1 August 2019

ConvaTec Group Plc First Half Results 2019
Improving growth trend in second quarter, Transformation Initiative on track, guidance confirmed

Key points:

- Group reported revenue of $888.9 million in the first half was 3.5% lower year on year and flat[1] on an organic basis;
    - Excluding the one-off rebate provision[6] taken in the first quarter ($8.9 million) to revise the estimate of the distributor rebates accrual, growth in the first half was 1.0%[1] on an organic basis;
    - The second quarter saw an improving revenue trend, with positive organic revenue growth across all franchises and Group growth of 2.1%[1];
- Transformation Initiative on track: three-year programme, $150 million investment (including c.$45 million capex), anticipated gross benefits in 2021 of $130 – $150 million per annum;
    - $14 million cost in first half;
    - Operational Excellence programme delivered net positive productivity in the first half, with benefits more than offsetting inflation and depreciation;
- Reported operating profit / EBIT of $93.6 million, 23.3% lower year on year, reflecting the one-off rebate provision[6], foreign exchange, plus investment in commercial areas and regions, and the Transformation Initiative;
- Adjusted[2] operating profit / EBIT of $165.2 million, 18.8% lower year on year, due to same drivers as above; adjusted[2] EBIT margin declined, as expected, to 18.6% (2018: 22.1%);
- Interim dividend 1.717 cents maintained;
- Leverage 2.6 times Net Debt/EBITDA[3], continued good adjusted cash conversion 89.8% (2018: 75.2%);
- Guidance for the full year maintained: organic revenue growth 1.0% - 2.5%[1], adjusted EBIT[2] margin 18% - 20%, including c. $40 million Transformation Initiative and c. $10 million of MDR[4] costs.

Group revenue

	Six months ended 30 June 2019 $m	Six months ended 30 June 2018 $m	Reported growth	Foreign Exchange impact	Organic[1] growth	Organic[1,*] growth ex. rebate	Q2 Organic[1] growth
Revenue by Franchise							
Advanced Wound Care	271.4	290.0	(6.4)%	(4.6)%	(1.8)%	0.0%	3.3%
Ostomy Care	252.2	266.0	(5.2)%	(5.0)%	(0.2)%	0.6%	0.3%
Continence and Critical Care	221.4	220.1	0.6%	(1.8)%	2.3%	3.0%	2.8%
Infusion Devices	143.9	145.2	(0.9)%	(1.8)%	0.8%	0.8%	1.9%
Total	**888.9**	**921.3**	**(3.5)%**	**(3.6)%**	**0.0%**	**1.0%**	**2.1%**

* Excluding one-off provision of $8.9 million taken in Q1 to revise the estimate of the distributor rebates accrual.

Rick Anderson, Executive Chairman, commented

"All of our Franchises delivered organic[1] revenue growth in the second quarter, indicating positive progress against our performance improvement plans. There is more work to do, but we are well positioned to deliver on our objectives for the full year and consequently our revenue and adjusted EBIT margin guidance is maintained. Throughout the second half of the year, our priority remains improving execution. In addition, I look forward to welcoming Karim Bitar as our new CEO on 30 September.

We expect to see further revenue growth for the Group in the second half. A key focus area is our US Wound business, where a more targeted and effective salesforce is already showing encouraging signs. Ostomy is continuing to deliver a slow but steady recovery, and within Continence and Critical Care our Home

Distribution Group (HDG) continues to outgrow the market in the US, albeit at a lower rate. Infusion Devices saw strong orders from customers in the second quarter.

Our Transformation Initiative has made good progress in many areas, but there is much more to do. Launched in February, we invested $14 million in the first half to establish the programme, identify opportunities and begin execution of the first wave of projects, with detailed tracking of key milestones and weekly reviews by the Executive team. Our Transformation Office provides a model to embed more discipline and better execution into the business: initial progress is encouraging and a "ConvaTec Way" is emerging.

We expect a significant increase in transformation spend in the second half, in line with previous guidance of $40 million spend for the year, as more projects move from planning into execution. We will continue to "forward invest" for growth and efficiency, to enable us to capture more opportunities for value creation over the medium to long term for all our stakeholders."

	Six months ended 30 June		**Growth**	
	2019	**2018**		
Adjusted results[2]	**$m (unless stated)**		**Reported**	**Organic[1]**
Revenue	888.9	921.3	(3.5)%	0.0%
Gross margin	*58.6%*	*59.3%*	*(70) bps*	
EBIT/Operating profit	165.2	203.5	(18.8)%	(15.4)%
EBIT margin	18.6%	22.1%	(350) bps	
Earnings per share ($)	0.06	0.07		

	Six months ended 30 June		**Growth**	
	2019	**2018**		
Reported results	**$m (unless stated)**		**Reported**	**Organic[1]**
Revenue	888.9	921.3	(3.5)%	0.0%
Gross margin	*51.7%*	*52.1%*	*(40) bps*	
EBIT/Operating profit	93.6	122.0	(23.3)%	(18.6)%
EBIT margin	10.5%	13.2%	(270) bps	
Earnings per share ($)	0.02	0.05		
Dividend per share (cents)	1.717 cents	1.717 cents		

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There will be an analysts and investors meeting today at 9.00am BST at The Auditorium, UBS, 5 Broadgate Street, London, which can be viewed live through the ConvaTec website www.convatecgroup.com/investors/reports. A recording will be available on the site shortly afterwards.

United Kingdom: **+44 20 3936 2999**
United States: **+1 646 787 9445**
All other locations: **use UK number**
Access Code: **528708**

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

Financial Calendar

Ex-dividend date	5 September 2019
Dividend record date	6 September 2019
Scrip dividend election date	23 September 2019
Dividend payment date	17 October 2019
Q3 trading update	30 October 2019

About ConvaTec

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

(1) Organic growth presents period over period growth at CER[5], excluding M&A activities.
(2) Certain financial measures in this document, including adjusted results, are not prepared in accordance with International Financial Reporting Standards ("IFRS"). All adjusted measures are reconciled to the most directly comparable measure prepared in accordance with IFRS in the Non-IFRS Financial Information (page 17).
(3) Last 12 months adjusted EBITDA of $458m.
(4) EU Medical Device Regulation.
(5) 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.
(6) One-off provision of $8.9 million taken in Q1 to revise the estimate of the distributor rebates accrual.
(7) Medium to long term is 3 to 5 years.

Operating Review
For the six months ended 30 June 2019

Group reported revenue of $888.9 million in the first half was 3.5% lower year on year, impacted by the one-off rebate provision[6] recognised in the first quarter of $8.9 million, and adverse foreign exchange movements of $33.2 million.

Organic revenue was flat[1] for the half year and grew 2.1%[1] in the second quarter. Excluding the $8.9 million one-off rebate provision[6], revenue grew 1.0%[1] on an organic basis in the first half. The most significant impact leading to differences between reported and organic revenue is the effect of exchange rate movements.

Advanced Wound Care ("AWC")

Organic revenue in the first half of 2019 was 1.8%[1] lower year on year, with growth of 3.3%[1] in the second quarter. Reported revenue of $271.4 million was 6.4% lower compared to the first half of 2018, and reported revenue of $141.7 million in the second quarter declined 0.8% versus the prior year.

Excluding the one-off rebate provision[6] taken in the first quarter, organic growth in the first half was flat[1].

AQUACEL™ Foam and AQUACEL™ Ag+ / Advantage performed well, excluding the one-off rebate provision[6], offset by continued challenges in our legacy products, in particular base AQUACEL™ dressings and skin care. However, our skin care business was less of a drag to growth in the second quarter, compared to the first, as expected.

In the US we have completed our move to a new salesforce model and lead indicators show good momentum, such as the volume of sales calls with clinicians increasing by over 20% in the second quarter, compared to the first. AQUACEL™ Ag Advantage, launched late last year, has been positively received by clinicians and although early days, our Avelle™ Negative Pressure Wound Therapy ("NPWT") is seeing progress and recording its first sales, following launch earlier this year, and we remain excited by the market opportunity.

We saw good momentum in markets in EMEA and APAC. The UK market remains challenging, although stable. Reimbursement reductions in France announced during the second quarter were within our expectations for price headwinds in 2019.

Ostomy Care ("OC")
Organic revenue in our OC franchise declined in the first half by 0.2%[1], but grew 0.3%[1] in the second quarter. Reported revenue of $252.2 million in the first six months declined 5.2% compared to the same period in 2018. Reported revenue of $132.6 million in the second quarter declined 3.9% year on year.

Excluding the one-off rebate provision[6] taken in the first quarter, organic growth in the first half was 0.6%[1].

We continue to execute our strategy to return the franchise to consistent growth, with a good performance in the second quarter in a number of markets in EMEA and LatAm.

We were pleased to win a contract with one of the top 3 hospitals by volume of surgeries in the US, based on our product and service offering, leveraging our HDG model of patient support. We hope to use this as a template with other hospitals and IDNs (Integrated Delivery Networks) in the future.

We continue to invest in and grow our me+™ direct-to-consumer programme, and see traction with our more recent Convex product launches such as Esteem+™ Flex and Natura™ Accordion.

Continence & Critical Care ("CCC")
On a reported basis revenue grew 0.6% to $221.4 million in the first half, with constant currency growth of 2.4%[5], reflecting the contribution of J&R Medical and divestment of the Group's Symbius Medical respiratory business, which both occurred on 1 March 2018. Revenue in the first half grew 2.3%[1] on an organic basis. Reported revenue in the second quarter was $113.0 million, growth of 1.2% year on year, or 2.8%[1] on an organic basis.

Excluding the one-off rebate provision[6] taken in the first quarter, organic growth in the first half was 3.0%[1].

Growth in CCC was driven by HDG which continued to outgrow the overall US continence market, albeit the absolute level of growth was lower than in prior years partly due to the inclusion of the lower growth incontinence business of Woodbury (acquired in September 2017) in organic growth rates. Final patient testing of our next generation catheter against the market leader generated very positive feedback and this will be incorporated into our launch activity in Europe.

Infusion Devices ("ID")
In our ID franchise, revenue of $143.9 million declined 0.9% on a reported basis, but grew 0.8%[1] organically in the first half of 2019. Revenue of $71.0 million in the second quarter grew by 0.7% on a reported basis and 1.9%[1] organically.

Infusion Devices saw strong orders from customers during the first half, driven by continued growth in the insulin pump market.

Transformation Initiative ("TI")
Our Transformation Initiative is on track. Launched in February, during the first half of the year we established the Transformation Office to accelerate delivery of our programme, identified and prioritised opportunities across our four workstreams (Commercial Excellence, Operational Excellence, Business Services Transformation and Portfolio Optimisation) and began execution of the first wave of projects. There is clear accountability for delivery of projects and robust governance, with detailed tracking of key milestones with weekly reviews of the programme by the Executive Chairman, CFO and the rest of the Executive team. Allocation of investment and resource is tightly controlled.

Our Commercial Excellence programme is currently helping to drive a more targeted and effective salesforce in US AWC; Operational Excellence delivered net positive productivity in the first half; in Business Services Transformation we have moved to the final stages of detailed design and in Portfolio Optimisation analysis is ongoing, to identify tail-end SKUs and determine how to serve markets more effectively.

First half cost was $14 million, out of an anticipated full year spend of c. $40 million in supporting the Transformation Initiative. We expect investment to increase in the second half as more projects move from planning into execution.

Overall we anticipate the annual gross benefits in 2021 arising from the $150 million investment will be $130 – $150 million. These benefits will be partially offset by ongoing permanent investment in the business, which will rise to $50 million per annum by 2021 (vs. 2018), and the usual headwinds of price, inflation, and increased depreciation. We expect to deliver margin expansion, over the medium to long term[7], from our adjusted EBIT margin in 2018 of 23.4%, and the anticipated decline to 21.0% to 22.5% in 2019, excluding TI and MDR[4] costs.

Regional Revenue

	Six months ended 30 June					
	2019 $m	**2018 $m**	**Growth Reported**	**Organic[1]**	**Organic[1] growth ex. rebate***	**Q2 Organic[1] growth**
Geographic markets						
EMEA	358.1	378.3	(5.3)%	1.5%	1.5%	3.3%
Americas	462.3	475.1	(2.7)%	(1.9)%	(0.1)%	1.1%
APAC	68.5	67.9	0.9%	5.6%	5.6%	2.8%
Total	**888.9**	**921.3**	**(3.5)%**	**0.0%**	**1.0%**	**2.1%**

* Excluding one-off provision of $8.9 million taken in Q1 to revise the estimate of the distributor rebates accrual.

Revenue in Europe, Middle East and Africa ("EMEA") in the first half declined 5.3% on a reported basis due to unfavorable foreign exchange, more than offsetting growth of 1.5%[1] on an organic basis. Growth in OC and

ID was partially offset by weakness in hospital and critical care. In the second quarter EMEA organic revenue grew 3.3%[1], driven by an improved performance from both OC and AWC, again offset by CCC.

Revenue in Americas in the first half declined 2.7% on a reported basis, or 1.9%[1] on an organic basis, which includes the one-off rebate provision[6] taken in the first quarter of $8.9 million. Whilst OC and AWC delivered strong growth in LatAm, and HDG delivered a good performance, this was more than offset by declines in both OC and AWC in North America, which included the impact of the rebate provision[6]. Excluding the rebate revenue in the Americas was broadly flat[1] year on year on an organic basis. Second quarter growth of 1.1%[1] on an organic basis saw an improved AWC performance.

Revenue in Asia Pacific grew 0.9% on a reported basis in the first half, reflecting unfavorable foreign exchange, with 5.6%[1] growth on an organic basis, driven by OC and AWC. Organic growth in the second quarter of 2.8%[1] was primarily driven by AWC, offset by a weaker OC performance.

Adjusted EBIT margin

Adjusted EBIT margin was 18.6% in the first half, a decline of 350 basis points year on year. The main drivers were the one-off rebate provision[6], foreign exchange and increased investment.

Adjusted gross margin declined 70 basis points, a result of negative foreign exchange and the one-off rebate provision[6]. Our Operational Excellence programme delivered a net productivity benefit in the first half, which helped offset negative price and mix.

Operational expenditure increased, as expected, driven by investment in commercial areas and regions, and spend related to the Transformation Initiative and MDR[4].

In the first half we incurred $14 million and $1 million of cost related to the Transformation Initiative and MDR[4] respectively. We anticipate a significant increase in expenditure in these two areas in the second half, and continue to expect c. $50 million cost for both TI and MDR[4] combined in FY 2019.

See Financial Review for further information on costs and margin.

Cash generation and leverage

Net cash from operating activities was $194.0 million (31 December 2018: $164.9 million), principally reflecting the receipt of $30 million which was the gross settlement of a foreign exchange forward contract. Adjusted cash conversion was 89.8% (2018: 75.2%), reflecting reduced EBITDA but improved working capital year on year.

The Group ended the period with net debt of $1,211.8 million (31 December 2018: $1,305.2 million), which amounted to 2.6x adjusted EBITDA[3] (31 December 2018: 2.7x).

See Liquidity and net debt in the Financial Review for more detail.

Dividend

We are maintaining our interim 2019 dividend at 1.717 cents per share, in line with the interim dividend for 2018. Whilst this is outside our stated policy of 35% to 45% of adjusted net profit, resulting from our investment in transformation, it is a reflection of the Board's confidence in the future performance of the Group and its underlying financial strength, distributable reserves position and cash generation of the Group.

See Note 5 – Dividends, for more detail.

Outlook and Guidance

Full year 2019 guidance of organic revenue growth of 1.0% to 2.5%[1] and adjusted[2] EBIT margin of 18% - 20% is maintained.

The adjusted[2] EBIT margin guidance includes investments in the Transformation Initiative and MDR[4] costs, which totalled $15 million in the first half. We anticipate a significant increase in expenditure in these two areas in the second half and continue to expect c. $50 million of cost for both TI and MDR[4] combined for the full year.

Excluding TI and MDR[4] costs we expect the adjusted[2] EBIT margin to be 21.0% to 22.5%.

FY 2019 adjusted[2] effective tax rate is expected to be approximately 16.5%.

People

As previously announced, Karim Bitar will join the Group as CEO on 30 September.

Following the retirement of Sir Christopher Gent at our AGM in May, the search for a Chairman has made good progress and we expect to provide an update in due course.

The search process is also underway for new Non-Executive Directors, following the departures of Jesper Ovesen and Steve Holliday, as previously announced.

David Shepherd, President of AWC, has assumed direct responsibility for the US Wound business. This will drive continued improvement in performance and ensure the US has the focus and resource it requires. George Poole has stepped down as President of the Americas.

<u>2019 LTIP</u>

In our 2018 Annual Report and Accounts on page 110 the Remuneration Committee noted that it would be appropriate to align the targets and metrics that apply to the 2019 LTIP awards with our Pivot to Growth plans. Those targets have now been agreed by the Committee. The performance measures will each pay out one third. The performance period is from 1st January 2019 to 31st December 2021. All performance measures will vest on a straight line sliding scale between the performance measurement points. All definitions are consistent with the descriptions in the 2018 Annual Report and Accounts.

The performance conditions that will be attached to the 2019 LTIP awards are set out in the table below.

	Vesting schedule	
Measure	Performance	% vesting
Three-year Relative TSR against same comparator group as in 2018 Annual Report and Accounts	< Median	0%
	Median	25%
	≥ 90th percentile	100%
Three-year cumulative EPS (i.e. FY19 EPS + FY20 EPS + FY21 EPS)	< 39 cents	0%
	39 cents	25%
	≥ 49 cents	100%
Three-year average Return on Invested Capital	< 7.0%	0%
	7.0%	25%
	≥9.0%	100%

To the extent the 2019 LTIP awards vest, vested shares will be required to be held by Directors for a further two-year post-vesting holding period.

Principal risks and uncertainties

The Group's risk management process identifies, evaluates, and manages the identified risks that could impact the Group's performance. The Group's principal risks and uncertainties, together with an explanation of the potential impact and mitigating actions, are included in the Group's 2018 Annual Report and Accounts on pages 36 to 43. The Group has reviewed these risks and concluded that they all remain relevant for the first six months of the financial year and are summarised below:

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

UK withdrawal from the European Union ("Brexit")

The Group has, for some time and with external advisory support as required, 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, including a "No Deal" scenario and preparing contingency plans to address the potential outcomes of the UK leaving on 31 October 2019. However, it remains unclear what will be the position for the UK on the revised leaving date of 31 October 2019 and our planning will continue to evolve and adapt in light of political developments. Based on our understanding today, we do not believe that Brexit will generate unmanageable risks for our business. For further information on our analysis of Brexit risks and our preparations, please see our 2018 Annual Report and Accounts.

Forward Looking Statements

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

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

Financial Review

The commentary in this financial review includes discussion of reported and alternative performance measures. Management uses alternative performance measures as a meaningful supplement to reported measures. These measures are disclosed in accordance with the European Securities and Markets Authority guidelines and are explained and reconciled to the most directly comparable measure prepared in accordance with International Financial Reporting Standards ("IFRS") on pages 17 to 21. Further detail on the Group's financial performance, measured in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union, is set out in the Financial Statements and Notes thereto on pages 22 to 34.

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

Results of operations

The following table sets forth the Group's revenue and expense items for the six months ended 30 June 2019 and 2018:

	Six months ended 30 June			
	Reported 2019	**Reported 2018**	**Adjusted 2019**	**Adjusted 2018**
	$m	**$m**	**$m**	**$m**
Revenue	**888.9**	921.3	**888.9**	921.3
Cost of sales	**(429.7)**	(440.9)	**(368.0)**	(374.7)
Gross profit	**459.2**	480.4	**520.9**	546.6
Gross margin %	**51.7%**	52.1%	**58.6%**	59.3%
Selling & distribution expenses	**(214.7)**	(212.3)	**(214.7)**	(212.3)
General & administrative expenses	**(127.2)**	(120.9)	**(117.3)**	(105.6)
Research & development expenses	**(23.7)**	(25.2)	**(23.7)**	(25.2)
Operating profit	**93.6**	122.0	**165.2**	203.5
Operating margin %	**10.5%**	13.2%	**18.6%**	22.1%
Finance costs	**(32.1)**	(32.9)	**(32.1)**	(32.9)
Other expense, net	**(0.2)**	(0.6)	**(0.2)**	(2.5)
Profit before income taxes	**61.3**	88.5	**132.9**	168.1
Income tax (expense)/benefit	**(16.8)**	16.1	**(21.9)**	(23.8)
Net profit	**44.5**	104.6	**111.0**	144.3
Net profit %	**5.0%**	11.4%	**12.5%**	15.7%
Basic and diluted earnings per share ($ per share)	**0.02**	0.05	**0.06**	0.07
Dividend per share (cents)	**1.717**	1.717		

Revenue

On a reported basis revenue decreased by $32.4 million (3.5%) to $888.9 million for the six months to 30 June 2019 (2018: $921.3 million), attributable principally to unfavourable foreign exchange movements ($33.2 million) and the $8.9 million one-off rebate provision[6]. On a constant exchange basis revenue increased by 0.1% and was flat on an organic basis. Further detail on revenue performance is discussed in the Group's Operating Review on pages 4-6.

Gross margin

Reported
On a reported basis gross profit decreased by $21.2 million (4.4%) and gross margin fell to 51.7% (2018: 52.1%), 40 basis points of margin decrease, largely the result of unfavourable foreign exchange movements.

Adjusted
Adjusted gross margin for the six months to 30 June 2019 was 58.6%, compared to 59.3% for the comparative period in 2018. Our Operational Excellence programme (part of our Transformation Initiative) delivered a net positive productivity benefit to gross margin in the first half. This was offset by the impact of the $8.9 million one-off rebate provision[6] in the first quarter, negative product sales mix. Adjusted gross margin was also impacted by negative foreign exchange.

Operating costs and expenses

The following is a summary of operating costs and expenses for the six months to 30 June 2019 and 2018 and includes the percentage of each category compared with total revenue in the respective period.

	Six months ended 30 June			
	Reported 2019	**Reported 2018**	**Adjusted 2019**	**Adjusted 2018**
	$m	**$m**	**$m**	**$m**
Selling & distribution	**214.7**	212.3	**214.7**	212.3
% revenue	***24.1%***	*23.0%*	***24.1%***	*23.0%*
General & administrative	**127.2**	120.9	**117.3**	105.6
% revenue	***14.3%***	*13.1%*	***13.2%***	*11.5%*
Research & development	**23.7**	25.2	**23.7**	25.2
% revenue	***2.7%***	*2.7%*	***2.7%***	*2.7%*
Total operating costs	**365.6**	358.4	**355.7**	343.1
% revenue	***41.1%***	*38.9%*	***40.0%***	*37.2%*

Selling and distribution
On a reported and adjusted basis, selling and distribution expenses increased by $2.4 million to $214.7 million in the six months ended 30 June 2019 (2018: $212.3 million). The increase is driven by investment in our sales organisation, principally relating to our teams in the US, our HDG sales team and selective markets in APAC. This investment has been partially offset by positive foreign exchange benefits.

General and administrative

Reported
On a reported basis, general and administrative expenses increased by $6.3 million to $127.2 million in the six months ended 30 June 2019 (2018: $120.9 million). The increase reflects certain elements of the ongoing investment in the Group's transformation projects ($13.7 million), partially offset by positive foreign exchange benefits ($4.4 million).

Adjusted
Adjusted general and administrative expenses (which principally excludes the pre-2018 acquisition amortisation charges) increased $11.7 million or 11.1% for the six months ended 30 June 2019 to $117.3 million. The increase includes $13.7 million Transformation Initiative costs as described in reported above, together with increases in share-based compensation ($3.1 million), offset by positive foreign exchange benefits.

Research and development ("R&D")
For the six months to 30 June 2019, excluding the decrease resulting from changes in foreign exchange ($1.2 million) R&D expenses have remained broadly flat at $23.7 million (2018: $25.2 million).

Operating profit

Reported
On a reported basis, operating profit for the six months to 30 June 2019 was $93.6 million, a decrease of $28.4 million (2018: $122.0 million) reflecting the decreases in revenue and gross margin and increased investment in the Group's operating cost base, including transformation and MDR[4] costs of $15.1 million. Foreign exchange contributed $5.5 million to the operating profit decrease in the period.

Adjusted
Adjusted operating profit for the six months to 30 June 2019 was $165.2 million, a decrease of $38.3 million (2018: $203.5 million). This reflects the decrease in revenue and gross margin and increased investment in the Group's operating cost base (including the $15.1 million of Transformation Initiative and MDR[4] costs). Foreign exchange contributed $6.7 million to the operating profit decrease in the period.

Taxation

	Six months ended 30 June			
	Reported 2019	**Reported 2018**	**Adjusted 2019**	**Adjusted 2018**
	$m	**$m**	**$m**	**$m**
Profit before taxation	61.3	88.5	132.9	168.1
Tax (expense)/benefit	(16.8)	16.1	(21.9)	(23.8)
Effective tax rate ("ETR")	27.4%	(18.2%)	16.5%	14.2%

Reported

For the six months ended 30 June 2019, the Group reported an income tax expense of $16.8 million (2018: benefit of $16.1 million). The $32.9 million increase in income tax expense was primarily impacted by an adjustment in the six months ended 30 June 2018 in respect of previously unrecognised deferred tax assets of $30.6 million resulting from the US Tax Cuts and Jobs Act.

The ETR for the six months to 30 June 2019 has risen as a significant proportion of the profits in 2019 are expected to arise in jurisdictions with higher tax rates.

Adjusted

After adjusting for certain financial measures that the Group believes are useful supplemental indicators of future operating performance, the adjusted tax rate on continuing operations was 16.5% and 14.2% for the six months ended 30 June 2019 and 30 June 2018 respectively.

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

	Six months ended 30 June	
	2019	**2018**
	$m	**$m**
Reported tax (expense)/benefit	**(16.8)**	16.1
Tax effect of adjustments	**(5.1)**	(6.5)
Other discrete tax items[(a)]	**—**	(33.4)
Adjusted tax expense	**(21.9)**	(23.8)

(a) In 2018, other discrete items principally represents tax benefits of $30.6 million in respect of previously unrecognised deferred tax assets arising from the US Tax Cuts and Jobs Act.

Net profit

Reported

Reported net profit for the six months to 30 June 2019 was $44.5 million (2018: $104.6 million), a decrease of $60.1 million.

Adjusted

Adjusted net profit for the six months to 30 June 2019 has decreased $33.3 million to $111.0 million. As a percentage of revenue, adjusted net profit was 12.5% and 15.7% for the six months ended 30 June 2019 and 2018 respectively. The decrease reflects the changes in operating profit discussed 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:

		Six months ended 30 June		Year ended 31 December
Currency	**Average rate/Closing rate**	**2019**	**2018**	**2018**
EUR/USD	Average	**1.13**	1.21	1.18
	Closing	**1.14**	1.17	1.15
GBP/USD	Average	**1.29**	1.38	1.34
	Closing	**1.27**	1.32	1.28
DKK/USD	Average	**0.15**	0.16	0.16
	Closing	**0.15**	0.16	0.15

Liquidity and net debt

The following table represents the Group's net debt position as at 30 June 2019 and 31 December 2018:

	30 June 2019	31 December 2018
	$m	$m
Cash and cash equivalents	**376.0**	315.6
Borrowings	**(1,587.8)**	(1,644.5)
Add back: Finance lease liabilities[(a)]	**—**	23.7
Net debt	**(1,211.8)**	(1,305.2)
Leverage[(b)]	**2.6**	2.7

(a) Finance lease liabilities have been reclassified from borrowings to lease liabilities in the Condensed Consolidated Statement of Financial Position as a result of the adoption of IFRS 16 on 1 January 2019. Refer to Note 1 - Basis of preparation and accounting standards for further details.

(b) Leverage is calculated as net debt / last 12 months adjusted EBITDA.

The Group is in compliance with all financial and non-financial covenants associated with the Group's outstanding debt.

Cash flows

The cash balance has increased by $36.9 million to $376.0 million as at 30 June 2019 compared to 30 June 2018.

The following table displays cash flow information for the six months ended 30 June 2019 and 2018:

	Six months ended 30 June	
	2019	2018
	$m	$m
Net cash generated from operating activities	**194.0**	164.9
Net cash used in investing activities	**(31.1)**	(45.2)
Net cash used in financing activities	**(100.5)**	(59.7)
Net change in cash and cash equivalents	**62.4**	60.0
Cash and cash equivalents at beginning of the period	**315.6**	289.3
Effect of exchange rate changes on cash and cash equivalents	**(2.0)**	(10.2)
Cash and cash equivalents at end of the period	**376.0**	339.1

Cash flows from operating activities

Net cash generated from operating activities was $194.0 million and $164.9 million for the six months ended 30 June 2019 and 2018, respectively. The following table sets forth the components of net cash generated from operating activities:

	Six months ended 30 June			
	Reported 2019	Reported 2018	Adjusted 2019	Adjusted 2018
	$m	$m	$m	$m
EBITDA	**197.2**	216.7	**204.7**	229.2
Interest paid	**(29.5)**	(22.4)	**(29.5)**	(22.4)
Income taxes paid	**(16.5)**	(13.6)	**(16.5)**	(13.6)
Other payments	-	-	**(4.8)**	(6.7)
Non-cash items	**6.2**	7.5	**0.1**	-
Working capital decrease/(increase)	**36.6**	(23.3)	**10.0**	(21.6)
Net cash generated from operating activities	**194.0**	164.9	**164.0**	164.9

Interest paid increased $7.1 million, to $29.5 million for the six months ended 30 June 2019, due to interest on lease liabilities recognised under the newly adopted standard, IFRS 16 and the timing of interest payments on the US Dollar Term A Loan facility in 2018.

Other payments, which reflect movements in cash relating to adjusted items, decreased by $1.9 million, to $4.8 million for the six months ended 30 June 2019, primarily driven by a reduction in restructuring and other related costs.

The reported working capital decrease of $36.6 million for the six months ended 30 June 2019, compared to $23.3 million increase in 2018, primarily relate to (i) a $28.0 million inflow from inventory decreases in our manufacturing sites following normalisation of the back orders reported at the end of 2017 and early 2018 and (ii) the receipt of $30.0 million which was the gross settlement of a foreign exchange forward contract. The net settlement of this instrument was an overall payment of $nil but, due to a timing difference, $30.0 million was received 28 June 2019 and $30.0 million was paid on 1 July 2019.

The adjusted working capital decrease of $10.0 million for the six months ended 30 June 2019 compared to $21.6 million increase in 2018 is consistent with the movements reported in working capital and reflects the exclusion of $30.0 million relating to the foreign exchange forward contract described above and additional decreases in adjusted items.

Cash flows from investing activities

Net cash used in investing activities decreased $14.1 million, to $31.1 million for the six months ended 30 June 2019 (2018: $45.2 million). This is reflective of lower investment in acquisitions in 2019, comparative to the acquisition of J&R Medical during 2018 ($14.4 million).

Cash flows from financing activities

Net cash used in financing activities increased $40.8 million, to $100.5 million for the six months ended 30 June 2019 (2018: $59.7 million), primarily due to $10.0 million from the recognition of additional lease payments on adoption of IFRS 16 and timing of scheduled loan amortisation payments. Scheduled loan repayments of $1.6 million and an excess cash payment of $2.4 million were paid in the six months to 30 June 2018, $33.3 million was paid on 2 July 2018 ($31.0 million scheduled loan amortisation was paid in June 2019).

Cash conversion

	Six months ended 30 June			
	Reported 2019 $m	Reported 2018 $m	Adjusted 2019 $m	Adjusted 2018 $m
EBITDA	**197.2**	216.7	**204.7**	229.2
Add: non-cash items	**6.2**	7.5	**0.1**	—
Working capital	**36.6**	(23.3)	**10.0**	(21.6)
Capital expenditure	**(30.9)**	(35.3)	**(30.9)**	(35.3)
Cash generated from operations, net of capital expenditure	**209.1**	165.6	**183.9**	172.3
Cash conversion	**106.0 %**	76.4%	**89.8%**	75.2%

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. 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 and provide a meaningful supplement to the reported numbers to support how the business is managed and measured on a day-to-day basis. Reconciliations for these adjusted measures determined under IFRS are shown on pages 18 to 21. The definitions of adjusted measures are as calculated within the reconciliation tables.

Pre-tax adjusted items for the six months ended 30 June 2019 and 2018 include the following credits or costs that are reflected in the reported measures:

– amortisation of intangible assets relating to acquisitions pre 1 January 2018 (ongoing) ($70.2 million and $71.9 million respectively).

– share-based compensation expense arising from pre-IPO equity grants, concluded in H2 2018 ($4.2 million in six months ended 30 June 2018).

– change and restructuring programme related costs, expected to be concluded in H2 2019 ($1.4 million and $5.0 million respectively).

– 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 (net gain in H1 2018 of $1.5 million).

Adjusted cash conversion for the six months ended 30 June 2019 excludes a receipt of $30.0 million in relation to the gross settlement of a foreign exchange forward contract. The net settlement of this instrument was an overall payment of $nil but, due to a timing difference, $30.0 million was received 28 June 2019 and $30.0 million was paid on 1 July 2019.

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

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 Condensed Consolidated Statement of Financial Position, less the carrying value of finance leases (Note 7 - Borrowings) net of cash and cash equivalents.

Acquisition related amortisation of intangible assets

Our adjusted measures exclude the amortisation of intangibles arising from acquisitions made before 1 January 2018. After 1 January 2018, amortisation in relation to incremental "bolt-on" acquisitions is not excluded as smaller acquisitions are part of our Group strategy and should be included in our reported and adjusted measures. 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.

Pre-IPO equity grant compensation

In order to provide greater comparability, and reflecting the changes within the Group as a result of the IPO (October 2016), certain IPO related costs were excluded from adjusted measures. Final residual share based costs were incurred in 2018.

Change and restructuring programme related costs

These arise from prior 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 discreet qualifying items are identified these costs are highlighted and excluded from our adjusted measures.

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.

Reconciliation of reported earnings to adjusted earnings for the six months ended 30 June 2019 and 2018

	Revenue	Gross profit	Operating costs	**Operating profit**	Finance costs	Other expenses, net	**PBT**	Taxation	**Net profit**
Six months ended 30 June 2019	$m	$m	$m	**$m**	$m	$m	**$m**	$m	**$m**
Reported	**888.9**	**459.2**	**(365.6)**	**93.6**	**(32.1)**	**(0.2)**	**61.3**	**(16.8)**	**44.5**
Amortisation of pre-2018 acquisition intangibles	—	61.7	8.5	**70.2**	**—**	**—**	**70.2**	(5.1)	**65.1**
Restructuring and other related costs	—	—	1.4	**1.4**	—	—	**1.4**	—	**1.4**
Total adjustments and their tax effect	—	61.7	9.9	**71.6**	—	—	**71.6**	(5.1)	**66.5**
Adjusted	**888.9**	**520.9**	**(355.7)**	**165.2**	**(32.1)**	**(0.2)**	**132.9**	**(21.9)**	**111.0**

Software and R&D amortisation	**4.7**
Post-2018 acquisition amortisation	**0.5**
Depreciation	**28.2**
Post-IPO share-based payment compensation	**6.1**
Adjusted EBITDA	**204.7**

Restructuring and other related costs were $1.4 million, pre-tax, in the six months to 30 June 2019 and related to the transition of the head office support functions from the US to the UK and restructuring of geographical sales teams. These programmes are considered substantially complete.

Six months ended 30 June 2018	Revenue $m	Gross profit $m	Operating costs $m	**Operating profit** **$m**	Finance costs $m	Other expenses, net $m	**PBT** **$m**	Taxation $m	**Net profit** **$m**
Reported	921.3	480.4	(358.4)	**122.0**	(32.9)	(0.6)	**88.5**	16.1	**104.6**
Amortisation of pre-2018 acquisition intangibles	—	63.3	8.6	**71.9**	—	—	**71.9**	(6.4)	**65.5**
Impairments/write-offs	—	0.3	0.1	**0.4**	—	—	**0.4**	—	**0.4**
Restructuring and other related costs	—	2.6	2.4	**5.0**	—	(1.9)	**3.1**	(0.1)	**3.0**
Pre-IPO share-based payment expense and related costs	—	—	4.2	**4.2**	—	—	**4.2**	—	**4.2**
Total adjustments and their tax effect	—	66.2	15.3	**81.5**	—	(1.9)	**79.6**	(6.5)	**73.1**
Other discrete tax items	—	—	—	**—**	—	—	**—**	(33.4)	**(33.4)**
Adjusted	921.3	546.6	(343.1)	**203.5**	(32.9)	(2.5)	**168.1**	(23.8)	**144.3**

Software and R&D amortisation	**4.4**
Post-2018 acquisition amortisation	**0.3**
Depreciation	**18.1**
Post-IPO share-based payment compensation	**2.9**
Adjusted EBITDA	**229.2**

Restructuring and other related costs were $3.1 million, pre-tax, in 2018 and related to three significant restructuring programmes including:

– $5.0 million in relation to the transition of the head office support functions from the US to the UK and restructuring of geographical sales teams.

– offset by gain on sale of asset $1.9 million relating to the divestment of Symbius in 2018.

The impairment/write-off charge of $0.4 million relates to the final write-off of certain manufacturing fixed assets following the closure of the Greensboro site in 2017.

Other discrete items principally represent tax benefits of $30.6 million in respect of previously unrecognised deferred tax assets arising from the US Tax Cuts and Jobs Act.

Reconciliation of basic and diluted reported earnings per share to adjusted earnings per share for the six months ended 30 June 2019 and 30 June 2018

	Six months ended 30 June			
	Reported 2019	Adjusted 2019	Reported 2018	Adjusted 2018
	$m	$m	$m	$m
Net profit attributable to the equity holders of the Group	**44.5**	**111.0**	104.6	144.3
		Number		**Number**
Basic weighted average ordinary shares in issue[(a)]		**1,966,554,877**		1,951,323,985
Diluted weighted average ordinary shares in issue[(a)]		**1,971,471,328**		1,954,207,507
	$ per share	**$ per share**	**$ per share**	**$ per share**
Basic and diluted earnings per share	**0.02**	**0.06**	0.05	0.07

(a) See Note 6 - Earnings per share

Reconciliation of reported operating costs to adjusted operating costs for the six months ended 30 June 2019 and 30 June 2018

	Six months ended 30 June							
	2019				2018			
	S&D[(a)]	G&A[(b)]	R&D[(c)]	Operating costs	S&D[(a)]	G&A[(b)]	R&D[(c)]	Operating costs
	$m	$m	$m	**$m**	$m	$m	$m	**$m**
Reported	(214.7)	(127.2)	(23.7)	**(365.6)**	(212.3)	(120.9)	(25.2)	**(358.4)**
Amortisation of pre-2018 acquisition intangibles	—	8.5	—	**8.5**	—	8.6	—	**8.6**
Impairments/write-offs	—	—	—	**—**	—	0.1	—	**0.1**
Restructuring and other related costs	—	1.4	—	**1.4**	—	2.4	—	**2.4**
	(214.7)	(117.3)	(23.7)	**(355.7)**	(212.3)	(109.8)	(25.2)	**(347.3)**
IPO related costs								
Pre-IPO share-based payment expense and related costs	—	—	—	**—**	—	4.2	—	**4.2**
Total in relation to IPO	—	—	—	**—**	—	4.2	—	**4.2**
Adjusted	(214.7)	(117.3)	(23.7)	**(355.7)**	(212.3)	(105.6)	(25.2)	**(343.1)**

(a) "S&D" represents Selling & distribution expenses

(b) "G&A" represents General & administrative expenses

(c) "R&D" represents Research & development expenses

Cash conversion for the six months ended 30 June 2019 and 30 June 2018

	Six months ended 30 June	
	2019	**2018**
	$m	**$m**
Reported Operating profit/EBIT	**93.6**	122.0
Depreciation of property, plant and equipment	**17.1**	18.1
Depreciation of right-of-use assets	**11.1**	—
Amortisation	**75.4**	76.6
Reported EBITDA	**197.2**	216.7
Non-cash items in EBITDA		
Share-based compensation	**6.1**	7.1
Write-off/disposal of property, plant and equipment	**0.1**	0.4
	6.2	7.5
Working capital movement	**36.6**	(23.3)
Capital expenditure	**(30.9)**	(35.3)
Reported net cash for cash conversion	**209.1**	165.6

Reconciliation of Adjusted EBITDA, Adjusted Non-Cash Items, Adjusted Working Capital and Adjusted Net Cash for Cash Conversion		
Reported EBITDA	**197.2**	216.7
Share-based payment expense	**6.1**	7.1
Impairment/write-offs	**—**	0.4
Restructuring and other related costs	**1.4**	5.0
Total adjustments (a)	**7.5**	12.5
Adjusted EBITDA	**204.7**	229.2
Reported Non-cash items	**6.2**	7.5
Share-based compensation	**(6.1)**	(7.1)
Impairment/write-offs	**—**	(0.4)
Total adjustments (b)	**(6.1)**	(7.5)
Adjusted Non-cash Items	**0.1**	—
Reported Working Capital	**36.6**	(23.3)
Decrease/(increase) in severance provision	**3.4**	(1.6)
Decrease in accruals for remediation costs, corporate development and IPO-related costs	**—**	3.7
Decrease in liability for pre-IPO MIP	**—**	(0.4)
Increase in other financial liabilities due to foreign exchange forward contract	**(30.0)**	—
Total adjustments (c)	**(26.6)**	1.7
Adjusted Working Capital	**10.0**	(21.6)
Reported net cash for cash conversion	**209.1**	165.6
Total adjustments above (a), (b), (c)	**(25.2)**	6.7
Adjusted net cash for cash conversion	**183.9**	172.3
Reported cash conversion	**106.0 %**	76.4%
Adjusted cash conversion	**89.8 %**	75.2%

Condensed Consolidated Income Statement

	Note	Six months ended 30 June 2019 $m	2018 $m
		(unaudited)	*(unaudited)*
Revenue	2	**888.9**	921.3
Cost of sales		**(429.7)**	(440.9)
Gross profit		**459.2**	480.4
Selling and distribution expenses		**(214.7)**	(212.3)
General and administrative expenses		**(127.2)**	(120.9)
Research and development expenses		**(23.7)**	(25.2)
Operating profit		**93.6**	122.0
Finance costs	3	**(32.1)**	(32.9)
Other expense, net		**(0.2)**	(0.6)
Profit before income taxes		**61.3**	88.5
Income tax (expense)/benefit	4	**(16.8)**	16.1
Net profit		**44.5**	104.6
Earnings per share			
Basic and diluted earnings per share ($ per share)	6	**0.02**	0.05

The accounting policies and notes on pages 27 to 34 form an integral part of the Condensed Consolidated Financial Statements. All results are attributable to shareholders of the Group and wholly derived from continuing operations.

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2019	**2018**
	$m	**$m**
	(unaudited)	*(unaudited)*
Net profit	**44.5**	104.6
Other comprehensive loss:		
Items that will not be reclassified subsequently to Consolidated Income Statement		
Remeasurement of defined benefit obligation, net of tax	—	0.7
Recognition of the pension asset restriction	—	(0.8)
Items that may be reclassified subsequently to Consolidated Income Statement		
Exchange differences on translation of foreign operations	**(4.6)**	(30.5)
Effective portion of changes in fair value of cash flow hedges	**(9.2)**	9.8
Income tax relating to items that may be reclassified	**2.5**	(2.3)
Other comprehensive loss	**(11.3)**	(23.1)
Total comprehensive income	**33.2**	81.5

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

Condensed Consolidated Statement of Financial Position

	Note	30 June 2019 $m	31 December 2018 $m
		(unaudited)	*(audited)*
Assets			
Non-current assets			
Property, plant and equipment		**315.5**	330.7
Right-of-use assets	1	**82.3**	—
Intangible assets		**1,263.2**	1,334.5
Goodwill		**1,039.3**	1,043.0
Deferred tax assets		**39.5**	22.9
Derivative financial assets	8	**2.1**	11.3
Restricted cash		**2.2**	2.4
Other assets		**11.0**	12.4
		2,755.1	2,757.2
Current assets			
Inventories		**291.9**	303.3
Trade and other receivables		**272.0**	253.7
Prepaid expenses and other current assets		**32.1**	30.6
Cash and cash equivalents		**376.0**	315.6
		972.0	903.2
Total Assets		**3,727.1**	3,660.4
Equity and Liabilities			
Current liabilities			
Trade and other payables		**115.0**	116.0
Borrowings	7	**79.7**	63.0
Lease liabilities	1	**18.5**	—
Other current liabilities and accruals		**154.0**	105.5
Current tax payable		**42.1**	41.9
Provisions		**0.9**	4.5
		410.2	330.9
Non-current liabilities			
Borrowings	7	**1,508.1**	1,581.5
Lease liabilities	1	**67.1**	—
Deferred tax liabilities		**121.0**	107.1
Provisions		**1.5**	1.5
Other non-current liabilities		**21.9**	22.2
		1,719.6	1,712.3
Total Liabilities		**2,129.8**	2,043.2
Equity			
Share capital		**242.2**	240.7
Share premium		**58.3**	39.8
Own shares		**(5.4)**	(6.8)
Retained deficit		**(779.1)**	(744.5)
Merger reserve		**2,098.9**	2,098.9
Cumulative translation reserve		**(128.8)**	(124.2)
Other reserves		**111.2**	113.3
Total Equity		**1,597.3**	1,617.2
Total Equity and Liabilities		**3,727.1**	3,660.4

Condensed Consolidated Statement of Changes in Equity

	Share capital	Share premium	Own shares	Retained deficit	Merger reserve	Cumulative translation reserve	Other reserves	Total
	$m	$m	$m	$m	$m	$m	$m	$m
At 1 January 2019 *(audited)*	**240.7**	**39.8**	**(6.8)**	**(744.5)**	**2,098.9**	**(124.2)**	**113.3**	**1,617.2**
Net profit	**—**	**—**	**—**	**44.5**	**—**	**—**	**—**	**44.5**
Other comprehensive loss:								
Foreign currency translation adjustment, net of tax	—	—	—	—	—	**(4.6)**	—	**(4.6)**
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	—	—	—	—	**(6.7)**	**(6.7)**
Total other comprehensive loss	—	—	—	—	—	**(4.6)**	**(6.7)**	**(11.3)**
Total comprehensive income	—	—	—	**44.5**	—	**(4.6)**	**(6.7)**	**33.2**
Dividends paid	—	—	—	**(59.1)**	—	—	—	**(59.1)**
Scrip dividend	**1.5**	**18.5**	—	**(20.0)**	—	—	—	—
Share-based payments	—	—	—	—	—	—	**6.0**	**6.0**
Share awards vested	—	—	**1.4**	—	—	—	**(1.4)**	—
At 30 June 2019 *(unaudited)*	**242.2**	**58.3**	**(5.4)**	**(779.1)**	**2,098.9**	**(128.8)**	**111.2**	**1,597.3**

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

Condensed Consolidated Statement of Cash Flows

	Note	Six months ended 30 June 2019 $m	2018 $m
Cash flows from operating activities		*(unaudited)*	*(unaudited)*
Net profit		**44.5**	104.6
Adjustments for			
Depreciation of property, plant and equipment		**17.1**	18.1
Depreciation of right-of-use assets	1	**11.1**	—
Amortisation		**75.4**	76.6
Income tax expense/(benefit)	4	**16.8**	(16.1)
Other expense, net		**0.2**	0.6
Finance costs	3	**32.1**	32.9
Share-based compensation		**6.1**	7.1
Write-off/disposal of assets/impairment losses		**0.1**	0.4
Changes in assets and liabilities:			
Inventories		**11.0**	(17.0)
Trade and other receivables		**(18.6)**	(16.8)
Prepaid expenses and other current assets		**(1.5)**	1.4
Other non-current assets		**1.0**	(1.2)
Trade and other payables		**1.5**	7.3
Other current liabilities and accruals		**13.7**	1.8
Other financial liabilities[(a)]		**29.9**	—
Other non-current liabilities		**(0.4)**	1.2
Net cash generated from operations		**240.0**	200.9
Interest paid		**(29.5)**	(22.4)
Income taxes paid		**(16.5)**	(13.6)
Net cash generated from operating activities		**194.0**	164.9
Cash flows from investing activities			
Acquisition of property, plant and equipment and capitalised software		**(30.9)**	(35.3)
Proceeds from sale of property, plant and equipment and other assets		**—**	4.3
Acquisitions, net of cash acquired		**—**	(14.4)
Change in restricted cash		**0.4**	0.9
Capitalised development expenditure		**(0.6)**	(0.7)
Net cash used in investing activities		**(31.1)**	(45.2)
Cash flows from financing activities			
Repayment of borrowings	7	**(31.0)**	(4.0)
Payment of lease liabilities[(b)]	1	**(10.4)**	(0.4)
Dividend paid		**(59.1)**	(55.3)
Net cash used in financing activities		**(100.5)**	(59.7)
Net change in cash and cash equivalents		**62.4**	60.0
Cash and cash equivalents at beginning of the period		**315.6**	289.3
Effect of exchange rate changes on cash and cash equivalents		**(2.0)**	(10.2)
Cash and cash equivalents at end of the period		**376.0**	339.1

(a) Other financial liabilities for the six months ended 30 June 2019 includes the receipt of $30.0 million which was the gross settlement of a foreign exchange forward contract. The net settlement of this instrument was an overall payment of $nil, but due to a timing difference, $30.0 million was received 28 June 2019 and $30 million was paid on 1 July 2019.

(b) Payment of lease liabilities for the six months ended 30 June 2019 includes $10.0 million of payments in respect of new leases recognised upon adoption of IFRS 16, *Leases*. In the six months ended 30 June 2018, these payments were classified as operating leases and included in cash flows from operating activities. Payment of lease liabilities for the six months ended 30 June 2018 relates to amounts previously classified as finance leases. Refer to Note 1 - Basis of preparation and accounting standards for further details.

Notes to the Condensed Consolidated Financial Statements

1. Basis of preparation and accounting standards

ConvaTec Group Plc (the "Company") is a company incorporated in the United Kingdom. The accompanying unaudited Condensed Consolidated Financial Statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2019 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

The interim Condensed Consolidated Financial Statements should be read in conjunction with the 2018 ConvaTec Group Plc Annual Report and Accounts, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The accounting policies adopted by the Group in preparation of these interim Condensed Consolidated Financial Statements are consistent with those set out in the 2018 Annual Report and Accounts, except for those described below as new standards and interpretations applied for the first time.

These interim Condensed Consolidated Financial Statements and the comparatives are not statutory financial statements. The statutory financial statements for the Group in respect of the year ended 31 December 2018 have been reported on by the Group's auditor and delivered to the Registrar of Companies. The audit report on those accounts was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The Condensed 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 the nearest $0.1 million except where otherwise indicated.

The Condensed Consolidated Financial Statements for the six months ended 30 June 2019 were authorised by the Board on 31 July 2019.

New standards and interpretations applied for the first time

On 1 January 2019, the Group adopted the following new or amended IFRS and interpretations issued by the International Accounting Standards Board ("IASB"):

- IFRS 16, *Leases*
- IAS 19, *Plan Amendments, Curtailment or Settlement (Amendments to IAS 19)*
- IFRIC 23, *Uncertainty over Income Tax Treatments*
- *Annual Improvements of IFRS standards 2015-2017 Cycle (IFRS 3, IFRS 11, IAS 12, IAS 23)*

Their adoption has not had a material impact on the Condensed Consolidated Financial Statements, with the exception of IFRS 16, *Leases* ("IFRS 16").

IFRS 16

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

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

Finance leases existing at the date of adoption continue to be treated as finance leases and have been reclassified from borrowings to lease liabilities in the Condensed Consolidated Statement of Financial Position. For operating leases existing at the date of adoption, the Group has applied the modified retrospective approach by measuring the right-of-use asset at an amount equal to the lease liability and therefore comparative information has not been restated. Upon transition the Group also applied the following practical expedients:

- Application of a single discount rate to a portfolio of leases with similar characteristics;
- Exclude initial direct costs from the right-of-use assets;
- Use hindsight when assessing the lease term; and
- Not to reassess whether a contract is or contains a lease.

Notes to the Condensed Consolidated Financial Statements

The Group has elected to apply the recognition exemptions to all:

- Leases with a term of 12 months or less and containing no purchase options ("short-term leases"); and
- Leases where the underlying asset has a value of less than $5,000 ("low-value leases").

For short-term leases and low-value leases, the Group accounts for lease payments as an expense on a straight-line basis over the term of the lease.

The lease liability was initially measured at the present value of the lease payments that were not paid at the transition date, discounted by using the rate implicit in the lease. If this rate could not be readily determined, the Group has used its incremental borrowing rate which was 3.1% at the date of transition. Options such as lease extensions or terminations on lease contracts are considered on a case-by-case basis by regular management assessment. The right-of-use asset is being depreciated on a straight-line basis.

The undiscounted lease liability upon adoption is $15.8 million higher than the $61.9 million minimum rental commitments under all non-cancellable operating leases at 31 December 2018. The differences are due to lease term extensions under IFRS 16, offset by the exclusion of short-term leases and low-value leases.

The following tables set out the financial impact of adopting IFRS 16 for the six months ended 30 June 2019:

Reconciliation of lease liabilities	**$m**
Lease liabilities recognised on adoption of IFRS 16	65.8
Add: finance leases recognised in borrowings as at 31 December 2018	23.7
Lease liabilities as at 1 January 2019	**89.5**
Lease additions	7.2
Payment of lease liabilities	(10.4)
Leases terminated	(0.6)
Interest expense on lease liabilities	1.8
Interest paid on lease liabilities	(1.8)
Currency translation adjustment	(0.1)
Lease liabilities as at 30 June 2019	**85.6**
Of which:	
Current lease liabilities	**18.5**
Non-current lease liabilities	**67.1**

Reconciliation of right-of-use assets	**$m**
Right-of-use assets recognised on adoption of IFRS 16	65.8
Add: assets relating to finance leases recognised in property, plant and equipment as at 31 December 2018	21.1
Right-of-use assets as at 1 January 2019	**86.9**
Lease additions	7.2
Leases terminated	(0.6)
Depreciation of right-of-use assets	(11.1)
Currency translation adjustment	(0.1)
Right-of-use assets as at 30 June 2019	**82.3**
Of which:	
Real estate and other	**66.7**
Vehicles	**15.6**

Upon adoption of IFRS 16 at 1 January 2019, there was an increase to deferred tax assets and deferred tax liabilities of $15.2 million.

During the six months ended 30 June 2019, expenses related to short-term leases and low-value leases of $1.8 million were recognised in the Condensed Consolidated Income Statement.

The Group's Condensed Consolidated Income Statement for the six months ended 30 June 2019 includes a net expense of $0.2 million as a result of adopting IFRS 16.

New standards and interpretations not yet applied

At the date of authorisation of these Condensed Consolidated Financial Statements, there were no new or revised IFRSs, amendments or interpretations in issue but not yet effective that are potentially relevant for the Group and which have not yet been applied.

Principal risks and uncertainties

The Group has a risk management process in place to identify, evaluate and manage the identified risks that could impact the Group's performance. The current risks, together with an explanation of the impact and mitigation actions, are set out in the 2018 Annual Report and Accounts on pages 36 to 43. The Group has reviewed these risks and concluded that they all remain relevant. Principal Risks and Uncertainties reported at the year end are: Change and transformation; Attract, engage and retain leadership talent; Brexit; Legal and Compliance; Global Operational and Supply Chain; Product Innovation and Intellectual Property; Pricing and reimbursement; Forecasting Process; Information security; Macroeconomic and foreign exchange; and Quality and Regulatory.

Going concern

The Directors have, at the time of approving these Condensed Consolidated Financial Statements, a reasonable expectation and a high level of confidence that the Group has the adequate liquid resources to meet its liabilities as they become due and will be able to sustain its business model, strategy and operations and remain solvent for a period of at least 12 months from 31 July 2019. Thus, the Directors continue to adopt the going concern basis in preparing these Condensed Consolidated Financial Statements.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements, in conformity with IFRS, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these Condensed Consolidated Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements for the year ended 31 December 2018.

2. Segment information

The Group's management considers its business to be a single segment entity engaged in the development, manufacture and sale of medical products and technologies. 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's Executive Chairman, 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 Executive Chairman 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 Executive Chairman 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 following table sets out the Group's revenue by market franchise:

	Six months ended 30 June	
	2019	**2018**
Revenue by market franchise	**$m**	**$m**
Advanced Wound Care	**271.4**	290.0
Ostomy Care	**252.2**	266.0
Continence and Critical Care	**221.4**	220.1
Infusion Devices	**143.9**	145.2
Total	**888.9**	921.3

Geographic information

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

	Six months ended 30 June	
	2019	**2018**
Geographic markets	**$m**	**$m**
EMEA	**358.1**	378.3
Americas	**462.3**	475.1
APAC	**68.5**	67.9
Total	**888.9**	921.3

Revenue decreased by $32.4 million to $888.9 million for the six months to 30 June 2019 (2018: $921.3 million), attributable principally to unfavourable foreign exchange movements ($33.2 million). Further details on revenue performance is discussed in the Group's Operating Review on pages 4-5.

3. Finance costs

Finance costs for the six months ended 30 June 2019 and 2018 were as follows:

	Six months ended 30 June	
	2019	**2018**
	$m	**$m**
Interest expense on borrowings	**(32.8)**	(31.2)
Amortisation of deferred financing fees and OID[a]	**(2.4)**	(2.5)
Interest expense on lease liabilities[b]	**(1.8)**	(0.9)
Interest income from derivative financial instruments	**4.0**	1.3
Other income, net	**0.9**	0.4
Finance costs	**(32.1)**	(32.9)

(a) Original issue discount ("OID") represents the discount from par value at the time that a bond or other debt instrument is issued.

(b) Interest expense on lease liabilities for the six months ended 30 June 2019 relates to the interest on lease liabilities for right-of-use assets which have been classified as leases under IFRS 16. For the six months ended 30 June 2018, the interest expense relates to the interest on finance leases. Refer to Note 1 - Basis of preparation and accounting standards for further details.

4. Income taxes

The Group's income tax (expense)/benefit is accrued using the tax rate that would be applicable to expected total annual earnings (i.e. the estimated average annual effective income tax rate applied to the income or loss before tax). For the six months ended 30 June 2019, the Group recorded an income tax expense of $16.8 million and for the six months ended 30 June 2018, the Group recorded an income tax benefit of $16.1 million. The income tax benefit in the six months ended 30 June 2018 was primarily driven by an adjustment for prior years in respect of previously unrecognised deferred tax assets of $30.6 million in the US resulting from the US Tax Cuts and Jobs Act enacted on 22 December 2017, which had no cash tax impact.

5. Dividends

	pence per share	cents per share	Total $m	Settled in cash $m	Settled via scrip $m	No of scrip shares issued
Final dividend 2017	3.094	4.300	81.7	55.3	26.4	9,623,305
Interim dividend 2018	1.309	1.717	33.6	19.6	14.0	4,681,820
Paid in 2018	**4.403**	**6.017**	**115.3**	**74.9**	**40.4**	**14,305,125**
Final dividend 2018	3.097	3.983	79.1	59.1	20.0	11,198,285
Paid in 2019 to date	**3.097**	**3.983**	**79.1**	**59.1**	**20.0**	**11,198,285**
Interim dividend 2019 proposed	**1.404**	**1.717**	**34.0**			

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

The proposed interim dividend for 2019 to be distributed on 17 October 2019 to shareholders registered at the close of business on 6 September 2019 is based upon the issued and fully paid share capital as at 30 June 2019. The dividend will be declared in US dollars and will be paid in Sterling at the chosen exchange rate of $1.223/£1.00 determined on 31 July 2019. A scrip dividend alternative will be offered allowing shareholders to elect by 23 September 2019 to receive their dividend in the form of new ordinary shares.

Distributable reserves

Distributable reserves equates to the retained surplus of ConvaTec Group Plc. The capacity of the Company to make dividend payments is primarily determined by the availability of these distributable reserves and cash resources. The Group principally derives distributable reserves from dividends paid by subsidiary companies.

At 30 June 2019, the retained surplus of ConvaTec Group Plc was $1,563.6 million (31 December 2018: $1,574.7 million). The movements in distributable reserves were as follows:

	$m
At 1 January 2019	**1,574.7**
Total comprehensive income for the period	**68.0**
Dividends paid	**(59.1)**
Scrip dividend	**(20.0)**
Retained surplus at 30 June 2019	**1,563.6**

6. Earnings per share

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

	Six months ended 30 June	
	2019	**2018**
	$m	**$m**
Net profit attributable to the shareholders of the Group	**44.5**	104.6
	Number	**Number**
Basic weighted average ordinary shares in issue (net of shares purchased by the Company and held as Own shares)	**1,966,554,877**	1,951,323,985
Dilutive impact of share awards	**4,916,451**	2,883,522
Diluted weighted average ordinary shares in issue	**1,971,471,328**	1,954,207,507
	$ per share	**$ per share**
Basic and diluted earnings per share	**0.02**	0.05

The calculation of diluted earnings per share excludes 6,777,468 (2018: 6,835,000) share options that were non-dilutive for the six months ended 30 June 2019 because the exercise price exceeded the average market price of the Group's ordinary shares during the six months ended 30 June 2019.

7. Borrowings

A summary of the Group's consolidated borrowings is outlined in the table below:

	30 June 2019	**31 December 2018**
	$m	**$m**
Credit Facilities Agreement:		
US Dollar Term A Loan Facility	**678.8**	706.7
Euro Term A Loan Facility	**493.2**	496.5
US Dollar Term B Loan Facility	**415.8**	417.6
Total borrowings from credit facilities	**1,587.8**	1,620.8
Finance lease liabilities[(a)]	**—**	23.7
Total borrowings	**1,587.8**	1,644.5
Less: Current portion of borrowings	**79.7**	63.0
Total non-current borrowings	**1,508.1**	1,581.5

(a) Finance lease liabilities have been reclassified from borrowings to lease liabilities in the Condensed Consolidated Statement of Financial Position as a result of the adoption of IFRS 16 on 1 January 2019. Refer to Note 1 - Basis of preparation and accounting standards for further details.

The key terms of total borrowings outstanding are as follows:

			30 June 2019		**31 December 2018**	
		Year of maturity	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
	Currency		**$m**	**$m**	**$m**	**$m**
US Dollar Term A Loan Facility	USD	2021	**683.4**	**678.8**	712.3	706.7
Euro Term A Loan Facility[(a)]	EURO	2021	**496.8**	**493.2**	500.9	496.5
US Dollar Term B Loan Facility	USD	2023	**419.3**	**415.8**	421.4	417.6
Finance lease liabilities[(b)]	EURO/USD	—	**—**	**—**	23.7	23.7
Total interest-bearing liabilities			**1,599.5**	**1,587.8**	1,658.3	1,644.5

(a) Total face value of the borrowings outstanding under the Euro Term A Loan Facility denominated in euros was €436.8 million at 30 June 2019 and 31 December 2018.

(b) Finance lease liabilities have been reclassified from borrowings to lease liabilities in the Condensed Consolidated Statement of Financial Position as a result of the adoption of IFRS 16 on 1 January 2019. Refer to Note 1 - Basis of preparation and accounting standards for further details.

At 30 June 2019, the Group was in compliance with all financial and non-financial covenants associated with the Group's outstanding debt.

In the six months ended 30 June 2019, the Group made scheduled loan amortisation payments of $2.1 million for the US Dollar Term B Loan Facility and $28.9 million for the US Dollar Term A Loan Facility.

8. Financial instruments

Derivative financial assets

Derivative financial assets consist of foreign exchange forwards and interest rate swaps. The Group has variable rate debt instruments and is exposed to market risks resulting from interest rate fluctuations. In order to manage its exposure to variability in expected future cash outflows attributable to the changes in LIBOR rates on the US Dollar Term A and B Loan Facility, in May 2017, the Group entered into interest rate swap agreements. The Group interest rate swaps do not contain credit-risk related contingent features. The interest rate swaps are designated as hedging instruments in a cash flow hedging relationship. As such, changes in the fair value will be recognised in other comprehensive income and accumulated in the other reserve, with the fair value of the interest rate derivatives recorded in the Condensed Consolidated Statement of Financial Position.

The following table presents the Group's outstanding interest rate swap agreements, notional amounts and related fair values at 30 June 2019. The fair values are based on market values of equivalent instruments at 30 June 2019. These financial instruments are classified as Level 2 in the fair value hierarchy in accordance with IFRS 13, *Fair Value Measurements* based upon the degree to which the fair value movements are observable. Level 2 fair value measurements are defined as those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (prices from third parties) or indirectly (derived from third party prices).

	Effective Date	**Maturity Date**	**Notional amount at 30 June 2019 $m**	**Fair value assets $m**	Notional amount at 31 December 2018 $m	Fair value assets $m
3 Month LIBOR Float to Fixed Interest Rate Swap(a)	June 30, 2017	June 30, 2020	**514.2**	**1.4**	544.9	7.4
3 Month LIBOR Float to Fixed Interest Rate Swap(b)	June 30, 2017	June 30, 2020	**283.1**	**0.7**	288.9	3.9
			797.3	**2.1**	833.8	11.3

(a) Under the interest rate swap agreement, 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, 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.

At 30 June 2019, the Group had entered into foreign exchange forward contracts with a notional amount of $47.8 million (2018: $nil) and a fair value of $nil (2018: $nil) based on Level 2 fair value measurements.

Other financial instruments

Cash and cash equivalents, trade and other receivables, restricted cash, trade and other payables, and certain accrued expenses and other current liabilities carrying value approximates 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

Borrowings are initially carried at fair value less any directly attributable transaction costs and subsequently at amortised cost. At 30 June 2019 and 31 December 2018, the estimated fair value of the Group's borrowings, excluding finance leases held at 31 December 2018, approximated $1,586.5 million and $1,586.6 million, in the aggregate, respectively. The fair values were estimated using the quoted market prices and current interest rates offered for similar debt issuances.

Borrowings are categorised as Level 2 fair value measurements in the fair value hierarchy. See Note 7 - Borrowings for the face and carrying values of the Group's borrowings.

9. Subsequent events

The Group has evaluated subsequent events through 31 July 2019, the date the Condensed Consolidated Financial Statements were approved by the Board of Directors.

On 31 May 2019, ConvaTec Inc. filed a lawsuit against Scapa Group PLC trading as Scapa Tapes North America LLC and Webtec Converting LLC in the US District Court of New Jersey seeking a declaration that the Company was within its rights to terminate a contract between the parties. On 10 July 2019, the defendants filed a motion seeking dismissal of the declaratory judgment action, and Scapa Tapes North America LLC filed a separate complaint in Connecticut state court seeking damages of $83.8 million against ConvaTec Inc. in relation to the contract cancellation. The Group's management, based on advice from the Group's lawyers, do not believe the claim has merit and no provision is recognised as at 30 June 2019.

On 31 July 2019, the Board declared the interim dividend to be distributed on 17 October 2019. Refer to Note 5 - Dividends for further details.

Directors' Responsibility Statement

The Directors confirm that to the best of their knowledge:

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

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

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

The Board of Directors of ConvaTec Group Plc on 31 July 2019 are the same as those listed in the 2018 Annual Report with the exception of Steve Holliday, Deputy Chairman and Senior Non-Executive Director, who stepped down on 31 March 2019, Sir Christopher Gent, Chairman, who stepped down on 9 May 2019 and Jesper Ovesen, Non-Executive Director, who stepped down on 28 June 2019.

By order of the Board:

Rick Anderson	Executive Chairman	31 July 2019
Frank Schulkes	Chief Financial Officer	31 July 2019

INDEPENDENT REVIEW REPORT TO CONVATEC GROUP PLC

We have been engaged by the Group to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2019 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Cash Flows and related notes 1 to 9. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

Our responsibility is to express to the Group a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Deloitte LLP

Statutory Auditor

Reading, United Kingdom

31 July 2019