28 February 2020

ConvaTec Group Plc

Audited Annual Results for the twelve months ended 31 December 2019

Results on track and making strategic progress

Financial results in line with guidance, FY 2019 key points:

- Group reported revenue of $1,827 million declined 0.3% year on year but grew 2.3%[3] organically.
- Reported EBIT[4] of $97million, declined 63.8% year on year due to the impairment of acquired intangible assets, transformation investments including MDR and the impact of adverse FX movements.
- As expected, adjusted[1] EBIT[4] of $354 million was down 17.5% (2018: $429 million), primarily due to the investment in transformation ($40 million) and Medical Device Regulation ("MDR", $5 million), and the impact of adverse FX movements ($14 million); with adjusted[1] EBIT margin of 19.4% (2018: 23.4%).

Strategic progress:

- New vision, strategy, operating model and values announced today, based on:
  - Five pillars of our corporate strategy: **Focus**, **Innovate**, **Simplify**, **Build** and **Execute**.
  - Simplified operating model: more customer-centric, agile and innovation led with clear accountability.
- Transformation progressing well; increasing future investment. FY 2019 achievements:
    - Implementation of more than 100 initiatives underway.
    - More than 150 people trained on execution excellence and over 500 people directly involved in transformation.
    - Transformation cost investment of $40 million and capex investment of $20m.
  - Increasing transformation investment to c.$210 million over 2019 to 2021 (previously c.$150 million[5] over 2019 to 2021). For further details see page 3.
  - Recurring transformation costs related to commercial and R&D investment expected to between $60 million and $65 million in 2020, increasing to c.$75 million by 2021 (previously $50 million[5] by 2021). This was $13 million in 2019. For further details see page 3.
  - Anticipated annual gross benefits in 2021 increased to between $150 million and $170 million (previously between $130 million and $150 million[5])**.**

Financial outlook, FY 2020

- Constant currency revenue growth expected to be 2.0% to 3.5%[6].
- Constant currency adjusted EBIT margin 16.0% to 18.0%[6], including c.$50 million of cost investment associated with the transformation and c.$18 million of costs related to MDR.

Karim Bitar, Chief Executive Officer, commented:

"One of the key reasons that attracted me to ConvaTec was the significant opportunity ahead of us. We operate in structurally growing markets; however, our performance in different product categories and markets varies markedly. With clear direction, an emphasis on innovation and an execution excellence culture, ConvaTec will focus on pivoting to sustainable and profitable growth.

Since I joined ConvaTec, the ConvaTec Executive Leadership Team ("CELT") and I have undertaken a strategic assessment and concluded that we need to move to a new operating model. The new model is customer-centric, more agile, focuses on innovation and ensures clear accountability. Our transformation goal and strategic intent is to pivot to sustainable and profitable growth."

Franchise Summary

Advanced Wound Care revenue declined 3.0% on a reported basis but grew 0.5%[3] organically. Overall our performance was in line with internal expectations, but the franchise's US business continued to be challenged, impacted by moving to a more specialised salesforce, which should start to yield benefits in 2020.

Our AQUACEL™ Ag+/Advantage silver products performed strongly, partly offset by our legacy base AQUACEL™ dressings and continued declines in skin care. We saw strong momentum in Latin America, APAC and most EMEA markets. The UK market has stabilised; however, it remains challenging. French reimbursement cuts were in line with our expectations.

Ostomy Care revenue declined 1.6% on a reported basis but grew 1.9%[3] year on year on an organic basis. Against a weak prior year, we continued to execute on our strategy to return the franchise to consistent and improved levels of growth, with solid performances in Latin America and EMEA offsetting weakness in the US.

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

Continence & Critical Care revenue grew 3.1% on a reported basis and 4.1%[3] organically, with a strong performance from our Home Services Group ("HSG", formerly Home Distribution Group) in the US, which continued to outgrow the overall US continence market. Growth also benefited from the impact of a product recall in the prior year. This was partially offset by the franchise's Hospital & Critical Care businesses, which continued to decline.

Infusion Care revenue grew 2.7% on a reported basis, and 4.1%[3] on an organic basis. We saw strong orders from customers through the year, and as expected, growth was towards the lower end of historical market growth levels due to the exit of Animas from the durable pump market in late 2018.

	Twelve months ended 31 December		**Growth**	
	2019	**2018**		
Reported results	**$m (unless stated)**		**Reported**	**Organic[3]**
Revenue	1,827	1,832	(0.3)%	2.3%
Gross margin	*52.3%*	*53.2%*	(90) bps	
EBIT	97	268	(63.8)%	(59.6)%
EBIT margin	5.3%	14.6%	(930)bps	
Earnings per share ($ per share)*	0.00	0.11		
Dividend per share (cents)	5.7 cents	5.7 cents		

	Twelve months ended 31 December		**Growth**	
	2019	**2018**		
Adjusted results	**$m (unless stated)**		**Reported**	**Organic[3]**
Revenue	1,827	1,832	(0.3)%	2.3%
Gross margin	*59.0%*	*60.2%*	(120) bps	
EBIT	354	429	(17.5)%	(14.2)%
EBIT margin	19.4%	23.4%	(400)bps	
Earnings per share ($ per share)	0.12	0.16		

* The reduction in reported EPS from FY18 to FY19 includes an impairment charge of $105.5 million relating to acquired intangible assets. The charge, which is non-cash, reduced reported EPS by $0.05 per share. For further information see note 5 of the Financial Statements.

Transformation Initiative investments and benefits

We see a significant opportunity for sustainable and profitable growth ahead of us by becoming more customer-centric and innovation led, therefore we are investing more than was previously announced, including costs related to the change in the operating model. This increased investment will deliver a higher level of benefit than previously announced.

Transformation investment

- Transformation investment of c.$210 million over 2019 to 2021 (previously c.$150 million over 2019 to 2021). This consists of:
    - $140 million to $150 million of cost investment, of which between $35 million and $40 million will be excluded from adjusted EBIT, in line with our policy, and between $60 million and $65 million of capex investment
        - **FY 2019**: $64 million of investment:
            - $40 million of operational costs (largely opex)
            - $20 million of capex
            - $4 million of cost items excluded from adjusted EBIT, in line with our policy
        - **FY 2020**: $105 million to $110 million of investment:
            - c.$50 million of operational costs (largely opex)
            - c.$30 million capex
            - Between $25 million and $30 million of cost items to be excluded from adjusted EBIT, in line with our policy

Recurring transformation investment

- Recurring transformation costs related to commercial and R&D investment increasing to c.$75 million by 2021 (previously $50 million by 2021)
    - **FY 2019**: $13 million in 2019
    - **FY 2020:** Between $60 million and $65 million in 2020

Annual gross benefits

- Anticipated annual gross benefits in 2021 increased to between $150 million and $170 million (previously between $130 million and $150 million)

Investor and analyst presentation and webcast
There will be a management presentation for investors and analysts at 9.00am GMT at The Auditorium, UBS, 5 Broadgate Street, London. There will be a webcast of the presentation, details of which can be found on the ConvaTec website, www.convatecgroup.com/investors/reports.

A dial-in is also available for the meeting:
United Kingdom - 020 3936 2999
United States - 1 845 709 8568
All other locations - +44 20 3936 2999
Access code - 673349

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

Next announcement
The Group will publish its Q1 2020 trading update on the 30 April 2020.

Analysts and Investors

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Financial Calendar

Ex-dividend date*	2 April 2020
Dividend record date*	3 April 2020
Scrip dividend election date*	21 April 2020
Q1 trading update	30 April 2020
Annual General Meeting	7 May 2020
Dividend payment date*	14 May 2020

** subject to approval at AGM.*

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

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(1) Certain financial measures in this document, including adjusted results above, are not prepared in accordance with International Financial Reporting Standards ("IFRS"). All adjusted measures are reconciled to the most directly comparable measure prepared in accordance with IFRS in the Non-IFRS Financial Information below (pages 36 to 42).

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

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

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

(5) Previous guidance: recurring opex increase of $15 million in 2019 growing to $50 million in 2021, total Transformation Initiative costs of c.$150 million over 2019 to 2021, anticipated annual gross benefits previously between $130 million and $150 million.

(6) Our intention is to drive absolute revenue and earnings growth, both organic and inorganic, therefore a constant currency measure is more appropriate moving forward.

Chief Executive's Review

I am pleased to have joined ConvaTec as Chief Executive Officer last September. I accepted the role for a number of reasons. I am passionate about improving patient care by leveraging innovation, technology and services. Serving patients and the people we touch will be at the core of ConvaTec's culture. There is significant potential for us to be more customer-centric and do more to support and help the people who use and benefit from our products and services.

ConvaTec operates in attractive, structurally growing chronic care markets where there is long-term demand for our products and services and market growth rates are expected to remain at current levels (c.4% pa) in the medium term. However, our past performance has been mixed. Whilst we have leadership positions in some markets due to strong customer relationships and some innovative products, in other areas our ability to perform to our full potential is impeded by organisational complexity and limited capabilities.

The trends that are impacting the wider healthcare industry also create challenges and opportunities for our organisation. These trends include the increasing cost pressures on health systems; the rising influence of the patient or consumer; an increasing shift towards the importance of homecare; technological advancements; the entrance of new competitors; and the growth in emerging markets. We need to understand these trends and effectively differentiate our offering as we strive to seize the opportunities created.

Since I joined ConvaTec, the CELT has undertaken an assessment of our organisation, including the Transformation Initiative commenced in 2019. This assessment has led to the wider strategic changes detailed below. We launched the Transformation Office last year to improve execution across key parts of our business and ensure more effective delivery of our strategy. Improving the execution capabilities of our commercial teams, operations and business support services is fundamental to ConvaTec's success. We are continuing to strengthen our execution excellence discipline via our Transformation Office, which focuses on supporting improved execution across the entire organisation. We are pleased that this is already delivering some benefits, although there is still much to be achieved.

Transforming by pivoting to sustainable and profitable growth

To achieve our transformation goal of pivoting to sustainable and profitable growth, more significant and fundamental change is required; we are already taking action to achieve this.

We now have a clear new vision, which encompasses our purpose: *Pioneering trusted medical solutions to improve the lives we touch*. We will realise this through our five strategic pillars: **Focus**, **Innovate**, **Simplify**, **Build** and **Execute**.

Our success will be underpinned by a new operating model that is more customer-centric, agile, innovation led and with clear accountability, supported by our refreshed Group values that are consistent with our vision, strategy and operating model, and these will guide the way we work. Further details on our vision and values will be available in the 2019 Annual Report and Accounts.

Our five strategic pillars:

Focus
We will focus on our 'must-win' markets and categories.

Innovate
We will innovate by investing in our R&D capabilities to develop trusted medical solutions that customers need most. Our innovation will focus on providing differentiated patient-centric solutions, delivered across three frontiers: products, services, and digital.

Simplify
We will simplify and strengthen the organisation by having a customer-centric and agile operating model with clear accountability. We will establish six integrated global business units, create a new technology and innovation function and optimise organisational layers.

Build
We will build critical core capabilities across the value chain via centres of excellence focusing in areas such as salesforce effectiveness and quality.

Execute
We will instil a culture of execution excellence across the organisation via the Transformation Office. We will implement transformation initiatives with measurable outcomes and clear, accountable owners.

New operating model

As noted above, our organisational complexity and limited capabilities have been key drivers of our past mixed performance; therefore, we have started to simplify and strengthen our operating model to make it more customer-centric, agile and accountable.

During 2020 we will transition to an organisation that will operate with six integrated global business units: Advanced Wound Care, Ostomy Care, Continence Care, Infusion Care (formerly Infusion Devices), Emerging Markets and Home Services Group (formerly Home Distribution Group). These six global business units will be supported by: a new technology and innovation function, an enhanced quality, operations and regulatory function, customer support functions (Finance, IT, HR & Legal), and the Transformation Office.

In the coming years, we plan to significantly increase our investment in R&D as we strengthen our innovation capabilities and improve our product development pipeline. We need to get closer to the patients and people we serve, increase innovation and drive execution excellence. To achieve this, R&D needs to be an integral part of our organisation.

To lead our innovation strategy, strengthen the capability and drive execution we have appointed Dr. Divakar Ramakrishnan, our first Chief Technology Officer, who joined ConvaTec and the CELT on 21 January 2020. Divakar has significant experience, most recently at Eli Lilly, in leading global R&D teams focused on developing innovative and digitally-enabled devices to improve patient care. He has deep competencies in product, process and clinical development.

Supratim Bose, previously Executive Vice President of APAC, will lead Global Emerging Markets and Seth Segel will lead our Home Services Group. Seth was previously President of Home Distribution Group having joined ConvaTec in September 2017 following the acquisition of Woodbury Health Products, where he served as CEO for five years. Seth became a member of the CELT on 1 January 2020.

Mani Gopal joined ConvaTec and the CELT on 13 January 2020 as President of our Global Ostomy Care business unit. He was previously with Cooper Vision and Abbott Laboratories and has extensive experience of running and improving the performance of integrated healthcare businesses.

We are pleased that Kjersti Grimsrud, formerly President of EMEA, has agreed to lead the Global Continence Care business unit, whilst David Shepherd will continue to lead our Global Advanced Wound Care business unit.

Finally, in keeping with the new values of the Group, in particular improving care, we are aligning the name of our infusion set business, formerly Infusion Devices, to our other global business units, and renaming it Infusion Care. John Lindskog will continue to lead this business unit.

Following the above changes Frank Gehres and Stephan Bonnelycke have left ConvaTec. They played important roles as members of the leadership team and we would like to thank them for their contributions and wish them well for the future.

Our new vision, strategy, operating model and values combined with our strengthened leadership team, will bring greater focus and stronger execution. Further information on all members of the CELT is available on our website (www.convatecgroup.com).

I have had the pleasure of visiting a great many of our sites since joining the organisation and taken the opportunity to meet many colleagues and customers. I want to thank my colleagues for a very warm welcome and their commitment to transforming ConvaTec.

2019 Financial performance

It is encouraging that the full year results are in line with the guidance we provided in February 2019. However, this is only a first step and much hard work needs to be undertaken to achieve our strategic intent of pivoting to sustainable and profitable growth.

Group reported revenue of $1,827 million (2018: $1,832 million) declined 0.3% year-on-year but grew 2.4%[2] on a constant currency basis and 2.3%[3] organically, towards the top of the guidance range provided in February 2019. The performance reflects solid growth in Continence & Critical Care and Infusion Care, although both benefited from weaker 2018 performances. Advanced Wound Care continued to underperform the market, largely due to transition in the franchise's US business. Ostomy Care, against a declining prior year, also remained soft as good performances in Latin America and some EMEA markets were partly offset by underperformance in the US.

Reported EBIT margin was 5.3% (2018: 14.6%), a result of impairment related to acquired intangible assets, investment in transformation, and adverse FX movements.

Adjusted EBIT margin at 19.4% (2018: 23.4%) was above the mid-range of guidance provided. Investment in transformation ($40 million) and MDR ($5 million) were the main drivers of lower adjusted EBIT margin, in addition to the impact of adverse FX movements ($14 million). A net positive productivity contribution was more than offset by price pressures and negative sales mix. Cash flow remained robust with adjusted cash conversion at 98% (2018: 81%), driven by improved working capital. See the Financial Review for further information on costs and margin.

Franchise revenue performance

	Twelve months ended 31 December				
	2019	2018	Growth		Q4
	$m	$m	Reported	Organic[3]	Organic growth[3]
Revenue by Franchise					
Advanced Wound Care	570	588	(3.0)%	0.5%	1.8%
Ostomy Care	525	533	(1.6)%	1.9%	5.2%
Continence & Critical Care	457	443	3.1%	4.1%	3.8%
Infusion Care	275	268	2.7%	4.1%	12.4%
Total	**1,827**	**1,832**	**(0.3)%**	**2.3%**	**4.6%**

Advanced Wound Care ("AWC")

Organic growth in 2019 remained subdued as it was impacted by disruption and transition in the franchise's US business moving to a more specialised salesforce. We continued to see improved call rates and customer targeting, the benefits of this in terms of revenue growth should be seen in 2020 and beyond.

Throughout the year, we remained focused on three priorities to drive growth in AWC:

- Transitioning to a new specialised salesforce in the US.
- Expanding our AQUACEL™ dressings offering through the extension of AQUACEL™ Ag+/Advantage dressing with anti-biofilm technology and the expansion of the AQUACEL™ Surgical product portfolio into new surgical areas.
- Continuing to grow in the foam market and expanding our portfolio of dressings, targeting the fast-growing protection and prevention foam segments.

AWC 2019 revenue performance

In 2019 reported revenue of $570 million declined 3.0% compared to the prior year, but on an organic basis revenue grew 0.5%. In the fourth quarter, revenue grew 1.8% on an organic basis, driven by growth in Latin America, APAC and some EMEA markets, partly offset by the US.

Sales of our AQUACEL™ brand remain strong. We are leaders in market share in several categories, including silver, and we continue to build our position in foam, growing in line with the market. Our AQUACEL™ Ag+/Advantage dressing, launched just over a year ago in the US, has been positively received by clinicians. In Q4 2019, we also launched ConvaMax™, our first entry into the super absorber segment within Europe and will launch in the US in Q1 2020. Growth in AQUACEL™ surgical cover dressing remained low, impacted by the changes to the US salesforce.

The franchise's legacy DuoDERM™ and base AQUACEL™ Hydrofiber™ products, together with its skin care business, make up a little under 40% of AWC revenues and, as a whole, were a significant drag on revenue growth in 2019. However, DuoDERM™ made some progress and delivered modest growth in the year. AQUACEL™ Hydrofiber™ was negatively impacted by the challenging UK market dynamics, although performance did improve in the second half of the year. We expect these UK market pressures to remain in 2020.

We saw strong growth in our emerging markets in APAC and Latin America as well as some EMEA markets. As noted above, we continued to underperform in the US, however this has been impacted by the planned restructure of the salesforce that led to some disruption in 2019. Whilst in France we experienced the impact of the reimbursement cuts.

Ostomy Care ("OC")

As expected, performance in Ostomy Care also remained subdued as a result of underperformance in the US. However, we saw solid performances in Latin America, EMEA and in certain markets in APAC driven by good traction with our recent product launches such as Esteem™ + Flex and Natura™ Accordion as well as good growth in accessories.

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

- Continuing 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.
- Expanding our me+™ direct-to-consumer programmes to engage directly and frequently with patients to build strong and long-term customer relationships.
- Continuing to enhance our portfolio of offerings by leveraging our technology and investing in consumer-led solutions.

OC 2019 revenue performance

Reported revenue of $525 million for 2019 declined 1.6% against the prior year, but on an organic basis revenue grew 1.9%. In the fourth quarter revenue grew 5.2% on an organic basis, driven by broad-based growth across the business albeit against a weak prior year.

We continued to see good traction with our recent product launches including Esteem™ + Flex Convex, Natura™ Convex Accordion Flange and Varimate strips and ongoing investment in our me+™ platform is leading to a continued increase in the number of enrolled patients.

We saw solid performances and market share gains in Latin America and in certain markets in APAC and Europe. We continued to see underperformance in the US.

To address the underperformance, we have been implementing changes to our commercial approach to improve salesforce effectiveness, including flattening our organisational structure to get closer to the customer, improved segmentation and revised sales incentive programmes. We are also increasingly leveraging our HSG service offering and integrating our product and me+ ™ programme into selected accounts.

In January 2020 we were pleased to agree a three-year extension to the Premier GPO (General Purchasing Organisation) contract for Ostomy Care in the US, commencing April 2020. This is the second largest GPO contract in the US covering around 25% of hospitals and our contract now runs until March 2023.

Continence & Critical Care ("CCC")

Growth in CCC was driven by HSG, which continues to outgrow the overall US continence market, partly offset by the drag from our Hospital and Critical Care businesses. The growth also benefited from the impact of a product recall in the prior year.

Growth in 2019 was focused on two priorities:

- Leveraging the reach of HSG, the largest supplier of intermittent catheters in the US.
- Continuing 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.

CCC 2019 revenue performance

2019 Reported revenue of $457 million grew 3.1% against the prior year, including a small net revenue contribution of $1.3 million from J&R Medical, which was acquired by HSG on 1 March 2018 and Southlake Medical Supplies, which was acquired by HSG on 1 October 2019, net of the Symbius divestment in 2018. Revenue grew 4.1% year on year on an organic basis. In the fourth quarter revenue grew by 3.8% on an organic basis, again driven by strong growth in HSG.

HSG, driven by its high-touch patient care model, continues to be the driver of growth in the franchise. It aims to deliver superior patient experiences by providing direct support, advice and liaison with clinicians, insurance companies and state funded health coverage programmes on reimbursement.

Infusion Care ("IC")

2019 performance was in line with expectations with good underlying revenue growth, driven by strong customer orders and the continued growth of MiniMed™ Mio™ Advance with our partner Medtronic. However, the organic growth was towards the lower end of the historical market growth of 4% to 5% per annum due to the exit of Animas from the market in late 2018.

During 2019 we focused on three priorities to drive our growth:

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

IC 2019 revenue performance

Revenue in 2019 of $275 million grew 2.7% year on year on a reported basis and 4.1% on an organic basis driven by strong customer orders. In the fourth quarter revenue grew by 12.4% on an organic basis, largely driven by materially lower revenue in the prior year, following a change in inventory policy at our biggest customer in Q4 2018.

UK withdrawal from the European Union ("Brexit")

We continue to monitor the Brexit negotiations, assessing the potential effects on our organisation, 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. Management considers there will be no material financial effect on our business, or significant operational issues which could arise, as a result of Brexit. However, it remains unclear what the position will be for the UK after the transition period ends on 31 December 2020 and our planning will continue to evolve and adapt with the political developments.

COVID-19 ("Coronavirus")

We are closely monitoring the Coronavirus outbreak, with particular regard to the wellbeing of all our colleagues, our production processes and our supply chain. In 2019, sales in China accounted for less than 1% of Group revenues and within our supply chain there are a small number of component parts and accessories that are manufactured by third-parties in affected areas of APAC. At this stage, assuming that the situation normalises in Q2 and that the outbreak is contained, we do not anticipate any significant business interruption, however we are continuing to assess potential impacts, and the subsequent mitigating actions. We have a number of employees in affected areas and we aim to ensure that they are in an environment which is safe and secure.

Dividend

The Board is proposing to maintain our 2019 full year dividend at 5.7 cents per share, in line with the interim dividend for 2019. 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.

Group 2020 outlook

In 2020 we expect constant currency revenue growth of 2.0% to 3.5%[2,6], with an improved performance year on year driven by AWC and Infusion Care, we expect a similar year in Continence Care, whilst Ostomy Care will deliver very low single-digit growth due to the impact of product portfolio and market rationalisation. Constant currency adjusted EBIT margin in 2020 is expected to be 16.0% to 18.0% [4,6], including c.$50 million of cost investment associated with the transformation and c.$18 million of costs related to the implementation of the Medical Devices Regulation.

Whilst we have made some progress, driving forward with the transformation and laying the foundations of organisational change through the new Group vision, strategy, operating model and values, there is much more to do as we pivot to sustainable and profitable growth. Our opportunity over the medium term is to drive improved revenue and EBIT growth. I look forward to updating you further later in the year.

Principal risks

The Group's risk management process is in place to identify, assess and prioritise risks that could impact the Group's performance. For 2019, the Group has reconfirmed and reprioritised the eleven principal risks as disclosed in the Group's 2018 Annual Report and Accounts on pages 34 to 43, and listed below:

- Change and transformation;
- Failure to attract, engage and retain leadership talent;
- Legal and compliance;
- Product innovation and intellectual property;
- Information security;
- Quality and regulatory;
- Brexit;
- Global operational and supply chain;
- Pricing and reimbursement;

- Forecasting process;
- Macroeconomic and foreign exchange.

We continually review our risk profiles and risk mitigation activities to respond to current and future drivers, opportunities and vulnerabilities. Whilst COVID-19 is not a principal risk as we do not anticipate any significant business interruption, we continue to assess potential impacts and the subsequent mitigating actions.

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 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 ESMA guidelines and are explained and reconciled to the most directly comparable measure prepared in accordance with IFRS on pages 36 to 42. Further detail on the Group's financial performance, measured in accordance with IFRS, is set out in the Financial Statements and selected Notes thereto on pages 26 to 36.

The commentary includes discussion of revenue on both a constant currency basis and an organic basis. Constant currency removes the effect of fluctuations in exchange rates. Organic removes the effect of fluctuations in exchange rates and the impact of acquisitions and disposals in the year and prior year. 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 a constant currency basis and an organic basis are non-IFRS financial measures and should not be viewed as replacements of IFRS reported revenue.

Results of operations

The following table sets forth the Group's revenue and expense items from continuing operations for each of the last two years:

	Reported 2019 $m	Reported 2018 $m	**Adjusted[(a)] 2019 $m**	Adjusted[(a)] 2018 $m
Revenue	**1,827.2**	1,832.1	**1,827.2**	1,832.1
Cost of goods sold	**(871.6)**	(858.3)	**(749.0)**	(729.9)
Gross profit	**955.6**	973.8	**1,078.2**	1,102.2
Gross margin %	**52.3%**	53.2%	**59.0%**	60.2%
Selling and distribution expenses	**(433.0)**	(418.0)	**(431.3)**	(415.3)
General and administrative expenses	**(266.4)**	(238.2)	**(238.5)**	(208.3)
Research and development expenses	**(53.8)**	(49.9)	**(53.8)**	(49.2)
Other operating expenses	**(105.5)**	—	**(0.3)**	—
Operating profit	**96.9**	267.7	**354.3**	429.4
Operating margin %	**5.3%**	14.6%	**19.4%**	23.4%
Finance costs	**(73.6)**	(65.2)	**(73.6)**	(65.2)
Non-operating expense, net	**(4.4)**	(1.3)	**(4.4)**	(3.2)
Profit before income taxes	**18.9**	201.2	**276.3**	361.0
Income tax (expense)/benefit	**(9.1)**	20.4	**(44.3)**	(56.5)
Net profit	**9.8**	221.6	**232.0**	304.5
Net profit %	**0.5%**	12.1%	**12.7%**	16.6%
Basic and diluted earnings per share ($ per share)	**0.00**	0.11	**0.12**	0.16
Dividend per share (cents)	**5.7**	5.7		

(a) These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 36 to 42.

Revenue
The Group's revenue performance for the year ended 31 December 2019 is discussed on page 3.

Cost of goods sold and gross profit
Reported

Reported cost of goods sold increased by 1.5% to $871.6 million (2018: $858.3 million). The increase was a result of negative mix and pricing pressures offset by favourable foreign exchange gains.

Reported gross profit decreased by $18.2 million to $955.6 million (2018: $973.8 million) and gross profit margin decreased to 52.3% (2018: 53.2%) reflecting net unfavourable foreign exchange of $33.0 million, and offset by a net $14.8 million increase from sales growth across the franchises net of changes in mix and pricing.

Adjusted
Adjusted cost of goods sold for the year ended 31 December 2019 was $749.0 million (2018: $729.9 million), a 2.6% increase. Adjusted gross profit decreased by $24.0 million to $1,078.2 million (2018: $1,102.2 million) with the respective gross profit margin decreasing to 59.0% from 60.2%. The changes are consistent with the drivers of the reported reduction.

Operating costs and expenses
The following is a summary of operating costs and expenses for the year ended 31 December 2019 and 2018, and the cost in each category is compared with the total revenue in the respective period:

Category[a]	**Reported 2019 $m**	Reported 2018 $m	**Adjusted 2019 $m**	Adjusted 2018 $m
Selling and distribution	**433.0**	418.0	**431.3**	415.3
% revenue	**23.7%**	22.8%	**23.6%**	22.7%
General and administration	**266.4**	238.2	**238.5**	208.3
% revenue	**14.6%**	13.0%	**13.1%**	11.4%
Research and development	**53.8**	49.9	**53.8**	49.2
% revenue	**2.9%**	2.7%	**2.9%**	2.7%
Other operating expenses	**105.5**	—	**0.3**	—
% revenue	**5.8%**	—%	**—%**	—%
Total operating costs	**858.7**	706.1	**723.9**	672.8
% revenue	**47.0%**	38.5%	**39.6%**	36.7%

(a) Percentages may not sum due to rounding.

Reported
Selling and distribution expenses
On a reported basis, selling and distribution expenses increased $15.0 million to $433.0 million (2018: $418.0 million). This increase was driven by the continued strengthening of our commercial resources, primarily in the US AWC franchise and across EMEA.

General and administrative expenses
Reported general and administrative expenses increased $28.2 million to $266.4 million (2018: $238.2 million). The increase reflects the costs incurred in the implementation of the Transformation Initiative and increases in employee incentives, including stock compensation costs resulting from the CEO buy-out.

Research and development expenses ("R&D")
Reported R&D expenses increased $3.9 million to $53.8 million (2018: $49.9 million). The principal increase in spend in the year included compliance costs incurred in relation to the implementation of MDR of $5.2 million.

Other operating expenses
As part of the Transformation Initiative a product portfolio review has been undertaken which has resulted in the identification of impairment triggers in relation to a number of the Group's intangible assets resulting in $105.5 million impairment of certain intangible assets.

Adjusted
Selling and distribution expenses
Adjusted selling and distribution expenses increased $16.0 million or 3.9% to $431.3 million. The increase is a result of investment in commercial resources as outlined in reported.

General and administrative expenses
Adjusted general and administrative expenses increased $30.2 million or 14.5% to $238.5 million. The increase, as discussed in reported, relates to increases in employee incentives and the Group's Transformation Initiative.

R&D
Adjusted R&D expenses increased $4.6 million or 9.3% to $53.8 million. The increase is in line with reported R&D, resulting from compliance costs incurred in relation to MDR.

Other operating expenses
Other operating expenses includes $0.3 million relating to the impairment of certain intangible assets as outlined above. Further details on adjusting items are outlined on pages 36 to 42.

Operating profit
Reported
On a reported basis, operating profit was $96.9 million, a decrease of $170.8 million (2018: $267.7 million) reflecting primarily the impairment of certain assets of $105.5 million, operating cost increases of $69.1 million resulting from Transformation Initiative costs including MDR, employee incentives and net negative foreign exchange movements of $11.0 million offset by the $14.8 million increase in gross margin.

Adjusted
Adjusted operating profit was $354.3 million, a decrease of $75.1 million (2018: $429.4 million). The movement reflects the cost of the Transformation Initiative ($39.4 million), MDR costs ($5.2 million) and negative foreign exchange movements, as previously discussed, but excludes $105.2 million of impairment charges on certain intangible assets.

Finance and non-operating expenses
The table below presents a summary of finance and non-operating expense, net, on a reported and adjusted basis.

	Reported 2019 $m	Reported 2018 $m	**Adjusted 2019 $m**	Adjusted 2018 $m
Finance costs	**(73.6)**	(65.2)	**(73.6)**	(65.2)
Non-operating expense, net	**(4.4)**	(1.3)	**(4.4)**	(3.2)
Total	**(78.0)**	(66.5)	**(78.0)**	(68.4)

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.

Finance costs increased $8.4 million, or 12.9%, to $73.6 million (2018: $65.2 million). The increase primarily results from $11.2 million of deferred financing fees recognised upon early termination of the Group's previous credit agreement (further details can be found in Note 6 - Borrowings) and $1.8 million increase in interest on leases predominently upon the adoption of IFRS 16, *Leases*, offset by a $4.6 million net reduction in interest charges and increased interest income recognised.

The are no adjusted measures reported in finance costs.

Taxation

	Reported 2019 $m	Reported 2018 $m	**Adjusted[1] 2019 $m**	Adjusted[1] 2018 $m
Profit before taxation	**18.9**	201.2	**276.3**	361.0
Income tax (expense)/benefit	**(9.1)**	20.4	**(44.3)**	(56.5)
Effective tax rate	**48.1%**	(10.1)%	**16.0%**	15.7%

	2019 $m	2018 $m
Reported income tax (expense)/benefit	**(9.1)**	20.4
Tax effect of adjustments	**(12.2)**	(11.2)
Other discrete tax items[2]	**(23.0)**	(65.7)
Adjusted income tax expense	**(44.3)**	(56.5)

1. The tax effects of the adjustments relating to non-IFRS financial measures are explained and reconciled on pages 36 to 42.
2. In 2019, other discrete items include the recognition of a deferred tax asset, $23.0 million, in respect of the Swiss tax reform. In 2018 tax benefits of $30.4 million arose from the reassessment of deferred tax liabilities in respect of unremitted earnings and $35.0 million recognition of additional deferred tax assets resulting from the US tax reform in December 2017. Refer to Note 3 of the Financial Statements, for further information.

The reported tax expense for 2019 was $9.1 million (2018: tax benefit of $20.4 million) and the adjusted tax expense was $44.3 million (2018: $56.5 million), representing an increase in the effective tax rate to 16.0% (2018: 15.7%) on adjusted profit before taxation. Further details on the reported tax expense are contained in Note 3 of the Financial Statements.

Reported

The Group's tax expense of $9.1 million (2018: $20.4 million benefit) is based on tax rates applicable in various jurisdictions across the world in which the Group operates. The tax expense in 2019 has been influenced by a deferred tax benefit of $23.0 million arising from the Swiss tax reform, $17.7 million relating to tax losses where no deferred tax asset has been recognised and a tax expense of $24.6 million relating to the impairment of certain intangible assets in the Group where no tax relief for the costs has been taken (refer to Note 5 of the Financial Statements).

In 2018, there were two discrete tax items totalling $65.7 million. These principally related to a deferred tax benefit 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 in respect of unremitted earnings related to the Dominican Republic.

Adjusted

The adjusted income tax expense for 2019 was $44.3 million (2018: $56.5 million), reflecting a 0.3% increase in the adjusted effective tax rate to 16.0% (2018: 15.7%). The adjusted income tax expense of $44.3 million excludes the deferred tax benefit of $23.0 million (as noted above) and a tax benefit of $12.2 million (2018: $11.2 million) pertaining to the tax effect of amortisation on pre-2018 intangible assets, the cost of termination benefits relating to specific Group-wide initiatives and certain components of the CEO buy-out costs.

Net profit

Reported

Reported net profit for 2019 was $9.8 million (2018: $221.6 million), a decrease of $211.8 million, reflecting a decrease of $182.3 million in reported profit before taxation (see above for explanation) and the $29.5 million increase in the reported tax charge for the year, principally driven by discrete tax adjustments including the effect of the Swiss tax reform in 2019 ($23.0 million) and the US tax reform and changes in unremitted earnings in 2018.

Adjusted

Adjusted net profit decreased $72.5 million, to $232.0 million in 2019. The decrease primarily reflects the effects of foreign exchange, headwinds in gross margin and the planned increase in operating costs arising from the Group's Transformation Initiative.

Foreign exchange

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

Currency	Average rate/ Closing rate	2019	2018
EUR/USD	Average	**1.12**	1.18
	Closing	**1.12**	1.15
GBP/USD	Average	**1.28**	1.34
	Closing	**1.33**	1.28
DKK/USD	Average	**0.15**	0.16
	Closing	**0.15**	0.15

Financial position
Selected measures of financial position

The following table presents a summary of the Group's financial position at 31 December:

At 31 December	**2019** **$m**	2018 $m	Change $m	Change %
Intangible assets and goodwill	**2,166.9**	2,377.5	(210.6)	(8.9)%
Other non-current assets	**474.6**	379.7	94.9	25.0 %
Cash and cash equivalents	**385.8**	315.6	70.2	22.2 %
Current assets excluding cash and cash equivalents	**582.5**	587.6	(5.1)	(0.9)%
Total assets	**3,609.8**	3,660.4	(50.6)	(1.4)%
Current liabilities	**(397.3)**	(330.9)	(66.4)	20.1 %
Non-current liabilities	**(1,651.5)**	(1,712.3)	60.8	(3.6)%
Total equity	**(1,561.0)**	(1,617.2)	56.2	(3.5)%
Net equity and liabilities	**(3,609.8)**	(3,660.4)	50.6	(1.4)%

Intangible assets and goodwill

Intangible assets and goodwill reduced by $210.6 million to $2,166.9 million (2018: $2,377.5 million). This reflects decreases arising from the in-year amortisation of intangible assets of $151.9 million, impairment charges of $105.5 million, realised as a result of the Group's Transformation Initiative. This was partially offset by increases relating to the acquisition of intangible assets and goodwill in relation to Southlake Medical Supplies of $12.3 million, the net effect of foreign exchange of $21.2 million and other additions of $13.3 million. Other additions include the investment in technology-enabling tools and platforms which supports the business services transformation.

Other non-current assets

Other non-current assets, including property, plant and equipment, right-of-use assets, deferred tax assets, restricted cash, pension and other assets increased by $94.9 million to $474.6 million (2018: $379.7 million). This reflects a $75.4 million increase in the value of property, plant and equipment and right-of-use assets, of which $65.8 million was recognised upon adoption of IFRS 16, *Leases* on 1 January 2019. The residual increase of $9.6 million is principally due to our ongoing investment in our manufacturing lines. Deferred tax assets increased by $32.1 million to $55.0 million, as a result of the $23.0 million asset recognised in respect of the Swiss tax reform. Interest rate swaps decreased by $10.3 million following the close out of the previous agreements as part of the refinancing and subsequent replacement with a new US dollar interest rate swap agreement on 5 December 2019.

Cash and cash equivalents

Cash and cash equivalents as at 31 December 2019 was $385.8 million (2018: $315.6 million). Further details are presented in Sources and uses of cash on page 19.

Current assets excluding cash and cash equivalents

Current assets excluding cash and cash equivalents decreased by $5.1 million to $582.5 million (2018: $587.6 million). The decrease is driven by a reduction in inventory levels of $21.5 million as a result of a coordinated rationalisation of inventory across the Group and the normalisation of 2018 year-end inventory levels following working capital changes at a key supplier. This was offset by a $16.4 million increase in trade and other receivables, primarily driven by sales phasing.

Liabilities

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 commencement for all leases.

To more readily understand the year-on-year movement the table below outlines the effects on movements in current and non-current liabilities in relation to IFRS 16. The table presents 31 December 2018 on a reported basis and including the impact of the IFRS 16 opening lease liabilities.

	2019	2018	2018
	$m	$m	$m
	Reported	Reported	Applying IFRS 16 opening lease liabilities
Extract from current liabilities:			
Borrowings	**40.8**	62.0	62.0
Finance leases	**—**	1.0	
Borrowings - as reported	**40.8**	63.0	
ROU lease liabilities - current	**18.4**	—	15.8
Current lease liabilities	**18.4**	1.0	15.8
Extract from non-current liabilities:			
Borrowings	**1,445.3**	1,558.8	1,558.8
Finance leases	**—**	22.7	
Borrowings - as reported	**1,445.3**	1,581.5	
ROU lease liabilities - non-current	**70.1**	—	73.7
Non-current lease liabilities	**70.1**	22.7	73.7
Total lease liabilities	**88.5**	23.7	89.5

Current liabilities

Current liabilities increased by $66.4 million to $397.3 million (2018: $330.9 million), reflecting trade and other payables increasing by $67.8 million, principally driven from changes in accruals relating to interest payment terms on the new credit facility and increases in the accrual for employee incentives, and lease liabilities recognised as at 31 December 2019 of $18.4 million following adoption of IFRS 16, offset by a reduction in current borrowings of $21.2 million as a result of the refinancing.

Non-current liabilities

Non-current liabilities have reduced by $60.8 million to $1,651.5 million (2018: $1,712.3 million). This principally reflects a reduction in non-current borrowings of $113.5 million after the refinancing and includes a change in scheduled loan repayments. The reduction was offset by an increase in deferred tax liabilities of $0.7 million and the additional non-current lease liabilities recognised upon adoption of IFRS 16 of $51.0 million.

Sources and uses of cash

Cash flows

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

	2019	2018
	$m	$m
Net cash generated from operating activities	**401.8**	352.0
Net cash used in investing activities	**(72.8)**	(80.9)
Net cash used in financing activities	**(252.5)**	(229.4)
Net change in cash and cash equivalents	**76.5**	41.7
Cash and cash equivalents at beginning of the period	**315.6**	289.3
Effect of exchange rate changes on cash and cash equivalents	**(6.3)**	(15.4)
Cash and cash equivalents at end of the year	**385.8**	315.6

At 31 December 2019, the Group's cash and cash equivalents were $385.8 million (2018: $315.6 million). Additionally, at 31 December 2019, the Group's revolving credit facility of $200.0 million was undrawn and available (2018: $193.8 million). Restricted cash was $3.6 million (2018: $4.4 million).

Net cash generated from operating activities was $401.8 million and $352.0 million in 2019 and 2018, respectively. The increase of $49.8 million primarily reflects a decrease in working capital of $51.6 million (2018: increase of $23.2 million), offset by a net decrease in EBITDA of $39.3 million after non-cash items are added back.

The increase in cash and cash equivalents of $70.2 million is primarily driven from increased cash generated from operating activities of $49.8 million, a decrease in PP&E of $10.7 million and a reduction in realised foreign exchange movements of $9.1 million. During 2019, the Group utilised c.$100 million cash to reduce its net borrowings in the refinancing of the credit facility, which is comparable to the 2018 voluntary prepayment of $95.0 million on the previous Euro Term Loan A and $2.4 million of mandatory prepayments.

The following table summarises the components of net cash generated from operating activities for each of the last two years:

	Reported	Reported	**Adjusted**	Adjusted
	2019	2018	**2019**	2018
	$m	$m	**$m**	$m
EBITDA[(a)]	**421.0**	457.7	**443.1**	482.4
Cash interest payments	**(48.0)**	(61.3)	**(48.0)**	(61.3)
Cash tax payment	**(37.0)**	(35.8)	**(37.0)**	(35.8)
Other payments			**(8.4)**	(11.6)
Non-cash items	**14.2**	14.6	**—**	2.9
Working capital decrease/(increase)	**51.6**	(23.2)	**52.1**	(24.6)
Net cash generated from operating activities	**401.8**	352.0	**401.8**	352.0

(a) EBITDA is explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS in the cash conversion table on page 41.

Cash conversion

Cash conversion is a measure we use to ensure we derive value from our operations and supports our decision making for potential future investments.

Our reported cash conversion was 101.0% (2018: 82.4%), which reflects our focus on reducing inventory levels during the year, increases in accruals including employee incentives, reclassification of interest payments on lease liabilities upon adoption of IFRS 16, *Leases* and reduced capital spend resulting from phasing on certain projects.

Adjusted cash conversion was 97.9% (2018: 80.6%) in line with adjusted EBITDA.

	Reported 2019 $m	Reported 2018 $m	**Adjusted[(a)] 2019 $m**	Adjusted[(a)] 2018 $m
EBITDA	**421.0**	457.7	**443.1**	482.4
Add: non-cash items	**14.2**	14.6	**—**	2.9
Working capital	**51.6**	(23.2)	**52.1**	(24.6)
PP&E	**(61.4)**	(72.1)	**(61.4)**	(72.1)
Cash generated from operations, net of PP&E	**425.4**	377.0	**433.8**	388.6
Cash conversion	**101.0%**	82.4%	**97.9%**	80.6%

(a) Adjusted EBITDA, adjusted working capital and adjusted non-cash items are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS in the cash conversion table on page 41.

	Reported 2019 $m	Reported 2018 $m	**Adjusted 2019 $m**	Adjusted 2018 $m
Cash generated from operations, net of PP&E	**425.4**	377.0	**433.8**	388.6
Tax paid	**(37.0)**	(35.8)	**(37.0)**	(35.8
Free cash flow	**388.4**	341.2	**396.8**	352.8

Uses of cash

The Group ensures that all entities within the Group have sufficient funding to deliver the Group's strategy while maximising the return to shareholders through the debt and equity balance. The following table presents the Group's primary uses of cash:

Significant cash outflows	**2019 $m**	2018 $m
Debt servicing	**206.6**	215.8
Dividend paid	**79.9**	74.9
Acquisition of PP&E, capitalised software and development	**61.4**	72.1
Tax paid	**37.0**	35.8
Acquisitions, net of cash acquired	**12.3**	14.4
Purchase of own shares	**14.0**	—

Cash flows from debt servicing includes net repayments on borrowings of $137.7 million (2018: $153.7 million), lease payments recognised upon the adoption of IFRS 16 of $20.9 million (2018: finance leases of $0.8 million), and net interest payments of $48.0 million (2018: $61.3 million). The reduction in net cash on borrowings and interest reflects the timing of loan and interest repayments under the new credit agreement.

The Group's strategic investments in the year included Southlake Medical Supplies, a Texas-based independent provider of catheter-related supplies, whose trade and assets were acquired on 1 October 2019 for cash consideration of $12.3 million in comparison to the acquisition of J&R Medical in 2018 for $14.4 million.

Investments in PP&E decreased by $10.7 million to $61.4 million (2018: $72.1 million) resulting from phasing on certain projects, partially offset by proceeds from the sale of PP&E in 2018 (the Group's manufacturing plant in Greensboro was sold).

The Employee Benefit Trust purchased shares of $14.0 million to satisfy anticipated future obligations under the Group's employee share ownership programmes.

Audited Consolidated Income Statement
For the year ended 31 December 2019

	Notes	2019 $m	2018 $m
Revenue	2	**1,827.2**	1,832.1
Cost of sales		**(871.6)**	(858.3)
Gross profit		**955.6**	973.8
Selling and distribution expenses		**(433.0)**	(418.0)
General and administrative expenses		**(266.4)**	(238.2)
Research and development expenses		**(53.8)**	(49.9)
Other operating expenses		**(105.5)**	—
Operating profit		**96.9**	267.7
Finance costs, net		**(73.6)**	(65.2)
Non-operating expense, net		**(4.4)**	(1.3)
Profit before income taxes		**18.9**	201.2
Income tax (expense)/benefit	3	**(9.1)**	20.4
Net profit		**9.8**	221.6
Earnings per share			
Basic and diluted earnings per share ($ per share)		**$0.00**	$0.11

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

Audited Consolidated Statement of Comprehensive Income
For the year ended 31 December 2019

	Notes	2019 $m	2018 $m
Net profit		**9.8**	221.6
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to Consolidated Income Statement			
Remeasurement of defined benefit obligation, net of tax		**(3.5)**	(1.0)
Recognition of the pension assets restriction		**(0.6)**	0.4
Items that may be reclassified subsequently to Consolidated Income Statement			
Exchange differences on translation of foreign operations		**25.1**	(66.6)
Effective portion of changes in fair value of cash flow hedges	7	**(9.5)**	3.9
Changes in fair value of cash flow hedges reclassified to the Consolidated Income Statement	7	**(0.8)**	—
Income tax relating to items that may be reclassified		**2.8**	(1.3)
Other comprehensive income/(loss)		**13.5**	(64.6)
Total comprehensive income		**23.3**	157.0

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

Audited Consolidated Statement of Financial Position
As at 31 December 2019

	Notes	**2019** **$m**	2018 $m
Assets			
Non-current assets			
Property, plant and equipment		**321.6**	330.7
Right-of-use assets	8	**84.5**	—
Intangible assets and goodwill	5	**2,166.9**	2,377.5
Deferred tax assets		**55.0**	22.9
Derivative financial assets	7	**1.0**	11.3
Restricted cash		**3.6**	2.4
Other non-current receivables		**8.9**	12.4
		2,641.5	2,757.2
Current assets			
Inventories		**281.8**	303.3
Trade and other receivables		**300.7**	284.3
Cash and cash equivalents		**385.8**	315.6
		968.3	903.2
Total assets		**3,609.8**	3,660.4
Equity and liabilities			
Current liabilities			
Trade and other payables		**289.3**	221.5
Borrowings	6	**40.8**	63.0
Lease liabilities	8	**18.4**	—
Current tax payable		**44.6**	41.9
Provisions		**4.2**	4.5
		397.3	330.9
Non-current liabilities			
Borrowings	6	**1,445.3**	1,581.5
Lease liabilities	8	**70.1**	—
Deferred tax liabilities		**107.8**	107.1
Provisions		**1.7**	1.5
Other non-current payables		**26.6**	22.2
		1,651.5	1,712.3
Total liabilities		**2,048.8**	2,043.2
Net assets		**1,561.0**	1,617.2
Equity			
Share capital		**242.9**	240.7
Share premium		**70.7**	39.8
Own shares		**(10.8)**	(6.8)
Retained deficit		**(847.7)**	(744.5)
Merger reserve		**2,098.9**	2,098.9
Cumulative translation reserve		**(99.1)**	(124.2)
Other reserves		**106.1**	113.3
Total equity		**1,561.0**	1,617.2
Total equity and liabilities		**3,609.8**	3,660.4

Audited Consolidated Statement of Changes in Equity
For the year ended 31 December 2019

	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 2018		238.8	1.3	(8.1)	(850.0)	2,098.9	(58.4)	101.3	1,523.8
Net profit		—	—	—	221.6	—	—	—	221.6
Other comprehensive loss:									
Foreign currency translation adjustment, net of tax		—	—	—	(0.8)	—	(65.8)	—	(66.6)
Remeasurement of defined benefit obligation, net of tax		—	—	—	—	—	—	(1.0)	(1.0)
Recognition of pension assets restriction		—	—	—	—	—	—	0.4	0.4
Effective portion of changes in fair value of cash flow hedges, net of tax		—	—	—	—	—	—	2.6	2.6
Other comprehensive loss		—	—	—	(0.8)	—	(65.8)	2.0	(64.6)
Total comprehensive income		—	—	—	220.8	—	(65.8)	2.0	157.0
Dividends paid	4	—	—	—	(74.9)	—	—	—	(74.9)
Scrip dividend	4	1.9	38.5	—	(40.4)	—	—	—	—
Share-based payments		—	—	—	—	—	—	11.2	11.2
Share awards vested		—	—	1.3	—	—	—	(1.3)	—
Excess tax benefits from share-based payments		—	—	—	—	—	—	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
Net profit		**—**	**—**	**—**	**9.8**	**—**	**—**	**—**	**9.8**
Other comprehensive income:									
Foreign currency translation adjustment, net of tax		**—**	**—**	**—**	**—**	**—**	**25.1**	**—**	**25.1**
Remeasurement of defined benefit obligation, net of tax		**—**	**—**	**—**	**—**	**—**	**—**	**(3.5)**	**(3.5)**
Recognition of pension assets restriction		**—**	**—**	**—**	**—**	**—**	**—**	**(0.6)**	**(0.6)**
Effective portion of changes in fair value of cash flow hedges, net of tax		**—**	**—**	**—**	**—**	**—**	**—**	**(7.5)**	**(7.5)**
Other comprehensive income		**—**	**—**	**—**	**—**	**—**	**25.1**	**(11.6)**	**13.5**
Total comprehensive income		**—**	**—**	**—**	**9.8**	**—**	**25.1**	**(11.6)**	**23.3**
Dividends paid	4	**—**	**—**	**—**	**(79.9)**	**—**	**—**	**—**	**(79.9)**
Scrip dividend	4	**2.2**	**30.9**	**—**	**(33.1)**	**—**	**—**	**—**	**—**
Share-based payments		**—**	**—**	**—**	**—**	**—**	**—**	**14.2**	**14.2**
Share awards vested		**—**	**—**	**10.0**	**—**	**—**	**—**	**(10.0)**	**—**
Excess tax benefits from share-based payments		**—**	**—**	**—**	**—**	**—**	**—**	**0.2**	**0.2**
Purchase of own shares		**—**	**—**	**-14**	**—**	**—**	**—**	**—**	**(14.0)**
At 31 December 2019		**242.9**	**70.7**	**(10.8)**	**(847.7)**	**2,098.9**	**(99.1)**	**106.1**	**1,561.0**

Audited Consolidated Statement of Cash Flows
For the year ended 31 December 2019

	Notes	2019 $m	2018 $m
Cash flows from operating activities			
Net profit		**9.8**	221.6
Adjustments for			
Depreciation of property, plant and equipment		**35.5**	37.4
Depreciation of right-of-use assets	8	**22.4**	—
Amortisation	5	**151.9**	152.6
Income tax expense/(benefit)	3	**9.1**	(20.4)
Non-operating expense, net		**4.4**	1.3
Finance costs, net		**73.6**	65.2
Share-based payment		**14.2**	11.2
Impairment/write-off of intangible assets		**105.5**	—
Write-off of property, plant and equipment		**8.8**	—
Disposal of assets		**—**	3.4
Changes in assets and liabilities:			
Inventories		**20.4**	(33.1)
Trade and other receivables		**(13.9)**	6.7
Other non-current receivables		**1.8**	(1.6)
Trade and other payables		**43.8**	2.3
Other non-current payables		**(0.5)**	2.5
Net cash generated from operations		**486.8**	449.1
Interest paid		**(48.0)**	(61.3)
Income taxes paid		**(37.0)**	(35.8)
Net cash generated from operating activities		**401.8**	352.0
Cash flows from investing activities			
Acquisition of property, plant and equipment, capitalised software and development		**(61.4)**	(72.1)
Proceeds from sale of property, plant and equipment and other assets		**0.1**	4.3
Acquisitions, net of cash acquired		**(12.3)**	(14.4)
Change in restricted cash		**0.8**	1.3
Net cash used in investing activities		**(72.8)**	(80.9)
Cash flows from financing activities			
Repayment of borrowings	6	**(1,618.7)**	(153.7)
Proceeds from borrowings	6	**1,481.0**	—
Payment of lease liabilities[(a)]	8	**(20.9)**	(0.8)
Purchase of own shares		**(14.0)**	—
Dividend paid	4	**(79.9)**	(74.9)
Net cash used in financing activities		**(252.5)**	(229.4)
Net change in cash and cash equivalents		**76.5**	41.7
Cash and cash equivalents at beginning of the year		**315.6**	289.3
Effect of exchange rate changes on cash and cash equivalents		**(6.3)**	(15.4)
Cash and cash equivalents at end of the year		**385.8**	315.6

(a) Payment of lease liabilities for the year ended 31 December 2019 includes $20.1 million of payments in respect of new leases recognised upon adoption of IFRS 16, *Leases*. In the year ended 31 December 2018, these payments were classified as operating leases and included in cash flows from operating activities. Payment of lease liabilities for the year ended 31 December 2018 relates to amounts previously classified as finance leases. Refer to Note 8 - Leases for further details.

1. Basis of preparation

1.1 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 is 3 Forbury Place, 23 Forbury Road, Reading, RG1 3JH, United Kingdom.

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

The announcement is based on the Group's Financial Statements which are prepared in accordance with IFRS as adopted by the EU and therefore comply with Article 4 of the EU International Accounting Standards (“IAS”) Regulations.

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

The financial information set out in this announcement does not constitute the Group's statutory accounts for the years ended 31 December 2019 and 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's Annual General Meeting. The auditor's report on the 2019 and 2018 accounts were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

1.2 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 or judgements of likely outcome. In preparing these Consolidated Financial Statements, two key sources of estimation uncertainty have been identified that could potentially have a material adjustment to the carrying amounts of assets and liabilities within the next financial year. No critical accounting judgements have been identified.

Impairment of finite-lived assets

As part of the Transformation Initiative, a product portfolio review has been undertaken which has resulted in the identification of impairment triggers in 2019 in relation to certain of the Group’s intangible assets. As a result of these activities, an impairment review was performed in accordance with IAS 36, *Impairment of Assets*. This resulted in the Group recognising an impairment of $103.6 million for product-related intangible assets.

The impairment testing of finite-lived assets requires an assessment of the recoverable amount, which the Group determined to be fair value less costs to sell. The approach uses an excess earnings methodology where estimated future cash flows are discounted to their present value. A post-tax discount rate was based on the Group’s weighted average cost of capital, adjusted to reflect the territory of the assets and risk and opportunity factors specific to the business model.

Management considers that the methodologies are robust and assumptions adopted in the valuation are supportable and reasonable. There are inherent sources of estimation uncertainty due to the inclusion of future cash flows in the valuation. IAS 1, *Presentation of Financial Statements,* requires disclosure of major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment in the next financial year.

The cash flows within the fair value model include benefits from ongoing Transformation Initiative. Whilst management are confident in delivery of the transformation benefits, the fair value model includes an assessment of the value of Transformation Initiative to a theoretical market participant at the valuation date. Given the early stage of the transformation, there is a reasonably possible outcome that the impact on the fair value associated with transformation activities could change in the next twelve months leading to an increase in the impairment charge of $13.0 million.

The cash flows within the fair value model also include estimates of future trading of the products related to the intangible assets. Management has assessed that there are reasonably possible increases in margin headwinds, which could negatively impact the recoverable amount and could lead to an increase in the impairment charge of $9.0 million.

Recognition of deferred tax assets
At 31 December 2019 the Group has recognised a deferred tax asset of $23.0 million following the Swiss tax reform, which was substantively enacted on 4 October 2019. The value of the deferred tax asset of $23.0 million has been calculated on management's best estimate of the impact of the Swiss tax reform based on specific methodology that is permitted under Swiss law and the information currently available. Given the anticipated future transformative changes in the business, there is significant estimation uncertainty in the appropriate valuation method and underlying assumptions and estimates that should be applied to calculate the deferred tax asset. This remains subject to review as a key source of estimation uncertainty and, therefore, to revaluation once the impact to the Swiss operations, as a result of the Group's Transformation Initiative, has been determined. It is not possible to provide numerical sensitivity disclosures or quantify ranges of potential outcomes, however, it is reasonably possible that outcomes within the next financial year could be different from the assumptions made at 31 December 2019 and could require a material adjustment to the carrying value of the asset.

1.3 Accounting standards
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 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 Consolidated Financial Statements, with the exception of IFRS 16, *Leases* ("IFRS 16"). Apart from these changes, there have been no significant changes to the accounting policies set out in ConvaTec's Annual Report and Accounts 2018. Refer to Note 8 - Leases for the Group's IFRS 16 disclosures.

New standards and interpretations not yet applied
At the date of authorisation of these 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.

2. Revenue and segmental information
The Group's CEO, who is the Group's Chief Operating Decision Maker, evaluates the Group's global product portfolios on a revenue basis and evaluates profitability and associated investment on an enterprise-wide basis due to shared geographic infrastructures and support functions between the franchises. Financial information relating to revenues provided to the CEO for decision-making purposes is made on both a franchise and regional basis, however profitability measures are presented and resources allocated on a Group-wide basis.

Revenue by franchise
The following table sets out the Group's revenue for the year ended 31 December by franchise:

Revenue by franchise

	2019 **$m**	2018 $m
AWC	**569.9**	587.5
Ostomy Care	**525.0**	533.3
CCC	**456.7**	443.0
Infusion Care	**275.6**	268.3
Total	**1,827.2**	1,832.1

Geographic information

Geographic markets

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

	2019 $m	2018 $m
Geographic markets		
EMEA	**724.1**	747.4
Americas	**959.8**	945.3
APAC	**143.3**	139.4
Total	**1,827.2**	1,832.1

Geographic regions

The following table sets out the Group's revenue on the basis of geographic regions where the legal entity resides, including countries representing over 10% of Group revenue and the UK, where the Group is domiciled:

	2019 $m	2018 $m
Geographic regions		
US	**643.9**	643.4
UK	**158.2**	166.1
Denmark	**271.9**	270.0
Other[(a)]	**753.2**	752.6
	1,827.2	1,832.1

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

3. Income taxes

3.1 Taxation

The Group's income tax expense/(benefit) is the sum of the total current and deferred tax expense.

	2019 $m	2018 $m
Current tax		
UK corporation tax	**—**	—
Overseas taxation	**38.4**	56.2
Adjustment to prior years	**(1.5)**	(1.4)
Total current tax expense	**36.9**	54.8
Deferred tax		
Origination and reversal of temporary differences	**(26.4)**	(44.8)
Change in tax rates	**(4.0)**	(1.1)
Adjustment to prior years	**2.6**	(29.3)
Total deferred tax benefit	**(27.8)**	(75.2)
Income tax expense/(benefit)	**9.1**	(20.4)

3.2 Reconciliation of effective tax rate

The effective tax rate for the year ended 31 December 2019 was an expense of 48.1%, as compared with a benefit of 10.1% for the year ended 31 December 2018.

Tax reconciliation to UK statutory rate

The table below reconciles the UK statutory tax expense to the Group's total income tax expense/(benefit):

	2019		2018	
	$m		$m	
Profit before income taxes	**18.9**		201.2	
Profit before income taxes multiplied by rate of corporation tax in the UK of 19.0% (2018: 19.0%)	**3.6**		38.2	
Difference between UK and overseas tax rates[a]	**(13.6)**		(6.8)	
Non-deductible/non-taxable items	**2.6**		5.1	
Tax impact of impairment of certain intangibles assets	**24.6**		—	
Movement in unrecognised losses and other assets	**17.7**		(39.7)	
Tax amortisation of indefinite-life intangibles	**0.9**		5.2	
Taxes on unremitted earnings[b]	**0.6**		(30.4)	
Uncertain tax (benefit)/expense	**(5.3)**		10.5	
Deferred impact of the Swiss tax reform	**(23.0)**		—	
Other	**1.0**		(2.5)	
Income tax expense/(benefit) reported in the Consolidated Income Statement at the effective tax rate	**9.1**	**48.1%**	(20.4)	(10.1)%

(a) Includes changes in tax rates based on substantively enacted legislation across various tax jurisdictions as of 31 December 2019.

(b) The 2018 benefit relates predominately to the deferred tax liability release in respect of unremitted earnings related to the Dominican Republic.

The Group has worldwide operations and therefore is subject to several factors that may affect future tax charges, principally the levels and mix of profitability in different tax jurisdictions, transfer pricing regulations, tax rates imposed and tax regime reforms.

The calculation of the Group’s tax expense therefore involves a degree of estimation in respect of certain items for which the tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process. In 2019, the Group provisions for uncertain tax positions relate mainly to transfer pricing positions and withholding tax liabilities. The net decrease in provisions during 2019 was driven by the reassessment of estimates and settlement of open tax issues with tax authorities in various jurisdictions.

The Group’s effective tax rate in 2019 has also been influenced by a deferred tax benefit of $23.0 million arising from the Swiss tax reform, $17.7 million relating to tax losses where no deferred tax asset has been recognised and tax expense of $24.6 million relating to the impairment of certain intangibles in the Group where no tax relief for the costs has been taken (refer to Note 5 - Intangible assets). In 2018, the Group’s effective tax rate was mainly driven by the deferred tax benefits of $35.0 million in the US and $30.4 million in respect of unremitted earnings related to the Dominican Republic, both of which were non-recurring items.

4. Dividends

Dividends paid and proposed were as follows:

	pence per share	cents per share	Total	Settled in cash	Settled via scrip	No of scrip shares issued
			$m	$m	$m	
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**
Interim dividend 2019	**1.404**	**1.717**	**33.9**	**20.8**	**13.1**	**6,159,842**
Paid in 2019	**4.501**	**5.700**	**113.0**	**79.9**	**33.1**	**17,358,127**
Final dividend 2019 proposed	**3.095**	**3.983**	**79.0**			

The Company operates a scrip dividend scheme allowing shareholders to elect to receive their dividends 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 final dividend proposed for 2019, to be distributed on 14 May 2020 to shareholders registered at the close of business on 3 April 2020, is based upon the issued and fully paid share capital as at 31 December 2019 and is subject to shareholder approval at our Annual General Meeting on 7 May 2020. The dividend will be declared in US dollars and will be paid in Sterling at the chosen exchange rate of $1.287/£1.00 determined on 27 February 2020. A scrip dividend alternative will be offered allowing shareholders to elect by 21 April 2020 to receive their dividend in the form of new ordinary shares.

The interim and final dividends for 2019 give a total dividend for the year of 5.700 cents per share (2018: 5.700 cents per share).

5. Intangible assets

The split of intangible assets and goodwill is as follows:

	2019	2018
	$m	$m
Intangible assets	**1,101.3**	1,334.5
Goodwill	**1,065.6**	1,043.0
Intangible assets and goodwill	**2,166.9**	2,377.5

The movement in the carrying value of each major category of intangible assets is as follows:

	Product-related[a] $m	Capitalised software[b] $m	Customer relationships and non-compete agreements $m	Trade names $m	Development costs[c] $m	Assets under construction $m	Total $m
Intangibles at cost							
1 January 2018	2,135.9	87.9	298.3	259.7	10.8	8.4	2,801.0
Additions	0.1	3.3	0.4	—	—	9.6	13.4
Acquisitions	—	—	7.5	0.3	—	—	7.8
Disposals	—	—	(3.1)	—	—	—	3.1
Transfers	—	6.8	—	—	—	(6.8)	—
Foreign exchange[d]	(42.4)	—	(5.4)	(0.8)	(0.6)	(0.3)	(49.5)
31 December 2018	**2,093.6**	**98.0**	**297.7**	**259.2**	**10.2**	**10.9**	**2,769.6**
Additions	**—**	**5.0**	**0.1**	**—**	**—**	**8.2**	**13.3**
Acquisitions	**—**	**—**	**2.7**	**—**	**—**	**—**	**2.7**
Disposals	**—**	**(2.3)**	**(2.1)**	**—**	**(0.5)**	**—**	**(4.9)**
Transfers	**—**	**6.7**	**—**	**—**	**2.0**	**(8.7)**	**—**
Foreign exchange[d]	**24.3**	**0.2**	**(1.7)**	**(0.4)**	**(0.3)**	**—**	**22.1**
31 December 2019	**2,117.9**	**107.6**	**296.7**	**258.8**	**11.4**	**10.4**	**2,802.8**
Accumulated amortisation							
1 January 2018	1,116.8	68.6	119.9	2.6	5.8	—	1,313.7
Amortisation	120.7	8.2	22.1	0.5	1.1	—	152.6
Disposals	—	—	(3.0)	—	—	—	(3.0)
Foreign exchange[d]	(24.3)	(0.1)	(3.5)	(0.1)	(0.2)	—	(28.2)
31 December 2018	**1,213.2**	**76.7**	**135.5**	**3.0**	**6.7**	**—**	**1,435.1**
Amortisation	**118.4**	**9.4**	**22.0**	**1.1**	**1.0**	**—**	**151.9**
Disposals	**—**	**(2.3)**	**(2.1)**	**—**	**(0.5)**	**—**	**(4.9)**
Impairment	**103.6**	**—**	**—**	**1.9**	**—**	**—**	**105.5**
Foreign exchange[d]	**15.3**	**—**	**(1.2)**	**—**	**(0.2)**	**—**	**13.9**
31 December 2019	**1,450.5**	**83.8**	**154.2**	**6.0**	**7.0**	**—**	**1,701.5**
Net carrying amount							
31 December 2018	880.4	21.3	162.2	256.2	3.5	10.9	1,334.5
31 December 2019	**667.4**	**23.8**	**142.5**	**252.8**	**4.4**	**10.4**	**1,101.3**

(a) Product-related intangible assets are primarily comprised of patents, trademarks, licences and technological expertise that were acquired as a result of business combinations. The presentation of product-related intangible assets has been revised during the year ended 31 December 2019 to aggregate amounts that were previously presented separately as: Technology; and Patents, trademarks and licences. The revised presentation better reflects that these product-related intangible assets are complementary intangible assets with similar useful economic lives, which can be treated as single assets under IAS 38, *Intangible Assets*.

(b) Capitalised software relates to purchased software and internally generated software.

(c) Relates to internally generated development costs which have met the requirements of being in the development phase as defined in the Group accounting policy.

(d) Primarily relates to intangible assets denominated in Sterling.

As part of the Transformation Initiative a product portfolio review has been undertaken which has resulted in the identification of impairment triggers in relation to a number of the Group's intangible assets. As a result, the Group has identified an impairment indicator in respect of certain product-related intangible assets acquired as part of historical business combinations (previously disclosed as patents).

In accordance with the Group's impairment policy, the recoverable amount of the product-related intangible assets was assessed based on fair value less costs to sell. The fair value measurements are categorised as Level 3 in accordance with IFRS 13, *Fair Value Measurements*. Fair value was assessed using an income approach, reflecting the current market expectation over their remaining useful expected life. The approach uses estimated future cash flows deemed attributable to the asset, discounted to their present value using a post-tax discount rate that was based on the Group's weighted average cost of capital adjusted to reflect the territory of the assets. The post-tax discount rate used in the fair value calculation was 11.0%.

The Group has recognised an impairment of $103.6 million during the year ended 31 December 2019. Where a diminutive value was determined, the useful economic life ("UEL") was reviewed. No factors were deemed present for which to reassess the UEL.

During the year ended 31 December 2019, the Group refreshed the strategy of the HSG business by starting the transition to marketing through 180 Medical as a single trade name. As a result, trade names which ceased to be used during the year, with a net carrying amount of $1.9 million at 1 July 2019, were impaired (and written off). A further trade name was assessed to have a remaining useful economic life of two years under the revised strategy and was changed from indefinite-lived effective from 1 July 2019, resulting in an amortisation charge of $0.6 million in the year. A further $1.3 million of amortisation will be recognised in the year ended 31 December 2020.

6. Borrowings

The Group's outstanding borrowings as at 31 December were as follows:

			2019	2018
	Currency	**Year of maturity**	**Face value $m**	Face value $m
New facilities				
Revolving Credit Facilities	Multicurrency	2024	—	—
Term Loan Facility A[(a)]	USD/Euro	2024	600.9	—
Term Loan Facility B[(b)]	USD/Euro	2024	901.4	—
Previous facilities				
US dollar Term A Loan Facility	USD	2021	—	712.3
Euro Term A Loan Facility[(c)]	Euro	2021	—	500.9
US dollar Term B Loan Facility	USD	2023	—	421.4
Total interest-bearing borrowings			**1,502.3**	1,634.6
Financing fees			**(16.2)**	(13.8)
Total carrying value of borrowings from credit facilities			**1,486.1**	1,620.8

(a) Included within Term Loan Facility A is €161.3 million ($180.9 million) denominated in Euros representing 30% of facility A borrowings denominated in Euros and 70% denominated in US dollars.

(b) Included within Term Loan Facility B is €242.0 million ($271.4 million) denominated in Euros representing 30% of facility B borrowings denominated in Euros and 70% denominated in US dollars.

(c) Total face value of the borrowings outstanding under the Euro Term A Loan Facility denominated in Euros was €436.8 million ($500.9 million) at 31 December 2018.

Credit agreement
On 24 October 2019, the Group entered into a new credit agreement and voluntarily prepaid and discharged its contractual obligations under its previous credit agreement at that date, totalling $1,587.6 million. Unamortised deferred financing fees of $11.2 million associated with the previous credit agreement have been written off.

The new credit agreement entered into by the Group is committed and available for the refinancing of certain existing financial indebtedness and general corporate purposes. Provided by a group of financial institutions, it consists of two 5-year multicurrency term loans totalling $1.5 billion and a $200.0 million multicurrency revolving credit facility. Of the $1.5 billion term loan debt, $600.0 million is amortising requiring scheduled annual repayments of the principal. The remaining $900.0 million is repayable in full at the maturity of the term loan. The revolving credit facility has an option to increase its amount by up to 50% ($100.0 million) subject to certain conditions. The revolving credit facility was undrawn as at 31 December 2019.

The credit agreement is secured by way of a share pledge and contains various provisions, covenants and representations that are customary for such a facility. The principal financial covenants are based on a net leverage and an interest cover test. At 31 December 2019 and 2018, the Group was in compliance with all financial and non-financial covenants related to the relevant credit agreement in place.

Excluding the impact of interest rate swaps, the weighted average interest rate on borrowings for the year ended 31 December 2019 was 3.8% (2018: 3.5%).

Borrowings not measured at fair value
At 31 December 2019, the estimated fair value of the Group's borrowings, excluding leases obligations, approximated $1,513.2 million (2018: $1,586.6 million). The fair value of the Group's borrowings is based on discounted cash flows using a current borrowing rate and are categorised as a Level 2 measurement in the fair value hierarchy under IFRS 13, *Fair Value Measurements*.

7. Financial instruments

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).

At 31 December 2018 the Group held interest rate swaps with a notional amount of $833.8 million. These interest rate swap agreements were settled on 24 October 2019 at the same time as the voluntary prepayment and cancellation of the Group's previous credit agreement. The early termination of the interest rate swap agreements resulted in a $0.8 million gain reclassified to finance costs, net, in the Consolidated Income Statement, in the year ended 31 December 2019.

On 5 December 2019 the Group entered into interest rate swap agreements to fix a proportion of variable interest on US dollar denominated debt, in accordance with the Group's risk management policy. The interest rate swaps were designated as hedging instruments in a cash flow hedging relationship.

The fair values are based on market values of equivalent instruments at 31 December 2019. The following table presents the Group's outstanding interest rate swaps at 31 December:

			2019		2018	
	Effective date	**Maturity date**	**Notional amount**	**Fair value[(a)] assets**	Notional amount	Fair value[(a)] assets
			$m	**$m**	$m	$m
3 Month LIBOR Float to Fixed Interest Rate Swap	30 Jun 2017	24 Oct 2019	**—**	**—**	833.8	11.3
3 Month LIBOR Float to Fixed Interest Rate Swap	24 Jan 2020	24 Jan 2023	**275.0**	**1.0**	—	—
			275.0	**1.0**	833.8	11.3
Recognised in other comprehensive income:						
Effective portion of changes in fair value of cash flow hedges				**(9.5)**		3.9
Changes in fair value of cash flow hedges reclassified to the Consolidated Income Statement				**(0.8)**		—
Total				**(10.3)**		3.9

(a) The fair values of the interest rate swaps are shown in derivative financial assets in the Audited Consolidated Statement of Financial Position. Finance costs, net in the Audited Consolidated Income Statement includes the negligible ineffective impact of the interest rate swaps.

8. Leases

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 most leases.

The Group's operating leases impacted by IFRS 16 principally relate to 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 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.

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").

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. Generally, the Group uses its incremental borrowing rate as the discount rate. 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 following table sets out the reconciliation from operating lease commitments disclosed in the 2018 Consolidated Financial Statements and the financial impact of adopting IFRS 16 for the year ended 31 December 2019:

Reconciliation of lease liabilities	**$m**
Operating lease commitments disclosed as at 31 December 2018	61.9
Add: changes in minimum lease term to expected lease term	15.7
Less: discounting using the lessees' incremental borrowing rate at the date of initial application	(11.8)
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	**21.9**
Payment of lease liabilities	**(20.9)**
Leases terminated	**(1.6)**
Interest expense on lease liabilities	**3.6**
Interest paid on lease liabilities	**(3.6)**
Foreign exchange	**(0.4)**
Lease liabilities as at 31 December 2019	**88.5**

Lease liabilities by category at 31 December 2019 was as follows:

	Real estate and other	**Vehicles**	**Total**
	$m	**$m**	**$m**
Current	11.4	7.0	**18.4**
Non-current	61.0	9.1	**70.1**
Total	**72.4**	**16.1**	**88.5**

The movements in right-of-use assets were as follows:

	Real estate and other	**Vehicles**	**Total**
	$m	**$m**	**$m**
Right-of-use assets recognised on adoption of IFRS 16	51.1	14.7	65.8
Reclassification from PP&E[(a)]	20.9	0.2	21.1
Right-of-use assets as at 1 January 2019	**72.0**	**14.9**	**86.9**
Lease additions	**12.0**	**9.9**	**21.9**
Leases terminated	**(0.9)**	**(0.7)**	**(1.6)**
Depreciation of right-of-use assets	**(14.2)**	**(8.2)**	**(22.4)**
Foreign exchange	**(0.3)**	**—**	**(0.3)**
As at 31 December 2019	**68.6**	**15.9**	**84.5**

(a) Amounts previously recognised as finance lease assets have been reclassified to right-of-use assets upon transition to IFRS 16 on 1 January 2019.

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

For the year ended 31 December 2019, expenses related to short-term leases and low-value leases of $3.3 million were recognised in the Consolidated Income Statement.

The Group's Consolidated Income Statement for the year ended 31 December 2019 includes a net expense of $0.6 million as a result of adopting IFRS 16. Total cash outflow of lease liabilities including interest for the year ended 31 December 2019 was $24.5 million.

9. Contingent liabilities

Liability Claims

On 31 May 2019, ConvaTec Inc. filed a lawsuit against Scapa Group plc (trading as Scapa Tapes North America LLC) and Webtec Converting LLC 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 judgement action, and Scapa Tapes North America LLC filed a separate complaint seeking damages of $83.8 million against ConvaTec Inc. in relation to the contract cancellation. The Group's Board, in conjunction with its legal advisors, do not believe the claim has merit and no provision is recognised as at 31 December 2019.

10. Subsequent events

The Group has evaluated subsequent events through 27 February 2020, the date the Consolidated Financial Statements were approved by the Board of Directors. No subsequent events requiring disclosure have been identified other than the proposed final dividend, details of which are disclosed in Note 4 - Dividends.

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 other operating expenses, adjusted operating profit ("adjusted EBIT"), adjusted EBITDA, adjusted profit before tax, adjusted finance costs, adjusted non-operating expense, net, adjusted net profit, adjusted earnings per share, adjusted working capital, adjusted cash conversion, free cash flow 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 determined under IFRS are shown on pages 36 to 42. The definitions of adjusted measures are as calculated within the reconciliation tables.

In management's and the Board'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 36 and 42.

In determining whether an item should be presented as an allowable adjustment to IFRS measures, the Group considers items which are significant either because of their size or their nature, and which are non-recurring. For an item to be considered as and 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 Board, through the Audit and Risk Committee, then exercises judgement as to whether the item should be classified as an allowable adjustment to IFRS performance measures.

Key adjustments for adjusted EBIT (also referred to as adjusted operating profit) are pre-IPO costs, CEO-related compensation not subject to continuing employment, together with termination benefits arising exclusively from major change programmes. Further adjustments, which include amortisation of pre-2018 acquisition intangibles and impairments 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, CEO-related compensation not subject to continuing employment, share-based payment expenses, together with termination benefits and related costs to our reported EBITDA.

Adjusted items, excluding the impact of tax, for the year ended 31 December 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) ($140.2 million and $142.4 million respectively).
- Impairment of assets as a result of transformation or an unusual circumstance (loss of $105.2 million and $0.5 million respectively).
- Divestiture activities including assets held for sale (gain of $1.9 million for the year ended 31 December 2018).
- Termination benefits in relation to major change programmes ($5.8 million and $12.6 million respectively).
- CEO buy-out costs reflecting non-performance-related compensation for the loss of incentive awards from previous employment ($6.2 million), not subject to continuing employment.
- Share-based payment compensation expense arising from pre-IPO equity grants. This concluded in 2018 ($6.2 million for the year ended 31 December 2018).

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.

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. Management 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.

Impairment of assets

Impairments, write-offs and gains and losses from the disposal of fixed assets are adjusted when management consider the circumstances surrounding the adjustment are not reflective of our core business or when the adjustments relate to pre-2018 acquisition intangibles.

Divestiture activities

These include significant assets which are disposed of as a result of a sale, major business change or restructuring programme, including gains and losses resulting from classification of assets as held for sale.

Termination benefits and related costs

Termination benefits and related costs arise from Group-wide initiatives to reduce the recurring cost base and improve efficiency in the business. The Board considers each project individually to determine whether its size and nature warrants separate disclosure. Qualifying items are limited to termination benefits (including retention) without condition of continuing employment in respect of major Group-wide change programmes. Where discreet qualifying items are identified these costs are highlighted and excluded from the calculation of our adjusted measures. Restructuring-related costs not related to termination benefits are reported in the normal course of business.

CEO buy-out costs

The Group has incurred costs following the commencement of employment of Karim Bitar as CEO of ConvaTec Group Plc on 30 September 2019 to compensate for the loss of incentive awards from his previous employment. These costs relate to past performance in a previous employment, were not contingent on continuing employment with ConvaTec Group Plc, have no future performance requirements and do not represent the underlying cost base or performance of the Group in 2019. Awards granted include both cash and equity-based payment components which vested immediately.

Pre-IPO share-based payment 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.

Reconciliation of reported earnings to adjusted earnings for the years ended 31 December 2019 and 2018

Year ended 31 December 2019	Revenue	Gross profit	Operating costs	**Operating profit**	Finance cost	Non-operating expense, net	**PBT**	Taxation	**Net profit**
	$m	$m	$m	**$m**	$m	$m	**$m**	$m	**$m**
Reported	1,827.2	955.6	(858.7)	**96.9**	(73.6)	(4.4)	**18.9**	(9.1)	**9.8**
Amortisation of pre-2018 acquisition intangibles	—	122.6	17.6	**140.2**	—	—	**140.2**	(10.1)	**130.1**
Impairment of assets	—	—	105.2	**105.2**	—	—	**105.2**	—	**105.2**
Termination benefits and other related costs	—	—	5.8	**5.8**	—	—	**5.8**	(0.9)	**4.9**
CEO buy-out costs	—	—	6.2	**6.2**	—	—	**6.2**	(1.2)	**5.0**
Total adjustments and their tax effect	—	122.6	134.8	**257.4**	—	—	**257.4**	(12.2)	**245.2**
Other discrete tax items	—	—	—	**—**	—	—	**—**	(23.0)	**(23.0)**
Adjusted	1,827.2	1,078.2	(723.9)	**354.3**	(73.6)	(4.4)	**276.3**	(44.3)	**232.0**

Software and R&D amortisation	**10.4**
Post-2017 acquisition amortisation	**1.3**
Depreciation	**57.9**
Impairment/write-off of assets	**9.1**
Post-IPO share-based payment compensation	**10.1**
Adjusted EBITDA	**443.1**

Impairment of assets of $105.2 million is predominantly related to a review of the product portfolio which has been undertaken as part of the Transformation Initiative, which has resulted in the identification of impairment triggers in 2019 in relation to certain of the Group's intangible assets.

Termination benefits and other related costs were $5.8 million, pre-tax, in the year ended 31 December 2019. All initiatives recognised in 2018 are considered complete, $1.5 million was recognised in the current year in respect of these programmes. The Transformation Initiative is a global multi-year transformation programme which will simplify the way in which the business operates. Costs incurred for the year ended 31 December 2019 were $4.3 million. We expect to incur between $31 million and $36 million of severance and associated retention costs over 2020 and 2021.

CEO buy-out costs were $6.2 million, pre-tax, in the year ended 31 December 2019 and relate to cash paid of $2.1 million and equity-based incentive awards of $4.1 million granted to the CEO upon commencement of employment with ConvaTec Group Plc on 30 September 2019. These awards were not subject to continuing employment or performance conditions.

Other discrete tax items are a result of the Swiss tax reform which was substantively enacted on 4 October 2019 and is effective on 31 December 2019. As a result, ConvaTec International Services GmbH, is subject to a significant change in effective tax rate. The Swiss effective rate, which will increase over a ten-year period to 1 January 2030, is alleviated by grandfathering provisions which results in the estimation and recognition of a deferred tax asset. The value of the deferred tax asset of $23.0 million has been calculated on a best estimate basis using a specific methodology that is permitted under Swiss law. Given the future anticipated transformative changes in the business, there is significant judgement and uncertainty in the calculation of the deferred tax asset and this remains subject to review as a key source of estimation uncertainty. For further details on deferred taxation, see Note 3 - Income taxes to the Consolidated Financial Statements.

Year ended 31 December 2018	Revenue	Gross margin	Operating costs	Operating profit	Finance costs	Non-operating expense, net	PBT	Taxation	Net profit
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Reported	1,832.1	973.8	(706.1)	267.7	(65.2)	(1.3)	201.2	20.4	221.6
Amortisation of pre-2018 acquisition intangibles	—	125.1	17.3	142.4	—	—	142.4	(10.3)	132.1
Disposal of assets	—	0.4	0.1	0.5	—	—	0.5	—	0.5
Divestiture activities	—	—	—	—	—	(1.9)	(1.9)	—	(1.9)
Termination benefits and other related costs	—	2.9	9.7	12.6	—	—	12.6	(0.9)	11.7
Pre IPO share based payment expense	—	—	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-2017 acquisition amortisation	0.9
Depreciation	37.4
Post-IPO share-based payment compensation	5.4
Adjusted EBITDA	482.4

Disposal of assets relates to $0.5 million for the final write-off of certain manufacturing fixed assets following the closure of the Greensboro site in 2017. Divestiture activities of $1.9 million reflect a gain from the sale of the plant in Greensboro.

Termination benefits and other related costs were $12.6 million, pre-tax, in 2018 and related to three significant programmes including:

- $2.5 million in relation to the completion of the pre-IPO Margin Improvement 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 completed in 2019 with a total cost of $5.8 million.
- $5.4 million in relation to restructuring geographical sales teams. The programme completed in 2019 with a total cost of $6.9 million.

Other discrete items principally represent tax benefits of $30.4 million and $35.0 million 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.

Reconciliation of basic and diluted reported earnings per share to adjusted earnings per share for the years ended 31 December 2019 and 31 December 2018

	Reported 2019	**Adjusted 2019**	Reported 2018	Adjusted 2018
	$m	**$m**	$m	$m
Net profit attributable to the shareholders of the Group	**9.8**	**232.0**	221.6	304.5
		Number		Number
Basic weighted average ordinary shares in issue		**1,971,014,011**		1,956,085,112
Diluted weighted average ordinary shares in issue		**1,976,156,374**		1,958,078,762
	$ per share	**$ per share**	$ per share	$ per share
Basic and diluted earnings per share	**0.00**	**0.12**	0.11	0.16

Reconciliation of reported and adjusted operating costs for the years ended 31 December 2019 and 31 December 2018

	2019					2018				
	S&D[(a)]	**G&A[(b)]**	**R&D[(c)]**	**Other[(d)]**	**Operating costs**	S&D[(a)]	G&A[(b)]	R&D[(c)]	Other[(d)]	Operating costs
	$m	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m
Reported	**(433.0)**	**(266.4)**	**(53.8)**	**(105.5)**	**(858.7)**	(418.0)	(238.2)	(49.9)	—	(706.1)
Amortisation of pre-2018 acquisition intangibles	**—**	**17.6**	**—**	**—**	**17.6**	—	17.2	0.1	—	17.3
Impairment of assets	**—**	**—**	**—**	**105.2**	**105.2**	—	0.1	—	—	0.1
Termination benefits and other related costs	**1.7**	**4.1**	**—**	**—**	**5.8**	2.7	6.4	0.6	—	9.7
CEO buy-out costs	**—**	**6.2**	**—**	**—**	**6.2**	—	—	—	—	—
	1.7	**27.9**	**—**	**105.2**	**134.8**	2.7	23.7	0.7	—	27.1
IPO related costs										
Pre-IPO share-based payment expense and related costs	**—**	**—**	**—**	**—**	**—**	—	6.2	—	—	6.2
Total in relation to IPO	**—**	**—**	**—**	**—**	**—**	—	6.2	—	—	6.2
Adjusted	**(431.3)**	**(238.5)**	**(53.8)**	**(0.3)**	**(723.9)**	(415.3)	(208.3)	(49.2)	—	(672.8)

(a) "S&D" represents selling and distribution expenses.
(b) "G&A" represents general and administrative expenses.
(c) "R&D" represents research and development expenses.
(d) "Other" represents other operating expenses.

Cash conversion for the years ended 31 December 2019 and 31 December 2018

	2019	2018
	$m	$m
Reported Operating profit/EBIT	**96.9**	267.7
Depreciation of property, plant and equipment	**35.5**	37.4
Depreciation of right-of-use assets	**22.4**	—
Amortisation	**151.9**	152.6
Impairment of intangible assets/ write-off of property, plant and equipment	**114.3**	—
Reported EBITDA	**421.0**	457.7
Non-cash items in EBITDA		
Share-based payment expense	**14.2**	11.2
Disposals	**—**	3.4
	14.2	14.6
Working capital movement	**51.6**	(23.2)
Capital expenditure	**(61.4)**	(72.1)
Reported net cash for cash conversion	**425.4**	377.0
Less: tax paid	**(37.0)**	(35.8)
Reported free cash flow	**388.4**	341.2
Reconciliation of Adjusted EBITDA, Adjusted Non-Cash Items, Adjusted Working Capital and Adjusted Net Cash (for Adjusted Cash Conversion measurement)		
Reported EBITDA	**421.0**	457.7
Share-based payment expense	**14.2**	11.2
Pre-IPO share-based payment associated costs	**—**	0.4
CEO buy-out costs	**2.1**	—
Disposals	**—**	0.5
Termination benefits and other related costs	**5.8**	12.6
Total adjustments (a)	**22.1**	24.7
Adjusted EBITDA	**443.1**	482.4
Reported non-cash items	**14.2**	14.6
Share-based payment expense	**(14.2)**	(11.2)
Disposals	**—**	(0.5)
Total adjustments (b)	**(14.2)**	(11.7)
Adjusted non-cash items	**—**	2.9
Reported working capital movement	**51.6**	(23.2)
Decrease/(increase) in severance provision	**0.3**	(3.6)
Decrease in accruals for remediation costs, corporate development and IPO-related costs	**—**	2.3
Decrease/(increase) in accruals for share-based payment associated costs	**0.1**	(0.4)
Decrease in liability for pre-IPO MIP	**0.1**	0.3
Total adjustments (c)	**0.5**	(1.4)
Adjusted working capital movement	**52.1**	(24.6)
Reported net cash for cash conversion	**425.4**	377.0
Total adjustments above (a), (b), (c)	**8.4**	11.6
Adjusted net cash for cash conversion	**433.8**	388.6
Less: tax paid	**(37.0)**	(35.8)
Adjusted free cash flow	**396.8**	352.8
Reported cash conversion	**101.0%**	82.4%
Adjusted cash conversion	**97.9%**	80.6%

Net debt

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, net of cash and cash equivalents.

	2019	2018	2018
	$m	$m	$m
	Reported	Reported	Applying IFRS 16 opening lease liabilities[(a)]
Borrowings	**1,486.1**	1,620.8	1,620.8
Finance leases	**—**	23.7	—
IFRS 16 lease liabilities	**88.5**	—	89.5
Total interest-bearing borrowings	**1,574.6**	1,644.5	1,710.3
Cash and cash equivalents	**(385.8)**	(315.6)	(315.6)
Net debt (including leases)	**1,188.8**	1,328.9	1,394.7
Net debt	**1,100.3**	1,305.2	1,305.2

(a) On adoption of IFRS 16 an opening lease liability of $89.5 million was recognised. To more readily understand the year-on-year movement in net debt, the net debt for the year ended 31 December 2018 is presented above on both a reported basis, which includes finance lease liabilities only, and using the IFRS 16 opening lease liability which includes all leases as defined by our IFRS 16 accounting policy. For further information see Note 8 - Leases to the Consolidated Financial Statements.