flows, reflecting current market assessments of the specific risks and the time value of money. The estimation process is complex due to the inherent risks and uncertainties associated with long-term forecasting. The Committee considered management's review of potential impairment of goodwill and gained an understanding of the level of headroom in that calculation and the sensitivity of that headroom to changes in key assumptions, such as the applicable pre-tax discount rate used and the market and company growth rate assumptions. Commissioned and received a report from management on the Group's cash generating units ("CGUs") and considered the appropriateness of the current structure and the potential triggers for reassessment of the CGU structure. As part of the consideration of the consolidation of 180 Medical, Woodbury Catheter, Woodbury Incontinence and J&R Medical into a single CGU, considered the individual impairment reviews undertaken by management to demonstrate that there would be no indicators of impairment under the previously reported CGUs. Discussed the outcome of these various goodwill related reviews with management and the external auditors and received the auditor's views on the matters concerned, which were consistent with management's conclusions.	The Committee devoted significant time (both outside the formal meeting and in it) to considering the outcome of management's review of the appropriate carrying value of goodwill and, having considered the sensitivity analysis and the assumptions and judgements applied, agreed with management's goodwill valuation. The Committee agreed that there was sufficient evidence for 180 Medical, Woodbury Catheter, Woodbury Incontinence and the in-year acquisition of J&R Medical to be consolidated into a single CGU being the "Home Delivery Group". The Committee concluded that all other CGUs should remain unchanged.

Significant area considered	How the Committee challenged and addressed	Outcome
Impairment review of CHL	Considered management's assessment of the Value in Use ("VIU") of CHL as at 31 December 2018, given that the fall in the Group share price following the trading update on 15 October 2018, was a trigger for an impairment review. The valuation of CHL includes inputs, including discount rate, which are key sources of estimate uncertainty and require significant judgement in their calculation. The Committee challenged management on the discount rates applied in the initial calculations and the resulting implied control premium. The Committee requested that management review and recalculate the VIU using a discount rate at the conservative end of the relevant discount range. The Committee benchmarked the VIU to the Group's market capitalisation. The Committee discussed the appropriateness of management's assumptions and outcome of the impairment review with the external auditor.	The Committee dedicated time both inside and outside the scheduled Audit and Risk Committee meetings to consider and discuss management's impairment review and calculations of the impairment charge in relation to CHL. Following discussion and recalculation, the Committee agreed with management's impairment calculations, judgements and the associated disclosures in the 2018 Annual Report and Accounts.
Recognition of deferred tax assets	Considered management's proposal to recognise a previously unrecognised deferred tax asset of $30.6 million resulting from the US Tax Cuts and Jobs Act enacted on 22 December 2017 and a deferred tax liability release of $30.4 million in respect of unremitted earnings. Management provided detailed papers setting out the background to the deferred tax asset and liability and the treatment thereof. The Committee also considered the external auditor's assessment of the proposed treatment of the deferred tax asset and liability.	Following discussion and further analysis by management related to the deferred tax asset and liability, and considering Deloitte's assessment the Committee concurred with management's proposals.
Alternative performance measures	Reviewed the ESMA and FRC guidelines in relation to APMs, the FRC's 2018 Corporate Reporting Thematic Review and the FRC's letter in relation to our 2017 Annual Report and Accounts. Considered management's supporting evidence and arguments regarding proposed adjustments to IFRS reported measures and disclosures in light of the ESMA guidance and the Group's accounting policies, including its specific policy on APMs.	The Committee sought additional explanations from management for all proposed adjustments. In addition, the Committee consider the external auditor's challenge of management's proposals. After receiving management's further explanations and Deloitte's feedback, and following an ad hoc meeting of the Committee to discuss this matter, the Committee agreed to management's proposal to treat the one-off costs related to Business Services transformation as adjusting items (in the 2019 financial statements and future impacted years).
Viability and Going Concern statements – The Group's methodology for the production of the Viability statement is set out on pages 44 to 45. – The Board's Viability statement and the Going Concern statement are included on page 75.	Since September 2018 the Board has been refreshing the Group's execution model and developing a five-year financial and operating plan. Taking into consideration the Group's prospects and risks, the Board approved the Group's strategic plan and refreshed execution model in January 2019. This strategic plan has formed the basis of the Viability assessment. The Committee specifically considered: – The relevant assessment period. The Committee considered the planning horizon and the applicability of a three or five-year assessment period. The Committee considered and discussed the following in determining a three-year viability period. a. A large proportion of Group debt matures in 2021. b. Significant investments being made over the next two to three years under the refreshed execution model. c. Our R&D and production cycles. d. Ability to respond in a timely manner to reasonably possible Group specific and market events. e. Implicitly it is harder to accurately forecast the latter years of the five-year plan. – The list of principal risks (set out on pages 36 to 43) and whether the appropriate downside scenarios were encapsulated. – Stress test scenarios covering the Group's key financial performance and liquidity risks, being foreign exchange sensitivity, revenue growth and gross margin downsides and higher capital requirements and a combined downside case sensitivity assuming simultaneous occurrence of all the above scenarios. The Committee assessed the process and stress testing to support the Viability statement and the Group's Going Concern statement. With regard to the Going Concern statement, considered the Group's available sources of funding and, in particular, tested the covenants and assessed the available headroom. Considered cash flow projections and assumptions.	The Committee approved and recommended the draft Viability statement to the Board. The Committee approved and recommended the draft Going Concern statement to the Board.

After reviewing the detailed topic papers, presentations and reports from management, the Committee is satisfied that the Financial Statements for the year ended 31 December 2018 appropriately address the critical judgements and key estimates, both in respect of the amounts reported and the disclosures made. The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust. The Committee has discussed these issues with the auditor during the audit planning process and at the finalisation of the year-end audit and is satisfied that its conclusions are in line with those drawn by the auditor in relation to these issues.

As a result of its review of the significant issues and accounting judgements described above, in its advisory capacity, the Committee confirmed to the Board, that the key accounting choices and judgements were appropriate and served to provide a fair, balanced and understandable view of the Group's Financial Statements. The Board's statement in relation to this confirmation is included on page 75. In relation to the Viability statement, the Committee also confirmed to the Board that it was reasonable for the Directors to make the Viability statement and the Going Concern statement on page 75.

Engagement with the FRC

FRC Audit Quality Review

During the year the FRC's Audit Quality Review ("AQR") team reviewed the Deloitte audit for the year ended 31 December 2017 as part of its annual programme of promoting improvement in overall quality of auditing in the UK. The review focused on:

– Scoping; instructions to component auditors; the auditor's involvement in and evaluation of component auditors' work and resolution of issues reported.
– Certain aspects of ethics, independence, quality control and completion.
– The quality of communications with the Audit and Risk Committee.
– The UK audit team's involvement in revenue, impairment review of goodwill and intangible fixed assets and taxation.

The Committee discussed the points raised by the AQR team with the AQR team and Deloitte. Key actions taken by Deloitte in response to the review were to enhance the documentation of oversight of components and to clarify which components were significant. I am satisfied that these responses address the points raised by the review.

In September 2018, the Group received a letter from the FRC's Corporate Reporting Review team, which raised a number of queries following its review of the 2017 Annual Report and Accounts. The Audit and Risk Committee assisted management in reviewing and drafting a response to the letter, which included commitments by the Group to provide additional information in the 2018 Annual Report and Accounts. The Corporate Reporting Review team has closed its enquiry. A number of suggestions for improvements were noted, and these have been taken into account in preparing the 2018 Annual Report and Accounts.

External audit and tendering process

At the AGM on 10 May 2018 shareholders approved the reappointment of Deloitte LLP as the Group's external auditor. During the year, at Deloitte's request, the senior statutory auditor was changed to Mark Mullins.

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

The Committee reviews and makes a recommendation to the Board with regard to the reappointment of the external auditor each year. In making this recommendation, the Committee considers auditor effectiveness and robustness, audit quality, independence, partner rotation and any other factors that may impact the Committee's judgement regarding the external auditor. Further information about how the Committee seeks to ensure the independence, objectivity and quality of the external auditor is set out on page 97.

Currently the Committee intends to run a tender for the appointment of the external auditor in or before 2023 but reserves the right to run such a tender at any time. The audit tendering process will occur at least once every ten years.

Audit process

The Committee is responsible for overseeing the relationship with the external auditor, the effectiveness, quality and robustness of the audit and the audit process. The following table summarises the steps taken by the Committee in overseeing the 2018 audit and its quality.

Significant matters for review	Decisions and actions taken by the Committee
The annual audit plan and strategy including the scope of the audit, changes in approach and methodology arising from AQR team review findings, emerging industry and Company specific risks and change in the audit leadership team.	Reviewed and challenged, leading to an agreed plan.
Materiality level for audit including Group materiality and component materiality.	Reviewed methodology and agreed at substantially the same level as 2017.
Deloitte audit risk assessment, as amended following October 2018 profit warning.	Reviewed and challenged approach to significant risks, any required changes to scope (compared to original audit plan) and the audit work to be performed.
Change to a different UK based lead audit partner and transition of management of the audit from the US to the UK.	Reviewed and discussed both transitions with Deloitte to ensure continuity and appropriate senior experienced and quality resourcing.
Audit fee and terms of engagement.	Reviewed, challenged and approved the fee and terms of engagement, ensuring there was no impact on scope of audit or quality of resource engaged as a result of the agreed fee level.
Audit findings, significant issues and other accounting judgements.	Discussed with Deloitte and management.
Deloitte's independence, objectivity and quality control procedures.	Independence and objectivity confirmed, quality control procedures reviewed, AQR team review discussed.

Audit independence, quality and effectiveness

The Committee seeks to ensure the independence, objectivity and quality of the external auditor through:

- Focusing on the assignment and rotation of key personnel.
- Communicating and meeting regularly throughout the year with the audit partners and personnel involved in the audit (with and without management present).
- Reviewing and monitoring the adequacy of the audit resource.
- Implementing policies in relation to non-audit work.
- Monitoring relationships with other audit firms to ensure we have sufficient choice for any future appointments.

Audit independence

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

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

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

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

The Group's Auditor Independence policy provides that the external auditor, subject to the implementation of adequate safeguards, can undertake other types of non-audit work so long as the total fees for these non-audit services must not exceed 70% of the average audit fees billed to the Group by the external auditor in the past three years.

Non-audit fees incurred during 2018 totalled $558,850 which is approximately 15% of the 2018 audit fee. The non-audit fees covered work in relation to the following matters:

- Certain tax and other compliance procedures.
- Provision of 360 degree feedback tool and other training.
- Preparation services for US pension data.
- Advice in relation to the FRC response letters referred to on the previous page.
- Provision of market data.
- Quarterly reviews of the unaudited Q1 and Q3 financial statements for those periods for management's consideration.
- Review of the Group's half-year results announcement and the underlying unaudited financial statements for the six months to 30 June 2018[1].

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

- Examining written confirmation to the Directors from Deloitte that they remained independent and objective within the context of applicable professional standards.
- Monitoring the ratio between the fees for audit work and non-audit services.
- Monitoring the tenure and rotation of audit partners and staff.
- Reviewing, if relevant, the employment of former auditors in Senior Finance Leadership roles.

As a result of this review, the Committee concluded that Deloitte remained appropriately independent in the role of external auditor. A summary of fees paid to the external auditor is set out in Note 6 to the Financial Statements.

External audit quality and effectiveness

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

In addition the Committee conducted a full review of the effectiveness and quality of the external audit process, the findings of which were considered at its meeting in December 2018. As part of this review a formal survey was undertaken to capture the views of the Committee, Executive Directors, and Group and regional senior finance management. The survey included questions on Deloitte's independence and objectivity, robustness of challenges and findings on areas that require management judgement, audit approach and methodology, communications with Deloitte, experience, technical knowledge and understanding of the Group's business and strategy (and progress in delivering the strategy).

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

Strengths

- Strong engagement from lead audit partner.
- Good challenge and insight in relation to the transition of the Group's consolidation and financial reporting team from the US to the UK.
- Proactive engagement in the audit planning process.
- Good engagement with management in pre-year end discussions, including robust challenge and exercise of appropriate scepticism, in relation to key audit judgements and estimates.
- Good challenge on areas for improvement following the transition to the UK.

Areas of focus

- Lead audit partner to continue to build knowledge of the Group.
- Challenge management on a more risk-based approach to internal controls.

Overall the results of the external audit quality and effectiveness review were positive and confirmed that both Deloitte and its audit process were appropriate and effective and that the relationships between the audit teams and the Group's management continued to provide effective, robust and objective challenge.

Based on the quality and effectiveness review, the Committee is recommending that Deloitte be proposed for reappointment by shareholders at the AGM to be held on 9 May 2019.

Internal audit

We are continuing to develop and evolve our risk management and internal audit processes. These processes will continue to be significantly enhanced and embedded following the appointment of our new Vice President, Internal Audit and Enterprise Risk in September 2018. This appointment follows the retirement of the previous Vice President of Internal Audit and the transfer of responsibility for the co-ordination of the Group's risk management processes from our compliance function to a dedicated and experienced risk management team. The Committee has satisfied itself that appropriate separation is in operation between the Internal Audit and Enterprise Risk functions and that robust team structures have been created.

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

1. Accounted for 83% of the 2018 non-audit fees.

During the year the Committee monitored progress against the 2018 internal audit plan, which was amended following the internal audit leadership change. During 2018 a number of internal audits were undertaken in accordance with the plan. Before each audit, the scope of review, timetable and resources required were agreed with management. Regular updates were provided to management and the Committee on the status of ongoing audits. The Committee discussed the results of all audits undertaken and monitored relevant follow-up actions.

2019 Internal audit plan

The Committee has approved the 2019 internal audit plan. The plan adopts a risk-based approach using the Group's principal risks as the base. The plan will be kept under continuous review during the year and adapted to support the Group's strategic direction and any new areas of risk identified during the year.

Enterprise risk management

The framework and processes the Group operates to manage risk are set out on page 89. During the year, the Committee monitored and reviewed the Group's risk management activities and processes through reports at each committee meeting. The Committee reviewed the bottom-up and top-down process utilised to identify risks, the movement of the top risks within the risk register and the development and implementation of mitigation controls set against the risk appetite approved by the Board.

The new Vice President, Internal Audit and Enterprise Risk continues to enhance, develop and embed the Group's risk framework, policies, risk identification and mitigation controls across the Group's operations, through:

- A strengthened team dedicated to risk management.
- Co-ordinated monitoring of risk mitigation measures by various internal functions including portfolio management, Internal Audit, Legal & Compliance, Finance and IT.
- Frequent and in-depth consideration of the risk profile by the Executive Committee.

Compliance review

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

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

The Committee oversees the investigation and outcome of significant issues reported via the whistleblower hotline referred to above. During 2018 the Committee received reports from the Executive Vice President, General Counsel and Corporate Development and the Chief Compliance Officer on ongoing and concluded investigations. The Committee also considered the actions taken by management as a result of the investigations and recommended additional actions where appropriate.

Further information about our compliance programme and our Code of Conduct is included on page 19 and in our Corporate Responsibility Report which is available on our website, www.convatecgroup.com/corporate-responsibility.

Dialogue with shareholders

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

On behalf of the Audit and Risk Committee

Jesper Ovesen
Chairman of the Audit and Risk Committee
14 February 2019

Engagement with shareholders and other stakeholders

Shareholder engagement

The Board is committed to maintaining an active dialogue with our shareholders.

Institutional shareholders

A range of shareholder engagement activities were undertaken during the year, including meetings attended by the Chairman, Non-Executive Directors, the CFO and CEO. In particular, the Chairman met with a number of our largest shareholders to discuss the Group's performance and a corporate governance and remuneration focused shareholder meeting took place in November 2018.

In addition to the activities undertaken by the Chairman and Non-Executive Directors during the year, a comprehensive range of Investor Relations ("IR") activities were undertaken by the Executive Directors, IR team and relevant members of the senior management team. Some of the key IR activities are detailed in the table below.

Event	Locations
Over 20 days spent on Investor roadshows	London, New York, Boston, Chicago, Paris, Edinburgh and other regional UK (Manchester, Liverpool and Bristol)
Attended Investor conferences hosted by Goldman Sachs and UBS	London
Hosted Investors at ConvaTec's R&D facility	Deeside, UK
Individual Investor meetings in person or by phone throughout the year	London, Reading

We hosted full and half-year results presentations, to which analysts and institutional investors were invited to attend. Both presentations were webcast and transcripts were made available. We also hosted trading update conference calls, to which analysts and institutional investors were invited to attend, and made transcripts available.

The Board receives analysts' notes published about the Group and the sector, and is regularly updated by the Group's brokers, Executive Directors and Vice President, Investor Relations on shareholder sentiment, feedback from meetings and the Group's IR programme.

Retail and individual shareholders

The Annual General Meeting ("AGM") was held at Reading Town Hall, Blagrave Street, Reading, Berkshire RG1 1QH, on 10 May 2018 at 11.00am. All shareholders were given an opportunity to raise issues with the Board and those shareholders unable to attend could vote by proxy.

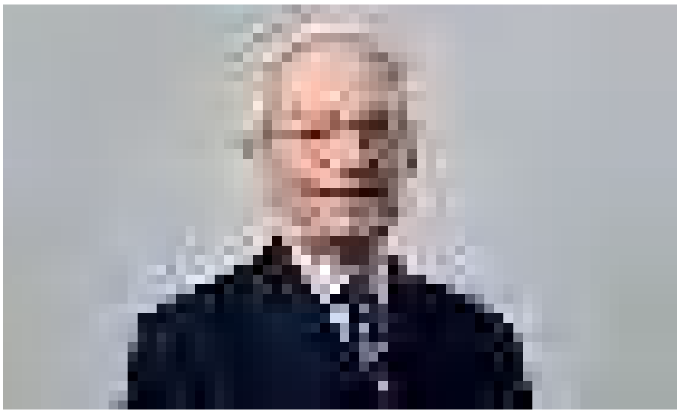
Other stakeholders

As highlighted on pages 21 and 73, with effect from 1 January 2019, Regina Benjamin and Ros Rivaz will take on specific responsibility for ensuring Board-level employee engagement. They will undertake a Nomination Committee approved programme of activities which include participation in regional sales meetings, visits to the Group's operations and meetings with local management and participation in the Executive Committee meetings.

The Company Secretary is a sponsor member of the All Party Parliamentary Corporate Governance Group and in that capacity participates in governance-related discussions with policy makers.

As highlighted on page 73 we are putting in place channels and processes to enable the Board to engage effectively with our other stakeholders, including our customers and suppliers. We will provide further information about our expanded Board engagement programme in our 2019 Annual Report.

Corporate Responsibility ("CR") Committee report



"Through our CR programme we aim to gain a better understanding of the requirements and needs of all our stakeholders, so that we build long-lasting and sustainable relationships."

Sir Christopher Gent
Chairman of the Corporate Responsibility Committee

Key areas of responsibility

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

Activity highlights

- Reviewed our inaugural climate change strategy.
- Completed review of CR positioning against best practice and peer performance.
- Independent external assurance of Corporate Responsibility Report.

2019 priorities

- Ensuring that the insights from the stakeholder survey to be undertaken in 2019 are used to drive performance and to protect and enhance our reputation. For more details about this survey see our Corporate Responsibility Report which is available on our website at www.convatecgroup.com/corporate-responsibility.
- Reviewing our CR strategy, objectives and targets following review of the materiality assessment to ensure their continued effectiveness. For more details about how we assess materiality see our Corporate Responsibility Report.
- Ensuring that we operate effective stakeholder engagement channels that provide the Board with all relevant information about stakeholders' perspectives and interests.

Committee membership, meetings and attendance

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

Director	Member since	Attended
Sir Christopher Gent	October 2016	2/2
Rick Anderson	October 2016	2/2
Paul Moraviec (member until 14 October 2018)	October 2016	2/2
Regina Benjamin	August 2017	2/2
Margaret Ewing	August 2017	2/2

Other members of the Board may be invited to attend all or part of any Committee meeting if it is deemed appropriate. The Vice President, Group Corporate Affairs and the Director, Corporate Responsibility, regularly attend the Committee's meetings. In addition to the two Committee meetings during the year, a detailed written update was provided to the Committee.

Dear Shareholder

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

During the year we made good progress in a number of areas. We have developed our inaugural climate change strategy which includes an ambitious greenhouse gas reduction target. We have also completed a further life cycle assessment of a key product to gain insight on where improvements can be made. We launched LIFE+ by ConvaTec, our global community investment programme, which we linked to an employee wellbeing programme to help promote engagement in our philanthropic activities. We have enhanced our disclosure levels, including the introduction of independent external assurance of our CR Report, which one of the Committee members participated in.

Further information about these initiatives and other key CR developments can be found on pages 25 and 27 and in our Corporate Responsibility Report which is available on our website, www.convatecgroup.com/corporate-responsibility.

Committee activities during the period

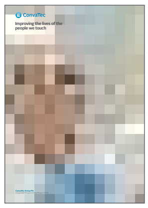
Key area	Matter
Strategy	Reviewed and re-confirmed our high-level CR strategy which is being implemented on a phased basis over the next two years. Reviewed our inaugural climate change strategy. Assessed our positioning relative to CR best practice and competitor activity. Discussed progress and received written and face-to-face updates on the implementation of our CR strategy in March, May and September. In February 2019 received written update summarising key CR developments and progress during 2018, immediately prior to the approval of our 2018 Corporate Responsibility Report.
Stakeholder engagement	Shortly after the year end, reviewed and approved our second, standalone, Corporate Responsibility Report for the year ended 31 December 2018, which is available on our website, www.convatecgroup.com/corporate-responsibility. This included a review of reported progress against our published CR-related targets, and approval of four new public targets.

On behalf of the Corporate Responsibility Committee

Sir Christopher Gent
Chairman of the Corporate Responsibility Committee
14 February 2019

Our Corporate Responsibility Report

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



Directors' Remuneration report

"The Committee recognises the importance of close alignment of remuneration with Group performance and has kept under review the design of the Remuneration Policy. Given the challenges of this year and the differentiated measures required, we believe that the remuneration outcomes for 2018 utilise in an appropriate way the full range of instruments available under the Remuneration Policy."

Steve Holliday
Chairman of the Remuneration Committee

Key areas of responsibility

- Sets the Company's Remuneration Policy.
- Determines the Remuneration Policy and packages for the Executive Directors and the Executive Committee and agrees the fees for the Non-Executive Chairman.
- Oversees the implementation of the Remuneration Policy.

Activity highlights

The Committee focused this year on dealing with the effects surrounding the trading update:

- Agreed the terms of retirement of Paul Moraviec as CEO.
- Ensured remuneration arrangements appropriately supported the retention and motivation of executive team members, and thus business continuity.
- Considered the impact of share price performance on the LTIP allocation for 2019.

2019 priorities

- Setting appropriate performance targets supporting the sustainable rebalancing of business fundamentals.
- Reviewing the Remuneration Policy for renewed shareholder vote in 2020.

In this section you will find

Committee membership, meetings and attendance

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

Director	Member since	Attended
Steve Holliday	October 2016	4/4
Sir Christopher Gent	October 2016	4/4
Jesper Ovesen	October 2016	4/4
Ros Rivaz	August 2017	4/4

The CEO, CFO, Executive Vice President, Human Resources and Vice President, Compensation & Benefits attend meetings of the Committee by invitation; they are absent when their own remuneration is under consideration. In addition to the formal meetings, the Committee met numerous times in ad hoc alignment meetings. Furthermore, Steve Holliday met on a regular basis with the Executive Vice President, Human Resources and the Vice President, Compensation & Benefits.

Letter from the Chairman of the Remuneration Committee

Dear Shareholder

On behalf of the Board, I am pleased to present the report of the Remuneration Committee for the year to 31 December 2018.

Performance in the year ended 31 December 2018 and implications for remuneration

The Group's performance issues with the second profit warning since Listing resulted in the announcement of Paul Moraviec's retirement in October 2018. Paul stepped down from the Board with effect from 14 October 2018 with his employment continuing until the end of his contractual notice period on 12 April 2019. In line with our Remuneration Policy, Paul retained the equity which vested before the end of his contractual notice period in April 2019, and forfeited all unvested equity, including deferred bonus shares. He will not receive a bonus for the 2018 financial year.

The Committee carefully considered the root causes for the Group's performance issues and decided to exercise its discretion in allocating rewards. Reflecting the reduced share price, the Committee considered the impact on quantum and reduced the 2019 Long Term Incentive Plan ("LTIP") awards to the participants in the plan. However, given the CFO's key role to laying the foundations for sustainable and profitable growth, the Committee considered it appropriate to increase his 2018 LTIP award opportunity from 175% of salary (granted in March 2018) to 250% of salary. This additional grant is within policy limits, aligns the interests of our shareholders and the CFO, and was broadly supported by major shareholders who were consulted prior to the award being made. Therefore, the Committee made a further award under the LTIP in December 2018 to effect this change (as set out on page 108).

Based on performance in 2018, the financial portion of the annual incentive plan will not trigger a payout.

In light of the above mentioned contribution, however, the Committee has decided to award CFO Frank Schulkes a payout under the individual targets section of the plan (equivalent to 18% of the bonus maximum).

The Committee recognises the importance of close alignment of remuneration with Group performance, and has kept under review the design of the Remuneration Policy. Given the challenges of this year and the differentiated measures required, we believe that the remuneration outcomes for 2018 utilise in an appropriate way the full range of instruments available under the Remuneration Policy. The remuneration framework in place remains fit-for-purpose for 2019.

The Committee also set the fixed fee for Rick Anderson in his capacity as Interim CEO effective from 15 October 2018. With the Group's interest of seeing Rick return to the Board as independent Non-Executive Director post his interim service, subject to the Board's careful consideration in light of the guidance in the Code and criteria for independence determined by the Board, his fee as Interim CEO has been set to reflect the size of the engagement, but fundamentally retain the format of fixed fees. No performance-related incentives will be paid to Rick, nor will any share grants be made to him.

Committee activities during the period

Key area	Matter
Retirement arrangements	Approved Paul Moraviec's retirement package.
Interim CEO	Considered the fees for the services of Rick Anderson as Interim CEO.
Retention	Considered enhancements to the CFO's remuneration package including consultation with shareholders in relation to the proposed changes.
Remuneration packages	Approved the remuneration packages for new appointees to the Executive Committee.
Embedding performance measures	Ensured that appropriate performance targets were established and embedded in the Group's incentive plans.
LTIP	Considered 2019 LTIP allocations to be made to members of senior management to ensure no benefit as a result of the reduced share price.
US contractual issues	Introduced employment agreements to US executives including notice periods and post contractual restrictive covenants.
Board based equity plans	Reviewed the criteria for determining eligibility for discretionary long-term incentive awards for non-Board Directors and Associate Directors.
Gender pay gap	Reviewed the gender pay gap dynamics and management response with the introduction of diversity scorecards.

Committee composition

During the year, the composition of the Committee remained unchanged.

Remuneration policy

Our Remuneration Policy was approved by shareholders at the 2017 AGM and remains unchanged for 2019. However, the Committee will shortly commence its review of the Remuneration Policy which, in line with the Regulations, is required to be submitted to a binding shareholder vote at the 2020 AGM. The Committee will be reviewing the current Remuneration Policy in the context of the Group's strategy supported by the Board, as well as the arrival of a new CEO. It will ensure continued alignment of Executive Directors and shareholder interests. We will also take into account recent developments in remuneration governance, including the 2018 Code and the latest remuneration reporting requirements that came into force on 1 January 2019. The Committee looks forward to meaningful two-way dialogue with shareholders on remuneration over the course of the coming year. The Annual Report on Remuneration will be put to an advisory vote at the 2019 AGM, and the Remuneration Committee hopes that it can count on your support for this resolution.

Steve Holliday
Chairman of the Remuneration Committee
14 February 2019

Our remuneration at a glance

Our Remuneration Policy

Our Remuneration Policy (the "Policy") remains unchanged from that approved by shareholders at the 2017 AGM (and which is effective for a period of three years from this date). The Policy is set out in full on pages 112 to 118.

Remuneration principles

The Policy is based on the following remuneration principles:

- To incentivise sustained strong financial performance.
- To align rewards with the delivery of the Group's strategy.
- To help ensure the alignment of employees with the interests of shareholders and encourage widespread share ownership across the workforce.
- To help attract, motivate and retain the best talent to deliver the Group's strategy and create long-term shareholder value.
- To reflect market best practice and consistently adhere to principles of good corporate governance and encourage good risk management.

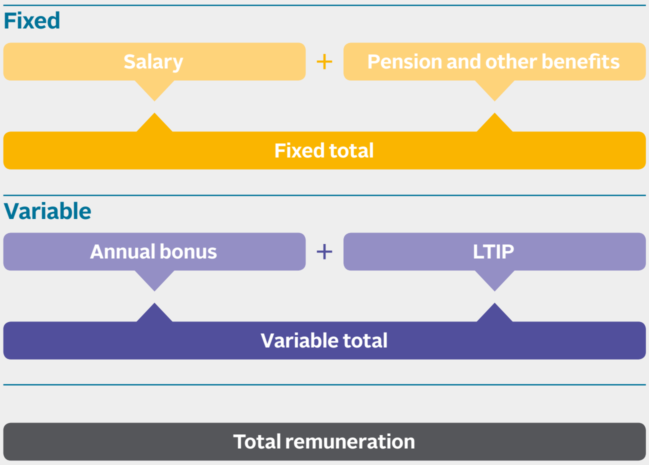
Strategic drivers

Our strategy is designed to drive sales and earnings momentum by building on our portfolio of differentiated products and our leading positions in large structurally growing markets. Our refreshed execution model, which is explained on pages 28 to 31, is focused on four strategic drivers: Simplify, Innovate, Segment and Invest.

These strategic drivers are embedded in our incentives through the performance measures we select and the targets we set.

Components of remuneration for the CFO

The remuneration package for the CFO comprises both fixed and variable elements consistent with our remuneration principles.



How remuneration links to strategy

Our strategic drivers

	Simplify	Innovate	Segment	Invest
Annual bonus	EBIT Personal	Personal	Revenue EBIT	Revenue EBIT
LTIP	EPS ROCE TSR	TSR	EPS ROCE	EPS TSR

Fixed components

Base salaries

	2018	2019
CFO – Frank Schulkes	£430,000	£442,000

The base salary for the CFO will be increased to £442,000 (2.7% increase) in line with the salary increases to the general employee population in the UK.

Policy

Base salaries will be reviewed by the Committee annually, and benchmarked periodically against comparable roles at international MedTech peers, as well as UK-listed companies of similar size and complexity.

In deciding base salary levels, the Committee considers personal performance including the individual's contribution to the achievement of the Group's strategic objectives. The Committee will also consider employment conditions and salary levels across the Group, and prevailing market conditions. Base salary increases for the Executive Directors will normally be aligned with those of the wider workforce.

Pension and other benefits in 2019

Employer pension contributions	
CFO – Frank Schulkes	15% of base salary

Other taxable benefits	
CFO – Frank Schulkes	£16,435

Policy

Executive Directors may receive a contribution of up to 15% of base salary to their personal pension plan, a cash allowance or a combination of these. Other benefits include car allowance, medical insurance and life insurance, and are set at a level considered appropriate taking into account market practice and consistent with the wider workforce.

Variable components

Annual bonus

Maximum bonus opportunities for 2019	
CFO – Frank Schulkes	150% of base salary

Performance measures	Weighting
Organic revenue growth	40%
Adjusted EBIT	40%
Personal strategic objectives	20%

50% of the bonus opportunity will pay out for on-target performance. There is no payout for at or below threshold performance.

Two-thirds of any bonus earned is paid in cash with one-third normally deferred in ConvaTec Group Plc shares for a further three-year period.

Variable components continued

Policy (Annual Bonus)
Maximum award opportunity:
200% of base salary in face value

Performance measures, targets and weightings are set by the Committee at the start of each year. After the end of the financial year the Committee determines the level of bonus to be paid based on performance. 80% of the bonus will normally be based on financial performance (with Group revenue and Group profit weighted equally), with the remainder linked to personal strategic objectives.

Malus and clawback provisions apply under certain circumstances.

LTIP

Award levels for 2019 (face value)

CFO – Frank Schulkes	**250% of base salary**

In light of the critical role of the CFO to creating long-term, sustainable performance across the Group, the Committee determined that it was appropriate to award an LTIP opportunity of 250% of salary to the CFO in 2019 (as permitted under the Policy). The Committee will review the ongoing normal award level for 2020 and future years as part of its 2019 review of the Policy for the next three years.

Performance measures	Weighting
Three-year relative TSR	**One-third**
Three-year average Return on Invested Capital ("ROIC")	**One-third**
Three-year compound annualised growth in EPS	**One-third**

Policy (LTIP)
Maximum award opportunity:
250% of base salary in face value

Prior to awards being granted each year, the performance conditions and targets are set by the Committee to ensure they are stretching and aligned with the Group strategy. 25% of an award will vest at threshold, with 100% vesting at maximum (and a straight-line sliding scale between these points).
The LTIP has a performance period of at least three years and a minimum vesting period of three years. A two-year post-vesting holding period will apply.

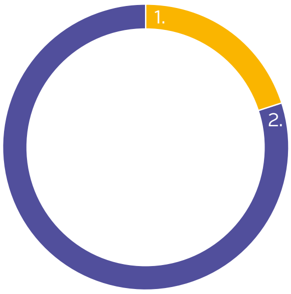
Malus and clawback provisions apply under certain circumstances.

Shareholding requirements

CFO – Frank Schulkes	**300% of base salary**

Pay at risk*

CFO – Frank Schulkes

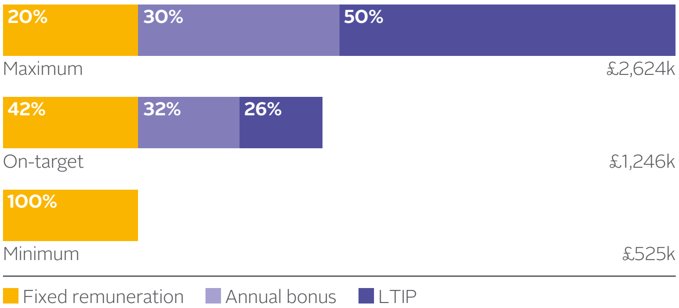


1. Fixed 20%
2. Variable 80%

* Based on maximum opportunity.

Pay scenarios

CFO – Frank Schulkes



The above charts are based on the following assumptions:
"Maximum": fixed remuneration (salary, pension, other benefits), plus maximum bonus (150% of salary) and full vesting of LTIP awards (250% of salary).
"On-target": fixed remuneration as above, plus target bonus (50% of maximum) and threshold LTIP vesting (25% of maximum).
"Minimum": fixed remuneration only, being the only element of Executive Directors' remuneration not linked to performance.

Remuneration arrangements for the Interim CEO

The Committee determined the package for Rick Anderson on his appointment as Interim CEO in the context of our policy, and taking into consideration the short-term interim nature of his appointment. In this role, he is paid a monthly fee of £91,667. In addition, the Company is covering temporary housing costs as well as travel expenses. Rick does not receive any pension contribution (or allowance in lieu), and he is not eligible to participate in the annual bonus or the LTIP.

The Committee considers this approach to appropriately reflect the scope of Rick's contribution in this role, mindful that the Board will review Rick's independence in light of the guidance in the updated UK Corporate Governance Code published in 2018, and criteria for independence determined by the Board, at the time he resumes his role as a Non-Executive Director following the appointment of a permanent CEO.

Remuneration for the wider workforce

Remuneration for the wider workforce is determined based on broadly consistent principles as those for Executive Directors. Annual salary reviews take into account Group performance, local pay and market conditions to ensure that reward at ConvaTec remains competitive. Incentive arrangements are in place for some employees below the executive level.

Our Annual Report on Remuneration

This section of the Remuneration Report provides details of how our Remuneration Policy was implemented during the financial year ended 31 December 2018, and how it will be implemented during the year ending 31 December 2019. It has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). It also meets the requirements of the UKLA's Listing Rules.

In accordance with the Regulations, the following sections of the Remuneration Report are subject to audit: the single total figure of remuneration for Executive Directors and Non-Executive Directors, and accompanying notes (pages 106 and 107), scheme interests awarded during the financial year (page 108), exit payments made in the year (page 109), payments to past Directors (page 109) and the statement of Directors' shareholdings (page 118). The remaining sections of the report are not subject to audit.

Committee membership in 2018

Details about the membership of the Committee, the number of times it met during 2018 and attendance at its meetings are set out in the Committee Chair's letter on page 102.

Committee responsibilities

The Committee's key areas of responsibility are also set out in the Committee Chair's letter on page 102.

Advisers

Mercer Kepler is the Committee's appointed independent advisor, having been appointed by the Committee at its first meeting following Listing in 2016. Mercer Kepler provides support to the Committee and the Group on remuneration-related matters, and reports to the Committee Chairman. Mercer Kepler is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK (www.remunerationconsultantsgroup.com). Neither Mercer Kepler (nor its parent, Mercer) has any other remuneration-unrelated connection with the Group and is considered to be independent by the Committee. Fees paid to Mercer Kepler are determined on a time and materials basis, and totalled £49,250 (excluding expenses and VAT) for the 2018 financial year (2017: £71,150) in their capacity as advisers to the Committee.

Summary of shareholder voting

The following table shows the results at the 2018 AGM of the advisory vote on the 2017 Annual Report on Remuneration and the binding vote on the Remuneration Policy at the 2017 AGM.

Resolution	Vote 'for'	Vote 'against'	Votes withheld[1]
Approve the Directors' Remuneration Policy (2017 AGM)	99.45%	0.55%	338,007
To approve the Directors' Remuneration Report (2018 AGM)	98.33%	1.67%	9,568,789

1. Votes 'withheld' are not votes in law and, therefore, have not been included in the calculation of the proportion of votes 'for' or 'against' each resolution.

Single total figure of remuneration for Executive Directors (audited)

The following table sets out a single figure for the total remuneration received by each Executive Director for the 2018 financial year, and compares this with the equivalent figure for the 2017 financial year.

	2018						
Resolution	**Base salary '000**	**Taxable benefits[3] '000**	**Annual bonus[4] '000**	**LTIP '000**	**Pension benefit[5] '000**	**Other '000**	**Total '000**
Frank Schulkes	**£430**	**£16**	**£116**	**n/a**	**£65**	**n/a**	**£627**
Rick Anderson[1]	**£235**	**£29**	**n/a**	**n/a**	**n/a**	**n/a**	**£264**
Paul Moraviec[2]	**£531**	**£20**	**£0**	**n/a**	**£80**	**n/a**	**£631**

	2017						
Resolution	Base salary '000	Taxable benefits[3] '000	Annual bonus[4] '000	LTIP '000	Pension benefit[5] '000	Other '000	Total '000
Frank Schulkes	£176	£6	£50	n/a	£26	n/a	£258
Paul Moraviec	£670	£27	£118	n/a	£102	n/a	£917

1. Appointed as Interim CEO effective 15 October 2018. He receives a fixed monthly fee of £91,667 and benefits covering temporary housing costs as well as travel expenses. Rick does not receive any pension contribution (or allowance in lieu), and he is not eligible to participate in the annual bonus or the LTIP. The figures disclosed cover the period from 15 October to 31 December 2018.
2. Paul Moraviec stepped down from the Board on 14 October 2018 with his employment continuing until 12 April 2019. The figures disclosed cover the period from 1 January to 14 October 2018. Further details of the decisions in relation to Paul Moraviec's remuneration following his retirement are set out on page 109.
3. For Frank Schulkes, benefits consist (and, for Paul Moraviec, consisted) primarily of car allowance, private medical insurance, life assurance and permanent health insurance. For Rick Anderson, benefits consist of temporary housing costs as well as travel/commuting expenses.
4. Reflects the total bonus awarded for performance in the relevant financial year. One-third of the bonus earned by Paul Moraviec and Frank Schulkes is deferred into shares for three years. See below and overleaf for further details.
5. Pension benefits in the year, equivalent to 15% of base salary.

Single total figure of remuneration for Non-Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the 2018 and 2017 financial years.

	Fee		Total[1]	
Resolution	**2018 '000**	2017 '000	**2018 '000**	2017 '000
Sir Christopher Gent	**£400**	£400	**£402**	£400
Steve Holliday	**£174**	£174	**£174**	£174
Jesper Ovesen	**£106**	£106	**£106**	£106
Rick Anderson[2]	**£66**	£84	**£85**	£84
Ros Rivaz[3]	**£84**	£41	**£85**	£41
Regina Benjamin[4]	**£72**	£28	**£73**	£28
Margaret Ewing[4]	**£84**	£33	**£84**	£33
Kasim Kutay[5]	**£30**	£45	**£30**	£45
Sten Scheibye[6]	**£30**	–	**£30**	–

1. In addition to the fees payable to each of the Directors, the Group reimburses reasonable expenses.
2. Rick Anderson was appointed as CEO on an interim basis on 15 October 2018, having served as a non-executive director prior to that date. His fees for FY18 cover the period 1 January to 14 October 2018. He receives no fees in relation to his other appointments, which are described on page 80.
3. Joined the Board on 21 June 2017.
4. Joined the Board on 14 August 2017.
5. Joined the Board on 28 March 2017. Mr Kutay's fee was paid to Novo Holdings A/S. He stepped down from the Board with effect from 3 July 2018.
6. Joined the Board on 3 July 2018 as Mr Kutay's replacement as the nominated director representative of Novo Holdings A/S.

Incentive outcomes for the year ended 31 December 2018 (audited)

Annual bonus in respect of performance in the 2018 financial year

For 2018, Paul Moraviec had a maximum bonus opportunity of 200% of base salary, and Frank Schulkes had a maximum opportunity of 150% of base salary. Any payments under the annual bonus are normally payable two-thirds in cash and one-third in shares, deferred for three years. The on-target opportunity was 50% of maximum. The annual bonus for 2018 was based on a combination of organic revenue growth (weighted 40%), Adjusted EBIT (40%) and personal strategic objectives (20%).

Paul Moraviec's annual bonus opportunity lapsed on his retirement.

The table below summarises the structure of the 2018 annual bonus, the targets set, our performance over the financial year and the resulting annual bonus payout.

				Performance targets				Earned bonus	
Director	Measure	Weighting	Maximum opportunity (% of salary)	Threshold	Target	Maximum	Actual performance[1]	(% of salary)	('000)
Frank Schulkes	Organic revenue growth	40%	60%	$1,862m	$1,914m	$1,954m	$1,841m	0%	£0
	Adjusted EBIT	40%	60%	$465m	$478m	$495m	$414m	0%	£0
	Personal objectives	20%	30%	The Committee determined that the personal performance element of Mr Schulke's bonus should pay out near the maximum, reflecting his strong contribution to establishing the fundamental platforms, processes and tools needed to drive sustainable growth going forward and to deliver the "Pivot to Growth" refreshed execution model. Specifically, Mr Schulkes completed the transformation of the corporate finance function by transferring the department from Bridgewater, New Jersey, to Reading in the UK. Wave 1 of the team transfer was completed ahead of time and in budget. Wave 2, originally planned for 2019, was already started. Supporting the margin improvement plan and key cost out projects, Mr Schulkes introduced business intelligence and other gross margin reporting capabilities, significantly enhancing the quality of decision making and supporting the commercial regions and matrix organisations in optimising their positions. In the area of IT and cyber security, a higher level of certified and audited protection was achieved than planned, namely "Cyber Essentials Plus". Key CRM databases were upgraded for new systems with higher capabilities.				27%	£116
	Total	100%	150%					27%	£116

1. Actual performance is measured at CER and excluding M&A activity.

One-third of the bonus earned by Frank Schulkes will be deferred into shares for three years.

Annual Report on Remuneration continued

Scheme interests vesting in 2018 – second tranche of Transition Awards

As previously disclosed, Paul Moraviec was granted one-off Transition Awards (comprising restricted shares and market value options) under the LTIP shortly after Listing. The values of these awards were captured in full in the 2016 single figure. The second tranche of the restricted shares and market value options vested on 11 November 2018, as follows:

Director	Vehicle	Number awarded	Exercise price	Vesting %	Number vesting	Vesting date	Market price[1]	Value/gain 000
Paul Moraviec	Share options	201,807	249.00p	100%	201,807	11/11/18	156.00p	£nil
	Restricted shares	134,538	–	100%	137,892[2]	11/11/18	156.00p	£215

1. The closing share price on the vesting date.
2. Reflects additional shares awarded in lieu of the value of dividends accruing on the restricted shares over the vesting period (3,354 shares).

These vested awards remain subject to a two-year post-vesting holding period. The third (and final) tranche of the Transition Awards granted to Paul Moraviec will lapse on 12 April 2019.

Scheme interests awarded in 2018 (audited)

2018 LTIP Awards

During the year ended 31 December 2018, the Executive Directors were awarded conditional share awards under the LTIP, details of which are summarised in the table below. Rick Anderson, Interim CEO, is not eligible to receive any awards under the LTIP.

				Face value		
Director	Date of grant	Number awarded	Award price[1]	£	% of annualised salary	Vesting date
Paul Moraviec[2]	7 March 2018	585,436	206.00p	£1,205,998	180%	7 March 2021
Frank Schulkes[3]	7 March 2018	365,291	206.00p	£752,499	175%	7 March 2021
	14 December 2018	221,619	146.00p	£322,500	75%	14 December 2021

1. The LTIP face values are determined as a % of each Executive Director's salary, and converted into numbers of conditional shares using the closing price on the trading day preceding the date of grant.
2. Paul Moraviec's award is scheduled to lapse on 12 April 2019.
3. As disclosed earlier in this Report, the Committee determined during the year that it was appropriate to increase Frank Schulkes' award opportunity for 2018 to 250% of salary, to strengthen alignment with shareholders and maximise the alignment between his pay and the Group's performance over the next 2-3 years. This additional award was made in December 2018, and will vest after 3 years subject to the same performance conditions attached to the March 2018 award.

The performance conditions attached to these 2018 LTIP awards are set out in the table below.

			Vesting schedule	
Measure	Weighting	Performance period	£	% of annualised salary
Three-year Relative TSR against the following comparators: Ambu, Beckton Dickinson, Coloplast, Fresenius, Getinge, GN Store Nord, Integra Lifesciences, Smith & Nephew, Stryker, Teleflex, William Demant and Zimmer Biomet	1/3rd	1 January 2018 to 31 December 2020	< Median	0%
			Median	25%
			≥ 90th percentile	100%
			Straight-line sliding scale vesting between these points	
Three-year compound annualised growth in EPS	1/3rd	1 January 2018 to 31 December 2020	< 5% p.a.	0%
			5% p.a.	25%
			≥ 12% p.a.	100%
			Straight-line sliding scale vesting between these points	
Three-year average Return on Invested Capital	1/3rd	1 January 2018 to 31 December 2020	< 9.1%	0%
			9.1%	25%
			≥ 11.0%	100%
			Straight-line sliding scale vesting between these points	

Our definition of adjusted ROIC is:

$$\text{Adjusted ROIC} = \frac{\text{Adjusted Net Operating Profit After Tax (NOPAT)}}{\text{Adjusted Invested Capital}}$$

Where:

Adjusted NOPAT = Adjusted EBIT less tax at the adjusted effective tax rate. Adjusted EBIT will be consistent with the definition previously published by the Company and excludes acquisition-related amortisation expense. It also excludes items identified as non-recurring, infrequent or unusual in nature that management believes are not indicative of the underlying performance of the consolidated Group.

Adjusted Invested Capital = Net Assets excluding cash, debt and all amortisation related to the Company's historical acquisitions.

The impact of future acquisitions (including intangible assets, amortisation and goodwill) will be captured in the calculations of both the numerator and denominator. However, the Remuneration Committee will review and consider adjusting for the impact of material mergers and acquisitions ("M&A") activity on the Adjusted ROIC targets. Any adjustment will be made on the basis of ensuring neutrality of the LTIP to this M&A.

To the extent the 2018 LTIP awards vest, vested shares will be required to be held for a further two-year post-vesting holding period.

Percentage change in CEO remuneration

The table below shows the percentage change in CEO remuneration (from 2017 to 2018) compared to the average percentage change in remuneration for all other employees over the same period.

Element of remuneration	CEO[1]	Average of employees[2]
Base salary	13%	2.61%
Benefits	-100%	2.61%
Annual bonus	-100%	-99%

1. Paul Moraviec's salary remained unchanged during 2018. The 13% difference in base salary relates to the difference in the salary for Paul Moraviec time pro-rated to 14 October 2018 and the monthly fixed fee for Rick Anderson time pro-rated from 15 October to the end of the year.
2. The year-on-year increase in benefits reflects the Group's best estimate for the change in the average value of benefits for all employees. Although there was no change to benefits provision in 2018 compared to 2017, some benefits increased in value through being linked to employees' salaries.

Relative importance of spend on pay

The table below shows shareholder distributions (i.e. dividends and share buybacks) and total employee pay expenditure for the financial years ended 31 December 2017 and 31 December 2018, and the percentage change year-on-year.

	2017 $m	**2018 $m**	Year-on-year change
Total employee pay expenditure	472	**473**	0.3%
Shareholder distributions	112	**112**	0.4%

Exit payments made in the year (audited)

Paul Moraviec retired from the Board on 14 October 2018, with his employment continuing until the end of the contractual notice period on 12 April 2019. In line with the provisions of his contract and the shareholder-approved Remuneration Policy, Paul Moraviec is entitled to his salary (£55,833 per month) along with a payment in lieu of pension and other benefits until April 2019. Paul Moraviec did not receive any annual bonus for 2018, and is not eligible for any bonus opportunity in 2019. Paul Moraviec's unvested deferred bonus, LTIP awards and the final tranche of the Transition Award granted shortly after IPO will lapse in April 2019. In line with the relevant plan rules, the second tranche of the Transition Award vested on 11 November 2018 during Paul Moraviec's notice period. The vested portions of the Transition Award remain subject to malus and clawback provisions and a two-year holding period from the applicable vesting dates. Certain time-based lock-up and forfeiture arrangements put into place at the time of Listing in relation to Paul Moraviec's shares in the Company lapsed in October 2018 in accordance with the terms of such arrangements.

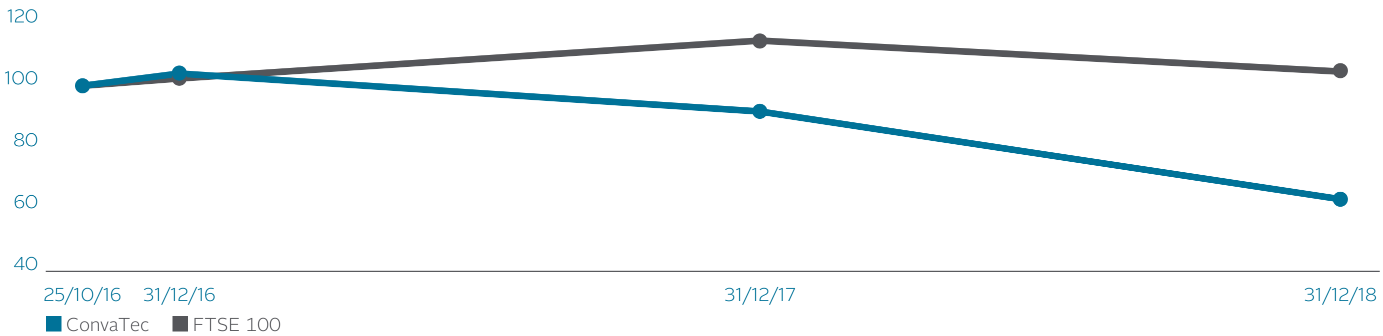
Payments to past Directors (audited)

As disclosed fully in last year's Annual Report on Remuneration, Nigel Clerkin received monthly payments of €39,853 in lieu of notice until May 2018. These were reduced to €24,809 from 1 May 2018 to 31 July 2018 to reflect his appointment as CFO of UDG Healthcare. No further payments in connection with cessation of his employment have, or will be, made to Nigel Clerkin.

Review of past performance

This graph shows the Group's Total Shareholder Return (TSR) compared to the FTSE 100 Index, of which the Group has been a constituent for a significant period since Listing. Performance, as required by legislation, is measured by TSR over the period from commencement of conditional dealing (26 October 2016) to 31 December 2018.

TSR chart for 2018 DRR – ConvaTec vs the FTSE 100 index
Value of £100 invested on 25 October 2016 in ConvaTec and the FTSE 100 index (£)



Annual Report on Remuneration continued

The table below details the CEO's single total figure of remuneration and incentive outcomes over the same period:

	2018	2018	2017
CEO	Rick Anderson from 15 October 2018	Paul Moraviec (retired as a Director on 14 October 2018)	Paul Moraviec
CEO single figure ('000)	£253	£631	£917
Annual bonus (% max)	n/a	n/a	9%
LTIP vesting (% max)	n/a	n/a	n/a

Implementation of Executive Director Remuneration Policy for 2019

Base salary

Frank Schulkes' salary was set on the date of his appointment (3 August 2017) and has not been increased in 2018. In 2019 his salary was reviewed and the Committee decided to award an increase of 2.7% in line with the increases for the general employee population in the UK (increase effective 1 April 2019). As disclosed earlier in the Report, Rick Anderson receives a fixed monthly fee of £91,667 in connection with his appointment as Interim CEO.

Director	Role	2019	2018
Frank Schulkes	CFO	£442,000	£430,000

Pension

Frank Schulkes will continue to receive a cash allowance of 15% of base salary in lieu of a pension contribution. Rick Anderson does not receive a pension contribution (or allowance in lieu).

Annual bonus

For 2019, Frank Schulkes will continue to have a maximum bonus opportunity of 150% of salary. The on-target bonus opportunity remains 50% of maximum. Two-thirds of any bonus earned will be paid in cash, with the remainder deferred into ConvaTec Group Plc shares for a further three-year period. Rick Anderson does not participate in the annual bonus.

The annual bonus for 2019 will continue to be based on the following measures and weightings:

Measure	Weighting
Organic revenue growth	40%
Adjusted EBIT[1]	40%
Personal strategic objectives	20%

1. Excludes exceptional one-off items and the impact of portfolio changes occurring in the performance year.

The Committee will normally disclose the annual bonus targets retrospectively in next year's Annual Report on Remuneration. In the event the Board considers these targets to remain commercially sensitive, they will be disclosed as soon as possible once they are no longer considered to be sensitive.

In line with our Policy, bonuses for the 2019 financial year will be subject to the Group's malus and clawback provisions (see page 114 for further details).

Long-Term Incentive Plan ("LTIP")

Frank Schulkes will receive a conditional award of shares under the ConvaTec LTIP in respect of 2019 with a face value of 250% of salary. The Committee determined that this award opportunity was appropriate to strengthen the alignment of Mr Schulkes' interests with those of our shareholders and maximise the incentive to deliver the stretching targets set for the next three years. Rick Anderson will not receive an LTIP award.

In light of the refreshed execution model to support our strategy and investments to drive growth to transform the business, the Committee has concluded that it would be appropriate to renew the targets and metrics that apply to the LTIP awards to be granted to other senior management in 2019 to ensure that they are aligned with these plans. LTIP awards would typically be granted in March. However, in order to allow adequate time for the Committee's review and also for appropriate engagement with shareholders on any revised approach, the Company will delay the grant of further awards until the second quarter of 2019. Details of the revised targets and metrics will be announced via RNS once they have been agreed. They will also be published on the Group's website and included in the 2019 remuneration report.

Implementation of Non-Executive Director Remuneration Policy for 2019

Non-Executive Director fees were set on Listing taking into account competitive practice for similar roles in other international MedTech companies and FTSE 100 companies of similar size. The current fees payable to the Non-Executive Directors are set out below:

Role	Fee
Chairman	£400,000
Deputy Chairman basic fee	£110,000
Non-Executive Director basic fee	£60,000
Additional fees:	
Senior Independent Director	£20,000
Chairman of the Audit Committee	£22,000
Chairman of the Remuneration Committee	£20,000
Membership of Board committees	£12,000

Non-Executive Director fees will remain at these levels for 2019.

Share scheme dilution limits

The Company complies with the guidelines laid down by the Investment Association. These restrict the issue of new shares under all the Company's share schemes in any ten-year period to 10% of the issued ordinary share capital and under the Company's discretionary schemes to 5% in any ten-year period. As at 31 December 2018, the headroom available under these limits was 10% and 5%, respectively.

The Directors' Remuneration Report has been approved by the Board and signed on its behalf by:

Steve Holliday
Chairman of the Remuneration Committee
14 February 2019

Our Remuneration Policy

This section of the report sets out the Remuneration Policy for the Directors that was developed to reflect the guiding principles set out on page 104. The Remuneration Policy was approved by shareholders at the 2017 AGM on 11 May 2017 and is effective for a period of up to three years from this date. The only amendments to this Policy Report from the version approved by shareholders in 2017 are to update: (i) the data used in the pay-for-performance scenarios; (ii) the section 'Approach to target setting and performance measure selection', to reflect the introduction of ROIC to the LTIP for 2018 awards; (iii) page references; and (iv) the sections on Executive Director service contracts and Non-Executive Director letters of appointment, to reflect changes in Board composition during 2018.

2017 Remuneration Policy for the Executive Directors

Purpose and link to strategy	Operation	Opportunity	Performance measures
Base salary			
To attract and retain talented Executive Directors to deliver the Group's strategy, by ensuring base salaries and the implied total package are competitive in relevant talent markets, while not overpaying.	Base salaries will be reviewed by the Committee annually, and benchmarked periodically against comparable roles at international MedTech peers, as well as UK-listed companies of similar size and complexity. Any resulting changes are normally effective from 1 April, in line with the effective date for salary increases for the broader workforce. In deciding base salary levels, the Committee considers personal performance including the individual's contribution to the achievement of the Group's strategic objectives. The Committee will also consider employment conditions and salary levels across the Group, and prevailing market conditions. Base salary increases for the Executive Directors will normally be aligned with those of the wider workforce, but may be made above this level in exceptional circumstances such as a material change in responsibilities, size or complexity of the role, or if a Director was intentionally appointed on a below-market salary.	The maximum salary payable to Executive Directors will be capped at the upper quartile of the benchmarking comparator group for the role under review. Salaries will be set on a case-by-case basis to reflect the role and the experience and qualifications of the individual. Base salaries for the year under review and the following year, as well as the rationale for any increases, will be disclosed in the relevant year's Annual Report on Remuneration.	n/a
Pension			
To provide an appropriate level of post-retirement benefit for Executive Directors in a cost-efficient manner.	Executive Directors may receive a contribution to a personal pension plan, a cash allowance in lieu, or a combination thereof. Salary is the only element of remuneration that is pensionable.	Executive Directors are eligible for a company contribution from the Group of up to 15% of salary. Details of the pension contributions made to Executive Directors during the year are disclosed in the Annual Report on Remuneration.	n/a
Other benefits			
To provide non-cash benefits which are competitive in the market in which the Executive Director is employed.	The Group may provide benefits in kind including, but not limited to, a company car or car allowance, private medical insurance (or allowance in lieu), permanent health insurance, and life insurance. Executive Directors may also be provided certain other benefits to take account of individual circumstances such as, but not limited to, payment of tax, financial, and/or legal adviser fees, expatriate allowance, relocation expenses, housing allowance and tax equalisation (including associated interest, penalties or fees plus, in certain circumstances or where the Committee consider it appropriate, any tax incurred on such benefits). Executive Directors may also be offered any other future benefits made available either to all senior employees globally or in the region in which the Executive Director is employed.	Benefits for Executive Directors are set at a level which the Committee considers appropriate compared to wider employee benefits, as well as competitive practices in relevant markets. The value of annual benefits will normally not exceed 10% of salary, and it is not anticipated that the costs of benefits provided will increase significantly in the financial years over which this Policy will apply, although the Committee retains discretion to approve non-material increases in cost. In addition, the Committee retains discretion to approve a higher cost in exceptional circumstances (e.g. to facilitate recruitment, relocation, expatriation, etc.) or in circumstances where factors outside the Group's control have changed (e.g. market increases in insurance costs). Benefits in respect of the year under review are disclosed in the Annual Report on Remuneration.	n/a

Purpose and link to strategy	Operation	Opportunity	Performance measures
Annual bonus			
To incentivise Executive Directors to deliver strong financial performance on an annual basis and reward the delivery of the Group's strategic aims that will underpin the longer-term health and growth of the business. Deferral into shares enhances alignment with shareholders.	Performance measures, targets and weightings are set by the Committee at the start of the year. After the end of the financial year, the Committee determines the level of bonus to be paid, taking into account the extent to which these targets have been achieved. To the extent that the performance criteria have been met, one-third of the annual bonus earned will normally be compulsorily deferred into shares for a period of three years under the Deferred Bonus Plan. The remainder of the bonus will be paid in cash. Dividends may accrue on deferred bonus shares over the deferral period and, if so, will be paid (in cash or additional shares) on deferred shares that vest at the time these are released to the Executive Director. Malus and clawback provisions apply to the annual bonus in certain circumstances (as set out in the Notes to the Policy Table).	The maximum annual bonus opportunity is 200% of base salary. The payout for on-target performance is 50% of maximum; threshold performance (which will not normally be set lower than the prior year outturn) results in nil payout. The current maximum bonus opportunities for each of the Executive Directors are disclosed in the Annual Report on Remuneration.	Bonuses are based on a combination of stretching annual financial and non-financial/strategic performance measures, selected to reflect the Group's short-term KPIs, financial goals and strategic drivers. The financial element of the annual bonus will normally be weighted 80% of the overall bonus opportunity, as measured by two equally-weighted elements based on Group revenue and Group profit. The remainder of the bonus will be linked to the achievement of personalised strategic objectives. The Committee may adjust the formulaic annual bonus outcomes (including to zero) to avoid unintended outcomes, align pay outcomes with underlying Group performance and ensure fairness to shareholders and participants. Further details will be disclosed in the relevant Annual Report on Remuneration. Performance targets set for each year will be disclosed retrospectively, usually in the Annual Report on Remuneration in respect of the year to which such performance targets relate.
Long-Term Incentive Plan ("LTIP")			
To align the interests of Executive Directors and shareholders in growing the value of the Group over the long term.	Executive Directors are eligible to receive annual awards over ConvaTec Group Plc shares under the LTIP either in the form of conditional share awards or nil cost options. Prior to awards being granted each year, the performance conditions and targets are agreed and set to ensure they remain appropriately stretching and aligned to the Group's strategy. Awards granted under the LTIP to Executive Directors will have a performance period of three years and a minimum vesting period of three years. If no entitlement has been earned at the end of the relevant performance period, awards will not vest. Shares received as a result of an award vesting will normally be subject to an additional two-year holding period. Dividends may accrue on LTIP awards over the vesting period and, if so, will be paid (in additional shares or in cash) on shares that vest at the end of the vesting period. LTIP awards granted to Executive Directors will be subject to malus and clawback provisions, as set out in the Notes to the Policy Table.	The maximum annual LTIP opportunity is 250% of base salary. 25% of an award will vest if performance against each performance condition is at threshold and 100% if it is at maximum, with straight-line vesting in between. Further details of the LTIP awards granted to each of the Executive Directors will be disclosed in the relevant Annual Report on Remuneration.	Vesting of the LTIP is subject to continued employment during the performance period and the achievement of performance conditions aligned with the Group's strategic plan and shareholder value creation. LTIP awards granted in 2017 will be based on a combination of EPS and relative Total Shareholder Return, and for awards granted in 2018 onwards will include an additional returns measure. The weighting on each measure may be adjusted prior to making new awards, although each measure will be weighted at least 25% of the award opportunity. The Committee may adjust the formulaic LTIP outcome to ensure it takes account of any major changes to the Group (e.g. as a result of M&A activity) and is a fair reflection of the underlying financial performance of the Group over the performance period. Further details, including the performance targets attached to the LTIP in respect of each year, will be disclosed in the relevant Annual Report on Remuneration.
Save-As-You-Earn ("SAYE") or equivalent scheme			
To align the interests of employees and shareholders by encouraging all employees to buy and own ConvaTec Group Plc shares.	Executive Directors are entitled to participate in the Group's all-employee share plan applicable to the jurisdiction in which they are based on identical terms as other eligible employees. A UK or Europe-based Executive Director may make monthly savings over a period of three or five years or other period set by any relevant tax authority linked to the grant of an option over Group shares. The option price will be set at a discount of up to 15% of the market value of the shares at grant (to align with similar all-employee arrangements in the US).	Employees are limited to saving a maximum in line with the maximum monthly savings limit imposed by the Committee (which will not exceed any limits imposed by legislation) at the time they are invited to participate.	n/a

Remuneration Policy report continued

Purpose and link to strategy	Operation	Opportunity	Performance measures
Transition Awards (legacy IPO related awards – not part of 2017 Policy)			
To maximise alignment of executive and shareholder interests through strong linkage to the Group's share price performance over the first three years post-Listing, and support retention.	Transition Awards were made on a one-off basis shortly after Listing. Awards comprise a grant of market value share options and an award of restricted shares. Awards will vest in three equal tranches on the first, second and third anniversary of grant, subject to continued employment. Share options have a five-year life. Dividends shall accrue on restricted share awards (but not options) over the vesting period and will be paid (in cash or additional shares) on shares that vest at the end of the relevant vesting period. Transition Awards granted to Executive Directors will be subject to malus and clawback provisions, as set out in the Notes to the Policy Table.	Share options: CEO: 225% of base salary CFO: 175% of base salary Restricted shares: CEO: 150% of base salary CFO: 120% of base salary	n/a

Notes to the Policy Table

Malus and clawback policy

Malus and clawback may be applied to the annual bonus, LTIP awards and Transition Awards in cases of fraud, negligence or gross misconduct by the Executive Director or material financial misstatement in the audited financial results of the Group. Cash bonuses will be subject to clawback, with deferred shares being subject to malus, over the deferral period. LTIP awards and Transition Awards will be subject to malus over the vesting period and clawback from the vesting date to the second anniversary of the relevant vesting date.

Share ownership guidelines

The Committee recognises the importance of aligning Executive Directors' and shareholders' interests through significant shareholdings in the Group. The Group's policy (as published in the Prospectus) was initially set to require Executive Directors to build up a shareholding worth 200% of their base salary, and to retain these shares until retirement from the Board of Directors. However, the Committee has since decided to increase the share ownership guidelines – in line with prevailing best practice – to 400% of base salary for the CEO, and 300% of base salary for other Executive Directors. 50% of any net vested share awards (after sales to meet tax liabilities) must be retained until the minimum shareholding requirements are met. The share ownership guidelines have been met by the Executive Directors (see page 118).

Details of the Executive Directors' current personal shareholdings are provided in the Annual Report on Remuneration.

Use of discretion

The Committee may apply its discretion (as set out below) when agreeing remuneration outcomes, to help ensure that the implementation of our Remuneration Policy is consistent with the guiding principles for ConvaTec remuneration.

Payments from outstanding awards

The Committee reserves the right in certain circumstances to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) where the terms of the payment were agreed: before the Policy came into effect; or at a time when the relevant individual was not a Director of the Group provided, that in the opinion of the Committee, the payment was not agreed in consideration of the individual becoming a Director of the Group. For these purposes, payments include the satisfaction of variable remuneration awards previously granted, but not vested, to an individual.

Minor changes to Policy

The Committee retains discretion to make minor, non-significant changes to the Policy set out above (for reasons including, but not limited to, regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without reverting to shareholders for approval for that amendment, where seeking such shareholder approval would be disproportionate to the discretion being exercised.

LTIP awards

The Committee may exercise its discretion as provided for in the LTIP rules approved by shareholders. The Committee may also adjust the number of shares comprising an LTIP award (or the exercise price if the award comprises options) in the event of a variation of share capital, demerger, special dividend, distribution or any other corporate event which may affect the current or future value of an award. It is intended that any adjustment will be made on a neutral basis, i.e. to not be to the benefit or detriment of participants.

Any use of discretion by the Committee during a financial year will be detailed in the relevant Annual Report on Remuneration and may be the subject of consultation with the Group's major shareholders, as appropriate.

Remuneration Policy for the wider workforce

The Remuneration Policy for other employees is based on principles that are broadly consistent with those applied to Executive Director remuneration, with a common objective of driving financial performance and the achievement of strategic objectives, and contributing to the long-term success of the Group. Remuneration supports our ability to attract, motivate and retain skilled and dedicated individuals, whose contribution continues to be a key factor in the Group's success. Annual salary reviews take into account Group performance, local pay and market conditions, and salary levels for similar roles in comparable companies. Pension entitlements and other benefits vary according to jurisdiction, to ensure these remain appropriately competitive for the local market.

Employee ownership of ConvaTec Group Plc shares is promoted across the Group. Some employees below executive level are eligible to participate in annual bonus schemes; opportunities and performance measures vary by organisational level, geographical region and an individual's role. Senior executives are eligible for LTIP awards on similar terms as the Executive Directors, although award opportunities are lower and vary by organisational level. Other executives are eligible for restricted share awards on a discretionary basis. ConvaTec also offers all employees the opportunity to participate in a share purchase plan, as approved by shareholders at the 2017 AGM.

Approach to target setting and performance measure selection

The Committee considers carefully the selection of performance measures at the start of each performance cycle, taking into consideration the Group's strategic objectives and the macroeconomic environment.

Annual bonus measures are selected to align with the Group's short-term KPIs. Measures may change from year to year (subject to the Remuneration Policy), and the rationale for any changes to the bonus measures selected will therefore be disclosed in the relevant Annual Report on Remuneration.

LTIP performance measures are selected to ensure they align with the Group's strategy and long-term shareholder value creation. In line with the commitment made to shareholders last year, LTIP awards to be granted in 2018 will be based on a blend of EPS performance, relative Total Shareholder Return ("TSR") and Return on Invested Capital ("ROIC") (as defined on page 105) over a three-year period. The Committee considers these measures to align executive incentives to the Group's strategy and shareholder interests, and provide a good balance between external and internal measures of performance, and between growth and returns.

Targets are set to be stretching but achievable over the three-year performance period. EPS and ROIC targets are set taking account of multiple relevant reference points, including internal forecasts, external expectations for future performance at both the Group and its closest sector peers, and (for EPS) typical EPS performance ranges at other FTSE companies of comparable size and complexity.

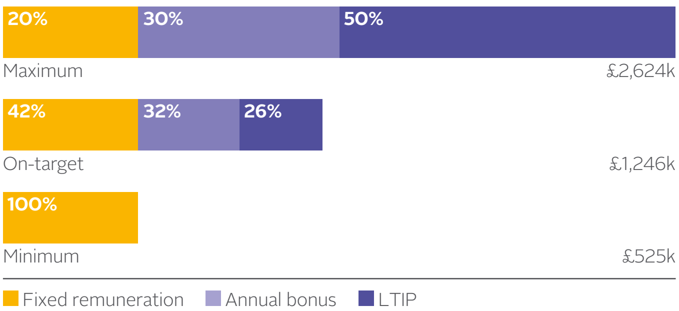
Pay-for-performance: scenario analysis

The charts below provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios: "Maximum", "On-target" and "Minimum".

Potential reward opportunities are based on the forward-looking policy (i.e. excluding Transition Awards), applied to 2018 base salaries and incentive opportunities. Note that the LTIP awards granted in a year will not normally vest until the third anniversary of the date of grant, and the projected value excludes the impact of share price movement or dividend accrual.

Pay scenarios

CFO – Frank Schulkes



The above charts are based on the following assumptions:
"Maximum": fixed remuneration (salary, pension, other benefits), plus maximum bonus (150% of salary) and full vesting of the 2019 LTIP awards (250% of salary).
"On-target": fixed remuneration as above, plus target bonus (50% of maximum) and threshold LTIP vesting (25% of maximum).
"Minimum": fixed remuneration only, being the only element of Executive Directors' remuneration not linked to performance.

Executive Director service contracts

In accordance with general market practice, each of the Executive Directors has a rolling service contract. Paul Moraviec and Frank Schulkes have service contracts with the Company. Frank Schulkes' service contract (a copy of which is available to view at the Group's registered office) is terminable on 12 months' notice from the Group and six months' notice from the Executive Director. This practice will also apply for any new Executive Directors. The following table shows the date of the service contract for each Executive Director that served during the year:

Executive Director	Position	Date of appointment	Date of service agreement
Paul Moraviec	CEO	6 September 2016	12 October 2016[1]
Frank Schulkes	CFO	1 November 2017	2 August 2017

1. The service contract for Paul Moraviec took effect on 31 October 2016.

Remuneration Policy report continued

Exit payments policy

The Group's policy on termination payments is to consider the circumstances on a case-by-case basis, taking into account the relevant contractual terms in the executive's service contract and the circumstances of termination. Executive Directors' contracts provide for the payment of a pre-determined sum in the event of termination of employment in certain circumstances (but excluding circumstances where the Group is entitled to dismiss without compensation), comprising base salary, pension allowance and benefits in respect of the unexpired portion of the notice period. Termination payments may take the form of payments in lieu of notice. Payments would normally be made on a phased basis and subject to mitigation.

If the employment is terminated by the Group, the Committee retains the discretion to settle any other amount the Committee considers reasonable to the Executive Director including in settlement of claims, in respect of legal fees incurred in connection with the termination and fees for outplacement services and relocation costs.

In addition to contractual provisions, the table below summarises how awards under each discretionary incentive plan are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion as provided under the rules of the plan. In the event of termination, any outstanding options granted under the SAYE – or equivalent – scheme will be treated in accordance with the rules of the scheme, which do not include discretion.

Disclosure in relation to any departing Executive Director, including details of any remuneration payment made to him after he ceases to be a Director, will be made on the Company's website in accordance with Section 430(2B) of the Companies Act 2006.

Treatment of awards on cessation of employment

Reason for cessation	Calculation of vesting/payment	Timing of vesting/payment
Annual bonus		
Injury, disability, death, redundancy, retirement, or other such event as the Committee determines	The Committee may determine that a bonus is payable on cessation of employment (normally pro-rated for the proportion of the performance year worked) and the Committee retains discretion to determine that the bonus should be paid wholly in cash. The bonus payable will be determined based on the performance of the Group and of the individual over the relevant period, and the circumstances of the Director's loss of office.	
All other reasons (including voluntary resignation)	No bonus will be paid for the financial year.	Not applicable.
Deferred bonus shares		
Resignation or dismissal for cause	Awards normally lapse.	Not applicable.
All other reasons (e.g. injury, disability, death, redundancy, retirement, or other such event as the Committee determines)	Awards will normally vest in full (i.e. not pro-rated for time) unless the Committee determines that time pro-rating should apply.	At the normal vesting date, unless the Committee decides that awards should vest earlier (e.g. in the event of death).
Change of control	Awards will normally vest in full (i.e. not pro-rated for time). Awards may alternatively be exchanged for equivalent replacement awards, where appropriate.	On change of control.
LTIP awards		
Resignation or dismissal for cause	Awards normally lapse.	Not applicable.
All other reasons (e.g. injury, disability, death, redundancy, retirement, or other such event as the Committee determines)	Awards will normally be pro-rated for time (unless the Committee exercises discretion to disapply time pro-rating) and will vest based on performance over the original performance period (unless the Committee decides to measure performance to the date of cessation).	At the normal vesting date, unless the Committee decides that awards should vest earlier (e.g. in the event of death).
Change of control	LTIP awards will normally be pro-rated for time (unless the Committee exercises discretion to disapply time pro-rating) and will vest subject to performance over the performance period to the change of control. LTIP awards may alternatively be exchanged for equivalent replacement awards, where appropriate.	On change of control.
Transition awards		
Resignation or dismissal for cause	Awards normally lapse.	Not applicable.
All other reasons (e.g. injury, disability, death, redundancy, retirement, or other such event as the Committee determines)	Unvested awards will normally be pro-rated for time (unless the Committee exercises discretion to disapply time pro-rating).	At the normal vesting date, unless the Committee decides that awards should vest earlier (e.g. in the event of death).
Change of control	Unvested awards will normally vest in full. Unvested awards may alternatively be exchanged for equivalent replacement awards, where appropriate.	On change of control.

In addition to awards to be made under the above incentives, the Executive Directors hold ConvaTec Group Plc shares following the exchange on Listing of units held under the Management Equity Plan, a legacy scheme used pre-IPO. Some of these shares remain subject to forfeiture in certain circumstances, and will be treated on cessation of employment as follows:

Reason for cessation	Treatment of awards subject to forfeiture
Equity awards granted under legacy pre-IPO scheme that remain subject to forfeiture	
Dismissal for cause, or resignation other than for good reason during the applicable period ("the Forfeit Period").	Shares may be forfeited on cessation of employment during the Forfeit Period.
All other reasons, or following the end of the Forfeit Period.	Shares cease to be subject to forfeiture on cessation of employment.
Change of control during the Forfeit Period.	Shares cease to be subject to forfeiture on change of control.

Approach to remuneration on recruitment

External appointments

In cases of hiring or appointing a new Executive Director from outside the Group, the Committee may make use of all existing components of remuneration set out in the Policy table, up to the disclosed maximum opportunities (where applicable).

When determining the remuneration package for a new Executive Director, the Committee will take into account all relevant factors based on the circumstances at that time to ensure that arrangements are in the best interests of the Group and its shareholders. This may include factors such as the experience and skills of the individual, internal comparisons and relevant market data.

The Committee may also make an award in respect of a new appointment to 'buy out' incentive arrangements forfeited on leaving a previous employer, i.e. over and above the maximum limits on incentive opportunities set out in the Policy table. In doing so, the Committee will consider relevant factors, including any performance conditions attached to these awards, the likelihood of those conditions being met, and the time over which they would have vested. The intention is that the expected value of any buy-out award would be no higher than the expected value of the forfeited arrangements, and that the structure will replicate (as far as reasonably possible) that of the awards being forfeited. The Committee may consider it appropriate to structure 'buy-out' awards differently from the structure described in the Policy table, exercising its discretion under the LTIP rules to structure awards in other forms (including market value options, restricted shares, forfeitable shares or phantom awards) and the discretion available under UKLA Listing Rule 9.4.2R where necessary to make a one-off award to an Executive Director in this context.

Internal promotion

Where a new Executive Director is appointed by way of internal promotion, the Policy will be consistent with that for external appointees, as detailed above (other than in relation to 'buy-out' awards). Any commitments made prior to an individual's promotion will continue to be honoured even if they would not otherwise be consistent with the Policy prevailing when the commitment is fulfilled, although the Group may, where appropriate, seek to revise an individual's existing service contract on promotion to ensure it aligns with other Executive Directors and good practice.

Disclosure on the remuneration structure of any new Executive Director, including details of any 'buy-out' awards, will be disclosed in the RNS notification made at the time of appointment and in the Annual Report on Remuneration for the year in which recruitment occurred.

External appointments held by Executive Directors

Executive Directors may accept up to one external appointment subject to approval by the Board, there being no conflicts of interest and the appointment not leading to deterioration in the individual's performance. Executive Directors may retain the fees paid for such roles. Details of external appointments and the associated fees received will be included in the Annual Report on Remuneration.

Consideration of conditions elsewhere in the Group

The Committee seeks to promote and maintain good relations with employees as part of its broader employee engagement strategy, considers pay practices across the Group and is mindful of the salary increases applying across the rest of the business in relevant markets when considering any increases to salaries for Executive Directors. However, the Committee does not currently consult with employees on its executive remuneration policy.

Consideration of shareholder views

The Committee will take into consideration all shareholder views received during the year and at the Annual General Meeting each year, as well as guidance from shareholder representative bodies more broadly, in shaping the Group's implementation of its Remuneration Policy, as well as any future changes to Policy. It is the Committee's intention to consult with major shareholders in advance of making any material changes to remuneration arrangements.

Remuneration Policy for the Non-Executive Directors

Details of the Policy on fees paid to our Non-Executive Directors are set out in the table below:

Purpose and link to strategy	Operation	Opportunity	Performance measures
Non-Executive Director fees			
To attract and retain Non-Executive Directors of the highest calibre with broad commercial and other experience relevant to the Group.	The fees of the Chairman are determined by the Committee. The fees paid to Non-Executive Directors are determined by the Chairman and Executive Directors. Additional fees are payable for acting as Senior Independent Director and for chairing or being a member of the Audit and Risk Committee, the Remuneration Committee and any other Board committee.	Fee increases will be applied taking into account the outcome of the annual review.	n/a
	Fee levels are reviewed annually (with any increases normally effective 1 April), taking into account external advice on best practice and competitive levels, in particular at other FTSE companies of comparable size and complexity. Time commitment and responsibility are also taken into account when reviewing fees. Chairman and Non-Executive Director fees are paid in cash. The Committee reimburses the Chairman and Non-Executive Directors for reasonable expenses in performing their duties and may settle any tax incurred in relation to these expenses. For any Non-Executive Director that is based overseas, the Group will meet travel and accommodation expenditure as required to fulfil their Non-Executive duties. The fees paid to the Chairman and Non-Executive Directors are disclosed in the Annual Report on Remuneration.	The maximum aggregate annual fee for all Non-Executive Directors (including the Chairman) as provided in the Group's Articles of Association is £1,500,000.	

Non-Executive Directors are not eligible to join the Group's pension, incentives or share schemes or to participate in any of the Group's other benefit arrangements.

In recruiting a new Non-Executive Director, the Committee will use the Policy set out above.

Remuneration Policy report continued

Non-Executive Director letters of appointment

None of the Non-Executive Directors has a service contract with the Group. They do have letters of appointment, and will be submitted for re-election annually. The dates relating to the appointments of the Chairman and Non-Executive Directors who served during the reporting period are as follows:

Director	Role	Date of appointment	Date of letter of appointment	Date of election
Sir Christopher Gent	Non-Executive Chairman	31 October 2016	18 October 2016	10 May 2018
Steve Holliday	Deputy Chairman	31 October 2016	14 October 2016	10 May 2018
Jesper Ovesen	Independent Non-Executive Director	31 October 2016	14 October 2016	10 May 2018
Rick Anderson	Independent Non-Executive Director	31 October 2016[1]	12 October 2016[1]	10 May 2018
Kasim Kutay[2]	Non-Executive Director	28 March 2017	31 March 2017	10 May 2018
Dr Ros Rivaz	Independent Non-Executive Director	21 June 2017	20 June 2017	10 May 2018
Dr Regina Benjamin	Independent Non-Executive Director	11 August 2017	15 August 2017	10 May 2018
Margaret Ewing	Independent Non-Executive Director	11 August 2017	17 August 2017	10 May 2018
Sten Scheibye[3]	Non-Executive Director	3 July 2018	3 July 2018	N/A

1. Rick Anderson's letter of appointment was amended on 8 November 2018 to reflect his increased fee following his appointment as Interim CEO.
2. Stepped down from the Board on 3 July 2018.
3. Joined the Board replacing Kasim Kutay as the representative of Novo Holdings A/S.

Directors' shareholdings (audited)

The table below sets out details of the current shareholdings of each Director (and any relevant connected persons) as at 31 December 2018 or the date of leaving. For Executive Directors, the current shareholding is compared to their shareholding guideline.

	Shares				Options			
	Owned outright or vested							
Director	31 December 2017	31 December 2018	Unvested and not subject to performance[1]	Unvested and subject to performance	Vested but not exercised	Unvested and not subject to performance	Current shareholding[2] (% salary)	Shareholding guideline (% salary)
Paul Moraviec	4,972,509	4,884,263	134,538	–	–	201,807	1,188%	400%
Frank Schulkes	100,000	165,000	–	709,776	–	9,782	62.52%	300%
Sir Christopher Gent	150,000	150,000	–	–	–	–	–	–
Steve Holliday	88,889	88,889	–	–	–	–	–	–
Jesper Ovesen	88,889	133,889	–	–	–	–	–	–
Rick Anderson	72,934	149,475	–	–	–	–	–	–
Kasim Kutay	N/A	N/A	–	–	–	–	–	–
Dr Ros Rivaz	9,729[3]	9,729	–	–	–	–	–	–
Dr Regina Benjamin	N/A	N/A	–	–	–	–	–	–
Margaret Ewing	N/A	N/A	–	–	–	–	–	–
Sten Scheibye	N/A	25,000	–	–	–	–	–	–

1. Unvested awards not subject to performance reflect the third tranche of the Transition Awards granted on 11 November 2016, which vest on the third anniversary of the date of grant, subject to continued employment.
2. Executive Director shareholdings calculated using a share price of 162.92p, being the average share price during the last three months of the 2018 financial year.
3. The shareholding for Ros Rivaz was incorrectly stated within the 2017 Annual Report as 13,224. The correct figure which should have been disclosed is 9,729.

No further shares were acquired by the Directors between 31 December 2018 and 14 February 2019, being the latest practicable date prior to publication of this Annual Report.

Directors' report

The Directors present their Annual Report on the affairs of the Group, together with the Financial Statements and auditor's report, for the year ended 31 December 2018.

Taken together, the Strategic report on pages 5 to 71 and this Directors' report fulfil the requirements of the Disclosure and Transparency Rules to provide a management report.

Information incorporated by reference

The following information is provided in other sections of this Annual Report and is incorporated by reference.

Information	Section where provided	Page
Corporate governance	Corporate governance statements	75
	Nomination, Audit and Risk Committee reports	86 to 98
Post balance sheet events	Financial Statements – Note 29	171
Likely future developments and research and development activities	Strategic report	5 to 71
Preparation and disclosure of Financial Statements and Annual Report	Directors' responsibilities statement	123
Use of financial instruments	Financial Statements – Note 27	168
Shares held by the Company's Employee Benefit Trust	Financial Statements – Note 23	161
Board membership and biographical details	Corporate Governance report	80 and 81
Related party transactions	Financial Statements – Note 28	171
Employee engagement	Strategic report	21
Greenhouse emissions	Strategic report	27
Relationships with capital providers and other stakeholders	Governance section	99

Non-financial information statement

The Group has complied with the requirements of s414CB of the Companies Act 2006 by including certain non-financial information within the Strategic report. This can be found as follows:

- The Group's business model is on page 16.
- Information regarding the following matters, including policies, the due diligence process implemented in pursuance of the policies and outcomes of those policies, can be found on the following pages:
  - Environmental matters on page 27.
  - Employees and social matters on pages 19 to 25.
  - Respect for human rights on page 19.
  - Anti-corruption and anti-bribery matters on page 19.
- Where principal risks have been identified in relation to any of the matters listed above, these can be found on pages 36 to 43, including a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how the principal risks are managed.
- All key performance indicators of the Group, including those non-financial indicators, are on page 32 and 33.
- The Chief Executive Officer's review on pages 8 to 11, the Operational review on pages 46 to 55 and the Financial review on pages 59 to 71 include, where appropriate, references to, and additional explanations of, amounts included in the Group's Financial Statements.

Disclosure of information to the auditor

Each of the Directors, as at the date of this Annual Report, confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of Section 418 of the Companies Act 2006. Deloitte have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Branches of the Company

There are no branches of the Company.

Dividends

We are targeting a payout ratio of between 35% and 45% of adjusted net profit[1] over time and it is our intention to pay an interim and a final dividend in respect of each financial year in the approximate proportions of one-third and two-thirds, respectively, of the annual total dividend. We may periodically reassess this policy to reflect, among other things, our growth prospects, capital efficiency and the profitability of the Group, whilst also maintaining appropriate levels of dividend cover. Any decision to declare and pay dividends will be made at the discretion of the Directors and will depend on, among other things, applicable law, regulation, restrictions, the Group's financial position, working capital requirements, restrictions on dividends in the Group's banking facilities, finance costs, general economic conditions and other factors the Directors deem significant. During the year, the Directors resolved to pay an interim dividend of 1.717 cents per share on 12 October 2018. A scrip dividend alternative was offered in respect of the interim dividend allowing shareholders to elect by 21 September 2018 to receive their dividend in the form of new ordinary shares. On 12 October 2018, 4,681,820 ordinary shares of 10p each were allotted and issued by the Company to those shareholders who elected to receive the scrip dividend alternative. The Directors recommend a final dividend for the year of 3.983 cents per share (2017: 4.300 cents) which, together with the interim dividend, makes a total for the year of 5.700 cents per share (2017: 5.700 cents). The final dividend, if approved by the shareholders, will be paid on 16 May 2019 to shareholders on the register at the close of business on 5 April 2019.

1. Certain financial measures in this Annual Report and Accounts including adjusted net profit, are not prepared in accordance with IFRS. All adjusted measures are explained and reconciled to the most directly comparable measure prepared in accordance with IFRS on pages 66 to 71.

Capital structure

Share capital
As at 31 December 2018, the Company's issued share capital consisted of 1,966,155,724 ordinary shares of 10p each. Further details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in Note 23 to the Financial Statements. As at 31 December 2018, the Company had only one class of share consisting of ordinary shares of 10p each.

Acquisition of Company's own shares
At the end of the year, the Directors had authority, under the shareholders' resolutions of 10 May 2018, to purchase through the market up to 10% of the Company's ordinary shares at a maximum price per share at the higher of: (i) an amount equal to 105% of middle market quotations of the price of shares for the five business days prior to the date of purchase; and (ii) an amount equal to the higher of the last independent trade and the highest current independent bid at the time of purchase. This authority expires at the date of the Company's 2019 AGM and the Company will seek its renewal at the AGM. It is confirmed that no acquisition of the Company's own shares have been made under such authority.

Shareholders' rights
The rights attaching to the ordinary shares are governed by the Company's Articles of Association and prevailing legislation. There are no specific restrictions on the size of a holding. Subject to applicable law and the Articles of Association, holders of ordinary shares are entitled to receive all shareholder documents, including notice of any general meeting, attend, speak and exercise voting rights at general meetings, either in person or by proxy, and participate in any distribution of income or capital.

Restrictions on voting
There are no specific restrictions on voting rights, save in situations where the Company is legally entitled to impose such restrictions (usually where amounts remain unpaid on shares after request, or the shareholder is otherwise in default of an obligation to the Company). Currently all issued ordinary shares are fully paid. There are no agreements between holders of securities in the Company that are known to the Company and may result in restrictions on transfer or on voting rights.

Restrictions on the transfer of ordinary shares
The transfer of ordinary shares is governed by the general provisions of the Company's Articles of Association and applicable legislation. There are no restrictions on the transfer of ordinary shares other than: (i) as set out in the Articles of Association; and (ii) certain restrictions which may from time to time be imposed by laws and regulations and pursuant to the Listing Rules whereby Directors and certain officers and employees of the Company require approval to deal in the ordinary shares in accordance with the Company's share dealing policies and the Market Abuse Regulation.

Directors' appointment, replacement and powers
The appointment and replacement of Directors of the Company is governed by its Articles of Association, the Code, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of the Directors are described in the Board's terms of reference, which can be found at www.convatecgroup.com/investors/corporate-governance.

Significant agreements
There are a number of other agreements that take effect, alter or terminate upon a change of control of the Group such as commercial contracts, bank loan agreements, property lease arrangements and employees' share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Group and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Directors' indemnities
The Group has made qualifying third-party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Company Secretary
The Company Secretary provides ongoing support to the Board in relation to corporate governance issues and compliance with the Listing Rules. She is responsible for establishing, implementing and monitoring the corporate governance framework, attending all Board and committee meetings, advising on effective Board processes, advising on Directors' statutory duties, disclosure obligations and requirements under the Listing Rules, and working in conjunction with investor relations and corporate affairs regarding dialogue with investors.

Political donations
No political donations, including to non-EU political parties, were made during the period. Information about the Group's lobbying and charitable activities is included in the Group's Corporate Responsibility Report, which is available on our website at www.convatecgroup.com/corporate-responsibility.

Substantial shareholdings

At 31 December 2018, the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company.

Shareholder	No. of ordinary shares	Percentage of voting rights	Nature of holding
Novo Holdings A/S	395,318,793	20.25%	Direct holding
GIC Private Limited	178,776,118	9.1593%	Direct
Black Rock, Inc	109,419,135	5.57%	Indirect holding/ Financial instruments
Artisan Partners Limited Partnership	98,980,658	4.98%	Indirect holding
Pelham Capital	97,850,000	5.01%	Direct holding/Financial instruments
The Capital Group Companies, Inc	97,418,767	4.9911%	Indirect holding

During the period between 31 December 2018 and 14 February 2019, being the latest practicable date prior to publication of this Annual Report, the Company received the following notifications under Chapter 5 of the Disclosure and Transparency Rules.

Shareholder	No. of ordinary shares	Percentage of voting rights	Nature of holding
GIC Private Limited	176,899,232	8.9972%	Direct holding

Relationship agreement with controlling shareholders

Novo Holdings A/S ("Novo") became a significant shareholder on 31 March 2017 and the Company entered a relationship agreement with Novo on such date as required by Listing Rule 9.2.2A R(2)(a). Given its significant investment in the Company, Novo is entitled to appoint one Non-Executive Director to the Board for so long as they and their associates are entitled to exercise, or control the exercise of, 10% or more of the votes able to be cast on all or substantially all matters at general meetings of the Company. In the financial period to 31 December 2018 (and also from 31 December 2018 to 14 February 2019, being the latest practicable date prior to publication of this Annual Report), the Company has complied with the independence provisions of the relationship agreement, and so far as the Company is aware, Novo and their associates also complied with the independence provisions.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Diversity

The Group considers a diverse workforce as critical to its success. Information about the Group's initiatives to achieve diversity across the business, including specific objectives, are contained on page 20 and in the Group's Corporate Responsibility Report for the year ended 31 December 2018, which is available on our website at www.convatecgroup.com/corporate-responsibility.

Employee share schemes

In addition to the discretionary share schemes operated as part of the Group's long-term incentives, detailed in the Remuneration report on pages 102 to 118, the Group operates an all employee share scheme globally. The Directors believe that such a scheme is a benefit to the Group as it facilitates the ability for all employees to purchase shares in the Company, thus enabling them to benefit directly from the anticipated growth and success of the Group in the future.

The Executive Directors may participate in the UK all-employee share scheme, an HMRC approved savings-related share option plan, on the same basis as other eligible employees. All participants may invest up to the limits operated by the Group at the time set in line with HMRC guidance.

Shares acquired through the Group's share plans rank pari passu with existing ordinary shares in issue and have no special rights with regards to voting, rights to dividend, control of the Company or otherwise.

All of the Group's employee share plans contain provisions relating to a change of control. On a change of control, options and awards granted to employees under the Group's share plans may vest and become exercisable, subject to the satisfaction of any applicable performance conditions at that time.

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Listing Rules – compliance with LR 9.8.4R

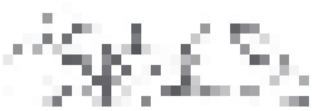
The information required to be disclosed by LR 9.8.4R can be found in the following locations. There are no other disclosures required under this LR.

Section	Applicable sub-paragraph within LR 9.8.4R	Location
1	Interest capitalised	Group Financial Statements, Note 3 on page 143
4	Details of long-term incentive schemes	Remuneration Committee report, pages 102 to 118
14	Confirmation of relationship agreement	Directors' report, page 121

Annual General Meeting

The Annual General Meeting will be held at Reading Town Hall, Blagrave Street, Reading, Berkshire RG1 1QH, on 9 May 2019 at 11am. Notice of the meeting, containing details of the resolutions to be put to the meeting, will be available on the Group's website at www.convatecgroup.com/investors/reports/.

By order of the Board.



Clare Bates
Company Secretary
14 February 2019

ConvaTec Group Plc is registered in England No. 10361298

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

In preparing the parent company financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that Directors:
- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

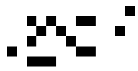
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:
- the Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group and Company's performance and position, business model and strategy.

This responsibility statement was approved by the Board of Directors on 14 February 2019 and is signed on its behalf by:



Rick Anderson
Chief Executive Officer

Frank Schulkes
Chief Financial Officer

Independent auditor's report

to the members of ConvaTec Group Plc

Report on the audit of the Financial Statements

Opinion

In our opinion:

- the Financial Statements of ConvaTec Group Plc (the "Parent Company") and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the Financial Statements which comprise:

- the Consolidated Statement of Profit or Loss;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Financial Position and Company Balance Sheet;
- the Consolidated and Company Statements of Changes in Equity;
- the Consolidated Statement of Cash Flows; and
- the related Notes 1 to 29 of the Consolidated Financial Statements and Notes 1 to 9 of the Company Financial Statements.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – **Revenue Recognition** – focusing on whether sales are valid in certain US and UK components, with increased risk in the recording of revenue for sales and or shipments that either did not occur, or did not occur at the level recorded by management, or for which the risks and rewards have not passed to the customer. – **Taxation** – focusing on the recognition of deferred tax assets in a US component and the related impact on taxation charge and balance sheet amounts. – **Parent Company investments** – focusing on the recoverability of the Parent Company's investment in its subsidiaries.
Materiality	The materiality that we used for the Group Financial Statements was $12.3 million. Materiality was determined on the basis of statutory profit before tax ("PBT"), adjusted for costs of the pre-IPO share-based payment schemes. Our materiality represents 5.9% of the adjusted pre-tax profit measure.
Scoping	We performed full scope audit procedures on twelve legal entities covering eight countries. In addition, we have performed specified audit procedures in ten legal entities across eight countries. Together, these accounted for 81% of revenue, 88% of profit before tax and 79% of net assets.
Significant changes in our approach	Last year we identified two key audit matters which related to revenue recognition and taxation. In the current year these matters were further refined to revenue recognition focusing on whether sales are valid in certain US and UK components and deferred tax asset recognition in a US component. In addition, we have identified a new key audit matter relating to the recoverability of the Parent Company's investments in its subsidiaries. This was driven by the October 2018 trading update following which the ConvaTec Group Plc share price fell substantially and subsequently continued to trade at the lower level.

Conclusions relating to going concern, principal risks and viability statement

Going concern We have reviewed the Directors' statement in Note 3 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements. We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment. We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	We confirm that we have nothing material to report, add or draw attention to in respect of these matters.
Principal risks and viability statement Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Parent Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: – the disclosures on pages 36 to 43 that describe the principal risks and explain how they are being managed or mitigated; – the Directors' confirmation on page 75 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or – the Directors' explanation on pages 44 to 45 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition	
Key audit matter description	ISAs (UK) require that, as part of our overall response to the risk of fraud, when identifying and assessing the risks of material misstatement due to fraud, we evaluate which types of revenue or revenue transactions might give rise to potential fraud risks. We have specifically focused this risk to whether sales are valid in certain US and UK components with increased risk in the area of recording revenue for sales and or shipments that either did not occur, or did not occur at the level recorded by management, or for which the risks and rewards have not passed to the customer. The risk is higher in these US and UK components based on the amount of revenue generated and the level of complexity in recognising the revenue relative to other Group components. Pressures to meet stakeholder expectations following the trading update provided to the market on 15 October 2018 could provide incentives to record revenues where the performance obligations have not been satisfied and therefore we consider this to be a key audit matter. *The associated disclosure by franchise and geographical region is included within Note 5. The Audit Committee has included their assessment of this risk on page 94. For specific detail on the Group's accounting policy, please see Note 3*
How the scope of our audit responded to the key audit matter	In response to the pressure identified in the key audit matter description above, we performed a risk assessment across the Group to identify specific areas of risk, focusing our testing accordingly. Our audit response consisted of several procedures including those summarised below. The specific combination of procedures performed varied by location. We performed walkthroughs of the revenue cycle at full scope components to gain an understanding of when the revenue should be recognised, to map out the relevant controls and the end to end processes in place. We have assessed the design and implementation of these controls. We made enquiries of local finance management, including Finance Directors, on movements in the revenue balance and have considered their responses against the detailed testing performed to determine whether the information corroborates the movements identified. We performed detailed transaction testing on a sample basis, agreeing sales through to invoice, final sales contracts or purchase orders. We compared invoice prices to Company price lists on a sample basis to validate levels of discounting, agreeing the net revenue amount recorded by management to underlying accounting records and remittance. We performed analytical reviews and utilised our analytics tools in certain components to identify any unusual sales trends and obtained an explanation for any such movements. We obtained confirmations from customers in certain locations to support the assertion that revenue has been appropriately recognised. We also reviewed a sample of distributor contracts to assess the terms of sale and to support recalculation of rebates and chargebacks associated with the revenue. We held interviews with a selection of sales personnel to determine the existence of any side agreements or unusual arrangements which may impact when revenue can be recognised. We held quarterly review calls with franchise and geographic market leaders to identify changes in customer demand and new product introductions that might impact sales patterns. The procedures performed allowed us to gain a thorough understanding of the revenue cycle with a variety of procedures performed to minimise the risk associated to potential fraud.
Key observations	We were satisfied that the key assumptions used in the application of revenue recognition have been applied appropriately. We noted no instances above our reporting threshold to the Audit Committee of inappropriate revenue recognition arising from our testing.

Taxation	
Key audit matter description	There is management judgement in the recognition of deferred tax assets ("DTAs") in a US component, as the recognition of these assets will be based on management's assessment of their recoverability. This is further complicated by the fact that the Group trades across multiple tax jurisdictions, which makes management's judgements subject to challenge by various local tax authorities. Total recognised DTAs at 31 December 2018 were $22.9 million (2017: $9.6 million). At 31 December 2018 management assessed that unrecognised temporary differences of $2.0 billion (2017: $2.2 billion) were irrecoverable as management did not anticipate future taxable income in the regions giving rise to this balance, therefore no DTA was recognised for these tax attributes. *The associated disclosure is included within Note 10. The Audit Committee has included their assessment of this risk on page 95. For specific detail on the Group's accounting policy, please see Note 3.*
How the scope of our audit responded to the key audit matter	In conjunction with our internal tax audit specialists, we have reviewed and challenged management's judgements regarding the recoverability of temporary differences. We have evaluated the design and implementation of key controls that are involved in assessing whether DTAs can be recognised. We have obtained forecasts showing the expected utilisation of key unrecognised temporary differences in order to further assess their recoverability.
Key observations	We concurred with the treatment adopted by management for both recognised and unrecognised DTAs.
Recoverability of the Parent Company's investment in its subsidiaries	
Key audit matter description	Following the October 2018 trading update the ConvaTec Group Plc share price fell substantially compared to the price on the date of listing. The cost of the investment in the Company only accounts was initially recognised based on the ConvaTec Group Plc offer share price at the date of listing. The carrying value of the investment at 31 December 2018 was substantially higher than the market capitalisation and accordingly there was an indicator of impairment. Management estimated the business valuation based on a discounted cash flow model which includes key assumptions such as growth and discount rates, and judgement is required in assessing any required impairment of the investment. Management have recognised an impairment of $1.6 billion against the investment held by ConvaTec Group Plc (Parent Company), reducing the value of the investment to $3.9 billion. *The associated disclosure is included within Note 4 of the Parent Company Financial Statements. The Audit Committee has included their assessment of this risk on page 95. For specific detail on the Parent Company accounting policy, please see Note 1.*
How the scope of our audit responded to the key audit matter	In response to the judgement identified in the key audit matter description above, we evaluated the appropriateness of management's impairment model including the conclusions reached. We evaluated the design and implementation of key controls that are involved in assessing the recoverability of the investment value. We obtained the assessment and calculation of the investment impairment and reviewed the mechanical accuracy of the impairment model. The adequacy of the disclosure in respect of the impairment recognised was also assessed for appropriateness. We benchmarked the discount rate applied and compared the long-term growth rate of the cashflows to market analysis. Consideration was given to alternative evidence on the carrying value of the investment, which could indicate a different result.
Key observations	We have concluded that the impairment recognised by management is reasonable and consistent with the judgements made. The disclosures made following the impairment were concluded to be appropriate.

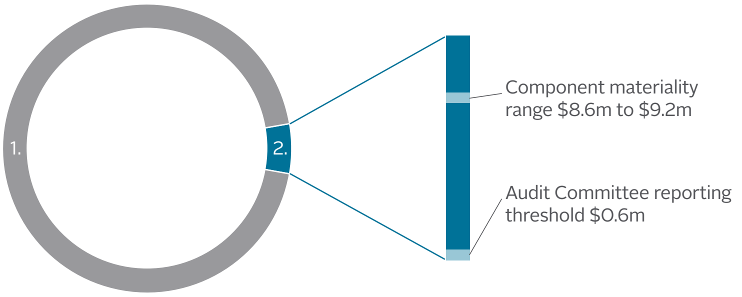
Our application of materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group Financial Statements	Parent Company Financial Statements
Materiality	$12.3m (2017: $12.3m)	$9.2m (2017: $9.2m)
Basis for determining materiality	5.9% (2017: 5.6%) of adjusted pre-tax profit. Adjusted pre-tax profit is calculated from the reported statutory profit before tax, adjusted for costs of the pre-IPO share-based payment schemes.	Parent Company materiality equates to 0.2% (2017: 0.2%) of net assets and is capped at 75% of Group materiality.
Rationale for the benchmark applied	In determining our materiality benchmark, we considered the focus of the users of the Financial Statements. Adjusted pre-tax profit is a key performance indicator of the Group as well as being the key metric provided in trading updates, and in third-party analysis of Group performance. This is a consistent basis with the year ended 31 December 2017.	In determining our materiality based on professional judgement we have considered net assets as the appropriate benchmark given the Parent Company is primarily a holding company for the Group. We then capped materiality at the highest component materiality for the Group.

1. Adjusted PBT: $207.4m
2. Group materiality: $12.3m



Materiality applied by the component auditors ranged from $8.6 million to $9.2 million (2017: $8.6 million to $9.2 million), depending on the scale of the component's operations and our assessment of risks specific to each location.

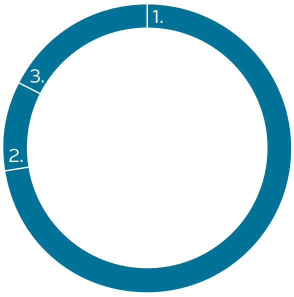
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $0.6 million (2017: $0.6 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

An overview of the scope of our audit

Our Group audit was scoped on an entity level basis, assessing components against the risk of material misstatement at the Group level. We have also considered the quantum of Financial Statement balances and individual financial transactions of a significant nature. In performing our assessment, we have considered the geographical spread of the Group and any risks presented within each region.

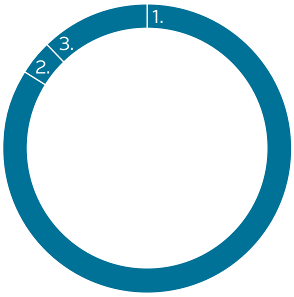
Revenue %

1. Full audit scope: 70%
2. Specified audit procedures: 11%
3. Review at Group level 19%



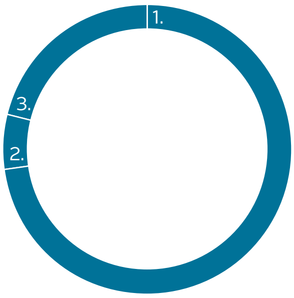
Profit before tax %

1. Full audit scope: 84%
2. Specified audit procedures: 4%
3. Review at Group level 12%



Net assets %

1. Full audit scope: 73%
2. Specified audit procedures: 6%
3. Review at Group level 21%



Based on this assessment, we focused our work on twelve (2017: eleven) components covering eight (2017: eight) countries, 70% (2017: 80%) of revenue, 84% (2017: 74%) of profit before tax and 73% (2017: 73%) of net assets. All twelve (2017: eleven) components were subject to a full scope audit. The twelve (2017: eleven) components are located in: the United States of America; the United Kingdom; Switzerland; Denmark; Germany; Italy; France; and Japan, representing the principal operating units of the Group.

In addition, we have performed specified audit procedures in ten (2017: twelve) components covering eight (2017: nine) countries, 11% (2017: 5%) of revenue, 4% (2017: 8%) of PBT, and 6% (2017: 10%) of net assets. The ten (2017: twelve) components are located in: the United States of America; the United Kingdom; Denmark; Spain; Canada; the Dominican Republic; Australia; and Slovakia.

Scope changes in 2018 compared with 2017 included removing the low risk components in the Netherlands and Portugal from scope (previously specified audit procedures) and changing a UK legal entity from specified audit procedures to a full scope audit because of the material account balances in the entity due to an increase in trade activity.

At the Group level we also tested the consolidation process and carried out analytical review procedures on those entities other than those noted above. Any movements in account balances, which did not corroborate our initial risk assessment, were investigated further. This testing confirmed our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full scope audit or specified procedures.

As part of our audit, a senior member of the Group audit team visited each of the most significant components of the Group, including the United States of America, the United Kingdom, Denmark and Switzerland. These locations were also visited during our prior year audit. They encompass 55% (2017: 64%) of the Group's revenue. As part of these visits meetings were held with both component management and the component audit team. In addition to our visits, we send detailed instructions to our component audit teams included them in our team briefings and reviewed audit work-papers to the extent deemed necessary.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report including the Overview, Strategic Report and Governance sections but does not include the Financial Statements and our Auditor's Report thereon. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that: – *Fair, balanced and understandable* – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or – *Audit committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or – *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.	We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit, and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- discussing among the engagement team including significant and material component audit teams in UK, Denmark, USA and Switzerland, and involving relevant internal specialists, including tax, valuations, and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas:
  - forecasting using inappropriate source information resulting in lower impairment charges (Parent Company only investment impairment identified as a key audit matter);
  - manipulation of revenue recognition to improve performance (identified as a key audit matter); and
- obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the Financial Statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, and tax legislation.

Audit response to risks identified

As a result of performing the above, we identified key audit matters with respect to; revenue recognition regarding the validity of the sales and/or shipments in certain US and UK components, recognition of deferred tax assets in a US component and the recoverability of the Parent Company investment in its subsidiaries as key audit matters. The key audit matters section of our report explains these matters in more detail and describes the specific procedures we performed in response.

Our procedures to respond to risks identified included the following:

- reviewing the Financial Statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and all component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: – we have not received all the information and explanations we require for our audit; or – adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or – the Parent Company Financial Statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.
Directors' Remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.

Other matters

Auditor tenure
Following the recommendation of the Audit Committee, we were appointed to audit the Financial Statements for the year ending 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering the years ending 31 December 2016 to 31 December 2018.

Consistency of the audit report with the additional report to the Audit Committee
Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Mullins, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom
14 February 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Notes	**2018 $m**	2017 $m
Revenue	5	**1,832.1**	1,764.6
Cost of sales	15,26	**(858.3)**	(838.3)
Gross profit		**973.8**	926.3
Selling and distribution expenses	26	**(418.0)**	(377.5)
General and administrative expenses	15,26	**(238.2)**	(259.8)
Research and development expenses	15,26	**(49.9)**	(41.2)
Operating profit		**267.7**	247.8
Finance costs	8	**(65.2)**	(62.1)
Other expense, net	9	**(1.3)**	(21.7)
Profit before income taxes		**201.2**	164.0
Income tax benefit/(expense)	10	**20.4**	(5.6)
Net profit		**221.6**	158.4
Earnings Per Share			
Basic and diluted earnings per share ($ per share)	12	**0.11**	0.08

The accounting policies and notes on pages 138 to 171 form an integral part of the Consolidated Financial Statements. All results are attributable to equity holders of the Group and wholly derived from continuing operations.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 $m	2017 $m
Net profit		**221.6**	158.4
Other comprehensive (loss)/income			
Items that will not be reclassified subsequently to Consolidated Statement of Profit or Loss			
Remeasurement of defined benefit obligation, net of tax	26	**(1.0)**	2.4
Recognition of the pension assets restriction	26	**0.4**	0.2
Items that may be reclassified subsequently to Consolidated Statement of Profit or Loss			
Exchange differences on translation of foreign operations		**(66.6)**	109.7
Effective portion of changes in fair value of cash flow hedges	27	**3.9**	7.4
Income tax relating to items that may be reclassified		**(1.3)**	(1.7)
Other comprehensive (loss)/income		**(64.6)**	118.0
Total comprehensive income		**157.0**	276.4

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

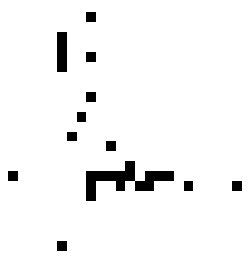
Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	**2018 $m**	2017 restated[(a)] $m	2016 restated[(a)] $m
Assets				
Non-current assets				
Property, plant and equipment	14	**330.7**	334.0	264.8
Intangible assets	15	**1,334.5**	1,487.3	1,521.4
Goodwill	16	**1,043.0**	1,072.2	921.0
Deferred tax assets	10	**22.9**	9.6	22.0
Derivative financial assets	27	**11.3**	7.4	–
Restricted cash	3	**2.4**	3.8	2.5
Other assets		**12.4**	11.5	11.4
		2,757.2	2,925.8	2,743.1
Current assets				
Inventories	17	**303.3**	284.5	247.5
Trade and other receivables	18	**253.7**	269.0	233.7
Prepaid expenses and other current assets		**30.6**	32.3	19.9
Cash and cash equivalents		**315.6**	289.3	264.1
Assets held for sale		**–**	–	5.6
		903.2	875.1	770.8
Total Assets		**3,660.4**	3,800.9	3,513.9
Equity and Liabilities				
Current liabilities				
Trade and other payables	27	**116.0**	122.0	111.6
Borrowings	20,27	**63.0**	78.2	38.5
Other current liabilities and accruals	19	**105.5**	114.2	134.9
Current tax payable[(a)]		**41.9**	21.9	24.7
Provisions	21	**4.5**	2.2	9.4
		330.9	338.5	319.1
Non-current liabilities				
Borrowings	20,27	**1,581.5**	1,744.7	1,737.1
Deferred tax liabilities	10	**107.1**	172.2	192.2
Provisions	21	**1.5**	1.6	1.1
Other non-current liabilities[(a)]	22	**22.2**	20.1	18.2
		1,712.3	1,938.6	1,948.6
Total Liabilities		**2,043.2**	2,277.1	2,267.7
Equity				
Share capital	23	**240.7**	238.8	238.8
Share premium	23	**39.8**	1.3	1,674.1
Own shares		**(6.8)**	(8.1)	–
Retained deficit		**(744.5)**	(850.0)	(2,650.2)
Merger reserve		**2,098.9**	2,098.9	2,098.9
Cumulative translation reserve		**(124.2)**	(58.4)	(172.8)
Other reserves	23	**113.3**	101.3	57.4
Total Equity		**1,617.2**	1,523.8	1,246.2
Total Equity and Liabilities		**3,660.4**	3,800.9	3,513.9

(a) 2017 and 2016 have been restated to aid comparability (Note 3 – Significant Accounting Policies).

The Consolidated Financial Statements of ConvaTec Group Plc, company number 10361298, were approved by the Board of Directors (the Directors) and authorised for issue on 14 February 2019 and signed on its behalf by:



Frank Schulkes
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Notes	Share capital $m	Share premium $m	Own shares $m	Retained deficit $m	Merger reserve $m	Cumulative translation reserve $m	Other reserves $m	Total $m
At 1 January 2017		238.8	1,674.1	–	(2,650.2)	2,098.9	(172.8)	57.4	1,246.2
Net profit		–	–	–	158.4	–	–	–	158.4
Other comprehensive income:									
Foreign currency translation adjustment, net of tax		–	–	–	(4.7)	–	114.4	–	109.7
Remeasurement of defined benefit obligation, net of tax	26	–	–	–	–	–	–	2.4	2.4
Recognition of pension assets restriction	26	–	–	–	–	–	–	0.2	0.2
Effective portion of changes in fair value of cash flow hedges, net of tax	27	–	–	–	–	–	–	5.7	5.7
Total other comprehensive income		–	–	–	(4.7)	–	114.4	8.3	118.0
Total comprehensive income		–	–	–	153.7	–	114.4	8.3	276.4
Capital reduction of share premium	23	–	(1,674.1)	–	1,674.1	–	–	–	–
Dividends paid	11	–	–	–	(26.3)	–	–	–	(26.3)
Scrip dividend	11	–	1.3	–	(1.3)	–	–	–	–
Share-based payments	25	–	–	–	–	–	–	36.9	36.9
Share awards vested		–	–	1.5	–	–	–	(1.5)	–
Excess tax benefits from share-based compensation		–	–	–	–	–	–	0.2	0.2
Purchase of own shares	23	–	–	(9.6)	–	–	–	–	(9.6)
At 31 December 2017		238.8	1.3	(8.1)	(850.0)	2,098.9	(58.4)	101.3	1,523.8
Net profit		**–**	**–**	**–**	**221.6**	**–**	**–**	**–**	**221.6**
Other comprehensive loss:									
Foreign currency translation adjustment, net of tax		**–**	**–**	**–**	**(0.8)**	**–**	**(65.8)**	**–**	**(66.6)**
Remeasurement of defined benefit obligation, net of tax	26	**–**	**–**	**–**	**–**	**–**	**–**	**(1.0)**	**(1.0)**
Recognition of pension assets restriction	26	**–**	**–**	**–**	**–**	**–**	**–**	**0.4**	**0.4**
Effective portion of changes in fair value of cash flow hedges, net of tax	27	**–**	**–**	**–**	**–**	**–**	**–**	**2.6**	**2.6**
Total other comprehensive loss		**–**	**–**	**–**	**(0.8)**	**–**	**(65.8)**	**2.0**	**(64.6)**
Total comprehensive income		**–**	**–**	**–**	**220.8**	**–**	**(65.8)**	**2.0**	**157.0**
Dividends paid	11	**–**	**–**	**–**	**(74.9)**	**–**	**–**	**–**	**(74.9)**
Scrip dividend	11	**1.9**	**38.5**	**–**	**(40.4)**	**–**	**–**	**–**	**–**
Share-based payments	25	**–**	**–**	**–**	**–**	**–**	**–**	**11.2**	**11.2**
Share awards vested		**–**	**–**	**1.3**	**–**	**–**	**–**	**(1.3)**	**–**
Excess tax benefits from share-based compensation		**–**	**–**	**–**	**–**	**–**	**–**	**0.1**	**0.1**
At 31 December 2018		**240.7**	**39.8**	**(6.8)**	**(744.5)**	**2,098.9**	**(124.2)**	**113.3**	**1,617.2**

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	**2018 $m**	2017 $m
Cash flows from operating activities			
Net profit		**221.6**	158.4
Adjustments for			
Depreciation	14	**37.4**	34.6
Amortisation	15	**152.6**	144.8
Acquisition accounting adjustment on inventory sold		**–**	1.6
Income tax (benefit)/expense	10	**(20.4)**	5.6
Other expense, net	9	**1.3**	21.7
Finance costs	8	**65.2**	62.1
Share-based compensation	25	**11.2**	36.9
Write-off/disposal of assets	14,15	**3.4**	2.5
Changes in assets and liabilities:			
Inventories		**(33.1)**	(10.9)
Trade and other receivables		**3.7**	(6.2)
Prepaid expenses and other current assets		**3.0**	(5.3)
Other non-current assets		**(1.6)**	(1.0)
Trade and other payables		**4.1**	(1.9)
Other current liabilities and accruals		**(1.8)**	(24.5)
Other non-current liabilities		**2.5**	1.6
Net cash generated from operations		**449.1**	420.0
Interest paid		**(61.3)**	(66.5)
Income taxes paid		**(35.8)**	(46.9)
Net cash generated from operating activities		**352.0**	306.6
Cash flows from investing activities			
Acquisition of property, plant and equipment and capitalised software		**(70.9)**	(82.7)
Proceeds from sale of property, plant and equipment and other assets		**4.3**	2.6
Acquisitions, net of cash acquired	13	**(14.4)**	(105.5)
Proceeds from assets held for sale		**–**	5.7
Change in restricted cash		**1.3**	(0.6)
Capitalised development expenditure	15	**(1.2)**	(2.1)
Net cash used in investing activities		**(80.9)**	(182.6)
Cash flows from financing activities			
Repayment of borrowings	20	**(153.7)**	(70.9)
Payment of accrued share capital issue costs		**–**	(10.5)
Payment of finance lease liabilities	20	**(0.8)**	(0.6)
Payments of deferred financing fees		**–**	(1.4)
Dividend paid	11	**(74.9)**	(26.3)
Purchase of own shares		**–**	(9.6)
Net cash used in financing activities		**(229.4)**	(119.3)
Net change in cash and cash equivalents		**41.7**	4.7
Cash and cash equivalents at beginning of the year		**289.3**	264.1
Effect of exchange rate changes on cash and cash equivalents		**(15.4)**	20.5
Cash and cash equivalents at end of the year		**315.6**	289.3

Notes to the Consolidated Financial Statements

1. General Information

ConvaTec Group Plc (the "Company") is a company incorporated in the United Kingdom under the Companies Act of 2006 with its registered office situated in England and Wales. The Company's registered office and principal place of business is at 3 Forbury Place, 23 Forbury Road, Reading, RG1 3JH, United Kingdom.

The Company and its subsidiaries (collectively, the "Group") are a global medical products and technologies group focused on therapies for the management of chronic conditions, including products used for advanced chronic and acute wound care, ostomy care, continence and critical care and infusion devices used in the treatment of diabetes and other conditions. A list of the Company's subsidiary companies is provided in the ConvaTec Group Plc company only financial statements, pages 176 to 178 of this Annual Report and Accounts.

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

2. Accounting Standards

New standards and interpretations applied for the first time

In the current year the Group adopted the following new or amended International Financial Reporting Standards ("IFRS" or "IFRSs") and interpretations issued by the International Accounting Standards Board ("IASB"):
- IFRS 2, *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*
- IFRS 9, *Financial Instruments: Classification and measurement*
- IFRS 15, *Revenue from Contracts with Customers*
- IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

Otherwise the accounting policies set out in Note 3 – Significant Accounting Policies, below, have been applied consistently to both years presented in these Consolidated Financial Statements.

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

The Group applied *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*, from 1 January 2018. The amendments related to the following areas:
- The accounting for the effects of vesting conditions on cash-settled share-based payment transactions;
- The classification of share-based payment transactions with net settlement features for withholding tax obligations; and
- The accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled.

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

IFRS 9, Financial Instruments: Classification and measurement

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

Classification and measurement

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

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

There have been no changes recognised in the classification, measurement or accounting for any financial assets or liabilities held by the Group at 31 December 2018. Refer to Note 27 – Financial Instruments for further details.

Impairment

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised, instead, an entity accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses, if any, should be updated at each reporting date. IFRS 9 did not result in a material change in credit losses recognised by the Group upon adoption.

Hedge accounting

On initial application of IFRS 9, the Group has elected to apply the IFRS 9 hedge accounting requirements because they align more closely with the Group's risk management policies. Under IFRS 9, a greater range of economic hedges will be eligible for hedge accounting. In particular, the Group will be able to apply hedge accounting for certain risk exposures, such as the exposure to changes in exchange rates or changes in the costs of financing arising from changes in market interest rates. The Group's hedging relationships under IAS 39 qualify as continuing hedging relationships under IFRS 9.

2. Accounting Standards (continued)

New standards and interpretations applied for the first time (continued)

IFRS 15, Revenue from Contracts with Customers

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

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

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

Further information is given in Note 3 – Significant Accounting Policies.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

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

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

New standards and interpretations not yet applied

At the date of authorisation of these Consolidated Financial Statements, the following new and revised IFRSs, amendments and interpretations that are potentially relevant to the Group, and which have not been applied in these Consolidated Financial Statements, were in issue but not yet effective. All are effective for accounting periods beginning on or after 1 January 2019:
- IFRS 16, *Leases*
- IAS 19, *Plan Amendments, Curtailment or Settlement (Amendments to IAS 19)*
- IFRIC 23, *Uncertainty over Income Tax Treatments*
- *Annual Improvements of IFRS Standards 2015-2017 Cycle (IFRS 3, IFRS 11, IAS 12, IAS 23)*

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

IFRS 16, Leases

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

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

Existing finance leases continue to be treated as finance leases. For existing operating leases, the Group will apply the modified retrospective approach by measuring the right-of-use asset at an amount equal to the lease liability at the date of transition and therefore comparative information will not be restated. Upon transition the Group will also apply the following practical expedients:
- Application of a single discount rate to a portfolio of leases with similar characteristics;
- Exclude initial direct costs from the right-of-use assets;
- Use hindsight when assessing the lease term; and
- Not to reassess whether a contract is or contains a lease.

The Group will elect to account for lease payments as an expense on a straight line basis over the life of the lease for:
- Leases with a term of 12 months or less and containing no purchase options; and
- Leases where the underlying asset has a value of less than $5,000.

The lease liability is initially measured at the present value of the lease payments that are not paid at the transition date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group will use its incremental borrowing rate which at the date of transition is 3.1%. The right-of-use asset will be depreciated on a straight line basis and the lease liability will give rise to an interest charge.

The Group estimates that the financial impact of adopting IFRS 16 will be to:
- Recognise a $71.4 million right-of-use asset and a $71.4 million additional lease liability on adoption;
- Recognise a related deferred tax liability and deferred tax asset of $16.3 million on adoption. The net deferred tax impact on adoption will therefore be nil;
- Increase FY2019 Operating profit by $1.3 million net; and
- Increase FY2019 Finance costs by $1.9 million.

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

The undiscounted lease liability upon adoption is $17.2 million higher than the $61.9 million minimum rental commitments under all non-cancellable operating leases as at 31 December 2018 disclosed in Note 24 – Commitments and Contingencies, the differences are due to lease term extensions under IFRS 16 offset by the exclusion of short leases and leases of low value assets.

3. Significant Accounting Policies

Statement of Compliance

The Consolidated Financial Statements have been prepared in accordance with IFRS as adopted by the EU and therefore comply with Article 4 of the EU IAS Regulations. IFRS includes the standards and interpretations approved by the IASB including International Accounting Standards ("IAS") and interpretations issued by the IFRS Interpretations Committee ("IFRIC").

The principal Group accounting policies are explained below and have been applied consistently throughout the years ended 31 December 2018 and 2017 other than those noted in Note 2 – Accounting Standards above.

Basis of Preparation

The consolidated financial information has been prepared on a historical cost basis, except for derivatives where fair value has been applied. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Basis of Consolidation

The Consolidated Financial Statements include the results of the Company and all its subsidiary undertakings. Subsidiaries are entities controlled by the Group. Control exists when the Group: (i) has power over the investee (ii) is exposed, or has rights, to variable returns from its involvement in the investee and (iii) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. All intercompany transactions and balances have been eliminated. The consolidated financial information of the Company's subsidiaries is included within the Group's Consolidated Financial Statements from the date that control commences until the date that control ceases, and is prepared for the same year end date using consistent accounting policies.

Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method of accounting. Consideration transferred in respect of the acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed on the date of the acquisition. Identified assets acquired and liabilities assumed are measured at their respective acquisition-date fair values. The excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired is recorded as goodwill. If the fair value of the identifiable net assets acquired is greater than the fair value of the consideration given, the excess is recognised immediately in profit or loss as a bargain purchase gain. Acquisition-related costs are expensed as incurred. The operating results of the acquired business are reflected in the Group's Consolidated Financial Statements from the date of acquisition.

Going Concern

The Directors have, at the time of approving these Consolidated Financial Statements, a reasonable expectation and a high level of confidence that the Group and the Company has adequate liquid resources to meet its liabilities as they become due and will be able to sustain its business model, strategy and operations and remain solvent for a period of at least 12 months from 14 February 2019. Thus the Directors continue to adopt the going concern basis in preparing these Consolidated Financial Statements.

Revenue Recognition

The Group sells a broad range of products to a wide range of customers, including healthcare providers, patients and manufacturers. The Group measures revenue for goods sold based on the consideration specified in a contract with a customer, net of discounts, chargeback allowances and sales related taxes. Revenue is recognised when control over a product or service is transferred to a customer, distributor or wholesaler. Generally, products are insured to delivery. Due to the short-term nature of the receivables from sale of goods, the Group measures them at the original transaction price invoiced without discounting.

Nature of goods and services

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

Nature, timing of satisfaction of performance obligations, and payment terms

In general, the Group's contracts with customers contain a single performance obligation, that is the delivery of products to customers. The point at which revenue is recognised depends on the shipping terms in each individual contract. Revenue is however typically recognised when the customer receives the product. Where there are non-standard shipping arrangements, revenue is only recognised at the point that the customer has arranged to collect the product, or when it can be deemed that the customer has obtained control over the product. Allowances for returns, where the contract specifies these terms, are made at the point of sale.

For sales to distributors, revenue is recognised when title is transferred to the distributor and the distributor has assumed the risks and rewards of ownership, the timing of which depends on the contractual terms with each distributor. Allowances for chargebacks or contractual deductions relating to end customer agreements, which may differ from distributor contracts, are made at the point of title transfer to the distributor.

Material rights – volume discounts

The Group offers certain prospective volume discounts to customers who achieve a specified volume amount or value of purchases. After the customer meets the sales volume or value, any additional purchase above this amount is discounted for the remainder of the discount period. Volume discounts that meet the definition of a material right constitute a separate performance obligation. Material rights are options to purchase additional products at a discount which would not have been given had the contract not been entered into; are considered significant to customers; and are incremental to the range of discounts typically given for those goods to that class of customer.

The Group allocates the transaction price to the performance obligations on a relative stand-alone selling price basis. The stand-alone selling price of these volume discounts is based on the discount that the customer would obtain when exercising the option, adjusted for any discount the customer could receive without exercising the option and the likelihood that the option will be exercised. The revenue allocated to volume discount is recognised proportionally to the pattern of options exercised by the customer or when the option expires.

3. Significant Accounting Policies (continued)

Revenue Recognition (continued)

Contract costs

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

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

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

Incremental commission fees that the Group has deemed to be recoverable and are expected to provide economic benefit for a period of greater than one year have been capitalised. These capitalised costs amounted to $3.3 million at 31 December 2018 (2017: nil). Capitalised commission costs are amortised over the same period as the recognition of the related revenues. In the year ended 31 December 2018, the amount of amortisation expense was $1.1 million (2017: nil). There was no impairment loss in relation to the costs capitalised. For commissions related to contracts which have an amortisation period of one year or less, the Group applies the practical expedient and recognises the incremental costs of obtaining contracts as an expense when incurred.

Contract balances

The Group has contract liabilities that primarily relate to any advance consideration received from customers prior to transfer of the related products and material rights offered to customers for options to purchase additional goods. The contract liability balance at 31 December 2018 was $1.1 million (2017: $3.7 million).

Taxation

The tax expense represents the sum of current tax payable and deferred tax.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Current tax and deferred tax for the year

Current and deferred tax are recognised in the Consolidated Statement of Profit or Loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. Significant Accounting Policies (continued)

Taxation (continued)

Tax provisions

The Group is subject to income taxes in numerous jurisdictions. Judgement is sometimes required in determining the worldwide provision for income taxes. There may be transactions for which the ultimate tax determination is uncertain and may be challenged by the tax authorities. The Group recognises liabilities for anticipated or actual tax audit issues based on estimates of whether additional taxes will be due. Where an outflow of funds to a tax authority is considered probable and the Group can make a reliable estimate of the outcome of the dispute, management calculates the provision using the single best estimate of likely outcome approach. In assessing its uncertain tax provisions, management takes into account the specific facts of each dispute, the likelihood of settlement and professional advice where required. The Group assumes that where a tax authority has a right to examine amounts reported to it, they will do so and will have full knowledge of all relevant information. Where the ultimate liability in a dispute varies from the amounts provided, such differences could impact the current and deferred income tax assets and liabilities in the period in which the dispute is concluded.

Restatement of Uncertain Tax positions

The Group has revised its tax accounting to classify provisions for uncertain tax positions as current liabilities. The Group believes this provides a more relevant presentation, whilst having no impact on the timing of expected cash outflows. Provisions for uncertain tax positions at 31 December 2018 amount to $25.9 million (2017: $15.4 million; and 2016: $19.1 million). The Consolidated Statements of Financial Position at 31 December 2017 and 31 December 2016 have been restated to reclassify this provision to Current tax payable.

Cash and Cash Equivalents

Cash represents cash on hand and cash held at banks. All liquid investments with original maturities of three months or less are considered cash equivalents.

Restricted Cash

In certain instances, there are requirements to set aside cash for guarantees on the payment of value-added taxes, custom duties on imports, tender programmes, and vehicle/office leases by financial institutions on the Group's behalf. The total restricted cash balance at 31 December 2018 was $4.4 million (2017: $5.7 million) of which $2.0 million (2017: $1.9 million) is current and included in Prepaid expenses and other current assets within the Consolidated Statement of Financial Position.

Dividends

Dividends payable to the Company's shareholders are recognised as a liability in the period in which the distribution is approved by the Company's shareholders.

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 distributable reserves;
- Available cash resources and commitments;
- Strategic opportunities and investments, in line with the Group's Strategic Plan; and
- Principal risks and uncertainties of the business (as disclosed on pages 36 to 43).

Trade and Other Receivables

Credit is extended to customers based on the evaluation of the customer's financial condition. Creditworthiness of customers is evaluated on a regular basis. Trade and other receivables consist of amounts billed and currently due from customers. An allowance for doubtful accounts is maintained for expected lifetime credit losses that result from the failure or inability of customers to make required payments. In determining the allowance, consideration includes the probability of recoverability based on past experience and general economic factors. Certain trade and other receivables may be fully reserved when specific collection issues are known to exist, such as pending bankruptcy. The Group writes-off uncollectable receivables at the time it is determined the receivable is no longer collectable. The Group does not charge interest on past due amounts. The analysis of receivable recoverability is monitored and the bad debt allowances are adjusted accordingly.

Trade and other receivables are not collateralised or factored. The Group sells its products primarily through an internal sales force and third party distributors around the world. Credit risk with respect to accounts receivable is generally diversified due to the large dispersion of customers across many different geographies. Exposure to credit risk is managed through credit approvals, credit limits and monitoring procedures.

Inventories

Inventories are stated at the lower of cost or net realisable value with the cost determined using an average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and indirect production overhead. Production overhead comprises indirect material and labour costs, maintenance and depreciation of the machinery and production buildings used in the manufacturing process as well as costs of production administration and management.

Net realisable value is defined as anticipated selling price or anticipated revenue less cost to completion. Estimates of net realisable value are based on the average selling prices at the end of the reporting period, net of applicable direct selling expenses. Subsequent events related to the fluctuation of prices and costs are also considered, if relevant. If net realisable values are below inventory costs, a provision corresponding to this difference is recognised. Provisions are also made for obsolescence of products, materials, or supplies that (i) do not meet the Group's specifications, (ii) have exceeded their expiration date, or (iii) are considered slow-moving inventory. The Group evaluates the carrying value of inventories on a regular basis, taking into account such factors as historical and anticipated future sales compared with quantities on hand, the price the Group expects to obtain for products in their respective markets compared with historical cost and the remaining shelf life of goods on hand.

3. Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of an asset. Expenditures for additions, renewals and improvements are capitalised at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Group and the cost can be measured reliably. Replacements of major units of property are capitalised and replaced properties are retired. The carrying amount of a replaced asset is derecognised when replaced. Repairs and maintenance costs are charged to the Consolidated Statement of Profit or Loss during the period in which they are incurred.

Assets are depreciated to their residual value using the straight-line method over the following estimated useful lives since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset:

Buildings	– 20 to 50 years
Building equipment and leasehold improvements	– 15 to 40 years
Machinery, equipment and fixtures	– 3 to 20 years

Land is not depreciated. Leasehold improvements and assets under finance lease arrangements are amortised over the lesser of the asset's estimated useful life or the term of the respective lease. Depreciation commences when the assets become available for productive use. Maintenance costs are expensed as incurred.

Construction-in-progress reflects amounts incurred for property, plant or equipment construction or improvements that have not been placed in service. Interest is capitalised in connection with the construction of qualifying capital assets during the period in which the asset is being installed and prepared for its intended use. Interest capitalisation ceases when the construction of the asset is substantially complete and the asset is available for use. Capitalised interest cost is depreciated on a straight-line method over the estimated useful lives of the related assets.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

On disposal of items of property, plant and equipment, the cost and related accumulated depreciation and impairments are removed from the Consolidated Statement of Financial Position and the net amount, less any proceeds, is taken to the Consolidated Statement of Profit or Loss.

Intangible Assets

To meet the definition of an intangible asset, an item lacks physical substance and is: (i) identifiable, (ii) non-monetary, and (iii) controlled by the entity and expected to provide future economic benefits to the entity. The Group's intangible assets consist of patents/trademarks and licenses, technology, capitalised software (acquired and internally generated), contracts and customer relationships, non-compete agreements, trade names and development costs.

Initial recognition

Intangible assets acquired separately by the Group are measured at cost on initial recognition and those acquired in business combinations are measured at fair value at the date of acquisition. Following initial recognition of the intangible asset, the asset is carried at cost less any subsequent accumulated amortisation and accumulated impairment losses.

Purchased computer software and certain costs of information technology projects are capitalised as intangible assets. Software that is integral to computer hardware is capitalised as property, plant and equipment.

The Group follows the guidance of IAS 38 *Intangible Assets* ("IAS 38") on internally generated development costs associated with its systems. The costs incurred in the preliminary stages of development are expensed as incurred. Once a project has reached the application development stage, internal and external costs, if direct and incremental, are capitalised until the software is substantially complete and ready for its intended use. Upgrades and enhancements are capitalised to the extent they will result in added functionality.

Amortisation of intangible assets is calculated using the straight-line method based on the following estimated useful lives:

Patents, trademarks and licences	– 3 to 20 years
Technology	– 10 to 18 years
Capitalised software (acquired and internally generated)	– 3 to 10 years
Contracts and customer relationships	– 2 to 20 years
Non-compete agreements	– 3 to 5 years
Trade names	– 10 years
Development costs	– 5 years

The Group has finite-lived and indefinite-lived trade names. Indefinite-lived trade names are not amortised but are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired, either individually or at the cash generating unit ("CGU") level. The assessment of whether the life is indefinite is reviewed annually to determine whether it continues to be supportable. If it is not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

3. Significant Accounting Policies (continued)

Impairment of Non-Monetary Assets including Goodwill

The Group tests goodwill and indefinite-lived intangibles for impairment annually or more frequently, if there are any impairment indicators. However, property, plant and equipment and finite-lived intangibles are tested for impairment only if indicators of impairment are present. For impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Additionally, goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Recoverable amount is the higher of value in use and fair value, less costs of disposal. Impairment losses are recognised in the Consolidated Statement of Profit or Loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the remaining assets in the CGU, on a prorated basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The Group has not recognised any impairment reversals in 2018 or 2017.

Finance Costs

Finance costs include interest costs, standby fees, interest cost on derivative financial instruments, and any loss related to debt extinguishment. Interest costs are expensed as incurred, except to the extent such interest is related to the construction of property, plant and equipment in progress, in which case interest is capitalised. The capitalised interest recorded in 2018 was $0.5 million (2017: $0.7 million) and was calculated using the Group's weighted average interest rate over the year of 3.5% (2017: 3.1%).

Provisions

A provision is recognised when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and that obligation can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. Provisions are reviewed on a regular basis and adjusted to reflect management's best current estimates. Due to the judgemental nature of these items, future settlements may differ from amounts recognised. Provisions consist of decommissioning provisions, restructuring provisions, and legal claims and obligations.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount can be measured reliably. For a discussion on provisions, refer to Note 21 – Provisions and Note 24 – Commitments and Contingencies.

Research and Development

Research and development expenses are comprised of costs incurred in performing research and development activities including payroll and benefits, clinical manufacturing and pre-launch clinical trial costs, manufacturing development and scale-up costs, product development and regulatory costs, contract services and other outside contractors costs, research license fees, depreciation and amortisation of laboratory facilities, and laboratory supplies.

Research costs are expensed as incurred. Development expenditures are capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and use or sell the asset. Otherwise, development expenditures are expensed as incurred. Subsequent to initial recognition, development expenditures are measured at cost less accumulated amortisation and any accumulated impairment losses.

Share capital

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where any Group company purchases the Company's equity share capital (Own shares or Treasury shares), the consideration paid, including any directly attributable incremental costs (net of tax), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental costs and the related tax effects, is included in equity.

Share-Based Payments

Prior to listing, the Group had granted share-based compensation to employees under the Annual Equity Plan ("AEP"), Management Executive Plan ("MEP"), and Management Incentive Plan. Post IPO, share-based incentives are provided to employees under the Group's Long-Term Incentive Plan ("LTIP"), Deferred Bonus Plan ("DBP"), Matching Share Plan ("MSP"), and Share Save plans ("Employee Plans").

Certain features of share-based awards, such as cash-settled share-based payments to employees require the awards to be accounted for as liabilities as opposed to equity. Liability awards are measured at the grant date based on the fair value of the award and are required to be remeasured to the fair value at the end of each reporting period until settlement. True-up compensation cost is recognised in each reporting period for changes in fair value prorated for the portion of the requisite service period rendered in the Consolidated Statement of Profit or Loss (General and administrative expenses). Shares subject to continued employment are recognised over the term of the clawback arrangement.

3. Significant Accounting Policies (continued)

Share-Based Payments (continued)

Equity-settled share-based payments to employees are measured at the fair value of the award on the grant date. The fair value of the awards at the date of the grant, which is estimated to be equal to the market value, is expensed to the Consolidated Statement of Profit or Loss (General and administrative expenses) over the vesting period. Appropriate adjustments are made to reflect expected and actual forfeitures during the vesting period due to uncertainties in satisfying service conditions or non-market performance conditions. The corresponding credit is to Other reserves in the Consolidated Statement of Financial Position.

Refer to Note 25 – Share-Based Payments for a further description of the plans and the relevant accounting guidance applied.

Financial Instruments

The carrying amounts reflected in the Consolidated Statement of Financial Position for cash and cash equivalents, trade and other receivables, restricted cash, trade and other payables, and certain accrued expenses and other current liabilities approximate fair value due to their short-term maturities. Debt obligations are initially carried at fair value less any directly attributable transaction costs and subsequently at amortised cost.

At initial recognition, the Group classifies its financial instruments depending on the purpose for which the instruments were acquired:

Financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at cost, less any accumulated impairment losses.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, terminated or expired. When the Group exchanges with the existing lender one debt instrument for another one with substantially different terms, the exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

The Group classifies its financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derivative Financial Instruments

Derivative financial instruments are classified at FVTPL unless they are in a designated hedge relationship. Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are remeasured at their fair value at subsequent reporting dates.

Interest rate derivatives transacted to fix interest rates on floating rate borrowings are accounted for as cash flow hedges and changes in the fair values resulting from changes in market interest rates are recognised in other comprehensive income. Amounts taken to other comprehensive income are transferred to the Consolidated Statement of Profit or Loss when the hedged transaction affects profit and loss. Any ineffectiveness on hedging instruments and changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Consolidated Statement of Profit or Loss within finance costs as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is retained there until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the Consolidated Statement of Profit or Loss.

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3. Significant Accounting Policies (continued)

Foreign Currency Translation and Transactions

Assets and liabilities of subsidiaries whose functional currency is not US dollar are translated into US dollar at the rate of exchange at the period end. Income and expenses are translated into US dollar at the average rates of exchange prevailing during the year. Foreign currency gains and losses resulting from the translation of subsidiaries into US dollar are recognised in the Consolidated Statement of Comprehensive Income. Exchange differences arising from the translation of the net investment in foreign operations are taken to a separate translation reserve within equity. They are recycled and recognised in the Consolidated Statement of Profit or Loss upon disposal of the operation.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Any gain or loss arising from subsequent exchange rate movements is included as an exchange gain or loss in the Consolidated Statement of Profit or Loss.

Hyperinflationary Economies

IAS 29, *Financial Reporting in Hyperinflationary Economies* ("IAS 29") requires financial statements whose functional currency is the currency of a hyperinflationary economy to be stated in terms of the measuring unit current at the end of the reporting period. The financial information is restated based on the consumer price index ("CPI") before being translated into a different presentation currency. All amounts are translated at the closing exchange rate at the date of the most recent Consolidated Statement of Financial Position. Hyperinflation is indicated by the characteristics of an economy, which includes a cumulative inflation rate over three years that approaches or exceeds 100%, sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short, and the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency.

Venezuela has been considered as a hyperinflationary economy since 2010. Hyperinflation accounting had previously been applied to Boston Estada (Venezuela based subsidiary) which primarily generated income derived in bolivars from a property leased to a third party. The gain on the net monetary position in 2017 was $10.4 million and the movement in the Venezuelan CPI for the reporting period ended 31 December 2017 was as follows:

Reporting Period	CPI*	Movement from previous reporting period
31 December 2017	25,338.5	228.0%

* Base period, 31 December 2007 = 100

During the year ended 31 December 2018, Boston Estada disposed of the property from which its primary income was generated, triggering a review of functional currency under *The Effects of Changes in Foreign Exchange Rates* ("IAS 21"). This led to a change in functional currency of Boston Estada to US dollar which is the currency in which funds from financing activities are generated. As a result hyperinflation accounting is no longer applicable in Boston Estada.

During the year ended 31 December 2018, hyperinflation accounting was required for foreign operations with a functional currency of the Argentine peso as the conditions of IAS 29 had been met. ConvaTec Argentina SRL is a subsidiary that has a functional currency of Argentine peso, however this entity is not a significant part of the Group and adjustments under IAS 29 have not been applied.

Retirement Benefit Costs

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being performed at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the Consolidated Statement of Financial Position with a charge or credit to the Consolidated Statement of Comprehensive Income in the period in which they occur. Remeasurement recorded in the Consolidated Statement of Comprehensive Income is not recycled. Past service cost is recognised in the Consolidated Statement of Profit or Loss in the period of scheme amendment. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset.

Leases

Operating leases

The cost of operating leases (net of any incentives received from the lessor) is charged to the Consolidated Statement of Profit or Loss on a straight-line basis over the term of the lease.

Finance leases

Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases as if the asset had been purchased outright. Assets acquired under the finance leases are recognised as assets of the Group and the capital and interest elements of the leasing commitments are shown as obligations to creditors. Depreciation is charged on a consistent basis with similar owned assets or over the lease term if shorter. The interest element of the lease payment is charged to the Consolidated Statement of Profit or Loss on a basis which produces a constant rate of charge over the period of the liability.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of financial statements, in conformity with adopted IFRS, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported value of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these Consolidated Financial Statements, no areas of critical accounting judgement or key sources of estimation uncertainty have been identified, including those in relation to a no deal Brexit.

Management have concluded that the critical accounting judgement and key sources of estimation uncertainty that were reported in the Consolidated Financial Statements for the year ended 31 December 2017 would no longer result in a material adjustment in the next 12 months.

5. Segment Information

The Group's management considers its business to be a single segment entity engaged in the development, manufacture and sale of medical products and technologies. The Group is a global medical products and technologies group focused on therapies for the management of chronic conditions, including products used for advanced chronic and acute wound care, ostomy care and management, continence and critical care, and infusion devices used in the treatment of diabetes and other conditions. The Group sells a broad range of products to a wide range of customers, including healthcare providers, patients and manufacturers. The R&D manufacturing and central functions are managed globally for the Group. The revenues are managed both on a franchise and regional basis. 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 generally evaluates profitability and associated investment on an enterprise-wide basis due to shared geographic infrastructures between the franchises. In making these decisions, the CEO evaluates the financial information on a Group-wide basis to determine the most appropriate allocation of resources. This financial information relating to revenues provided to the CEO for the decision making purposes is made on both a franchise and regional basis, however profitability measures are presented on a global basis.

Revenue by franchise

The Group generates revenue across four major market franchises:

Advanced Wound Care. The Advanced Wound Care franchise includes advanced wound dressings and skin care products. These dressings and products are used for the management of chronic wounds resulting from ongoing conditions such as diabetes, immobility and venous disease, as well as acute conditions resulting from traumatic injury, burns, invasive surgery and other causes.

Ostomy Care. The Ostomy Care franchise includes devices, accessories and services for people with an ostomy or stoma (a surgically-created opening where bodily waste is discharged), commonly resulting from colorectal cancer, inflammatory bowel disease, bladder cancer, obesity and other causes.

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

Infusion Devices. The Infusion Devices franchise provides disposable infusion sets to manufacturers of insulin pumps for diabetes and similar pumps used in continuous infusion treatments for other conditions. In addition, the franchise supplies a range of products to hospitals and the home healthcare sector.

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

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

Geographic information

Geographic markets

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

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

5. Segment Information (continued)
Geographic information (continued)
Geographic regions
The following table sets out the Group's revenue on the basis of geographic regions where the legal entity resides and from which those revenues were made, and separately shows countries representing over 10% of Group revenue:

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

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

The following table sets out the Group's non-current assets by geographic region:

	2018 $m	2017 $m
Long-lived assets[a]		
US	**1,355.0**	1,432.5
UK	**820.9**	907.7
Denmark	**252.8**	271.0
Other[b]	**279.5**	282.3
Total long-lived assets	**2,708.2**	2,893.5

(a) Long-lived assets consists of property, plant and equipment, intangible assets and goodwill.
(b) Other consists primarily of countries in Europe and Latin America.

Major Customers
In 2018 and 2017, no single customer generated more than 10% of the Group's revenue.

6. Auditor Remuneration
Auditor remuneration is as follows:

	2018 $m	2017 $m
Fees for audit services		
Group	**2.2**	1.8
Subsidiaries	**1.4**	1.5
Total fees for audit services	**3.6**	3.3
Fees for non-audit services		
Audit-related assurance services	**0.5**	0.6
Other non-audit services	**0.1**	0.1
Total fees for non-audit services	**0.6**	0.7
Total auditor remuneration	**4.2**	4.0

7. Staff Costs
The following table details the average number of the Group's employees by function (full and part time):

	2018	2017
Operations	**5,933**	6,189
Sales and marketing	**2,392**	2,360
General and administrative	**845**	688
R&D	**327**	304
Total	**9,497**	9,541

The following table details the average number of the Group's employees by location (full and part time):

	2018	2017
EMEA	**3,755**	3,707
Americas	**5,233**	5,361
APAC	**509**	473
Total	**9,497**	9,541

7. Staff Costs (continued)

The following table details the Group's employees' aggregate remuneration (full and part time):

	2018 $m	2017 (restated)[a] $m
Wages and salaries[a]	**386.2**	369.2
Share-based compensation[b]	**11.2**	36.9
Social security costs[a]	**51.1**	44.6
Pension related costs	**18.8**	16.6
Recruitment and other employment related fees	**5.9**	4.6
Total	**473.2**	471.9

(a) Wages and salaries and social security costs in 2017 have been restated by increasing wages and salaries and reducing social security costs by $30.9 million to better reflect the categorisation of costs to these lines. There is no overall impact on the Consolidated Statement of Profit or Loss.
(b) Refer to Note 25 – Share-Based Payments for further details.

The remuneration of the Directors is set out on pages 106 to 110 within the Remuneration Committee report described as being audited and forms part of these Consolidated Financial Statements.

8. Finance Costs

Finance costs were as follows:

	2018 $m	2017 $m
Interest expense on borrowings[a]	**(63.6)**	(54.8)
Amortisation of deferred financing fees and OID[b]	**(4.9)**	(4.8)
Interest expense on finance leases	**(1.8)**	(1.8)
Interest income/(expense) on interest rate swaps	**4.0**	(1.8)
Other income	**1.1**	1.1
Finance costs	**(65.2)**	(62.1)

(a) Refer to Note 20 – Borrowings for further details.
(b) OID is original issue discount and represents the discount from par value at the time that a bond or other debt issue is issued.

9. Other Expense, net

Other expense, net was as follows:

	2018 $m	2017 $m
Foreign exchange losses[a]	**(2.9)**	(23.8)
Gain on sale of assets[b]	**1.7**	2.6
Other	**(0.1)**	(0.5)
Other expense, net	**(1.3)**	(21.7)

(a) The foreign exchange losses in 2018 and 2017 primarily relate to the foreign currency impact on intercompany transactions, including loans transacted in non-functional currencies. The foreign exchange losses in 2017 also include foreign exchange losses as a result of hyperinflation accounting.
(b) The net gain on sale of assets in 2018 mainly relates to a gain on sale of the Group's manufacturing plant in Greensboro, US, partially offset by losses on the disposal of other assets. The gain on sale of assets in 2017 relates to the sale of fully depreciated assets in Malaysia.

10. Income Taxes

A. Tax on profit for the year

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

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

10. Income Taxes (continued)

B. Reconciliation of effective tax rate

Variance in effective tax rate

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

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

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

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

Key factors influencing the effective tax rate

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

(a) previously unrecognised US deferred tax assets of $35.0 million of which $30.6 million relates to an adjustment for prior years.
(b) includes the deferred tax liability release in respect of the Dominican Republic.
(c) uncertain tax provisions are included in current tax liabilities. The movement in uncertain tax provisions is included in the calculation of current tax liabilities and relates predominantly to transfer pricing positions and withholding tax liabilities.

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

10. Income Taxes (continued)

C. Movement in deferred tax balances

Deferred tax is measured on the basis of the tax rates enacted or substantively enacted at the reporting date. The UK corporate tax rate will reduce from 19% to 17% effective 1 April 2020. The following table shows movements in the deferred tax assets and liabilities:

	Inventory $m	Losses $m	Fixed assets $m	Intangibles $m	Unremitted earnings $m	Interest $m	Other $m	Total $m
At 1 January 2017	17.0	0.4	(7.8)	(144.5)	(33.0)	–	(2.3)	(170.2)
Exchange adjustments	(0.3)	0.5	(1.0)	(9.3)	–	–	(0.5)	(10.6)
Movement in Income Statements	(5.1)	(2.7)	0.5	36.0	2.4	–	1.4	32.5
Movement in OCI	–	–	–	–	–	–	0.2	0.2
Other	(0.6)	1.8	(0.7)	(16.8)	–	–	1.8	(14.5)
At 31 December 2017	**11.0**	**–**	**(9.0)**	**(134.6)**	**(30.6)**	**–**	**0.6**	**(162.6)**
Exchange adjustments	**(0.5)**	**0.1**	**0.4**	**5.1**	**–**	**–**	**(0.1)**	**5.0**
Movement in Income Statements[(a)]	**2.0**	**53.1**	**6.2**	**(41.7)**	**30.4**	**14.5**	**10.7**	**75.2**
Movement in OCI	**–**	**–**	**–**	**–**	**–**	**–**	**(1.4)**	**(1.4)**
Other	**0.6**	**–**	**(2.1)**	**(2.7)**	**(0.4)**	**–**	**4.2**	**(0.4)**
At 31 December 2018	**13.1**	**53.2**	**(4.5)**	**(173.9)**	**(0.6)**	**14.5**	**14.0**	**(84.2)**

(a) includes previously unrecognised US deferred tax assets of $35.0 million, of which $30.6 million relates to an adjustment for prior years.

The overall deferred tax analysis has been simplified compared to the prior year Consolidated Financial Statements to consolidate figures in relation to equity, employee benefits and others in the analysis above.

The total movement, which is a benefit of $78.4 million in the overall Group position on deferred tax, is attributable mainly to the $35.0 million of US tax assets recognised following the enactment of the US Tax Cuts and Jobs Act on 22 December 2017, and the release of $30.4 million deferred tax liability in respect of unremitted earnings. The remaining $10.2 million benefit is primarily in relation to amortisation of pre-2018 acquisition intangibles.

Other short term deferred tax balances of $14.0 million included in the closing deferred tax balance relate to miscellaneous items such as $5.3 million of foreign tax credits and a balance of $8.7 million in relation to other items that are expected to impact the Group's tax charge in the future.

D. Components of deferred tax assets and liabilities

The components of deferred tax assets and liabilities at 31 December 2018 and 2017 are as follows:

	2018 $m	2017 $m
Deferred tax assets	**22.9**	9.6
Deferred tax liabilities	**(107.1)**	(172.2)
Net position at the end of the period	**(84.2)**	(162.6)

The $35.0 million movement in respect of the recognition of US tax deferred tax assets has been accounted for as a reduction in deferred tax liabilities (which are in respect of indefinite life liabilities), rather than as an increase in deferred tax assets, as deferred tax assets are netted against deferred tax liabilities where they would offset and relate to the same tax authority.

E. Unrecognised deferred tax assets

Deferred tax assets are only recognised where it is probable that future taxable profit will be available against which they can be utilised. Deferred tax assets have not been recognised on tax losses amounting to $1,984.9 million (2017: $2,217.4 million) because it is unlikely that future taxable profit will be available against which the Group can use the benefits.

Of the movement of $232.5 million of tax losses that are not recognised as deferred tax assets, $77.5 million is attributable to the exchange movements on the balances where the losses are not in US dollars and $236.9 million is attributable to the recognition of deferred tax assets in respect of Federal and State taxes as a result of the changes from the US Tax Cuts and Jobs Act enacted on 22 December 2017.

F. Tax losses carried forward

The total amount of recognised and unrecognised tax losses carried forward is shown below:

Country	**Gross Corporation tax losses 2018 $m**	Gross Corporation tax losses 2017 $m	Corporation tax losses expiration
UK	**34.5**	17.6	Indefinite
Luxembourg	**1,565.5**	1,640.1	Indefinite
US Federal Tax	**371.5**	337.0	Various
US State Taxes	**221.7**	196.9	Various
Other overseas	**50.5**	44.6	Various
Total losses	**2,243.7**	2,236.2	

The movement in Luxembourg tax losses is mainly attributable to foreign exchange gains as these are euro-based losses.

11. Dividends

	pence per share	cents per share	Total $m	Settled in cash $m	Settled via scrip $m	No of scrip shares issued
Interim dividend 2017	1.061	1.400	27.6	26.3	1.3	377,948
Paid in 2017	**1.061**	**1.400**	**27.6**	**26.3**	**1.3**	**377,948**
Final dividend 2017	3.094	4.300	81.7	55.3	26.4	9,623,305
Interim dividend 2018	1.309	1.717	33.6	19.6	14.0	4,681,820
Paid in 2018	**4.403**	**6.017**	**115.3**	**74.9**	**40.4**	**14,305,125**
Final dividend 2018 proposed	3.097	3.983	78.3			

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

The proposed final dividend for 2018 to be distributed on 16 May 2019 to shareholders registered at the close of business on 5 April 2019 is based upon the issued and fully paid share capital as at 31 December 2018 and is subject to shareholder approval at our Annual General Meeting on 9 May 2019. The dividend will be declared in US dollar and will be paid in Sterling at the chosen exchange rate of $1.286/£1.00 determined on 13 February 2019. A scrip dividend alternative will be offered allowing shareholders to elect by 23 April 2019 to receive their dividend in the form of new ordinary shares.

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

12. Earnings Per Share

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

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

The calculation of diluted earnings per share excludes 11,407,025 (2017: 5,231,000) share options that were non-dilutive for the year because the exercise price exceeded the average market price of the Group's ordinary shares during the year.

13. Acquisition of Subsidiaries

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

Description of the transaction

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

13. Acquisition of Subsidiaries (continued)

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

Assets acquired and liabilities assumed

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

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

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

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

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

(b) The fair value of receivables acquired approximates the amount of gross contractual receivables. The amount of gross contractual receivables not expected to be recovered is immaterial.
(c) The initial cash consideration includes cash at closing of $0.2 million.
(d) $2.3 million was paid on closing into escrow as security for the due and punctual fulfilment by the seller of its obligations under the Securities Purchase Agreement. The escrow account will be released to the seller on 1 September 2019.
(e) Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. The goodwill is expected to be deductible for tax purposes. The goodwill recorded represents the following:
– costs savings and operating synergies expected to result from combining the operations of J&R Medical with those of the Group; and
– intangible assets that do not qualify for separate recognition (for instance, J&R Medical's assembled workforce).

Acquisition-related costs

The Group incurred $0.5 million of transaction costs directly related to the J&R Medical acquisition through 31 December 2018, which include expenditures for advisory, legal, valuation, accounting, and other similar services. These costs have been expensed as acquisition-related costs.

Revenue and net profit of J&R Medical

The revenue of J&R Medical for the period from the acquisition date to 31 December 2018 was $8.6 million and net profit was $1.6 million. If the acquisition had been completed on the first day of the financial year, the Group's revenue would have been $1,833.8 million and net profit would have been approximately $222.0 million.

14. Property, Plant and Equipment

The major categories of property, plant and equipment ("PP&E") and movement in the carrying value of each category is as follows:

	Land & land improvements $m	Building, building equipment and leasehold improvements $m	Machinery, equipment and fixtures $m	Construction in progress $m	Total $m
Property, Plant & Equipment at Cost					
1 January 2017	14.9	116.3	323.8	62.5	517.5
Additions	–	0.2	11.7	64.2	76.1
Acquisitions	1.1	2.1	3.1	–	6.3
Write-offs	–	(0.3)	(8.7)	–	(9.0)
Disposals	(0.5)	(3.0)	(13.9)	(1.0)	(18.4)
Transfers	–	16.4	38.4	(54.8)	–
Foreign exchange	1.3	9.5	28.5	4.7	44.0
31 December 2017	**16.8**	**141.2**	**382.9**	**75.6**	**616.5**
Additions	**–**	**0.2**	**1.2**	**50.3**	**51.7**
Write-offs	**(0.2)**	**(3.7)**	**(7.9)**	**(2.9)**	**(14.7)**
Disposals	**(1.0)**	**(7.1)**	**(8.0)**	**–**	**(16.1)**
Transfers	**–**	**6.9**	**48.9**	**(55.8)**	**–**
Foreign exchange	**(0.7)**	**(4.8)**	**(14.4)**	**(3.4)**	**(23.3)**
31 December 2018	**14.9**	**132.7**	**402.7**	**63.8**	**614.1**

	Land & land improvements $m	Building, building equipment and leasehold improvements $m	Machinery, equipment and fixtures $m	Construction in progress $m	Total $m
Accumulated Depreciation					
1 January 2017	1.2	44.1	207.4	–	252.7
Depreciation[(a)]	0.1	7.7	26.8	–	34.6
Write-offs	–	(0.1)	(8.4)	–	(8.5)
Disposals	(0.5)	(3.0)	(12.9)	–	(16.4)
Foreign exchange	–	2.7	17.4	–	20.1
31 December 2017	**0.8**	**51.4**	**230.3**	**–**	**282.5**
Depreciation	**0.1**	**6.7**	**30.6**	**–**	**37.4**
Write-offs	**(0.2)**	**(3.6)**	**(7.5)**	**–**	**(11.3)**
Disposals	**–**	**(7.1)**	**(7.2)**	**–**	**(14.3)**
Foreign exchange	**(0.1)**	**(1.7)**	**(9.1)**	**–**	**(10.9)**
31 December 2018	**0.6**	**45.7**	**237.1**	**–**	**283.4**

(a) 2017 depreciation includes accelerated depreciation of $1.3 million related to the closure of certain manufacturing facilities.

	Land & land improvements $m	Building, building equipment and leasehold improvements $m	Machinery, equipment and fixtures $m	Construction in progress $m	Total $m
Net Carrying Amount					
31 December 2017	16.0	89.8	152.6	75.6	334.0
31 December 2018	**14.3**	**87.0**	**165.6**	**63.8**	**330.7**

Building, building equipment and leasehold improvements, and Machinery, equipment and fixtures at 31 December 2018 include assets held under finance leases with a net carrying value of $20.9 million and $0.2 million, respectively (2017: $23.6 million and $0.4 million, respectively).

15. Intangible Assets

The major categories of intangible assets and the changes in the carrying value of each category were as follows:

	Patents, trademarks and licenses $m	Technology $m	Acquired capitalised software $m	Internally generated software $m	Contracts and customer relationship $m	Non-compete agreements $m	Trade names $m	Development costs[(a)] $m	Total $m
Intangibles at Cost									
1 January 2017	1,853.5	200.3	73.0	13.1	238.6	5.6	255.1	8.2	2,647.4
Additions	–	–	–	9.2	0.1	–	–	2.1	11.4
Acquisitions	–	12.5	–	–	40.9	–	2.5	–	55.9
Foreign exchange[(b)]	49.1	20.5	0.2	0.1	13.1	–	2.1	1.2	86.3
31 December 2017	**1,902.6**	**233.3**	**73.2**	**22.4**	**292.7**	**5.6**	**259.7**	**11.5**	**2,801.0**
Additions	**0.1**	**–**	**0.3**	**11.4**	**0.4**	**–**	**–**	**1.2**	**13.4**
Acquisitions[(c)]	**–**	**–**	**–**	**–**	**7.5**	**–**	**0.3**	**–**	**7.8**
Disposals	**–**	**–**	**–**	**–**	**(2.4)**	**(0.7)**	**–**	**–**	**(3.1)**
Foreign exchange[(b)]	**(31.8)**	**(10.6)**	**(0.2)**	**(0.1)**	**(5.3)**	**(0.1)**	**(0.8)**	**(0.6)**	**(49.5)**
31 December 2018	**1,870.9**	**222.7**	**73.3**	**33.7**	**292.9**	**4.8**	**259.2**	**12.1**	**2,769.6**

(a) Internally generated development costs.
(b) Primarily related to intangible assets denominated in Pound Sterling.
(c) See Note 13 – Acquisition of Subsidiaries.

	Patents, trademarks and licenses $m	Technology $m	Acquired capitalised software $m	Internally generated software $m	Contracts and customer relationship $m	Non-compete agreements $m	Trade names $m	Development costs $m	Total $m
Accumulated Amortisation									
1 January 2017	865.7	97.4	58.5	2.8	90.1	4.4	2.1	5.0	1,126.0
Amortisation	104.6	14.5	5.0	2.1	17.1	0.8	0.5	0.2	144.8
Foreign exchange	24.6	10.0	0.2	–	7.6	(0.1)	–	0.6	42.9
31 December 2017	**994.9**	**121.9**	**63.7**	**4.9**	**114.8**	**5.1**	**2.6**	**5.8**	**1,313.7**
Amortisation	**105.6**	**15.1**	**4.8**	**3.4**	**21.8**	**0.3**	**0.5**	**1.1**	**152.6**
Disposals	**–**	**–**	**–**	**–**	**(2.4)**	**(0.6)**	**–**	**–**	**(3.0)**
Foreign exchange	**(18.2)**	**(6.1)**	**(0.1)**	**–**	**(3.5)**	**–**	**(0.1)**	**(0.2)**	**(28.2)**
31 December 2018	**1,082.3**	**130.9**	**68.4**	**8.3**	**130.7**	**4.8**	**3.0**	**6.7**	**1,435.1**

	Patents, trademarks and licenses $m	Technology $m	Acquired capitalised software $m	Internally generated software $m	Contracts and customer relationship $m	Non-compete agreements $m	Trade names $m	Development costs $m	Total $m
Net Carrying Amount									
31 December 2017	907.7	111.4	9.5	17.5	177.9	0.5	257.1	5.7	1,487.3
31 December 2018	**788.6**	**91.8**	**4.9**	**25.4**	**162.2**	**–**	**256.2**	**5.4**	**1,334.5**

The carrying amount of indefinite-lived trade names at 31 December 2018 was $254.3 million (2017: $254.7 million). Each of these trade names is considered to have an indefinite life, given the strength and durability of the trade name and the level of marketing support. The trade names are in relatively similar stable and profitable market sectors, with similar risk profiles, and their size, diversification and market shares mean that the risk of market-related factors causing a reduction in the lives of the trade names is considered to be relatively low. The Group is not aware of any material legal, regulatory, contractual, competitive, economic or other factor which could limit their useful lives. Accordingly, these indefinite-lived trade names are not amortised.

The carrying values of indefinite-lived intangible assets (i.e. indefinite-lived trade names) allocated to each of the Group's CGUs (see Note 16 – Goodwill for definition of CGUs) at 31 December 2018 and 2017 were as follows:

	2018 $m	2017 $m
CGUs		
Americas	**236.2**	234.6
Home Distribution Group[(a)]	**2.8**	4.1
ID	**13.5**	14.2
IS	**1.8**	1.8
Indefinite-lived Intangible Assets	**254.3**	254.7

(a) During the year the Group has aggregated the previously reported CGUs 180 Medical, Woodbury Catheter, Woodbury Incontinence and recent acquisition J&R Medical into the Home Distribution Group CGU as described in Note 16 – Goodwill.

15. Intangible Assets (continued)

In 2018 and 2017, the Group performed its annual CGU-based impairment tests in respect of indefinite-lived intangible assets and determined that none of its indefinite-lived intangible assets were impaired. Refer to Note 16 – Goodwill for details of the annual CGU-based impairment tests.

Amortisation expense related to finite-lived intangible assets for the years ended 31 December 2018 and 2017 was as follows:

	2018 $m	2017 $m
Cost of sales	**125.2**	123.4
General and administrative expenses	**26.3**	21.2
Research and development expenses	**1.1**	0.2
Total amortisation expense	**152.6**	144.8

Individual intangible assets with a carrying value in excess of 10% of the total intangible asset carrying value were as follows:

	2018 $m	2017 $m	Remaining life
Trade names			
ConvaTec trade name	**234.6**	234.6	Indefinite
Patents, trademarks and licenses			
SUR-FIT/Natura™ [(a)]	**200.5**	200.5	7.6 years
Flexi-Seal™ [(a)]	**167.6**	167.7	7.6 years
AQUACEL™ Ag+[(a)]	**126.5**	151.6	7.6 years

(a) Amortisation of these assets in 2018 has been offset by foreign exchange differences on retranslation to year end exchange rates.

16. Goodwill

The changes in the carrying value of goodwill for the years ended 31 December 2018 and 2017 were as follows:

	Total $m
I January 2017	921.0
Additions	80.6
Effect of foreign currency translation rates	70.6
31 December 2017	**1,072.2**
Additions[(a)]	**7.1**
Effect of foreign currency translation rates	**(36.3)**
31 December 2018	**1,043.0**

(a) Relates to the J&R Medical acquisition as described in Note 13 – Acquisition of Subsidiaries.

The Group identifies CGUs at the operating company level as this represents the lowest level at which cash flows are largely independent of other cash flows. Goodwill acquired in a business combination is allocated, at acquisition, to the Group's CGUs, or groups of CGUs, that are expected to benefit from that business combination. The Group has identified six CGUs in applying the provisions of IAS 36 *Impairment of Assets*: (i) Americas, (ii) Home Distribution Group ("HDG"), (iii) EMEA, (iv) APAC, (v) Infusion Devices, and (vi) Industrial Sales. During the year the Group has aggregated the previously reported CGUs 180 Medical, Woodbury Catheter, Woodbury Incontinence and recent acquisition J&R Medical into the HDG CGU. The operations of the HDG CGU have been integrated during the year which resulted in HDG being the smallest group of assets generating independent cash flows.

Goodwill is allocated to the Group's CGUs as follows:

	2018 $m	2017 $m
CGUs		
Americas	**15.3**	15.3
HDG	**321.1**	315.8
EMEA	**616.4**	647.8
Infusion Devices	**51.1**	53.4
Industrial Sales	**39.1**	39.9
Goodwill	**1,043.0**	1,072.2

Impairment reviews were performed for each individual CGU during the year ended 31 December 2018. The recoverable amounts of the CGUs have been determined based on value in use calculations, which reflect the estimated future cash flows of each CGU discounted by an estimated weighted average cost of capital that represents the rate of return an outside investor would expect to earn. The discount rate is based on the weighted average cost of capital for comparable public companies and is adjusted for risks specific to the CGU including differences in risk due to size, geographic concentration and limited trading history.

16. Goodwill (continued)

Future cash flows are determined using Board approved forecasts and strategic plans. These forecasts and strategic plans are based on specific assumptions for each CGU during the five year planning period with respect to revenue, results of operations, working capital, capital investments and other general assumptions for the projected period. The forecast assumptions that derive the future cash flows are based on the historical results of each CGU combined with external market information and defined strategic initiatives.

Determining the estimated recoverable amount of a CGU is judgmental in nature and requires the use of certain estimated inputs that represent key sources of estimation uncertainty.

The key assumptions used in the estimation of value in use at 31 December 2018 and 2017 were as follows:

Discount rate (pre-tax)	2018 %	2017 %
Americas	**12.0**	11.5
EMEA	**12.0**	12.0
APAC	**12.0**	14.0
ID	**12.0**	12.5
IS	**12.0**	14.5
HDG	**11.0**	11.5
Terminal value growth rate[a]	**2.0**	2.0

(a) The estimated terminal value growth rate for the CGUs is based on expectations concerning the growth trends of the CGUs taking into account global gross domestic product growth, general long-term inflation and population expectations.

In 2018 and 2017, the Group performed its annual goodwill impairment tests and determined that there was no goodwill impairment. Sensitivity testing identified no reasonably possible changes in key assumptions that would cause the carrying amount of any CGU to exceed its recoverable amount taking into account areas of estimation uncertainty in the underlying assumptions. The Group also performed impairment reviews on the basis of the previous CGUs (180 Medical, Woodbury Catheter, Woodbury Incontinence and J&R Medical) and determined that there would not have been a goodwill impairment if the CGUs had not been aggregated.

17. Inventories

The components of inventories at 31 December 2018 and 2017 were as follows:

	2018 $m	2017 $m
Raw and packaging materials	**77.4**	77.2
Work in progress	**33.0**	29.5
Finished goods	**192.9**	177.8
Inventories	**303.3**	284.5

In 2018, inventories of $699.4 million were recognised as an expense and included in Cost of sales (2017: $685.2 million).

The adjustments to write-down inventory to net realisable value in 2018 were $22.8 million (2017: $11.8 million). The write-downs are included in Cost of sales.

18. Trade and Other Receivables

Trade and other receivables at 31 December 2018 and 2017 were as follows:

	2018 $m	2017 $m
Trade receivables	**283.4**	298.9
Other receivables	**8.1**	12.6
Less: allowances for bad and doubtful debts	**(12.3)**	(17.1)
Less: sales discounts and chargebacks	**(25.5)**	(25.4)
Trade and other receivables	**253.7**	269.0

The Group establishes an allowance for doubtful accounts that represents its estimate of expected credit losses in respect of trade and other receivables. The Group believes that its allowance for doubtful accounts is sufficient to reflect the related credit risk associated with the Group's accounts receivable.

The ageing analysis of trade receivables at 31 December 2018 and 2017 was as follows:

	2018 $m	2017 $m
Current	**212.8**	221.8
Past due 1 to 30 days	**27.1**	16.1
Past due 31 to 90 days	**3.7**	17.7
Past due 91 to 180 days	**9.0**	11.5
Past due by more than 180 days	**30.8**	31.8
	283.4	298.9

18. Trade and Other Receivables (continued)

At 31 December 2018, the unimpaired amounts that are past due are $58.3 million (2017: $60.0 million) aged as follows:

	2018 $m	2017 $m
Past due 1 to 30 days	**27.0**	15.9
Past due 31 to 90 days	**3.6**	17.5
Past due 91 to 180 days	**8.4**	10.4
Past due by more than 180 days	**19.3**	16.2
	58.3	60.0

The Group believes that the unimpaired amounts that are past due are still collectible in full, based on historic payment behaviour and extensive analysis of customer credit risk.

Movements in the allowance for bad and doubtful debts for the years ended 31 December 2018 and 2017 were as follows:

	2018 $m	2017 $m
At the beginning of the period	**(17.1)**	(12.6)
Charges	**(9.6)**	(8.7)
Utilisation of provision	**13.9**	4.9
Foreign exchange adjustment	**0.5**	(0.7)
At the end of the period	**(12.3)**	(17.1)

19. Other Current Liabilities and Accruals

The components of Other current liabilities and accruals at 31 December 2018 and 2017 were as follows:

	2018 $m	2017 $m
Taxes and social security	**17.6**	20.7
Other employee related liabilities	**40.2**	43.7
Accruals	**47.7**	46.7
Deferred revenue	**–**	3.1
Other current liabilities and accruals	**105.5**	114.2

20. Borrowings

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

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

Current borrowings at 31 December 2018 includes current finance lease obligations of $1.0 million (2017: $0.8 million) and current borrowings of $62.0 million (2017: $77.4 million).

20. Borrowings (continued)

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

	Currency	Year of maturity	2018 Face value $m	2018 Carrying amount $m	2017 Face value $m	2017 Carrying amount $m
Revolving Credit Facilities[(a)]		**2021**	**–**	**–**	–	–
US Dollar Term A Loan Facility[(a)]	**USD**	**2021**	**712.3**	**706.7**	750.8	743.3
Euro Term A Loan Facility[(a)(b)]	**EURO**	**2021**	**500.9**	**496.5**	639.1	632.9
US Dollar Term B Loan Facility[(a)]	**USD**	**2023**	**421.4**	**417.6**	425.7	421.1
Finance lease obligations	**EURO/USD**	**–**	**23.7**	**23.7**	25.6	25.6
Total interest-bearing liabilities			**1,658.3**	**1,644.5**	1,841.2	1,822.9

(a) The current nominal interest rates for the Credit Facilities included in the table above are described below.
(b) Total face value of the borrowings outstanding under the Euro Term A Loan Facility denominated in euros was €436.8 million ($500.9 million) and €532.4 million ($639.1 million) at 31 December 2018 and 2017, respectively.

The Group's Credit Facilities contain customary operating and negative covenants, including, among other things, covenants limiting: (i) incurrence of indebtedness; (ii) incurrence of liens; (iii) mergers, consolidations, liquidations, dissolutions and other fundamental changes; (iv) sales of assets; (v) dividends and other payments in respect of capital stock or junior debt subject to an available amount built by consolidated net income; (vi) acquisitions; (vii) transactions with affiliates; (viii) changes in fiscal year; (ix) negative pledge clauses and clauses restricting subsidiary distributions; and (x) holding companies.

The Group's Credit Facilities also contain a financial covenant, various customary affirmative covenants and specified events of default.

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

Credit Facilities

On 25 October 2016, the Group entered into the Credit Agreement (the "Credit Agreement") with various financial institutions (the "Financing"). The Credit Agreement provides for (i) Term A loans denominated in US dollar of $770.0 million and euros of €546.0 million ($594.7 million at 25 October 2016) (the "Term A Loan Facilities"), (ii) Term B loans denominated in US dollar of $430.0 million (issued at an offering price of 99.5%, after adjustment for a discount of $2.2 million) (the "Term B Loan Facility" and together with the Term A Loan Facilities, the "Term Loan Facilities") and (iii) a $200.0 million revolving credit facility (the "Revolving Credit Facility", and together with the Term Loan Facilities, the "Credit Facilities"). The Term A Loan Facilities are repayable in semi-annual instalments (commencing 30 June 2017) in aggregate annual amounts equal to (i) 2.5% in year one, (ii) 5.0% in year two, (iii) 7.5% in year three, (iv) 10.0% in year four, and (v) 7.5% in year five, in each case of the original principal amount of the Term A Loan Facilities. The Term A Loan Facilities mature in October 2021. The Term B Loan Facility is repayable in semi-annual instalments (commencing 30 June 2017) in an aggregate annual amount equal to 1.0% of the original principal amount of the Term B Loan Facility. Interest on outstanding principal under the Credit Facilities is payable quarterly in arrears. The Term B Loan Facility matures in October 2023.

The Revolving Credit Facility of $200.0 million is available to its termination date in certain currencies (US dollar, euro and pounds sterling) at the borrower's option and is used to provide for ongoing working capital requirements, letters of credit, and general corporate purposes of the Group. The Revolving Credit Facility allows for up to $50.0 million of letter of credit issuances as well as $25.0 million for borrowings on same-day notice, referred to as the swingline loans. There were no borrowings outstanding under the Revolving Credit Facility at 31 December 2018 and 2017. Availability at 31 December 2018 under the Revolving Credit Facility, after deducting letters of credit of $6.2 million (2017: $7.1 million), was $193.8 million (2017: $192.9 million).

The Credit Agreement also provides for the ability of the Group to enter into incremental term facilities (the "Incremental Term Facilities") and incremental revolving facilities (the "Incremental Revolving Credit Facilities") and to issue senior secured, senior unsecured, senior subordinated or subordinated notes (the "Incremental Notes" and together with the Incremental Term Facilities and the Incremental Revolving Credit Facilities, the "Incremental Facilities").

The Incremental Term Facilities and Incremental Revolving Credit Facilities are subject to certain conditions and are available in (i) a cash-capped amount equal to the greater of $475 million and consolidated EBITDA as of the end of the most recently ended two half-fiscal year period, provided that the consolidated total net leverage ratio (as defined in the Credit Agreement) does not exceed 4.00 to 1.00, (ii) an unlimited amount so long as the maximum total leverage requirement (as defined in the Credit Agreement) is satisfied, and (iii) an amount equal to all voluntary prepayments or repurchases under the Term Loan Facilities and voluntary prepayments under the Revolving Credit Facility (to the extent accompanied by a corresponding permanent reduction in the revolving commitments) (such sum, the "Incremental Amount"), in US dollars and/or euro (and, in the case of the Incremental Revolving Credit Facilities, pounds sterling), provided that the Group satisfies certain other requirements, including: no default or event of default, minimum borrowing amounts of $15.0 million and, in respect of Incremental Term Facilities, a maturity date and weighted average life to maturity of each individual loan within the Incremental Term Facilities that is greater than the weighted average maturity date of the Term Loan Facilities and if shorter, shall not have an amortisation of greater than 5.0% per annum. Additionally, should the yield on any Incremental Term Facility exceed the interest margin on the Term Loan Facilities denominated in the same currency by more than 0.50%, then the yield on the applicable Term Loan Facilities will automatically increase such that the yield on such Term Loan Facilities denominated in the same currency shall be 0.50% below the yield on the applicable Incremental Term Facilities. Any loan advances made under the Incremental Term Facilities will rank pari passu with or junior to the Term Loan Facilities and the Revolving Credit Facility.

The Incremental Notes shall not exceed the Incremental Amount and are available in US dollars and euro, provided that the Group satisfies certain other requirements, including: no default or event of default and the issuance shall be in an amount of no more than $15.0 million (or its equivalent).

20. Borrowings (continued)

Credit Facilities (continued)

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

Borrowings under the Credit Facilities bear interest at either EURIBOR rate, Eurodollar rate, or an Alternate Base Rate ("ABR"), in each case, plus an applicable margin. Under the Term Loan Facilities, EURIBOR interest is associated with the borrowings in euros; while LIBOR and ABR interest is associated with borrowings in US dollar. EURIBOR, Eurodollar or ABR interest rates may apply to any outstanding borrowings under the Revolving Credit Facility. ABR, as defined in the Credit Agreement, is the greater of (a) the Prime Rate, (b) the Federal Funds Effective Rate plus 0.50% or (c) the Eurodollar Rate for a one month interest period plus 1.00%, provided that the ABR for the Term Loan Facilities may not be less than 1.00%. The Eurodollar rate is subject to a floor of 0.75% per annum in respect of the Term B Loan Facility and 0.00% per annum in respect of all other loans. The margins applicable to the Term A Loan Facilities denominated in euro range from 2.0% to 2.25% and the margins applicable to the Term A Loan Facilities denominated in US dollar range from 1.0% to 1.25% if using ABR and 2.0% to 2.25% if using the Eurodollar rate and the margins applicable to the Term B Loan Facility range from 1.25% to 1.50% if using ABR and 2.25% to 2.50% if using the Eurodollar rate, in each case, with the relevant step-down in margin occurring depending on the relevant first lien net leverage ratio.

Interest Related Information

Accrued interest related to the Group's borrowings in 2018 was $0.2 million (2017: $0.7 million) and is recorded in Other current liabilities and accruals.

The weighted average interest rate for borrowings under the Group's outstanding borrowings in 2018 was 3.5% (2017: 3.1%).

Finance Lease Obligations

The table below presents total obligations under finance leases at 31 December 2018 and 2017:

	Minimum lease payments		**Present value of lease payments**	
	2018 $m	2017 $m	**2018 $m**	2017 $m
Amount payable:				
Within 1 year	**2.7**	2.7	**1.0**	0.8
1 to 5 years inclusive	**11.3**	11.5	**5.3**	4.9
After 5 years	**23.0**	27.1	**17.4**	19.9
	37.0	41.3	**23.7**	25.6
Less: future finance charges	**13.3**	15.7	**–**	–
Total obligations under finance leases	**23.7**	25.6	**23.7**	25.6

Reconciliation of Liabilities Arising from Financing Activities

	2017 $m	**Debt assumed on acquisition $m**	**Cash flows $m**	**Foreign exchange $m**	**Non-cash movements $m**	**2018 $m**
Borrowings	1,797.3	**–**	**(153.7)**	**(27.1)**	**4.3**	**1,620.8**
Finance lease obligations	25.6	**–**	**(0.8)**	**(1.1)**	**–**	**23.7**
Total liabilities from financing activities	1,822.9	**–**	**(154.5)**	**(28.2)**	**4.3**	**1,644.5**

	2016 $m	Debt assumed on acquisition $m	Cash flows $m	Foreign exchange $m	Non-cash movements $m	2017 $m
Borrowings	1,752.6	31.3	(70.9)	80.0	4.3	1,797.3
Finance lease obligations	23.0	–	(0.6)	3.2	–	25.6
Total liabilities from financing activities	1,775.6	31.3	(71.5)	83.2	4.3	1,822.9

21. Provisions

	Legal Provisions[a] $m	Restructuring Provisions[a] $m	Decommissioning and Dilapidation Provisions[b] $m	Total $m
1 January 2017	0.1	9.3	1.1	10.5
Charges	–	1.0	0.4	1.4
Utilisation	(0.1)	(7.3)	–	(7.4)
Changes in estimate	–	(0.8)	–	(0.8)
Foreign exchange impact	–	–	0.1	0.1
31 December 2017	**–**	**2.2**	**1.6**	**3.8**
Charges	**–**	**7.9**	**–**	**7.9**
Utilisation	**–**	**(5.3)**	**(0.1)**	**(5.4)**
Changes in estimate	**–**	**(0.3)**	**–**	**(0.3)**
Foreign exchange impact	**–**	**–**	**–**	**–**
31 December 2018	**–**	**4.5**	**1.5**	**6.0**

(a) Legal and Restructuring provisions for all years presented in the above table are included as current Provisions on the Consolidated Statement of Financial Position.
(b) Decommissioning provisions represent the estimated costs of dismantling and removing PP&E, and restoring the site on which it was located when an item is acquired or as a consequence of using the item during a particular period other than to produce inventory. Dilapidation provisions relate to legal obligations to return leased properties to the conditions which are specified in the individual leases. Decommissioning and Dilapidation provisions at 31 December 2018 and 2017 are included as non-current Provisions on the Consolidated Statement of Financial Position.

Legal Provisions

Legal provisions represent provisions for unsettled lawsuits, claims, proceedings and investigations.

Restructuring Provisions

The Group incurred restructuring charges related to employee termination benefits for involuntary workforce reduction relating to 2018 and 2017 initiatives.

22. Other Non-Current Liabilities

The major components of Other non-current liabilities at 31 December 2018 and 2017 were as follows:

	2018 $m	2017 (restated)[b] $m
Defined benefit obligation[a]	**15.1**	13.5
Employee costs	**4.1**	4.0
Other	**3.0**	2.6
Other non-current liabilities	**22.2**	20.1

(a) Refer to Note 26 – Post-employment Benefits for further details.
(b) 2017 has been restated to reclassify a $15.4 million provision for uncertain tax positions from Other non-current liabilities to current liabilities (Note 3 – Significant Accounting Policies).

23. Share Capital and Reserves

Share capital

The share capital recognised as equity comprised ordinary shares issued and fully paid or credited as fully paid at 31 December 2018 and 2017 was as follows:

	2018 $m	2017 $m
Issued and fully paid or credited as fully paid ordinary shares of 10p each	**240.7**	238.8

The movements in ordinary shares in issue were as follows:

Issued and fully paid or credited as fully paid	Ordinary shares number	Share capital $m	Share premium $m
1 January 2017	1,951,472,651	238.8	1,674.1
Issue of new shares for the Scrip Scheme	377,948	–	1.3
Capital reduction of share premium	–	–	(1,674.1)
31 December 2017	**1,951,850,599**	**238.8**	**1.3**
Issue of new shares for the Scrip Scheme – 2017 final dividend	**9,623,305**	**1.3**	**25.1**
Issue of new shares for the Scrip Scheme – 2018 interim dividend	**4,681,820**	**0.6**	**13.4**
31 December 2018	**1,966,155,724**	**240.7**	**39.8**

The rights attaching to the ordinary shares are uniform in all respects, they form a single class for all purposes, including with respect to voting and for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Group.

23. Share Capital and Reserves (continued)

Share premium

The share premium represents amounts received in excess of the nominal value of the ordinary shares.

In February 2017, the Company carried out a capital reduction, converting share premium of $1,713.7 million to distributable reserves. As part of this capital reduction, expenses of issue of equity shares which had been offset against the same share premium balance have also been taken to retained earnings. The net impact of the capital reduction exercise resulted in distributable earnings being increased by $1,674.1 million.

Own Shares

Own shares are ordinary shares in the Group purchased and held by an Employee Benefit Trust to fulfil the Company's obligations under the Group's share plans. At 31 December 2018, 2,531,339 shares (2017: 4,204,211 shares) were held in an Employee Benefit Trust. The market value of Own shares at 31 December 2018 was $4.5 million (2017: $8.2 million).

Distributable reserves

Retained distributable reserves equates to the retained surplus of ConvaTec Group Plc as set out in the company only financial statements, pages 172 to 179 of this Annual Report and Accounts. At 31 December 2018, the retained surplus of ConvaTec Group Plc was $1,574.7 million (2017: $1,622.7 million). The capacity of the Company to make dividend payments is primarily determined by the availability of these retained distributable reserves and cash resources.

The Group, post the 2017 capital reduction, principally derives distributable reserves from dividends paid by subsidiary companies and availability of cash.

Merger reserve

In 2016, the Consolidated Financial Statements were prepared under merger accounting principles. Under these principles, no acquirer was required to be identified and all entities were included at their pre-combination carrying amounts. This accounting treatment lead to differences on consolidation between share capital in issue and the book value of the underlying net assets acquired, this difference is included within equity as a merger reserve.

Cumulative translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Other reserves

Other reserves in the Consolidated Statement of Changes in Equity are comprised of the following:

	1 January 2018 $m	**Change in year $m**	**31 December 2018 $m**
Issuance of shares under share-based compensation plans	**67.5**	**–**	**67.5**
Share-based payments	**37.7**	**11.2**	**48.9**
Excess tax benefits from share-based compensation	**0.2**	**0.1**	**0.3**
Remeasurement of defined benefit obligation, net of tax	**(2.2)**	**(1.0)**	**(3.2)**
Recognition of pension assets restriction	**(6.1)**	**0.4**	**(5.7)**
Share awards vested	**(1.5)**	**(1.3)**	**(2.8)**
Effective portion of changes in fair value of cash flow hedges, net of tax	**5.7**	**2.6**	**8.3**
Other reserves	**101.3**	**12.0**	**113.3**

	1 January 2017 $m	Change in year $m	31 December 2017 $m
Issuance of shares under share-based compensation plans	67.5	–	67.5
Share-based payments	0.8	36.9	37.7
Excess tax benefits from share-based compensation	–	0.2	0.2
Remeasurement of defined benefit obligation, net of tax	(4.6)	2.4	(2.2)
Recognition of pension assets restriction	(6.3)	0.2	(6.1)
Share awards vested	–	(1.5)	(1.5)
Effective portion of changes in fair value of cash flow hedges, net of tax	–	5.7	5.7
Other reserves	57.4	43.9	101.3

24. Commitments and Contingencies

Operating Leases

Future minimum rental commitments under all non-cancellable operating leases in effect at 31 December 2018 and 2017 were as follows:

	2018 $m	2017 $m
Within 1 year	**20.7**	20.2
After 1 and within 5 years	**34.8**	32.9
After 5 years	**6.4**	8.3
Total	**61.9**	61.4

Certain lease agreements, primarily for real estate, contain renewal options and rent escalation clauses. Operating lease rental expense for 2018 was $24.8 million (2017: $23.4 million). The estimated impact of adopting IFRS 16 in 2019 is set out in Note 2 – Accounting Standards.

Other Commitments

The Group had commitments related to capital expenditures of $10.2 million at 31 December 2018 (2017: $12.9 million) which primarily related to manufacturing equipment for new products and capacity expansions.

Legal Proceedings

The nature of the Group's business exposes it to a variety of product liability, regulatory and IP claims and is required on occasion to recall or withdraw products from the market. Such instances are endemic to the medical device industry.

The Group makes appropriate provision for liabilities and disclosure of contingent liabilities in accordance with its accounting policies, using informed and unbiased management judgement based on the best available information at the time. However, it is not always possible to predict outcomes and additional facts may become known. As a result, provision amounts and contingency disclosures are subject to revision over time. In accordance with the accounting guidance related to contingencies, the Group records provisions for liabilities when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. Legal costs related to litigation matters are expensed as incurred.

Liability Claims

In September 2017, Medtronic MiniMed, Inc. ("Medtronic"), issued a recall of certain infusion sets, including the Quick-Set™ and Silhouette™ infusion sets. The Quick-Set™ and Silhouette™ infusion sets include P-Cap connectors designed by Medtronic and manufactured for Medtronic by the Group for use with Medtronic insulin infusion pumps in diabetes care. Medtronic modified the design of P-Cap connectors, which we have integrated into the infusion set design.

Medtronic previously issued a recall of Quick-Set™ and Silhouette™ infusion sets in June 2013. Medtronic issued this recall due to a potential safety issue that can occur if insulin or other fluids meet the inside of the tubing/P-Cap connector. The June 2013 recall has resulted in pending or threatened litigation against several of the Group's entities. These lawsuits allege that the infusion sets are defective and have caused injuries or death to various plaintiffs. All of these cases also include claims against Medtronic, and allegations that their insulin pumps (which the Group does not make or sell) are defective. To the best of the Group's knowledge, as of this report date, approximately twenty-two product liability lawsuits had been filed. The Group's entities have been voluntarily dismissed without prejudice from twelve of these lawsuits and dismissed with prejudice from two lawsuits that have been settled. The Group has sent a demand to Medtronic seeking indemnification for these lawsuits consistent with the terms of the agreements between them. To date, Medtronic has rejected this demand. The Group also carries product liability insurance, subject to a self-insured retention, and has notified the insurance carrier about these lawsuits. The remaining pending lawsuits are all in their early stages. At this point the Group is unable to predict the likelihood of an unfavourable outcome or estimate any potential loss.

25. Share-Based Payments

Summary of schemes

The Group operates a number of share-based payment schemes granting share awards or options to Executive Directors and other senior employees:

- The Long Term Incentive Plan ("LTIP") provides Performance Share Plan ("PSP") awards subject to performance conditions and Restricted Stock Units ("RSU") subject only to remaining employed up to the vesting date.
- The Deferred Bonus Plan ("DBP") provides for the grant of share awards to defer a portion of the participant's bonus as determined by the Remuneration Committee. The awards vest subject only to remaining employed up to the vesting date.
- The Matching Share Plan ("MSP") provides for the grant of discretionary share awards calculated as a proportion of the participant's bonus. The awards granted in 2018 are subject to the same performance conditions as the LTIP PSP awards. The awards granted in 2017 vest subject only to remaining employed up to the vesting date.
- The Transition Awards were made on a one-off basis shortly after listing in 2016 and consisted of market value options and restricted shares. The final tranche will vest in November 2019 subject to remaining employed up to the vesting date.
- The Management Executive Plan ("MEP") relates to awards granted before the listing in 2016 and which became fully vested in 2018.

25. Share-Based Payments (continued)

Summary of schemes (continued)

The Group also operates the Employee Plans which provide eligible employees the opportunity to save up to £500 per month (or local currency equivalent) and give them an option to acquire shares using these savings at a 15% discount to the market price at date of grant. The Employee Plans are available to employees under the following schemes:

- the Save-As-You-Earn ("SAYE") plan is available to all employees in the UK employed by participating Group companies;
- the Employee Stock Purchase Plan ("ESPP") is available to all employees in the US; and
- the International Share Save Plan is available to all employees in the rest of the world.

Details on each scheme are given in the Remuneration Committee report on pages 113 and 114.

The total share-based compensation was all equity-settled and the expense recognised in the Consolidated Statement of Profit or Loss was as follows:

	2018 $m	2017 $m
MEP	**5.9**	29.3
LTIP	**2.5**	6.1
DBP	**0.1**	–
MSP	**1.1**	0.8
Employee Plans	**1.6**	0.7
	11.2	36.9

Awards outstanding

The movements in the number of share awards and share options and the weighted average exercise price of share options are detailed below:

	2018		2017	
	Number of shares/ options 000's	**Weighted average exercise price of options £ per share**	Number of shares/ options 000's	Weighted average exercise price of options £ per share
Outstanding at 1 January	**14,413**	**1.46**	7,937	0.98
Granted	**15,771**	**0.65**	12,096	1.28
Forfeited	**(4,406)**	**1.22**	(2,287)	0.98
Exercised	**(477)**	**–**	(3,333)	–
Outstanding at 31 December	**25,301**	**1.04**	14,413	1.46
Exercisable at 31 December	**1,702**	**2.09**	1,016	2.11
Weighted average fair value of awards granted (£ per share)	**0.86**		0.97	

The average share price during 2018 was £1.99 (2017: £2.65).

The range of exercise prices of the share awards outstanding at 31 December and the weighted average remaining contractual life of options outstanding at 31 December are as follows:

Range of exercise prices	**2018 Number of shares/ options 000's**	2017 Number of shares/ options 000's
nil	**13,894**	6,599
1.84	**5,266**	–
2.49	**2,067**	2,583
2.78	**4,074**	5,231
	25,301	14,413
Weighted average remaining contractual life of share options	**1.9 years**	2.2 years

25. Share-Based Payments (continued)

Valuation assumptions

The following share awards granted in 2017 and 2018 are valued directly by reference to the share price at date of grant:

- PSP shares issued under the LTIP and 2018 MSP shares that are subject to an EPS or ROIC performance condition;
- RSU, DBP, 2017 MSP shares which are subject only to continued employment.

PSP shares awarded under the LTIP and 2018 MSP shares that are subject to a relative Total Shareholder Return ("TSR") performance condition are valued using a Monte Carlo simulation. Options granted under the Employee Plans are valued using the Black-Scholes model. The principal assumptions used in these valuations were:

	2018			2017		
	LTIP and MSP with TSR condition	**SAYE & International Share Save Plan**	**ESPP**	LTIP with TSR condition	SAYE & International Share Save Plan	ESPP
Share price at date of grant	**£ 2.08**	**£ 2.09**	**£ 2.19**	£ 2.51	£ 2.99	£ 2.99
Exercise price	**nil**	**£ 1.84**	**£ 1.84**	nil	£ 2.78	£ 2.78
Expected life	**2.8 years**	**3.6 years**	**2.0 years**	2.8 years	3.3 years	2.3 years
Expected volatility	**30.2%**	**31.6%**	**31.8%**	24.6%	22.6%	23.1%
Risk free rate	**0.8%**	**0.8%**	**0.6%**	0.2%	0.5%	0.4%
Dividend yield	**n/a**	**1.9%**	**1.9%**	n/a	1.4%	1.4%
Fair value	**£ 0.98**	**£ 0.26**	**£ 0.26**	£ 0.88	£ 0.52	£0.47

26. Post-employment Benefits

Retirement benefit obligations

The Group operates a wide range of retirement benefit arrangements, which are established in accordance with local conditions and practices within the countries concerned. These include funded defined contribution and funded and unfunded defined benefit schemes.

Defined contribution arrangements

The Group operates several defined contribution arrangements where the employer contribution and the resulting charge to the Consolidated Statement of Profit or Loss is fixed at a set level or is a set percentage of employees' pay. Contributions made to defined contribution schemes and charged to the Consolidated Statement of Profit or Loss in 2018 totalled $16.3 million (2017: $14.7 million).

Defined benefit arrangements

The Group operates several defined benefit schemes covering certain international employees where the benefits are based on employees' length of service. Whilst the Group's primary schemes are funded and partially funded schemes in the UK and Switzerland, respectively, it also operates other unfunded benefit schemes in Germany, Austria and France (referred to as "Other" in the tables below). The UK scheme is closed to new participants and closed to future benefit accruals. The Switzerland scheme is still being funded and under the Switzerland pension plan, the estimated contributions to be paid within the next year are $0.8 million. In funded arrangements, the assets of defined benefit schemes are held in separate trustee-administered funds or similar structures in the countries concerned. The asset surplus within the UK plan at 31 December 2018 of $5.7 million (2017: $6.4 million) has been restricted in accordance with IFRIC Interpretation 14 – *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* and has been recorded within the Consolidated Statement of Comprehensive Income.

The schemes typically expose the Group to actuarial risks such as:

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. Currently the plan invests primarily in debt instruments.
Interest risk	A decrease in the bond interest rate will increase the plan liability but this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

26. Post-employment Benefits (continued)

Defined benefit arrangements (continued)

Actuarial Assumptions

The principal actuarial assumptions for each defined benefit arrangement used at 31 December 2018 and 2017 were as follows:

	UK		Switzerland		Other	
	2018	2017	**2018**	2017	**2018**	2017
Discount rate	**2.75%**	2.40%	**1.00%**	0.80%	**1.50% to 2.39%**	1.20% to 2.00%
Rate of price inflation	**2.45%**	2.30%	**0.50%**	0.50%	**2.00%**	1.70% to 2.00%
Future salary increases	**N/A**	N/A	**1.75%**	1.75%	**2.00% to 3.00%**	2.00% to 3.00%

Actuarial assumptions regarding future mortality are based on mortality tables. The current longevities underlying the values of the obligations in the defined benefit plans are as follows:

	UK		Switzerland		Other	
	2018	2017	**2018**	2017	**2018**	2017
Life expectancy at Plan retirement age						
Male	**23.3 years**	23.2 years	**22.6 years**	22.4 years	**20.7 years**	20.0 years
Female	**24.3 years**	24.2 years	**25.6 years**	25.4 years	**24.3 years**	23.8 years
Life expectancy at Plan retirement age in 20 years' time						
Male	**24.7 years**	24.6 years	**24.3 years**	24.3 years	**23.1 years**	21.8 years
Female	**25.8 years**	25.8 years	**27.3 years**	27.2 years	**26.2 years**	25.5 years

Net Pension Liabilities

The amount recognised for each defined benefit arrangement in the Consolidated Statement of Financial Position at 31 December 2018 and 2017 was as follows:

	UK		Switzerland		Other		Total	
	2018 $m	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m
Fair value of schemes' assets	**15.6**	18.6	**8.0**	5.9	**–**	–	**23.6**	24.5
Present value of funded schemes' liabilities	**(9.9)**	(12.2)	**(12.1)**	(9.0)	**–**	–	**(22.0)**	(21.2)
Surplus/(deficit) in the funded schemes	**5.7**	6.4	**(4.1)**	(3.1)	**–**	–	**1.6**	3.3
Present value of unfunded schemes' liabilities	**–**	–	**–**	–	**(11.0)**	(10.4)	**(11.0)**	(10.4)
Restrict recognition of asset	**(5.7)**	(6.4)	**–**	–	**–**	–	**(5.7)**	(6.4)
Net pension assets/(liability)	**–**	–	**(4.1)**	(3.1)	**(11.0)**	(10.4)	**(15.1)**	(13.5)

Plan Assets

Plan assets for each defined benefit arrangement, all of which are quoted, consist of the following at 31 December 2018 and 2017:

	UK		Switzerland		Other		Total	
	2018 $m	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m
Equity instruments	**–**	–	**2.1**	1.6	**–**	–	**2.1**	1.6
Debt instruments	**15.6**	18.6	**3.4**	2.5	**–**	–	**19.0**	21.1
Property	**–**	–	**0.8**	0.6	**–**	–	**0.8**	0.6
Other	**–**	–	**1.7**	1.2	**–**	–	**1.7**	1.2
Plan assets	**15.6**	18.6	**8.0**	5.9	**–**	–	**23.6**	24.5

The movements in the fair value of plan assets during the years ended 31 December 2018 and 2017 were as follows:

	UK		Switzerland		Other		Total	
	2018 $m	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m
Fair value of plan assets at beginning of year	**18.6**	18.2	**5.9**	4.8	**–**	–	**24.5**	23.0
Interest income on plan assets	**0.4**	0.5	**0.1**	0.6	**–**	–	**0.5**	1.1
Remeasurement loss	**(0.3)**	(0.2)	**(0.2)**	–	**–**	–	**(0.5)**	(0.2)
Contributions paid by employer	**–**	–	**0.7**	0.5	**–**	–	**0.7**	0.5
Contributions paid by members	**–**	–	**0.7**	0.5	**–**	–	**0.7**	0.5
Benefits (paid)/deposited	**(2.0)**	(1.7)	**0.9**	(0.5)	**–**	–	**(1.1)**	(2.2)
Risk insurance premium	**–**	–	**–**	(0.2)	**–**	–	**–**	(0.2)
Currency translation adjustment	**(1.1)**	1.8	**(0.1)**	0.2	**–**	–	**(1.2)**	2.0
Fair value of plan assets at end of year	**15.6**	18.6	**8.0**	5.9	**–**	–	**23.6**	24.5

26. Post-employment Benefits (continued)

Defined benefit arrangements (continued)

Benefit Obligations

The movements in the defined benefit obligation during the years ended 31 December 2018 and 2017 were as follows:

	UK		Switzerland		Other		Total	
	2018 $m	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m
Defined benefit obligation at beginning of year	**(12.2)**	(11.9)	**(9.0)**	(8.9)	**(10.4)**	(9.0)	**(31.6)**	(29.8)
Current service cost	**–**	–	**(1.5)**	(0.9)	**(0.8)**	(0.8)	**(2.3)**	(1.7)
Past service cost	**(0.2)**	–	**0.1**	–	**–**	–	**(0.1)**	–
Interest cost	**(0.3)**	(0.3)	**(0.1)**	–	**(0.2)**	(0.2)	**(0.6)**	(0.5)
Contributions by members	**–**	–	**(0.7)**	(0.5)	**–**	–	**(0.7)**	(0.5)
Remeasurement gain/(loss)	**0.2**	(0.5)	**0.7**	0.6	**0.8**	0.4	**1.7**	0.5
Benefit paid/(deposited)	**2.0**	1.7	**(0.9)**	0.5	**0.2**	0.1	**1.3**	2.3
Experience (loss)/gain	**(0.2)**	(0.1)	**(0.8)**	0.5	**(1.1)**	0.4	**(2.1)**	0.8
Risk insurance premium	**–**	–	**–**	0.2	**–**	–	**–**	0.2
Currency translation adjustment	**0.8**	(1.1)	**0.1**	(0.5)	**0.5**	(1.3)	**1.4**	(2.9)
Defined benefit obligation at end of year	**(9.9)**	(12.2)	**(12.1)**	(9.0)	**(11.0)**	(10.4)	**(33.0)**	(31.6)

The weighted average duration of the defined benefit obligation at the end of the year is 16 years (2017: 16 years).

The history of experience adjustments related to the defined benefit obligation were as follows:

	UK		Switzerland		Other		Total	
	2018 $m	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m	**2018 $m**	2017 $m
Defined benefit obligation at end of year	**(9.9)**	(12.2)	**(12.1)**	(9.0)	**(11.0)**	(10.4)	**(33.0)**	(31.6)
Experience adjustment on schemes' liabilities	**(0.2)**	(0.1)	**(0.8)**	0.5	**(1.1)**	0.4	**(2.1)**	0.8
Experience adjustment as a percentage of schemes' liabilities	**2.0%**	0.8%	**6.6%**	(5.6)%	**10.0%**	(3.8)%	**6.4%**	(2.5)%

Expense in Consolidated Statement of Profit or Loss

The aggregate expense for all defined benefit plans recognised in the Consolidated Statement of Profit or Loss for the years ended 31 December 2018 and 2017 was as follows:

	2018 $m	2017 $m
Current service cost	**(2.3)**	(1.7)
Past service cost[(a)]	**(0.1)**	–
Interest income on plan assets	**0.5**	0.3
Interest expense on defined benefit obligation	**(0.6)**	(0.5)
Total expense	**(2.5)**	(1.9)

(a) Past service cost in 2018 includes an adjustment for the equalisation of Guaranteed Minimum Pension benefits between men and women in the UK following a High Court ruling in October 2018.

The 2018 plan expense of $2.5 million (2017: $1.9 million) was included in the Consolidated Statement of Profit or Loss as Cost of sales $0.3 million (2017: $0.3 million), Selling and distribution expenses $1.5 million (2017: $1.0 million), and General and administrative expenses $0.7 million (2017: $0.6 million).

Consolidated Statement of Other Comprehensive (Loss)/Income

Aggregate actuarial gains and losses for all defined benefit plans recognised in the Consolidated Statement of Comprehensive Income for the years ended 31 December 2018 and 2017 were as follows:

	2018 $m	2017 $m
Remeasurement effects recognised in Other comprehensive income:		
Actuarial (loss)/gain on liabilities due to experience	**(2.1)**	0.8
Actuarial gain arising from changes in financial assumptions	**1.7**	0.5
Actuarial loss on assets	**(0.5)**	(0.1)
Remeasurement (loss)/gain recognised in Other comprehensive income	**(0.9)**	1.2
Deferred tax on remeasurement (loss)/gain recognised in Other comprehensive income	**(0.1)**	1.6
Recognition of the pension assets restriction	**0.4**	0.2
Currency translation adjustment	**–**	(0.4)
Total amount recognised in Other comprehensive income	**(0.6)**	2.6

26. Post-employment Benefits (continued)
Defined benefit arrangements (continued)
Sensitivity Analysis

The effect of an increase or decrease in the key actuarial assumptions related to the UK and Switzerland plans at 31 December 2018 would be to (increase)/decrease the defined benefit obligations as follows:

	2018 $m	
	Increase 0.5%	Decrease 0.5%
UK plan		
Discount Rate	0.7	(0.7)
Inflation	(0.5)	0.5

	1 year increase	1 year decrease
Life expectancy	(0.4)	0.4

	2018 $m	
	Increase 0.25%	Decrease 0.25%
Switzerland plan		
Discount Rate	0.6	(0.6)
Inflation	(0.2)	0.2

	1 year increase	1 year decrease
Life expectancy	(0.2)	0.2

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

Detail of the significant policies and methods adopted for each class of financial asset and financial liability are disclosed in Note 3 – Significant Accounting Policies.

Capital risk management
The Group seeks to manage its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 20 – Borrowings, cash and cash equivalents and equity of the Group, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity.

Financial risk management objectives
Based on the operations of the Group throughout the world, the Directors consider that the key financial risks that it faces are liquidity risk, currency risk, interest rate risk, and credit risk. The objectives under each of these risks are as follows:
- **Liquidity risk:** ensure adequate funding to support working capital and future capital expenditure requirements.
- **Currency risk:** reduce exposure to foreign exchange movements principally between the US dollar and the euro, pound sterling and Danish Krone ("DKK").
- **Interest rate risk:** mitigate risk of significant change in market rates on the cash flow of issued variable rate debt.
- **Credit risk:** minimise the risk of default and concentration (discussed in Note 18 – Trade and Other Receivables and in Note 3 – Significant Accounting Policies – Trade and Other Receivables).

27. Financial Instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by continuously monitoring actual and projected cash outflows to ensure that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's financial liabilities by contractual maturity date, excluding interest payments were as follows:

	Contractual cash flows					
	Within 1 year or on demand $m	1 to 2 years $m	2 to 5 years $m	More than 5 years $m	Total $m	Carrying amount $m
31 December 2018						
Borrowings	**62.0**	**112.6**	**1,459.9**	**–**	**1,634.5**	**1,620.8**
Finance lease obligations	**2.7**	**2.8**	**8.5**	**23.0**	**37.0**	**23.7**
Trade and other payables	**116.0**	**–**	**–**	**–**	**116.0**	**116.0**
31 December 2017						
Borrowings	77.4	110.7	1,223.3	404.1	1,815.5	1,797.3
Finance lease obligations	2.7	2.8	8.7	27.1	41.3	25.6
Trade and other payables	122.0	–	–	–	122.0	122.0

The contractual maturities of borrowings (excluding finance lease obligations), inclusive of interest payments were as follows:

	Contractual cash flows				
Borrowings, including interest[(a)]	Within 1 year or on demand $m	1 to 2 years $m	2 to 5 years $m	More than 5 years $m	Total $m
31 December 2018	**118.8**	**171.0**	**1,549.0**	**–**	**1,838.8**
31 December 2017	135.4	165.8	1,332.9	417.5	2,051.6

(a) Assumes repayment of the principal amount of debt obligations at maturity.

Additionally, if the Group was fully drawn against the $200.0 million Revolving Credit Facility, the cash interest payments for 2018 would have increased by approximately $9.6 million (2017: $7.4 million).

Currency risk

The Group manufactures and sells its products in various countries around the world and as a result of the global nature of the operations, it is exposed to market risk arising from changes in currency exchange rates; however the Group's foreign currency risk is diversified. The Group's primary net foreign currency translation exposures are the euro, pound sterling, and Danish Krone ("DKK"). Where possible, the Group manages foreign currency risk by matching same currency revenues to same currency expenses and strategically denominating its debt in certain functional currencies in order to match with the projected functional currency exposures within its operations thereby minimising foreign currency risk. As a result, the impact of the fluctuations in the market values of assets and liabilities and the settlement of foreign currency transactions are reduced.

Significant increases in the value of the US dollar relative to foreign currencies could have a material adverse effect on the results of operations. Assets and liabilities are converted based on the exchange rate at the period end, and Consolidated Statement of Profit or Loss items are converted based on the average exchange rate during the period. Foreign exchange gains or losses on transactions that are to be settled in a currency that is not the functional currency of the transacting entity are recognised in the Consolidated Statement of Profit or Loss at each remeasurement date or settlement date. Additionally, assets and liabilities of subsidiaries whose functional currency is not US dollar are translated into US dollars at the exchange rate at each reporting date. Any cumulative translation difference is recorded within equity.

The following exchange rates for the major currencies have been applied at 31 December 2018 and 2017:

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

27. Financial Instruments (continued)

Currency risk (continued)

Sensitivity analysis on currency risk

The most significant exposure to foreign currency risk relates to certain borrowings. A reasonably possible 10% fluctuation of the US dollar against the euro applied to borrowings from third parties existing at 31 December 2018 would have affected equity by the amounts shown below. This calculation assumes that the change occurred at the reporting date and had been applied to borrowings from third parties existing at that date. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any tax impact.

	Equity $m
10% strengthening of USD compared to EUR	50.1
10% weakening of USD compared to EUR	(50.1)

Interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to interest rate cash flow risk.

Currency and Nature of Interest Rate of the Nominal Value of Borrowings

The currency and rate structure of the Group's borrowings at face value at 31 December 2018 and 2017 were as follows:

Currency structure	**2018 $m**	**%**	2017 $m	%
USD	**1,133.9**	**68**	1,176.8	64
EUR	**524.4**	**32**	664.4	36
Total	**1,658.3**	**100**	1,841.2	100
Rate structure				
Fixed	**23.7**	**1**	25.6	1
Floating	**1,634.6**	**99**	1,815.6	99
Total	**1,658.3**	**100**	1,841.2	100

Sensitivity analysis on interest rate risk

The loans under the Group's Credit Facilities bear interest at floating rates equal to LIBOR, EURIBOR, or ABR, as adjusted periodically, plus a spread. Before the effect of interest rate swaps, a plus/minus change of 1% in the interest rates in effect on 31 December 2018 would have a negative/positive impact on the Consolidated Statement of Profit or Loss and on equity of $16.3 million (2017: $18.2 million) assuming that all other variables remain constant and ignoring any tax effect. The Group manages this risk centrally by using interest rate swaps to maintain an appropriate mix between fixed and floating rate borrowings.

Derivative financial assets

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

The Group interest rate swaps do not contain credit-risk related contingent features and are not subject to master netting arrangements. The interest rate swaps are designated as hedging instruments in a cash flow hedging relationship. As such, changes in the fair value will be recognised in other comprehensive income and accumulated in Other reserves, with the fair value of the interest rate derivatives recorded in the Consolidated Statement of Financial Position.

The following table presents the Group's outstanding interest rate swaps agreements, notional amounts and related fair values at 31 December 2018. The fair values are based on market values of equivalent instruments at 31 December 2018. These financial instruments are classified as Level 2 based upon the degree to which the fair value movements are observable. Level 2 fair value measurements are defined as those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (prices from third parties) or indirectly (derived from third party prices).

27. Financial Instruments (continued)

Derivative financial assets (continued)

	Effective Date	Maturity Date	2018 Notional Amount $m	2018 Fair Value[c] Assets/ (Liabilities) $m	2017 Notional Amount $m	2017 Fair Value[c] Assets/ (Liabilities) $m
3 Month LIBOR Float to Fixed Interest Rate Swap[a]	June 30, 2017	June 30, 2020	**544.9**	**7.4**	585.0	5.0
3 Month LIBOR Float to Fixed Interest Rate Swap[b]	June 30, 2017	June 30, 2020	**288.9**	**3.9**	297.0	2.4
			833.8	**11.3**	882.0	7.4
Recognised in Other comprehensive income				**3.9**		7.4

(a) Under the interest rate swap agreement, commencing on 29 September 2017, the Group is entitled to receive quarterly interest payments at a variable rate equal to the 3 month LIBOR, subject to an interest rate floor of 0.00% and is required to make quarterly interest payments at a fixed rate of 1.709%. In addition, for hedging purposes, the notional amount is split into six equal tranches.
(b) Under the interest rate swap agreement, commencing on 29 September 2017, the Group is entitled to receive quarterly interest payments at a variable rate equal to the 3 month LIBOR, subject to an interest rate floor of 0.75% and is required to make quarterly interest payments at a fixed rate of 1.749%. In addition, for hedging purposes, the notional amount is split into three equal tranches.
(c) The fair values of the interest rate swaps are shown in Derivative financial assets on the Consolidated Statement of Financial Position. The Consolidated Statement of Profit or Loss includes the negligible ineffective impact of the interest rate swaps.

Fair values of financial assets and financial liabilities

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

Liabilities not Measured at Fair Value

The borrowings are initially carried at fair value less any directly attributable transaction costs and subsequently at amortised cost. At 31 December 2018, the estimated fair value of the Group's borrowings, excluding finance leases approximated $1,586.6 million (2017: $1,819.5 million). The fair values were estimated using the quoted market prices and current interest rates offered for similar debt issuances. Borrowings are categorised as Level 2 measurement in the fair value hierarchy under IFRS 13 *Fair Value Measurements*. See Note 20 – Borrowings for the face and the carrying values of the Group's borrowings.

28. Related Party Transactions

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

Key management personnel compensation

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

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

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

The 2017 amounts shown in the above table do not include an outstanding loan of $0.2 million at 31 December 2017 to the Group's then CEO. The amount outstanding at 31 December 2018 was $0.1 million. The amounts of share-based compensation to the key management personnel disclosed in the table above are based on the expense recognised under IFRS 2. Further details of short-term employee benefits, share-based expense, post-employment benefits and termination benefits for the Executive Directors are shown in the Remuneration report on pages 106 to 111.

29. Subsequent Events

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

On 12 February 2019, the Board proposed the final dividend in respect of 2018 subject to shareholder approval at our Annual General Meeting on 9 May 2019, to be distributed on 16 May 2019. Refer to Note 11 – Dividends for further details.

Company Balance Sheet

As at 31 December 2018

	Notes	2018 $m	2017 $m
Non-current assets			
Investment in subsidiaries	4	**3,887.4**	5,827.4
Deferred tax assets	5	**2.6**	0.2
		3,890.0	5,827.6
Current assets			
Trade and other receivables	6	**1.9**	2.2
Cash and bank balances		**0.1**	0.1
		2.0	2.3
Total assets		**3,892.0**	5,829.9
Equity and liabilities			
Current liabilities			
Trade and other payables	7	**5.8**	1.7
		5.8	1.7
Total liabilities		**5.8**	1.7
Equity			
Share capital	8	**240.7**	238.8
Share premium account	8	**39.8**	1.3
Own shares	8	**(6.8)**	(8.1)
Retained surplus		**1,574.7**	1,622.7
Merger reserve		**1,765.6**	3,381.9
Cumulative translation reserve		**221.2**	550.6
Other reserve		**51.0**	41.0
Total equity		**3,886.2**	5,828.2
Total equity and liabilities		**3,892.0**	5,829.9

The Company reported a loss for the financial period ended 31 December 2018 of $1,549.0 million (2017: $2.2 million loss).

The Financial Statements of ConvaTec Group Plc (registered number 10361298) were approved by the Board of Directors and authorised for issue on 14 February 2019. They were signed on its behalf by:

Frank Schulkes
Chief Financial Officer

Company Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital $m	Share premium account $m	Own shares $m	Retained (deficit)/ surplus $m	Merger reserve $m	Cumulative translation reserve $m	Other reserves $m	Total equity $m
Balance at 1 January 2017	238.8	1,674.1	–	(21.6)	3,381.9	44.6	5.4	5,323.2
Net loss for the year	–	–	–	(2.2)	–	–	–	(2.2)
Foreign currency translation adjustment	–	–	–	–	–	506.0	–	506.0
Total comprehensive income for the period	–	–	–	(2.2)	–	506.0	–	503.8
Capital reduction of share premium	–	(1,674.1)	–	1,674.1	–	–	–	–
Purchase of own shares	–	–	(9.6)	–	–	–	–	(9.6)
Dividends paid	–	–	–	(26.3)	–	–	–	(26.3)
Scrip dividend	–	1.3	–	(1.3)	–	–	–	–
Share-based payments	–	–	–	–	–	–	36.9	36.9
Share awards vested	–	–	1.5	–	–	–	(1.5)	–
Excess tax benefits for share-based compensation	–	–	–	–	–	–	0.2	0.2
Balance at 31 December 2017	**238.8**	**1.3**	**(8.1)**	**1,622.7**	**3,381.9**	**550.6**	**41.0**	**5,828.2**
Net loss for the year	**–**	**–**	**–**	**(1,549.0)**	**–**	**–**	**–**	**(1,549.0)**
Transfer impairment of investment	**–**	**–**	**–**	**1,616.3**	**(1,616.3)**	**–**	**–**	**–**
Foreign currency translation adjustment	**–**	**–**	**–**	**–**	**–**	**(329.4)**	**–**	**(329.4)**
Total comprehensive income for the period	**–**	**–**	**–**	**67.3**	**(1,616.3)**	**(329.4)**	**–**	**(1,878.4)**
Dividends paid	**–**	**–**	**–**	**(74.9)**	**–**	**–**	**–**	**(74.9)**
Scrip dividend	**1.9**	**38.5**	**–**	**(40.4)**	**–**	**–**	**–**	**–**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**11.2**	**11.2**
Share awards vested	**–**	**–**	**1.3**	**–**	**–**	**–**	**(1.3)**	**–**
Excess tax benefits for share-based compensation	**–**	**–**	**–**	**–**	**–**	**–**	**0.1**	**0.1**
Balance at 31 December 2018	**240.7**	**39.8**	**(6.8)**	**1,574.7**	**1,765.6**	**221.2**	**51.0**	**3,886.2**

For further information on share-based payments, please see Note 25 – Share-Based Payments, and for dividends see Note 11 – Dividends to the Consolidated Financial Statements.

Notes to the Company Financial Statements

1. Significant Accounting Policies

Basis of preparation
The separate Financial Statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, the Financial Statements have been prepared in accordance with FRS 101 (Financial Reporting Standard 101) *Reduced Disclosure Framework* as issued by the Financial Reporting Council ("FRC") incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and July 2016.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the Consolidated Financial Statements.

The Financial Statements have been prepared on the historical cost basis except for the remeasurement of certain financial instruments to fair value. The principal accounting policies adopted are the same as those set out in Note 3 – Significant Accounting Policies to the Consolidated Financial Statements except as noted below.

Critical accounting judgements and key sources of estimation uncertainty
In the preparation of the Company's Financial Statements in accordance with FRS 101, management are required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of income and expenses for the periods presented.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

A key area of estimation uncertainty that has the most significant effect on the amounts recognised in the Financial Statements are the assumptions when determining the impairment of investment carrying values. Refer to Note 4 – Investment in Subsidiaries for details.

Foreign currencies
The functional currency of the Company is Sterling, being the currency of the primary economic environment in which it operates.

The Company has adopted US dollars as the presentation currency for its Financial Statements, in line with the presentation currency for the Consolidated Financial Statements. For the purpose of presenting individual company financial statements, assets and liabilities of the Company are translated into US dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity, the cumulative translation reserve.

Investments
Investments in Group undertakings are stated at cost less any provision for impairment. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of the recoverable amount. If the recoverable amount of the investment is less than the carrying amount of the investment, the investment is considered to be impaired and is written down to its recoverable amount. Any impairment loss is offset against the merger reserve in the first instance. If the merger reserve is not sufficient to cover an impairment loss the excess impairment is recognised immediately in the profit and loss account.

Merger reserve
The merger reserve represents the fair value in excess of the par value of shares issued as part of a share exchange upon incorporation.

Currency translation reserve
The currency translation reserve is the exchange differences arising on the translation of the assets and liabilities of the Company into US dollars at the prevailing balance sheet rate and income and expense items being translated at the average exchange rates for the period.

Other reserves
Other reserves relates to movements on equity-settled share-based payments.

Share-based payments
The Company has implemented the generally accepted accounting principle for accounting for share-based payments with subsidiary undertakings under FRS 101, whereby the Company has granted rights to its shares to employees of its subsidiary undertakings under an equity-settled arrangement and the subsidiaries have not reimbursed the Company for these rights. Under this arrangement, the Company treats the share-based payment recognised in the subsidiary's financial statements as a cost of investment in the subsidiary and credits equity with an equal amount.

2. Result for the Period

As permitted by s408 of the Companies Act 2006 the Company has elected not to present its own Profit and Loss Account or Statement of Other Comprehensive Income for the current or prior year. The loss attributable to the Company is disclosed in the footnote to the Company's Balance Sheet.

The auditor's remuneration for audit and other services is disclosed in Note 6 – Auditor Remuneration to the Consolidated Financial Statements.

3. Staff Costs

The average monthly number of employees (including Executive Directors) was:

	2018 Number	2017 Number
General and administrative	**2**	2
	2	2

Their aggregate remuneration comprised:

	2018 $m	2017 $m
Wages and salaries[(a)]	**3.7**	13.4
Social security costs	**0.2**	0.3
Pension related costs	**0.2**	0.2
Total	**4.1**	13.9

(a) Included within wages and salaries are share-based payment charges of $1.8 million in 2018 (2017: $12.0 million).

The remuneration of the Directors is set out on pages 106 to 111 within the Remuneration Committee report.

4. Investments in Subsidiaries

	Cost $m	**Impairment $m**	**Net book value $m**
At 31 December 2017	**5,827.4**	**–**	**5,827.4**
Capital contributions arising from share-based payments to employees of subsidiaries	**4.5**	**–**	**4.5**
Reduction due to reimbursement upon exercised awards	**(0.9)**	**–**	**(0.9)**
Impairment	**–**	**(1,616.3)**	**(1,616.3)**
Foreign exchange	**(327.3)**	**–**	**(327.3)**
At 31 December 2018	**5,503.7**	**(1,616.3)**	**3,887.4**

Foreign exchange represents the impact of translation to the Company's chosen presentational currency of US dollar in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

The Company performed an assessment of the recoverable amount of the investments in subsidiaries at 31 December 2018 triggered by a decrease in the share price in October 2018 and the continued valuation of shares at the depressed value. The recoverable amount was determined with reference to IAS 36 methodology by assessing the value in use of the investments based on discounted cash flows. This resulted in an impairment of $1.616 billion. The impact on the retained earnings is offset by a transfer of the same amount from the merger reserve.

In undertaking the impairment review, the Company has considered both external and internal sources of information, and any observable indications that may suggest that the carrying value of shares in subsidiary undertakings may be impaired.

Future cash flows are determined using Board approved forecasts and strategic plans. These forecasts and strategic plans are based on specific assumptions during the five-year planning period with respect to revenue, results of operations, working capital, capital investments and other general assumptions for the projected period. The forecast assumptions, that derive the future cash flows, are based on the historical results of the Group combined with external market information and defined strategic initiatives. The recoverable amount has been estimated by the application of an appropriate discount rate to these future cash flows.

Determining the estimated recoverable amount is judgmental in nature and requires the use of certain estimated inputs that represent key sources of estimation uncertainty. It is reasonably possible that the estimations and assumptions used in determining the impairment as at 31 December 2018, including discount rate assumptions, may result, within the next financial year, in a material further impairment to the carrying amount of the investment value. If the discount rate were to increase by 0.5% the impairment would increase by $240 million.

4. Investments in Subsidiaries (continued)

Details of the Company's subsidiaries at 31 December 2018 are as follows:

Name	Place of business and registered office	Portion of ownership interest %	Portion of voting power held %
ConvaTec Management Holdings Limited[1]	United Kingdom	100%	100%
Cidron Healthcare Limited[2]	Jersey	100%	100%
ConvaTec Healthcare D S.à.r.l.[3]	Luxembourg	100%	100%
ConvaTec Holdings U.K. Limited[4]	United Kingdom	100%	100%
ConvaTec Limited[4]	United Kingdom	100%	100%
Amcare Limited[4]	United Kingdom	100%	100%
ConvaTec International U.K. Limited[4]	United Kingdom	100%	100%
ConvaTec Specialty Fibres Limited[4]	United Kingdom	100%	100%
ConvaTec Accessories Limited[4]	United Kingdom	100%	100%
SureCalm Healthcare Holdings Limited[4]	United Kingdom	100%	100%
Arthur Wood Limited[4]	United Kingdom	100%	100%
Farnhurst Medical Limited[4]	United Kingdom	100%	100%
Novacare U.K. Limited[4]	United Kingdom	100%	100%
Allied Medical (U.K.) Services Limited[4]	United Kingdom	100%	100%
Alpha-Med (Medical & Surgical) Limited[4]	United Kingdom	100%	100%
B.C.A. Direct Limited[4]	United Kingdom	100%	100%
Resus Positive Limited[4]	United Kingdom	100%	100%
SureCalm Healthcare Limited[4]	United Kingdom	100%	100%
SureCalm Pharmacy Limited[4]	United Kingdom	100%	100%
Unomedical Holdings Limited[4]	United Kingdom	100%	100%
Unomedical Limited[4]	United Kingdom	100%	100%
Unomedical Developments Limited[4]	United Kingdom	100%	100%
M.S.B. Limited[4]	United Kingdom	100%	100%
Bradgate-Unitech Limited[4]	United Kingdom	100%	100%
Pharma-Plast Limited[4]	United Kingdom	100%	100%
Unoplast (U.K.) Limited[4]	United Kingdom	100%	100%
Steriseal Limited[4]	United Kingdom	100%	100%
Rotax Razor Company Limited[4]	United Kingdom	100%	100%
Nottingham Medical Equipment Limited[4]	United Kingdom	100%	100%
Shrimpton & Fletcher Limited[4]	United Kingdom	100%	100%
Lance Blades Limited[4]	United Kingdom	100%	100%
Needle Industries (Sheffield) Limited[4]	United Kingdom	100%	100%
Akers & Dickinson Limited[4]	United Kingdom	100%	100%
ConvaTec Canada Limited[5]	Canada	100%	100%
ConvaTec International Services GmbH[6]	Switzerland	100%	100%
ConvaTec (Switzerland) GmbH[6]	Switzerland	100%	100%
ConvaTec Malaysia Sdn Bhd[7]	Malaysia	100%	100%
ConvaTec (Thailand) Co. Limited[8]	Thailand	100%	100%
ConvaTec (Australia) PTY Limited[9]	Australia	100%	100%
ConvaTec (New Zealand) Limited[10]	New Zealand	100%	100%
ConvaTec France Holdings SAS[11]	France	100%	100%
Unomedical France SAS[11]	France	100%	100%
Laboratoires ConvaTec SAS[11]	France	100%	100%
ConvaTec Polska Sp. Z.o.o[12]	Poland	100%	100%
ConvaTec Sağlik Ürünleri Limited Şirketi[13]	Turkey	100%	100%
ConvaTec Japan Karlskrona[14]	Japan	100%	100%
ConvaTec (Germany) GmbH[15]	Germany	100%	100%
ConvaTec Nederland B.V.[16]	Netherlands	100%	100%
ConvaTec Ceska Republika s.r.o.[17]	Czech Republic	100%	100%
ConvaTec Italia S.r.l.[18]	Italy	100%	100%
ConvaTec Belgium BVBA[19]	Belgium	100%	100%
ConvaTec Hong Kong Limited[20]	Hong Kong	100%	100%
ConvaTec (Singapore) PTE Limited[21]	Singapore	100%	100%
ConvaTec India Private Limited[22]	India	100%	100%

4. Investments in Subsidiaries (continued)

Name	Place of business and registered office	Portion of ownership interest %	Portion of voting power held %
ConvaTec China Limited[23]	China	100%	100%
KVTech Portugal – Produtos Medicos Unipessoal Ltda[24]	Portugal	100%	100%
ConvaTec (Austria) GmbH[25]	Austria	100%	100%
ConvaTec Healthcare Ireland Limited[26]	Ireland	100%	100%
ConvaTec Middle East & Africa LLC[27]	Egypt	100%	100%
ConvaTec Spain Holdings S.L.[28]	Spain	100%	100%
ConvaTec S.L.[28]	Spain	100%	100%
ConvaTec Peru S.A.C.[29]	Peru	100%	100%
ConvaTec Argentina SRL[30]	Argentina	100%	100%
ConvaTec Norway A/S[31]	Norway	100%	100%
ConvaTec South Africa (PTY) Limited[32]	South Africa	100%	100%
ConvaTec (Sweden) AB[33]	Sweden	100%	100%
ConvaTec Hellas Medical Products S.A.[34]	Greece	100%	100%
ConvaTec Denmark A/S[35]	Denmark	100%	100%
Papyro-Tex A/S[35]	Denmark	100%	100%
Unomedical A/S[36]	Denmark	100%	100%
FE Unomedical Limited[37]	Belarus	99%	99%
Unomedical Sdn Bhd[38]	Malaysia	75%	75%
Unomedical Devices SA de CV[39]	Mexico	100%	100%
Unomedical (Americas) Inc.[40]	US	100%	100%
Unomedical Inc.[40]	US	100%	100%
Unomedical SA de CV[41]	Mexico	100%	100%
Unomedical s.r.o.[42]	Slovakia	100%	100%
ZAO ConvaTec[43]	Russia	100%	100%
ConvaTec OY[44]	Finland	100%	100%
ConvaTec Inc.[45]	US	100%	100%
Boston Medical Device Inc.[45]	US	100%	100%
AbViser Medical LLC[45]	US	100%	100%
Boston Medical Devices LLC[45]	US	100%	100%
ConvaTec Korea Limited[46]	Korea	100%	100%
180 Medical Holdings Inc.[47]	US	100%	100%
180 Medical Acquisition Inc.[47]	US	100%	100%
180 Medical Inc.[47]	US	100%	100%
South Shore Medical Supply Inc.[48]	US	100%	100%
Symbius Medical Inc.[49]	US	100%	100%
PRNMS Investments LLC[49]	US	100%	100%
PRN Medical Services, LLC[49]	US	100%	100%
ConvaTec Technologies[50]	US	100%	100%
BMD Comercio de Productos Medicos Ltda[51]	Brazil	100%	100%
Boston Medical Device de Mexico S de RL de CVR[52]	Mexico	100%	100%
Boston Medical Devices Columbia Ltda[53]	Colombia	100%	100%
Boston Medical Device de Venezuela C.A.[54]	Venezuela	100%	100%
Boston Medical Device de Chile S.A.[55]	Chile	100%	100%
Boston Medical Device Dominicana S.R.L.[56]	Dominican Republic	100%	100%
Boston Medical Device Ecuador S.A.[57]	Ecuador	100%	100%
Boston Medical Care S.A.S IPS[58]	Colombia	100%	100%
Boston Medical Care de Chile SPA[59]	Chile	100%	100%
ConvaTec Dominican Republic Inc.[60]	Dominican Republic	100%	100%
Boston Medical Care de Mexico S de RL de CVR[61]	Mexico	100%	100%
Cidron Healthcare GP, Inc.[62]	US	100%	100%
EuroTec BV[63]	Netherlands	100%	100%
EuroTec Beheer BV[63]	Netherlands	100%	100%
EuroTec GmbH[64]	Germany	100%	100%
Woodbury Holdings, Inc.[65]	US	100%	100%
WPI Holdings Corp[65]	US	100%	100%

4. Investments in Subsidiaries (continued)

Name	Place of business and registered office	Portion of ownership interest %	Portion of voting power held %
WPI Acquisition Corp[65]	US	100%	100%
Wilmington Medical Supply, Inc.[66]	US	100%	100%
In-Home Products, Inc.[67]	US	100%	100%
J&R Medical, LLC[68]	US	100%	100%
Personally Delivered Inc[69]	US	100%	100%
Boston Medical Device International, LLC[70]	US	100%	100%

\+ Investments held directly by ConvaTec Group Plc.

1. 3 Forbury Place, 23 Forbury Road, Reading RG1 3JH, UK
2. 44 Esplanade, St. Helier, Jersey JE4 9WG, Channel Islands
3. 12C, Rue Guillaume Kroll, L-1882 Luxembourg
4. GDC First Avenue, Deeside Industrial Park, Deeside, Flintshire CH5 2NU, UK
5. 1959 Upper Water Street, P.O. Box 997, Halifax, Nova Scotia, B3J 2N2, Canada
6. Mühlentalstrasse 36/38, 8200 Schaffhausen, Switzerland
7. 10th floor, Menara Hap Seng, No. 1 & 3, Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia
8. Unit 5, 9th Floor M. Thai Tower All Seasons Place, No. 87 Wireless Road, Lumpini, Phatumwan, Bangkok 10330, Thailand
9. Brandon Building 5 Office Park, 530–540 Springvale Road, Glen Waverley, VIC 3150, Australia
10. Crowe Horwath, level 29, 188 Quay Street, Auckland, 1010, New Zealand
11. Immeuble le Sigma, 90 Boulevard National, 92250 La Garenne Colombes, Paris, France
12. Al. Armii Ludowej 26, 00-609 Warsaw, Poland
13. Şehit İlknur KelesSokak No.7/3 Hüseyin Bağdatlioğlu Plaza Kozyatagi, Istanbul Turkey 34742
14. 8–7, Roppongi 1-chome, Minato-ku, Tokyo 106-0032, Japan
15. Radlkoferstraße 2, 81373 München, Germany
16. Houttuinlaan 5F, 3447 GM Woerden, Netherlands
17. Olivova 2096/4, Prague 1, 110 00, Praha 1, Czech Republic
18. Via della Sierra Nevada, 60-00144 Rome, Italy
19. Parc d'Alliance, Boulevard de France 9, B-1420 Braine l'Alleud, Belgium
20. Unit 1901 Yue Xiu Bldg 160–174, Lockhart Road, Wan Chai, Hong Kong
21. 2 Shenton Way #13-02, SGX Centre 1, Singapore 068804
22. S-604, 6th Floor, BRIGADE GATEWAY, World Trade Centre, Dr. Rajkumar Road, Yeshwantpur Bangalore – 560055, Karnataka, India
23. Room 1704–1705, Shui On Plaza, No. 333 Middle Huai Hai Road, Huangpu District, Shanghai, 200021, Peoples Republic of China
24. Avenida da Libertade, 144, 7º 1250-146, Lisbon, Portugal
25. Schubertring 6, 1010 Wien, Austria
26. c/o Arthur Cox Building, Earlsfort Terrace, Dublin 2, Ireland
27. 22 Kamal El Din Hussein St, 3rd Floor, Heliopolis Sheraton, Post Code 11977, Cairo, Egypt
28. Constitucion 1, 3ªPlanta, 08960 Sant Just Desvern, Barcelona, Spain
29. Av. La Encalada 1010 of. 806, Santiago de Surco, Lima 15023, Perú
30. Calle Cerrito No. 1070 Tercer Piso, oficina 71. Buenos Aires, Argentina
31. Nils Hansen vei 2, 0667 Oslo, Norway
32. Workshop 17 Office 1-4, 16 Baker Street, Rosebank, Johannesburg, Gauteng 2196
33. Gårdsfogdevägen 18 B, BOX 15138 S-167 15 Bromma, Sweden
34. 317 Mesogeion Avenue and Lokridos (2nd floor), Municipality of Halandri, Greece
35. Skinderskovvej 32–36, 2730 Herlev, Denmark
36. Aaholmvej 1–3, Osted, DK-4320 Lejre, Denmark
37. Zavodskaya str., 50, Fanipol, 222750, Dzerzhinsk reg., Minsk distr., Belarus
38. c/o 3–19 Medan Perniagaan, Pauh Jaya, Jalan Baru, 13700 Perai, Pulau Pinang *(company in liquidation)
39. Ave. Fomento Industrial L9 M3, Parque Ind.del Norte, Reynosa Tam, P88736, Mexico
40. 5701-1 S Ware RD, McAllen, TX 78504, US
41. Ave Industrial Falcon Lote 7, Parque Industrial Del Norte, Cd Reynosa Tamaulipas, CP88736 Mexico
42. Priemyselny Park 3, 071 01 Michalovce, Slovakia
43. Kosmodamianskaya nab., 52 bld.1, 115054, Moscow, Russia
44. Keilaranta 16, 02150 Espoo, Finland
45. 1160 Route 22 East, Suite 304, Bridgewater, NJ 08807, US
46. (Samsung-dong, American Standard B/D) 4F, Yeongdongdaero 112gil 66, Gangnam-Gu, Seoul, Korea
47. 8516 Northwest Expressway, Oklahoma City, OK 73162, US
48. 58 Norfolk Avenue, Unit 2, Easton, MA 02375 US
49. 2311 W. Utopia Road, Phoenix, AZ 85027, US
50. 3993 Howard Hughes Pkwy Ste 250, Las Vegas, NV 89169, US
51. Avenida Portugal, 1100 part C22, CEP 006696-060 Itaqui, Brazil
52. Osos #40, Mezanine Col. Del Valle, Mexico City, Mexico, CP 03100
53. Calle 76 No. 11-17, Piso, 5, Bogota, Colombia 11022154.
54. Av. Sorocaima, Libertador con Venezuela, Edif Atrium. Piso 3, Oficina 3G, Urb El Rosal, Municipio Chacao, Edo, Miranda, Venezuela
55. Av Andres Bello 2325 of 8, Providencia. Santiago de Chile
56. Av. Winston Churchill, esq. 27 d Febrero, Santo Dominico, Dominican Republic
57. Av. Pedro Ponce Carrasco E8-06 y Av. Diego de Almagro. Ed. Almagro Plaza Of. 1204 Quito, Ecuador
58. Calle 82 No. 18-31, Bogota, Colombia
59. Av. Suecia 181, Providencia. Santiago de Chile
60. Carretera Sanchez km 18 ½, Parque Industrial Itabo, Haina, San Cristóbal, Dominican Republic
61. Insurgentes Sur 1871 piso 3 colonia Guadalupe inn Ciudad de Mexico
62. The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, Delaware 19801
63. Schotsbossenstraat 8, 4705 AG Roosendaal, Nederland
64. Winkelsweg 178-180 / Geb.8, 40737 Langenfeld, Germany
65. 15 Verbena Avenue, Floral Park, NY 110001-2793, US
66. 1206 N 23rd Street, Wilmington, NC 28405-1810
67. 14330 Midway Road, Suite 100, Farmers Branch, TX 75244-3513
68. 4625 Southwest Fwy #800, Houston, Texas 77027
69. 725 Primera Blvd, Suite 230, Lake Mary, FL 32746-2127
70. 2315 NW 107th Avenue Suite A30, Doral, Florida 33172

The investments in subsidiaries are all stated at cost less provision for impairments.

4. Investments in Subsidiaries (continued)

The following UK subsidiaries are exempt from the requirement to file audited accounts by virtue of Section 479A of the Companies Act 2006:

Name	Company registration number
SureCalm Healthcare Holdings Limited	07112438
SureCalm Healthcare Limited	07129736
Resus Positive Limited	02777441
B.C.A. Direct Limited	03244349
Alpha-Med (Medical & Surgical) Limited	02672844
ConvaTec Management Holdings Limited	10362476

5. Deferred Tax Assets

	$m
At 1 January 2017	–
Credit to the Profit and Loss Account	0.2
At 31 December 2017	**0.2**
Credit to the Profit and Loss Account	**2.4**
Credit to Statement of Comprehensive Income	**0.1**
Transfer to Group companies	**(0.1)**
At 31 December 2018	**2.6**

The deferred tax asset at 31 December consists of deferred tax on the following items:

	2018 $m	2017 $m
Share-based payment expense	**0.2**	0.2
Tax losses	**2.4**	–
At 31 December	**2.6**	0.2

6. Trade and Other Receivables

	2018 $m	2017 $m
Amounts falling due within one year:		
Amounts owed by group undertakings	**0.8**	1.3
Other debtors	**0.4**	0.1
Prepayments and accrued income	**0.7**	0.8
	1.9	2.2

7. Trade and Other Payables

	2018 $m	2017 $m
Amounts falling due within one year:		
Trade payables	**0.2**	0.3
Amounts owed to group undertakings	**2.5**	–
Other taxation and social security	**1.1**	0.5
Accruals and deferred income	**2.0**	0.9
	5.8	1.7

8. Share Capital and Share Premium Account

Details of the Company's share capital, share premium and own shares are detailed in Note 23 – Share Capital and Reserves to the Consolidated Financial Statements.

9. Subsequent Events

On 12 February 2019, the Board proposed the final dividend in respect of 2018 subject to shareholder approval at the Annual General Meeting on 9 May 2019, to be distributed on 16 May 2019. See Note 11 – Dividends to the Consolidated Financial Statements for further details.

Shareholder information

Our corporate website – www.convatecgroup.com
Information about our Stock Exchange announcements, key dates in our financial calendar, our share price information and background information is available on our corporate website by clicking www.convatecgroup.com/investors.

The date for the release of our interim results for the six months ended 30 June 2019 will be posted in due course on our website.

Shareholders may also receive information by email by signing up to the news alert service available on our corporate website at www.convatecgroup.com/investors/sign-up-for-more-information.

Share price information
Our closing share price as at 31 December 2018 was 138.95p.

Managing your shareholding
You can manage your shareholding online by registering to use Investor Centre, a free and secure website. Investor Centre is available 24 hours a day, 365 days a year. To find out more about Investor Centre visit www.investorcentre.co.uk. Registration is a straightforward process and all you will need is your shareholder reference number (the "SRN") and registered address details.

Shareholders who prefer not to manage their shareholding online can contact our Registrars, Computershare Investor Services PLC, who manage our share dealing service. The share dealing contact telephone number is +44 (0) 370 703 6219 and further information about Computershare Investor Services PLC is set out below.

Internet share dealing
Please note that, at present, this service is only available to shareholders in certain jurisdictions, including the UK. Please refer to the website for an up to date list of these countries. This service provides shareholders with a convenient way to buy or sell the Company's ordinary shares on the London Stock Exchange. The commission is 1.0%, subject to a minimum charge of £30. In addition, stamp duty, currently 0.5%, is payable on purchases. Real-time dealing is available during market hours. In addition, there is a convenient facility to place your order outside of market hours.

Up to 90-day limit orders are available for sales. Before you can trade you will need to register for the service. To access the service log on to www.computershare.com/dealing/uk.

Shareholders should have their SRN available. The SRN appears on share certificates as it will be required as part of the registration process. A bank debit card will be required for purchases.

Telephone share dealing
Please note this service is, at present, only available to shareholders resident in certain jurisdictions. The commission is 1% plus a charge of £35. In addition, stamp duty, currently 0.5%, is payable on purchases. The service is available from 8.00am to 4.30pm Monday to Friday, excluding bank holidays, on telephone number +44 (0) 370 703 0084. Before you trade you will need to register for this service. This can be done by going online at www.computershare.trade. Shareholders should have their SRN ready when making the call. The SRN appears on share certificates. A bank debit card will be required for purchases. Detailed terms and conditions are available on request by telephoning +44 (0) 370 703 0084.

Please note that due to the regulations in the UK, Computershare are required to check that you have read and accepted their Terms and Conditions before being able to trade, which could delay your first telephone trade. If you wish to trade quickly, we suggest visiting their website and registering online first.

Share fraud
We would like to warn all of our shareholders to be very wary of any unsolicited telephone calls or letters which offer investment advice, offer to buy your shares at a discounted price, or sell them at an inflated price or offers free company reports. This type of call should be treated as an investment scam. Further information about investment scams and how they should be reported is available on our corporate website at www.convatecgroup.com/investors/shareholder-services/.

Company Secretary and registered office
Clare Bates
3 Forbury Place
23 Forbury Road
Reading RG1 3JH

Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
Telephone +44 (0) 370 703 6219
Email webqueries@computershare.co.uk

Auditor
Deloitte LLP

Brokers
Goldman Sachs International
UBS Limited

Solicitors
Freshfields Bruckhaus Deringer LLP

Important information for readers of this Annual Report

Cautionary statement regarding forward-looking statements

The purpose of this Annual Report is to provide information to the members of the Company. The Group and its Directors, employees, agents and advisors do not accept or assume responsibility to any other person to whom this Annual Report is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. In order, among other things, to utilise the "safe harbour" provisions of the US Private Securities Litigation Reform Act 1995 and the UK Companies Act 2006, we are providing the following cautionary statement: This Annual Report contains statements that are, or may be deemed to be, "forward-looking" statements with respect to the operations, performance and financial condition of the Group, including among other things, statements about expected revenues, margins, earnings per share or other financial or other measures. Forward-looking statements are statements relating to the future which are based on information available at the time such statements are made, including information relating to risks and uncertainties. Although we believe that the forward-looking statements in this Annual Report are based on reasonable assumptions, the matters discussed in the forward-looking statements may be influenced by factors that could cause actual outcomes and results to be materially different from those expressed or implied by these statements, many of which are beyond the Group's control. The forward-looking statements reflect knowledge and information available at the date of the preparation of this Annual Report and the Group undertakes no obligation to update these forward-looking statements. We identify the forward-looking statements by using the words "anticipates", "believes", "expects", "intends" and similar expressions in such statements. Important factors that could cause actual results to differ materially from those contained in forward-looking statements, certain of which are beyond our control include, among other things those factors identified in the Principal Risks and Uncertainties section which begins on page 36. Forward-looking statements are not guarantees of future performance and the actual results of operations, financial condition and liquidity, and the development of the industry in which the Group operates, may differ materially from those made or suggested by the forward-looking statements set out in this Annual Report. Past performance of the Group cannot be relied on as a guide to future performance. Nothing in this Annual Report should be construed as a profit forecast.

Third-party data

To the extent available, the industry and market data contained in this Annual Report has come from third-party sources. Third-party industry publications, studies and surveys generally state that the data contained therein has been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. In addition, certain industry and market data in this Annual Report came from the Group's own internal research and estimates based on the knowledge and experience of the Group's management in the market in which the Group operates. While the Group believes that such research and estimates are reasonable and reliable, they, and their underlying methodology and assumptions, have not been verified by any independent source for accuracy or completeness and are subject to change without notice. Accordingly, undue reliance should not be placed on any of the industry or market data in this Annual Report.

ConvaTec website

Information on or accessible through our website www.convatecgroup.com and other websites mentioned in this Annual Report, does not form part of and is not incorporated into this Annual Report.

Figures

Figures in parentheses in tables and in the Financial Statements are used to represent negative numbers.

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Included in this Annual Report and Accounts are photographs of our employees and facilities in Deeside (UK), Haina (Dominican Republic) and Michalovce (Slovakia).

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