LEI: 213800LS272L4FIDOH92

8 March 2022

ConvaTec Group Plc
Annual Results for the twelve months ended 31 December 2021

Topline momentum, profit[1,2] growth and continued strategic progress

Pivoting to sustainable and profitable growth

- Good financial performance in 2021: strong revenue growth and broadly stable constant currency margin resulting in attractive EPS growth - underpinning an inaugural dividend increase
- Continued progress executing our FISBE (Focus, Innovate, Simplify, Build, Execute) strategy:
  - Strengthened the continence business, within CCC, through Cure Medical and Patient Care Medical acquisitions and divestment of non-core lower-margin incontinence activities
  - Revenues in our top 12 markets grew 7.9% on a constant currency[1,3] basis during 2021
  - Launched innovative and differentiated Extended Wear Infusion Set in Europe, continued progress advancing our product pipeline and introduced a new and consistent product development/launch process across the Group. Invested $95 million in R&D (+15%)
  - Embedded Marketing Centre of Excellence ('CoE'), established Quality CoE and began to leverage the benefits of Salesforce and Pricing CoEs which were established in 2020
- Additional progress since the year-end with agreement to enter the attractive Wound Biologics[4] segment with proposed acquisition of Triad Life Sciences, expected to complete in March

FY 2021 key financial highlights

	Reported results			Adjusted[1] results			
	FY2021	FY2020	Change	FY2021	FY2020	Change	CC Change[3]
Revenue	$2,038m	$1,894m	7.6%	$2,038m	$1,894m	7.6%	5.8%
Operating profit/EBIT[2]	$204m	$211m	(3.5)%	$362m	$350m	3.3%	5.4%
Operating profit/EBIT[2] margin	*10.0%*	*11.1%*	(110)bps	*17.7%*	*18.5%*	*(80)bps*	*(10)bps*
Diluted earnings per share	5.8 cents	5.6 cents	3.5%	13.0 cents	12.0 cents	8.3%	-
Dividend per share	5.871 cents	5.7 cents	3.0%				

- Strong revenue growth: +7.6%, +5.8% on a constant currency[3] basis and +5.3% on an organic[5] basis
  - Driven by strong growth in Advanced Wound Care and Infusion Care and modest growth in Ostomy Care and CCC (comprising of good growth in the continence business moderated by stable performance in critical care products)
  - Total revenue growth supported by the Cure Medical and Patient Care Medical acquisitions partially offset by impact of non-core skin care and incontinence divestments (incremental $10 million)
- Adjusted EBIT[1,2] performance improved: +3.3% and +5.4% on a constant currency[3] basis
- Constant currency adjusted EBIT[2,3] margin of 18.4% in line with guidance. Profitability reflected continued investment, foreign exchange and inflationary headwinds. Adjusted[4] EBIT margin of 17.7% (2020: 18.5%).
- Reported operating profit was $204 million (2020: $211 million). Year on year change principally reflecting foreign exchange, continued investment, higher amortisation of acquired intangibles and acquisition and divestiture related costs.
- Improved earnings momentum: adjusted[1] diluted EPS +8.3%. Reported diluted EPS +3.5%
- Strengthened balance sheet: despite significant strategic investments, leverage was reduced to 1.9x net debt[1]/adjusted EBITDA[1] (2020: 2.0x).
- Inaugural dividend increase: Proposed final DPS of 4.154 cents to raise FY DPS by 3.0% to 5.871 cents

2022 outlook

- For 2022, we expect to achieve sustained organic[5] revenue growth of between 4.0-5.5%. Notwithstanding the inflationary backdrop we currently expect constant currency adjusted[2,3] EBIT margin to increase to at least 18% compared to 17.7% in 2021.

Karim Bitar, Chief Executive Officer, commented:

"ConvaTec's competitive position and financial performance continues to strengthen as we successfully execute our FISBE strategy. Our performance in 2021 demonstrates we are now pivoting to sustainable and profitable growth – with good revenue and earnings momentum. During 2021 we made significant operational improvements and grew our portfolio through strategic M&A – enabling us to deliver more effectively for our customers. I want to thank all my ConvaTec colleagues for their efforts over the past 12 months enabling us to deliver, at pace, our key initiatives despite the constantly changing backdrop. The Board is confident in the future prospects of the Group and is proposing an increase in the full year dividend of 3%.

"ConvaTec expects to grow revenue in line or faster than the markets in which we operate, which are growing at approximately 4%. There is still work ahead; however, I am confident in ConvaTec's significant growth prospects."

Group revenue

	Twelve months ended 31 December					
	2021 $m	2020 $m	Reported growth	Foreign Exchange impact	Constant Currency[3] growth	Organic[5] growth
Revenue by Category						
Advanced Wound Care	592	547	8.3%	(2.8)%	5.5%	9.2%
Ostomy Care	546	526	3.9%	(2.2)%	1.7%	1.7%
Continence and Critical Care	543	498	8.9%	(1.0)%	7.9%	2.1%
Infusion Care	357	323	10.4%	(0.8)%	9.6%	9.6%
Total	**2,038**	**1,894**	**7.6%**	**(1.8)%**	**5.8%**	**5.3%**

For insight into the category performances see pages 6 to 8.

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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 40 to 46).

(2) Adjusted EBIT is the same as adjusted operating profit.

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

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

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

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Investor and analyst presentation

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

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

Forthcoming Events

AGM	12 May 2022
Technology and Innovation Review	17 May 2022
Interim Results	4 August 2022
Capital Markets Event	Autumn 2022

In order to more evenly space the cadence of financial communication and better represent management's focus on long-term sustainable growth, the Group will replace quarterly reporting with trading updates, expected to be published in May and in November.

Dividend Calendar

Ex-dividend date*	31 March 2022
Dividend record date*	1 April 2022
Scrip dividend election date*	27 April 2022
Dividend payment date*	19 May 2022

** subject to approval at AGM.*

About ConvaTec

ConvaTec is a global medical products and technologies company focused on solutions 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

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.

Chief Executive's Review

ConvaTec's competitive position continues to strengthen as we successfully execute our FISBE strategy. Our performance in 2021 demonstrates that we are now pivoting to sustainable and profitable growth as planned. Our strategic transformation investments over the past few years have significantly enhanced the quality of our business and position us well for future growth.

Our growth prospects are attractive

We remain excited about the growth potential of the categories in which we operate. Our four categories are in structurally-growing chronic care markets where there is long-term demand for our products and services. We expect our overall market to grow at approximately 4% per annum. Through our strategic transformation, the Group expects to grow revenue in line with or faster than this on a sustainable basis.

Trends that are being seen in the wider healthcare markets create both opportunities and challenges for the Group. COVID-19 has accelerated some of these trends, notably patient-centric homecare and digitisation. We are constantly monitoring our markets and looking to create differentiated offerings which enable us to seize opportunities, mitigate risks and, most importantly, deliver for our patients and customers. For example, during 2021, we continued to leverage our Home Services Group ("HSG") offering, introduced digital apps and adopted a hybrid sales approach in Advanced Wound Care.

The diverse set of chronic care markets we serve provide resilience and are also synergistic, notably in areas such as: customer understanding, biomaterial sciences, human factor design, product and clinical development and innovation, high-quality and high-volume automated manufacturing, shared supply chain capabilities, and common geographic presence. Consistent with our FISBE strategy we are building capabilities in these synergistic areas and are investing to expand capacity and increase resilience.

We are pivoting to sustainable and profitable growth

During 2021 we continued to invest, both organically and inorganically, and further improved ConvaTec's competitive position and strengthened the business for the future.

Shortly after I joined, in 2020, we set out our FISBE strategy and in last year's Annual Report we highlighted our priorities for 2021 and I am pleased to report that we have executed as planned. The scale of change within the Group over the last few years has been significant and it is testament to the talent and dedication of our ConvaTec colleagues that we have succeeded in executing so many key initiatives.

We continued to invest organically during 2021. Our Technology & Innovation function continued to strengthen and our CoEs are already gaining traction. This coupled with operational improvement, particularly in our 12 key markets, is driving improvements in our performance.

During 2021, we built capabilities and processes in Corporate Development and have utilised our cash for strategic acquisitions – spending a total of $114 million to strengthen our US continence business and, since the year end, we have also announced the proposed acquisition of Triad Life Sciences, which will enable us to enter the attractive Wound Biologics[4] segment while leveraging our innovation and commercial capabilities.

Further details on the progress made under each pillar of our FISBE strategy are outlined on pages 8 to 10.

Our financial performance continued to strengthen

Group reported revenue of $2,038 million (2020: $1,894 million) rose 7.6% year-on-year. Adjusting for foreign exchange and M&A activity, revenue grew 5.3% on an organic basis[5].

Reported operating profit was $204 million (2020: $211 million). The year-on-year decline principally reflected the foreign exchange and inflationary headwinds, continued strategic investment, amortisation of acquisition intangibles and acquisition and divestiture related costs partially offset by the positive revenue growth. Adjusted EBIT[2] rose 3.3% to $362 million (2020: $350 million) with an adjusted EBIT[2] margin of 17.7% (2020: 18.5%). The adverse foreign exchange translation impact was $7 million and on a constant currency basis adjusted EBIT[2,3]

rose 5.4%, with the constant currency adjusted EBIT[2,3] margin broadly flat at 18.4%, in line with our expectations. The strong growth in revenue and productivity improvements were offset by inflationary headwinds and the cost of continued strategic investments to further strengthen the core capabilities within the Group.

Adjusted net profit[1] rose 9.4% to $263 million (2020: $241 million) with the growth in the adjusted EBIT[2] bolstered by $6 million reduction in finance expense and $11 million reduction in adjusted tax expense.

Basic adjusted[1] EPS was 13.1 cents (2020: 12.1 cents) and the diluted adjusted[1] EPS was 13.0 cents (2020: 12.0 cents) based on basic weighted average ordinary shares of 2.009 billion (2020: 1.992 billion) and 2.026 billion diluted shares (2020: 2.007 billion) respectively.

Reported net profit was $118 million (2020: $113 million) generating basic reported EPS of 5.9 cents (2020: 5.7 cents).

The adjusted[1] cash conversion was 72% (2020: 90%). This reduction in conversion reflects an increase in working capital, partially associated with improving resilience, and planned higher levels of capex investment. Reported cash conversion was 73% (2020: 99%).

Net debt (excluding lease liabilities) reduced to $881 million (2020: $891 million) this coupled with an increase in adjusted EBITDA resulted in an improvement in the Group's net debt/adjusted EBITDA[1] ratio to 1.9x (2020: 2.0x).

Category revenue performance

	Twelve months ended 31 December					
	2021 $m	2020 $m	Reported growth	Foreign Exchange impact	Constant Currency[2] growth	Organic[5] growth
Revenue by Category						
Advanced Wound Care	592	547	8.3%	(2.8)%	5.5%	9.2%
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Infusion Care	357	323	10.4%	(0.8)%	9.6%	9.6%
Total	**2,038**	**1,894**	**7.6%**	**(1.8)%**	**5.8%**	**5.3%**

Advanced Wound Care ("AWC")

We made good strategic progress in AWC during 2021. The commercial performance in key markets improved in all regions and the business succeeded in driving the use of digital tools and platforms.

Revenue of $592 million rose 8.3% compared with the prior year, 5.5% on a constant currency[3] basis. Adjusting for the disposal of the US Skin Care products, which contributed $19 million of revenue in 2020, organic[5] growth was 9.2%. This reflected good growth against the COVID-depressed prior year comparative, as well as improvements in commercial execution.

During 2021, the business achieved strong growth in all regions, particularly in the Global Emerging Markets.

The weak COVID-19 comparative was particularly pronounced in H1 when organic[5] revenue grew 16.3%. H2 growth was a more moderate 3.4% reflecting tougher comparatives coupled with the impact of the French reimbursement cut, slightly weaker trends in elective surgeries and some temporary supply chain challenges associated with COVID-19.

Our antimicrobial hydrofibre, AQUACEL™ Ag+ Extra™ brand achieved strong growth and the ConvaMax™ superabsorber, launched late 2019 achieved impressive growth, albeit off a small base. Our AQUACEL™ Foam Pro brand delivered strong growth with Aquacel Foam Base also delivering good growth.

In 2022 we will focus on the following areas:

- Continuing to improve commercial execution and leveraging our Salesforce and Marketing CoEs
- Completing the acquisition and integration of Triad Life Sciences, conditional on regulatory approvals and customary closing conditions
- Launch of ConvaFoam at the end of 2022

Ostomy Care ("OC")

The OC business made further strategic progress during 2021. Our commercial execution in key markets, most notably the US and the global emerging markets, is improving and we made good progress leveraging HSG to support more of our Ostomy and me+™ patients. The rationalisation programme continued as planned and we have ceased manufacturing a further 550 SKUs during the year. Under the leadership of HSG we also restructured our UK homecare business, AmCare, implementing new software and rationalising activities which were unprofitable and unsustainable.

Revenue of $546 million increased 3.9% on a reported basis and 1.7% on constant currency[3] and organic[4] bases. The planned SKU and UK contract rationalisation reduced growth by c.100bps. During the period we achieved continued strong growth in Latin America and APAC, while performance in North America showed early signs of commercial improvements, with stabilisation of new patient starts and increasing use of HSG's Ostomy service. These positive achievements were partially offset by declines in certain markets in Europe, notably the UK where we undertook contract rationalisation.

As expected the growth for 2021 was H1 weighted with organic[5] revenue up 3.7%. In H2 revenue was down 0.1% on an organic[5] basis, due to the planned SKU and contract rationalisation.

Encouragingly revenue for ConvaTec Ostomy products rose 3.4% on an organic[5] basis during 2021 whilst revenue associated with non-ConvaTec products, distributed through HSG and AmCare, declined.

We achieved strong growth in the Natura™+ two-piece in GEM and the Esteem™+ one-piece showed good growth. Accessories continued to perform well.

In 2022 we will continue to focus on the following areas:

- Strengthening our commercial execution in our key markets, including leveraging our sales force effectiveness, pricing and marketing CoEs
- Focus on improving our operations and gross margins via streamlining our SKUs and technology upgrades
- Launch innovative solutions to meet the patient needs through physical products, digital tools (in US and Poland) and enhanced services (me+™ and HSG)

Continence & Critical Care ("CCC")

2021 was a year of continued encouraging progress with the position of our US continence business strengthened by the Cure Medical and Patient Care Medical ("PCM") acquisitions, and the focus afforded from the divestment of non-core, lower-margin incontinence activities.

Revenue of $543 million was up 8.9% on a reported basis and 7.9% on a constant currency[3] basis. Adjusting for acquisitions and divestitures, which added a net $29 million of incremental revenue during the period, on an organic[5] basis CCC revenue was up 2.1%.

Our continence business continued to achieve good revenue growth of 3.1% on an organic[5] basis to $387 million. Lower new patient starts during COVID-19 slightly diluted early performance, although rebounded well as the year progressed. Encouragingly, the market reception to the combination of the GentleCath products and the acquired Cure Medical portfolio was very good with both showing strong growth.

Revenue from our critical care products was broadly flat on a constant currency[3] basis at $156 million. This was a better performance than anticipated with the continued presence of COVID-19 resulting in higher-than-expected demand for ICU products during 2021.

During the year the organic[5] revenue performance of CCC slowed from 3.0% in H1 to 1.2% in H2. Trends in critical care products turned negative in the later part of the year as demand began to normalise, although this was not as significant a decline as originally anticipated.

In 2022 we will focus on the following areas:

- Launching the new GentleCath Air Male compact catheter in Q2/Q3
- Expanding our continence commercial presence to Europe
- Continuing to leverage the reach of HSG to provide better service to patients around the US
- Rationalising low-margin critical care products

Infusion Care (“IC”)

IC achieved another strong performance in 2021 as we made continued strategic progress. The business launched the highly innovative and differentiated extended wear infusion set (‘EWIS’) in Europe and secured FDA clearance for the US as well. The product delivers significant benefits for patients who have to change their sets less frequently. The business also signed a number of long-term contracts with customers and successfully increased capacity in certain manufacturing lines to respond to the elevated demand.

Revenue grew 10.4% on a reported basis or 9.6% on constant currency[3] and organic[5] bases. This was primarily driven by continued strong demand for our innovative infusion sets used by diabetes patients, notably from Tandem Diabetes. Revenue growth was supported by growth of other applications, such as pain management and the treatment of Parkinson’s, albeit off a small base.

The performance during the year reflected phasing of orders from key clients coupled with adding capacity and the EWIS launch. H1 organic[5] revenue growth was 6.5% with a step up in growth in H2 to 12.5%.

During 2022 we will continue to focus on the following areas:

- Launching and scaling up production of EWIS for the US market
- Building further on our strong and long-term partnerships with insulin pump manufacturers
- Continuing to invest in further developing our differentiated diabetes offering
- Expanding the usage of infusion sets for the delivery of other sub-cutaneous therapeutics for diseases such as Parkinson’s

Delivering continued strategic progress

As we drive towards our vision of *pioneering trusted medical solutions to improve the lives we touch*, we continued to execute our FISBE strategy. Notwithstanding the persistence of the pandemic we made further strategic progress this year.

Focus

During 2021, we strengthened our position in two of the four categories ConvaTec is focused on. In Q1 we enhanced our US continence business (part of CCC) with the acquisition of Cure Medical. In Q2 we enhanced our AWC portfolio by signing a collaboration agreement with RLS Global to commercialise the Chlorasolv[R] wound debrider as part of ConvaTec’s Wound Hygiene[TM] Protocol. Then in the second half we acquired Patient Care Medical and divested lower-margin incontinence activities, both impacting CCC.

We also continued to focus and invest in our 12 key markets which cumulatively delivered constant currency[3] revenue growth of 7.9%.

One of our main priorities in 2022 will be to complete the acquisition of, and integrate, Triad Life Sciences into our AWC business. The acquisition, announced on 28 January 2022, represents an exciting opportunity for ConvaTec to enter the highly attractive wound biologics[4] segment, which is worth c$1.8 billion and growing at high single digits percentage each year. The transaction is subject to regulatory approvals and customary closing

conditions and is expected to close in March.

In 2022, we shall also focus on continuing to invest to grow our 12 key markets, particularly the US, and will continue to evaluate potential M&A opportunities to further strengthen the Group.

Innovate

We continued to step up our investment in innovation – increasing R&D spend by a further 14.7% to $95 million (2020: $82 million.) This represented 4.6% of 2021 revenue. Some of this expense related to continued MDR spend of $14 million (2020: $14 million). Where appropriate we will continue to increase our investment to strengthen our product pipeline and innovation capabilities and to improve our cycle time.

During 2021, we continued to strengthen our R&D competencies, particularly in areas such as process development, clinical and regulatory. We delivered good momentum in the pipeline with the launch, in April, of the innovative Extended Wear Infusion Set ("EWIS") in Europe and secured US FDA clearance. We also made good progress with the development of the six other new products in the pipeline. During the year we also successfully rolled out a consistent new product development and launch process across the entire Group (called "IDEAL"). This is expected to improve the flow and efficiency of innovation as well as accelerating the cycle time.

Looking forward, in 2022 we shall focus on successfully launching and scaling up three of our new products: the GC AirMale compact catheter (CCC) in Q2/Q3, the EWIS (IC) in the US market during the year and finally ConvaFoam (AWC) at the end of the year. Another key priority will be embedding our new Green Design Guidelines ("GDG") and associated tools, which allow us to examine the green credentials of potential ingredients, into our new product development process.

Simplify

We have been migrating from a complex country-led matrix organisation to a category-led operating model which offers closer proximity to the patient and care givers, supported by global functional expertise.

During the year we further expanded our Global Business Services ("GBS") centre in Lisbon, Portugal, migrating additional financial processes and certain IT expertise.

We have also been simplifying the business from a commercial perspective and continued to make progress with our Ostomy Care portfolio rationalisation programme – we have ceased manufacturing a further 550 SKUs to bring the figure to c.1800.

During 2022, we will continue to migrate finance and IT related activities into the GBS, and commence moving certain HR activities. The Ostomy Care rationalisation programme will continue.

Build

During 2021 we continued to develop the senior leadership team with exciting new hires, for example, in business development, marketing and quality.

During the period we also continued to develop our CoEs. Under our Salesforce Excellence CoE we have now rolled out a single Customer Relationship Management ("CRM") platform across Europe and North America providing improved insight and better targeting, and we are driving enhanced productivity. Our Pricing CoE, which provides improved discipline on price using data, training and tools, also delivered a good performance. Finally, during the year we began leveraging our Marketing CoE, established a Quality CoE and began executing our People Strategy.

During 2022 we will continue to strengthen our sales and marketing activities with a particular focus on digital interactions. We will expand our common CRM platform into GEM and will embed our Professional Education CoE.

Execution

Our Transformation Execution Office is now well established and during 2021 we continued to embed the execution methodology we use to develop and monitor major initiatives. To ensure the execution mindset pervades the organisation we have continued our roll out of "Ability to Execute" training modules – with 77% of

senior managers having already participated in the training.

As well as rolling out our IDEAL new launch process, described above, we introduced a new Corporate Development process to identify and execute on inorganic opportunities.

Looking forward, 2022 priorities include further integrating ESG into our strategic planning process, delivering manufacturing scale-up projects for Infusion Care and introducing more automation.

In total we invested $171 million in our strategic transformation in 2021, comprising:

- $30 million of non-recurring operational investment (2020: $51 million)
- $72 million of recurring operational investment (2020: $42 million)
- An additional $4 million of costs to be excluded from adjusted EBIT (2020: $12 million)
- $65 million of capex (2020: $26 million)

We also invested $14 million in MDR during the year (2020: $14 million).

Going forward, given the non-recurring elements will be substantially reduced, we do not intend to disclose transformation investments separately except where excluded from adjusted EBIT, in compliance with our Alternative Performance Measures policy. Additional investments will be part of the ongoing growth strategy and operational decisions of the business as we continue to pivot to sustainable and profitable growth.

We are making progress on our ESG journey

Our approach to Environmental, Social and Governance (“ESG”) aims to drive actions that advance our vision and help us pivot to sustainable and profitable growth, delivering better for our patients, care-givers, customers, colleagues and the communities in which we operate. We seek to add value through our products and services as well as through the way we operate, whilst also engendering trust and confidence among all our stakeholders.

During 2021 we made important progress across a range of ESG topics, including the development of our new ESG framework, ‘ConvaTec Cares’. We established our new ESG Steering Committee which includes six ConvaTec Executive Leadership Team members. The Committee completed a wide-ranging peer review and gap analysis, and refreshed the materiality matrix to inform and validate the new framework. This work has culminated in the launch of a new set of ESG Targets that articulate short, medium and long-term commitments aligned to topics and activities, which are most material to our stakeholders and impactful on the Group. As part of this work, we confirmed our commitment to the Science Based Targets initiative and to reach net zero by 2045.

Dividend

The Board is proposing a final dividend of 4.154 cents to per share which brings the 2021 full year dividend to 5.871 cents per share, a 3.0% increase over the 2020 full year dividend. This level is at the top of our stated policy of 35% to 45% of adjusted net profit and reflects the Board’s confidence in the future growth prospects, its underlying financial strength, cash generation and liquidity.

ConvaTec Executive Leadership Team (‘CELT’) changes

In December we announced that Frank Schulkes will be stepping down as Chief Financial Officer on 11 March 2022. I want to thank Frank for the important contribution he made to the Group during his four-year tenure and for his support and leadership during our transformation. I would also like to take this opportunity to welcome Jonny Mason as Frank’s successor. Jonny is a seasoned CFO with an extensive track record in publicly listed and international businesses and brings strong experience in strategic enterprise transformation and customer orientation.

The CELT has continued to evolve following expected retirements. John Lindskog recently retired and Kjersti Grimsrud, who previously led our Continence Care business and has over two decades of experience in diabetes care, has taken over to lead our Infusion Care business. Consequently, Seth Segel has added Continence Care to his existing responsibilities for the Home Services Group, where there is natural synergy. Supratim Bose also

retired during the period and Bruno Pinheiro, who for the last three years has been leading our impressive LATAM business, has stepped up to act as Interim President and COO of GEM. Finally, Adam Deutsch left the Group and Evelyn Douglas has therefore assumed additional responsibility for legal, compliance and Company Secretariat given her significant experience in corporate legal roles. I would like to take this opportunity to thank John, Supratim and Adam for their significant contribution to the Group and its transformation.

Ukraine situation

While we do not have teams in Ukraine, we do have teams in neighbouring countries. In 2021 we had c.$45 million of revenue produced or sold in Belarus and Russia. We are not currently experiencing any material disruption to our operations but continue to closely monitor the evolving situation and we are evaluating all options as we develop appropriate response plans.

2022 outlook

The fundamentals of our 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 2022 we expect to achieve organic[5] revenue growth of 4.0-5.5%. We expect continued good growth in AWC although it will reflect the relatively tougher comparatives versus 2020. Growth in OC is expected to be similar to 2021. In CCC, we anticipate more significant declines in Critical Care as COVID continues to normalise and demand for ICU products falls; however this is expected to be more than offset by improved growth in Continence Care. IC is expected to deliver another strong year of growth ahead of the market.

We expect to improve our underlying EBIT margin. Notwithstanding the current inflationary backdrop we expect our constant currency adjusted EBIT[2,3] margin to increase to at least 18% compared to 17.7% in 2021.

In 2022, based on prevailing rates, we expect interest expense of c.$50-55 million and an effective tax rate of between 18-20%. We also expect capital expenditure to be $100-120 million as we continue to add manufacturing capacity, further increase the level of automation, continue to invest in IT/digital and prepare to launch new products.

We are excited about the opportunities available to the Group and remain committed to pivoting to sustainable and profitable growth. In 2021, we made good strategic and financial progress, and we strengthened the Group's foundations. In 2022, we will continue to focus on delivering future sustainable revenue growth and accelerating operating profit growth. Longer term we remain confident in our ability to continue to improve margin progression. I look forward to updating you further later in the year.

Principal risks

The Board reviews and agrees our principal risks on a bi-annual basis taking account of our risk appetite together with our evolving strategy, current business environment and any emerging risks that could impact the business. Our system of risk management and internal control continues to develop and updates to the principal risks and mitigation plans are made as required in response to changes in our risk landscape. Details of our enterprise risk management framework and how our 2020 principal risks map to our 2021 principal risks will be set out in the Group's 2021 Annual Report and Accounts to be published later in the month.

We are closely monitoring the evolving situation in Ukraine and the surrounding region. We operate a sales team in Russia and we have a manufacturing plant in Belarus that supplies products for our Critical Care and Ostomy portfolios. In 2021 we had c.$45 million of revenue produced or sold in Belarus and Russia. At this stage, we have not experienced any significant disruption to our operations, but we are continuing to assess potential impacts on our business, and are actively evaluating all options as we develop appropriate response plans. We are fully committed to complying with all applicable laws and regulations, including any impacts of new sanctions

relating to the situation.

The Board has reviewed the principal risks as at 31 December 2021 and made a number of changes to reflect our assessment of their effect on the Group, our evolving strategy and the current business environment. The principal risks reflect the continued impact of COVID-19 on the global economy and consequential global inflationary pressures and supply chain constraints impacting on the Group's overall risk profile. The overall profile for the risks set out below remains largely unchanged over the financial year in terms of their potential impact on our ability to successfully deliver on our strategy:

- Operational Resilience and Quality;
- Innovation and Regulatory;
- Information Systems, Security and Privacy;
- Customer and Markets;
- Legal and Compliance;
- Political and Economic Environment; and,
- Tax and Treasury.

The risk landscape, however, has changed for the following principal risks, since the publication of the 2020 Annual Report and Accounts:

- People – has reduced in risk level following our implementation of comprehensive flexible and hybrid-working arrangements as we adapt to the business environment under COVID-19;
- Strategy and Change Management (formerly Change and Transformation Execution) - has reduced in exposure as a result of delivering the expected strategic transformation plan in 2020 and the gradual shift from strategic transformation to continual business transformation execution initiatives; and
- Environment and Communities (new risk) - a new principal risk has been included to take account of our increasing focus in areas such as long-term climate change, the impact of our activity within the communities that we operate and the importance of sustainability within our product portfolio.

The Board assesses the overall risk profile of the Group to ensure it is within our risk appetite. In making this assessment the Board considered the continued presence of COVID-19 and the consequential global inflationary pressure and supply chain constraints on the business environment and any continued or additional impact on the Group's business and principal risks, coupled with the controls and mitigations in place to address these challenges.

Principal risks continue to be appropriately mitigated and work continues to reduce the net exposure to the business to ensure that each risk remains within our risk appetite.

Financial review

We have continued to make good progress executing our FISBE strategy and are demonstrating that we are pivoting to sustainable and profitable growth. Our revenue growth has been building over the last 3 years, showing momentum, and we have delivered adjusted operating profit growth in 2021, notwithstanding further investment in the Group and the exogenous inflationary and foreign exchange headwinds which contributed to a reduced adjusted operating margin % in 2021[a]. We have continued to strategically appraise the shape of the Group and have, during the year, strengthened our CCC business through two acquisitions and by exiting some of the incontinence non-core activities. Furthermore, post year-end we announced the proposed acquisition of Triad Life Sciences which, once complete, will strengthen our AWC business. Our balance sheet is in good shape with year-end net debt at 1.9 times 2021 adjusted EBITDA[a] and additionally we have strengthened our balance sheet – diversifying our debt and extending its maturity profile through the successful issuance of $500 million 2029 unsecured senior notes in October 2021, being the primary contributor to the repayment of $583.9 million of the 2024 bank loans during 2021.

	Reported 2021 $m	Reported 2020 $m	**Adjusted 2021 $m**	Adjusted 2020 $m
Revenue	**2,038.3**	1,894.3	**2,038.3**	1,894.3
Cost of sales	**(915.2)**	(875.5)	**(805.0)**	(767.5)
Gross profit	**1,123.1**	1,018.8	**1,233.3**	1,126.8
Gross margin %	**55.1%**	53.8%	**60.5%**	59.5%
Operating expenses	**(919.5)**	(807.8)	**(871.6)**	(776.6)
Operating profit	**203.6**	211.0	**361.7**	350.2
Operating margin %	**10.0%**	11.1%	**17.7%**	18.5%
Net finance expense	**(43.5)**	(48.4)	**(43.5)**	(48.4)
Non-operating income/(expense), net	**(8.8)**	12.1	**(8.8)**	(4.4)
Profit before income taxes	**151.3**	174.7	**309.4**	297.4
Income tax expense	**(33.7)**	(62.2)	**(46.4)**	(56.9)
Net profit	**117.6**	112.5	**263.0**	240.5
Net profit %	**5.8%**	5.9%	**12.9%**	12.7%
Basic earnings per share (cents per share)	**5.9¢**	5.7¢	**13.1¢**	12.1¢
Diluted earnings per share (cents per share)	**5.8¢**	5.6¢	**13.0¢**	12.0¢
Dividend per share (cents)	**5.8¢**	5.7¢		

[a] *These measures are APMs and are reconciled to the appropriate reported measures on pages 40 to 46.*

The Group's Financials and Adjusted results

The Group's financial performance, measured in accordance with IFRS, is set out in the Financial Statements and Notes thereto on pages 22 to 39 and referred to in these Financial Statements as 'reported' measures.

The commentary in this Financial review includes discussion of the Group's reported results and alternative performance measures ('APMs'). Management and the Board use APMs as meaningful supplemental measures in monitoring the performance of the business. These measures are disclosed in accordance with the ESMA guidelines and are explained and reconciled to the most directly comparable reported measure prepared in accordance with IFRS on pages 40 to 46.

Constant Currency Growth (CER)

Management and the Board review 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 reported revenue performance in the current period. Revenue and the revenue growth on a constant currency basis are non-IFRS financial measures and should not be viewed as replacements of IFRS reported revenue.

Alternative performance measures ("APMs")

In line with the Group's APM policy, included within our alternative performance measures in 2021 are termination benefits in respect of transformation activity of $4.3 million (2020: $12.2 million), amortisation of acquired intangibles of $130.4 million (2020: $125.3 million), costs related to acquisition and divestment activity of $17.8 million (2020: gain of $16.5 million), and dispute settlement of $5.6 million.

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.

For further information on Non-IFRS financial information, see pages 40 to 46.

Revenue

Group reported revenue for the year ended 31 December 2021 of $2,038.3 million (2020: $1,894.3 million) increased 7.6% year-on-year or 5.8% on a constant currency basis. Adjusting for the acquisitions of Cure Medical and Patient Care Medical, and the divestment of the incontinence activities in 2021 and US Skincare products in 2020, Group revenue grew by 5.3% on an organic constant currency basis. The primary drivers of this organic growth performance were the rebound in AWC, following weakness in 2020 caused by the pandemic when there was a significant reduction in elective procedures and restricted access to healthcare settings, coupled with continued strong growth in IC. Further details of the Group's revenue is discussed above on pages 6 to 8.

Reported net profit

Reported operating profit was $203.6 million, a decrease of $7.4 million, reflecting the 7.6% growth in revenue (of which 1.8% was a foreign exchange tailwind) and an improvement in gross margin, being more than offset by an increase in operating expenses primarily driven by higher investments in Sales & Marketing and R&D.

Reported net finance expenses and non-operating expenses totalled $52.3 million (2020: $36.3 million). Net finance expenses reduced by $4.9 million to $43.5 million, reflecting lower interest expenses and a reduction in the Group's gross debt following scheduled repayments in 2021. The non-operating expenses of $8.8 million principally relate to foreign exchange losses (2020: $12.1 million gain principally from the disposal of the US Skincare product line).

After income tax expense of $33.7 million (2020: $62.2 million), reported net profit was $117.6 million (2020: $112.5 million) generating basic earnings per share of 5.9 cents (2020: 5.7 cents)

Adjusted net profit

The 7.6% growth in revenue was accompanied by 100bps improvement in the adjusted gross margin, with productivity gains and positive price/mix more than offsetting inflationary headwinds, resulting in adjusted gross profit increasing by $106.5 million (9.5%) to $1,233.3 million. However, increased investment in Sales & Marketing and R&D and the negative impact of foreign exchange on adjusted EBIT, plus other adverse movements in certain costs including increase in Transformation related investments, resulted in the adjusted operating profit increasing by only $11.5 million (3.3%) to $361.7 million (2020: $350.2 million). As a result, adjusted EBIT margin % was down 80bps at 17.7%.

Adjusted net profit rose 9.4% to $263.0 million (2020: $240.5 million) supported by a $4.9 million reduction in net finance expense coupled with $10.5 million reduction in adjusted income tax expense (which is explained below).

Adjusted basic and diluted EPS was 13.1 cents and 13.0 cents respectively (2020: 12.1 cents and 12.0 cents), calculated on the basic weighted average ordinary shares of 2,009 million shares (2020: 1,992 million shares) and 2,026 million diluted shares (2020: 2,007 million) respectively.

Taxation and tax strategy

	2021 $m	2020 $m	Adjusted 2021 $m	Adjusted 2020 $m
Profit before income taxes	**151.3**	174.7	**309.4**	297.4
Income tax expense	**(33.7)**	(62.2)	**(46.4)**	(56.9)
Effective tax rate	**22.3%**	35.6%	**15.0%**	19.1%

The Group's income tax expense was $33.7 million (2020: $62.2 million). The Group's effective tax rate of 22.3% for the year was lower than the prior year (2020: 35.6%) mainly due to the recognition of a deferred tax asset following the acquisition of Cure Medical (in respect of previously unrecognised tax losses in the US), lower incidence of certain minimum taxes in the US, and a net tax benefit in the UK for additional tax reliefs claimed in respect of prior years. These factors were partially offset by the impact of profit mix between jurisdictions in which the Group has taxable presence and an increase in deferred tax expense arising from an increase in the UK corporation tax rate from 19% to 25% from 1 April 2023. For further information, see Note 4 to the Financial Statements.

The adjusted income tax expense for 2021 of $46.4 million excludes adjusted tax items which are the $11.5 million tax benefit effect on adjusting items relating to current year amortisation of intangible assets and termination costs in respect of major change programmes. The adjusted income tax expense also excludes other discrete tax items relating to $6.8 million tax benefit following the acquisition of Cure Medical (as noted above) and a deferred tax expense of $5.6 million for the increase in UK corporation tax rate that applies to UK acquired intangibles (where the amortisation of these acquired intangibles is excluded from adjusted net profit).

In 2020, the adjusted income tax expense of $56.9 million excluded $17.6 million related to the change in basis of estimation of a deferred tax asset arising from Swiss tax reform (other discrete tax item), and a tax benefit of $12.3 million in respect of the tax effect of amortisation of intangible assets and the cost of termination benefits in respect of specific Group-wide initiatives.

The adjusted effective tax rate for 2021 was 15.0% (2020: 19.1%). The decrease of 4.1% primarily reflects the same factors affecting the reported effective tax rate (as noted above), excluding the impact of adjusted tax items.

The adjusted effective tax rate of 15.0% was also lower than the 19.8% estimated in the H1 2021 results due to a combination of net benefits. These include profit mix between the jurisdictions, reliefs claimed in the second half of 2021 in respect of a number of years where the analysis performed was completed after the announcement of the interim results, and reassessment of the provision for uncertain tax positions based on developments in H2 2021.

ConvaTec is a responsible business and promotes the highest standards of compliance and ethical behaviour. Management take a responsible attitude to tax, recognising that it affects all of our stakeholders. The Group had on average more than 10,000 employees worldwide during 2021 and operated in over 100 countries through direct sales and local distributors. As a result, 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 the Group's approach to tax, the Global Tax Strategy has been published, which is available on the corporate website https://www.convatecgroup.com/corporate-responsibility/socio-economic-contribution/tax-statement.

Acquisitions

As noted above, in line with our strategic transformation and consistent with the "Focus" pillar of FISBE (see page 8), we acquired Cure Medical and Patient Care Medical for a net consideration of $113.8 million and disposed of an incontinence patient list in the US for $1.4 million, generating a gain of $0.5 million. Refer to Note 6 to the Financial Statements for further details.

Post the 31 December 2021 balance sheet date, the Group announced it had signed a definitive agreement to acquire Triad Life Sciences, subject to obtaining the necessary regulatory approvals and other customary clearances. This proposed acquisition, which is expected to complete in March 2022, is another important step forward as the Group pursues its FISBE strategy and continues its journey of pivoting to sustainable and profitable growth. It will strengthen AWC's position in the U.S. ("Focus") and provide access to a complementary and innovative technology platform ("Innovate") that enhances advanced wound management and patient outcomes. Refer to Note 10 to the Financial Statements.

Dividends

Dividends are distributed based on the realised distributable reserves of the Company and primarily derived from the dividends received from subsidiary companies and not based on the Group's retained earnings. The realised distributable reserves of the Company at 31 December 2021 were $1,590.3 million (2020: $1,653.1 million). Refer to Note 5 to the Financial Statements for further information.

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**	**2021**	2020
USD/EUR	Average	**1.18**	1.14
	Closing	**1.14**	1.22
USD/GBP	Average	**1.38**	1.28
	Closing	**1.35**	1.37
USD/DKK	Average	**0.16**	0.15
	Closing	**0.15**	0.16

During 2021, revenue was predominantly USD denominated (50%). Other significant currencies were EUR (22%), GBP (7%) 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.

Net cash generated from operations

	2021	2020
	$m	$m
EBITDA[(a)]	**420.1**	420.4
Net cash generated from operations	**400.6**	502.5
Net interest paid	**(35.5)**	(48.5)
Income taxes paid	**(59.2)**	(54.5)
Net cash generated from operating activities	**305.9**	399.5

(a) EBITDA is reconciled to the most directly comparable financial measure prepared in accordance with IFRS in the cash conversion table on page 46.

Net cash generated from operations decreased by $101.9 million to $400.6 million during the year, mainly due to working capital movement. The increase in working capital in the year ended 31 December 2021 is due to growth in revenue and the associated increase in the receivables position, an increase in inventory levels to build up resilience to serve a diverse set of chronic care categories, payments in relation to year-end capital expenditure and strategic project accruals and payments under the Group's employee incentive plan. Additionally, in 2020, the net cash generated from operations was supplemented by income from the sale of the US Skincare product line ($29.8 million).

Net cash generated from operating activities was $305.9 million (2020: $399.5 million), reflecting the decrease in net cash generated from operations. Net interest paid decreased by $13.0 million to $35.5 million, reflecting lower interest costs on the Group's borrowings, which was offset by an increase in tax paid of $4.7 million due to the timing of payments on account and an increase in tax payments in the US.

Uses of cash

Cash and cash equivalents have decreased by $102.0 million to $463.4 million at 31 December 2021 (31 December 2020: $565.4 million). The $400.6 million of net cash generated from operations was used to acquire Cure Medical and Patient Care Medical for a combined net consideration of $113.8 million, capital expenditure of $94.1 million on manufacturing lines and digital technologies, net repayments on borrowings of $92.1 million, pay $22.0 million in lease payments and $85.8 million in dividends to shareholders. The year-on-year increase of $22.9 million in the cash dividend payment reflects the level of uptake of the scrip alternative as compared to the prior year.

	2021	2020
	$m	$m
Debt servicing	**149.6**	142.1
Dividend paid	**85.8**	62.9
Acquisition of PP&E and intangible assets	**94.1**	86.2
Tax paid	**59.2**	54.5
Acquisitions, net of cash acquired	**113.8**	-
Purchase of own shares	**-**	5.6

Cash flows from debt servicing includes net repayments on borrowings of $92.1 million (2020: $73.0 million), lease payments of $22.0 million (2020: $20.6 million), and net interest payments of $35.5 million (2020: $48.5 million).

Cash conversion

Cash conversion is a measure that is used to ensure value is derived from our operations and supports our decision making for potential future investments.

The cash conversion was 73.0% (2020: 99.0%) and adjusted cash conversion was 71.9% (2020: 90.3%).

	2021 $m	2020 $m	Adjusted[(a)] 2021 $m	Adjusted[(a)] 2020 $m
EBITDA	420.1	420.4	464.2	445.0
Share-based payments	16.4	12.4	-	-
Working capital movement	(31.6)	47.8	(32.3)	42.9
(Loss)/gain on foreign exchange derivatives	(4.3)	21.9	(3.9)	0.2
Capital expenditure (net)	(94.1)	(86.2)	(94.1)	(86.2)
Net cash generated from operations, net of capital expenditure	306.5	416.3	333.9	401.9
Cash conversion	73.0%	99.0%	71.9%	90.3%
Income taxes paid	(59.2)	(54.5)	(59.2)	(54.5)
Free cash flow	247.3	361.8	274.7	347.4

(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 46.

Adjusted free cash flow is one of the four key performance indicators used to monitor the delivery of the Group strategy. Adjusted free cash flow was $274.7 million (2020: $347.4 million) with the decrease of $72.7 million principally reflecting the increase in working capital and capital expenditure.

The $4.3 million cash loss (2020: $21.9 million gain) from foreign exchange derivatives is a result of hedging activity to help mitigate the impact on underlying exposures from volatility in foreign exchange rates.

Liquidity and net debt

Borrowings and net debt

	Senior notes $m	Credit facilities $m	Total borrowings $m	Cash and cash equivalents $m	Net debt $m	Lease liabilities $m	Interest-bearing liabilities $m
At 1 January 2020	-	(1,486.1)	(1,486.1)	385.8	(1,100.3)	(88.5)	(1,188.8)
Repayment of borrowings	-	73.0	73.0	-	73.0	-	73.0
Cash flow	-	-	-	181.1	181.1	-	181.1
Lease movements	-	-	-	-	-	(0.4)	(0.4)
Foreign exchange	-	(39.0)	(39.0)	(1.5)	(40.5)	(3.2)	(43.7)
Non-cash movements	-	(4.3)	(4.3)	-	(4.3)	-	(4.3)
As at 31 December 2020	-	(1,456.4)	(1,456.4)	565.4	(891.0)	(92.1)	(983.1)
Net proceeds of new borrowings	(491.8)	-	(491.8)	-	(491.8)	-	(491.8)
Repayment of borrowings	-	583.9	583.9	-	583.9	-	583.9
Cash flow	-	-	-	(100.5)	(100.5)	-	(100.5)
Lease movements	-	-	-	-	-	(2.1)	(2.1)
Foreign exchange	-	26.5	26.5	(1.5)	25.0	3.7	28.7
Non-cash movements	(8.2)	1.4	(6.8)	-	(6.8)	-	(6.8)
As at 31 December 2021	(500.0)	(844.6)	(1,344.6)	463.4	(881.2)	(90.5)	(971.7)

Net debt/adjusted EBITDA	
At 31 December 2020	2.0x
At 31 December 2021	**1.9x**

In October 2021, the Group successfully secured $500 million with a debut US bond issue – diversifying the Group's debt structure, lengthening our debt maturity profile and reducing our refinancing risk. As part of our Group Treasury policy, we continuously review our debt structure, seeking opportunities to optimise profile and pricing. The $500 million bond has an 8-year tenor and priced at a coupon of 3.875%, demonstrating the attraction of our industry and confidence in ConvaTec's ability to pivot to sustainable and profitable growth. The proceeds were used to partially prepay existing bank debt (with $8.2 million of issuance costs incurred and to be amortised over the life of the senior notes), leaving the Group at 31 December 2021 with $844.6 million (excluding unamortised fees) of bank debt maturing in October 2024 and $500.0 million of bond debt maturing in 2029. This new debt profile will support our continued investment and growth, aligned to our FISBE strategy.

In addition, the Group has a $200 million revolving credit facility maturing in October 2024, which remained unutilised throughout the year and was undrawn as at 31 December 2021, which, with cash of $463.4 million, provided the Group with total liquidity of $663.4 million at that date. This includes $37.5 million which is held in territories where there are restrictions related to repatriation (31 December 2020: $42.4 million).

At 31 December 2021, the Group was in compliance with all financial and non-financial covenants associated with the Group's outstanding borrowings. The Group has two financial covenants, being net leverage and interest cover, each of which is defined, where applicable, within the borrowing documentation. The table below summarises the Group's most restrictive covenant thresholds and position as at 31 December 2021 and 2020.

	Maximum covenant net leverage*	Covenant net leverage*	Minimum covenant interest cover*	Covenant interest cover*
31 December 2021	**3.50x**	**1.97x**	**3.5x**	**11.7x**
31 December 2020	3.75x	1.93x	3.5x	10.4x

**Interest cover is adjusted EBITDA/interest expense (net) and net leverage is net debt/adjusted EBITDA in accordance with the definitions contained in underlying borrowing documentation and are not the same as the definitions of these measures presented in the Adjusted Performance Measures section on page 41 and applied in the commentary in this Financial review.*

At 31 December 2021, the Group had total interest-bearing liabilities, including IFRS 16 lease liabilities, of $1,435.1 million (2020: $1,548.5 million). Offsetting cash of $463.4 million (2020: $565.4 million) and excluding lease liabilities, net debt was $881.2 million (2020: $891.0 million), equivalent to 1.9x adjusted EBITDA (2020: 2.0x adjusted EBITDA).

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

Financial position

At 31 December	**2021 $m**	2020 $m	Change $m
Intangible assets and goodwill	**2,058.5**	2,089.6	(31.1)
Other non-current assets	**504.7**	498.4	6.3
Cash and cash equivalents	**463.4**	565.4	(102.0)
Other current assets	**647.4**	613.1	34.3
Total assets	**3,674.0**	3,766.5	(92.5)
Current liabilities	**(569.2)**	(513.2)	(56.0)
Non-current liabilities	**(1,410.0)**	(1,582.6)	172.6
Equity	**(1,694.8)**	(1,670.7)	(24.1)
Total equity and liabilities	**(3,674.0)**	(3,766.5)	92.5

Intangible assets and goodwill

Intangible assets and goodwill reduced by $31.1 million to $2,058.5 million (2020: $2,089.6 million). This decrease arises primarily from the in-year amortisation of intangible assets of $147.2 million and the net effect of foreign exchange of $24.6 million, partially offset by increases in intangible assets and goodwill due to the Cure Medical and Patient Care Medical acquisitions.

Other non-current assets

Other non-current assets, including property, plant and equipment, right-of-use assets, deferred tax assets, restricted cash and other assets increased by $6.3 million to $504.7 million (2020: $498.4 million). The increase primarily reflects continual investment in our manufacturing facilities, with additions in PP&E of $70.8 million offset by depreciation of $40.6 million. The net increase in other non-current assets includes a $18.2 million unfavourable foreign exchange movement. Deferred tax assets decreased by $12.5 million to $28.9 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 $34.3 million to $647.4 million (2020: $613.1 million), primarily driven by the net effect of foreign exchange of $33.4 million within inventories and trade and other receivables.

Current liabilities

Current liabilities increased by $56.0 million to $569.2 million (2020: $513.2 million), reflecting a $58.2 million increase in the current portion of borrowings resulting from the scheduled repayments under the Group's credit agreement, and a $8.4 million increase in trade and other payables, primarily due to increases in accruals for strategic projects and employee incentives.

Non-current liabilities

Non-current liabilities have reduced by $172.6 million to $1,410.0 million (2020: $1,582.6 million). This includes a reduction in non-current borrowings of $170.0 million, resulting from repayments of $583.9 million during the year, and an increase in the current portion of borrowings as described above, partially offset by $26.4 million in respect of the foreign exchange impact on Euro denominated borrowings and the net proceeds from the $500 million senior notes issued.

Going concern

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, overlaid with the forecasts and maximum consideration for the proposed acquisition of Triad Life Sciences and severe but plausible downside scenarios linked to the Group's principal and potential emerging risks, including supply chain disruption (incorporating the effect of climate change), delivery of transformation initiatives, and customer and markets, applied against the strategic plan. Brexit was not considered a significant risk for the Group and therefore, is 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 >$177 million EBITDA would be required in 2022 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 adopted 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.

Impairment of goodwill and other intangible assets

We regularly review our trading performance to establish whether there were any triggers that would require an impairment review of goodwill or other intangible assets. As part of the review, we have determined that the ongoing transformation programme and the further embedding of the new operating model during the year has triggered a change in CGU groups categorisation, and we have identified new CGU groups. The annual CGU impairment review was conducted on the new and former CGU groups and, taking into consideration our future forecasts and reasonably possible scenarios, significant headroom remained in the carrying value of all CGUs in comparison to the sensitised recoverable value. No impairment has been recognised. In addition, management considered the severe but plausible downside scenarios used in the Viability assessment and, again, headroom remained on the carrying value of all CGUs.

Financial control environment

With a substantial number of office-based employees continuing to work from home during the year, including within the finance community, we continued to monitor closely 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. Where issues were identified the financial controls team would give focused support and training to ensure adherence with global standards. In addition, internal audit reviews continued to be completed, reviewing our financial internal controls as part of their audit programme. No control failures were identified during the year that posed a risk of a material financial misstatement.

As the finance activity transitioned to our Global Business Services facilities in Lisbon and Bogota continues to embed, detailed analysis of segregation of duty activities continues, controls documentation has been prepared, and subsequent operation of those controls reviewed to ensure that the control environment continues to improve.

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.

Consolidated Income Statement
For the year ended 31 December 2021

	Notes	**2021** **$m**	2020 $m
Revenue	2	**2,038.3**	1,894.3
Cost of sales		**(915.2)**	(875.5)
Gross profit		**1,123.1**	1,018.8
Selling and distribution expenses		**(539.7)**	(463.3)
General and administrative expenses		**(285.3)**	(262.1)
Research and development expenses		**(94.5)**	(82.4)
Operating profit		**203.6**	211.0
Finance income		**0.8**	1.9
Finance expense		**(44.3)**	(50.3)
Non-operating (expense)/income, net	3	**(8.8)**	12.1
Profit before income taxes		**151.3**	174.7
Income tax expense	4	**(33.7)**	(62.2)
Net profit		**117.6**	112.5
Earnings per share			
Basic earnings per share (cents per share)		**5.9¢**	5.7¢
Diluted earnings per share (cents per share)		**5.8¢**	5.6¢

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 2021

	Notes	**2021** **$m**	2020 $m
Net profit		**117.6**	112.5
Other comprehensive income			
Items that will not be reclassified subsequently to the Consolidated Income Statement			
Remeasurement of defined benefit pension plans		**3.2**	(0.4)
Change in pension asset restriction		**1.3**	5.0
Income tax relating to items that will not be reclassified		**0.1**	0.2
Items that may be reclassified subsequently to the Consolidated Income Statement			
Exchange differences on translation of foreign operations		**(29.6)**	53.0
Effective portion of changes in fair value of cash flow hedges	8	**(5.1)**	(6.7)
Changes in fair value of cash flow hedges reclassified to the Consolidated Income Statement	8	**5.7**	(0.2)
Costs of hedging	8	**(0.4)**	(0.1)
Income tax in respect of items that may be reclassified		**(0.9)**	1.7
Other comprehensive (expense)/income		**(25.7)**	52.5
Total comprehensive income		**91.9**	165.0

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

Consolidated Statement of Financial Position
As at 31 December 2021

	Notes	2021 $m	2020 $m
Assets			
Non-current assets			
Property, plant and equipment		**366.7**	352.2
Right-of-use assets		**83.6**	85.8
Intangible assets and goodwill		**2,058.5**	2,089.6
Deferred tax assets		**28.9**	41.4
Restricted cash		**13.6**	5.7
Other non-current receivables		**11.9**	13.3
		2,563.2	2,588.0
Current assets			
Inventories		**308.8**	297.1
Trade and other receivables		**323.5**	307.9
Derivative financial assets	8	**15.1**	8.1
Cash and cash equivalents		**463.4**	565.4
		1,110.8	1,178.5
Total assets		**3,674.0**	3,766.5
Equity and liabilities			
Current liabilities			
Trade and other payables		**342.5**	334.1
Borrowings	7	**144.8**	86.6
Lease liabilities		**19.7**	19.8
Current tax payable		**45.5**	55.6
Derivative financial liabilities	8	**11.7**	7.7
Provisions		**5.0**	9.4
		569.2	513.2
Non-current liabilities			
Borrowings	7	**1,199.8**	1,369.8
Lease liabilities		**70.8**	72.3
Deferred tax liabilities		**87.2**	101.4
Provisions		**1.7**	1.5
Derivative financial liabilities	8	**2.9**	7.7
Other non-current payables		**47.6**	29.9
		1,410.0	1,582.6
Total liabilities		**1,979.2**	2,095.8
Net assets		**1,694.8**	1,670.7
Equity			
Share capital		**247.0**	245.5
Share premium		**142.3**	115.3
Own shares		**(2.2)**	(6.7)
Retained deficit		**(842.0)**	(845.3)
Merger reserve		**2,098.9**	2,098.9
Cumulative translation reserve		**(75.7)**	(46.1)
Other reserves		**126.5**	109.1
Total equity		**1,694.8**	1,670.7
Total equity and liabilities		**3,674.0**	3,766.5

Consolidated Statement of Changes in Equity
For the year ended 31 December 2021

	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 2020		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
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
Net profit		**–**	**–**	**–**	**117.6**	**–**	**–**	**–**	**117.6**
Other comprehensive income:									
Foreign currency translation adjustment, net of tax		**–**	**–**	**–**	**–**	**–**	**(29.6)**	**–**	**(29.6)**
Remeasurement of defined benefit pension plans, net of tax		**–**	**–**	**–**	**–**	**–**	**–**	**3.3**	**3.3**
Change in pension asset restriction		**–**	**–**	**–**	**–**	**–**	**–**	**1.3**	**1.3**
Changes in fair value of cash flow hedges, net of tax		**–**	**–**	**–**	**–**	**–**	**–**	**(0.7)**	**(0.7)**
Other comprehensive (expense)/income		**–**	**–**	**–**	**–**	**–**	**(29.6)**	**3.9**	**(25.7)**
Total comprehensive income		**–**	**–**	**–**	**117.6**	**–**	**(29.6)**	**3.9**	**91.9**
Dividends paid	5	**–**	**–**	**–**	**(85.8)**	**–**	**–**	**–**	**(85.8)**
Scrip dividend	5	**1.5**	**27.0**	**–**	**(28.5)**	**–**	**–**	**–**	**–**
Share-based payments		**–**	**–**	**–**	**–**	**–**	**–**	**16.4**	**16.4**
Share awards vested		**–**	**–**	**4.5**	**–**	**–**	**–**	**(3.5)**	**1.0**
Excess deferred tax benefit from share-based payments		**–**	**–**	**–**	**–**	**–**	**–**	**0.6**	**0.6**
At 31 December 2021		**247.0**	**142.3**	**(2.2)**	**(842.0)**	**2,098.9**	**(75.7)**	**126.5**	**1,694.8**

Consolidated Statement of Cash Flows
For the year ended 31 December 2021

	Notes	2021 $m	2020 $m
Cash flows from operating activities			
Net profit		**117.6**	112.5
Adjustments for			
Depreciation of property, plant and equipment		**40.6**	38.5
Depreciation of right-of-use assets		**22.8**	22.4
Amortisation		**147.2**	136.8
Income tax expense	4	**33.7**	62.2
Non-operating expense, net		**4.5**	9.8
Finance costs, net		**43.5**	48.4
Share-based payments		**16.4**	12.4
Impairment/write-off of intangible assets		**2.9**	1.8
Impairment/write-off of property, plant and equipment		**3.0**	9.9
Change in assets and liabilities:			
Inventories		**(19.6)**	(5.3)
Trade and other receivables		**(29.4)**	6.5
Other non-current receivables		**1.1**	(4.1)
Restricted cash		**(8.4)**	(2.1)
Trade and other payables		**10.7**	47.5
Other non-current payables		**14.0**	5.3
Net cash generated from operations		**400.6**	502.5
Interest received		**0.8**	1.9
Interest paid		**(36.3)**	(50.4)
Income taxes paid		**(59.2)**	(54.5)
Net cash generated from operating activities		**305.9**	399.5
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		**(94.1)**	(86.2)
Proceeds from sale of property, plant and equipment and other assets		**–**	0.1
Acquisitions, net of cash acquired	6	**(113.8)**	–
Proceeds from divestiture		**1.4**	29.8
Net cash used in investing activities		**(206.5)**	(56.3)
Cash flows from financing activities			
Repayment of borrowings		**(583.9)**	(73.0)
Proceeds from borrowings		**491.8**	–
Payment of lease liabilities		**(22.0)**	(20.6)
Purchase of own shares		**–**	(5.6)
Dividends paid	5	**(85.8)**	(62.9)
Net cash used in financing activities		**(199.9)**	(162.1)
Net change in cash and cash equivalents		**(100.5)**	181.1
Cash and cash equivalents at beginning of the year		**565.4**	385.8
Effect of exchange rate changes on cash and cash equivalents		**(1.5)**	(1.5)
Cash and cash equivalents at end of the year		**463.4**	565.4

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 Consolidated Financial Statements which are prepared in accordance with United Kingdom adopted international accounting standards.

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 2021 and 2020 but is derived from those accounts. Statutory accounts for 2020 have been delivered to the Registrar of Companies and those for 2021 will be delivered following the Company's Annual General Meeting. The auditor's reports on the 2021 and 2020 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.

Considerations for the identification of critical accounting judgements and key estimates

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. In preparing the Consolidated Financial Statements, no critical accounting judgements or key sources of estimation uncertainty have been identified from this assessment.

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

Recognition of deferred tax assets in respect of unused US tax losses

The Group had unused US tax losses at 31 December 2021. IAS 12 *Income taxes*, states that when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses can be utilised by the entity. Given the history of US tax losses, management assessed the future profitability of its US operations over the next three years, taking into

account known significant contracts, organic and inorganic strategic growth initiatives, and any cost reduction transformation programmes, and concluded that there is insufficient evidence that there will be short term future taxable profit in the US against which these losses can be utilised. Accordingly, the unused US tax losses have not been recognised as a deferred tax asset at 31 December 2021 except to the extent that there are suitable offsetting taxable temporary differences. Based on the strategic plan for the US, management also concluded that the recognition of a further deferred tax asset on unused US tax losses is unlikely to be subject to a material adjustment in the next 12 months. In the interim results for the six months ended 30 June 2021, the recognition of deferred tax assets in relation to unused US tax losses was identified as a key source of estimation uncertainty but following further information and clarification in respect of the impact of the Group's transformation programme on the US taxable profits, management concluded that this is no longer a key source of estimation uncertainty.

1.3 Accounting standards

New standards and interpretations applied for the first time

On 1 January 2021, the Group adopted the IASB issued *Amendments to IFRS 16 - COVID 19-Related Rent Concessions*.

On 1 January 2021, the Group adopted the IASB issued *Amendments to IFRS 4, IFRS 7, IAS 39, IFRS 9, and IFRS 16 – Interest rate benchmark reform (phase 2).* The amendment to IFRS 9 provides relief from applying specific hedge accounting and financial instrument derecognition requirements directly affected by interbank offered rate (IBOR) reform. By applying the practical expedient, the Group will not be required to discontinue its hedging relationships as a result of changes in reference rates due to the IBOR reform. The amendment to IFRS 7 required additional disclosure explaining the nature and extent of risk related to the reform and the progress of the transition.

In March 2021, the IFRS Interpretations Committee (IFRIC) published the second agenda decision on the accounting for Software-as-a-Service (SaaS) arrangement, clarifying the accounting for configuration and customisation costs incurred in implementing SaaS.

The adoption during the year of the amendments and interpretations has not had a material impact on the Consolidated Financial Statements.

New standards and interpretations not yet applied

IFRS 17 – Insurance contracts (effective from 1 January 2023) is ultimately intended to replace IFRS 4. It sets out the requirements that a company should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. The Group believes that the adoption of IFRS 17 will not have a significant impact on the Consolidated Financial Statements.

Other interpretations and amendments

In addition to these issued standards, there are a number of other interpretations, amendments and annual improvement project recommendations that have been issued but not yet effective that have not yet been adopted by the Group because application is not yet mandatory, or they are not relevant for the Group.

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 6 to 8 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 in respect of revenues provided to the CEO for decision-making purposes is made on both a category and geographic basis. Resources are allocated on a Group-wide basis, with a focus on both category and the key markets but allocations are primarily based on the merits of the individual proposals.

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:

	2021	2020
	$m	$m
Advanced Wound Care	**592.3**	546.8
Ostomy Care	**546.5**	525.9
Continence and Critical Care	**542.9**	498.6
Infusion Care	**356.6**	323.0
Total	**2,038.3**	1,894.3

Geographic information

Geographic markets[a]

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

	2021	2020
	$m	$m
Europe	**741.6**	709.8
North America	**1,022.1**	944.9
RoW	**274.6**	239.6
	2,038.3	1,894.3

(a) During the year ended 31 December 2021, the geographical revenue information provided to the Group's CEO was changed to better reflect the way in which the Group now manages its operations. The change was driven by the ongoing transformation initiatives and aligns with the current management and reporting structure. The change in reporting structure took effect during the year ended 31 December 2021. The 31 December 2020 comparative revenue information has been re-presented to reflect this change. Europe includes Russia and formerly EMEA comprised Europe (including Russia), the Middle East and Africa. North America comprises United States and Canada, and formerly Americas comprised the United States, Canada, Latin and South America. Rest of World ("RoW") comprises all countries in Asia Pacific, Latin America (including Mexico and the Caribbean), South America, the Middle East (including Turkey) and Africa.

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

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

	Notes	**2021** **$m**	2020 $m
Foreign exchange gain/(loss)[(a)]		**4.3**	(26.3)
(Loss)/gain on foreign exchange forward contracts	8	**(9.7)**	21.7
(Loss)/gain on foreign exchange cash flow hedges	8	**(3.9)**	0.2
Gain on divestiture		**0.5**	16.5
Non-operating (expense)/income, net		**(8.8)**	12.1

(a) The foreign exchange gains in 2021 primarily relate to the foreign exchange impact on intercompany transactions, including loans transacted in non-functional currencies. The Group uses foreign exchange forward contracts to manage these exposures in accordance with the Group's foreign exchange risk management policy.

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.

	2021 **$m**	2020 $m
Current tax		
UK corporation tax	**0.8**	0.4
Overseas taxation	**46.8**	54.9
Adjustment to prior years	**(4.3)**	(0.6)
Total current tax expense	**43.3**	54.7
Deferred tax		
Origination and reversal of temporary differences	**(13.3)**	(13.8)
Change in tax rates	**4.4**	2.5
Adjustment to prior years	**(0.7)**	1.2
Change in basis of estimate for Swiss deferred tax asset	**–**	17.6
Total deferred tax (benefit)/expense	**(9.6)**	7.5
Income tax expense	**33.7**	62.2

In 2021, the deferred tax adjustment to prior years primarily relates to a net tax benefit in the UK for additional tax reliefs claimed in respect of a number of years following the completion of a detailed analysis performed in 2021.

The change in tax rates mainly relates to the revaluation of the net deferred tax liability in the UK following the enactment of Finance Act 2021 on 10 June 2021, which increases the UK corporation tax rate from 19.0% to 25.0% from 1 April 2023. This resulted in a tax expense of $4.8 million. In 2020 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% following the reversal of the change in corporation tax rate originally due to come into effect from 1 April 2020.

The Group's deferred tax expense in the year ended 31 December 2020 was mainly influenced by the deferred tax expense of $17.6 million arising from the change in the basis of estimate of the deferred tax asset arising upon the

Swiss tax reform.

The basis for the deferred tax asset due to the Swiss tax reform remained unchanged in 2021 following formal agreement with the Swiss tax authorities during the year.

4.2 Reconciliation of effective tax rate

The effective tax rate for the year ended 31 December 2021 was 22.3%, compared with 35.6% for the year ended 31 December 2020.

Tax reconciliation to UK statutory rate

The table below reconciles the Group's profit before income taxes at the UK statutory rate to the Group's total income tax expense:

	2021 $m		2020 $m	
Profit before income taxes	**151.3**		174.7	
Profit before income taxes multiplied by rate of corporation tax in the UK of 19.0% (2020: 19.0%)	**28.7**		33.2	
Difference between UK and overseas tax rates[a]	**4.0**		2.4	
Deferred tax impact for increase in UK tax rate	**4.8**		2.4	
Non-deductible/non-taxable items	**1.3**		3.4	
Movement in unrecognised losses and other assets	**(6.9)**		1.8	
Movement on provision for uncertain tax positions	**(0.3)**		(0.5)	
Deferred tax impact of the Swiss tax reform	**–**		17.6	
Other[b]	**2.1**		1.9	
Income tax expense and effective tax rate	**33.7**	**22.3%**	62.2	35.6%

(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's income tax expense includes a $6.8 million tax benefit due to the recognition of deferred tax assets following the acquisition of Cure Medical in respect of previously unrecognised tax losses in the US and $3.0 million tax expense due to the derecognition of deferred tax asset for pre-2017 losses in the UK where its utilisation is not probable in the foreseeable future (in 'Movement in unrecognised losses and other assets'). Refer to Note 6 for the acquisition accounting of Cure Medical.

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 involves a degree of estimation and judgements in respect of certain items for which the tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority, specifically in relation to open tax and transfer pricing matters. Due to the high volume of intercompany transactions, the Group's evolving business model and the increasing complexity in interaction between multiple tax laws and regulations, transfer pricing is an area of significant risk, requiring judgement in determining the appropriate allocation of profits between jurisdictions. The Group assessed the impact of ongoing changes to the Group's operating model, the supporting documentation for the tax and transfer pricing positions,

existing tax authority challenges and the likelihood of new challenges by tax authorities. In line with the requirements of IFRIC 23, *Uncertainty over Income Tax Treatments*, the Group has provided for uncertain tax positions in respect of transfer pricing positions and withholding tax liabilities. The net decrease in provisions during 2021 was driven by the reassessment of estimates and, settlement and expiry of open tax issues in various jurisdictions. Where open issues exist, the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of discussions with the relevant tax authorities or, where applicable, appeal proceedings. Accordingly, settlement and expiry of open tax issues could have a significant impact on future tax charges.

The Group is monitoring tax reforms driven by the OECD's project to address the tax challenges arising from the digitalisation of the economy. The Group is analysing whether the tax impact of the project to the Group will be material following the issuance of detailed guidance for Pillar 2 by the OECD on 20 December 2021 and expected new legislation in the jurisdictions in which the Group operates once it becomes available. This has no impact on the Group's results for 2021.

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 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	**2.845**	**3.983**	**79.7**	**53.6**	**26.1**	**9,475,532**
Interim dividend 2021	**1.229**	**1.717**	**34.6**	**32.2**	**2.4**	**750,265**
Paid in 2021	**4.074**	**5.700**	**114.3**	**85.8**	**28.5**	**10,225,797**
Final dividend 2021 proposed	**3.161**	**4.154**	**83.7**			

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 2021, to be distributed on 19 May 2022 to shareholders registered at the close of business on 1 April 2022, is based upon the issued and fully paid share capital as at 31 December 2021 and is subject to shareholder approval at the Annual General Meeting on 12 May 2022. The dividend will be declared in US dollars and will be paid in Sterling at the chosen exchange rate of $1.314/£1.00 determined on 7 March 2022. A scrip dividend alternative will be offered allowing shareholders to elect by 27 April 2022 to receive their dividend in the form of new ordinary shares.

The interim and final dividends for 2021 give a total dividend for the year of 5.871 cents per share (2020: 5.700 cents per share).

6. Acquisitions

During the year, the Group completed the acquisitions of

(i) 100% of the share capital of Cure Medical LLC ("Cure Medical"), a manufacturer and distributer of intermittent catheters based in California.

(ii) the business of Respiratory Solutions, LLC, which trades under the name "Patient Care Medical", a US distributor and service company focused on disposable, intermittent catheters in the US market.

This note provides details of the transaction and the acquisition accounting that has been recorded to reflect the fair value of assets acquired and liabilities assumed as well as the intangible assets and goodwill recognised upon acquisition.

On 15 March 2021, the Group acquired 100% of the share capital of Cure Medical for net cash consideration of $84.7 million. This consisted of $85.1 million cash, of which $4.9 million was deferred consideration and was paid into escrow, net of cash acquired of $0.7 million and a $0.4 million working capital adjustment. Cure Medical, based in California, manufactures and distributes intermittent catheters, and operates in the Continence category. The acquisition of Cure Medical allows the Group to better serve the US intermittent catheter market, improving and expanding relationships with patients, caregivers and partners.

In addition to the initial consideration, the sellers may earn contingent consideration of up to $10.0 million based upon post-acquisition performance targets included in the Share Purchase Agreement. The fair value of contingent consideration at the date of acquisition was $3.1 million, which is due to be paid within three years of the acquisition date. Following completion of acquisition accounting, any changes in the fair value of contingent consideration will be recorded in the Consolidated Income Statement in accordance with the Group's accounting policies. There were no movements from the date of acquisition to 31 December 2021.

On 1 December 2021, the Group acquired the business of Respiratory Solutions, LLC, which trades under the name Patient Care Medical. Patient Care Medical is a US distributor and service company focused on disposable, intermittent catheters in the US market and operates in the Continence category. The consideration for the acquisition was $29.1 million which included $6.0 million of deferred consideration paid into escrow.

Assets acquired and liabilities assumed

The transactions meet the definition of business combinations and have been accounted for under the acquisition method of accounting. The following table summarises the provisional fair values of the assets acquired and the liabilities assumed as at the acquisition dates.

	Cure Medical	Patient Care Medical	Total
	Provisional	*Provisional*	*Provisional*
	$m	$m	$m
Non-current assets			
Right-of-use assets	–	0.7	0.7
Intangible assets - Customer relationships and non-compete agreements	28.9	4.3	33.2
Intangible assets - Trade names	4.2	0.4	4.6
Intangible assets - Product-related	4.9	–	4.9
Current assets			
Trade and other receivables	2.1	–	2.1
Inventories	8.0	–	8.0
Cash and cash equivalents	0.7	–	0.7
Total assets acquired	48.8	5.4	54.2
Non-current liabilities			
Deferred tax liabilities	(9.4)	–	(9.4)
Current liabilities			
Trade and other payables	(5.5)	–	(5.5)
Lease liabilities	–	(0.7)	(0.7)
Total liabilities assumed	(14.9)	(0.7)	(15.6)
Net assets acquired	33.9	4.7	38.6
Goodwill	54.6	24.4	79.0
Total	88.5	29.1	117.6
Initial cash consideration	80.9	23.1	104.0
Working capital adjustment	(0.4)	–	(0.4)
Deferred purchase consideration paid into escrow[(a)]	4.9	6.0	10.9
Contingent consideration	3.1	–	3.1
Total consideration	88.5	29.1	117.6

Analysis of cash outflow reflected in the Consolidated Statement of Cash Flows

	Cure Medical	Patient Care Medical	Total
	Provisional	*Provisional*	*Provisional*
	$m	$m	$m
Initial cash consideration	80.9	23.1	104.0
Deferred purchase consideration paid into escrow[(a)]	4.9	6.0	10.9
Cash and cash equivalents	(0.7)	–	(0.7)
Working capital adjustment	(0.4)	–	(0.4)
Net cash outflow from acquisitions, net of cash acquired	84.7	29.1	113.8

(a) *On the acquisition of Cure Medical, $4.9 million was paid on closing into escrow as security for due and punctual fulfilment by the seller of its obligations under the Share Purchase Agreement. The escrow account will be maintained for three years from the acquisition date, of which (i) $0.8 million was released in July 2021, (ii) $0.4 million will be released after 12 months, (iii) $2.8 million will be released after two years, and (iv) the remaining amount will be released after three years. On the acquisition of Patient Care Medical, $6.0 million was paid into escrow as security for any unrecorded liabilities. If no additional liabilities are payable, $3.0 million of the escrow is payable to the vendors on 1 July 2023 and $3.0 million is payable on 1 December 2024.*

The fair values of the assets acquired and liabilities assumed are provisional at 31 December 2021. The Group will finalise these amounts no later than one year from the acquisition date.

Acquisition-related costs

The Group incurred $2.9 million of acquisition-related costs in the year ended 31 December 2021, primarily in respect of legal and due diligence expenses. These acquisition-related costs have been recognised in general and administrative expenses in the Consolidated Income Statement.

Revenue and profit

The revenue of Cure Medical for the period from the acquisition date to 31 December 2021 was $29.3 million and profit before tax for the period was $1.4 million, after recognising intangible asset amortisation in respect of the acquisition of $2.9 million. If the acquisition had been completed on 1 January 2021, reported Group revenue would have been $6.7 million higher and profit before tax for the year would have been $0.6 million higher.
The revenue of Patient Care Medical for the period from the acquisition date to 31 December 2021 was $1.0 million and profit before tax for the period was immaterial. If the acquisition had been completed on 1 January 2021, reported Group revenue would have been $10.7 million higher and profit before tax for the year would have been $1.2 million higher, after recognising intangible asset amortisation in respect of the acquisition of $0.7 million.

7. Borrowings

The Group’s sources of borrowing for funding and liquidity purposes derive from senior notes and drawn credit facilities including a committed revolving credit facility.
In October 2021, the Group issued unsecured senior notes of $500 million in accordance with Rule 144A and Regulations S (under the Securities Act) and used the proceeds to prepay a portion of the drawings against the credit facilities.

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

	Currency	Year of maturity	**2021** Face value $m	2020 Face value $m
Revolving Credit Facility	Multicurrency	2024	**–**	–
Senior Notes	USD	2029	**500.0**	–
Term Loan Facility A[(a)]	USD/Euro	2024	**461.2**	560.1
Term Loan Facility B[(b)]	USD/Euro	2024	**396.7**	908.2
Interest-bearing borrowings			**1,357.9**	1,468.3
Financing fees			**(13.3)**	(11.9)
Carrying value of borrowings			**1,344.6**	1,456.4
Less: current portion of borrowings			**144.8**	86.6
Non-current borrowings			**1,199.8**	1,369.8

(a) Included within Term Loan Facility A is €78.4 million ($89.2 million), and €140.4 million ($171.6 million) at 31 December 2021 and 2020 respectively. This represents 19% (2020: 31%) denominated in Euros and 81% (2020: 69%) denominated in US dollars.

(b) Included within Term Loan Facility B is €67.5 million ($76.7 million), and €227.8 million ($278.2 million) at 31 December 2021 and 2020 respectively, denominated in Euros. This represents 19% (2020: 31%) denominated in Euros and 81% (2019: 69%) denominated in US dollars.

Financial Covenants

The Group was in compliance with all financial and non-financial covenants in the credit agreement at 31 December 2021, with significant available headroom on the financial covenants (in excess of $700.0 million debt headroom on net debt to adjusted EBITDA).

Senior notes

Unsecured senior notes of $500.0 million were issued on 7 October 2021 with a maturity date of 15 October 2029 at a coupon rate of 3.875% per annum, payable semi-annually and, except for certain options redemption conditions, is not redeemable at the issuer's option prior to 7 October 2024. Issue proceeds were used to prepay a portion of the drawings against credit facilities and the existing share pledges securing the credit facilities were released.

The senior notes are subject to a financial covenant which is an interest cover test (minimum of 2 times) as defined in the indenture. Testing is required annually based on the last 12 calendar months' financial performance.

Borrowings not measured at fair value

The senior notes are listed and their fair value of $507.7 million at 31 December 2021 has been obtained from quoted market data and therefore categorised as a Level 1 measurement in the fair value hierarchy under IFRS 13, Fair Value Measurements. For the Group's other borrowings, the fair value is based on discounted cash flows using a current borrowing rate and are categorised as a Level 2 measurement. At 31 December 2021, the estimated fair value of the Group's other borrowings was $847.3 million (2020: $1,473.7 million).

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 (including non-deliverables) and interest rate swaps.

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

Financial instruments are classified as Level 1 or 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. The only instrument classified as Level 1 are the senior notes, given the availability of quoted market prices. 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 currencies hedged by forward foreign exchange contracts are US dollars, Swiss Francs and Japanese Yen.

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

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 interest rate swaps, which are designated as cash flow hedges at 31 December:

			2021		2020	
	Effective date	**Maturity date**	**Notional amount $m**	**Fair value[a] assets / (liabilities) $m**	Notional amount $m	Fair value[a] assets/ (liabilities) $m
3 Month LIBOR Float to Fixed Interest Rate Swap	24 Jan 2020	24 Jan 2023	**275.0**	**(2.9)**	275.0	(7.7)

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

Foreign exchange forward contracts

The following table presents the Group's outstanding foreign exchange forward contracts valued at FVTPL and foreign currency forward contracts designated as cash flow hedges, disclosed in current derivative financial assets and liabilities at 31 December:

		2021		2020	
	Term	**Notional amount $m**	**Fair value asset/ (liabilities) $m**	Notional amount $m	Fair value asset/ (liabilities) $m
Foreign exchange contracts	≤ 3 months	**864.6**	**14.5**	512.5	6.4
Foreign currency forward exchange contracts designed as cash flow hedges	≤ 12 months	**40.8**	**0.6**	98.3	1.7
Derivative financial assets		**905.4**	**15.1**	610.8	8.1
Foreign exchange contracts	≤ 3 months	**695.9**	**(6.5)**	355.3	(7.7)
Foreign currency forward exchange contracts designed as cash flow hedges	≤ 12 months	**130.2**	**(5.2)**	–	–
Derivative financial liabilities		**826.1**	**(11.7)**	355.3	(7.7)

During the year ended 31 December 2021, the Group realised a net loss of $9.7 million (2020: $21.7 million gain) on foreign exchange forward contracts designated as FVTPL in non-operating income/expenses, net, in the Consolidated Income Statement.

Impact of hedging on other comprehensive income

The following table presents the impact of hedging on other comprehensive income:

	2021	2020
	$m	$m
Recognised in other comprehensive income:		
Effective portion of changes in fair value of cash flow hedges:		
Interest rate swaps	**(1.0)**	(8.5)
Foreign currency forward exchange contracts designated as cash flow hedges	**(4.1)**	1.8
Changes in fair value of cash flow hedges reclassified to the Consolidated Income Statement	**5.7**	(0.2)
Costs of hedging	**(0.4)**	(0.1)
Total	**0.2**	(7.0)

9. Commitments and contingent liabilities

Capital commitments

At 31 December 2021, the Group had non-cancellable commitments for the purchase of property, plant and equipment, capitalised software and development of $32.1 million (2020: $29.6 million).

Contingent liabilities

Following a mutually amicable settlement, ConvaTec Inc and Scapa Tapes North America LLC and Scapa Group plc dismissed their claims against each other in relation to the previous pending litigation between the companies. There are no contingent liabilities recognised as at 31 December 2021.

10. Subsequent events

The Group has evaluated subsequent events through to 7 March 2022, the date the Consolidated Financial Statements were approved by the Board of Directors.

On 28 January 2022, the Group announced that it has entered into an agreement to acquire Triad Life Sciences Inc (“Triad”), a US-based medical device company that develops biologically-derived innovative products to address clinical needs in surgical wounds, chronic wounds and burns. The transaction, which is subject to regulatory approvals and other customary conditions, is expected to be completed by 31 March 2022. The initial consideration is $125 million with two potential additional payments of $25 million each dependent on meeting short-term milestones. The acquisition cost is expected to be funded through existing cash resources. There are also two potential earnout payments conditional on performance during the first two years post-completion, with a maximum earnout of $275 million payable based on stretching financial performance over the period. Directly attributable acquisition costs of $0.5 million have been recognised in general and administrative expenses in the Consolidated Income Statement in the year ended 31 December 2021.

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 2021 Annual Report. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

- The Financial Statements, prepared in accordance with United Kingdom adopted international accounting standards, 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 Group's and Company's performance, business model and strategy.

This Responsibility Statement was approved by the Board of Directors on 7 March 2022 and is signed on its behalf by:

Karim Bitar
Chief Executive Officer
7 March 2022

Frank Schulkes
Chief Financial Officer
7 March 2022

Non-IFRS financial information

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

The APMs used include adjusted gross profit, adjusted research and development expenses, adjusted operating profit ("adjusted EBIT"), EBITDA, adjusted EBITDA, adjusted net profit, adjusted earnings per share, adjusted working capital, adjusted cash conversion, adjusted free cash flow and net debt. Reconciliations for these adjusted measures determined under IFRS are shown on pages 41 to 47. The definitions of adjusted measures are as calculated within the reconciliation tables.

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

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

If an item meets at least one of these criteria, the Board, through the Audit and Risk Committee, then exercises judgement as to whether the item should be classified as an allowable adjustment to IFRS performance measures. Adjustments to derive adjusted EBIT (also referred to as adjusted operating profit), excluding the impact of tax, for the years ended 31 December 2021 and 2020 include the following costs or credits:

- Amortisation of intangible assets in respect of material acquisitions ($130.4 million and $125.3 million respectively).
- Costs and gains incurred in respect of acquisition and divestiture activities (costs of $17.8 million and a gain of $16.5 million respectively).
- Termination costs in respect of the Group's transformation programme ($4.3 million and $12.2 million respectively).
- Litigation expenses arising on matters deemed outside the ordinary course of business ($5.6 million and $nil respectively).

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

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

Amortisation of acquisition-related intangible assets

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

Acquisitions and divestitures

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

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

Divesture-related activities comprise of the gain or loss and any directly attributable transaction costs resulting from the preparation for disposal or completed disposal of a business during the year.

Adjusted measures in relation to acquisitions and divestitures will also include aborted deal costs.

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 the core business or when the transactions are in respect of acquisition-related intangible assets, in line with the eligibility criteria referred above.

Termination benefits and related costs

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

Litigation expenses

Litigation expenses may arise from the ongoing defence or pursuit of claims against or for the Group or the settlement of claims. The Board considers each litigation claim individually to determine whether the financial consequences were due to a major incident or uncontrollable factors which distort IFRS measures and determine if adjusting for the expense would aid the user in understanding the Group's performance in that year and comparative periods.

Reconciliation of earnings to adjusted earnings for the years ended 31 December 2021 and 2020

Year ended 31 December 2021	Revenue $m	Gross profit $m	Operating costs $m	**Operating profit $m**	Finance expense, net $m	Non-operating expense, net $m	**PBT $m**	Income tax $m	**Net profit $m**
As reported	2,038.3	1,123.1	(919.5)	**203.6**	(43.5)	(8.8)	**151.3**	(33.7)	**117.6**
Amortisation of acquired intangibles	–	109.5	20.9	**130.4**	–	–	**130.4**	(10.8)	**119.6**
Acquisitions and divestitures	–	–	17.8	**17.8**	–	–	**17.8**	–	**17.8**
Termination benefits and related costs	–	0.7	3.6	**4.3**	–	–	**4.3**	(0.7)	**3.6**
Litigation expenses	–	–	5.6	**5.6**	–	–	**5.6**	–	**5.6**
Total adjustments and their tax effect	**–**	**110.2**	**47.9**	**158.1**	**–**	**–**	**158.1**	**(11.5)**	**146.6**
Other discrete tax items	–	–	–	**–**	–	–	**–**	(1.2)	**(1.2)**
Adjusted	**2,038.3**	**1,233.3**	**(871.6)**	**361.7**	**(43.5)**	**(8.8)**	**309.4**	**(46.4)**	**263.0**
Software and R&D amortisation				**13.7**					
Amortisation of immaterial acquired intangibles				**3.1**					
Depreciation				**63.4**					
Impairment/write-off of assets				**5.9**					
Share-based payments				**16.4**					
Adjusted EBITDA				**464.2**					

Year ended 31 December 2020	Revenue	Gross profit	Operating costs	Operating profit	Finance expense, net	Non-operating expense, net	PBT	Income tax	Net profit
	$m	$m	$m	$m	$m	$m	$m	$m	$m
As 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
Divestitures	–	–	–	–	–	(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[(a)]	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
Amortisation of immaterial acquired intangibles	2.1
Depreciation	60.9
Impairment/write-off of assets	10.0
Share-based payments	12.4
Adjusted EBITDA	445.0

Acquisition and divestiture costs of $17.8 million (2020: gain of $16.5 million) are directly related to potential and actual strategic transactions which have been executed, aborted or are in-flight and which seek to improve the strategic positioning of the Group. The net cash impact in relation to these costs was $13.0 million (2020: $29.8 million inflow).

Termination benefits and other related costs of $4.3 million (2020: $12.2 million), pre-tax, are in respect of the Transformation Initiative, a global multi-year transformation programme which commenced in 2019 and simplifies the way in which the business operates. The net cash impact of these costs was $8.4 million (2020: $7.3 million). It is currently expected that no more than $8.0 million of severance and associated retention costs will be incurred in the year ending 31 December 2022, when the programme will effectively be complete. No termination benefits or related costs recognised by the Group are related to COVID-19.

Litigation expenses relate to a one-off claim settled in the period with an adjusted net cash impact in relation to this settlement of $5.6 million.

Other discrete tax items in 2021 relate to the tax benefit of $6.8 million resulting from the recognition of deferred tax following the acquisition of Cure Medical, partially offset by a tax expense of $5.6 million relating to the revaluation of deferred tax liabilities related to UK acquisition intangibles as a result of the increase in the UK corporation tax rate from 1 April 2023. In 2020, 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.

Reconciliation of operating costs to adjusted operating costs for the years ended 31 December 2021 and 31 December 2020

	2021				2020			
	S&D[(a)]	G&A[(b)]	R&D[(c)]	Operating costs	S&D[(a)]	G&A[(b)]	R&D[(c)]	Operating costs
	$m	$m	$m	$m	$m	$m	$m	$m
As reported	**(539.7)**	**(285.3)**	**(94.5)**	**(919.5)**	(463.3)	(262.1)	(82.4)	(807.8)
Amortisation of acquired intangibles	**–**	**20.9**	**–**	**20.9**	–	18.6	–	18.6
Acquisitions and divestitures	**0.5**	**17.3**		**17.8**	–	–	–	–
Impairment of assets	**–**	**–**	**–**	**–**	–	1.7	–	1.7
Termination benefits and other related costs	**–**	**3.7**	**(0.1)**	**3.6**	0.7	9.0	1.2	10.9
Litigation expenses	**–**	**5.6**	**–**	**5.6**	–	–	–	–
Adjusted	**(539.2)**	**(237.8)**	**(94.6)**	**(871.6)**	(462.6)	(232.8)	(81.2)	(776.6)

(a) "S&D" represents selling and distribution expenses.

(b) "G&A" represents general and administrative expenses.

(c) "R&D" represents research and development expenses.

Reconciliation of income tax expense to adjusted income tax expense

	2021	2020
	$m	$m
Income tax expense	**(33.7)**	(62.2)
Tax effect of adjustments	**(11.5)**	(12.3)
Other discrete tax items	**(1.2)**	17.6
Adjusted income tax expense	**(46.4)**	(56.9)

Other discrete tax items – see note above in respect of adjustments to profit.

Reconciliation of basic and diluted earnings per share to adjusted earnings per share for the years ended 31 December 2021 and 31 December 2020

	2021	Adjusted 2021	2020	Adjusted 2020
	$m	$m	$m	$m
Net profit attributable to the shareholders of the Group	**117.6**	**263.0**	112.5	240.5
		Number		Number
Basic weighted average ordinary shares in issue		**2,008,923,797**		1,991,596,105
Diluted weighted average ordinary shares in issue		**2,026,340,345**		2,006,590,463
	cents per share	**cents per share**	cents per share	cents per share
Basic earnings per share	**5.9**	**13.1**	5.7	12.1
Diluted earnings per share	**5.8**	**13.0**	5.6	12.0

Cash conversion for the years ended 31 December 2021 and 31 December 2020

	2021 $m	2020 $m
Operating profit/EBIT	**203.6**	211.0
Depreciation of property, plant and equipment	**40.6**	38.5
Depreciation of right-of-use assets	**22.8**	22.4
Amortisation of intangible assets	**147.2**	136.8
Impairment/write-off of intangible assets and property, plant and equipment	**5.9**	11.7
EBITDA	**420.1**	420.4
Non-cash items		
Share-based payments	**16.4**	12.4
Working capital movement	**(31.6)**	47.8
(Loss)/gain on foreign exchange derivatives	**(4.3)**	21.9
Net cash generated from operations	**400.6**	502.5
Acquisition of property, plant and equipment and intangible assets	**(94.1)**	(86.2)
Net cash for cash conversion	**306.5**	416.3
Income taxes paid	**(59.2)**	(54.5)
Free cash flow	**247.3**	361.8

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

	2021 $m	2020 $m
Net cash for cash conversion	**306.5**	416.3
Non-operating loss/(gain) on foreign exchange forward contracts	**0.4**	(21.7)
Acquisitions and divestitures adjustments	**13.0**	–
Termination benefits and related costs adjustments	**8.4**	7.3
Litigation costs adjustments	**5.6**	–
Adjusted net cash for cash conversion	**333.9**	401.9
Income taxes paid	**(59.2)**	(54.5)
Adjusted free cash flow	**274.7**	347.4
EBITDA	**420.1**	420.4
Adjusted EBITDA	**464.2**	445.0
Cash conversion	**73.0%**	99.0%
Adjusted cash conversion	**71.9%**	90.3%

Reconciliation of Adjusted working capital

	2021 $m	2020 $m
Working capital movement [(a)]	**(31.6)**	47.8
Decrease/(increase) in termination benefits [(b)]	**4.1**	(4.9)
(Increase)/decrease in respect of acquisitions and divestitures [(b)]	**(4.8)**	–
Adjusted working capital movement	**(32.3)**	42.9

(a) Working capital movement is the change in assets and liabilities total within the Consolidated Statement of Cash Flows on page 26.

(b) These are the cash flow impacts to the adjusted items shown in the reconciliation of earnings to adjusted earnings table on page 42.

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.

	2021 **$m**	2020 $m
Borrowings	**1,344.6**	1,456.4
Lease liabilities	**90.5**	92.1
Total carrying value of borrowings	**1,435.1**	1,548.5
Cash and cash equivalents	**(463.4)**	(565.4)
Net debt (including lease liabilities)	**971.7**	983.1
Net debt	**881.2**	891.0
Net debt/adjusted EBITDA	**1.9**	2.0