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5 March 2021

ConvaTec Group Plc

Annual Results for the twelve months ended 31 December 2020

Solid growth and good strategic progress

	Adjusted[1] results			Statutory results		
	FY2020	FY2019	Change	FY2020	FY2019	Change
Revenue	$1,894m	$1,827m	4.0%[2]	$1,894m	$1,827m	3.7%
EBIT[3]	$350m	$354m	(1.1)%	$211m	$97m	118%
EBIT margin	*18.5%*	*19.4%*	*(90) bps*	*11.1%*	*5.3%*	580 bps
Diluted earnings per share	12.0 cents	11.7 cents	2.6%	5.6 cents	0.5 cents	-
Dividend per share (cents)				5.7 cents	5.7 cents	-

FY 2020 key highlights:

- Improved revenue growth: +3.7% reported growth and +4.0% on a constant currency[2] basis.
- Attractive diversified portfolio providing resilience during the pandemic.
  - FY20 performance driven by strong growth in Infusion Care and Continence & Critical Care offsetting limited growth in Ostomy Care and decline in Advanced Wound Care.
  - Q4 revenue performance reflected the impact of the latest COVID-19 resurgence late in the year. This was driven primarily by better than expected revenues in Continence & Critical Care.
- Continued investment for growth: Adjusted[1] EBIT margin of 18.5% (2019: 19.4%) in line with the latest guidance.
- Strong adjusted free cash flow[1]: $347 million (2019: $397 million) and adjusted cash conversion[1] of 90% (2019: 98%).
- Strengthened balance sheet: Reduction in leverage to 2.0x Net Debt/Adjusted EBITDA[1] (2019: 2.5x).
- Proposed dividend of 3.983 cents to take FY dividend to 5.7 cents, in line with prior year.

Good operational and strategic progress as we pivot to sustainable and profitable growth:

- Effective response to COVID-19 – safeguarding the health and wellbeing of our people, addressing customer needs and strengthening our supply chain.
- Further positive operational progress – adjusted gross margin[1] increased from 59.0% to 59.5% or $1,127 million.
- Continued to make good progress with our FISBE (Focus, Innovate, Simplify, Build, Execute) strategy. Achievements in the year include:
  - Strengthening the leadership team; embedding the new operating model; increasing investment in R&D to 4.3% of revenue (2019: 2.9%); establishing Centres of Excellence; setting up a Global Business Services centre and disposal of the US Skincare product line.
- Certain transformation initiatives were proactively re-phased given the COVID-19 backdrop - we spent $93 million on strategic operational investments in 2020. We remain on track to deliver $130-$150 million of gross benefits in 2021.
- Positive outlook: We expect to see 2021 organic[4] revenue growth of between 3-4.5% and a constant currency adjusted EBIT margin of 18-19.5%.

Karim Bitar, Chief Executive Officer, commented:

"I am pleased with our strategic progress and how the business performed in 2020. Against the backdrop of COVID-19 we set our new strategic direction of travel, responded well to the needs of our customers and improved our operational performance. In addition our ongoing strategic transformation remains firmly on track.

"The outlook for 2021 is positive although uncertainty surrounding COVID-19 persists. We expect to see 2021 organic[4] revenue growth of between 3-4.5% and a constant currency adjusted EBIT margin of 18-19.5% as we continue to invest in our transformation, some of which was deferred from 2020, and as COVID-suppressed costs begin to normalise.

"There is still further work ahead for the Group as we continue to strengthen our foundations and begin to pivot to sustainable and profitable growth, but I am confident in the inherent attractiveness of the markets we serve and in ConvaTec's growth prospects."

Group revenue

	Twelve months ended 31 December				
	2020 $m	2019 $m	Reported growth / (decline)	Foreign Exchange impact	Constant Currency[2] growth / (decline)
Revenue by Category					
Advanced Wound Care	547	570	(4.0)%	0.2%	(3.8)%
Ostomy Care	526	525	0.2%	1.0%	1.2%
Continence and Critical Care	498	457	9.2%	0.1%	9.3%
Infusion Care	323	275	17.2%	(0.5)%	16.7%
Total	**1,894**	**1,827**	**3.7%**	**0.3%**	**4.0%**

Constant currency growth/(decline) %	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Advanced Wound Care	4.5	(13.2)	(0.6)	(5.1)
Ostomy Care	9.5	(2.7)	0.1	(1.1)
Continence & Critical Care	10.9	12.0	7.2	7.4
Infusion Care	12.6	12.6	26.7	15.3
Group	**8.9**	**0.0**	**5.6**	**2.0**

For insight into the category performances see pages 5 to 7.

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 document. 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.

Investor and analyst presentation webcast

A webcast of the results presentation is to be broadcast at 9am and can be found here.

Conference call details

Please find below the dial-in details to participate in the Q&A session which will follow straight after the presentation which is being broadcast at 9am:
United Kingdom: +44 (0)330 336 9411
United States: +1 929-477-0324
Access code: 8535951
The full text of this announcement and the presentation for the analyst and investors meeting can be found on the 'Results, Reports & Presentations' page of the ConvaTec website www.convatecgroup.com/investors/reports.

Next announcement

The Group will publish its Q1 2021 trading update on the 29 April 2021.

Analysts and Investors

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Financial Calendar

Ex-dividend date*	1 April 2021
Dividend record date*	6 April 2021
Scrip dividend election date*	22 April 2021
Q1 trading update	29 April 2021
Annual General Meeting	7 May 2021
Dividend payment date*	13 May 2021

** 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 37 to 43).

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

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

Chief Executive's Review

The pandemic created both challenges and opportunities for ConvaTec in 2020. Parts of our business were negatively impacted, with a sharp reduction in surgeries and restricted access to hospitals, whilst other parts benefitted as COVID-19 stimulated incremental demand. The overall impact of COVID-19 was broadly neutral on the topline. From a profit perspective we incurred some additional costs owing to the pandemic although costs such as travel and advertising and sales promotion were lower than normal and we chose to adopt prudent cost management during a year of uncertainty. We also made the decision to proactively re-phase certain investments into 2021.

ConvaTec has continued to make good progress with our strategic transformation programme. It is testament to the talent and commitment of ConvaTec colleagues that these significant changes and numerous initiatives were achieved whilst simultaneously responding to the difficulties of COVID-19. In spite of the decision to defer some investment the transformation remains on track.

Our growth prospects are attractive

ConvaTec operates principally in attractive, structurally-growing chronic care markets where there is long-term demand for our products and services. Market growth rates are expected to be approximately 4% p.a. in the medium-term.

Trends that are being seen in the wider healthcare market include the rising influence of the patient or consumer; an increasing shift towards the importance of homecare; technological advancements; the entrance of new competitors; the growth in emerging markets and increasing cost pressures on health systems. We are assessing these trends and looking to effectively differentiate our offering as we strive to seize the opportunities created and mitigate any risks.

We are a medical technology solutions company serving a diverse set of chronic care categories which provides resilience. Importantly there are fundamental synergies across categories in terms of: consumer orientation; material science and design; high quality and volume manufacturing; distribution channel knowledge and geographic presence.

To further strengthen our leadership position and achieve our full potential we will vigorously pursue our Focus, Innovate, Simplify, Build, Execute ('FISBE') strategy.

Our Response to COVID-19

Throughout this pandemic our priority has been to safeguard our employees' health and wellbeing and to support and protect the patients and care givers we serve.

In March we established a dedicated Rapid Response Team. This forum, that I chaired and which included experts from all parts of the Group, ensured speedy, collaborative and pragmatic decision-making and execution. It was instrumental in helping us adapt to the new environment we find ourselves in and to continue to progress our strategic transformation.

The team focused on five key workstreams: our people; the supply chain; customer interactions; financial liquidity and medical.

In the latter part of the year we transitioned from the Rapid Response Team to a New Normal Oversight Team that has been focusing on ensuring the Group remains well positioned for long-term, sustainable and profitable growth.

I am proud of how the business responded to the challenges of the pandemic. We introduced detailed processes and protocols to protect our employees and strengthen the resilience of our supply chain in order to respond to our customer needs and elevated levels of demands. I have also been pleased with the agility the business has shown as it embraced the digital interface both with our customers and internally.

2020 Financial performance

The benefits of our portfolio serving diverse categories coupled with strong operational performance was evident in this year's results. Notwithstanding the significant negative impact of COVID-19 on our largest business, Advanced Wound Care ('AWC'), strong growth in Infusion Care ('IC') and Continence & Critical Care ('CCC') together with limited growth in Ostomy Care ('OC') performance enabled us to exceed our revenue guidance.

Group reported revenue of $1,894.3 million (2019: $1,827.2 million) rose 3.7% year-on-year or 4.0% on a constant currency basis[2]. Adjusting for the disposal of the US Skincare product line (which contributed $6.2 million in Q4 2019)

and the acquisition of Southlake Medical (which contributed $2.7 million in 2020) revenues grew 4.2% on an organic basis[4].

The Q4 performance was stronger than anticipated, driven principally by a further step-up in demand for critical care products as the next wave of the pandemic was felt around the globe.

Reported operating profit was $211.0 million (2019: $96.9 million). The adjusted operating profit for the year was $350.2 million which included adverse foreign exchange of $7.3 million. This was broadly in line with the prior year $354.3 million, with an adjusted operating margin of 18.5% (2019: 19.4%). The 3.7% growth in revenue, slight improvement in gross margin, prudent costs management and savings on travel and expenses during the pandemic, were offset by the strategic transformation investments of $92.5 million (2019: $52.7 million) and investment in Medical Device Regulation ('MDR') of $14.0 million (2019: $5.2 million).

Adjusted net profit[1] rose 3.7% to $240.5 million (2019: $232.0 million) with the $25.2 million reduction in net finance expense partially offset by $12.6 million increase in adjusted tax expense. As anticipated the adjusted effective tax rate ('ETR') rose from 16.0% to 19.1% reflecting a change in the overall profit mix and movements in local tax rates.

Reported net profit increased to $112.5 million (2019: $9.8 million) generating basic reported EPS of 5.7 cents (2019: 0.5 cents).

Basic adjusted EPS was 12.1 cents (2019: 11.8 cents) and the diluted adjusted EPS was 12.0 cents (2019: 11.7 cents) based on basic weighted average ordinary shares of 1.992 billion (2019: 1.971 billion) and 2.007 billion diluted shares (2019: 1.976 billion) respectively.

Cash flow remained robust with adjusted cash conversion at 90.3% (2019: 97.9%). This change principally reflects higher levels of capex investment. Reported cash conversion was 99.0% (2019: 101.0%).

Net debt (excluding lease liabilities) reduced to $891.0 million (2019: $1,100.3 million) resulting in an improvement in the Group's net debt/adjusted EBITDA[1] ratio to 2.0x (2019: 2.5x).

Category revenue performance

	Twelve months ended 31 December					
	2020 $m	2019 $m	Reported growth / (decline)	Foreign Exchange impact	Constant Currency[2] growth / (decline)	Organic[4] growth
Revenue by Category						
Advanced Wound Care	547	570	(4.0)%	0.2%	(3.8)%	(2.7%)
Ostomy Care	526	525	0.2%	1.0%	1.2%	1.2%
Continence and Critical Care	498	457	9.2%	0.1%	9.3%	8.7%
Infusion Care	323	275	17.2%	(0.5)%	16.7%	16.7%
Total	**1,894**	**1,827**	**3.7%**	**0.3%**	**4.0%**	**4.2%**

Advanced Wound Care ("AWC")

Revenue of $547 million declined 4.0% compared with the prior year or 3.8% on a constant currency basis. This decline was driven by the significant negative COVID-19 impact of reduced elective surgeries as well as declines in non-surgical volumes given the reduced access to wound clinics and hospitals during the pandemic. This year was also impacted by the disposal of the US Skincare product line in September 2020. Organic[4] revenue growth, adjusting for the disposal of US Skincare product line, declined 2.7% year-on-year.

The business saw growth in Latin America and certain European and Asia Pacific markets. Declines in Europe were principally in the UK, France and Germany. North America, where we are most exposed to surgical, was negatively impacted by the reduction in elective procedures, although this was partially offset by a slightly positive performance from the chronic business in the US.

Our AQUACEL™ Ag+ Extra™ brand delivered strong growth and the launch of ConvaMax™ superabsorber in Europe

was very encouraging. Elsewhere our AQUACEL™ Foam Pro brand delivered good growth, albeit off a small base.

In Q4 revenue growth was down 5.1% on a constant currency basis. After adjusting for the disposal of US Skincare the organic[4] decline was 1.1%.

In 2021 we will focus on the following areas:

- Improving commercial execution in key markets including the US, and Europe supported by Salesforce Excellence and Marketing Centres of Excellence ('CoE').
- Driving the use of digital tools and platforms in our customer interfaces.
- Investing in our innovation pipeline to strengthen our product portfolio, notably in foam.

Ostomy Care ("OC")

Revenue of $526 million was broadly flat on a reported basis and grew 1.2% year-on-year on a constant currency basis. Good growth in both Latin America and key Asia Pacific markets such as China, were largely offset by continuing challenges in the US and in certain European markets. Planned contract and SKU rationalisation reduced growth by c.90bps. The COVID-19 impact was relatively limited. In the first wave of the pandemic we saw some stocking up by distributors and patients although this unwound as the year progressed.

In the US, whilst we have seen an increase in community sales, new patient starts in the acute setting remain challenging in some regions.

We have continued to see good growth in the Esteem™+ 1-piece around the globe and have seen good growth in our 2-piece segment in the Global Emerging Markets ('GEM'). Outside of GEM we have seen growth in Natura®+ although 2-piece revenues have declined overall.

In Q4 revenue fell 1.1% on a constant currency basis, partially driven by the rationalisation programme and relatively tough prior year comparatives.

In 2021 we will focus on the following areas:

- Strengthening our commercial execution in our key markets leveraging the Sales and Marketing CoEs coupled with further investments.
- Leveraging our me+™ direct-to-consumer programmes and collaborating with HSG to fully support those communities.
- Continuing to streamline our SKUs and to focus on renewing our product portfolio.

Continence & Critical Care ("CCC")

Revenue of $498 million was up 9.2% on a reported basis and 9.3% on a constant currency basis. There was a small contribution from the Southlake Medical Supplies acquisition that was completed in October 2019. On an organic[4] basis revenue was up 8.7%.

Within this the key driver was significant growth in our Critical Care business. Revenues rose 17.1% on a constant currency basis to $152 million owing to the significant demand for ICU products during the pandemic.

Our Continence business continued to achieve good revenue growth of 6.2% on a constant currency basis. HSG, driven by its high-touch patient care model, continues to be the main driver of growth in the category. Despite the complexity of moving to remote working HSG continued to deliver an excellent service experience and grew faster than the overall market. In addition, our GentleCath™ Glide brand has been growing strongly, albeit off a relatively small base.

In Q4 CCC revenue rose 7.4% on a constant currency basis. This was better than expected driven by another step up in demand for Critical Care products during the latest wave of the pandemic.

In 2021 we will focus on the following areas:

- Continuing to leverage the reach of HSG, the largest service provider of intermittent catheters in the US.
- Expanding our me+™ platform for intermittent catheter users.
- Continuing to invest to strengthen the product portfolio.

Infusion Care ("IC")

Revenue grew 17.2% on a reported basis or 16.7% on a constant currency basis. This was driven by increased use of our innovative infusion sets by diabetes patients. Some of the demand increase was due to our customers and their patients building resilience in the supply chain although the primary driver has been our leadership position in serving the fast-growing "smart glycemic control" segment of the diabetes market.

Q4 revenue rose 15.3% on a constant currency basis broadly in line with the trends seen earlier in the year, and slightly better than expected.

During 2021 we will focus on the following areas:

- Sustaining our strong and long-term partnerships with insulin pump manufacturers.
- Continuing to invest in further developing our differentiated diabetes offering – including the launch of our new extended wear infusion set.
- Expanding the usage of infusion sets for the delivery of other sub-cutaneous therapeutics for diseases such as Parkinsons.

Pivoting to sustainable and profitable growth

This time last year I published our new vision, which encompasses our purpose: *Pioneering trusted medical solutions to improve the lives we touch*. I also communicated how we would pivot to sustainable and profitable growth by executing our FISBE strategy. Notwithstanding the pandemic we have made good strategic progress this year.

Focus

We are concentrating our efforts on key markets and categories. During 2020 we successfully disposed of the US Skincare product line for $29.6 million and exited 26 markets where our presence had been subscale and not sufficiently profitable. This has reduced commercial and supply chain complexity. We are also rationalising elements of our product portfolio, for example, in Ostomy Care.

From a markets perspective, during 2020 we stepped up our investment in China, a key market going forward. We embedded a new leadership team and although we delayed expansion of the salesforce in the early part of the pandemic, by the end of the year we had doubled our presence in China to more than 300 employees.

Our main priority in 2021 will be to accelerate growth in our key markets. We are investing to further grow our Chinese presence and to enhance our commercial execution in the US. We will continue to strengthen our competitive position by evaluating potential partnerships and acquisitions. Meanwhile our product rationalisation programme will continue through 2021.

Innovate

ConvaTec has historically underinvested in R&D. We are now significantly increasing our spend in this area. 2020 R&D spend increased by $27.4 million to 4.3% of revenue (2019: 2.9%), some of which relates to higher MDR spend of $14.0 million (2019: $5.2 million). Going forward we see further opportunities to increase our investment to strengthen our innovation capabilities and improve our cycle time.

Despite the historical underinvestment we made progress during 2020 and our recent launches, such as the MiniMed™ Mio™ Advance/Neria™ Guard infusion set and ConvaMax™ superabsorber, have been gaining traction.

During the year Dr Divakar Ramakrishnan, who joined ConvaTec in January 2020, created a new "Technology and Innovation" function, reorganising the function and conducting a strategic review. This has led to changes in the structure of the team, the augmentation of capabilities with new key hires coupled with the creation of an innovation centre in Boston.

During 2021 we shall focus on embedding our new leadership team and further strengthening our capabilities. We intend to roll out a single uniform new product development and launch process across all categories and will progress our pipeline. Extended wear infusion sets are expected to launch in 2021 and we will prepare for our ConvaFoam™ launch in 2022. We will also continue to progress the development of our male and female GentleCath™ compact

catheter offerings whilst continuing to work on refreshing the ostomy portfolio.

Simplify

We are migrating from a complex country-led matrix organisation to a new operating model which offers both improved proximity to the patient and care givers supported by global functional expertise. This new model is now being embedded across the organisation. It is testament to the adaptability of our people that they have adopted these changes whilst also adapting to remote working during a pandemic.

During the year we also successfully created a new Global Business Services ("GBS") centre in Lisbon, Portugal. Established in May the team includes over 140 people, who have been onboarded remotely during the pandemic. Notwithstanding these unusual circumstances we have now successfully transitioned the majority of our historic shared services locations into this single hub in Lisbon together with transactional finance activity from certain European markets and some IT service support. This newly formed team has already identified and delivered further process improvements, sharing best practice and driving efficiencies, including the use of robotics.

During 2021 we will continue to migrate activities into the GBS and embed our finance business partnering approach for optimised insight. We will also look to streamline processes in additional areas during the year.

Building

We are building core capabilities across the value chain. During 2020 we made four key hires to the ConvaTec Executive Leadership team ('CELT'): in January, as well as Dr Divakar Ramakrishnan joining as our Chief Technology Officer, we welcomed Mani Gopal as President and Chief Operating Officer of Ostomy Care. In June Natalia Kozmina joined as Chief Human Resources Officer and in November Evy Douglas joined as Chief of Corporate Strategy and Business Development. We have also strengthened the leadership team in key areas such as quality, regulatory, marketing, medical and product development.

In 2020 we created our Salesforce Excellence CoE and our Marketing CoE and both are starting to roll out initiatives to improve these capabilities across the Group.

Our latest Organisational Health Index survey, conducted in November, showed significant improvement in our overall score. Within this the survey suggests that our people welcomed our investment in skills, core processes and systems. Overall participation in learning programmes increased 300% compared to 2019.

During 2021 we will continue to strengthen our sales and marketing activities with a particular focus on digital interactions. We will further embed the marketing CoE, roll out our common Customer Relationship Management ('CRM') platform more widely and seek to strengthen our commercial performance.

Execution

Our Transformation Execution Office is now well established and is continuing to drive a culture of execution excellence across the organisation. The team helped develop and monitor over 100 initiatives during the year ensuring that deliverables are on track and that people are held accountable.

Many of these initiatives have been delivered by our Global Quality & Operations function. Examples include savings at the facilities with initiatives on material and scrap, bringing certain production in-house, and working with procurement to identify and deliver savings.

In 2021 we will continue to embed the execution excellence methodology for maximum impact. We will also increase the number of employees who have completed our "Ability to Execute" training module.

During the course of the year we decided to proactively re-phase certain investments, given the pandemic and the implications for execution and returns. We pushed forward with increased impetus in certain areas, such as enhancing our digital capabilities, whilst delaying spend in others to reflect the uncertain environment. In total we invested $130.7 million in our strategic transformation in 2020, comprising of:

- $50.6 million of non-recurring operational investment (2019: $39.4 million)
- $41.9 million of recurring operational investment (2019: $13.3 million)
- An additional $12.2 million of costs to be excluded from adjusted EBIT (2019: $4.3 million)
- $26.0 million of capex (2019: $23.0 million)

We also invested $14.0 million in MDR during the year (2019: $5.2 million).

Notwithstanding the deferral of some recurring transformation investments into 2021 we continue to expect annual gross benefits in 2021 of c.$130-150 million. After 2021 we do not expect to disclose transformation investments separately as the non-recurring elements should be largely complete. Additional investments, as we further refine the shape of our income statement, will be part of the ongoing operational decisions of the business as we continue to pivot to sustainable and profitable growth.

Sustainability

We intend to become a more sustainable business and to contribute to the global sustainability agenda, in particular through the support this approach brings to several of the UN Sustainable Development Goals.

In 2020 we made progress against a number of our published sustainability targets. We are pleased with these achievements given the pandemic, the number of leadership changes and the scale of the transformation taking place in the business. However much remains to be done and we go into 2021 with renewed focus in this area.

In 2021 we are introducing a CELT-led ESG steering team which I will lead. We will review our progress against our ESG programme, review and revise targets and enhance our TCFD disclosures. We will also review how sustainability can be further embedded systematically into our R&D pipeline and associated processes. Furthermore, in the area of quality and operations we see opportunities to improve our environmental impact in areas such as packaging and carbon emissions. We will focus on these opportunities as we seek to continue to raise the bar higher.

Dividend

The Board is proposing a final dividend of 3.983 cents to per share and therefore a 2020 full year dividend of 5.7 cents per share, in line with the 2019 full year dividend. This is outside our stated policy of 35% to 45% of adjusted net profit but is a reflection of the Board's confidence in the future performance of the Group, its underlying financial strength, realised distributable reserves position, cash generation and liquidity.

Group 2021 outlook

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

In 2021 we anticipate organic revenue growth of 3-4.5%. We expect a broadly similar growth performance in Ostomy Care to 2020 whilst Infusion Care is expected to deliver strong growth against the tough prior year comparatives. We expect AWC to return to growth whilst CCC will slow as the revenues for Critical Care decline as COVID-19 recedes against the tough comparatives. The timing and magnitude of the Critical Care and AWC movements will depend upon the persistence of COVID-19 and how quickly access to healthcare settings normalise.

Constant currency adjusted EBIT margin in 2021 is expected to be between 18% and 19.5%, including c.$35 million of non-recurring transformation investment, c.$75 million of recurring transformation investment and c.$15 million of costs related to the ongoing implementation of MDR. In addition, we expect c.$10-15 million in termination expenses associated with the strategic transformation, these will be excluded from our non-IFRS financial measures in line with our policy.

In 2021, based on prevailing rates, we expect interest expense of c.$40-45 million and an effective tax rate of between 18-20%. We also expect to increase capital expenditure to $100-120 million as we add further manufacturing capacity, gradually increase the level of automation, continue to invest in IT/digital and prepare for the launch of new products.

We are excited about the opportunities available to the Group and remain committed to our transformation to pivot to sustainable and profitable growth. We have made good progress stabilising the business in 2020 and strengthening its foundations. We will focus on accelerating future revenue and operating profit growth. I look forward to updating you further later in the year.

UK withdrawal from the European Union ("Brexit")
As highlighted in previous disclosures our Brexit taskforce had actively prepared, with external advisory support, for a variety of scenarios including a "No-Deal" scenario. Arrangements were in place to ensure that adequate inventory levels were maintained in key locations, registrations completed for dedicated shipping lanes available to medical device companies, internal financial systems requirements defined, and appropriate regulatory changes considered and implemented. Aside from some delays in shipping and elevated freight costs, no significant issues have been identified in the first two months of trading.

Principal risks
Our principal risks, as disclosed in our 2019 Annual Report and Accounts, other than in respect of the impacts of COVID-19, remain largely unchanged as at 31 December 2020 as to their potential effect on our ability to successfully deliver our strategy. The risk landscape, however, has become more challenging in light of the pandemic and the consequential emerging longer-term economic and social implications. The Board has considered the impact of COVID-19 on the Group's business and principal risks, the additional controls and mitigations required to address these challenges and prioritised the principal risks accordingly.

As a result of COVID-19 the risk profile of three of our principal risks (Global Operations and Supply Chain, Pricing and Reimbursement and Information Security) listed below has altered. In addition, the Tax and Treasury principal risk profile has changed as a result of the evolving global tax regulation environment. A summary of the principal risks and how COVID-19 has changed their profile is provided below:

- Global Operations and Supply Chain – Effective and sustainable manufacturing operations rely on our resilience and ability to respond to events across our business and supply chain. The risk profile has increased as a result of COVID-19 including internal (manufacturing plant hygiene) and external (supply chain and logistics partner resilience) factors. In response, COVID-19 secure manufacturing protocols have been implemented and we perform ongoing assessments and review of our supply chain partners' COVID-19 risk exposure.
- Change and Transformation – The scale of our transformation programme is significant and successful delivery relies on robust change management processes, investment and people capabilities.
- Pricing and Reimbursement – Growth and value in our markets rely on our product and future innovation pipeline meeting customer demands and a competitive pricing strategy. The risk profile has increased, as a result of COVID-19, following the deterioration in the overall global economic outlook and the resultant potential emerging impact to healthcare systems, customers and competitors as they adapt to the new economic context. In response, executive reviews focus on driving manufacturing cost efficiencies and on R&D and technology innovation, a market access CoE is being created to focus on reimbursement and the sales force and commercial team engagement model is evolving to improve access during COVID-19 in the short-term and to focus on digital interaction in the long-term.
- Information Security – Failure to ensure that our systems, data management and related controls supporting our global business are effective, available, and integral and secure, including those of our third-party partners. The risk profile has increased following a general rise in illegal cyber security activity across businesses globally during 2020 due to COVID-19 and the switch to a broader home-working environment for our colleagues. As a result, the Board and the CELT-led Cyber Steering Committee regularly reviewed cyber-security including the results of regular testing, evaluation and improvement made to our infrastructure in relation to cyber-attacks.
- Product Innovation and Intellectual Property – Failure to invest in and develop safe, effective, profitable long-life products to meet market needs and fill unmet medical needs, respond to disruptive new technologies or maintain sufficient IP protection.
- People (formerly Leadership Talent) – Failure to secure and retain the right level of capability and capacity, particularly in our senior management, develop a talent pipeline and successfully manage transformation and/or effects of high business disruption.
- Quality and Regulatory – We are subject to oversight by a number of regulatory jurisdictions that continue to implement significant obligations and scrutinise how we operate.

- Legal and Compliance – Our business is subject to a complex environment of laws and regulations across multiple jurisdictions.
- Geopolitical (formerly Brexit) – Our global operations and markets are affected by changes in the rapidly evolving and constantly changing international political climate, particularly in relation to tariff structure changes, national healthcare reforms, regulatory reforms or other trade limiting actions. We continue to monitor the post-Brexit environment and other geopolitical agreement processes taking into consideration interdependencies with COVID-19.
- Tax and Treasury (formerly Macroeconomic and Foreign Exchange) – Our business operates across multiple jurisdictions with complex and evolving tax laws and regulations and manufactures and operates across markets with multiple currencies. Our financial performance and price competitiveness are dependent on the management of exposure to the effects of COVID-19 on the existing economic environment. We are currently in a stable financial position, including cash flow and liquidity, despite the environment. In response to the evolving tax environment, the global tax team monitors changes in tax laws and regulations and advises the business on changes to obligations and requirements and external experts are engaged to support and enhance internal team capabilities.
- Forecasting and Market Conditions – Our ability to identify, react and plan effectively to changes in market conditions, customer demand or any perceived lack of demand visibility on a timely basis drives optimal decision making, performance and results.

Financial review

Notwithstanding the COVID-19 pandemic, we delivered a solid financial performance.

Our diversified product and service portfolio, strong market positions and robust balance sheet created a strong foundation during the pandemic from which we delivered our solid financial performance. We grew the business and our cash generation remained strong which has enabled us to invest in our transformation programme, service our debt and maintain our dividend. Despite the challenges we faced in 2020, we continued with our finance transformation, including successfully establishing our Global Business Services hub in Lisbon and we continued to monitor and strengthen our financial control environment and further build out our business intelligence capabilities. We are confident in the future profitable growth of our business which is reflected in our outlook and guidance.

	Reported 2020 $m	Reported 2019 $m	**Adjusted 2020 $m**	Adjusted 2019 $m
Revenue	**1,894.3**	1,827.2	**1,894.3**	1,827.2
Cost of sales	**(875.5)**	(871.6)	**(767.5)**	(749.0)
Gross profit	**1,018.8**	955.6	**1,126.8**	1,078.2
Gross margin %	**53.8%**	52.3%	**59.5%**	59.0%
Selling and distribution expenses[(a)]	**(463.3)**	(458.9)	**(462.6)**	(457.2)
General and administrative expenses[(a)]	**(262.1)**	(240.5)	**(232.8)**	(212.6)
Research and development expenses	**(82.4)**	(53.8)	**(81.2)**	(53.8)
Other operating expenses	**-**	(105.5)	**-**	(0.3)
Operating profit	**211.0**	96.9	**350.2**	354.3
Operating margin %	**11.1%**	5.3%	**18.5%**	19.4%
Finance income	**1.9**	7.8	**1.9**	7.8
Finance expense	**(50.3)**	(81.4)	**(50.3)**	(81.4)
Non-operating income/(expense), net	**12.1**	(4.4)	**(4.4)**	(4.4)
Profit before income taxes	**174.7**	18.9	**297.4**	276.3
Income tax expense	**(62.2)**	(9.1)	**(56.9)**	(44.3)
Net profit	**112.5**	9.8	**240.5**	232.0
Net profit %	**5.9%**	0.5%	**12.7%**	12.7%
Basic earnings per share (cents per share)	**5.7¢**	0.5¢	**12.1¢**	11.8¢
Diluted earnings per share (cents per share)	**5.6¢**	0.5¢	**12.0¢**	11.7¢
Dividend per share (cents)	**5.7**	5.7		

(a) Following a review of cost allocations, general and administrative expenses of $30.5 million (2019: $25.9 million), principally relating to employee costs and insurance, have been reclassified to selling and distribution expenses to better reflect the nature of the costs. The comparatives have been restated to reflect the revised classification.

Reported and Adjusted results

The Group's reported financial performance, measured in accordance with IFRS, is set out in the Financial Statements and selected Notes thereto on pages 21 to 36.

The commentary in this Financial review includes discussion of reported and alternative performance measures ('APMs'). Management uses APMs 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 37 to 43.

Constant Currency Growth (CER)

The Group reviews revenue on a constant currency basis which removes the effect of fluctuations in exchange rates 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 is a non-IFRS financial measure and should not be viewed as a replacement of IFRS reported revenue.

Revenue

Details of the Group's revenue is discussed above on pages 5 to 7.

Reported net profit

Notwithstanding the COVID-19 pandemic, the Group delivered a solid financial performance in 2020, as highlighted in the table above.

Reported operating profit was $211.0 million, an increase of $114.1 million reflecting the 3.7% growth in revenue, improvement in gross margin, reduction in impairment charges of $105.5 million, a decrease in amortisation of $15.1 million and the 2019 effect of CEO buy-out costs of $6.2 million partially offset by the increased investment in transformation of $47.7 million and increased MDR of $8.8 million and a rise in employee incentives.

Reported finance and non-operating expenses were $36.3 million (2019: $78.0 million). Finance costs reduced by $25.2 million to $48.4 million, reflecting lower interest costs since the October 2019 refinancing and, in 2019, the write-off of fees related to the previous credit agreement. There was a non-operating credit of $12.1 million, reflecting the $16.5 million profit on disposal of the US Skincare product line partially offset by non-operating expenses, principally foreign exchange, remaining flat at $4.4 million.

The reported tax charge in the year was $62.2 million (2019: $9.1 million), which reflects the increase in the Group's reported profit before tax and movement in the deferred tax asset relating to the Swiss tax reform.

Consequently, reported net profit increased to $112.5 million (2019: $9.8 million) generating basic reported earnings per share of 5.7 cents (2019: 0.5 cents).

Adjusted net profit

The Group delivered adjusted operating profit in line with the prior year at $350.2 million (2019: $354.3 million) with an adjusted operating margin of 18.5% (2019: 19.4%). The 3.7% growth in revenue, improvement in the gross margin, prudent cost management and savings on travel and expenses during the pandemic, were offset by the strategic transformation investments of $92.5 million (2019: $52.7 million) and investment in MDR of $14.0 million (2019: $5.2 million) plus the impact of $7.3 million of adverse foreign exchange movements.

Adjusted net profit rose 3.7% to $240.5 million (2019: $232.0 million) with the $25.2 million reduction in net finance expense partially offset by $12.6 million increase in adjusted tax expense. As anticipated, the adjusted effective tax rate ("ETR") rose from 16.0% to 19.1%.

Basic adjusted EPS was 12.1 cents (2019: 11.8 cents) and diluted adjusted EPS was 12.0 cents (2019: 11.7 cents) based on basic weighted average ordinary shares of 1.992 billion shares (2019: 1.971 billion shares) and 2.007 billion diluted shares (2019: 1.976 billion) respectively.

Taxation and tax strategy

	Reported 2020 $m	Reported 2019 $m	**Adjusted 2020 $m**	Adjusted 2019 $m
Profit before taxation	**174.7**	18.9	**297.4**	276.3
Income tax expense	**(62.2)**	(9.1)	**(56.9)**	(44.3)
Effective tax rate	**35.6%**	48.1%	**19.1%**	16.0%

	2020 $m	2019 $m
Reported income tax expense	**(62.2)**	(9.1)
Tax effect of adjustments	**(12.3)**	(12.2)
Other discrete tax items	**17.6**	(23.0)
Adjusted income tax expense	**(56.9)**	(44.3)

The Group's reported tax charge for the year was $62.2 million (2019: $9.1 million) and is based on tax rates applicable in various jurisdictions across the world in which the Group operates. The principal movement relates to the change in basis of estimate of the deferred tax asset arising from Swiss tax reform which created a current year charge (other discrete tax item) of $17.6 million (2019: credit of $23.0 million). For further information see Note 4 to the Financial Statements.

The adjusted income tax charge for 2020 was $56.9 million (2019: $44.3 million), reflecting a 3.1% increase in the adjusted effective tax rate to 19.1% (2019: 16.0%), broadly in line with our expectations. The adjusted income tax expense of $56.9 million excludes the deferred tax expense of $17.6 million (as noted above) and a tax benefit of $12.3 million (2019: $12.2 million) relating to the tax effect of amortisation on pre-2018 intangible assets and the cost of termination benefits relating to specific Group-wide initiatives.

ConvaTec is a responsible business and promotes the highest standards of compliance and ethical behaviour. We take a responsible attitude to tax, recognising that it affects all of our stakeholders. We had on average more than 9,600 employees worldwide during 2020 and, operated in over 100 countries through direct sales and local distributors, our business activities generate a substantial amount of taxes. These include both corporate income taxes and non-income taxes such as payroll taxes, property taxes, VAT/Sales & Use taxes, and other taxes. In order to provide transparency on our approach to tax, we have published our Global Tax Strategy, which is available on our corporate website at https://convatecgroup.com/corporate-responsibility/socio-economic-contribution/tax-statement/

Disposals

In line with our strategic transformation and consistent with the "Focus" pillar of FISBE (see page 7), we disposed of the trade and assets of the US Skincare product line on 25 September 2020, for a net consideration of $29.6 million, generating a profit on disposal of $16.5 million. Prior to disposal the business had contributed $19.2 million of revenue to the 2020 reported results. For further information see Note 6 to the Financial Statements.

Alternative performance measures ("APMs")

In line with our APM policy, included within our adjusted performance measures in 2020 are termination benefits related to our transformation activity of $12.2 million (2019: $5.8 million), amortisation of pre-acquisition intangibles of $125.3 million (2019: $140.2 million) and the profit on disposal of the US Skincare product line of $16.5 million. In 2019, the Group also treated CEO buy-out costs of $6.2 million and the impairment of certain finite-lived intangible assets related to our product portfolio of $105.2 million as adjusting items.

The Board, through the Audit and Risk Committee, continuously reviews the Group's APM policy to ensure that it remains appropriate and represents the way in which the performance of the Group is managed. Since 2018, the Group has made two small acquisitions, each for a consideration of less than $15 million, for which the amortisation charge on acquisition intangibles was immaterial. Given the Group's strategy to be more active and to pursue larger acquisitions which strengthen our position in key geographies and/or business categories or which provide access to new technology, we believe that a refinement and clarification of the policy is required under which the Group will adjust for amortisation of intangible assets in relation to future acquisitions together with associated acquisition-related expenses. This refinement better reflects the underlying performance of the business and aids year-on-year comparability.

For further information on Non-IFRS financial information see pages 37 to 43.

Foreign exchange

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

Currency	**Average rate/ Closing rate**	**2020**	2019
EUR/USD	Average	**1.14**	1.12
	Closing	**1.22**	1.12

GBP/USD	Average	**1.28**	1.28
	Closing	**1.37**	1.33
DKK/USD	Average	**0.15**	0.15
	Closing	**0.16**	0.15

During 2020, our revenue was predominantly USD denominated (50%). Other significant currencies were EUR (23%), GBP (8%) and DKK (2%). The balance comprises a basket of other currencies which, on an individual basis, were each less than 2% of revenue.

Sources and uses of cash

Sources of cash

The Group's primary source of liquidity is net cash generated from operations (see cash flow statement on page 25). We operate in the chronic care market for which the nature of the Group's product offerings has resulted in consistent and robust recurring cash inflows.

Net cash generated from operations

	2020	2019	2018	2017	2016
Net cash generated from operations ($m)	**502.5**	486.8	449.1	420.0	384.5
Net cash generated from operations / revenue (%)	**26.5%**	26.6%	24.5%	23.8%	22.8%

	Reported 2020 $m	Reported 2019 $m
EBITDA[a]	**420.4**	421.0
Net cash generated from operations	**502.5**	486.8
Net interest paid	**(48.5)**	(48.0)
Tax paid	**(54.5)**	(37.0)
Net cash generated from operating activities	**399.5**	401.8

(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 39.

Net cash generated from operating activities was $399.5 million and $401.8 million in 2020 and 2019, respectively. The decrease of $2.3 million primarily reflects the $17.5 million increase in tax paid principally offset by a $15.7 million increase in cash from operations. Working capital decreased by $47.8 million (2019: $51.6 million) and was offset by a $21.9 million gain on foreign exchange derivatives.

Despite the impact of COVID-19, our cash collection remained strong resulting in a decrease in receivables of $6.5 million. Higher inventory to meet the predicted elevated short-term demand in Critical Care products together with appropriate planning for Brexit increased our year-end inventory position, generated a working capital outflow of $5.3 million. The increase in trade and other payables of $47.5 million reflects an increase in employee incentive accruals, an increase in the vacation accrual (owing to COVID-19) coupled with the phasing of spend on certain capital expenditure, transformation and innovation programmes.

The $21.9 million of cash gains from foreign exchange derivatives is a result of increased volatility in foreign exchange rates in 2020 and greater use of foreign exchange contracts to mitigate the associated risks.

In 2020, the net cash generated from operating activities was supplemented by income from the sale of our US Skincare

product line ($29.8 million).

Uses of cash

The $502.5 million net cash generated from operations and $29.8 million proceeds from the sale of the US Skincare product line, were used to service our debt, including repayment of $73.0 million of our external borrowings, invest $86.2 million of capital expenditure in our manufacturing lines, digital technologies and the purchase of product-related licences, $54.5 million of tax payments, purchase $5.6 million of ConvaTec shares for the future vesting of our employee share incentive plans, and pay $62.9 million in dividends to shareholders. The year-on-year reduction of $17.0 million in the cash dividend payment reflects the uptake of the scrip alternative.

Significant cash outflows ($m)

	2020 $m	2019 $m
Debt servicing	**142.1**	206.6
Dividend paid	**62.9**	79.9
Acquisition of PP&E and intangible assets	**86.2**	61.4
Tax paid	**54.5**	37.0
Acquisitions, net of cash acquired	**-**	12.3
Purchase of own shares	**5.6**	14.0

Cash flows from debt servicing includes net repayments on borrowings of $73.0 million (2019: $137.7 million), lease payments of $20.6 million (2019: $20.9 million), and net interest payments of $48.5 million (2019: $48.0 million).

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 99.0% (2019: 101.0%) and adjusted cash conversion was 90.3% (2019: 97.9%).

	Reported 2020 $m	Reported 2019 $m	**Adjusted[(a)] 2020 $m**	Adjusted[(a)] 2019 $m
EBITDA	**420.4**	421.0	**445.0**	443.1
Add: non-cash items	**12.4**	14.2	**-**	-
Working capital	**47.8**	51.6	**42.9**	52.1
Gain on foreign exchange derivatives	**21.9**	-	**0.2**	-
Capital expenditure	**(86.2)**	(61.4)	**(86.2)**	(61.4)
Net cash generated from operations, net of capital expenditure	**416.3**	425.4	**401.9**	433.8
Cash conversion	**99.0%**	101.0%	**90.3%**	97.9%
Tax paid	**(54.5)**	(37.0)	**(54.5)**	(37.0)
Free cash flow	**361.8**	388.4	**347.4**	396.8

(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 42.

Adjusted free cash flow is one of the four key performance indicators we use to monitor the delivery of our strategy. Adjusted free cash flow was $347.4 million (2019: $396.8 million), principally reflecting our increased investment in capital expenditure and cash tax paid.

Liquidity and net debt

Borrowings and net debt

	2020			2019		
	Borrowings	**Cash and cash equivalents**	**Net debt**	Borrowings	Cash and cash equivalents	Net debt
	$m	**$m**	**$m**	$m	$m	$m
At 1 January	**(1,486.1)**	**385.8**	**(1,100.3)**	(1,620.8)	315.6	(1,305.2)
Net cash inflow	-	**181.1**	**181.1**	-	76.5	76.5
Net repayment of borrowings	**73.0**	-	**73.0**	137.7	-	137.7
Foreign exchange	**(39.0)**	**(1.5)**	**(40.5)**	11.5	(6.3)	5.2
Non-cash movement	**(4.3)**	-	**(4.3)**	(14.5)	-	(14.5)
At 31 December	**(1,456.4)**	**565.4**	**(891.0)**	(1,486.1)	385.8	(1,100.3)
Lease liabilities			**(92.1)**			(88.5)
At 31 December			**(983.1)**			(1,188.8)
Net debt/adjusted EBITDA			**2.0x**			2.5x

As at 31 December 2020, the Group's cash and cash equivalents were $565.4 million (2019: $385.8 million) and the debt outstanding on our borrowings was $1,456.4 million (2019: $1,486.1 million). Borrowings reflect two five-year multi-currency committed loan facilities - a $900 million non-amortising debt facility and a $600 million amortising debt facility. In addition, the Group has a $200 million undrawn revolving credit facility. All three facilities expire in October 2024. During the year, the Group made the first scheduled repayment on the amortising loan of $45.0 million together with an additional payment of $28.0 million on Euro denominated borrowings triggered by the movement in the Euro to USD exchange rate exceeding 5%.

The $200 million revolving credit facility remained unutilised throughout the year and was undrawn as at 31 December 2020, which, with cash of $565.4 million, provided the Group with total liquidity of $765.4 million at that date.

At 31 December 2020, the Group was in compliance with all financial and non-financial covenants associated with the Group's outstanding debt. The Group has two financial covenants, being net debt/adjusted EBITDA and interest cover, each of which is defined by the debt facilities. The table below summarises the Group's covenant position versus maximum net debt/adjusted EBITDA and minimum interest cover permitted by the debt facilities as at 31 December 2020 and 2019.

	Maximum covenant net debt/adjusted EBITDA*	Covenant net debt/adjusted EBITDA*	Minimum covenant interest cover*	Covenant interest cover*
31 December 2020	**3.75x**	**1.93x**	**3.5x**	**10.4x**
31 December 2019	4.0x	2.48x	3.5x	6.5x

** For the purposes of the debt facilities, interest cover is adjusted EBITDA/interest expense (net). Net debt, adjusted EBITDA and interest expense (net) are adjusted measures as defined by the facilities documentation and not in accordance with the definitions of these measures presented in the Adjusted Performance Measures section on page 42 and applied in the commentary in this Financial review.*

The Group ended the year with total interest-bearing liabilities, including IFRS 16 lease liabilities, of $1,548.5 million (2019: $1,574.6 million). Offsetting cash of $565.4 million (2019: $385.8 million) and excluding lease liabilities, net debt was $891.0 million (2019: $1,100.3 million), equivalent to 2.0x adjusted EBITDA (2019: 2.5x adjusted EBITDA).

For further information on our borrowings see Note 7 to the Financial Statements.

Financial position

At 31 December	**2020 $m**	2019 $m	Change $m	Change %
Intangible assets and goodwill	**2,089.6**	2,166.9	(77.3)	(3.6)%
Other non-current assets	**498.4**	474.6	23.8	5.0%
Cash and cash equivalents	**565.4**	385.8	179.6	46.6%
Current assets excluding cash and cash equivalents	**613.1**	582.5	30.6	5.3%
Total assets	**3,766.5**	3,609.8	156.7	4.3%
Current liabilities	**(513.2)**	(397.3)	(115.9)	29.2%
Non-current liabilities	**(1,582.6)**	(1,651.5)	68.9	(4.2)%
Total equity	**(1,670.7)**	(1,561.0)	(109.7)	7.0%
Net equity and liabilities	**(3,766.5)**	(3,609.8)	(156.7)	4.3%

Intangible assets and goodwill

Intangible assets and goodwill reduced by $77.3 million to $2,089.6 million (2019: $2,166.9 million). This reflects decreases arising primarily from the in-year amortisation of intangible assets of $136.8 million partially offset by the net effect of foreign exchange of $42.7 million and additions of $25.1 million. Additions primarily arose from the accelerated investment in our digital capabilities under our transformation programme.

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 $23.8 million to $498.4 million (2019: $474.6 million). The increase primarily reflects continual investment in our manufacturing lines, with additions in PP&E of $64.5 million offset by depreciation of $38.5 million. Right-of-use assets remained in line with the prior year with $22.9 million new leases recognised offset by depreciation of $22.4 million. The net increase in other non-current assets also includes a $19.9 million favourable foreign exchange movement. Deferred tax assets decreased by $13.6 million to $41.4 million principally due to the change in the basis of estimating the deferred tax asset arising from the Swiss tax reform.

Current assets excluding cash and cash equivalents

Current assets excluding cash and cash equivalents increased by $30.6 million to $613.1 million (2019: $582.5 million),

primarily driven by the net effect of foreign exchange of $27.7 million.

Current liabilities
Current liabilities increased by $115.9 million to $513.2 million (2019: $397.3 million), reflecting a $52.5 million increase in trade and other payables, primarily due to increases in accruals for strategic projects and employee incentives, as well as a $45.8 million increase in the current portion of borrowings resulting from the scheduled repayments under the Group's credit agreement.

Non-current liabilities
Non-current liabilities have reduced by $68.9 million to $1,582.6 million (2019: $1,651.5 million). This includes a reduction in non-current borrowings of $75.5 million, resulting from scheduled repayments of $73.0 million during the year, the increase in the classification of the current portion of borrowings as described above, partially offset by $39.0 million in relation to the foreign exchange impact on Euro denominated borrowings.

COVID-19 pandemic

In March 2020 management established a Rapid Response Team to assess, respond to and monitor the effects of COVID-19 on its employees, customers and the performance of the business. Management and the Board performed regular and extensive reviews of the impact of the COVID-19 pandemic on the Group's financial affairs, including the potential effects on the Group's liquidity position, accounting judgements and estimates and the financial control environment. This included enhanced monitoring of the Group's liquidity position – see above for commentary on the strong liquidity retained throughout the year. Monitoring of the position was done through daily liquidity and weekly cash collection reporting supported by regular Treasury forecasting and reporting procedures.

Accounting considerations

In response to the pandemic, the Group considered the potential impact on our accounting judgements and key sources of estimation uncertainty.

Going concern and Viability statement
As discussed above, the overall financial performance of the business has remained robust with a strong liquidity position maintained throughout the year and access to committed funding through to October 2024, of which $200 million has remained undrawn throughout the year. In preparing the Group's Viability statement, the Board-approved strategic plan was used as a foundation and severe but plausible downside scenarios linked to the Group's principal and emerging risks, including supply chain disruption (incorporating the effect of climate change), COVID-19 impact, delivery of transformation initiatives, and pricing and reimbursement, applied against the strategic plan. Brexit was not considered a significant risk for the Group and, therefore, not included in the scenarios. After the application of these scenarios, and before mitigations to address them, the Group is forecast to maintain a strong liquidity position and to operate comfortably within the debt covenants. A reverse stress test, before mitigation, was also considered but the conditions of the reverse stress test were considered implausible given that a reduction of >$150 million EBITDA would be required in 2021 to create conditions which may lead to a potential covenant breach and substantially higher reductions in profitability in subsequent years.

In relation to going concern, given available cash resources, forecast performance for the next 18 months, including covenant compliance, the going concern assumption has been assumed in the preparation of the Financial Statements. In reaching this conclusion and given the economic uncertainty that has been created by the pandemic, the Board applied the same severe but plausible scenarios utilised in the preparation of the Viability statement. Under each scenario the Group retained significant liquidity and covenant headroom throughout the going concern period i.e. 12 months from the date of this report.

Financial control environment

With a substantial number of office-based employees working from home during the year, including within the finance community, we regularly reviewed and monitored the financial and IT general control environment.

The Group uses a single system for the self-certification of global financial controls across all markets. The self-certification process continued throughout the year with no deterioration in response rates, which remained high. The Global Financial Controls team, acting as the second line of defence, investigates all notified control failures to

ensure that there is no risk of material financial misstatement. To further assure the control environment during the year, additional guidance was provided to our global finance teams to ensure that any COVID-19 triggering events were considered. Further incremental evidence review activities were undertaken in key markets to ensure that controls were operating in line with global standards and as reported. In addition, internal audit reviews continued to be completed, focused on our financial internal controls. No control failures were identified during the year that posed a risk of a material financial misstatement.

In transitioning finance activity to our Global Business Services facility, detailed analysis of segregation of duty activities were completed, controls documentation prepared, and subsequent operation of those controls reviewed to ensure that the control environment in this newly created hub was robust.

A review of the operation of IT general controls was conducted on a regular basis during the year by the IT governance risk and compliance team and no weaknesses were identified that would give rise to a risk of material financial misstatement. Given the transition to home-working, internal audit performed a review of home-working practices to ensure there were no material exposures or weaknesses in the effectiveness of controls.

APMs

Although the Group has incurred certain costs in relation to the COVID-19 pandemic e.g. in delivering COVID-19 secure workplaces and manufacturing sites, none of these costs have been treated as adjusting.

Taxation matters

In response to COVID-19, various governments offered support programmes to companies to ensure their future in these unprecedented times. Given the robust performance of the Group, no employees were furloughed and no governmental COVID-19 support programmes were applied for or accepted.

Consolidated Income Statement
For the year ended 31 December 2020

	Notes	2020 $m	2019 restated[a] $m
Revenue	2	**1,894.3**	1,827.2
Cost of sales		**(875.5)**	(871.6)
Gross profit		**1,018.8**	955.6
Selling and distribution expenses		**(463.3)**	(458.9)
General and administrative expenses		**(262.1)**	(240.5)
Research and development expenses		**(82.4)**	(53.8)
Other operating expenses		**–**	(105.5)
Operating profit		**211.0**	96.9
Finance income		**1.9**	7.8
Finance expense		**(50.3)**	(81.4)
Non-operating income/(expense), net	3	**12.1**	(4.4)
Profit before income taxes		**174.7**	18.9
Income tax expense	4	**(62.2)**	(9.1)
Net profit		**112.5**	9.8
Earnings per share			
Basic earnings per share (cents per share)		**5.7¢**	0.5¢
Diluted earnings per share (cents per share)		**5.6¢**	0.5¢

(a) Following a review of cost allocations, general and administrative expenses of $30.5 million (2019: $25.9 million), principally relating to employee costs and insurance, have been reclassified to selling and distribution expenses to better reflect the nature of the costs. The comparatives have been restated to reflect the revised classification.

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Notes	**2020** **$m**	2019 $m
Net profit		**112.5**	9.8
Other comprehensive income			
Items that will not be reclassified subsequently to the Consolidated Income Statement			
Remeasurement of defined benefit pension plans		**(0.4)**	(5.0)
Change in pension asset restriction		**5.0**	(0.6)
Income tax relating to items that will not be reclassified		**0.2**	1.5
Items that may be reclassified subsequently to the Consolidated Income Statement			
Exchange differences on translation of foreign operations		**53.0**	25.1
Effective portion of changes in fair value of cash flow hedges	8	**(6.7)**	(9.5)
Costs of hedging	8	**(0.1)**	–
Changes in fair value of cash flow hedges reclassified to the Consolidated Income Statement	8	**(0.2)**	(0.8)
Income tax relating to items that may be reclassified		**1.7**	2.8
Other comprehensive income		**52.5**	13.5
Total comprehensive income		**165.0**	23.3

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

Consolidated Statement of Financial Position
As at 31 December 2020

	Notes	2020 $m	2019 $m
Assets			
Non-current assets			
Property, plant and equipment		**352.2**	321.6
Right-of-use assets		**85.8**	84.5
Intangible assets and goodwill		**2,089.6**	2,166.9
Deferred tax assets		**41.4**	55.0
Derivative financial assets	8	**–**	1.0
Restricted cash		**5.7**	3.6
Other non-current receivables		**13.3**	8.9
		2,588.0	2,641.5
Current assets			
Inventories		**297.1**	281.8
Trade and other receivables		**316.0**	300.7
Cash and cash equivalents		**565.4**	385.8
		1,178.5	968.3
Total assets		**3,766.5**	3,609.8
Equity and liabilities			
Current liabilities			
Trade and other payables		**341.8**	289.3
Borrowings	7	**86.6**	40.8
Lease liabilities		**19.8**	18.4
Current tax payable		**55.6**	44.6
Provisions		**9.4**	4.2
		513.2	397.3
Non-current liabilities			
Borrowings	7	**1,369.8**	1,445.3
Lease liabilities		**72.3**	70.1
Deferred tax liabilities		**101.4**	107.8
Provisions		**1.5**	1.7
Derivative financial liabilities	8	**7.7**	–
Other non-current payables		**29.9**	26.6
		1,582.6	1,651.5
Total liabilities		**2,095.8**	2,048.8
Net assets		**1,670.7**	1,561.0
Equity			
Share capital		**245.5**	242.9
Share premium		**115.3**	70.7
Own shares		**(6.7)**	(10.8)
Retained deficit		**(845.3)**	(847.7)
Merger reserve		**2,098.9**	2,098.9
Cumulative translation reserve		**(46.1)**	(99.1)
Other reserves		**109.1**	106.1
Total equity		**1,670.7**	1,561.0
Total equity and liabilities		**3,766.5**	3,609.8

Consolidated Statement of Changes in Equity
For the year ended 31 December 2020

	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 2019		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 pension plans, net of tax		-	-	-	-	-	-	(3.5)	(3.5)
Change in pension asset 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	5	-	-	-	(79.9)	-	-	-	(79.9)
Scrip dividend	5	2.2	30.9	-	(33.1)	-	-	-	-
Share-based payments		-	-	-	-	-	-	14.2	14.2
Share awards vested		-	-	10.0	-	-	-	(10.0)	-
Excess deferred tax benefit from share-based payments		-	-	-	-	-	-	0.2	0.2
Purchase of own shares		-	-	(14.0)	-	-	-	-	(14.0)
At 31 December 2019		242.9	70.7	(10.8)	(847.7)	2,098.9	(99.1)	106.1	1,561.0
Net profit		**-**	**-**	**-**	**112.5**	**-**	**-**	**-**	**112.5**
Other comprehensive income:									
Foreign currency translation adjustment, net of tax		**-**	**-**	**-**	**-**	**-**	**53.0**	**-**	**53.0**
Remeasurement of defined benefit pension plans, net of tax		**-**	**-**	**-**	**-**	**-**	**-**	**(0.2)**	**(0.2)**
Change in pension asset restriction		**-**	**-**	**-**	**-**	**-**	**-**	**5.0**	**5.0**
Effective portion of changes in fair value of cash flow hedges, net of tax		**-**	**-**	**-**	**-**	**-**	**-**	**(5.3)**	**(5.3)**
Other comprehensive income		**-**	**-**	**-**	**-**	**-**	**53.0**	**(0.5)**	**52.5**
Total comprehensive income		**-**	**-**	**-**	**112.5**	**-**	**53.0**	**(0.5)**	**165.0**
Dividends paid	5	**-**	**-**	**-**	**(62.9)**	**-**	**-**	**-**	**(62.9)**
Scrip dividend	5	**2.6**	**44.6**	**-**	**(47.2)**	**-**	**-**	**-**	**-**
Share-based payments		**-**	**-**	**-**	**-**	**-**	**-**	**12.4**	**12.4**
Share awards vested		**-**	**-**	**9.7**	**-**	**-**	**-**	**(9.7)**	**-**
Excess deferred tax benefit from share-based payments		**-**	**-**	**-**	**-**	**-**	**-**	**0.8**	**0.8**
Purchase of own shares		**-**	**-**	**(5.6)**	**-**	**-**	**-**	**-**	**(5.6)**
At 31 December 2020		**245.5**	**115.3**	**(6.7)**	**(845.3)**	**2,098.9**	**(46.1)**	**109.1**	**1,670.7**

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	**2020**	2019
		$m	$m
Cash flows from operating activities			
Net profit		**112.5**	9.8
Adjustments for			
Depreciation of property, plant and equipment		**38.5**	35.5
Depreciation of right-of-use assets		**22.4**	22.4
Amortisation		**136.8**	151.9
Income tax expense	4	**62.2**	9.1
Non-operating expense, net		**9.8**	4.4
Finance costs, net		**48.4**	73.6
Share-based payments		**12.4**	14.2
Impairment/write-off of intangible assets		**1.8**	105.5
Impairment/write-off of property, plant and equipment		**9.9**	8.8
Change in assets and liabilities:			
Inventories		**(5.3)**	20.4
Trade and other receivables		**6.5**	(13.9)
Other non-current receivables		**(4.1)**	1.8
Restricted cash		**(2.1)**	–
Trade and other payables		**47.5**	43.8
Other non-current payables		**5.3**	(0.5)
Net cash generated from operations		**502.5**	486.8
Interest received		**1.9**	1.8
Interest paid		**(50.4)**	(49.8)
Income taxes paid		**(54.5)**	(37.0)
Net cash generated from operating activities		**399.5**	401.8
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		**(86.2)**	(61.4)
Proceeds from sale of property, plant and equipment and other assets		**0.1**	0.1
Acquisitions, net of cash acquired		**–**	(12.3)
Proceeds from divestiture	6	**29.8**	–
Change in restricted cash		**-**	0.8
Net cash used in investing activities		**(56.3)**	(72.8)
Cash flows from financing activities			
Repayment of borrowings		**(73.0)**	(1,618.7)
Proceeds from borrowings		**–**	1,481.0
Payment of lease liabilities		**(20.6)**	(20.9)
Purchase of own shares		**(5.6)**	(14.0)
Dividend paid	5	**(62.9)**	(79.9)
Net cash used in financing activities		**(162.1)**	(252.5)
Net change in cash and cash equivalents		**181.1**	76.5
Cash and cash equivalents at beginning of the year		**385.8**	315.6
Effect of exchange rate changes on cash and cash equivalents		**(1.5)**	(6.3)
Cash and cash equivalents at end of the year		**565.4**	385.8

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, with leading market positions in advanced wound care, ostomy care, continence and critical care and infusion care.

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 Company and its subsidiaries' (collectively, 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 2020 and 2019 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered following the Company's Annual General Meeting. The auditor's reports on the 2020 and 2019 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. Management regularly reviews, and revises as necessary, the accounting judgements that significantly impact the amounts recognised in the Consolidated Financial Statements and the sources of estimation uncertainty that are considered to be “key estimates” due to their potential to give rise to material adjustments in the Group’s Consolidated Financial Statements within the next financial year.

In preparing the Consolidated Financial Statements, no critical accounting judgements or key estimates have been identified.

Considerations for the identification of critical accounting judgements and key estimates

Management regularly reviews the considerations in relation to critical accounting judgements and key estimates. Management considered, throughout the year, the financial reporting impact of risks associated with our identified principal risks which include the effects of COVID-19, climate change and Brexit.

The Group’s Audit and Risk Committee has reviewed, discussed, and challenged management on the determination of its critical accounting judgements and key estimates.

In response to COVID-19 a detailed assessment was performed by management of the potential impact on each balance sheet caption and associated accounting estimates and judgements at each reporting date during the year. No critical accounting judgements or key sources of estimation uncertainty have been identified from this assessment. This review included but was not limited to the following areas:

Goodwill and indefinite-lived intangible assets

The annual cash generating unit (“CGU”) impairment review was conducted in accordance with the Group’s accounting policy. The review demonstrated that no impairment was required in the year ended 31 December 2020. Reasonable possible change sensitivity analysis was performed considering changes in key assumptions including

short term revenue growth rates, discount rates and terminal value growth rate and taking into consideration the Board approved 2021 budget and longer-term strategic plan as foundations and consideration of severe but plausible downside scenarios, consistent with those set out in the Group's Viability statement. Under all reasonable possible change scenarios headroom remained on all CGUs, demonstrating that the impairment of goodwill and indefinite-lived intangible assets is not a key source of estimation uncertainty.

Finite-lived intangible assets

The carrying values of finite-lived intangible assets are reviewed for indicators of impairment annually or when events or changes in circumstances indicate the carrying value may be impaired. The Group's finite-lived intangible assets are predominantly product-related, trade names and customer-related.

Management identified a key source of estimation uncertainty in relation to certain finite-lived intangible assets in the year ended 31 December 2019. As a result, the recoverable amounts of finite-lived assets with a carrying value of $539.2 million (2019: $635.2 million) were re-assessed in 2020 based on fair value less costs to sell, 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 9.0% (2019: 11.0%).

For the year ended 31 December 2020 the recoverable amounts of all finite-lived intangible assets was determined to be in excess of net carrying value and no impairment was required. In assessing whether the impairment of assets represents a source of estimation uncertainty, IAS 1, *Presentation of Financial Statements* states that reasonably possible outcomes within the next financial year should be considered. Management has defined severe but plausible scenarios in the Viability statement testing which are linked to the Group's principal and emerging risks, including supply chain disruption (incorporating the effect of climate change), COVID-19, delivery of transformation initiatives, pricing and reimbursement and foreign exchange sensitivity. Whilst these sensitivity scenarios are based on severe downside events and circumstances, management also considered the impact that these scenarios would have on the impairment of assets. Management has not identified any reasonably possible scenarios that would lead to an impairment as at 31 December 2020. As a result, the impairment of finite-lived intangible assets is no longer considered a key source of estimation uncertainty.

Property, plant and equipment and right-of-use assets

The carrying values of property, plant and equipment and right-of-use assets are reviewed for indicators of impairment annually or when events or changes in circumstances indicate the carrying value may be impaired.

During the year ended 31 December 2020, manufacturing optimisation and efficiency programmes have been implemented as part of the Transformation Initiative, resulting in the identification of impairment triggers in relation to machinery with a carrying value of $7.2 million. The recoverable amount was determined to be negligible based on the net present value of future cash flows and the assets were fully impaired.

The majority (c.90%) of the carrying value of the Group's property, plant and equipment relates to manufacturing sites. These sites have continued to operate within normal parameters, with appropriate safety precautions and requirements implemented during 2020 and, therefore, no other impairment indicators were identified in relation to property, plant and equipment.

Right-of-use assets primarily comprise leased buildings, the majority of which relate to manufacturing sites which, as stated above, have continued to operate within normal parameters and, therefore, no indications of impairment have been noted.

Inventories and trade receivables

Overall demand for our product lines remained strong, however, as noted in the Financial review, COVID-19 affected the AWC category, most notably because of the decline in elective surgeries. In line with our control framework and accounting policies, management reviewed inventory ageing and obsolescence and no incremental obsolescence provisions were required as a result of COVID-19. Despite the challenges of the pandemic, the Group continued to

undertake physical cycle counts and, as appropriate, wall to wall counts at manufacturing sites and third-party distributors in line with internal policies.

The Group has monitored the cash collection position on a weekly basis since the onset of the pandemic and noted no material deterioration in collections or trade receivables ageing profile that required an increase in the allowance for expected credit losses.

Recognition of deferred tax assets

At 31 December 2019, the Group recognised a deferred tax asset of $23.0 million following the introduction of the Swiss tax reform, which was substantively enacted on 4 October 2019. The 'Swiss Practitioners' method was adopted to determine the best estimate of the related deferred tax asset expected to arise on the transition to the new tax rules in Switzerland. This gave rise to a deferred tax asset of $23.0 million. The estimate of the deferred tax asset was identified as a key source of estimation uncertainty at 31 December 2019 given the anticipated future transformative changes in the business. As at 31 December 2020, the deferred tax asset recognised in relation to the Swiss tax reform is $7.3 million. The valuation methodology used has been reassessed to reflect the Group's transformation changes and the resulting future role of the Swiss-based operations in the Group. While some level of uncertainty remains until the relevant corporate income tax return is filed and agreed, the Group has considered the key assumptions that impact the determination of the deferred tax asset and any changes are not expected to have a material impact on the deferred tax asset in the next 12 months and, therefore, this is no longer a key source of estimation uncertainty as at 31 December 2020.

1.3 Accounting standards

New standards and interpretations applied for the first time

On 1 January 2020, the Group adopted the following new or amended IFRSs and interpretations issued by the IASB:

- *Amendments to References to Conceptual Framework in IFRS Standards*
- *Definition of a Business (Amendments to IFRS 3)*
- *Definition of Material (Amendments to IAS 1 and IAS 8)*
- *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*

Their adoption has not had a material impact on the Consolidated Financial Statements. Apart from these changes, the accounting policies set out in ConvaTec's Annual Report and Accounts 2019 have been applied consistently to both years presented in these Consolidated Financial Statements.

Interest Rate Benchmark Reform

On 1 January 2020, the Group adopted the IASB issued *Interest Rate Benchmark Reform – Phase 1 Amendments to IFRS 9, IAS 39 and IFRS 7*. As a result of the ongoing interest rate benchmark reforms, these amendments modify specific hedge accounting requirements to allow hedge accounting to continue during the period of uncertainty that arises before the current interest rate benchmarks are amended.

The amendment is only applicable to the interest rate swaps held as cash flow hedges by the Group and its impact is assessed as being limited. Refer to Note 8 - Financial instruments for further details. In preparation of the reform transition date the Group anticipates being required to make amendments to the contractual terms of the swaps and to update its hedge designation as appropriate.

In August 2020, the IASB also issued *Phase 2 Amendments* which are effective from 1 January 2021. The Group has not early adopted as no amendments have been made to the hedged item and/or hedging instruments in the financial year.

New standards and interpretations not yet applied

At the date of authorisation of these Consolidated Financial Statements, other than noted above, 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 Board considers the Group’s business to be a single segment entity engaged in the development, manufacture and sale of medical products and technologies. R&D, manufacturing and central support functions are managed globally for the Group. Revenues are managed both on a category and regional basis. This note presents the performance and activities of the Group as a single segment.

Pages 5 to 7 of the Chief Executive’s Review provide further detail of category revenue.

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 categories. Financial information relating to revenues provided to the CEO for decision-making purposes is made on both a category and regional basis; however profitability measures are presented and resources allocated on a Group-wide basis.

Revenue by category

The Group generates revenue across four major product categories.

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

	2020	2019
	$m	$m
Advanced Wound Care	**546.8**	569.9
Ostomy Care	**525.9**	525.0
Continence and Critical Care	**498.6**	456.7
Infusion Care	**323.0**	275.6
Total	**1,894.3**	1,827.2

Geographic information

Geographic markets

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

	2020	2019
	$m	$m
EMEA	**731.4**	724.1
Americas	**1,015.4**	959.8
APAC	**147.5**	143.3
	1,894.3	1,827.2

3. Non-operating income/(expense), net

Non-operating income/(expense), net was as follows:

	Notes	2020 $m	2019 $m
Foreign exchange losses[(a)]		**(26.3)**	(5.2)
Gain on foreign exchange forward contracts[(a)]	8	**21.7**	0.9
Gain on foreign exchange cash flow hedges	8	**0.2**	–
Gain on divestiture[(b)]		**16.5**	–
Other expense		**–**	(0.1)
Non-operating income/(expense), net		**12.1**	(4.4)

(a) The foreign exchange losses in 2020 primarily relate to the foreign exchange impact on intercompany transactions, including loans transacted in non-functional currencies and are offset by foreign exchange forward contracts in accordance with the Group's foreign exchange risk management policy.
(b) Refer to Note 6 - Divestiture for details of the gain on divestiture of the US Skincare product line.

4. Income taxes

The note below sets out the current and deferred tax charges, which together comprise the total tax expense in the Consolidated Income Statement.

4.1 Taxation

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

	2020 $m	2019 $m
Current tax		
UK corporation tax	**0.4**	–
Overseas taxation	**54.9**	38.4
Adjustment to prior years	**(0.6)**	(1.5)
Total current tax expense	**54.7**	36.9
Deferred tax		
Origination and reversal of temporary differences	**(13.8)**	(26.4)
Change in tax rates	**2.5**	(4.0)
Adjustment to prior years	**1.2**	2.6
Change in basis of estimate for Swiss deferred tax asset	**17.6**	–
Total deferred tax expense/(benefit)	**7.5**	(27.8)
Income tax expense	**62.2**	9.1

In 2020, the change in basis of estimate for Swiss deferred tax asset of $17.6 million relates to the Swiss tax reform. The change in tax rates mainly relates to the revaluation of the net deferred tax liability in the UK from 17.0% to 19.0%, which was substantively enacted in March 2020, following the reversal of the change in corporation tax rate originally due to come into effect from 1 April 2020.

In 2019, the origination and reversal of temporary differences includes deferred tax benefit of $23.0 million in relation to the enactment of the Swiss tax reform on 4 October 2019, which was effective from 31 December 2019. The change in tax rate mainly relates to changes in the UK and Swiss tax rates that were substantively enacted as at 31 December 2019.

4.2 Reconciliation of effective tax rate

The effective tax rate for the year ended 31 December 2020 was an expense of 35.6%, as compared with an expense of 48.1% for the year ended 31 December 2019.

Tax reconciliation to UK statutory rate

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

	2020 $m		2019 $m	
Profit before income taxes	**174.7**		18.9	
Profit before income taxes multiplied by rate of corporation tax in the UK of 19.0% (2019: 19.0%)	**33.2**		3.6	
Difference between UK and overseas tax rates[a]	**4.8**		(13.6)	
Non-deductible/non-taxable items	**3.4**		2.6	
Tax impact of impairment of certain intangible assets	–		24.6	
Movement in unrecognised losses and other assets	**1.8**		17.7	
Movement on provision for uncertain tax positions	**(0.5)**		(5.3)	
Deferred tax impact of the Swiss tax reform	**17.6**		(23.0)	
Other[b]	**1.9**		2.5	
Income tax expense reported in the Consolidated Income Statement at the effective tax rate	**62.2**	**35.6%**	9.1	48.1%

(a) This includes changes in tax rates based on substantively enacted legislation across various tax jurisdictions as of 31 December.
(b) Includes tax on amortisation of indefinite-lived intangibles and taxes on unremitted earnings.

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. In 2020, the Group provisions for uncertain tax positions relate mainly to transfer pricing positions and withholding tax liabilities.

The Group's effective tax rate in 2020 has mainly been influenced by the deferred tax expense of $17.6 million arising from the change in estimate of the deferred tax asset arising upon the Swiss tax reform (refer to Note 4.1). In 2019, the Group's effective tax rate was mainly driven by a deferred tax benefit of $23.0 million arising from the Swiss tax reform, offset by $17.7 million relating to tax losses where no deferred tax asset has been recognised and $24.6 million relating to the impairment of certain intangible assets in the Group where no tax relief for the costs has been taken.

On 3 March 2021 the UK government announced an intention to increase the UK corporation tax rate to 25% with effect from 1 April 2023. If enacted this will impact the value of our UK deferred tax balances, and the tax charged on UK profits generated in 2023 and subsequently. We have yet to determine the impact of these proposed changes.

5. Dividends

Dividends paid and proposed were as follows:

	pence per share	cents per share	Total $m	Settled in cash $m	Settled via scrip $m	No of scrip shares issued
Final dividend 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	**3.095**	**3.983**	**75.8**	**38.0**	**37.8**	**16,991,621**
Interim dividend 2020	**1.306**	**1.717**	**34.3**	**24.9**	**9.4**	**3,841,666**
Paid in 2020	**4.401**	**5.700**	**110.1**	**62.9**	**47.2**	**20,833,287**
Final dividend 2020 proposed	**2.845**	**3.983**	**79.9**			

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 2020, to be distributed on 13 May 2021 to shareholders registered at the close of business on 6 April 2021, is based upon the issued and fully paid share capital as at 31 December 2020 and is subject to shareholder approval at our Annual General Meeting on 7 May 2021. The dividend will be declared in US dollars and will be paid in Sterling at the chosen exchange rate of $1.400/£1.00 determined on 4 March 2021. A scrip dividend alternative will be offered allowing shareholders to elect by 22 April 2021 to receive their dividend in the form of new ordinary shares.

The interim and final dividends for 2020 give a total dividend for the year of 5.700 cents per share (2019: 5.700 cents per share).

6. Divestiture

During the year, the Group completed the divestiture of the trade and assets of the US Skincare product line, a limited product range within Advanced Wound Care ("US Skincare"). This note provides details of the transaction and the accounting for the divestiture that has been recorded.

On 25 September 2020, the Group completed the divestiture of the trade and assets of US Skincare, including the Aloe Vesta and SensiCare brands, for net consideration of $29.6 million. The divestiture is part of the execution of the Group's strategic transformation and consistent with our five pillars (FISBE, refer to page 7) to focus on key markets and categories and provide appropriate product portfolios to serve those markets.

Details of the divestiture

	$m
Consideration received:	
Net cash received	**29.8**
Adjustment to consideration included in other payables	**(0.2)**
Total net consideration	**29.6**
Net assets sold:	
Intangible assets (net book value)	**(6.5)**
Inventories	**(5.1)**
Gain on divestiture before transactions costs and income tax	**18.0**
Transaction costs	**(1.5)**
Gain on divestiture before income tax	**16.5**
Income tax expense on gain	–
Gain on divestiture after income tax	**16.5**

The gain on divestiture is presented within Non-operating income/(expense), net in the Consolidated Income Statement.

7. Borrowings

The Group's sources of borrowing for funding and liquidity purposes derive from bank term loans together with a committed revolving credit facility. In October 2019, the Group voluntarily prepaid and discharged all outstanding contractual obligations under its previous credit agreement and refinanced under a new credit agreement that matures in October 2024.

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

	Currency	Year of maturity	**2020** Face value $m	2019 Face value $m
Revolving Credit Facilities	Multicurrency	2024	–	–
Term Loan Facility A[(a)]	USD/Euro	2024	**560.1**	600.9
Term Loan Facility B[(b)]	USD/Euro	2024	**908.2**	901.4
Total interest-bearing borrowings			**1,468.3**	1,502.3
Financing fees			**(11.9)**	(16.2)
Total carrying value of borrowings from credit facilities			**1,456.4**	1,486.1
Less: current portion of borrowings			**86.6**	40.8
Total non-current borrowings			**1,369.8**	1,445.3

(a) Included within Term Loan Facility A is €140.4 million ($171.6 million), and €161.3 million ($180.9 million) at 31 December 2020 and 2019 respectively, denominated in Euros. This represents 31% (2019: 30%) denominated in Euros and 69% (2019: 70%) denominated in US dollars.
(b) Included within Term Loan Facility B is €227.8 million ($278.2 million), and €242.0 million ($271.4 million) at 31 December 2020 and 2019 respectively, denominated in Euros. This represents 31% (2019: 30%) denominated in Euros and 69% (2019: 70%) denominated in US dollars.

The Group was in compliance with all financial and non-financial covenants in the credit agreement at 31 December 2020 and 2019, with significant available headroom on the financial covenants (c.$840 million debt headroom on net debt to adjusted EBITDA ratio).

Borrowings not measured at fair value
At 31 December 2020, the estimated fair value of the Group's borrowings, excluding leases obligations, approximated $1,473.7 million (2019: $1,513.2 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.

8. Financial instruments

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

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

In the final quarter of 2020 the Group designated certain foreign currency pairings of forecast third-party transactions as cash flow hedges in accordance with its risk management policy. Details of the financial instruments held at year end and their respective fair values are provided within the note below.

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).

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

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

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

Cash flow hedges

The fair values are based on market values of equivalent instruments at 31 December. The following table presents the Group's outstanding cash flow hedges at 31 December:

			2020		2019	
	Effective date	Maturity date	Notional amount $m	Fair value[a] assets / (liabilities) $m	Notional amount $m	Fair value[a] assets $m
3 Month LIBOR Float to Fixed Interest Rate Swap	24 Jan 2020	24 Jan 2023	**275.0**	**(7.7)**	275.0	1.0
Foreign currency forward exchange contracts		15 Nov 2021	**98.3**	**1.7**	–	–
			373.3	**(6.0)**	275.0	1.0
Recognised in other comprehensive income:						
Effective portion of changes in fair value of cash flow hedges				**(6.7)**		(9.5)
Costs of hedging				**(0.1)**		–
Changes in fair value of cash flow hedges reclassified to the Consolidated Income Statement				**(0.2)**		(0.8)
Total				**(7.0)**		(10.3)

(a) The fair values of the interest rate swaps are shown in derivative financial liabilities in the Consolidated Statement of Financial Position (2019: derivative financial assets). The fair values of the foreign exchange forward contracts are included within trade and other receivables. Finance expenses in the Consolidated Income Statement includes the negligible ineffective impact of the interest rate swaps.

The reduction in fair value of the interest rate swaps follows a reduction in US interest rates in response to COVID-19.

During the year ended 31 December 2020, the Group reclassified a $0.2 million gain (2019: $nil) on foreign exchange cash flow hedges that has been recognised in non-operating income/expenses, net, in the Consolidated Income Statement.

Foreign exchange forward contracts

The following table presents the Group's outstanding foreign exchange forward contracts at 31 December:

			2020		2019	
	Term	Financial Statement line item	Notional amount $m	Fair value $m	Notional amount $m	Fair value $m
Foreign exchange contracts	28 days	Trade and other receivables	**512.5**	**6.4**	130.7	1.0
Foreign exchange contracts	28 days	Trade and other payables	**355.3**	**(7.7)**	136.0	(2.2)
			867.8	**(1.3)**	266.7	(1.2)

During the year ended 31 December 2020, the Group realised a net gain of $21.7 million (2019: $0.9 million gain) on foreign exchange forward contracts designated as FVTPL in non-operating income/expenses, net, in the Consolidated Income Statement.

9. Commitments and contingent liabilities

Capital commitments

At 31 December 2020, the Group had non-cancellable commitments for the purchase of property, plant and equipment, capitalised software and development of $29.6 million (2019: $12.4 million).

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. ConvaTec Inc., in turn, has asserted a claim for damages against Scapa Tapes North America LLC and Scapa Group plc. All claims are being litigated before the Connecticut state court in the United States, discovery in the case is progressing, and the trial is presently scheduled for July 2022. 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 2020.

10. Subsequent events

The Group has evaluated subsequent events through 4 March 2021, the date the Consolidated Financial Statements were approved by the Board of Directors.

On 3 March 2021 the UK government announced an intention to increase the UK corporation tax rate to 25% with effect from 1 April 2023. If enacted this will impact the value of our UK deferred tax balances, and the tax charged on UK profits generated in 2023 and subsequently. We have yet to determine the impact of these proposed changes.

Details of the proposed final dividend are disclosed in Note 5 - Dividends.

11. Responsibility statement of the directors on the annual report

The Responsibility Statement below has been prepared in connection with the Company's full Annual Report for the year ending 31st December 2020. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

- the Financial Statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit and loss of the company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Company's performance, business model and strategy.

This Responsibility Statement was approved by the Board of Directors on 4 March 2021 and is signed on its behalf by:

Karim Bitar
Chief Executive Officer
4 March 2021

Frank Schulkes
Chief Financial Officer

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 sales, 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 the Board believes are not related to the underlying performance of the Group. Reconciliations for these adjusted measures determined under IFRS are shown on pages 39 to 43. 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 explain 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. The Group has made no adjustments to the Group's reported results related to COVID-19.

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 an allowable adjustment to IFRS measures, it must initially meet at least one of the following criteria:

- It is a 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 termination benefits arising exclusively from major change programmes, together with CEO-related compensation not subject to continuing employment. 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 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 years ended 31 December 2020 and 2019 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) ($125.3 million and $140.2 million respectively).
- Impairment of assets as a result of transformation or an unusual circumstance (loss of $1.7 million and $105.2 million respectively).
- Divestiture activities (gain of $16.5 million for the year ended 31 December 2020).
- Termination benefits in relation to major change programmes ($12.2 million and $5.8 million respectively).

- CEO buy-out costs reflecting non-performance-related compensation for the loss of incentive awards from previous employment, not subject to continuing employment ($6.2 million for the year ended 31 December 2019).

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

Acquisition-related amortisation of intangible assets

The Board, through the Audit and Risk Committee, continuously reviews the Group's APM policy to ensure that it remains appropriate and represents the way in which the performance of the Group is managed. Since 2018, the Group has made two small number acquisitions, each for a consideration of less than $15 million, for which the amortisation charge on acquisition intangibles was immaterial. Given the Group's strategy to be more active and to pursue larger acquisitions which strengthen our position in key geographies and/or business categories or which provide access to new technology, we believe that a refinement and clarification of the policy is required under which the Group will adjust for amortisation of intangible assets in relation to future acquisitions together with associated acquisition-related expenses. This refinement better reflects the underlying performance of the business and aids year-on-year comparability.

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 event are not reflective of our core business or when the transactions relate to acquisition-related intangible assets.

Divestiture activities

These include significant assets which are disposed of or divested 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 ongoing 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 discrete 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. No termination benefits or related costs have arisen related to COVID-19.

CEO buy-out costs

The Group 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 did 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.

Other discrete tax items

Other discrete tax items relate to the recognition in 2019 of the best estimate of the deferred tax asset related to the Swiss tax reform which was substantively enacted on 4 October 2019 and was effective on 31 December 2019, and the subsequent reassessment of the deferred tax asset as a result of a change in the basis of estimate in 2020. The deferred tax asset arose due to grandfathering provisions that the Swiss tax reform had introduced with effect from 31 December 2019 to alleviate the higher Swiss tax rates that apply from 1 January 2020. The deferred tax associated with the Swiss tax reform is adjusted as it is a significant tax item which does not reflect the underlying performance of the business.

Reconciliation of reported earnings to adjusted earnings for the years ended 31 December 2020 and 2019

Year ended 31 December 2020	Revenue $m	Gross margin $m	Operating costs $m	**Operating profit $m**	Finance expense, net $m	Non-operating expense, net $m	**PBT $m**	Taxation $m	**Net profit $m**
Reported	1,894.3	1,018.8	(807.8)	**211.0**	(48.4)	12.1	**174.7**	(62.2)	**112.5**
Amortisation of pre-2018 acquisition intangibles	–	106.7	18.6	**125.3**	–	–	**125.3**	(10.2)	**115.1**
Divestiture activities	–	–	–	–	–	(16.5)	**(16.5)**	–	**(16.5)**
Impairment of assets	–	–	1.7	**1.7**	–	–	**1.7**	–	**1.7**
Termination benefits and other related costs	–	1.3	10.9	**12.2**	–	–	**12.2**	(2.1)	**10.1**
Total adjustments and their tax effect	–	**108.0**	**31.2**	**139.2**	–	**(16.5)**	**122.7**	**(12.3)**	**110.4**
Other discrete tax items	–	–	–	–	–	–	–	17.6	**17.6**
Adjusted	**1,894.3**	**1,126.8**	**(776.6)**	**350.2**	**(48.4)**	**(4.4)**	**297.4**	**(56.9)**	**240.5**
Software and R&D amortisation				**9.4**					
Post-2017 acquisition amortisation				**2.1**					
Depreciation				**60.9**					
Impairment/write-off of assets				**10.0**					
Share-based payments				**12.4**					
Adjusted EBITDA				**445.0**					

Termination benefits and other related costs relate to the Transformation Initiative and amounted to $12.2 million, pre-tax, in the year ended 31 December 2020. The Transformation Initiative is a global multi-year transformation programme which commenced in 2018 and will simplify the way in which the business operates. We expect to incur c.$10-15 million of severance and associated retention costs during 2021. No termination benefits or related costs recognised by the Group are related to COVID-19.

Divestiture activities relate to the gain on the divestiture of the trade and assets of the US Skincare product line, a limited product range within Advanced Wound Care. Further details of the transaction and the calculation for the gain on divestiture are provided in Note 6 - Divestiture.

Other discrete tax items arose following a reassessment of the estimate of the deferred tax asset recognised in the prior year related to the Swiss tax reform. The revised estimate is based on the Discounted Cash Flow method, which reflects the Group's transformation changes and the anticipated role of the Swiss based operations in the Group.

Year ended 31 December 2019	Revenue	Gross profit	Operating costs	Operating profit	Finance expense, net	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
Share-based payments	10.1
Adjusted EBITDA	443.1

Impairment of assets of $105.2 million is predominantly related to a review of the product portfolio which had been undertaken as part of the Transformation Initiative which 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, comprising $1.5 million for programmes commenced in 2018 and completed in 2019, and $4.3 million in relation to the Transformation Initiative.

CEO buy-out costs were $6.2 million, pre-tax, in the year ended 31 December 2019 and related 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 were a result of the Swiss tax reform which was substantively enacted on 4 October 2019 and was effective on 31 December 2019. As a result, ConvaTec International Services GmbH, was 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 resulted in the estimation and recognition of a deferred tax asset. The value of the 2019 deferred tax asset of $23.0 million was estimated using the Swiss Practitioners method as permitted under Swiss law.

Reconciliation of reported and adjusted operating costs for the years ended 31 December 2020 and 31 December 2019

	2020				2019				
	S&D[(a)]	**G&A[(b)]**	**R&D[(c)]**	**Operating costs**	S&D[(a)]	G&A[(b)]	R&D[(c)]	Other[(d)]	Operating costs
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m
Reported[(e)]	**(463.3)**	**(262.1)**	**(82.4)**	**(807.8)**	(458.9)	(240.5)	(53.8)	(105.5)	(858.7)
Amortisation of pre-2018 acquisition intangibles	**–**	**18.6**	**-**	**18.6**	–	17.6	–	–	17.6
Impairment of assets	**–**	**1.7**	**-**	**1.7**	–	–	–	105.2	105.2
Termination benefits and other related costs	**0.7**	**9.0**	**1.2**	**10.9**	1.7	4.1	–	–	5.8
CEO buy-out costs	**–**	**–**	**–**	**–**	–	6.2	–	–	6.2
Adjusted	**(462.6)**	**(232.8)**	**(81.2)**	**(776.6)**	(457.2)	(212.6)	(53.8)	(0.3)	(723.9)

(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.

(e) Following a review of cost allocations, general and administrative expenses of $30.5 million (2019: $25.9 million), principally relating to employee costs and insurance, have been reclassified to selling and distribution expenses to better reflect the nature of the costs. The comparatives have been restated to reflect the revised classification.

Reconciliation of basic and diluted reported earnings per share to adjusted earnings per share for the years ended 31 December 2020 and 31 December 2019

	Reported 2020	**Adjusted 2020**	Reported 2019	Adjusted 2019
	$m	**$m**	$m	$m
Net profit attributable to the shareholders of the Group	**112.5**	**240.5**	9.8	232.0
		Number		Number
Basic weighted average ordinary shares in issue		**1,991,596,105**		1,971,014,011
Diluted weighted average ordinary shares in issue		**2,006,590,463**		1,976,156,374
	cents per share	**cents per share**	cents per share	cents per share
Basic earnings per share	**5.7**	**12.1**	0.5	11.8
Diluted earnings per share	**5.6**	**12.0**	0.5	11.7

Cash conversion for the years ended 31 December 2020 and 31 December 2019

	2020	2019
	$m	$m
Reported Operating profit/EBIT	**211.0**	96.9
Depreciation of property, plant and equipment	**38.5**	35.5
Depreciation of right-of-use assets	**22.4**	22.4
Amortisation	**136.8**	151.9
Impairment/write-off of intangible assets and property, plant and equipment	**11.7**	114.3
Reported EBITDA	**420.4**	421.0
Non-cash items in EBITDA		
Share-based payment expense	**12.4**	14.2
	12.4	14.2
Working capital movement	**47.8**	51.6
Gain on foreign exchange derivatives	**21.9**	–
Capital expenditure	**(86.2)**	(61.4)
Reported net cash for cash conversion	**416.3**	425.4
Less: tax paid	**(54.5)**	(37.0)
Reported free cash flow	**361.8**	388.4

Reconciliation of Adjusted EBITDA, Adjusted Non-Cash Items, Adjusted Working Capital and Adjusted Net Cash (for Adjusted Cash Conversion measurement)

	2020	2019
	$m	$m
Reported EBITDA	**420.4**	421.0
Share-based payment expense	**12.4**	14.2
CEO buy-out costs	**–**	2.1
Termination benefits and other related costs	**12.2**	5.8
Total adjustments (a)	**24.6**	22.1
Adjusted EBITDA	**445.0**	443.1
Reported non-cash items	**12.4**	14.2
Share-based payment expense	**(12.4)**	(14.2)
Total adjustments (b)	**(12.4)**	(14.2)
Adjusted non-cash items	**–**	–
Reported working capital movement	**47.8**	51.6
(Increase)/decrease in severance provision	**(4.9)**	0.3
Decrease in accruals for share-based payment associated costs	**–**	0.1
Decrease in liability for pre-IPO MIP	**–**	0.1
Total adjustments (c)	**(4.9)**	0.5
Adjusted working capital movement	**42.9**	52.1
Reported net cash for cash conversion	**416.3**	425.4
Non-operating gain on foreign exchange forward contracts	**(21.7)**	–
Total adjustments above (a), (b), (c)	**7.3**	8.4
Adjusted net cash for cash conversion	**401.9**	433.8
Less: tax paid	**(54.5)**	(37.0)
Adjusted free cash flow	**347.4**	396.8
Reported cash conversion	**99.0%**	101.0%
Adjusted cash conversion	**90.3%**	97.9%

Net debt

Net debt 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 and excluding lease liabilities.

	Reported 2020 $m	Reported 2019 $m
Borrowings	**1,456.4**	1,486.1
Lease liabilities	**92.1**	88.5
Total interest-bearing borrowings	**1,548.5**	1,574.6
Cash and cash equivalents	**(565.4)**	(385.8)
Net debt (including lease liabilities)	**983.1**	1,188.8
Net debt	**891.0**	1,100.3
Net debt/adjusted EBITDA	**2.0**	2.5