ConvaTec

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

ConvaTec Group Plc Annual Report and Accounts 2016

2016 highlights

Financial highlights[1]

Revenue[2]

+4.0%

Adjusted EBIT[2]

+7.1%

Adjusted EBIT margin

28.0%

2015: 26.5%

Adjusted earnings per share

$0.13

2015: $0.10

1. Certain financial measures in this Annual Report, including adjusted results above, are not prepared in accordance with IFRS. All adjusted measures are reconciled to the most directly comparable measure prepared in accordance with IFRS on pages 90 to 93.
2. Constant exchange rate growth is calculated by applying the applicable prior period average exchange rates to the Group's actual performance in the respective period.

Operational highlights

Strong franchise revenue performance with financial results in line with guidance.

Significant margin development based on Margin Improvement Programme execution ahead of plan.

Continuing strong performance in Advanced Wound Care ("AWC") supported by our differentiated AQUACEL® portfolio.

Ostomy Care showing consistent growth momentum following implementation of strategic actions.

Successful execution of IPO and new debt refinancing at attractive terms.

About us

ConvaTec is a global medical products and technologies company focused on therapies for the management of chronic conditions.

Our purpose

To improve the lives of the people we touch.

Our vision

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

Our mission

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

ConvaTec at a glance

A global MedTech business, ConvaTec has leading market positions in advanced wound care, ostomy care, continence & critical care and infusion devices.

Fundamental trends driving growth

Ageing population
Between 2015 and 2025, the number of people in the world aged 60 years or over is projected to grow by 36%. By 2050, the global population of persons over 60 is projected to more than double.

Increased life expectancy
Due to earlier detection and more effective treatment, people with the relevant indications and chronic conditions are, on average, living longer.

Increasing prevalence of chronic conditions
Several chronic diseases that can be related to lifestyle, such as diabetes and obesity, are on the rise.

Front cover photo
Helen Bracey, Advocate Lead for our Ostomy UK and Ireland business. Read more about Helen on page 39.

Advanced Wound Care ("AWC")

The Advanced Wound Care franchise provides advanced wound dressings and skin care products. These dressings and products are used for the management of acute and chronic wounds resulting from ongoing conditions such as diabetes, immobility and venous disease, as well as acute conditions resulting from traumatic injury, burns, invasive surgery and other causes.

Key brands
- AQUACEL®
- Avelle™
- DuoDERM®
- Sensi-Care®
- Aloe Vesta®

Key product

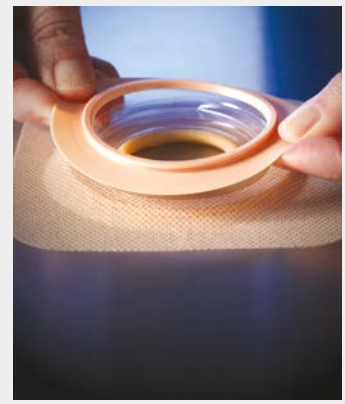
AQUACEL® Dressings
Our AQUACEL® family of products includes AQUACEL® Ag+ Extra™ dressing and the AQUACEL® Foam range of dressings.

Ostomy Care

The Ostomy Care franchise provides devices, accessories and services for people with a stoma (a surgically-created opening where bodily waste is discharged), commonly resulting from colorectal cancer, inflammatory bowel disease, bladder cancer, obesity and other causes.

Key brands
- Esteem®
- Esteem®+
- Natura®
- Natura®+
- Stomahesive®
- Durahesive®
- InvisiClose®

Key product



The Natura® Accordion Flange
The Natura® Accordion Flange is designed to make ostomy pouch application much easier and more comfortable while delivering the clinically-proven skin and leak protection of ConvaTec Moldable Technology™.

Continence & Critical Care ("CCC")

The CCC franchise provides products for people with urinary continence issues related to spinal cord injuries, multiple sclerosis, spina bifida and other causes. The franchise also supplies devices and products used in intensive care units and hospital settings.

Key brands
- GentleCath™
- Flexi-Seal™
- UnoMeter™

Key product

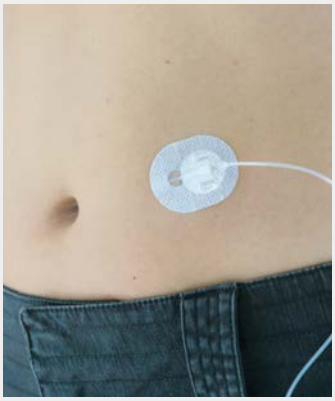
GentleCath™ Intermittent Urinary Catheter
The GentleCath™ Intermittent Urinary Catheter is designed to make catheter insertion as smooth and easy as possible for the user.

Infusion Devices

The Infusion Devices franchise provides disposable infusion sets to manufacturers of insulin pumps for diabetes and similar pumps used in continuous infusion treatments for other conditions such as Parkinson's disease. In addition, the franchise supplies a range of products to hospitals and the home healthcare sector.

Key brands
- inset®
- comfort™
- neria®

Key product



comfort™
The comfort™ infusion set is a flexible soft cannula infusion set with a disconnect option, insertion site window and discreet design for comfortable wear.

Where we operate

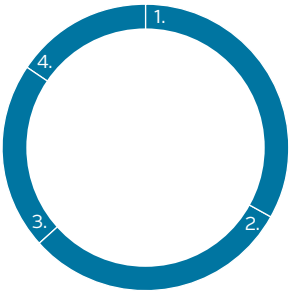
Countries
100+

Manufacturing sites
9

Employees
8,500+

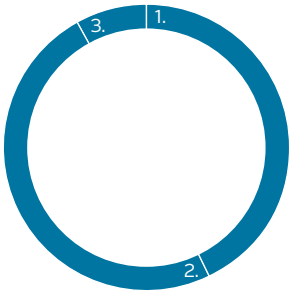
Revenue
$1,688.3m
2015: $1,650.4m

Group revenue by franchise $m



1. Advanced Wound Care **$559.5m** 33%
2. Ostomy Care **$512.1m** 30%
3. Continence & Critical Care **$356.5m** 21%
4. Infusion Devices **$260.2m** 16%

Group revenue by geography $m



1. EMEA **$726.4m** 43%
2. Americas **$829.4m** 49%
3. APAC **$132.5m** 8%

Our investment case

– Leading market positions in large and structurally growing markets

– Diversified chronic care business with strong brands and differentiated products

– Innovative pipeline and proven clinical performance

– Focused on efficiency, strong cash generation and solid financial performance

Our purpose, values and behaviours define everything we do.

Together they help us create a stronger business.

Our values

Welcome to ConvaTec.

Our core purpose, to improve the lives of the people we touch, is at the heart of everything we do. We are committed to helping people with chronic health conditions lead the life they want and achieving this in a way that benefits our shareholders and our other stakeholders.

As we enter the next phase of our development as a public company and execute our strategy to deliver sustainable performance and growth, our values-based culture will help drive success.

We will continue to:
- prioritise care for our customers, anticipating and responding to their needs;
- drive innovation and excellence to find solutions that enable people with chronic conditions to live the life they want; and
- earn trust by delivering quality products and services, executing on our plans and, at all times, acting responsibly and with integrity.

Paul Moraviec
Chief Executive Officer

Caring for people

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

Maximum comfort for customers and patients.

Innovations designed for users.

Driving innovation and excellence

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

$38.1m invested in R&D in 2016.

13 products launched in 2016.

Earning trust

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

We act with integrity and make ethical decisions.

We do what we say we will do.

In the year ConvaTec became a publicly listed company we have made significant progress.

Dear Shareholder

In the year that ConvaTec became a publicly listed company we have made significant progress.

We operate in large and structurally growing chronic care markets, which provide a robust platform for future growth. Our trusted products and technologies are well differentiated and we have a long track record of industry leading innovation and proven clinical performance. Our strategy is focused on driving sales and earnings momentum by building on our strong portfolio of market-leading brands. Following our listing on the main market of the London Stock Exchange ("Listing") in October 2016, we are well placed to deliver significant value for our shareholders.

Key to our success to date are the values that drive our culture, which are described in greater detail on pages 2 to 9. Improving the lives of the people who use our products and services is at the heart of everything we do. As we enter the next phase of our development, continuing to focus on this clear purpose in order to find solutions that anticipate and best address our customers' needs will be critical to the continuing success of your business.

How we conduct ourselves – earning trust, behaving responsibly and with integrity and doing what we say we will do – is essential to delivering long-term sustainable returns for shareholders. We have established a Board committee to focus on this key area and, after the year- end, it approved our first high-level Corporate Responsibility ("CR") strategy, which will be implemented on a phased basis over the next three years. Information about our CR Committee and how we approach CR is set out on pages 62 and 44 respectively. We will aim to provide a far more detailed account of our performance in this area in future years.

The Board

We have established a strong Board, with varying geographical focus and a wide range of relevant skills and experience in global markets, which will help to drive the growth of the business. I would like in particular to mention our two Executive Directors, Paul Moraviec and Nigel Clerkin who, together with their management team, have contributed significantly to ConvaTec's development and success to date. The Board is strongly supportive of their endeavours.

Dialogue with shareholders

I would like to thank all our shareholders for their support during and following our Listing. We look forward to maintaining an active dialogue and we will keep you informed of significant developments by providing regular updates on our performance and proactively engaging when appropriate. I will ensure that I am available should shareholders wish to raise concerns with me.

Dividend policy

We are targeting a payout ratio of between 35% and 45% of Adjusted Net Income[1] over time and it is our intention to pay an interim and a final dividend in respect of each financial year in the approximate proportions of one-third and two-thirds, respectively, of the annual total dividend. We may periodically reassess this policy to reflect, among other things, our growth prospects, capital efficiency and the profitability of the Company, whilst also maintaining appropriate levels of dividend cover.

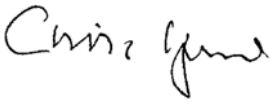
As indicated at the time of our Listing, it is our current intention that the Company's first dividend payment will be an interim dividend in respect of the six months ended 30 June 2017, based on a target payout ratio of 35% of the first six months of Adjusted Net Income annualised for a full year.

1. The net (loss) profit for the period and/or year adjusted to exclude acquisition-related amortisation, including asset impairments, restructuring and other costs primarily related to our Margin Improvement Programme and costs incurred in connection with the Group's refinancing and initial public offering. Certain financial measures in this Annual Report, including Adjusted Net Income, are not prepared in accordance with IFRS. All adjusted measures are explained and reconciled to the most directly comparable measure prepared in accordance with IFRS on pages 90 to 93.

Our people

The significant progress we made in 2016 was due to the hard work of all our employees. I would like to thank the management for their stewardship of the business and our employees for their passion and dedication and their relentless focus on delivering quality products and services that improve people's lives.

This is our first Annual Report as a public company. Over time our reporting will evolve to encompass a broader range of issues related to your Company. In the meantime if you have any comments on this document we would be delighted to hear your feedback.



Sir Christopher Gent
Chairman
17 March 2017

Further information

Further information about our governance framework, including details about the Board and its committees, can be found in the Governance section. Information about how we operate responsibly is set out in the Corporate responsibility section.

Chairman's governance letter
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Board of Directors
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Corporate governance report
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Corporate responsibility
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During the year we continued to execute on our strategy to drive sales and earnings momentum.

In this our first Annual Report as an independent public company I am delighted to be writing to our shareholders about a year of significant progress, during which we continued to execute on our strategy to drive sales and earnings momentum in large and structurally growing chronic care markets.

As is highlighted in the timeline below, ConvaTec has evolved significantly since it was founded in 1978 as a division of E.R. Squibb & Sons, Inc. Our first product, Stomahesive® skin barrier, revolutionised ostomy care and established our reputation as an innovator of skin adhesives. Since then our product portfolio has grown to include complete ostomy care and advanced wound care lines and, following the acquisition of Unomedical in September 2008, continence and critical care and infusion devices. In recent years ConvaTec has continued to develop and expand. In particular, we have continued to drive innovation and bring to market new products and technologies that are focused on our customers' needs. In addition, in 2014-2015, we formulated a new strategy to deliver further growth, drive innovation and increase efficiency.

In 2016, a transformative year for ConvaTec, our development continued. We successfully raised £1.465 billion in the largest healthcare IPO in Europe for 20 years. We have strengthened our management team and, shortly after the year-end, completed our first acquisition as a listed company, Netherlands-based EuroTec which will further strengthen our Ostomy Care franchise. We have also refinanced our debt on terms beneficial to our long-term plans.

Results

In 2016 we delivered results in line with or ahead of the guidance set out in our IPO Prospectus. At constant currency, revenue grew 4% to $1,688 million and adjusted EBITDA was $508 million, up 6.5%.

We are ahead of schedule on our Margin Improvement Programme ("MIP"), a range of initiatives we launched in the fourth quarter of 2015 to increase our efficiency. Our MIP delivered 90 basis points of gross margin benefit in the year at constant currency, against a target of 300 basis points by the year 2020. We now expect to deliver around half of our target during 2017. Further information about our MIP is set out on page 25. The reported net loss after tax was $203 million compared to $93 million in 2015, reflecting the costs related to our

reorganisation (details of which are contained in Note 3 to the Financial Statements[1]) and our IPO.

All our franchises delivered growth during the year. Advanced Wound Care had a further strong year, with revenues up 6.5% at constant currency. We continued to see consistent growth in our AQUACEL® product lines, particularly in EMEA and the US and an increasing contribution from AQUACEL® Foam, where we are continuing to add to our portfolio in the protection and prevention segments. We entered the Negative Pressure Wound Therapy market with the launch of the Avelle™ System in the UK and Nordic regions, which is being rolled out to other markets, and we launched the AQUACEL® AG Surgical SP dressing, expanding our reach into new surgical indications including caesarean sections and spine surgery.

Our strategy to return our Ostomy Care franchise to consistent growth has continued to gain traction, particularly in the Americas and APAC regions. Revenues grew 1.7% at constant currency in the year, reflecting our actions to improve engagement with the nursing community, invest in our direct-to-consumer programme and launch new products. We have also successfully renewed a number of key strategic distributor agreements in the US including the two major group purchasing organisation agreements.

Revenues in Continence & Critical Care were up 3.6% at constant currency, reflecting good growth in our GentleCath™ intermittent catheter portfolio, partially offset in the second half of the year by the start of planned rationalisation initiatives within the Hospital Care business, which were identified as a part of our MIP. We will continue to innovate and expand the GentleCath™ portfolio to address a wider range of needs and we will continue to leverage the reach of 180 Medical, our home delivery company in the US, to support the adoption of our new products. Later in the year, we intend to commence the launch of GentleCath™ outside the US market.

Our Infusion Devices franchise grew revenues by 4.0% at constant currency. Our partners experienced strong end-market demand for infusion pumps where our devices are a key component. We will continue to strengthen our long-term partnerships with insulin pump manufacturers whilst innovating to develop products for insulin and other drug delivery.

Further information about our operational performance is included on pages 34 to 43.

Leadership

Our new status as a public listed company has brought with it some changes to how we operate our business. Details of our new Board and its committees are set out in the Governance section on pages 53 to 82. In addition we are evolving our leadership structure and have established an Executive Committee which will focus on the execution of our strategy, our overall priorities, resource allocation and, in conjunction with our franchise and functional leaders, manage the day-to-day running of the business. Information about the Executive Committee members, who have extensive experience and strong track records in the MedTech sector, is included on pages 14 and 15.

Our customers and partners

It is particularly pleasing to report that our work is being increasingly recognised by our customers and partners including doctors and specialist nurses. During the year in the Corporate Reputation of Medical Device Companies survey, which captured the views of patient groups around the world, we were rated the number one company overall. In 2016 we also received two prestigious industry awards from the Journal of Wound Care World Union of Wound Healing Societies. Further details of these recognitions are set out on pages 46 and 37 respectively.

Our culture

In recent years we have transformed our culture and as the Chairman highlights in his letter on page 10 this has played a key part in our success to date. Our core Purpose, to improve the lives of the people we touch, will continue to be at the heart of everything we do and, as a public company, we will ensure we achieve this in a way that benefits all our stakeholders.

Our people

As highlighted above, much has been achieved in recent years and everyone across ConvaTec played their part in delivering this success. Personally, and on behalf of the Board and our Executive Committee, I would like to thank all our employees for the great work they do every day.

Outlook

We have made significant progress in the past year, and I am confident that with the experience and advice of our Board, the strong leadership of our management team and in particular, the hard work and dedication of all our employees across ConvaTec, we will continue to deliver value to our shareholders whilst improving the lives of people across the world who live with chronic conditions.

Paul Moraviec
Chief Executive Officer
17 March 2017

Further information

This Strategic report includes information about our leadership team, our market environment, how we create value, our strategy for driving long-term success and our performance during 2016.

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Principal risks and uncertainties
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Milestones in our history

Early history

1978
Founded in 1978 as a division of E.R. Squibb & Sons.

First product, Stomahesive® skin barrier, was a game changer in ostomy care and established ConvaTec's reputation.

Carve-out from Bristol-Myers Squibb

2008
Acquired by Nordic Capital and Avista Capital Partners.

Integration of Unomedical.

Building infrastructure and systems.

Transition period

2011
Launch of new products.

Acquisition of 180 Medical.

Re-focusing product development.

Geographical expansion.

New management, strategy and growth momentum

2014
Strengthened management team.

Increased focus on innovation.

Developed growth strategies for our franchises.

Focus on Ostomy Care.

Execution of Margin Improvement Programme.

Listed on London Stock Exchange and admitted to FTSE 100.

2016

1. Throughout this Annual Report, any references to Notes to the Financial Statements refer to the Notes to the Group's Consolidated Financial Statements, unless otherwise stated.

An experienced leadership team with proven track records in the MedTech sector.

Paul Moraviec
Chief Executive Officer
Paul was appointed Chief Executive in 2014. He joined ConvaTec Limited in 2009 as President of EMEA. Previously he held senior positions with a number of leading global medical device companies, including Abbott Laboratories where he was Vice–President of International Commercial Operations covering EMEA, APAC, Latin America and Canada, Johnson & Johnson where he held a series of increasingly senior international management and marketing roles and Bausch & Lomb where he was a country manager. Prior to joining ConvaTec he was Chief Executive of a specialist surgical robotics company.

Nigel Clerkin
Chief Financial Officer
Nigel was previously the Executive Vice President and Chief Financial Officer ("CFO") of Elan Corporation, a Dublin-based biotechnology company, where he held a series of roles in strategic planning and finance prior to becoming CFO in 2011. Earlier in his career, Nigel was an auditor with KPMG. He is a fellow of Chartered Accountants Ireland.

Antonio La Regina
President, EMEA
Antonio has been President, EMEA since 2015. He joined ConvaTec in 2006 as Managing Director for Italy and since then has held a number of senior management roles including Vice President and General Manager of UK/Ireland and Italy/Greece. Prior to joining the Company, Antonio worked for Zambon Group and BMS in both Italy and France in a variety of commercial and functional roles. He is a board member of MedTech Europe, an industry body that represents the medical technology sector in Europe.

Timothy Moran
President, Americas
Timothy joined ConvaTec in 2015 from Medtronic, where he was Vice President and General Manager of the Patient Care and Safety Division. After joining Kendall in 1997, he held a number of sales, marketing and general management roles within Tyco Healthcare, Covidien and Medtronic. Earlier in his career he held sales positions with a number of medical and communications technology firms in the US.

John Lindskog
President, Infusion Devices & Industrial Sales
John joined ConvaTec in 2008 following the Company's acquisition of Unomedical's infusion device business. He has 25 years of experience in the infusion devices industry which began at PharmaPlast, which later merged with Maersk Medical and became Unomedical.

George Poole
President, APAC
George joined ConvaTec in 2015 from Medtronic, where he spent 14 years in leadership roles in commercial, marketing, operations and general management including most recently Vice President/Managing Director, Southeast Asia. Prior to joining Medtronic, he was with Welch Allyn and Olympus America.

Symeria Hudson
President, Global Franchises & Innovation
Symeria joined ConvaTec in 2016 from Baxter, Inc., where she was Global Franchise Head, Renal Home Therapies. Prior to joining Baxter, she held a number of senior roles at Hospira, helping to transform the company following its spin-off from Abbott. She began her career in accounting, moving into marketing and management, with a number of leading FMCG and business services companies.

Michael Sgrignari
Executive Vice President, Global Operations
Michael joined ConvaTec in 2015 from Medtronic's Covidien group, where he was Senior Vice President of Quality and Operations. In 1991 he joined Covidien's predecessor company, Tyco Healthcare's US Surgical Division, and held a number of senior management roles including, from 2007, Vice President of Global Operations for Tyco Healthcare.

Robert Steele
Executive Vice President, Quality, Regulatory & Clinical Affairs
Robert joined ConvaTec in 2014 from Stryker where his most recent role was Vice President of Regulatory Affairs, Quality Assurance and Clinical. Previously he held a variety of roles with medical technologies company KCI, including Vice President of Global Quality. Robert began his career as an engineer working at medical device manufacturing companies in the United Kingdom.

Marc Reuss
Executive Vice President, Human Resources
Marc joined ConvaTec in 2015 from Novartis, where he was Global Head of Human Resources at the Vaccines and Diagnostics division, and, most recently, at Sandoz, Novartis' large generics division. Previously Marc spent eight years with Boston Scientific, serving in senior international Human Resources roles, and began his career at a number of leading aerospace, financial services and high-technology companies.

Adam Deutsch
Executive Vice President, General Counsel
Adam joined ConvaTec in 2014 from Biomet, Inc. where his positions included Corporate Vice President and Associate General Counsel-Litigation, Investigations & Risk Management, as well as Chief Compliance Officer. Prior to joining Biomet, Adam was a partner in a prominent Chicago-based law firm, focused on complex commercial and class action litigation, regulatory and government enforcement matters.

Douglas LeFort
Senior Vice President, Corporate Development
Douglas was appointed Senior Vice President of Corporate Development in October 2015. He joined ConvaTec in 2011 from Freehand Surgical Ltd., where he was Chief Executive Officer from 2009 to 2011. Prior to joining Freehand Surgical Ltd., Douglas held leadership positions with Abbott Laboratories' Diabetes Care Division, Chiron Corporation and SC Johnson Inc.

Our markets

Leading positions in large chronic care markets.

Our chronic care markets are underpinned by the following fundamental growth drivers which are increasing the demand for our products and technologies.

Growth driver:
Ageing population

What this means
The number of people in the world aged 60 years or over is projected to more than double in size reaching nearly 2.1 billion by 2050.

What this means for us
There is a strong correlation between age and the incidence of diseases requiring wound, ostomy and incontinence treatment and infusion products (source: Gist,Tio-Matos, Falzgraf, Cameron, Beebe (2009)).

Our strategy
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Growth driver:
Increasing prevalence of chronic conditions

What this means
The incidence of several chronic diseases that can be related to lifestyle, such as diabetes and obesity, is increasing.

In the United States the prevalence of obesity is forecast to increase by 33% by 2030 (source: Finkelstein (2012)) and the number of the global population with diabetes is forecast to increase from 8.4% to 9.7% by 2030 (source: Euromonitor).

What this means for us
The increasing prevalence of chronic conditions, which are often experienced over a long duration and generally progress slowly, is driving demand for our products. For example, globally there are about 50 million (source: Frost & Sullivan) reported cases of patients suffering from hard-to-heal wounds, including foot ulcers and venous leg ulcers, which affect over 600,000 people (source: Espicom) in the United States alone each year. As treatment of such conditions is non-discretionary, our revenues are largely predictable and recurring. In 2016 we generated approximately 74% of our revenues from products used by people with chronic care conditions.

Growth driver:
Increased life expectancy

What this means
Due to earlier detection and more effective treatment, people with chronic conditions are living longer.

Life expectancy of people with Type 1 diabetes has risen from 53 years for people born between 1950 and 1964 to 69 years for people born between 1965 and 1980 (source: The Pittsburgh Epidemiology of Diabetes Complications Study Cohort (2012)).

What this means for us
Many of our customers stay with us for life and as they live longer the period during which they are reliant on our products is extended. Commercially this gives us long-term visibility of underlying demand for our products.

Market size

1. Advanced Wound Care **$5.0bn**
2. Ostomy Care **$2.4bn**
3. Continence & Critical Care **$1.8bn**
4. Infusion Devices **$0.5bn**

Market growth

4–6%

We operate in a $10 billion chronic care market which is projected to grow, on average, at 4–6% per annum over the next five years.

We hold leading positions in each of our markets

Advanced Wound Care[1]

Market size
$5.0bn

Market growth
5–6%

Key competitors
Mölnlycke
Smith & Nephew
Acelity
Others

Market position/Market share

Global advanced wound dressing
#2 / 17%

Global silver
#1 / 31%

Global hydrocolloids
#1 / 46%

Global alginates and gelling fibrous dressings
#1 / 45%

Operational review
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Ostomy Care[2]

Market size
$2.4bn

Market growth
4–6%

Key competitors
Coloplast
Hollister/Dansac
Others

Market position/Market share

Global ostomy
#3 / 21%

US
#2

Europe (UK and France)
#3

Operational review
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Continence & Critical Care[3]

Market size
$1.8bn

Market growth
3–5%

Key competitors
Coloplast
Bard
Wellspect

Market position/Market share

Retailer in intermittent catheters in the US
#1 / 25.7%

US fecal management systems
#1 / 67%

Operational review
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Infusion Devices[4]

Market size
$0.5bn

Market growth
5–6%

Key competitors
Smiths
Ypsomed

Market position/Market share

Global disposable infusion sets for insulin pumps
#1 / 85%

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

Key dynamics

A number of key trends are evident in our markets.

Market trend:

Use of more advanced technologies to deliver better outcomes

The increasing prevalence of chronic wounds is driving demand for products which better enhance quality of life and limit the risk of more serious health problems. As a result treatment and management is moving from traditional wound care products to more advanced offerings which provide an optimal healing environment. These advanced technologies include foam, alginates, gelling fibrous dressings and anti-infective substances such as silver.

Market trend:

Pressure on healthcare costs

Our products are predominantly sold to hospitals and long-term care facilities and direct-to-consumer (home health). Funding of our products varies by country but generally includes government sponsored healthcare and private medical insurance. Increased longevity, combined with worldwide government austerity programmes, has accelerated efforts to reduce overall healthcare spending. In particular, many healthcare systems are seeking to limit overall cost increases through pricing pressure and by increasing the emphasis on products and services that deliver better patient outcomes, limit the risk of infection and reduce the time a patient has to spend in hospital.

Market trend:

Greater access to healthcare

A large proportion of the growing middle class in emerging markets are gaining access to private insurance and use of healthcare products and services is increasing.

Our strategy
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Market trend:

Increasing regulation and compliance

Our industry is subject to rigorous regulation by governmental authorities such as the Food and Drug Administration ("FDA"), notified bodies in the European Union and other national and local governmental authorities in the countries where we manufacture and sell our products. These regulations cover all aspects of our business, including the safety, clinical efficacy and effectiveness of our products, their packaging and our sales and marketing activities. Generally the regulatory obligations we must comply with are becoming more onerous and across our industry, enforcement is increasing. We must also comply with a wide range of anti-competition, anti-fraud and anti-bribery laws, such as the Foreign Corrupt Practices Act, the UK Bribery Act and similar laws in other countries that relate to anti-corruption compliance. Acting with integrity at all times is at the heart of our values-driven culture and to reinforce this our employees regularly participate in training and compliance programmes.

Our business model

We are a global medical products and technologies group committed to behaving responsibly in everything we do. We exist to improve the lives of the people we touch. This clear purpose, together with our focus on delivering long-term value for all our stakeholders, drives our business model.

Our business model responds to the markets in which we operate and our strategy sets out how we continue to adapt and grow our business.

Resources and relationships we need to create value include:

- People who are dedicated to improving people's lives
- A leadership team with extensive MedTech experience and a track record of performance and delivery
- Sales and marketing activities which drive and support demand for our products in over 100 countries
- Partners, including specialist nurses and doctors, who support people living with chronic conditions
- World-leading research and development ("R&D") capabilities and differentiated new products
- Extensive intellectual property portfolio which is strongly protected
- State-of-the-art manufacturing facilities
- Extensive quality management system programmes
- Robust compliance and regulatory processes
- Financial resources to support and grow our activities

Our business model: Our resources
Page 22

We create and capture value by:

Value chain

R&D › **Manufacturing** › **Distribution**

- Driving innovation and excellence to deliver advanced technologies that anticipate and address patient and customer needs
- Delivering products with proven clinical performance
- A supply chain strategy which ensures high levels of product quality and supply in line with customer demand
- Striving for excellence in all we do
- Continually improving efficiencies through our Margin Improvement Programme (see page 25)
- Behaving responsibly to enhance our relationship with key stakeholders

Value proposition

- Engaging directly with all our consumers and providing ongoing support to people living with chronic conditions
- Building relationships with healthcare professionals and clinicians

Everything we do is underpinned by our values: caring for people, driving innovation and excellence and earning trust

The benefits our business model creates include:

Our customers
- Products that address the needs and improve the lives of people living with chronic conditions
- Research findings that benefit the chronic care market
- Increased awareness and understanding about certain chronic conditions through our direct-to-consumer engagement programme (see page 35)
- Solutions that address healthcare providers' significant concerns, including infection control and skin integrity

Our shareholders
- Long-term, sustainable returns for our shareholders

Our people
- A positive work environment and rewarding careers for our employees

Our wider stakeholders
- Broader socio-economic benefits for a range of stakeholders including support for employment in our supply chain and the communities where we operate

Corporate responsibility
Page 44

Principal risks and uncertainties
Page 28

Our business model
Our resources

In this section we provide more detail on the resources that we use to run our business and create value.

Our skilled and dedicated people
Our people are key to our success. It is essential that we attract the best people who are focused on improving the lives of people with chronic conditions and who are able to drive innovation, performance and change. We recruit using multiple channels including external search firms and our own internal recruitment team who monitor both the external talent market and our own internal talent pipeline. A number of our businesses have well established graduate and internship programmes that support early talent development and we also work closely with a UK bioscience network to source UK interns. Read more about our people on page 47.

Our experienced leadership team
Read more about our leadership team and their extensive MedTech experience on pages 14 and 15.

Our sales and marketing activities which drive and support demand for our products in over 100 countries
Our sales and marketing function is organised on a regional basis across the Americas, EMEA and APAC, each of which is led by a regional president and managed locally by country managers. In our larger markets (which include UK, US, Denmark and Switzerland), where there is limited customer overlap between franchises, we have dedicated sales teams. In our smaller markets, where there is significant customer overlap, we market our products through sales teams that operate across our franchises.

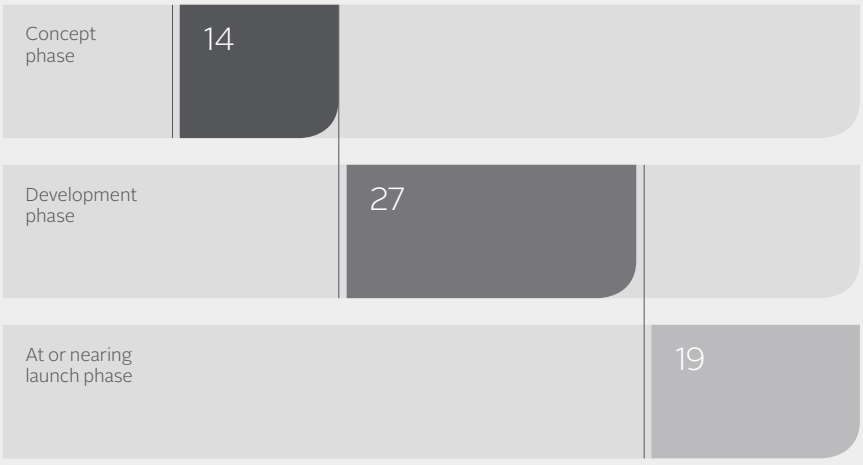
To complement our sales and marketing activities and help support patients, customers and the nurses, surgeons and physicians who prescribe our products, we provide educational materials, specialist training programmes and support through our call centres.

Through our me+™ platform, available in a number of key markets, we provide personalised solutions for people living with an ostomy, as well as support for clinicians and caregivers. The empowering and holistic programme combines ongoing resources, useful tools, honest information and emotional support with superior products.

Partners including doctors and specialist nurses
In many circumstances the decision to buy our products is made by doctors and specialist nurses. For details of how we support them see above and page 35.

Our world-leading R&D capabilities
Our R&D team is dedicated to driving science, and developing new technologies and products focused on customer needs, improving clinical outcomes and advancing clinical practice. The team is based at our R&D Centres of Excellence in Wales and Denmark, with process development and life cycle management teams located at our manufacturing sites in Slovakia and Belarus.

Our development pipeline
Our development pipeline of proprietary technologies and products, which spans our four franchise businesses, currently includes 14 programmes at the concept phase, 27 programmes at the development phase and 19 programmes at or nearing the launch phase. Programmes at or nearing the launch phase include products that are being commercialised for roll-out in new markets and/or for new indications.



The following four core areas of competency underpin our research and development platform:
- Skin and tissue healing and protection.
- Infection detection and prevention.
- Adhesives.
- Advanced mechanical designs.

Our four franchises share know-how, best practice and technology in order to facilitate collaborative work, maximise synergies and drive innovation. By way of example, our adhesive technologies are used in many of our Ostomy Care and AWC products and infection prevention is a feature of a number of our products including CCC's GentleCath™ catheter range which is designed to reduce both insertion-related traumas and the risk of infection.

2016 highlights

We launched the following key new products during the year:
- **AWC:** the Avelle™ System, AQUACEL® Foam Pro dressing and the Foam Lite™ ConvaTec dressing.
- **Ostomy Care:** Esteem™+ Flex Convex one-piece range, our InvisiClose® drainable pouch closure system across our Natura®, Esteem®+ and Esteem *synergy*® ranges.
- **CCC:** GentleCath™ Glide intermittent catheter range and Flexi-Seal™ Fecal Management System with odour barrier.
- **Infusion Devices:** Mio™ 30[1], a 30-degree soft cannula infusion set with retractable needle.

Looking ahead

Building on our world-leading research and development capabilities we will continue to drive innovation to develop technologies that anticipate and address the needs of people living with chronic conditions. In particular in:
- **AWC:** we are developing further negative pressure wound therapy ("NPWT") systems and additional AQUACEL® Foam product lines as well as other new products to further prevent wound infections.
- **Ostomy Care:** we plan new consumer-led design and enhancements to optimise our portfolio.
- **CCC:** we have in development a new catheter system using our FeelClean™ technology to expand our GentleCath™ brand.
- **Infusion Devices:** we will continue to innovate to ensure that our products continue to lead in the market in terms of advanced mechanical design.

1. Mio™ 30 is a trademark of Medtronic-Minimed.

Our intellectual property portfolio

We own an extensive portfolio of patents and trademarks including over 230 active patent families and more than 2,000 patents and patent applications globally. The majority of our patents relate to our key technologies, compositions, processes or product features including our core Hydrofiber® Technology, our ConvaTec Moldable Technology™ for use in our ostomy products, our infusion device technologies and our AWC NPWT technologies.

We actively protect and defend our intellectual property rights. Patents and patent applications are filed and maintained in those countries in which we have, or where we have an ambition to have, a strong business presence and we regularly monitor our competitors' product development for potential infringement of our patents and vigorously defend our position when infringement is identified.

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

Our manufacturing footprint, supply chain strategy and distribution network

Our global network of manufacturing sites provides significant operational flexibility and the ability to drive continuous improvements in productivity and overall profitability. As at year-end 2016, our own manufacturing network included nine sites in seven countries, many of which are in relatively low cost labour markets. In 2017, as a result of our Margin Improvement Programme ("MIP"), this network will be consolidated to eight sites in six countries. Further details about our MIP are set out on page 25.

Our own manufacturing capability is supported by third party contract manufacturers and is linked to a reliable supply chain and broad distribution network. Each external third party manufacturer is required to have in place regulatory qualification, where necessary, and is subjected to initial and recurring site inspections and audits by the Group and others.

Our manufacturing and supply chain strategy is focused on aligning manufacturing locations with our franchises and product life cycle management. New products are primarily launched through our technology centres, while mature products are typically produced at our larger scale manufacturing centres or by external manufacturing partners. All products are delivered to "hub" third-party logistics distribution centres based on a continuous replenishment model, with dynamic inventory monitoring. This strategy ensures high levels of product quality and delivery in line with customer demand.

Our strategy

Our strategy is designed to drive sales and earnings momentum by building on our strong portfolio of differentiated products with leading positions in large structurally growing markets.

We look to excel across the following three strategic drivers:
– Growth
– Innovation
– Efficiency

Key performance indicators
Page 26

Strategic driver 1:
Growth

We aim to optimise revenue growth from our strong portfolio of differentiated products. We do this through:

Leveraging our existing capabilities, technologies and commercial platforms to enter new addressable market segments and geographic regions:

Progress to date includes:
Launched the Avelle™ System in the relatively new and fast-growing disposable NPWT segment following the approach utilised during our successful foam sub-segment launch. The Avelle™ System, which uses our proprietary Hydrofiber® Technology, delivers value for our customers with longer usage (up to 30 days).

Future priorities
– Launch further differentiated products in the NPWT segment.
– Following the success of the GentleCath™ intermittent catheter in the US market, enter the large international intermittent catheter market leveraging our extensive existing sales and support infrastructure.
– Continue to examine other market opportunities to follow similar growth strategies, which we will pursue either organically or through bolt-on acquisitions.

Building direct and deeper engagement with our customers through investing in direct-to-consumer platforms:

Progress to date includes:
Delivered continued growth from our Ostomy Care franchise on a constant currency basis, through execution of our refocused strategy which includes a direct and deeper engagement with our customers. This direct customer engagement is becoming increasingly relevant in our markets, reflecting a number of factors including customers becoming more connected and willing to share personal data.

Expanded our direct-to-consumer me+™ programme, which focuses on supporting and expanding our relationships with people living with ostomies. The programme is a key element of the overall product proposition we offer our Ostomy Care customers and caregivers, and has a number of differentiating features from similar programmes offered by our major competitors. It provides access to specialist nurse support and other resources, such as an inspirational community platform, and also provides education for healthcare professionals to ensure people are provided with the best products to meet their needs. We believe me+™ will not only aid new customer capture in Ostomy Care, but will also enhance retention by providing people with educational resources to ensure they are informed about the best products as their needs evolve.

Continued to operate 180 Medical, our nationally accredited and highly successful direct-to-consumer provider of sterile-use catheters, as well as other disposable medical supplies. 180 Medical is the largest medical equipment distributor of intermittent catheters in the US and its differentiated service offering has been a key driver of growth, with the company rating very highly in relation to customer focus and satisfaction.

Future priorities
– Continue to develop our technologies and the me+™ programme globally.
– Leverage direct-to-consumer engagement across our other franchises and regions. In particular we have developed a version of me+™ that will be partnered with new products and expanded into the global intermittent catheter market.
– Continue to grow 180 Medical in the US and build on this expertise in other markets. As our addressable markets in the US increasingly shift focus from sales to hospitals to sales to end-user customers, we will continue to invest in our retailer network.

Key performance indicators
– Group revenue growth
– Adjusted EBITDA growth
(see page 26)

Strategic driver 2:
Innovation

We aim to continue our long and successful track record of developing and commercialising new innovative technologies. This strategy enhances our position in our existing markets and accelerates our access to new markets.

Progress to date includes:
Long and successful track record of commercialising new technologies, including groundbreaking platforms such as AQUACEL® dressings with Hydrofiber® Technology and AQUACEL® Ag+ dressings designed to address chronic wounds, ConvaTec Moldable Technology™, the Flexi-Seal™ Fecal Management System and GentleCath™ intermittent catheters.

In 2016, we launched the Avelle™ System in the disposable NPWT segment, marking our entry into this fast-growing segment of the advanced wound care market. In 2005, Infusion Devices launched the first infusion set with a built-in insertion device for painless insertions.

Future priorities
- Develop and commercialise our significant development pipeline, including 14 programmes at the concept phase, 27 programmes at the development phase and 19 programmes at or nearing the launch phase. See our development pipeline on page 22.
- Planned key new product releases and enhancements include, within our AWC franchise, further NPWT launches and additional AQUACEL® Foam product lines; a new catheter system using FeelClean™ technology within CCC; consumer-led design and enhancements to optimise our Ostomy Care product portfolio; and, in Infusion Devices we will continue to innovate to ensure that our products continue to lead in the market in terms of advanced mechanical design.

Key performance indicators
- Number of products launched
- Number of programmes in development
(see page 26)

Strategic driver 3:
Efficiency

We strive to simplify the way we operate to reduce complexity, increase efficiency and free up resources to reinvest elsewhere in our business.

Progress to date includes:
In the fourth quarter of 2015, we launched our MIP, to drive efficiencies in our manufacturing and distribution cost base. The MIP is targeting a minimum net impact on margins of 300 basis points by 2020.

In 2016 we delivered 130 basis points of gross margin benefit of which approximately 90 points were driven by the MIP and the remainder by foreign exchange. In 2016 targeted savings were ahead of plan. Key milestones included:
- The closure of our operations at our CCC plants in Mexico and Malaysia.
- The redevelopment and expansion of our sites in Slovakia and the Dominican Republic and the start of the transfer of production lines.
- Training of approximately 2,000 employees across the business in LEAN manufacturing principles.
- Final determination of product portfolio changes in our Ostomy Care and CCC franchises.
- Successfully completed negotiations for several third party sourcing contracts.

Future priorities
We now expect to deliver 150 basis points of our 300 basis points target during 2017. Our key areas of focus will be:
- Progressing our site rationalisation programme.
- Completion of the Dominican Republic process qualifications by the end of the third quarter.
- In Slovakia, complete the validation milestones including for ostomy adhesives equipment, also by the end of the third quarter, and for new APS closed pouch lines, by the end of the fourth quarter.
- During the year complete more of our sourcing initiatives including ostomy filters in the first quarter and adhesive raw materials by the end of the third quarter.

Key performance indicators
- Adjusted gross margin
- Adjusted EBIT margin
(see page 26)

Our Margin Improvement Programme

The key elements of the MIP are:
- Structured approach to procurement to drive identified sourcing cost savings.
- Reduction in our manufacturing footprint.
- Implementation of LEAN manufacturing processes and workflows (which focus on standardisation of metrics, monitoring frequency and training, as well as application of specific tools in the manufacturing environment focused on continuous improvement, use of inventory-control systems, analysis of waste sources and improvements to overall equipment effectiveness) across our production facilities, alongside expansion and refitting activities at our Slovakia and Dominican Republic facilities.
- Partial insourcing of AQUACEL® Foam production, reflecting the achievement of critical mass in this product line following its launch in 2012.
- Rationalisation of certain product lines in Ostomy Care and CCC, following a detailed cost/benefit review.

Of the 300 basis points net margin impact, approximately 200 basis points are expected to result from the manufacturing footprint optimisation, implementation of LEAN manufacturing processes, AQUACEL® Foam insourcing and Ostomy Care and CCC rationalisation. The other approximately 100 basis points are expected to result from sourcing rationalisation.

Key performance indicators

We measure our performance against our strategic priorities through both financial and non-financial KPIs. We believe that these KPIs represent meaningful and relevant measures of our performance and are an important illustration of our ability to achieve our objectives under each of our strategic drivers.

Our strategic drivers

Our strategic drivers are set out below. Further detail is provided on pages 24 and 25.

Growth

We aim to optimise revenue growth from our strong portfolio of differentiated products.

Innovation

We aim to continue our long and successful track record of developing and commercialising new innovative technologies for the benefit of customers and healthcare providers.

Efficiency

We strive to simplify the way we operate to reduce complexity, increase efficiency and free up resources to reinvest elsewhere in our business.

Principal risks and uncertainties
Page 28

Strategic driver 1: Growth

1. Group revenue and revenue growth* $m

+4.0%*

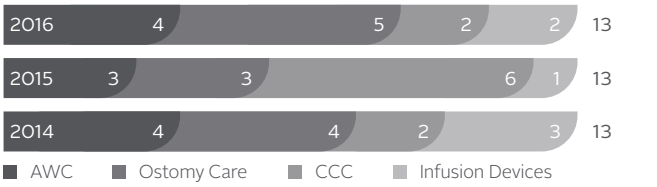
2. Adjusted earnings before interest, tax, depreciation & amortisation ("EBITDA") growth* $m**

+6.5%*

Strategic driver 2: Innovation

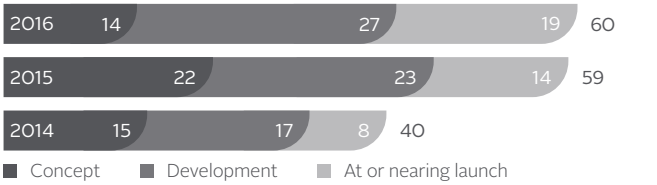
3. Number of products launched

13



4. Number of programmes in development

60



Strategic driver 3: Efficiency

5. Adjusted gross margin %**

60.9%** (+130 bps)

6. Adjusted EBIT margin %**

28.0%** (+150 bps)

* Revenue and EBITDA growth at constant currency.
** Certain financial measures in this Annual Report, including adjusted results above, are not prepared in accordance with IFRS. All adjusted measures are reconciled to the most directly comparable measure prepared in accordance with IFRS on pages 90 to 93.

Performance in 2016
At constant currency, revenue grew 4% to $1,688m. Our AWC franchise had a further strong year with revenues up 6.5% at constant currency. We continued to see consistent growth in our AQUACEL® product lines and an increasing contribution from AQUACEL® Foam dressing. Our Ostomy Care franchise grew 1.7% at constant currency as our strategies to return the franchise to consistent growth continued to gain traction. This reflects our actions to improve our engagement with the nursing community, invest in our direct-to-consumer programme and launch new products. We also continued to grow revenues in both our CCC (3.6% at constant currency) and Infusion Devices (4% at constant currency) franchises.

Risks
- Macroeconomic
- Governmental Social Health Care Policy
- Intellectual Property and Product Innovation
- Regulatory
- Product Quality and Safety
- Ethics, Bribery and Corruption

Performance in 2016
At constant currency, Adjusted EBITDA increased 6.5% to $508 million in 2016, primarily due to steady revenue growth combined with a strong increase in gross margin. This was largely due to the benefits of our MIP programme which was ahead of schedule in 2016. In addition we maintained solid cost control with adjusted operating expenses increasing 1.8%, a lower rate than the revenues as a result of FX benefits in the year.

Risks
- Macroeconomic and Foreign Exchange
- Governmental Social Health Care Policy
- Intellectual Property and Product Innovation
- Regulatory
- Product Quality and Safety
- Ethics, Bribery and Corruption
- Data loss/Mistreatment

Performance in 2016
In 2016 we continued to see the benefits of our innovation, bringing 13 new products to market with key product launches across all our franchises. In AWC we expanded our AQUACEL® family with the launch of AQUACEL® Foam Pro and Foam Lite™ dressings, the expansion of our reach into new surgical indications with AQUACEL® Ag Surgical SP dressing and our entry into the fast-growing disposable segment of the NPWT market with the launch of the Avelle™ System in the UK and Nordic regions. In Ostomy Care we have introduced our Esteem™+ Flex Convex range of one-piece products in Japan, Italy and the Netherlands and our InvisiClose® drainable pouch closure system across the Natura®, Esteem®+ and Esteem *synergy*® ranges. In CCC we launched the GentleCath™ Glide intermittent catheter range and also our Flexi-Seal™ Fecal Management System with odour barrier. In Infusion Devices we launched the Mio™ 30[1], a 30-degree soft cannula infusion set with retractable needle.

Risks
- Governmental Social Health Care Policy
- Intellectual Property and Product Innovation
- Regulatory
- Product Quality and Safety

Performance in 2016
Building on our world leading research and development capabilities we will continue to drive innovation to develop technologies that anticipate and address the needs of people living with chronic conditions. We continue to maintain a strong and healthy pipeline of innovation and have 19 programmes at or nearing the launch phase through broad-based innovation across all our franchises. See our development pipeline on page 22.

Risks
- Intellectual Property and Product Innovation
- Regulatory
- Product Quality and Safety

Performance in 2016
In the fourth quarter of 2015 we launched our MIP, to drive efficiencies in our manufacturing and distribution cost base. The MIP is targeting a minimum net impact on margins of 300 basis points by 2020. In 2016 we delivered 130 basis points of gross margin benefit of which approximately 90 points were driven by the MIP programme and the remainder by foreign exchange. Our MIP programme delivered ahead of plan in 2016 and we aim to deliver half of our 300 basis points target during 2017.

Risks
- Macroeconomic and Foreign Exchange
- Product Quality and Safety

Performance in 2016
Adjusted EBIT margin increased 150 basis points to 28% of revenue. This increase was primarily driven by the benefits of our MIP outlined above and to a lesser extent a reduction in our operating expenses as a percentage of revenue due to foreign exchange benefits in the year.

Risks
- Macroeconomic and Foreign Exchange
- Governmental Social Health Care Policy
- Intellectual Property and Product Innovation
- Regulatory
- Product Quality and Safety
- Ethics, Bribery and Corruption
- Data loss/Mistreatment

1. Mio™ 30 is a trademark of Medtronic-Minimed.

Managing risks to protect value.

We have a clear plan to deliver value for all our stakeholders. To ensure that we achieve our strategic goals and business objectives it is essential that we manage the risks that are inherent in our business and the markets where we operate.

Risk management

The Board is ultimately responsible for determining our risk appetite and monitoring and reviewing the processes and internal controls we operate to manage and mitigate the risks that could threaten our performance and reputation. The Audit and Risk Committee supports the Board in monitoring and reviewing the adequacy and effectiveness of our risk management framework, which is embedded in all our operations around the world.

The Board has undertaken a robust assessment of the principal risks facing the Company and a robust sensitivity analysis, as described in this section.

Risk appetite

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

Our risk appetite is summarised in the table on the right.

Category of risk	Risk parameters
Strategic Moderate to high	We have a moderate to high risk appetite with regard to product innovation and exploring and adopting commercial strategies that bring enhanced value to our customers and that contribute to the delivery of a higher quality of care to patients around the world.
Operational Moderate	We maintain a moderate risk tolerance when assessing our suppliers and managing our overall production costs. We strive to operate as efficiently as possible without compromising product quality or disturbing effective inventory management processes.
Financial Low	We have a low risk tolerance in respect of our financial processes. We maintain financial controls to help ensure that our financial processes are well designed, controlled and support accurate reporting to management, the Board and external stakeholders. We also have a low risk tolerance with respect to safeguarding our assets. Our Treasury policies explicitly focus on asset security as the principal concern in all Treasury transactions. We ensure that our Treasury policies are always supportive of underlying business activities while being prohibitive of speculation via financial instruments.
Compliance and Safety Extremely low	We have an extremely low risk tolerance with respect to any activities or conduct that are not compliant with all anti-corruption and anti-bribery laws. We promote the highest ethical standards and impose such standards on all employees, agents and contractors. Similarly, we have an extremely low risk tolerance with regard to conduct that may compromise product quality or patient and employee safety.

ConvaTec – Risk management framework

The risk register, which is the basis for the list of principal risks and uncertainties, was developed using both a bottom up and top down assessment of business and strategic risks. This risk management process was implemented in conjunction with the Group's initial public offering in October 2016.

The bottom up exercise is conducted through discussions and interviews in each of the Group's businesses. The top down exercise includes meetings with senior executives. The output from the aggregated results of the top down and bottom up exercises produces a list of principal risks that are reviewed and agreed by the Audit and Risk Committee and senior management team before being presented to, and discussed by, the Board.

The risk register is reviewed and maintained on an ongoing basis by management, with the Board retaining oversight and responsibility over the risk register and the risk management process. Depending on the nature of the risk involved, a variety of risk mitigation measures have been implemented including, for example, insurance, standardised processes, delegation of authorities, auditing and monitoring, succession plans, diversification in business and revenue streams.

Internal control

The Board recognises its responsibilities to carry out a review of the Group's internal controls, financial position and prospects. The Board, including the Audit and Risk Committee, has accountability for reviewing and approving the effectiveness of internal controls operated by the Group, including operational and compliance controls, risk management and compliance with the UK Corporate Governance Code 2016. The risk management framework assists in the ongoing process of the Board's identification, evaluation, and management of ConvaTec's principal risks.

The Board's role in risk management involves:

- Overseeing the Group's risk management programme.
- Regularly reviewing the principal risks of the Group.
- Overseeing risk management processes.

The Board has overall responsibility for monitoring and reviewing risk exposure and for determining risk appetite. Further information about the role and responsibilities of the Board is set out on pages 56 to 59. The Board receives reports from the Audit and Risk Committee and monitors the risk management process.

Audit and Risk Committee

The Audit and Risk Committee has responsibility for overseeing the financial reporting and internal financial controls of the Group, for reviewing the Group's internal control and risk management systems, and for maintaining an appropriate relationship with the external auditor of the Group and for reporting its findings and recommendations to the Board. Further information about the role and responsibilities of the Audit and Risk Committee is set out on pages 63 to 65.

Legal and Compliance

Our legal and compliance function works with the Audit and Risk Committee and the Board to assist with compliance with laws and regulations and to ensure that certain legal risks are identified on the risk register. In this capacity, its role is to:

- Evaluate alternative regulatory and non-regulatory responses to risk.
- Provide legal awareness training or training on legal aspects of the business, including anti-bribery, money laundering, sanctions and corruption.
- Assess and monitor the Group's operations and processes to promote compliance with relevant laws and regulations and, where necessary, make recommendations for enhancements.
- Make reports to the Audit and Risk Committee on particular areas of legal risk identified in the Group.

Internal Audit

Our Internal Audit function reports directly to the Audit and Risk Committee. The Internal Audit function carries out work across the Group acting as a third line of defence following management controls and internal control measures (first line of defence) and the Group internal risk management and compliance functions (the second line of defence).

The key responsibilities of Internal Audit are:

- To review and evaluate the efficiency and effectiveness of all company operations and activities, including business practices, IT and systems of internal control.
- To review operations and programmes to ascertain if results are consistent with established objectives and goals and if the operations or programmes are being carried out as planned.
- To identify and recommend opportunities for improvement and to monitor the implementation of appropriate corrective action.
- To report to the Audit and Risk Committee on a quarterly basis, provide a summary of audits completed, including any related significant findings, and discuss audit directions, plans and priorities.
- To conduct risk assessments independently and in coordination with our corporate compliance department to develop annual and long range audit plans.

Operating management

Our operating management, within our franchises or business units, identifies risks at an operational level, assesses those risks and, where necessary, escalates them through the channels up to the Board. Management continually seeks to identify new risks to be included in the register.

The key responsibilities of operating management are:

- To carry out day-to-day risk management activities.
- To identify risk and provide risk assessment.
- To implement strategy and actions to address risk within a business area.
- To assign risk owners to lead mitigation actions.
- To assign risk owners to support semi-annual risk register updates.

Our strategy
Page 24

Our markets
Page 16

Our KPIs
Page 26

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

As we listed on the London Stock Exchange on 31 October 2016, we do not report on any change in our current risk position against previous periods.

Risk:

Macroeconomic and Foreign Exchange Risk

We could be exposed to negative global economic trends in certain of our geographic markets which could negatively impact our strategic growth.

Potential impact

- Movements in exchange rates between foreign currencies and the US dollar (our reporting currency) could have a negative effect on the results of our operations and financial conditions.
- A negative economic climate in the key markets in which we sell our products could contribute to reduced demand for our products and negatively impact revenue from those markets.
- Negative market conditions may reduce the number of patients with access to care, resulting in decreased demand for our products.
- Reductions in government spending and/or individual income could impact customers' purchases of our products.
- Disruptions in the financial markets could adversely affect our suppliers and vendors and negatively impact our operations through increased purchasing costs.
- The EU Referendum in the UK ("Brexit") has created a period of economic uncertainty for the UK and wider economic environment which may lead to a reduction of economic activity.

Response/mitigation

- We maintain an operational presence in a diverse range of geographic markets, reducing our economic exposure.
- We have implemented economic forecasting and management reporting processes enabling us to detect the development of unfavourable trends and formulate mitigation strategies.
- We have a robust strategic planning process that provides a vehicle for contemplating market and regulatory developments in a manner allowing for the development of economic mitigation strategies.
- We maintain a model that allows us to run sensitivity analyses based on foreign exchange ("FX") movements in order to provide management with estimates of the impact of FX movements on our financial results.
- The Group has implemented appropriate oversight actions to assess the potential impact of Brexit and will establish mitigating actions as necessary.

Risk:

Governmental Social Health Care Policy Risk

Certain of our products, which are sold to governmental social health care services, could be negatively impacted by reductions in reimbursement spending, enhanced government audits and/or unfavourable governmental reimbursement policies which could negatively impact our strategic growth or hinder our ability to innovate.

Potential impact

- Unforeseen reductions in governmental budgets or other changes to government reimbursement policy could adversely affect the demand for our products.
- Failure to monitor changes in government payment policies in the countries in which we operate could result in financial losses.

Response/mitigation

- We engage with governments to encourage continued government investment in government health programmes.
- We continually monitor governmental policy changes and reimbursement guidelines in order to anticipate and minimise the impact of any policy revisions that may affect us.

Risk:

Intellectual Property and Product Innovation Risk

We are dependent on our intellectual property and our continued development of products and any negative impact on this development could hinder our ability to innovate.

Potential impact

- Our competitors may secure intellectual property rights that disrupt our ability to compete in certain markets.
- Our proprietary intellectual property could be subject to misappropriation by a competitor, thereby reducing our competitive advantage.
- Governmental entities may require disclosure of our intellectual property which may reduce our competitive advantage or otherwise negatively impact our strategic advantages.
- We may be subject to litigation involving our intellectual property rights which results in a negative impact to our financial condition.
- Insufficient investment in R&D, or inadequate innovation, may adversely impact our ability to compete.

Response/mitigation

- We pursue appropriate patent protection for our intellectual property developments.
- We deploy internal protections against the improper dissemination of our confidential information, including IT protections and confidentiality agreements.
- We deploy resources to limit the scope of any mandatory disclosure of our proprietary information to governmental organisations.
- We conduct global IP assessments prior to product launches to reduce the risk of intellectual property litigation.
- We monitor market activity to determine whether violations of our intellectual property rights have taken place and to assess whether to assert our intellectual property rights.
- We continue to invest in new product launches and product development drives to cultivate an adequate product pipeline.

Risk:
Regulatory Risk

We operate in intensive and diverse regulatory regimes which are subject to change which could negatively impact our strategic growth and efficiency.

Potential impact
- Regulatory approval processes could delay, or otherwise negatively impact, the marketing and sale of our products.
- Failure to obtain appropriate regulatory clearances upon a change to a product may result in negative regulatory action impacting our ability to market and sell products.
- We are subject to increasing regulatory scrutiny around the globe which may delay product launches or otherwise negatively disrupt our operations.

Response/mitigation
- We coordinate regulatory approvals on an ongoing basis, including scheduling appropriate review periods with regulatory bodies in advance of certification requirements.
- We maintain processes to ensure that all regulatory and clinical trial requirements are considered and addressed prior to the launch of a new product.
- Relevant employees are trained on processes related to regulatory clearances, marketing claims related to products and regulatory inspections.
- We have implemented a process to ensure marketing collateral receives thorough and adequate review prior to launch in relevant jurisdictions.

Risk:
Product Quality and Safety Risk

Defects, failures or safety or quality issues associated with our products could adversely impact our results of operations or financial condition and which could negatively impact our ability to innovate.

Potential impact
- Defects related to the design or manufacture of our products may impact the quality of goods sold and harm our results of operations or reputation.
- Failure to manage adverse events appropriately could result in reputational harm, regulatory enforcement and/or financial loss.
- Defects in our products may result in recalls, safety alerts, product liability claims or negative publicity.

Response/mitigation
- We have processes throughout each phase of product development to monitor product manufacturing and to implement timely corrective action where necessary.
- Relevant employees are trained on policies and procedures related to manufacturing and adverse event handling.
- We have processes in place for managing product complaints.
- We maintain records for all products containing evidence of development, testing, product and process qualification and market clearance.

Risk:

Ethics, Bribery and Corruption Risk

Violations of anti-corruption laws could significantly impact our financial position and reputation.

Potential impact

- The health care industry is heavily scrutinised by governmental bodies around the globe and bribery, or other violations of anti-corruption laws, may result in enforcement actions that may negatively impact our financial position and reputation.
- Enforcement actions related to bribery could result in an inability to participate in tenders or sell products to entities that are directly or indirectly reimbursed by a governmental body.
- Violations of anti-bribery laws could result in criminal exposure for our employees and cause material disruption to our operations.

Response/mitigation

- We maintain top down leadership of compliance initiatives through a Compliance Steering Committee that is comprised of senior leadership.
- We operate ongoing training for all employees, including an annual attestation and annual live training for customer-facing employees.
- We operate a global risk assessment team and an annual monitoring programme.
- We perform due diligence of third parties, require training modules for distributors, audit select distributors in high risk markets and undertake internal audit reviews of relationships with certain third parties and employee adherence to our policies and procedures relating to ethics.

Risk:

Data Loss/ Mistreatment Risk

Failure to comply with privacy and data protection laws and regulations could impact our reputation and negatively impact our strategic growth and efficiency.

Potential impact

- Inadequate protections related to the transfer of data stored on internal systems may result in our loss or theft of sensitive or confidential data.
- An intentional attack on our IT systems may cause the loss of sensitive data.
- Failure to adhere to laws and regulations relating to the protection of patient and/or employee data may result in financial loss and/or reputational damage.

Response/mitigation

- We operate an IT Steering Committee deployed to assess requirements and prioritisations relating to data privacy and security.
- All relevant employees are trained on the maintenance and handling of sensitive personal data.
- We deploy processes in relevant segments of the business to safeguard the security of employee and customer data.

Increased efficiency.

Continuous improvement.

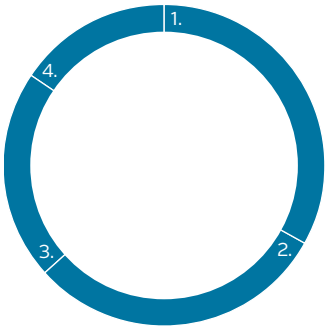
Our franchises

We market and sell our product portfolio, which is characterised by strong brands and differentiated products, in more than 100 countries through four franchises: Advanced Wound Care ("AWC"), Ostomy Care, Continence & Critical Care ("CCC") and Infusion Devices.

In 2016 our AWC, Ostomy Care, CCC and Infusion Devices franchises generated 33%, 30%, 21% and 16% of total revenue respectively.

Across our franchises we are committed to developing products and services to help people with chronic conditions live the life they want including giving them more mobility, confidence and freedom. Our products also address a range of clinical concerns including infection prevention and provide economic benefits for healthcare systems by helping to reduce the time a patient has to spend in hospital.

Split of revenue $m



1. Advanced Wound Care	**$559.5m**
2. Ostomy Care	**$512.1m**
3. Continence & Critical Care	**$356.5m**
4. Infusion Devices	**$260.2m**

AQUACEL® Foam
Our AQUACEL® Foam production at our Deeside manufacturing plant.

How we sell our products

Broadly we have two audiences that utilise our products – patients/people with chronic and acute conditions, and healthcare professionals. Reflecting the diverse range of countries and markets we operate in, we sell our products in a variety of ways. However in most of our markets there are a number of established channels which are detailed below.

Hospital channels

Products in our AWC, Ostomy Care and CCC franchises are sold or distributed to hospitals and hospital buying companies in Europe and hospitals and group purchasing organisations ("GPOs") in the US. In this context, the decision to buy our products is made by either a specialist nurse or doctor involved in providing acute and post-acute care in wound care clinics, intensive care units, operating rooms and other hospital departments. Our dedicated sales teams visit them regularly in their places of work and provide ongoing support, including, when relevant, advice to assist people when they transition from hospital to home, to ensure continuity of care, specialist training programmes and general educational advice and support through our call centres.

Distributors and wholesalers

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

Homecare agencies, specialist medical stores and pharmacists

In many markets, once a patient leaves hospital, they obtain medical device products directly through homecare agencies, specialist medical stores or pharmacies and retail distributors catering to the homecare market. Depending on the market, we sell to these outlets either directly or through our distributors. These organisations will typically also offer consumer related services, such as home delivery of medical devices.

Direct-to-consumer

As part of our strategy to support people living with chronic conditions in ways that enhance their quality of life, we have established a number of direct-to-consumer channels in various markets to meet consumers' needs and help expand their support network.

We sell products directly to consumers through our subsidiary home delivery companies, Amcare in the UK and 180 Medical in the US. In a number of our markets, including in both Central and Eastern Europe, Latin America and parts of Asia, we also own shops and clinics that sell directly to consumers.

In late 2015 we launched our me+™ programme, a consumer-focused service and support platform. Developed to help improve the lives of people living with an ostomy, me+™ is being expanded to also provide support to intermittent catheter users. Through this platform, which provides access to a range of resources including information and advice, emotional support and superior products, we support clinicians and caregivers and develop personalised solutions that meet the needs of people living with an ostomy or an incontinence condition.

We also operate digital direct-to-consumer sales platforms, including the ostomysecrets.com online platform, which sells clothing and other accessories.

Finally, we operate customer call centres, staffed by specialist nurses together with product specialists, who are available to answer consumers' questions and provide ongoing support.

Our Infusion Devices franchise has a concentrated business-to-business customer base, primarily consisting of the leading insulin pump manufacturers. A minority of its revenue is derived from business-to-business urology product sales. Our differentiation and competitive edge is based on our intellectual property ownership, our mass production capabilities and our process expertise which enable us to manufacture millions of infusion sets based on highly advanced mechanical designs and delicate micro tolerances to consistent quality standards. We also supply a range of infusion sets directly to hospitals and the home healthcare sector as well as through specialist distributors under our brand name neria®.


Advanced
wound care
technologies.
Optimal
healing
environment.

Advanced Wound Care

Revenue $m

559.5m +6.5%*

2016	559.5m
2015	536.1m

Key brands
- AQUACEL®
- Avelle™
- Sensi-Care®
- DuoDERM®
- Aloe Vesta®

The Avelle™ System
The Avelle™ System is the first to combine negative wound therapy pressure with our Hydrofiber® Technology.

* At constant currency.

AQUACEL® Ag+ Extra™
Our AQUACEL® Ag+ Extra™ advanced wound dressing incorporates our Hydrofiber® Technology and ionic silver which help manage exudate and reduce the risk of wound biofilm and infection.

Our AWC franchise provides advanced wound dressings, devices and skin care products which are used for the management of acute and chronic wounds resulting from conditions such as diabetes, immobility and venous disease as well as from traumatic injury, burns, and invasive surgery.

Our product portfolio includes:

- Antimicrobial and foam dressings, which are used by healthcare professionals to manage chronic and acute wounds such as pressure ulcers, venous leg ulcers and diabetic foot ulcers which can be hard to heal. Our advanced dressings are developed to provide an optimal wound healing environment whilst also addressing additional wound challenges such as infection. Our portfolio of leading global brands includes our AQUACEL® line of advanced dressings which feature our proprietary Hydrofiber® Technology. These dressings provide a wound contact layer that transforms into a gel on contact to absorb and retain wound fluid (exudate) and support the healing process. The addition of ionic silver in our AQUACEL® Ag dressings further helps manage and reduce the risk of wound infection. The development of this technology has evolved with our AQUACEL® Ag+ dressing, the first dressing specifically developed to combat wound biofilm.
- NPWT, which works by creating a vacuum around the wound. The Avelle™ System is an unique disposable negative pressure device. It combines our proprietary Hydrofiber® Technology with NPWT, and can be used for up to 30 days. The Avelle™ System is the only product on the market to offer this combination.
- Skin care products to clean, moisturise and protect skin which are developed for patients with exposed or fragile skin.

We are focused on three priorities to drive our growth:

- Expand our core AQUACEL® offering through the extension of our AQUACEL® Ag+ with anti-biofilm technology and the expansion of our AQUACEL® Surgical product portfolio into new surgical areas.
- Continue to accelerate our growth in the foam market by augmenting our portfolio in the fast-growing protection and prevention foam segments.
- Build on our differentiated entry into the fastest growing segment of the NPWT market.

2016 revenue performance

In 2016 our revenues grew by 6.5% at constant currency (4.4% reported). We continued to see consistent growth in our AQUACEL® lines, particularly in EMEA and the US with strong growth from AQUACEL® Foam.

Key developments in 2016 included:

- The launch of AQUACEL® Foam Pro and Foam Lite™ ConvaTec dressings which expands our product portfolio into the $1.2bn foam segment.
- The launch of AQUACEL® Ag Surgical SP dressing which has expanded our reach into new surgical indications including caesarean sections and spine surgery.
- Our entry into the fast-growing disposable segment of the NPWT market with the launch of the Avelle™ System in the UK and Nordic regions.
- Recognition for our R&D team at the Journal of Wound Care World Union of Wound Healing Societies ("JWCWUWHS") Awards, for the scientific contribution they have made to the complex area of microbial biofilms and their relationship to wound infection.

Prestigious industry award

In the year when we celebrated 20 years of innovation and customer collaboration with our AQUACEL® dressing, AQUACEL® Ag+ dressing also received recognition from JWCWUWHS, which included key opinion leaders, as the Most Innovative Wound Dressing, one of only two award categories to recognise industry achievement in developing "breakthrough technologies that have revolutionised wound care over the past four years."


Helping people
live the life
they want.
Accessible
advice and
support.

Ostomy Care

Revenue $m

512.1m +1.7%*

2016	512.1m
2015	515.5m

Key brands
- Esteem®
- Esteem®+
- Natura®
- Natura®+
- Stomahesive®
- Durahesive®
- InvisiClose®

Esteem™ + InvisiClose® Drainable Pouch with Lock-it Pocket™
Flexible and discreet, the Esteem™+ one-piece system is the all-in-one solution that combines the baseplate and pouch in a single unit, allowing for a simple, secure, and comfortable experience.

* At constant currency.

Helen Bracey
Helen Bracey is Advocate Lead for our Ostomy UK and Ireland business. She acts as a bridge between ConvaTec and the people who use our products and plays a key role in helping us understand the lives of the people we touch. Helen was rushed into hospital in 2004 with severe abdominal pains and returned home five weeks later having had surgery to create an ileostomy, due to inflammatory bowel disease.

"The doctors told me there was something seriously wrong with my colon, which meant nothing to me, I had no idea what my colon was or what losing it would mean. 13 years later, having a stoma has become so normal for me that I hardly think about it now. Having a good support network and finding the right stoma appliance were key for me as I adjusted to life after surgery. I have since gone on to travel through Asia, Australasia, Europe and Central America and I am a keen runner, completing my first marathon in 2014. Although there have been really challenging times for me and my family through my illness and recovery from various surgeries, we have got through them by focusing on the positives and remembering that life is full of change."

Our Ostomy Care franchise specialises in devices, accessories and services for individuals who have a stoma (a surgically-created opening where bodily waste is discharged), commonly resulting from colorectal cancer, inflammatory bowel disease, bladder cancer, and obesity as well as other causes.

Our product portfolio includes:
- One and two-piece ostomy systems which have a variety of closure and drainage options, deodorising filters and pouch materials. For individuals living with ostomies, finding the right product and the right level of support is essential. In order of importance, ostomates are most concerned about leakage, odour and skin issues. Our products are developed to address these issues and, combined with our services, help people with a stoma to live the life they want. All of our core products, including our advanced pouch range of Natura®+ (two-piece) and Esteem™+ (one-piece), incorporate our highly differentiated, skin-friendly and clinically proven adhesive technologies (Stomahesive®, Durahesive® and ConvaTec Moldable Technology™).
- Accessory products that complement our ostomy systems, including Stomahesive® paste and powder, Sensi-Care® skin care and our Ostomysecrets® clothing line.

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

2016 revenue performance
In 2016 our revenues grew 1.7% at constant currency (-0.7% reported) as the implementation of our plan to return the franchise to consistent growth continued to gain traction.

Key developments in 2016 included:
- The development of our nurse engagement programmes and the continued roll-out of our me+™ programme globally.
- Successful renewal of a number of key strategic distributor and both major GPO agreements in the US.
- The launch of our Esteem™+ Flex Convex range of one-piece pouches in Japan, Italy and the Netherlands. The global roll-out has commenced in 2017.
- Agreement to acquire EuroTec, based in the Netherlands, which increases our competitive position in the Dutch market and provides a foundation for accelerating growth across France and Benelux.

Continuous innovation and product development.

A wide range of customer solutions.

Continence & Critical Care

Revenue $m

356.5m +3.6%*

2016	356.5m
2015	348.2m

Key brands
- GentleCath™
- Flexi-Seal™
- UnoMeter™

Flexi-Seal™ SIGNAL™ FMS
Flexi-Seal™ SIGNAL™ FMS is a temporary containment device, indicated for immobilised, incontinent patients with liquid or semi-liquid stool.

* At constant currency.

Tricia Downing
Tricia Downing was a competitive cyclist who, after being hit by a car in a tragic accident, went from being an able-bodied competitive cyclist to a paraplegic, unsure of what the rest of her life would hold.

"After my life-altering injury, I could have chosen to give up, but instead, I worked hard to overcome my challenges. Finding the right medical supplies, such as intermittent catheters, has helped me stay healthy and independent, which has allowed me to focus on new goals. I have competed in over 100 races, including marathons, duathlons, and triathlons, and I went back to school to complete a Masters degree in Disability Studies. I was the first female paraplegic to complete an Ironman triathlon and I also competed in the 2016 Paralympic Games in Rio.

"As a result of my experiences, I wanted to help others so I became a professional speaker and started a non-profit organisation which organises Camp Discovery — a weekend retreat for female wheelchair users who want to engage in physical fitness and have the opportunity to give and receive support with other women in similar situations. I want everyone I come across to have the opportunity to get off the sidelines of life and get in the race."

Our CCC franchise comprises three businesses: Continence Care (including our 180 Medical subsidiary in the US), Critical Care and Hospital Care.
- **Continence Care:** develops and manufactures intermittent urinary catheters used by people with urinary continence issues related to spinal cord injuries, multiple sclerosis, spina bifida and other urological disorders.
- **Critical Care:** develops and manufactures advanced systems that are used in intensive care units and hospital settings to manage acute fecal incontinence and monitor urine production output and intra-abdominal pressure.
- **Hospital Care:** provides a range of high quality disposable medical devices for use in high volume procedures in urology, intensive care, operating rooms and other hospital departments. These devices include wound drainage systems, urine collection bags and catheters, airway management and oxygen/aerosol therapy devices and gastroenterology tubes.

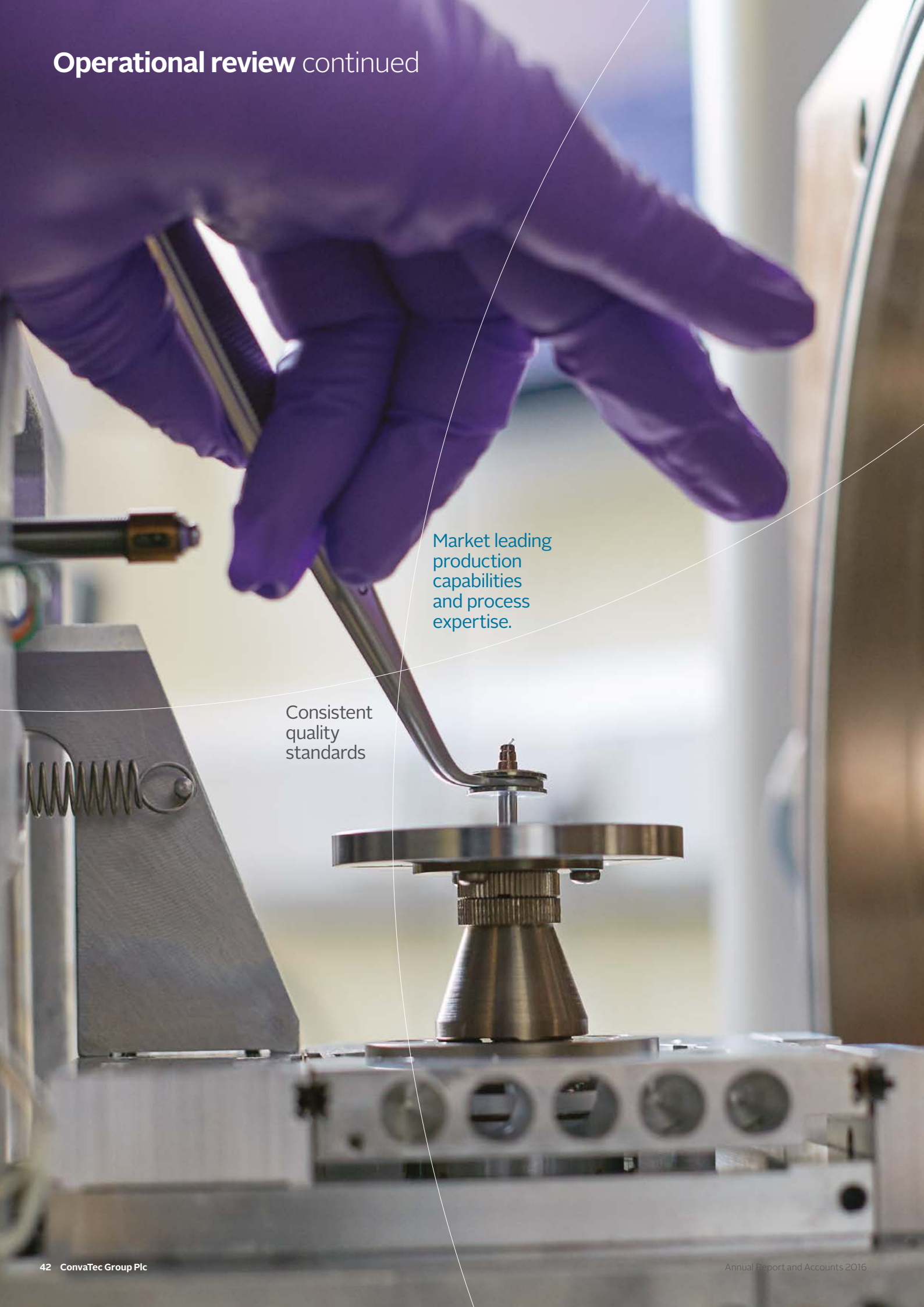
Our product portfolio includes:
- Our GentleCath™ line of intermittent self-catheters which are designed for maximum comfort, safety and ease of use.
- Flexi-Seal™ Fecal Management Systems ("FMS") which provide effective and hygienic management of acute fecal incontinence in critical care patients and help doctors and nurses manage serious healthcare concerns including the spread of *C.difficile* infection.
- UnoMeter™ hourly diuresis management systems which enable clinicians to monitor the urine output of critical care patients.

In Continence Care we are focused on three priorities to drive growth:
- Continue to innovate and expand the GentleCath™ intermittent catheter portfolio to cover a wider range of needs together with expanding our me+™ platform for intermittent catheter users.
- Leverage the reach of 180 Medical, the largest medical equipment distributor of intermittent catheters in the US, to accelerate the adoption of our new products in the US.
- Build on the success of GentleCath™ through launching in other markets.

In our Critical Care and Hospital Care businesses, our strategies are focused on:
- Continued product innovation for Flexi-Seal™ FMS.
- Rationalisation of our Hospital Care portfolio through our Margin Improvement Programme ("MIP"). For further details about our MIP see page 25.

2016 revenue performance
In 2016 our revenues grew 3.6% at constant currency (2.4% reported). Strong growth in our GentleCath™ intermittent catheter portfolio was partially offset in the second half of the year by the beginning of rationalisation initiatives within our Hospital Care business. These have been identified as part of our MIP.

Key developments in 2016 included:
- Strong growth in our GentleCath™ intermittent catheter portfolio.
- The launch of GentleCath™ Glide, a low friction hydrophilic intermittent catheter made with our unique FeelClean™ technology which activates immediately when in contact with water and reduces the residuals left behind by conventional catheterisation technologies.
- The global roll-out of Flexi-Seal™ SIGNAL™ FMS with odour barrier. This new product launch helped us retain our leading market position and underpinned strong growth in our Critical Care business.
- The successful implementation of initiatives to support our MIP, which identified significant rationalisation opportunities within our Hospital Care business.



Market leading production capabilities and process expertise.

Consistent quality standards

Infusion Devices

Revenue $m

260.2m +4.0%*

2016	260.2m
2015	250.6m

Key brands
- inset®
- comfort™
- neria®

inset® infusion set
The inset® infusion set is designed with an automatic spring insertion device which makes insertion quick and easy. The reversible connector also makes disconnection simple.

* At constant currency.

Our Infusion Devices franchise develops and manufactures disposable infusion sets for the world's leading suppliers of insulin pumps for diabetes treatment and similar pumps used in continuous infusion treatments for other conditions. Our customers include Medtronic-Minimed, Animas (Johnson & Johnson), Roche Diabetes and Tandem Diabetes. Our products are a critical component within insulin pump systems. We also supply a range of infusion sets directly to hospitals and the home healthcare sector as well as through specialist distributors under our brand name neria®.

Our product portfolio includes:
- Disposable infusion sets that connect to external computer-controlled insulin pumps which allow insulin to be delivered continuously under the skin.
- neria® infusion sets for continuous drug delivery to manage chronic diseases including Parkinson's disease and primary immunodeficiency as well as for palliative pain management.
- OEM urology and suction devices, including intermittent catheters, drainage bags and advanced medical film for urology, blood and dialysis bags.

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

2016 revenue performance
In 2016 our revenues grew 4.0% at constant currency (3.8% reported). Our partners are seeing strong end-market demand for infusion pumps.

Key developments in 2016 included:
- The development of the next generation fully automatic all-in-one infusion set with a retractable needle which is convenient to use, and has been tested for use with insulin and other sub-cutaneous drugs including those for management of Parkinson's disease and palliative pain management.
- The launch of our 30-degree soft cannula infusion set with disposable serter through Medtronic-Minimed (Mio™ 30)[1] and Tandem Diabetes (t:30™)[2].
- Significant advances in research focused on the longevity of our infusion sets.

Infusion Device cannula
One of our Infusion Device cannulas undergoing R&D testing.

1. Mio™30 is a trademark of Medtronic-Minimed.
2. t:30™ is a trademark of Tandem Diabetes, USA.

Behaving responsibly is integral to how we do business. We will only deliver long-term, sustainable financial performance by understanding and responding to the needs and concerns of our stakeholders, and by earning their trust.

Strong stakeholder relationships are key to delivering our Purpose, Vision and Mission, which are detailed on the inside front cover of this Annual Report.

Our primary focus is helping people with chronic health conditions, many of whom use our products every day. Our success depends on them actively choosing our products and services, and then staying with us to help them manage their condition. We strive to ensure our products and services are safe, effective and affordable. What we deliver for customers is critical but we must also focus on how we deliver it. This approach is essential if we are to deliver sustainable returns for our shareholders over the long term.

We must:
- Avoid creating unacceptable impacts as a result of what we do, either directly or indirectly.
- Deal honestly and transparently with those involved in the procurement of our products.
- Meet, and strive to exceed, the requirements of the various bodies which regulate our sector.
- Treat our employees fairly, and ensure there are opportunities for all to develop their skills and experience.
- Never exploit the people who work in our supply chain.
- Minimise any negative impacts on the environment arising from our products and operational activities.
- Enhance the lives of the people in the communities where we operate.

Our management approach

Our general approach to Corporate Responsibility ("CR") is characterised by two imperatives. Firstly, to understand the needs of our stakeholders, and to be transparent in reporting our progress in addressing those needs. Secondly, to always behave ethically and to do nothing which might undermine our reputation and the trust placed in us. To support this approach and, reflecting the importance we place on this topic, we are strengthening our governance arrangements and developing a new CR strategy.

Governance

We have formed a Board committee focused on CR. This CR Committee will oversee the direction of our CR programme, approve external reports and proposed objectives, and receive reports on progress and performance. After the year-end, the CR Committee approved our first high-level CR strategy which will be implemented on a phased basis over the next three years. Further information on this important programme will be disclosed in the coming period. Further information about our CR Committee is provided on page 62.

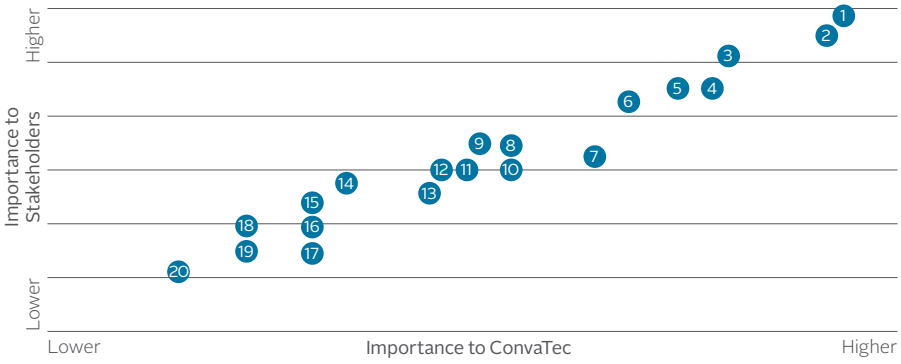
Issue identification

In developing our CR strategy we have identified a number of areas relevant to our stakeholders through a process of internal consultation and review of external information. These areas, which reflect the key socio-economic, human rights and environmental issues related to our activities, are detailed on pages 46 to 49. We have grouped our CR issues under the headings in the illustration on the right. In the future we aim to publish, and report against, commitments established under each of these headings.

We are stepping up our support for a number of external initiatives and have indicated where we believe our programme will contribute to the United Nations Sustainable Development Goals ("SDGs").

Initial assessment of materiality

We have carried out an initial assessment of materiality and aim to validate this with external experts during 2017.



1. Product safety, patient/user safety
2. Bribery and corruption/ethical marketing
3. Privacy and data security
4. Product innovation and efficacy
5. Product – security of supply
6. Transparency
7. Health, safety and well-being
8. Human rights in the supply chain
9. Diversity and discrimination
10. Other labour standard issues
11. Access to healthcare (e.g. affordability)
12. Economic contribution (inc Tax Policy)
13. Product lifecycle impacts
14. Animal testing
15. Waste management/recycling
16. Energy use and greenhouse gases
17. Local community engagement
18. Supplier diversity
19. Environmental issues in the supply chain
20. Water management

CR strategy framework

What we do

Delivering for **customers**

Making a socio-economic **contribution**

How we do it

Enabling our **people**

Conserving the **planet**

Working responsibly with **partners**

Behaving **ethically and transparently**

What we do:

Delivering for customers

The people who use our products are our primary stakeholders and central to our Purpose. To ensure that we design a seamless user experience that anticipates and addresses their physical and emotional needs, it is critical that we listen to them.

We do this in a variety of ways, including through focus groups, anthropological studies, key opinion sessions, and surveys. We also engage with healthcare professionals including nurses and clinicians who select products for patients, and directly with our customers via our specialist customer service nurses and our home delivery businesses such as 180 Medical and Amcare. The feedback from all of these engagement channels is fed into our innovation process and is used to develop our new technologies and enhance our existing products. The expansion of our direct-to-consumer initiatives such as our me+™ programme (see page 35) is also helping strengthen our understanding of, and build our relationships with, our customers.

We are increasingly trusted with customer data. To help strengthen our management of personal data we have introduced a Global Data Privacy Policy and online training programme (completed by over 2,900 employees), which set out the principles by which we operate. From time to time the Group has experienced theft and inadvertent distribution of data which has led to the Group reporting such incidents to the relevant authorities. During 2015 we completed an initial third party review of our approach, and will be broadening and deepening our engagement on this topic in 2017.

The detailed understanding of our customers' needs also helps ensure that our products remain at the leading edge of innovation, as demonstrated by our multi-award winning advanced wound care products (see page 37). Some products, such as our fecal management system products, not only provide direct benefits to patients, but are also designed to help protect the broader patient community, and save health budgets, by reducing the risk of infection in hospitals.

Developing safe products is critical, and our quality engineers work alongside our research and development teams to ensure we exceed stringent quality and regulatory requirements, and meet our responsibilities to users and customers. We operate extensive quality management system programmes focused not just on the efficacy of the products we supply, but also on the constituent materials, the manufacturing environment, and the supply chain that supports this. The success of our approach has been recognised by our most important audience – the people who use our products. The 2016 Corporate Reputation of Medical Device Companies survey captured the views of 582 patient groups from around the world. Of the 33 companies ranked, we were rated the number one company overall and were placed top in three of the seven categories (patient safety, high quality products and transparency), and second in two others (patient centricity and provision of information to patients).

Many people rely on our products every day. To ensure that their access to our products is not disrupted we adopt proactive business continuity planning which also helps reduce the risks to our commercial success.

We are not aware of any breaches of product-related regulations (including packaging and labelling regulations) in 2016 which resulted in fines or prosecutions. Please also refer to Note 21 to the Financial Statements.

We are working to support the following Sustainable Development Goals:

What we do:

Making a socio-economic contribution

We generate economic value for a range of stakeholders and this is illustrated in the table below.

Direct economic value generated and distributed

	2016 $m	2015 $m
Direct Economic Value Generated	**$1,688.3**	$1,650.4
Economic Value Distributed		
Operating costs[1]	**$801.3**	$810.2
Employee Wages and Benefits	**$528.9**	$414.9
Payments to Providers of Capital[2]	**$233.8**	$258.0
Payments to Governments[3]	**$49.4**	$48.6
Community Investments	**$0.2**	$0.1
Economic Value Retained	**$74.7**	$118.6

1. Operating costs exclude depreciation, amortisation, impairment charges and asset write-offs.
2. Payments to providers of capital is interest paid on long-term debt.
3. Payments to governments include corporate income taxes, sales taxes, real estate taxes and other taxes, but exclude employer portion of payroll taxes, as they are included in employee wages and benefits.

To support transparency we have made our tax policy available on our website.

We are also reliant on the goodwill of the local communities where we operate, and from which we draw a large proportion of our workforce. A number of our manufacturing facilities have community engagement projects and we aim to broaden and enhance these over the coming years.

How we do it:

Enabling our people

Our people are key to our success. At 31 December 2016, across our global operations we employed 8,524 people and together we are responsible for ensuring that we fulfill our Purpose and deliver our strategy.

In response to the United Nations Guiding Principles on Business and Human Rights, and the increasing focus on human rights by some of our key customers, we introduced our Human Rights and Labour Standards Policy during the year. Over 1,300 people have completed the related online training. This Policy builds on our existing Code of Ethics and Business Conduct which provides further guidance on workplace issues such as equal opportunities, anti-harassment and dignity at work.

It is important that our businesses include people from different backgrounds and cultures who have diverse skills and experience and we are committed to providing equal opportunities for all potential and existing employees in a working environment which is free from discrimination.

As at 31 December 2016 our gender diversity statistics were as follows:

		Male		Female	
	Total	Number	%	Number	%
Board[1]	9	9	100%	–	0%
Executive Committee[2]	10	9	90%	1	10%
Management bands	334	223	67%	111	33%
Other employees	8,178	2,821	35%	5,357	65%
Total	8,531	3,062	36%	5,469	64%

1. Includes seven Non-Executive Directors.
2. The Executive Committee was established after the year-end, in February 2017. Full details of the Executive Committee membership is provided on page 14 and 15. For the purposes of this table, the Chief Executive Officer and the Chief Financial Officer are included as members of the Board.

Currently we are developing a single global Diversity and Inclusion Policy which will be rolled out across the Group in 2017.

We are committed to investing in our people and their development. As well as fostering an environment that encourages and rewards success, we run a number of training and development programmes which help our employees progress their careers and ensure that we have a good pipeline of talent with the right skills and experience across the Group. During 2016 we introduced a participative virtual global learning programme and a formal mentoring programme which will be rolled out across all our businesses during the course of 2017. In addition during 2017, to support our talent pipeline and succession planning, a formal global leadership and management development programme will be introduced across the Group and we will continue to provide bespoke support and training for high potential leaders in line with their individual development plans and objectives.

We have a formal performance management process which measures performance against objectives and demonstration of our values and behaviours which feeds into merit and bonus differentiation. Twice a year non-shop floor employees participate in performance and development reviews with their manager, to provide and receive feedback and agree their future career goals.

To create a positive collaborative working environment and to ensure that everyone is aware of the contribution they can make in fulfilling our Purpose, it is important that all employees are engaged and motivated and have opportunities to openly share feedback and ideas. Our engagement with employees occurs through a number of channels, including regular updates posted on our Group-wide intranet, town hall meetings in all our operations, updates from our CEO and other members of the leadership team, and through dialogue with relevant union representatives and Works Councils. At the end of the year approximately 50% of employees at our manufacturing locations were covered by collective bargaining arrangements. We also regularly conduct employee 'pulse' surveys that focus on specific issues.

During 2016 we reviewed our approach to Health and Safety ("H&S") and as a result introduced 22 new H&S policy standards across our businesses, together with appropriate training. Currently, we are collating H&S performance data across our manufacturing operations and this will be expanded to cover other parts of our business during 2017. We are currently auditing our performance against our new policy standards and this work will be completed in 2017. There have been no fatalities across the Group, and data on Recordable Incidents and Lost Time Injury Rates are provided below.

	2016	2015
Total recordable incidents	**35**	40
Recordable incident rate	**0.56**	0.65
Total lost time injuries	**16**	31
Lost time injury rate	**0.26**	0.50

How we do it:

Conserving the planet

It is well established that negative impacts on the natural environment often bring associated health and social implications for people. Therefore it is important that we manage and minimise our negative impact on the environment for the benefit of wider society. In line with our strategy we must operate as efficiently as possible.

During the year, we issued a new environmental policy and our performance against this standard is currently being audited. Each of our manufacturing sites has an Environment, Health and Safety Manager and our two UK facilities are certified as being in compliance with ISO14001, the international environmental management standard.

Whilst our focus has been on better management of our impacts, we have not been reporting performance externally. This year, we have collated data in relation to our direct and indirect energy consumption, and Scope 1 and 2 greenhouse gas emissions, only in relation to our manufacturing operations. We intend to expand the scope of our reporting to include other locations, and environmental aspects (such as waste management), during the course of 2017.

We have also stepped up our work relating to the whole life cycle impacts of our products. This includes reviewing and, where necessary, strengthening our compliance with European Union regulations relating to chemical substances in our products, as well as considering any emerging public and scientific concerns. For example, in 2014, although not required by regulation, we announced a target to replace the plasticiser DEHP (used to soften PVC-based plastics) in certain products, with DEHT, which is free of health concerns. Certain CCC brands are now available DEHP-free and, from 2017, less than 2% of our product portfolio (by turnover) will contain DEHP.

Our product development processes include assessment of the safety of the new materials compositions, and their sourcing and manufacturing routes, along with data on any potential environmental impact. During 2017, we aim to enhance these processes further to assess and characterise the broader environmental sustainability of materials used in product manufacture.

As noted below, our new Supplier Code of Conduct contains reference to environmental protection and we will be developing our supplier assessment process further during the course of 2017.

We are working to support the following Sustainable Development Goals:

		Per unit of revenue $m
Total direct energy consumption (gWh)	19.5	
Total indirect energy consumption (gWh)	66.5	
Total Energy consumed (gWh)	86.0	0.051
Scope 1 – Greenhouse Gas Emissions (tonnes CO_2e)	3,717	
Scope 2 – Greenhouse Gas Emissions (tonnes CO_2e)	25,802	
Total GHG emissions (tonnes CO_2e)	29,519	17.5

Note re disclosure of greenhouse gas emissions ("GHGs")
This is our first year of reporting on GHGs and we recognise further work is required to bring our disclosures in line with good practice. No external assurance has been commissioned and there is limited benchmarking data available to provide additional comfort on accuracy.

The current disclosure includes Scope 1 and 2 emissions relating to all manufacturing locations in operation at the end of the year. This year we are not reporting on Scope 3 emissions. Emissions derive mainly from the consumption of natural gas and electricity to heat, cool and power the manufacturing facilities and associated administration offices on the sites in question. No renewable energy is generated at these locations. The disclosure does not include any sites where manufacturing does not occur (e.g. sales offices), or any emissions derived from facilities that closed during the year.

Conversion factors have been obtained from recognised and respected sources, including guidance developed by the UK Government, and from the International Energy Agency. In 2017, we will be working to improve the scope of our GHG disclosure and to set a reliable baseline for future improvements.

How we do it:

Working responsibly with partners

To meet our customers' needs we rely on a series of partners, including our suppliers and the distributors of our products. Our goal is to work collaboratively, as far as regulation and commercial practicality allow, and build stable, long-term relationships.

At the same time we must ensure that our partners are behaving responsibly and are working to the same standards that we set ourselves. During the year we developed and launched a new Supplier Code of Conduct which draws on International Labour Organization conventions and the Principles of the United Nations Global Compact. New suppliers are required to sign and abide by the Supplier Code of Conduct, and it is introduced with existing suppliers as contracts are renewed. We are developing a risk assessment and monitoring process and will be implementing this in the coming year. The first supplier has now been assessed against the Supplier Code of Conduct.

This approach to supplier screening will encompass steps to help identify potential or actual risks relating to human trafficking and modern slavery. A statement relating to the California Supply Chains Act can be found on our website.

In the US, through our supplier diversity programme, we strive to partner with Small, Minority and Women-Owned businesses. In 2016, nearly 20% of our US supplier spend was with these categories.

Our policy is to perform testing on animals only when this is mandated by regulatory authorities or when we cannot support a product or product development through the available laboratory and/or human clinical data. When we are mandated to perform testing on animals, or when this is our only option to further a product development which will advance clinical practice, we ensure that such testing is performed in accordance with Good Laboratory Practices and in accordance with Animal Care & Use requirements and guidelines, using only reputable and audited contract research organisations.

We must behave responsibly when marketing our products to customers which include large reimbursement organisations, distributors, hospitals and, increasingly, direct to users. The risk of acting unethically is heightened where we engage a third party organisation to sell or promote our products. To mitigate this risk our compliance team conducts due diligence on the selection of distributors as well as delivering both online and 'live' compliance training programmes to distributor staff, based on our Global Third Party Compliance Manual. In selected markets, we review our existing distributors by exercising our audit rights in such contracts.

How we do it:

Behaving ethically and transparently

Earning trust and behaving ethically and with integrity is one of our core values. This is the right thing to do and protects our reputation. We have an extensive compliance programme with priorities set through a risk assessment process, further details of which are set out on page 33. We are also an active participant in many of the local medical device trade associations of the countries in which we operate and we played an instrumental role in drafting the Code of Ethical Business Practice for our European industry association, MedTech Europe.

Our legal and compliance function works with the Audit and Risk Committee and the Board. Further details are set out on page 29. This approach provides visibility to our leadership regarding compliance initiatives and ensures positive "tone at the top" with respect to adherence to the Company's ethical principles.

We have developed a Code of Ethics and Business Conduct, and a series of Global Policies which cover a range of business conduct and compliance issues, focusing particularly on bribery and corruption risks. We strive to ensure that all relevant employees complete the necessary training, and completion is carefully monitored (in 2016, over 3,000 of relevant employees completed the Code of Ethics training).

We have introduced a third party-managed whistle-blowing solution to enable employees and third parties to both seek advice and guidance on ethical issues, and also to report suspected breaches of our Code of Ethics and Business Conduct.

To our knowledge, in 2016, we were not subject to any fines or prosecutions relating to human rights, environmental, health and safety, or other material issues. Please also see Note 21 to the Financial Statements.

As highlighted above we place tremendous importance on listening to our customers and being transparent with them. We believe the benefits of active engagement extends across all our stakeholder groups, and being transparent about all aspects of our performance is a vital part of building strong, long term relationships. As part of our commitment to transparency we intend to publish a separate, more detailed, CR report for the next financial year and aim to report in accordance with the core requirements of the Global Reporting Initiative (GRI) Standards.

We are working to support the following Sustainable Development Goals:

Chief Financial Officer's review

Group revenue for the year was $1,688.3m (2015: $1,650.4m), an increase of 4% on a constant currency basis.

Set out below is an overview of the Group's financial performance during the year. Further detail is set out in the Financial Statements and Notes thereto on pages 102 to 142. The following commentary includes discussion of adjusted financial information; all adjusted measures are explained and reconciled to the most directly comparable measure prepared in accordance with IFRS on pages 90 to 93.

Group revenue for the year was $1,688.3m (2015: $1,650.4m), an increase of 4% on a constant currency basis; on a reported basis, reflecting foreign exchange movements, revenue growth was 2.3%.

All our franchises delivered revenue in line with our expectations. On a constant currency basis, AWC delivered the highest level of growth, at 6.5%; Ostomy Care continued to show progress, at 1.7% growth, as the implementation of the plan to return the franchise to consistent growth gained traction; CCC achieved 3.6% growth despite the negative impact of product rationalisation within Hospital Care; Infusion Devices delivered 4.0% growth.

Adjusted gross margin for the year was 60.9% (2015: 59.6%). As highlighted in the Chief Executive Officer's review on pages 12 to 13, the 130bps improvement on 2015 reflects the good progress we made with our Margin Improvement Programme ("MIP") in the second half, which contributed 90bps of this improvement; the additional 40bps improvement resulted from foreign exchange benefits. In the year ahead we expect to make further progress with our MIP and are targeting achieving approximately half of the overall MIP target of 300bps margin improvement.

At constant currency, operating profit grew by 7.1% to $472.2m (2015: $436.8m), in part as a result of the higher revenue and benefits of the MIP. In addition, the Group controlled operating costs, with total adjusted operating costs representing 32.9% of revenue (2015: 33.1%), lower than our 33-34% historical range. This resulted in an adjusted operating margin for the year of 28.0% (2015: 26.5%).

In 2017 we expect operating costs to include an incremental $15m of Plc related costs.

Reported operating profit was $154.0m (2015: $230.4m), reflecting a number of significant non-underlying expenses, primarily related to acquisition related amortisation and costs related to our reorganisation and initial public offering.

The adjusted tax rate for the year was 22.3% (2015: 22.7%). The tax charge for the year was $77.0m (2015: $16.9m credit). On a pro-forma basis assuming our post IPO structure had been in place all year, our adjusted tax rate was 14.2% and we expect our 2017 proforma tax rate to be broadly in line with 2016.

Net cash from operating activities was $75m. This was $25m lower than 2015 ($100m) due to increased working capital and cash settled stock awards related to the IPO. Cash conversion in 2016 was 79.6% (2015: 87.6%) as we increased both working capital and capital expenditure to support our MIP.

Working capital increased by $37.0m due to planned investment in inventory, primarily in connection with the closure of manufacturing facilities as part of our MIP.

Net cash used in investing activities in the year was $63.7m (2015: $36.9m), reflecting the increased capital expenditure in relation to the MIP, together with investment in capacity for the AWC franchise. In 2017, we expect capital expenditure of 2-3% of revenue with a further $50m related to MIP.

Foreign exchange

The results of our Group are impacted by movements in foreign exchange rates, particularly movements in the British Pound, Euro and Danish Krone. In 2016, the impact of foreign exchange movements in the year was negative $29m in revenue and positive $4m in EBITDA. At current FX rates, moving into 2017 we expect a 2% negative FX headwind on reported revenue growth.

Balance sheet and capital returns

The Group ended the year with net debt of $1,510m (2015: $3,256m). This amounted to 3.0x 2016 adjusted EBITDA, down from 6.9x at December 2015.

During the year we redeemed early the series of notes which existed under our pre-IPO financing structure; in addition, we put in place a new US dollar and euro term loan A facility. Following this refinancing, our blended coupon rate of debt is circa 3% at current interest rates. We also raised net proceeds of $1,764.3m through the issue of share capital at the time of the IPO.

Our Financial Statements also reflect a restatement to the historical carrying amounts for goodwill, as we discovered an error in how the acquisition of ConvaTec from Bristol-Myers Squibb was originally recorded in 2008, as further explained in Note 14 to the Financial Statements.

Acquisition

Following the year-end, we acquired EuroTec Beheer B.V for a purchase price of €25m, net of working capital assumed of €5m. EuroTec is a Netherlands-based manufacturer and distributor of ostomy systems and accessories.

Revenue outlook

In 2017 we expect to deliver an organic revenue growth rate greater than the 2016 rate on a constant currency basis, enhanced by the contribution from new products and expansion of our portfolio into new geographic areas, as well as continuing to build on our leading market positions in all of our franchises. It should be noted that this guidance incorporates approximately 1% point of negative headwind resulting from the impact of product rationalisation in connection with our MIP (c $15 million full year effect) and excludes the first year of revenue contribution from our recently acquired EuroTec business (2016 revenues of €10 million).

We expect revenue growth to be weighted towards the second half of the year reflecting the timing of our product rationalisation MIP initiatives, anticipated impact of our product launches and some timing impacts within our Ostomy Care and Infusion Devices franchises.

Nigel Clerkin
Chief Financial Officer
17 March 2017

Viability statement

The Board considers the Company's financial status and viability on a regular basis as part of its programme to monitor and manage risk. The Board has concluded that the most relevant outlook period for this review should be three years ("Viability Period"). Three years has been chosen taking into account the Company's research and development and production cycles and its ability to respond in a timely manner to reasonably possible Company specific and market events. In addition, the Board has taken into consideration the Company's solid business model, its diverse product portfolio and the growing markets and market segments that it operates in. These attributes enable the Company to deliver relatively consistent, recurring revenue across the AWC, Ostomy Care, CCC and Infusion Device franchises.

The annual strategic planning and budgeting processes were used as the starting point for assessing the Company's viability. While the annual strategic planning process and associated financial plan covers a period of five years, the first three years of the plan are considered (as a combination of latest 2017 budget and 2018-2019 strategic plan) to contain the key assumptions that will provide the most appropriate information on which to assess viability, and a reasonably visible time horizon.

Assessing viability

In making their assessment, the Board took into account the potential impact of the principal risks that could prevent the Company from achieving its strategic objectives. The principal risks used in the assessment are described in detail in the Principal Risks and Uncertainties section of this Annual Report on pages 28 to 33. Plausible downside scenarios were then designed to conduct sensitivity analysis and measure the financial impact these risks would bring to the business. The plausible downside scenarios were modelled individually and in combination. These included the impacts of a global change in macroeconomic trends causing a significant appreciation of the US dollar against all other currencies, commercial execution headwinds causing flat organic revenue growth in the Viability Period, a delay in achieving gross margin improvements associated with the Company's Margin Improvement Programme and significant capital overspend across the Viability Period.

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

Conclusion

Based on the consolidated financial impact of the sensitivity analysis and associated mitigating internal controls and risk management actions, as described in detail for each principal risk on pages 30 to 33, the Directors concluded that the Company will be able to operate within its existing bank covenants and maintain sufficient bank facilities and cash reserves to meet its funding needs over the Viability Period. In concluding this, the Board considered the Company's solid business model, its diverse product portfolio and the growing markets and market segments that it operates in, that enable the Company to deliver relatively consistent, recurring revenue across the AWC, Ostomy Care, CCC and Infusion Device franchises.

Confirmation of longer term viability

The assessment of principal risks facing the Company and robust downside sensitivity analysis, all of which are described above and on pages 28 to 33, leads the Board to a reasonable expectation that the Company will remain viable and continue in operation and meet its liabilities as they become due over the Viability Period through to December 2019.

The Group's Going Concern Statement is detailed on page 83.

The Strategic report was approved by the Board of Directors on 17 March 2017 and signed on its behalf by:

Paul Moraviec
Chief Executive Officer

Nigel Clerkin
Chief Financial Officer

Chairman's governance letter

Dear Shareholder

Following ConvaTec's successful Listing on the London Stock Exchange on 31 October 2016, I am delighted to present the Company's first Corporate governance report which explains our current governance framework, sets out how we have applied the main principles and relevant provisions of the UK Corporate Governance Code issued in 2016 by the Financial Reporting Council (the "Code") and highlights the areas which will be further developed in 2017 and beyond.

Governance

Your Board is committed to applying the highest standards of corporate governance across the Group. The governance practices in place prior to our Listing have been strengthened with the implementation of the structures and procedures required of a publicly listed company and these will be further enhanced during the course of 2017 and beyond. In this regard later this year I, together with our Senior Independent Director, will arrange separately a consultation with shareholders to discuss a range of governance and related issues.

From our Listing to 31 December 2016 the Company has complied with the Code except in relation to a number of matters which are explained in the Corporate governance report on page 56. These areas of non-compliance arise for two reasons:

- Firstly two of our current shareholders, the companies ultimately owned by Nordic Capital ("Nordic Capital") and Avista Capital Partners ("Avista"), together own the majority of the Company's shares. Given their significant investment they are entitled to appoint Non-Executive Directors to the Board. Details of this arrangement are explained on pages 84 and 85. As a result currently the ratio of independent Non-Executive Directors on the Board, and certain of the Board's committees, does not comply with the requirements of the Code. These areas of non-compliance will be addressed and I can confirm that over time we do intend to be fully compliant with the Code.
- Secondly we only recently became a public company and as a result, we have not had the opportunity to address a number of issues that would normally be addressed through the annual cycle of meetings and other activities. For example, the Code requires me to regularly review and agree training and development needs with each Director and, while we have plans in place to do this as explained on page 58, such reviews have not yet taken place. In addition we have not yet undertaken a review of the Board's effectiveness. We recognise the importance of such a review and believe that the appropriate time to do this would be in the final quarter of 2017 following the anniversary of our Listing. Thereafter we will arrange an externally facilitated evaluation of the Board's effectiveness once every three years.

Strategy

We have a clear strategy focused on three drivers: growth, innovation and efficiency. One of the Board's key areas of responsibility is to oversee this strategy and the delivery of value to our shareholders and other stakeholders. We will do this through regular reviews with senior management, by assessing our performance against objectives and by providing constructive challenge to ensure that we focus on achieving our objectives. Further information about our strategy is included in the Strategic report on pages 24 to 25.

Culture

In addition to rules and regulations, values and behaviours are a key part of governance. While your Board under my leadership has a role to play in overseeing the Group's culture, I am very pleased to report that ConvaTec has a very strong values-driven culture which is already well embedded in all our HR processes and procedures and reflected in our extensive compliance programme and our risk management processes. Further details of our compliance programme and our risk management processes are included in the Strategic report on page 49 and 28 to 33 respectively.

The Board and diversity

We have established a strong Board with a wide range of relevant skills and experience, different nationalities and a range of ages. However we recognise that the Board, in terms of gender, is not diverse. We will continue to review the Board's composition and we will endeavour to achieve appropriate levels of diversity while at all times ensuring that individuals are appointed on merit and have the relevant skills and expertise to perform effectively.

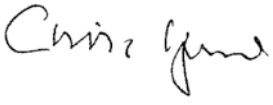
During 2017 we intend to put in place a Board Diversity Policy and objectives for implementing this policy.

Dialogue with shareholders

We are committed to maintaining an active dialogue with our shareholders. In addition to providing regular updates on our performance and significant developments we have also put in place a programme of engagement with shareholders to develop their understanding of our strategy and marketplace and to provide an opportunity for the Board to hear shareholders' views.

We have engaged with a number of our largest shareholders in relation to our remuneration policy and our performance measures and targets for our bonus and long term incentive arrangements. Detailed information about these areas can be found in the Remuneration Committee report on pages 66 to 82. We also met with a large number of shareholders during and after the IPO process. Following the announcement of our preliminary results on 2 March 2017 we again met with a number of shareholders to provide an update on the execution of our strategy. We will repeat this process following the announcement of our half-year results. In addition, our Executive Directors will make themselves available for meetings with shareholders who wish to have more detailed conversations.

We look forward to engaging with you in 2017 and beyond, and I look forward to meeting individual shareholders at our forthcoming Annual General Meeting.



Sir Christopher Gent
Chairman
17 March 2017

Board of Directors

A strong Board with a wide range of relevant skills and experience.

Sir Christopher Gent
Chairman, 68

Date of appointment
October 2016

Skills and experience
Sir Christopher has significant board level experience across global operations and a range of sectors, including healthcare. His previous board positions include Chief Executive of Vodafone, Chairman of GlaxoSmithKline, Chairman of the Supervisory Board of Mannesmann AG, Board Member of Verizon Wireless, Board Member of Ferrari, Non-Executive director of China Mobile (Hong Kong) Limited and Non-Executive director of Lehman Brothers. He was also a Senior Adviser to Bain & Company. He is currently a member of the international advisory board of Hakluyt.

Committee membership
Nomination Committee – Chairman
CR Committee – Chairman
Remuneration Committee

Paul Moraviec
Chief Executive Officer, 58

Date of appointment
September 2016 (joined ConvaTec Limited in 2009)

Skills and experience
Paul was appointed Chief Executive in 2014. He joined ConvaTec Limited in 2009 as President of EMEA. Previously he held senior positions with a number of leading global medical device companies, including Abbott Laboratories where he was Vice–President of International Commercial Operations covering EMEA, APAC, Latin America and Canada, Johnson & Johnson where he held a series of increasingly senior international management and marketing roles and Bausch & Lomb where he was a country manager. Prior to joining ConvaTec he was Chief Executive of a specialist surgical robotics company.

Committee membership
CR Committee

Nigel Clerkin
Chief Financial Officer, 43

Date of appointment
September 2016 (joined ConvaTec Healthcare Ireland Limited in 2014)

Skills and experience
Nigel was previously the Executive Vice President and Chief Financial Officer ("CFO") of Elan Corporation, a Dublin-based biotechnology company, where he held a series of roles in strategic planning and finance prior to becoming CFO in 2011. Earlier in his career, Nigel was an auditor with KPMG. He is a fellow of Chartered Accountants Ireland.

Committee membership

Steve Holliday
Deputy Chairman and Senior Independent Non-Executive Director, 60

Date of appointment
October 2016

Skills and experience
Steve was previously Chief Executive of National Grid plc, a role he held for over nine years until his retirement in July 2016, Non-Executive director of Marks & Spencer plc and a Board Member of British Borneo Oil and Gas. He also held senior management roles with Exxon in refining, shipping and international gas. Currently he is Vice-Chairman of Business in the Community and The Careers and Enterprise Company and Chairman of the board of trustees at Crisis, the homeless charity. Steve is a fellow of the Royal Academy of Engineering.

Committee membership
Remuneration Committee – Chairman
Audit and Risk Committee
Nomination Committee

Jesper Ovesen
Independent Non-Executive Director, 59

Date of appointment
October 2016

Skills and experience
Jesper's previous board positions include Executive Chairman of Nokia Siemens Networks, Chief Financial Officer of TDC, Chief Executive of Kirkbi Group, Chief Financial Officer of The Lego Group and Danske Bank and the Audit Chair of FLSmidth & Co., Orkla Group and Danisco. He was also a Director of corporate finance for Novo-Nordisk. He is currently Deputy Chairman of SEB, one of the largest banks in the Nordic region, and the Audit Chair of Lundbeck and Sunrise Communications Group. Jesper is a chartered accountant.

Committee membership
Audit and Risk Committee – Chairman
Nomination Committee
Remuneration Committee

Rick Anderson
Independent Non-Executive Director, 56

Date of appointment
October 2016

Skills and experience
Rick was previously Group Chairman of Johnson & Johnson and Worldwide Franchise Chairman of Cordis Corporation. Before joining Johnson & Johnson, Rick was Vice President of Global Marketing of Racal HealthCare and, prior to that, he was with Boehringer Mannheim Pharmaceuticals and Allergan Pharmaceuticals. Currently he is a Managing Director at PTV Healthcare Capital ("PTV") and serves on the board of PTV's portfolio company Apollo Endosurgery. He is also the Chair of the board for Cardiva Medical.

Committee membership
Audit and Risk Committee
CR Committee

Raj Shah
Non-Executive Director (not independent), 48

Date of appointment
September 2016

Skills and experience
Raj is a Partner at NC Advisory LLP, exclusive adviser to Nordic Capital Fund V, Nordic Capital Fund VI, Nordic Capital Fund VII and Nordic Capital Fund VIII. He joined NC Advisory LLP in May 2015 and he is focused on healthcare investments. Prior to that Raj was co-head of European healthcare investment banking at Goldman Sachs. He is currently a director of ERT and is also a director of Royal Brompton & Harefield Charity. He originally trained as a cardiac surgeon at Oxford and London.

Committee membership
Audit and Risk Committee
Nomination Committee
Remuneration Committee

Thomas Vetander
Non-Executive Director (not independent), 37

Date of appointment
September 2016

Skills and experience
Thomas is a Principal at NC Advisory AB, exclusive adviser to Nordic Capital Fund V, Nordic Capital Fund VI, Nordic Capital Fund VII and Nordic Capital Fund VIII. He joined NC Advisory AB in June 2006 and prior to that he worked as a management consultant at McKinsey & Company in Stockholm. Currently he is a director of Acino and Anicura.

Committee membership
Audit and Risk Committee

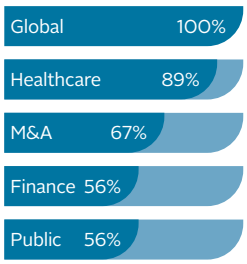
Kunal Pandit
Non-Executive Director (not independent), 37

Date of appointment
September 2016

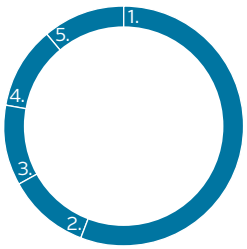
Skills and experience
Kunal is a Partner at Avista Capital Partners, and has been with the firm since August 2010. Prior to joining Avista, Kunal was at DLJ Merchant Banking Partners in London and before that he was a member of the leveraged finance group and the investment banking department at Lehman Brothers in London. Currently he is a Director of Acino, Trimb Healthcare and Guala Closures.

Committee membership
Nomination Committee

Board experience



Board nationality



1. British	**56%**
2. Irish	**11%**
3. Swedish	**11%**
4. US	**11%**
5. Danish	**11%**

Corporate governance report

UK Corporate Governance Code compliance

The Board is committed to applying the highest standards of corporate governance across the Group and confirms that since the Company's Listing to 31 December 2016, it has complied with the requirements of the Code save as set out below. A copy of the Code is available on the Financial Reporting Council's website at www.frc.org.uk.

As highlighted in the Chairman's governance letter, the areas of non-compliance arise for two reasons. Firstly two of our current shareholders, companies ultimately owned by Nordic Capital and Avista, own the majority of the Company's shares and are entitled to appoint Non-Executive Directors. Secondly a short period of time has elapsed since our Listing on 31 October 2016 and as a result we have not had the opportunity to address some requirements of the Code that would usually be addressed through the annual cycle of meetings and activities of the Board and its committees.

The areas of non-compliance with the Code that arise as a result of our major shareholders' entitlement to appoint non-executive directors are:

- The recommendation that at least half the board of directors of a UK-listed company, excluding the Chairman, should comprise non-executive directors determined by the board to be independent in character and judgement and free from relationships or circumstance which may affect, or could appear to affect, the director's judgement (provision B.1.2).
- A majority of members of the nomination committee should be independent non-executive directors (provision B.2.1).
- The audit committee should comprise of at least three independent non-executive directors (provision C.3.1).
- The remuneration committee should comprise of at least three independent non-executive directors (provision D.2.1).

This non-compliance will be addressed as the composition of the Board changes over time.

The areas of non-compliance with the Code that arise as a result of the short period of time that has elapsed since our Listing are:

- Led by the senior independent director, the non-executive directors should meet with the chairman at least annually, to approve the chairman's performance and on such occasions as are deemed appropriate (provision A.4.2). It is intended that such meeting and appraisal will be undertaken in the final quarter of 2017.
- The chairman should regularly review and agree with each director their training and development needs (provision B.4.2). As explained in the Chairman's governance letter on page 53 and below, it is intended that such reviews will take place during 2017 and plans to address individual needs will be put in place thereafter.
- An evaluation of the Board and its committees' performance to be undertaken (provision B.6.1). As explained in the Chairman's governance letter on page 53 and below, it is intended that such reviews will be undertaken in the final quarter of 2017.
- An annual review of the effectiveness of the Company's risk management and internal control systems (provision C.2.3). It is intended that such review will be undertaken in the final quarter of 2017.

Board responsibilities

The Board is specifically responsible for the long-term success of the Group and for ensuring that there is a framework of appropriate and effective controls which enables risk to be assessed and managed. The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. The Board also sets the Company's vision, values and corporate standards and ensures that its obligations to shareholders and other stakeholders are understood and met.

The Board has a schedule of matters reserved for its approval and a formal structure of delegated authority, whereby specified items have been delegated to the Board committees, and specified management control has been delegated to the Executive Directors and the senior management teams within the business. The Board has agreed the terms of reference for the Audit and Risk, Nomination, Remuneration, Corporate Responsibility and Market Disclosure committees. The powers of the Directors are set out in the Company's Articles of Association.

Matters reserved for the Board

A schedule of formal matters reserved for the Board's decision and approval is available at www.convatecgroup.com. These largely relate to matters of governance and business where independence from Executive management is important, and include the following:

- Approving the annual and half-year results and any other Group trading or interim statements, the Annual Report and Accounts, accounting policies and, subject to shareholder approval, the appointment and remuneration of the external auditors.
- Approving the Group's strategic aims and objectives.
- Approving the annual operating and capital expenditure budgets, including all investments in excess of $10m or otherwise as required under the Board's delegation of authority.
- Approving any material extension of the Group's activities into new business or geographic areas.
- Oversight of the Group's operations and review of performance against the Group's annual budget and its strategic aims and objectives.
- Approving appointments to the Board.
- Approving any changes to the capital structure of the Company as appropriate.
- Approval of the Group's dividend policy and the payment of interim and the recommendation of final dividends.
- Reviewing material litigation.
- Approving major capital projects, acquisitions and disposals.
- Approving material contracts.
- Determining and monitoring the Group's risk appetite, systems of internal control, corporate governance structures, practices and approval authorities.
- Determining the Group's remuneration policy and the remuneration arrangements of the Executive Directors and other senior executives, monitoring executive performance and succession planning.
- Approval and monitoring of the corporate responsibility policy and report.

Following the Listing of the Company no changes were made to the schedule of formal matters reserved for the Board's decision. Such decisions are usually by consensus at Board meetings. On occasion, decisions may be taken by a majority of Board members. In the case of an equality of votes, the Company's Articles of Association provide the Chairman with a second or casting vote.

Governance framework
Our governance framework is set out below.

Sir Christopher Gent
Chairman

Raj Shah
Non-Executive Director

Steve Holliday
Senior Independent Non-Executive Director/Deputy Chairman

Paul Moraviec
Chief Executive Officer

Thomas Vetander
Non-Executive Director

Jesper Ovesen
Independent Non-Executive Director

Nigel Clerkin
Chief Financial Officer

Kunal Pandit
Non-Executive Director

Rick Anderson
Independent Non-Executive Director

Audit and Risk Committee	Remuneration Committee	Nomination Committee	Corporate Responsibility Committee	Market Disclosure Committee
Jesper Ovesen (Chair)	Steve Holliday (Chair)	Sir Christopher Gent (Chair)	Sir Christopher Gent (Chair)	One Executive Director
Thomas Vetander Rick Anderson Steve Holliday Raj Shah	Raj Shah Jesper Ovesen Sir Christopher Gent	Raj Shah Kunal Pandit Jesper Ovesen Steve Holliday	Rick Anderson Paul Moraviec	One Non-Executive Director (Chairman) or Senior Independent Director or any other Non-Executive Director

Board composition

At the end of the year the Board comprised nine Directors: the Chairman, two Executive Directors, three independent Non-Executive Directors and three Non-Executive Directors. Biographical details of all Directors are set on pages 54 and 55 and at www.convatecgroup.com.

Nordic Capital and Avista together own the majority of the Company's shares. Given its significant investment in the Company, Nordic Capital is entitled to appoint two Non-Executive Directors to the Board for so long as it and its associates are entitled to exercise, or to control the exercise of, 25% or more of the votes able to be cast on all or substantially all matters at general meetings of the Company. Nordic Capital and Avista are entitled to appoint one Non-Executive Director each to the Board for so long as they and their associates respectively are entitled to exercise, or control the exercise of, 10% per cent or more of the votes able to be cast on all or substantially all matters at general meetings of the Company. Nordic Capital and Avista have the right to offer a purchaser of 15% or more of the votes able to be cast on all or substantially all matters at general meetings of the Company, a right to appoint one Non-Executive Director subject to various conditions as set out on pages 84 and 85. The first such appointees by Nordic Capital are Raj Shah and Thomas Vetander and by Avista is Kunal Pandit.

Details of Raj Shah, Thomas Vetander and Kunal Pandit's committee memberships are set out above. As a result the Audit and Risk Committee and the Remuneration Committee does not consist solely of independent Non-Executive Directors. Notwithstanding their lack of independence, the Board considers that the business experience of Raj, Thomas and Kunal and their long-standing relationship and understanding of the Group are valuable contributions to each of the committees.

The Board is mindful of the need to consider the interests of the Company's new minority investors. In October 2016 Sir Christopher Gent was appointed to the Board as independent Chairman and in October 2016 Steve Holliday, Jesper Ovesen and Rick Anderson were appointed to the Board as independent Non-Executive Directors. The Board believes that these appointments will provide the appropriate corporate governance balance in light of the interests of both Nordic Capital and Avista and new minority shareholders, and that the departures from the Code will not have an impact on the Group's governance in practice. Notwithstanding the Board will continue to review its composition and over time intends to fully comply with the Code recommendations.

The Chairman

Sir Christopher Gent was the Chairman from 31 October 2016 to the date of this Annual Report.

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

The Senior Independent Director

Steve Holliday was the Company's Senior Independent Director ("SID") from 31 October 2016 to the date of this Annual Report. The SID role is to provide a sounding board for the Chairman, to serve as an intermediary for the other Directors when necessary and to be available to shareholders if they have concerns which contact through the normal channels of the Chairman or Executive Directors has either failed to resolve or for which such contact is inappropriate. The SID also will lead the annual evaluation of the performance of the Chairman. The documentation detailing the Board approved role and responsibilities of the SID is available at www.convatecgroup.com.

Re-appointment of Directors

All Directors are subject to annual re-election and all Directors will be proposed for election by shareholders at the AGM to be held on 11 May 2017. Non-Executive Directors are initially appointed for a one-year term and retiring Directors, if willing to act, will be deemed to be re-appointed unless the resolution for their re-appointment is not approved.

Board meetings and attendance

The Board intends to meet approximately seven times a year and will aim to hold at least two Board meetings each year at one of the Company's operations to provide the Board with access to the Group's wider management team and the opportunity to deepen their understanding of the Group's business. Seven in person meetings are scheduled for 2017 with supplementary telephone meetings as required. Each of the Directors has confirmed that they have sufficient time to properly fulfil their duties including attendance at the Board meetings scheduled to take place in 2017 and separate time with management.

In addition to the scheduled meetings the Board may meet at other times as required or at the request of one or more Directors. Where decisions are required between meetings on matters reserved to the Board, there is a process in place to schedule meetings by telephone and, since March 2017, review papers via an encrypted portal system.

The Board, Nomination Committee, Remuneration Committee and Audit and Risk Committee each met once during the period in December 2016 and all members attended the respective meetings which took place at the Group's UK-based global research and development facility at Deeside, North Wales.

Since the year-end the Board has met on two occasions. The following Board committees also met since the year-end:
- Audit and Risk Committee – one meeting in February.
- Remuneration Committee – one meeting in February.

As highlighted in the biographical information provided about each Director on pages 54 and 55 of this Governance section, the Board benefits from a wide variety of skills, experience and knowledge. However, each independent Non-Executive Director must be able to commit sufficient time to the Company and this must be balanced against other commitments and any other external appointment they may hold. Through the annual evaluation of Non-Executive Directors' effectiveness this sufficient time commitment will continue to be assessed.

In addition to scheduled Board meetings, Non-Executive Directors are expected to attend the AGM, the Company's annual strategy meeting and certain other Company events and site visits throughout the year. A time commitment of 15-25 days per annum is the anticipated requirement for each Non-Executive Director. A greater time commitment is required from the Chairman and he has no other significant commitment that could affect his commitment to the Company.

Activities of the Board during the period

At the meeting held in December 2016, the Board:
- Reviewed current trading and financial performance.
- Received an update on the Group's Margin Improvement Programme details of which are set out in the Strategic report on page 25.
- Reviewed the 2017 operating plan.
- Received an update on the Group's legal and compliance framework.
- Approved the appointment of the Company's corporate brokers.

Following the year-end the Board met in February and March 2017. At the meeting in February the Board:
- Reviewed the Group's draft full year results statement to ensure that it is fair, balanced and understandable.
- Received a report from the Audit and Risk Committee on the draft full year results statement, the Annual Report and Financial Statements and the accounting issues relating to the Financial Statements.
- Reviewed the process and stress testing undertaken to support the Group's Viability and Going Concern statements.
- Reviewed the Company's principal risks and determined the Group's risk appetite.
- Approved the 2017 operating plan.
- Reviewed the progress of the Company's Margin Improvement Programme.

At the meeting in March the Board:
- Approved the Annual Report and Accounts.
- Approved an announcement with regard to the release of the Annual Report and Accounts.

Board independence and conflicts of interest

The Companies Act has codified the Directors' duty to avoid a situation in which they have, or can have, an interest that conflicts, or possibly may conflict with the interest of the Company. A Director will not be in breach of that duty if the relevant matter has been authorised in accordance with the Articles of Association or by the other Directors.

The Board has reviewed the independence of the Chairman and each Non-Executive Director (other than those appointed by Nordic Capital and Avista, being Raj Shah, Thomas Vetander and Kunal Pandit) and considers them to be independent of management and free from business relationships that could interfere with the exercise of independent judgement. The Board believes that any shares in the Company held by the Chairman and the independent Non-Executive Directors serve to align their interests with those of the Company's shareholders.

Board induction and development

All new Directors participate in a formal induction programme which is monitored by the Chairman and is the responsibility of the Company Secretary. Its purpose is to familiarise new Directors with the Group's business and its operations and provide key information in relation to its governance and compliance processes and procedures.

In September and October 2016 the Chairman and the Non-Executive Directors all participated in formal induction meetings which included discussions with members of the Group's senior management team and legal and compliance training. In addition, separate meetings were held between each of the independent Non-Executive Directors and Nordic Capital and Avista in their capacity as major shareholders of the Company. The Executive Directors also met with a significant number of the Company's shareholders as part of the IPO process. And as highlighted above, the December Board meeting was held at the Group's global research and development facility which provided the Directors with an opportunity to meet the full executive leadership team, receive a presentation from each of the franchises and Regional Presidents on their business areas and tour the operation.

The induction programme for new Directors will continue to be developed building on our experience inducting each new Director. In particular the programme will include committee induction processes to provide new committee members with

information relevant to the committee's activities. During 2017 the Chairman will review and agree with each Director their training and development needs and initiatives to support the Non-Executive Directors' continued development and training needs will also be introduced. Furthermore all Non-Executive Directors will be expected to meet regularly with members of the senior operational management team and visit the Group's operations. In addition at scheduled Board meetings the Directors will receive updates and presentations from the Group's senior management on business developments, with rotating "deep dives" on each franchise, a geographic region or a strategic initiative. In addition to enhancing the Directors' knowledge of the Group these regular detailed business updates will provide the Board with access to the Group's senior talent.

Board evaluation

As explained on page 53, as the Company listed recently a formal and independent evaluation of the Board's effectiveness has not yet been undertaken. The Board recognises the benefit of a thorough Board and committees evaluation process and intends to conduct such a process in the final quarter of 2017. The output from that review will be discussed by the Board and any findings and actions arising will be disclosed in the 2017 Annual Report. Thereafter annually the Board and its Committees will be evaluated in accordance with their terms of reference and once every three years we will arrange for this evaluation process to be externally facilitated.

Separately on an annual basis the Board will conduct an evaluation of the Chairman. This will be led by the SID with input from the other Non-Executive and Executive Directors.

Committees of the Board

The Board has established five committees of the Board: a Nomination Committee, a Corporate Responsibility Committee, a Market Disclosure Committee, an Audit and Risk Committee and a Remuneration Committee. Each of these committees operates under written terms of reference which set out formally delegated duties and responsibilities. These terms of reference are available on the Group's corporate website at www.convatecgroup.com.

The reports from each of the Board's committees other than the Market Disclosure Committee are set out on the following pages: Nomination Committee report on pages 60 to 61, Corporate Responsibility Committee report on page 62, Audit and Risk Committee report on pages 63 to 65 and Remuneration Committee report on pages 66 to 82.

Nomination Committee report

In the coming year, when reviewing the composition of the Board we will endeavour to achieve appropriate levels of diversity while at the same time ensuring that individuals are appointed on merit and the Board at all times has the relevant skills and expertise to perform effectively.

Dear Shareholder

This is the first report of the Nomination Committee (the "Committee").

Committee members and independence

I chair the Committee, and my fellow Committee members are Jesper Ovesen, Steve Holliday, Kunal Pandit and Raj Shah. From time to time other members of the Board may be invited to attend all or part of any Committee meeting if it is deemed appropriate. I confirm that I have no other significant commitments.

The Code recommends that a majority of the Committee's members are independent non-executive directors. As explained on page 56, Kunal Pandit and Raj Shah are considered not to be independent for the purposes of the Code. However the Board believes that this Committee will still be able to operate effectively as two of its five members are independent. In addition, I was also considered independent on appointment. Further, the Committee will benefit from the business experience of Kunal and Raj and their long-standing relationship and understanding of the Group. This non-compliance will be addressed as the structure of the Board changes over time.

Key areas of responsibility

The Board has delegated to the Committee responsibility for reviewing and proposing appointments to the Board and for recommending any other changes to the composition of the Board.

The Committee's key areas of responsibility include to:

- Lead the process for Board appointments and make recommendations to the Board.
- Review regularly the structure, size and composition of the Board (including its skills knowledge, independence, experience and diversity) and make recommendations to the Board about any changes.
- Consider plans and make recommendations to the Board for orderly succession for appointments to the Board and to senior management.
- Maintain an appropriate balance of skills and experience within the Company and on the Board and to ensure progressive refreshing of the Board, taking into account the challenges and opportunities facing the Company.
- Review each year the time Non-Executive Directors are expected to spend on the Company's matters and whether each Non Executive Director is devoting enough time to his or her duties.

Detailed responsibilities are set out in the Committee's terms of reference which can be found at www.convatecgroup.com.

Activities of the Committee during the period

At the meeting held in December 2016, which was attended by all members, the Committee:

- Discussed a process to review and develop the diversity of the Board.
- Reviewed the succession planning for the Board and the senior management team.
- Appointed Steve Holliday to the Committee.

Board appointments and diversity

When evaluating candidates for Board membership candidates are considered on merit and objective criteria taking account of their relevant skills, expertise and sector knowledge and recognising the benefits of Boardroom diversity, including age, nationality, ethnicity and gender. This Committee leads this evaluation process and makes recommendations to the Board.

As Board composition changes over time and new appointments are made, the Committee will be responsible for ensuring that in relation to each new Board appointment an appropriate role specification is prepared identifying the skills, experience and knowledge required.

At Board level we have five nationalities and a good range of skills, expertise and ages. However currently we do not have any female Board members. In the coming year, when reviewing the composition of the Board we will endeavour to achieve appropriate levels of diversity while at the same time ensuring that individuals are appointed on merit and the Board at all times has the relevant skills and expertise to perform effectively. During 2017 the Committee intends to put in place a Board Diversity Policy and objectives for implementing this policy which will be applied when drawing up candidate shortlists.

Selected candidates will be interviewed by members of the Committee, including myself and will be offered meetings with the Executive Directors. The Committee will then make recommendations to the Board for its approval.

External search firms will be engaged to assist with candidate identification.

Chairman and Non-Executive Director appointments

Russell Reynolds, the external search firm, was retained prior to the Group's Listing to identify suitable candidates for appointment as Chairman of the Company. As a result of this process I was appointed and entered into an engagement letter with ConvaTec Healthcare B S.a.r.l. with effect from 1 September 2016 to provide support to the Company in prepartion for its Listing. On 31 October 2016, I entered into a letter of appointment with the Company which replaced the letter effective 1 September 2016.

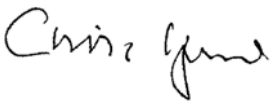
Russell Reynolds, the external search firm, was retained prior to the Group's Listing to identify suitable candidates for appointment as Non-Executive Directors of the Company. As a result of this process Steve Holliday, Jesper Ovesen and Rick Anderson were appointed as independent Non-Executive Directors and entered into engagement letters with ConvaTec Healthcare B S.a.r.l. with effect from 1 September 2016 to provide support to the Company in preparation for its Listing. On 31 October 2016 the independent Non-Executive Directors entered into letters of appointment with the Company which replaced the letters effective 1 September 2016.

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

From time to time Korn Ferry will also conduct executive search assignments for the Group.

Russell Reynolds and Korn Ferry have no connection with the Company other than they may be engaged to assist with senior management appointments from time to time.

In 2017 we will continue our work to maintain a strong Board.



On behalf of the Nomination Committee
Sir Christopher Gent
Chairman of the Nomination Committee
17 March 2017

Corporate Responsibility ("CR") Committee report

How we conduct ourselves – earning trust, behaving responsibly and with integrity and doing what we say we will do – is essential to deliver long-term sustainable returns for shareholders.

Dear Shareholder

This is the first report of the CR Committee (the "Committee").

Committee members and independence

I chair the Committee and my fellow Committee members are Rick Anderson and Paul Moraviec. From time to time other members of the Board may be invited to attend all or part of any Committee meeting if it is deemed appropriate.

Key areas of responsibility

The Committee's key areas of responsibility include to:

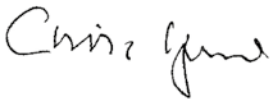
- Define the Company's obligations under the headings of economic responsibility, community responsibility and environmental responsibility, and to oversee the Company's conduct in the context of these obligations.
- Approve a strategy for discharging these responsibilities in a manner which commands respect and confidence.
- Monitor relevant external trends and assess how these may affect the Company's reputation or its ability to operate, and review how best to address these trends.
- Oversee the creation of appropriate policies and supporting measures and oversee their implementation across the Group.
- Monitor the Group's engagement with external stakeholders and other interested parties.
- Ensure that appropriate communications policies are in place and working effectively to build and protect the Group's reputation both internally and externally.

Detailed responsibilities are set out in the Committee's terms of reference which can be found at www.convatecgroup.com.

Activities of the Committee

Between the year-end and signing of this Annual Report the Committee:

- Reviewed and approved our high-level CR strategy which will be implemented on a phased basis over the next three years.
- Reviewed and approved the draft CR disclosure for the year ended 31 December 2016, which is included in the Strategic report on pages 44 to 49.



On behalf of the Corporate Responsibility Committee
Sir Christopher Gent
Chairman of the Corporate Responsibility Committee
17 March 2017

Audit and Risk Committee report

The Board has delegated to the Committee responsibility for overseeing financial reporting, internal and external audit, internal controls and risk management.

Dear Shareholder

I am pleased to present this first report of the Audit and Risk Committee (the "Committee").

Committee members and independence

I chair the Committee, and my fellow Committee members are Steve Holliday, Rick Anderson, Raj Shah and Thomas Vetander. From time to time other members of the Board, in particular the Chief Financial Officer, and representatives from the External Auditor and the Company's Internal Audit, Legal and Compliance teams may be invited to attend all or part of any Committee meeting if it is deemed appropriate. I am a chartered accountant and have extensive experience in senior finance roles across a range of international businesses. I am currently the Audit Chair of two large companies, Lundbeck and Sunrise Communications Group. My fellow Committee members have relevant financial experience as a result of their current roles.

Details of the experience of all members of the Committee are included on pages 54 to 55. I am considered by the Board to have recent and relevant financial experience, and all members of the Committee are considered by the Board to have competence relevant to the sector in which the Company operates, as required by the Code.

The Code recommends that all members of the Committee are independent non-executive directors. As explained on page 56, Raj Shah and Thomas Vetander are considered not to be independent for the purposes of the Code, however the Board believes that the independence of this Committee will not be compromised as a majority of its members are independent. This non-compliance will be addressed as the composition of the Board changes over time.

Key areas of responsibility

The Board has delegated to the Committee responsibility for overseeing financial reporting, internal and external audit, internal controls and risk management. The Committee fulfils a key role in ensuring the integrity of financial information published by the Company and the effectiveness of the internal and external audit processes.

In accordance with its terms of reference the Committee's key areas of responsibility include:

Financial reporting

- Monitor the integrity of the Company's financial statements and ensure compliance with UK company law and accounting regulation.
- Review and report to the Board on significant financial reporting issues and judgements made in connection with the preparation of the financial statements.

Internal audit

- Agree the internal audit annual audit plan and regularly review reports arising from internal audits.
- Monitor the status of actions resulting from internal audits and consider remedial action for overdue items.
- Monitor and review the Group's internal audit resources and monitor its effectiveness.

External audit

- Make recommendations to the Board on the appointment and independence of the external auditor.
- Assess the effectiveness of the audit process and the quality of the external audit.
- Review the policy on non-audit services carried out by the external auditor.

Internal controls
- Monitor the effectiveness of the Group's internal financial controls and compliance with the Code.
- Review the operation of the Group's risk management processes and the control environment over financial risks.

Risk management
- Monitor the nature and extent of the principal risks that the Group is facing and should be willing to take in achieving its strategic objectives.
- Review the Group's compliance policies and procedures to ensure that the Group complies with relevant regulatory and legal requirements including the arrangements in place for the reporting and investigation of concerns.

The Committee has a planned cycle of activities to ensure that it will meet its responsibilities in the current financial year. Detailed responsibilities are set out in the Committee's terms of reference which can be found at www.convatecgroup.com.

Activities of the Committee during the period and following year-end

The Committee fulfilled its duties under its terms of reference and discharged its responsibilities primarily by:
- Reviewing the external auditor's plan for the audit of the Group's financial statements, which included key areas of scope of work, key risks on the financial statements, confirmation of auditor independence and the proposed audit fee*.
- Reviewing the Group's system of controls and its effectiveness, reviewed the work performed by Internal Audit, and the internal audit plan for 2017*.
- Reviewing the Group's draft full year results statement prior to Board approval ensuring that it is fair, balanced and understandable and reviewing the external auditor's detailed reports thereon, in particular reviewing the opinions of management and the auditor in relation to the carrying values of the Group's assets.
- Reviewing the accounting issues and significant judgements related to the financial statements.
- Reviewing the Annual Report and Accounts and ensuring they are fair and balanced and understandable,
- Reviewing the process and stress testing undertaken to support the Group's Viability and Going Concern statements.
- Reviewing the appropriateness of the Group's accounting policies.
- Recommending to the full Board, which adopted the recommendation, the reappointment of Deloitte LLP ("Deloitte") as the Group's external auditor*.
- Approving the policy on non-audit services carried out by the Group's external auditor.
- Reviewing internal controls and risk management systems, including reviewing the corporate risk register.

* The items marked with an asterisk were considered at the meeting of the Committee in December 2016 and all other items at the meeting held in February 2017.

The Committee did not hold any meetings with shareholders during the year. However the Committee is keen to foster an open dialogue with shareholders on its activities.

Committee evaluation

The Committee plans to undertake a self-assessment during 2017, taking into account its collective skills and experience, the activities that it has engaged in and the effectiveness of its actions in improving the Company's system of risk management and internal control. During 2017 the Committee will remain focused on maintaining sufficient oversight of key areas of risks, the effectiveness of the controls and mitigation over such risks, and monitoring and anticipating changes in the Company's risks.

External audit

On 7 October 2016 Deloitte was appointed as the Group's external auditors. At the Committee's meeting in December 2016 this appointment was reconfirmed. Upon the recommendation of the Committee, Deloitte will be proposed for election by shareholders at the AGM to be held on 11 May 2017 and Gregory Culshaw ACA appointed as senior statutory auditor. Deloitte has confirmed its independence as auditor to the Company in a letter addressed to the Directors.

External audit tendering

Currently the Committee intends to run a tender for the audit role in or before 2021 but reserves the right to run such a tender at any time. The audit tendering process will occur at least once every ten years.

Audit independence

Deloitte was determined to be the appropriate adviser in relation to specific aspects of the Group's initial public offering given the scale and complexity of the work involved. The work did not represent a threat to Deloitte's independence as it was permissible work under audit independence guidelines and was performed by a different and independent engagement team; did not relate to production of financial statements; did not result in decisions being made by Deloitte on behalf of management; and the fee arrangements were not dependent on the results of the work. Deloitte also complied with the independence requirements as set out by the APB Ethical Standards of Reporting Accountants. The IPO-related non-audit fees incurred to Deloitte are not expected to recur in 2017.

A policy is in place which requires all material non-audit work proposed to be carried out by the external auditor to be pre-authorised by the Chair of the Committee in order to ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity. Certain services cannot be provided by the external auditor or members of its network without the possibility of compromising its independence and as such are not permitted to be provided by the external auditor. These prohibited non-audit services include, but are not limited to, the provision of internal audit services, design or implementation of information technology systems relating to the production of financial statements, valuation services, actuarial valuation services, certain taxation services, and provision of legal services, recruitment services, restructuring services, bookkeeping and payroll services. Other types of non-audit work can be undertaken by the external auditor, subject to the implementation of adequate safeguards and the total fees for these non-audit services must not exceed 70% of the average audit fees billed to the Company by the external auditor in the past three years. A summary of fees paid to the external auditor is set out in Note 6 to the Financial Statements. In the period from Listing to 31 December 2016, the external auditor did not undertake any material non-audit work for the Company.

External audit effectiveness

Overall effectiveness of the external audit process is dependent upon open communication between the Group and the auditor, which allows each party to raise potential accounting and financial reporting issues as and when they arise, rather than limiting this exchange only during regularly scheduled meetings. To assess the effectiveness of the external auditor, the Committee reviewed:
- The arrangement for ensuring the external auditor's independence and objectivity.
- The external auditor's fulfilment of the agreed audit plan and any variations from the plan.
- The content of the external auditor's assessment of internal control.

– The robustness and perception of the auditor in its handling of the key accounting and audit judgements.

The Committee plans on developing a formal process for reviewing the performance of the external audit and identifying areas for improvement which is aligned with best practice during 2017.

Risk management

The Board has delegated to this Committee responsibility for routine monitoring and reviewing the Group's risk management system and the risks that the Group should be willing to take in achieving its strategic objectives. The Committee will report to the Board in fulfilling its responsibilities to assess the Group's risk management and internal controls including determination of the nature and extent of the principal risks. Details of the Group's principal risks and uncertainties are set out on pages 30 to 33 together with information about the management and mitigation of such risks.

Internal audit

The Group has an Internal Audit function. Its primary objective is to systematically and objectively assess the adequacy and effectiveness of the business controls over the Group's operations, financial reporting, risk and compliance areas and review the quality of performance in achieving the Group's objectives and goals.

The Committee has reviewed and approved the internal audit charter and risk-based internal audit plan, and received updates on the internal audit activity, engagement results, and the status of management actions to help form a view on internal audit effectiveness.

The Committee has satisfied itself that the quality, experience and expertise of the Internal Audit function are appropriate for the Group.

Compliance review

The Committee also reviews the Group's compliance policies and procedures including the operation of the third party-managed whistle-blowing solution to enable employees and third parties to report suspected breaches of our Code of Ethics and Business Conduct. Further information about our compliance programme and our Code of Ethics and Business Conduct is included on page 49.

Significant areas considered by the Committee in relation to the financial reporting matters in 2016

During the year, the Committee considered the following significant risks and issues in relation to the Group's financial statements and disclosures:

– The implications and accounting conclusions reached in connection with the Group's reorganisation.
– The assessment of the carrying value of the goodwill due to the significance of the amounts recorded on the Consolidated Statement of Financial Position and judgements involved in assessing goodwill for impairment.
– The assessment of the carrying value of intangible assets due to the significance of the amounts recorded on the Consolidated Statement of Financial Position.
– Assessment of uncertain tax positions.
– Going Concern and long-term Viability Statements.
– Ensuring the Annual Report and Accounts are fair, balanced and understandable.

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

The Committee's process for challenging the assumptions of management and addressing the risks identified includes the following activities:

– Reviewing the significant management judgements and assumptions underlying management's impairment analysis for goodwill and intangibles and challenging key assumptions such as discount rates and terminal growth rates applied, comparing rates to industry peers and historical performance.
– Challenging management growth forecasts through analytical review and assessment of the ability to achieve these forecasts.
– Reviewing the evidence supporting the Going Concern basis of accounts preparation and Viability Statement.

Our Financial Statements also reflect a restatement to the historical carrying amounts for goodwill, as we discovered an error in how the acquisition of ConvaTec from Bristol-Myers Squibb was originally recorded in 2008, as further explained in Note 14 to the Financial Statements.

In its advisory capacity, the Committee confirmed to the Board, that based on its review of the Annual Report and Accounts and internal controls that support the disclosures, that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the necessary information for the shareholders to assess the Company's position and performance and its business model and strategy.

The Committee's process for ensuring the Annual Report and Accounts taken as a whole are fair, balanced and understandable includes the following exercises:

– A qualitative review of disclosures and a review of internal consistency throughout the Annual Report and Accounts.
– Preparation and issue to the Audit Committee key working papers and results for each of the significant issues and judgements considered by the Audit Committee in the period.

On behalf of the Audit and Risk Committee
Jesper Ovesen
Chairman of the Audit and Risk Committee
17 March 2017

Remuneration Committee report
Letter from the Remuneration Committee Chairman

Our aim is for ConvaTec's remuneration policy to reward performance and underpin our ambition to be recognised as the most respected and successful MedTech company in the world.

Dear Shareholder

As Chairman of the Remuneration Committee (the "Committee"), I am pleased to present ConvaTec's first Remuneration Committee report ("Report") as a listed company, for the financial year ended 31 December 2016. In line with the reporting Regulations, this Report is split into the following three sections:

- This Annual Statement and high level summary ("Our Remuneration Policy at a glance").
- The Directors' Remuneration Policy, which will be put to a binding shareholder vote at the Annual General Meeting ("AGM") to be held on 11 May 2017.
- Our Annual Report on Remuneration, detailing Director remuneration from Listing to 31 December 2016, and the proposed implementation of our Remuneration Policy for 2017, which is subject to an advisory shareholder vote at our AGM.

Committee members and independence

I chair the Committee, and my fellow Committee members are Sir Christopher Gent, Jesper Ovesen and Raj Shah. The Chief Executive Officer, Executive Vice President Global Human Resources and Vice President Compensation & Benefits attend meetings of the Committee by invitation. The members of the Committee and any person attending its meetings do not participate in any discussion or decision on their own remuneration.

The Code recommends that all members of the Committee are independent non-executive directors. As explained on page 56, Raj Shah is considered not to be independent for the purposes of the Code. However the Board believes that this Committee will still be able to operate effectively as two of its four members are independent Non-Executive Directors. In addition, the Chairman, who is a member of the Committee, was also considered independent on appointment. Further, the Committee will benefit from the experience of Raj Shah given his knowledge of the existing senior management team. This non-compliance issue will be addressed as the structure of the Board changes over time.

Key areas of responsibility

The Committee's key areas of responsibility include to:

- Develop and recommend the Group's policy on executive remuneration.
- Determine the levels of remuneration for Executive Directors and the Chairman and other senior executives.
- Prepare an annual remuneration report for approval by shareholders at the Annual General Meeting.
- Endorse the general reward structure for the Group's management below executive levels.

Detailed responsibilities are set out in the Committee's terms of reference which can be found at www.convatecgroup.com.

Activities of the Committee during the period

The Committee met formally once during the period from Listing to 31 December 2016, and also spent a significant amount of time during the period (including before Listing) in finalising executive remuneration arrangements to ensure these were appropriate for ConvaTec and reflect best practice for a FTSE 100 company. At its first meeting following Listing, the Committee:

- Considered and approved its terms of reference.
- Established its forward agenda.
- Agreed to increase the share ownership guidelines from 200% of salary (as published in the Prospectus) to 400% of salary for the CEO, and 300% of salary for other Executive Directors.

Between the year-end and the signing of this Report, the Committee met once, in February 2017. During this meeting, the Committee:

- Considered and incorporated investor feedback on the Remuneration Policy that was extensively developed prior to and post Listing.
- Approved annual bonus payouts for the 2016 financial year (the targets having been set at the start of the year by the former Compensation Committee).
- Considered and approved the targets and personal objectives for the 2017 annual bonus.
- Agreed the performance measures for the first LTIP award cycle in 2017.
- Finalised this Directors' Remuneration Report.

Our approach to developing ConvaTec's Remuneration Policy

Our aim is for remuneration at ConvaTec to support and reward the achievement of the Group's Mission, which is to be recognised as the most respected and successful MedTech company in the world. Our new Remuneration Policy has been developed based on the following guiding principles for remuneration design, to:

- Incentivise sustained strong financial performance.
- Align rewards with the delivery of the Group's strategy of **growth**, **innovation** and **efficiency**.
- Help ensure the alignment of employees with the interests of shareholders and encourage widespread share ownership across the workforce.
- Help attract, motivate and retain the best talent to deliver the Group's strategy and create long-term shareholder value.
- Reflect market best practice and consistently adhere to principles of good corporate governance and encourage good risk management.

Our Remuneration Policy (the "Policy") is intended to operate for a three year period from the 2017 AGM. The Committee believes that its approach to remuneration will support the delivery of the Group's aims during its initial years as a public company, and will continue to evolve in the future as the Group establishes itself as a listed company. The key features of our Policy are summarised on pages 68 and 69 ("Our Remuneration Policy at a glance") and the details are set out on pages 70 to 77.

The Committee intends that the proposed approach to implementing the Policy set out in this report will continue to ensure close alignment of executive pay outcomes with the Group's performance in 2017 and the longer-term success of the Group.

The annual bonus for 2017 will be primarily linked to Group revenue and profit growth – important KPIs for ConvaTec that capture and underpin our strategic drivers of:

- Optimising revenue growth from our strong portfolio of differentiated products.
- Developing and commercialising new innovative technologies for the benefit of patients and healthcare providers.
- Simplifying the way we operate to reduce complexity and costs, increasing efficiency and freeing up resources to invest elsewhere in our business.

The balance of the bonus opportunity will be based on the achievement of personal strategic objectives.

The vesting of LTIP awards to be made in 2017 will be based on two performance measures, selected to reinforce our strategic drivers and support alignment of executive pay outcomes with shareholder interests through direct linkage to longer-term shareholder value creation. 50% of the 2017 LTIP award will vest based on three-year cumulative EPS, with the remaining 50% vesting on ConvaTec's Total Shareholder Return relative to a group of 13 international MedTech comparators.

In line with our commitment to foster an open and transparent approach to engaging with our shareholders, we consulted with our largest investors in early 2017 on our proposed Policy and its implementation in 2017. Those shareholders we consulted were broadly supportive of the proposals, and the final Policy reflects the feedback we received. This includes the commitment to introduce return on capital as a third measure to the LTIP for any awards made in 2018 onwards.

We hope that you find this report sets out clearly our proposed Policy and how we intend to implement it, as well as the rationale for our decisions. The Committee believes that the Policy and the approach to implementation in 2017 are in the best interests of all shareholders, and we hope that you will support it at our AGM.

Steve Holliday
Chairman of the Remuneration Committee
17 March 2017

Remuneration Committee report
Our Remuneration Policy at a glance

Developing our remuneration policy
The Remuneration Committee has developed the proposed remuneration policy set out on pages 70 to 77, the key elements of which are set out below.

Since Listing
The basic elements of ConvaTec's remuneration policy were outlined in the Company's Prospectus dated 26 October 2016. Following Listing, transitional remuneration arrangements were put in place to cover the period from Listing to 31 December 2016. Since Listing, the Remuneration Committee reviewed and further developed the remuneration policy based on external advice from its independent remuneration consultants, Kepler (a brand of Mercer), and having regard to the delivery of the Group's strategy and its long-term success. Very few changes have been made to the broad policy elements outlined in the Prospectus.

The proposed Policy is intended to become effective from the 2017 AGM (subject to shareholder approval).

Remuneration principles
The Policy is based on the remuneration principles (see page 67) adopted by the Remuneration Committee. The application of these principles ensures that remuneration outcomes are aligned with the Group's strategy and performance both in the short and long-term.

Shareholder consultation
The views of shareholders are important to us and the proposed Policy will be subject to a binding vote at the AGM on 11 May 2017. The Committee is aware of the guidelines issued by investor bodies on corporate governance, in particular the importance of aligning remuneration with performance, and ensuring that policies are broadly consistent with those applying to the wider workforce. The Committee is keen to foster an open and transparent approach to setting and determining outcomes against its remuneration policy and to that end we have engaged with a number of our largest shareholders in relation to our proposed policy.

Strategic drivers
Our strategy is designed to drive sales and earnings momentum by building our strong portfolio of differentiated products with leading positions in large structurally growing markets. Accordingly, we look to excel across the following three strategic drivers:
- Growth
- Innovation
- Efficiency

These strategic drivers are embedded in our incentives through the performance measures we select and the targets we set.

This report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). It also meets the requirements of the UKLA's Listing Rules.

In accordance with the Regulations, the following sections of the Remuneration Report are subject to audit: the single total figure of remuneration for Executive Directors and Non-Executive Directors, and accompanying notes (pages 78 to 79), scheme interests awarded during the financial year (page 79), exit payments made in the year (page 80), payments to past Directors (page 80) and the statement of Directors' shareholdings (page 82). The remaining sections of the report are not subject to audit.

Components of remuneration
The remuneration package for the Executive Directors comprises both fixed and variable elements consistent with our remuneration principles.

Fixed
- Salary
- \+ Pension and other benefits
- = **Fixed total**

Variable
- Annual bonus
- \+ LTIP
- = **Variable total**

= **Total remuneration**

Key features of our proposed Policy
The components of remuneration for the Executive Directors are set out below.

Fixed Components

Base salary

CEO – Paul Moraviec	£670,000
CFO – Nigel Clerkin	€465,000

Policy
Base salaries were set on Listing and are normally reviewed annually. The level of increase awarded will normally be aligned with those for the broader workforce. Any increases awarded come into effect from 1 April, in line with the effective date for salary increases of the wider workforce.

Pension and other benefits

Pension

CEO – Paul Moraviec	15% of base salary
CFO – Nigel Clerkin	15% of base salary

Benefits

CEO – Paul Moraviec	£26,778
CFO – Nigel Clerkin	€27,600

Policy
Executive Directors may receive a contribution of up to 15% of base salary to a personal pension plan, a cash allowance or a combination of these. Other benefits (which include car allowance, medical insurance and life insurance) are set at a level considered appropriate and consistent with the wider workforce.

Variable Components

Annual bonus

Maximum bonus opportunities for 2017	
CEO – Paul Moraviec	200% of base salary
CFO – Nigel Clerkin	150% of base salary

Performance measures	Weighting
Organic revenue growth	40%
Adjusted EBIT	40%
Personal strategic objectives	20%

50% of the bonus opportunity will pay out for on-target performance. No payout for at or below threshold performance.

2/3 to be paid in cash and 1/3 to be deferred in ConvaTec Group Plc shares for a further three year period.

Policy
Maximum award opportunity: 200% of base salary
Performance measures, targets and weightings are set by the Committee at the start of each year. After the end of the financial year the Committee determines the level of bonus to be paid based on performance. 80% of the bonus will normally be based on financial performance (with Group revenue and Group profit weighted equally), with the remainder linked to personalised strategic objectives.

Malus and clawback provisions apply under certain circumstances.

LTIP

Award levels for 2017	
CEO – Paul Moraviec	225% of base salary
CFO – Nigel Clerkin	175% of base salary

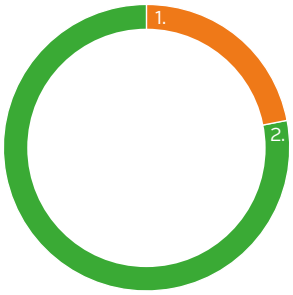
Performance measures	Weighting
3 year relative TSR	50%
3 year cumulative EPS	50%

Policy
Maximum award opportunity: 250% of base salary
Prior to awards being granted each year the performance conditions and targets are set by the Committee to ensure they are stretching and aligned with the Group strategy. 25% of an award will vest at threshold, with 100% vesting at maximum (and straight-line sliding scale between these points). The LTIP has a performance period of at least three years and a minimum vesting period of three years. A two year post-vesting holding period will apply.

Malus and clawback provisions apply under certain circumstances.

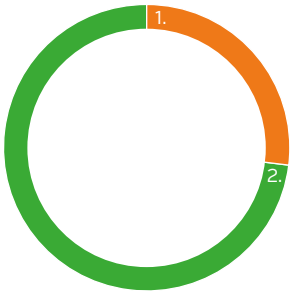
Pay at risk*

CEO – Paul Moraviec



1. Fixed 22%
2. Variable 78%

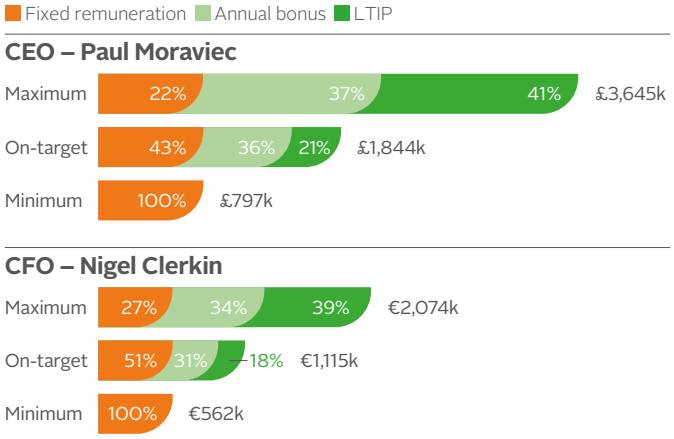
CFO – Nigel Clerkin



1. Fixed 27%
2. Variable 73%

*Based on maximum opportunity.

Pay scenarios



The above charts are based on the following assumptions:
"Maximum": fixed remuneration (salary, pension, other benefits), plus maximum bonus (CEO: 200% of salary, CFO: 150%) and full vesting of LTIP awards (CEO: 225% of salary, CFO: 175%).
"On-target": fixed remuneration as above, plus target bonus (50% of maximum) and threshold LTIP vesting (25% of maximum).
"Minimum": fixed remuneration only, being the only element of Executive Directors' remuneration not linked to performance.

Shareholding requirements

CEO	400% of base salary
CFO	300% of base salary

Remuneration for the wider workforce

Remuneration for the wider workforce is determined based on broadly consistent principles as those for Executive Directors. Annual salary reviews take into account Group performance, local pay and market conditions to ensure that reward at ConvaTec remains competitive. Incentive arrangements are in place for some employees below the executive level.

Remuneration Committee report
Remuneration Policy Report

This section of the report sets out the Remuneration Policy for the Directors that has been developed to reflect the guiding principles set out on page 67. This Policy Report will be put before shareholders for approval at our 2017 AGM. The Committee intends that the Policy will come into effect from that date (11 May 2017) for a period of up to three years.

2017 Remuneration Policy for the Executive Directors

Purpose and link to strategy	Operation	Opportunity	Performance measures
Base salary			
To attract and retain talented Executive Directors to deliver the Group's strategy, by ensuring base salaries and the implied total package are competitive in relevant talent markets, while not overpaying.	Base salaries will be reviewed by the Committee annually, and benchmarked periodically against comparable roles at international MedTech peers, as well as UK-listed companies of similar size and complexity. Any resulting changes are normally effective from 1 April, in line with the effective date for salary increases for the broader workforce. In deciding base salary levels, the Committee considers personal performance including the individual's contribution to the achievement of the Group's strategic objectives. The Committee will also consider employment conditions and salary levels across the Group, and prevailing market conditions. Base salary increases for the Executive Directors will normally be aligned with those of the wider workforce, but may be made above this level in exceptional circumstances such as a material change in responsibilities, size or complexity of the role, or if a Director was intentionally appointed on a below-market salary.	The maximum salary payable to Executive Directors will be capped at the upper quartile of the benchmarking comparator group for the role under review. Salaries will be set on a case-by-case basis to reflect the role and the experience and qualifications of the individual. Base salaries for the year under review and the following year, as well as the rationale for any increases, will be disclosed in the relevant year's Annual Report on Remuneration.	n/a
Pension			
To provide an appropriate level of post-retirement benefit for Executive Directors in a cost-efficient manner.	Executive Directors may receive a contribution to a personal pension plan, a cash allowance in lieu, or a combination thereof. Salary is the only element of remuneration that is pensionable.	Executive Directors are eligible for a company contribution from the Group of up to 15% of salary. Details of the pension contributions made to Executive Directors during the year are disclosed in the Annual Report on Remuneration.	n/a
Other benefits			
To provide non-cash benefits which are competitive in the market in which the Executive Director is employed.	The Group may provide benefits in kind including, but not limited to, a company car or car allowance, private medical insurance (or allowance in lieu), permanent health insurance, and life insurance. Executive Directors may also be provided certain other benefits to take account of individual circumstances such as, but not limited to, payment of tax, financial, and/or legal adviser fees, expatriate allowance, relocation expenses, housing allowance and tax equalisation (including associated interest, penalties or fees plus, in certain circumstances or where the Committee consider it appropriate, any tax incurred on such benefits). Executive Directors may also be offered any other future benefits made available either to all senior employees globally or in the region in which the Executive Director is employed.	Benefits for Executive Directors are set at a level which the Committee considers appropriate compared to wider employee benefits, as well as competitive practices in relevant markets. The value of annual benefits will normally not exceed 10% of salary, and it is not anticipated that the costs of benefits provided will increase significantly in the financial years over which this Policy will apply, although the Committee retains discretion to approve non-material increases in cost. In addition, the Committee retains discretion to approve a higher cost in exceptional circumstances (e.g. to facilitate recruitment, relocation, expatriation, etc.) or in circumstances where factors outside the Group's control have changed (e.g. market increases in insurance costs). Benefits in respect of the year under review are disclosed in the Annual Report on Remuneration.	n/a

Purpose and link to strategy	Operation	Opportunity	Performance measures
Annual bonus			
To incentivise Executive Directors to deliver strong financial performance on an annual basis and reward the delivery of the Group's strategic aims that will underpin the longer-term health and growth of the business. Deferral into shares enhances alignment with shareholders.	Performance measures, targets and weightings are set by the Committee at the start of the year. After the end of the financial year, the Committee determines the level of bonus to be paid, taking into account the extent to which these targets have been achieved. To the extent that the performance criteria have been met, one-third of the annual bonus earned will normally be compulsorily deferred into shares for a period of three years under the Deferred Bonus Plan. The remainder of the bonus will be paid in cash. Dividends may accrue on deferred bonus shares over the deferral period and, if so, will be paid (in cash or additional shares) on deferred shares that vest at the time these are released to the Executive Director. Malus and clawback provisions apply to the annual bonus in certain circumstances (as set out in the Notes to the Policy Table).	The maximum annual bonus opportunity is 200% of base salary. The payout for on-target performance is 50% of maximum; threshold performance (which will not normally be set lower than the prior year outturn) results in nil payout. The current maximum bonus opportunities for each of the Executive Directors are disclosed in the Annual Report on Remuneration.	Bonuses are based on a combination of stretching annual financial and non-financial/strategic performance measures, selected to reflect the Group's short-term KPIs, financial goals and strategic drivers. The financial element of the annual bonus will normally be weighted 80% of the overall bonus opportunity, as measured by two equally-weighted elements based on Group revenue and Group profit. The remainder of the bonus will be linked to the achievement of personalised strategic objectives. The Committee may adjust the formulaic annual bonus outcomes (including to zero) to avoid unintended outcomes, align pay outcomes with underlying Group performance and ensure fairness to shareholders and participants. Further details will be disclosed in the relevant Annual Report on Remuneration. Performance targets set for each year will be disclosed retrospectively, usually in the Annual Report on Remuneration in respect of the year to which such performance targets relate.
Long-Term Incentive Plan (LTIP)			
To align the interests of Executive Directors and shareholders in growing the value of the Group over the long-term.	Executive Directors are eligible to receive annual awards over ConvaTec Group Plc shares under the LTIP either in the form of conditional share awards or nil cost options. Prior to awards being granted each year, the performance conditions and targets are agreed and set to ensure they remain appropriately stretching and aligned to the Group's strategy. Awards granted under the LTIP to Executive Directors will have a performance period of three years and a minimum vesting period of three years. If no entitlement has been earned at the end of the relevant performance period, awards will not vest. Shares received as a result of an award vesting will normally be subject to an additional two-year holding period. Dividends may accrue on LTIP awards over the vesting period and, if so, will be paid (in additional shares or in cash) on shares that vest at the end of the vesting period. LTIP awards granted to Executive Directors will be subject to malus and clawback provisions, as set out in the Notes to the Policy Table.	The maximum annual LTIP opportunity is 250% of base salary. 25% of an award will vest if performance against each performance condition is at threshold and 100% if it is at maximum, with straight-line vesting in between. Further details of the LTIP awards granted to each of the Executive Directors will be disclosed in the relevant Annual Report on Remuneration.	Vesting of the LTIP is subject to continued employment during the performance period and the achievement of performance conditions aligned with the Group's strategic plan and shareholder value creation. LTIP awards granted in 2017 will be based on a combination of EPS and relative Total Shareholder Return, and for awards granted in 2018 onwards will include an additional returns measure. The weighting on each measure may be adjusted prior to making new awards, although each measure will be weighted at least 25% of the award opportunity. The Committee may adjust the formulaic LTIP outcome to ensure it takes account of any major changes to the Group (e.g. as a result of M&A activity) and is a fair reflection of the underlying financial performance of the Group over the performance period. Further details, including the performance targets attached to the LTIP in respect of each year, will be disclosed in the relevant Annual Report on Remuneration.
Save-As-You-Earn (SAYE) or equivalent scheme			
To align the interests of employees and shareholders by encouraging all employees to buy and own ConvaTec Group Plc shares.	Executive Directors are entitled to participate in the Group's all-employee share plan applicable to the jurisdiction in which they are based on identical terms as other eligible employees. A UK or Europe based Executive Director may make monthly savings over a period of three or five years or other period set by any relevant tax authority linked to the grant of an option over Group shares. The option price will be set at a discount of up to 15% of the market value of the shares at grant (to align with similar all-employee arrangements in the US).	Employees are limited to saving a maximum in line with the maximum monthly savings limit imposed by the Committee (which will not exceed any limits imposed by legislation) at the time they are invited to participate.	n/a

Purpose and link to strategy	Operation	Opportunity	Performance measures
Transition Awards (legacy IPO related awards – not part of 2017 Policy)			
To maximise alignment of executive and shareholder interests through strong linkage to the Group's share price performance over the first three years post-Listing, and support retention.	Transition Awards were made on a one-off basis shortly after Listing. Awards comprise a grant of market value share options and an award of restricted shares. Awards will vest in three equal tranches on the first, second and third anniversary of grant, subject to continued employment. Share options have a five-year life. Dividends shall accrue on restricted share awards (but not options) over the vesting period and will be paid (in cash or additional shares) on shares that vest at the end of the relevant vesting period. Transition Awards granted to Executive Directors will be subject to malus and clawback provisions, as set out in the Notes to the Policy Table.	Share options: CEO: 225% of base salary CFO: 175% of base salary Restricted shares: CEO: 150% of base salary CFO: 120% of base salary	n/a

Notes to the Policy Table

Malus and clawback policy

Malus and clawback may be applied to the annual bonus, LTIP awards and Transition Awards in cases of fraud, negligence or gross misconduct by the Executive Director or material financial misstatement in the audited financial results of the Group. Cash bonuses will be subject to clawback, with deferred shares being subject to malus, over the deferral period. LTIP awards and Transition Awards will be subject to malus over the vesting period and clawback from the vesting date to the second anniversary of the relevant vesting date.

Share ownership guidelines

The Committee recognises the importance of aligning Executive Directors' and shareholders' interests through significant shareholdings in the Group. The Group's policy (as published in the Prospectus) was initially set to require Executive Directors to build up a shareholding worth 200% of their base salary, and to retain these shares until retirement from the Board of Directors. However, the Committee has since decided to increase the share ownership guidelines – in line with prevailing best practice – to 400% of base salary for the CEO, and 300% of base salary for other Executive Directors. 50% of any net vested share awards (after sales to meet tax liabilities) must be retained until the minimum shareholding requirements are met. The share ownership guidelines have been met by the Executive Directors (see page 82).

Details of the Executive Directors' current personal shareholdings are provided in the Annual Report on Remuneration.

Use of discretion

The Committee may apply its discretion (as set out below) when agreeing remuneration outcomes, to help ensure that the implementation of our Remuneration Policy is consistent with the guiding principles for ConvaTec remuneration.

Payments from outstanding awards

The Committee reserves the right in certain circumstances to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) where the terms of the payment were agreed: before the Policy came into effect; or at a time when the relevant individual was not a Director of the Group provided, that in the opinion of the Committee, the payment was not agreed in consideration of the individual becoming a Director of the Group. For these purposes, payments include the satisfaction of variable remuneration awards previously granted, but not vested, to an individual.

Minor changes to Policy

The Committee retains discretion to make minor, non-significant changes to the Policy set out above (for reasons including, but not limited to, regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without reverting to shareholders for approval for that amendment, where seeking such shareholder approval would be disproportionate to the discretion being exercised.

LTIP awards

The Committee may exercise its discretion as provided for in the LTIP rules approved by shareholders. The Committee may also adjust the number of shares comprising an LTIP award (or the exercise price if the award comprises options) in the event of a variation of share capital, demerger, special dividend, distribution or any other corporate event which may affect the current or future value of an award. It is intended that any adjustment will be made on a neutral basis, i.e. to not be to the benefit or detriment of participants.

Any use of discretion by the Committee during a financial year will be detailed in the relevant Annual Report on Remuneration and may be the subject of consultation with the Group's major shareholders, as appropriate.

Remuneration Policy for the wider workforce

The Remuneration Policy for other employees is based on principles that are broadly consistent with those applied to Executive Director remuneration, with a common objective of driving financial performance and the achievement of strategic objectives, and contributing to the long-term success of the Group. Remuneration supports our ability to attract, motivate and retain skilled and dedicated individuals, whose contribution continues to be a key factor in the Group's success. Annual salary reviews take into account Group performance, local pay and market conditions, and salary levels for similar roles in comparable companies. Pension entitlements and other benefits vary according to jurisdiction, to ensure these remain appropriately competitive for the local market.

Employee ownership of ConvaTec Group Plc shares is promoted across the Group. Some employees below executive level are eligible to participate in annual bonus schemes; opportunities and performance measures vary by organisational level, geographical region and an individual's role. Senior executives are eligible for LTIP awards on similar terms as the Executive Directors, although award opportunities are lower and vary by organisational level. Other executives are eligible for restricted share awards on a discretionary basis. ConvaTec also intends to offer all employees the opportunity to participate in a share purchase plan, subject to shareholder approval.

Approach to target setting and performance measure selection

The Committee considers carefully the selection of performance measures at the start of each performance cycle, taking into consideration the Group's strategic objectives and the macroeconomic environment.

Annual bonus measures are selected to align with the Group's short-term KPIs. Measures may change from year to year (subject to the Remuneration Policy), and the rationale for any changes to the bonus measures selected will therefore be disclosed in the relevant Annual Report on Remuneration.

LTIP performance measures are selected to ensure they align with the Group's strategy and long-term shareholder value creation. The first LTIP awards (granted in 2017 subject to shareholder approval of the Remuneration Policy) will be based on a blend of EPS performance and relative Total Shareholder Return ("TSR") over a three-year period. The Committee considers these measures to align executive incentives to the Group's strategy and shareholder interests, and provide a good balance between external and internal measures of performance, and between growth and returns for this first cycle.

Targets are set to be stretching but achievable over the three-year performance period. EPS targets are set taking account of multiple relevant reference points, including internal forecasts, external expectations for future performance at both the Group and its closest sector peers, and typical performance ranges for those measures at other FTSE companies of comparable size and complexity.

Pay-for-performance: scenario analysis

The charts below provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios: "Maximum", "On-target" and "Minimum".

Potential reward opportunities are based on the forward-looking policy (i.e. excluding Transition Awards), applied to 2017 base salaries and incentive opportunities. Note that the LTIP awards granted in a year will not normally vest until the third anniversary of the date of grant, and the projected value excludes the impact of share price movement or dividend accrual.

Pay scenarios

The above charts are based on the following assumptions:
"Maximum": fixed remuneration (salary, pension, other benefits), plus maximum bonus (CEO: 200% of salary, CFO: 150%) and full vesting of LTIP awards (CEO: 225% of salary, CFO: 175%).
"On-target": fixed remuneration as above, plus target bonus (50% of maximum) and threshold LTIP vesting (25% of maximum).
"Minimum": fixed remuneration only, being the only element of Executive Directors' remuneration not linked to performance.

Executive Director service contracts

In accordance with general market practice, each of the Executive Directors has a rolling service contract. Paul Moraviec has a service contract with the Company and Nigel Clerkin has a service contract with ConvaTec Healthcare Ireland Limited, and a separate appointment letter (dated 30 September 2016) with the Company in relation to his appointment as a Director of the Company, for so long as he is employed under his service contract. Nigel Clerkin receives no compensation or benefits under this appointment letter in addition to those provided under his service contract. The Executive Directors' service contracts (copies of which are available to view at the Group's registered office) took effect on 31 October 2016 and are each terminable on 12 months' notice from the Group and six months' notice from the Executive Director. This practice will also apply for any new Executive Directors. The following table shows the date of the service contract for each Executive Director that served during the year:

Executive Director	Position	Date of appointment	Date of service agreement
Paul Moraviec	CEO	6 September 2016	12 October 2016
Nigel Clerkin	CFO	30 September 2016	29 September 2016

Exit payments policy

The Group's policy on termination payments is to consider the circumstances on a case-by-case basis, taking into account the relevant contractual terms in the executive's service contract and the circumstances of termination. Executive Directors' contracts provide for the payment of a pre determined sum in the event of termination of employment in certain circumstances (but excluding circumstances where the Group is entitled to dismiss without compensation), comprising base salary, pension allowance and benefits in respect of the unexpired portion of the notice period. Termination payments may take the form of payments in lieu of notice. Payments would normally be made on a phased basis and subject to mitigation.

If the employment is terminated by the Group, the Committee retains the discretion to settle any other amount the Committee considers reasonable to the Executive Director including in settlement of claims, in respect of legal fees incurred in connection with the termination and fees for outplacement services and relocation costs.

In additional to contractual provisions, the table overleaf summarises how awards under each discretionary incentive plan are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion as provided under the rules of the plan. In the event of termination, any outstanding options granted under the SAYE – or equivalent – scheme will be treated in accordance with the rules of the scheme, which do not include discretion.

Disclosure in relation to any departing Executive Director, including details of any remuneration payment made to him after he ceases to be a Director, will be made on the Company's website in accordance with Section 430(2B) of the Companies Act 2006.

Treatment of awards on cessation of employment

Reason for cessation	Calculation of vesting/payment	Timing of vesting/payment
Annual bonus		
Injury, disability, death, redundancy, retirement, or other such event as the Committee determines	The Committee may determine that a bonus is payable on cessation of employment (normally pro-rated for the proportion of the performance year worked) and the Committee retains discretion to determine that the bonus should be paid wholly in cash. The bonus payable will be determined based on the performance of the Group and of the individual over the relevant period, and the circumstances of the Director's loss of office.	
All other reasons (including voluntary resignation)	No bonus will be paid for the financial year.	Not applicable.
Deferred bonus shares		
Resignation or dismissal for cause	Awards normally lapse.	Not applicable.
All other reasons (e.g. injury, disability, death, redundancy, retirement, or other such event as the Committee determines)	Awards will normally vest in full (i.e. not pro-rated for time) unless the Committee determines that time pro-rating should apply.	At the normal vesting date, unless the Committee decides that awards should vest earlier (e.g. in the event of death).
Change of control	Awards will normally vest in full (i.e. not pro-rated for time). Awards may alternatively be exchanged for equivalent replacement awards, where appropriate.	On change of control.
LTIP awards		
Resignation or dismissal for cause	Awards normally lapse.	Not applicable.
All other reasons (e.g. injury, disability, death, redundancy, retirement, or other such event as the Committee determines)	Awards will normally be pro-rated for time (unless the Committee exercises discretion to disapply time pro-rating) and will vest based on performance over the original performance period (unless the Committee decides to measure performance to the date of cessation).	At the normal vesting date, unless the Committee decides that awards should vest earlier (e.g. in the event of death).
Change of control	LTIP awards will normally be pro-rated for time (unless the Committee exercises discretion to disapply time pro-rating) and will vest subject to performance over the performance period to the change of control. LTIP awards may alternatively be exchanged for equivalent replacement awards, where appropriate.	On change of control.
Transition awards		
Resignation or dismissal for cause	Awards normally lapse.	Not applicable.
All other reasons (e.g. injury, disability, death, redundancy, retirement, or other such event as the Committee determines)	Unvested awards will normally be pro-rated for time (unless the Committee exercises discretion to disapply time pro-rating).	At the normal vesting date, unless the Committee decides that awards should vest earlier (e.g. in the event of death).
Change of control	Unvested awards will normally vest in full. Unvested awards may alternatively be exchanged for equivalent replacement awards, where appropriate.	On change of control.

In addition to awards to be made under the above incentives, the Executive Directors hold ConvaTec Group Plc shares following the exchange on Listing of units held under the Management Equity Plan, a legacy scheme used pre-IPO. Some of these shares remain subject to forfeiture in certain circumstances, and will be treated on cessation of employment as follows:

Reason for cessation	Treatment of awards subject to forfeiture
Equity awards granted under legacy pre-IPO scheme that remain subject to forfeiture	
Dismissal for cause, or resignation other than for good reason during the applicable period ("the Forfeit Period").	Shares may be forfeited on cessation of employment during the Forfeit Period.
All other reasons, or following the end of the Forfeit Period.	Shares cease to be subject to forfeiture on cessation of employment.
Change of control during the Forfeit Period.	Shares cease to be subject to forfeiture on change of control.

Approach to remuneration on recruitment

External appointments

In cases of hiring or appointing a new Executive Director from outside the Group, the Committee may make use of all existing components of remuneration set out in the Policy table, up to the disclosed maximum opportunities (where applicable).

When determining the remuneration package for a new Executive Director, the Committee will take into account all relevant factors based on the circumstances at that time to ensure that arrangements are in the best interests of the Group and its shareholders. This may include factors such as the experience and skills of the individual, internal comparisons and relevant market data.

The Committee may also make an award in respect of a new appointment to 'buy out' incentive arrangements forfeited on leaving a previous employer, i.e. over and above the maximum limits on incentive opportunities set out in the Policy table. In doing so, the Committee will consider relevant factors, including any performance conditions attached to these awards, the likelihood of those conditions being met, and the time over which they would have vested. The intention is that the expected value of any buy-out award would be no higher than the expected value of the forfeited arrangements, and that the structure will replicate (as far as reasonably possible) that of the awards being forfeited. The Committee may consider it appropriate to structure 'buy-out' awards differently from the structure described in the Policy table, exercising its discretion under the LTIP rules to structure awards in other forms (including market value options, restricted shares, forfeitable shares or phantom awards) and the discretion available under UKLA Listing Rule 9.4.2R where necessary to make a one-off award to an Executive Director in this context.

Internal promotion

Where a new Executive Director is appointed by way of internal promotion, the Policy will be consistent with that for external appointees, as detailed above (other than in relation to 'buy-out' awards). Any commitments made prior to an individual's promotion will continue to be honoured even if they would not otherwise be consistent with the Policy prevailing when the commitment is fulfilled, although the Group may, where appropriate, seek to revise an individual's existing service contract on promotion to ensure it aligns with other Executive Directors and good practice.

Disclosure on the remuneration structure of any new Executive Director, including details of any 'buy-out' awards, will be disclosed in the RNS notification made at the time of appointment and in the Annual Report on Remuneration for the year in which recruitment occurred.

External appointments held by Executive Directors

Executive Directors may accept up to one external appointment subject to approval by the Board, there being no conflicts of interest and the appointment not leading to deterioration in the individual's performance. Executive Directors may retain the fees paid for such roles. Details of external appointments and the associated fees received will be included in the Annual Report on Remuneration.

Consideration of conditions elsewhere in the Group

The Committee seeks to promote and maintain good relations with employees as part of its broader employee engagement strategy, considers pay practices across the Group and is mindful of the salary increases applying across the rest of the business in relevant markets when considering any increases to salaries for Executive Directors. However, the Committee does not currently consult with employees on its executive remuneration policy.

Consideration of shareholder views

The Committee will take into consideration all shareholder views received during the year and at the Annual General Meeting each year, as well as guidance from shareholder representative bodies more broadly, in shaping the Group's implementation of its Remuneration Policy, as well as any future changes to Policy. It is the Committee's intention to consult with major shareholders in advance of making any material changes to remuneration arrangements.

Remuneration policy for the Non-Executive Directors

Details of the Policy on fees paid to our Non-Executive Directors are set out in the table below:

Purpose and link to strategy	Operation	Opportunity	Performance measures
Non-Executive Director fees			
To attract and retain Non-Executive Directors of the highest calibre with broad commercial and other experience relevant to the Group.	The fees of the Chairman are determined by the Committee. The fees paid to Non-Executive Directors are determined by the Chairman and Executive Directors. Additional fees are payable for acting as Senior Independent Director and for chairing or being a member of the Audit & Risk Committee, the Remuneration Committee and any other Board committee. Fee levels are reviewed annually (with any increases normally effective 1 April), taking into account external advice on best practice and competitive levels, in particular at other FTSE companies of comparable size and complexity. Time commitment and responsibility are also taken into account when reviewing fees. Chairman and Non-Executive Director fees are paid in cash. The Committee reimburses the Chairman and Non-Executive Directors for reasonable expenses in performing their duties and may settle any tax incurred in relation to these expenses. For any Non-Executive Director that is based overseas, the Group will meet travel and accommodation expenditure as required to fulfil their Non-Executive duties. The fees paid to the Chairman and Non-Executive Directors are disclosed in the Annual Report on Remuneration.	Fee increases will be applied taking into account the outcome of the annual review. The maximum aggregate annual fee for all Non-Executive Directors (including the Chairman) as provided in the Group's Articles of Association is £1,500,000.	n/a

Non-Executive Directors are not eligible to join the Group's pension, incentives or share schemes or to participate in any of the Group's other benefit arrangements.

In recruiting a new Non-Executive Director, the Committee will use the Policy set out above.

Non-Executive Director letters of appointment

None of the Non-Executive Directors has a service contract with the Group. They do have letters of appointment, and will be submitted for re-election annually. The dates relating to the appointments of the Chairman and Non-Executive Directors who served during the reporting period are as follows:

Director	Role	Date of appointment	Date of letter of appointment
Sir Christopher Gent	Non-Executive Chairman	31 October 2016	18 October 2016
Steve Holliday	Deputy Chairman	31 October 2016	14 October 2016
Jesper Ovesen	Independent Non-Executive Director	31 October 2016	14 October 2016
Rick Anderson	Independent Non-Executive Director	31 October 2016	12 October 2016
Raj Shah	Non-Executive Director	30 September 2016	29 September 2016
Thomas Vetander	Non-Executive Director	30 September 2016	29 September 2016
Kunal Pandit	Non-Executive Director	30 September 2016	29 September 2016

Remuneration Committee report
Annual Report on Remuneration

This section of the Remuneration Report provides details of how our Remuneration Policy was implemented during the financial year ended 31 December 2016 (since Listing), and how it will be implemented during the year ending 31 December 2017.

Committee membership in 2016

The Committee is currently composed of four Non-Executive Directors:

Steve Holliday – Committee Chairman (independent)
Sir Christopher Gent – Non-Executive Chairman
Jesper Ovesen – Non-Executive Director (independent)
Raj Shah – Non-Executive Director

The Committee met formally once during the period from Listing to 31 December 2016. All Committee members attended this meeting.

The Committee operates within agreed terms of reference, which are available on our website at www.convatecgroup.com. The Committee is responsible for determining the remuneration policy and packages for the Executive Directors and the Leadership Team (being the direct reports to the Group CEO and covering the next most senior executives across the Group). The Committee is also responsible for agreeing the fees for the Non-Executive Chairman.

The CEO, EVP Global Human Resources and VP Compensation & Benefits attend meetings of the Committee by invitation. The members of the Committee and any person attending its meetings do not participate in any discussion or decision on their own remuneration.

Advisers

Kepler, a brand of Mercer Limited, supported the Group on remuneration-related matters in the build up to the Listing. At its first meeting following Listing (on 13 December 2016), the Committee formally appointed Kepler as its independent adviser. Kepler reports to the Committee Chairman. Kepler is a member of the Remuneration Consultants' Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK (www.remunerationconsultantsgroup.com). Kepler does not have any other connection with the Group and is considered to be independent by the Committee. Fees paid to Kepler are determined on a time and materials basis, and totalled £8,900 (excluding expenses and VAT) from Listing to 31 December 2016 in their capacity as advisers to the Committee.

Single total figure of remuneration for Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director for the 2016 financial year, from their appointment as Executive Directors of ConvaTec Group Plc (being 31 October 2016, when the Group listed). As the Group was newly incorporated shortly prior to this date, no prior year figures have been shown. The values of each element of remuneration are based on the actual value delivered, where known.

Director	Base salary[1] '000	Taxable benefits[2] '000	Annual bonus[3] '000	LTIP '000	Pension benefit[4] '000	Other[5] '000	Total '000
Paul Moraviec	£112	£4	£90	n/a	£16	£1,191	£1,413
Nigel Clerkin	€78	€5	€47	n/a	€7	€658	€795

1. Prior to Listing, the salaries of our Executive Directors were reviewed against other international MedTech companies and FTSE-listed companies of comparable size to ConvaTec Group. Paul Moraviec's base salary figure reflects his annual salary of £670,000 paid by the Group from Listing to the year-end. Nigel Clerkin's base salary figure reflects his annual salary of €465,000 paid by the Group from Listing to the year-end.
2. Consist primarily of car allowance, private medical insurance, life assurance and permanent health insurance.
3. Cash payment for performance during the year, pro-rated to reflect the period of the financial year from Listing to 31 December. See below and overleaf for further details.
4. Pension benefits in the year, equivalent to 15% of base salary from Listing.
5. Reflects the value of Transition Awards granted shortly after Listing, which will vest in three equal tranches on the first, second, and third anniversaries of grant, subject to continued employment. See page 79 for further details. Restricted shares are valued at the share price on the date of grant (244.00p). Share options are valued on the date of grant using a Black-Scholes valuation model.

Incentive outcomes for the year ended 31 December 2016 (audited)

Annual bonus in respect of performance in the 2016 financial year

The payments under the annual bonus for 2016 will be paid in cash and relate to the annual bonus plan that was set at the start of the financial year, prior to the Group's Listing. The annual bonus for 2016 is not subject to the deferral mechanism described on page 71. Changes have been made to the annual bonus plan for 2017 to bring the plan more in line with best practice for a UK listed company, as set out on pages 80 and 81.

For 2016, the CEO had a maximum bonus opportunity of 200% of base salary, and the CFO had a maximum opportunity of 150% of salary (from Listing). The on-target opportunity was 50% of maximum. The annual bonus for 2016 was based on a combination of EBITDA (weighted 70%) and revenue (30%), and payment is subject to an individual's performance rating being at least average.

Over the 2016 financial year, Group EBITDA was between Target and Stretch, and revenue was between Threshold and Target. This warranted an overall bonus payout to each Director of 80.77% of Target (equivalent to 40.39% of their respective maximum opportunities). The table below summarises the annual bonus payments for the Executive Directors:

Director	Maximum opportunity	Bonus outcome (% of max)	Salary earned for the period from Listing to 31 December 2016 '000	Bonus for the period from Listing to 31 December 2016 '000
Paul Moraviec	200% of salary	40.39%	£112	£90
Nigel Clerkin	150% of salary	40.39%	€78	€47

Although targets in relation to the 2016 financial year are not disclosed, it will be the Committee's policy going forward to normally disclose annual bonus targets retrospectively, at the same time as the performance outcome is disclosed in the remuneration report after the end of each financial year (to the extent they are not considered commercially sensitive).

Scheme interests awarded in 2016 (audited)

Transition Awards

Shortly after Listing, Executive Directors and other key executives were granted one-off Transition Awards under the 2016 LTIP rules, comprising a grant of market value options and an award of restricted shares. The objective of these awards is to focus individuals on a successful transition from a private to a public company, to incentivise share price growth (and so closely align the interests of executives with those of the Group's shareholders) and to retain key individuals over the three year vesting period. Awards will vest in three equal tranches on each of the first, second and third anniversaries of grant, subject to continued employment over the relevant vesting period. No performance conditions apply to the Transition Awards. Details of the awards are set out in the table below.

Director	Date of grant	Vehicle	Number awarded	Exercise price	Face value	Vesting date	Expiry date
Paul Moraviec	11/11/2016	Share options	201,807	249.00p	£502,499	11/11/2017	11/11/2021
	11/11/2016		201,807	249.00p	£502,499	11/11/2018	11/11/2021
	11/11/2016		201,808	249.00p	£502,502	11/11/2019	11/11/2021
	11/11/2016	Restricted shares	134,538	–	£335,000	11/11/2017	–
	11/11/2016		134,538	–	£335,000	11/11/2018	–
	11/11/2016		134,538	–	£335,000	11/11/2019	–
Nigel Clerkin	11/11/2016	Share options	97,312	249.00p	£242,307	11/11/2017	11/11/2021
	11/11/2016		97,313	249.00p	£242,309	11/11/2018	11/11/2021
	11/11/2016		97,313	249.00p	£242,309	11/11/2019	11/11/2021
	11/11/2016	Restricted shares	66,728	–	£166,153	11/11/2017	–
	11/11/2016		66,729	–	£166,155	11/11/2018	–
	11/11/2016		66,729	–	£166,155	11/11/2019	–

The number of restricted shares awarded and options granted were calculated using a share price of 249.00p, being the closing share price at the end of the first week of trading (4 November 2016). This share price was also used as the exercise price for the share options, and to calculate the award face values shown above.

Single total figure of remuneration for Non-Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 December 2016, from their dates of appointment.

Director	Fees[1] '000	Total '000
Sir Christopher Gent	£133	£133
Steve Holliday	£45	£45
Jesper Ovesen	£28	£28
Rick Anderson	£24	£24
Raj Shah	–	–
Thomas Vetander	–	–
Kunal Pandit	–	–

1. Reflects the fees paid by the Group from each Director's date of appointment to 31 December 2016.

Percentage change in CEO remuneration

This section is not applicable as the Group only listed on 31 October 2016; as such there is no prior year comparison that can be made.

Relative importance of spend on pay
There were no dividends paid or share buybacks implemented or other significant distributions, payments or other uses of profit or cashflow in the 2016 financial year which the Directors consider relevant in assisting an understanding of the relative importance of spend on pay. Total staff costs – disclosed in the Notes to the Financial Statements – were $528.9m for the same period.

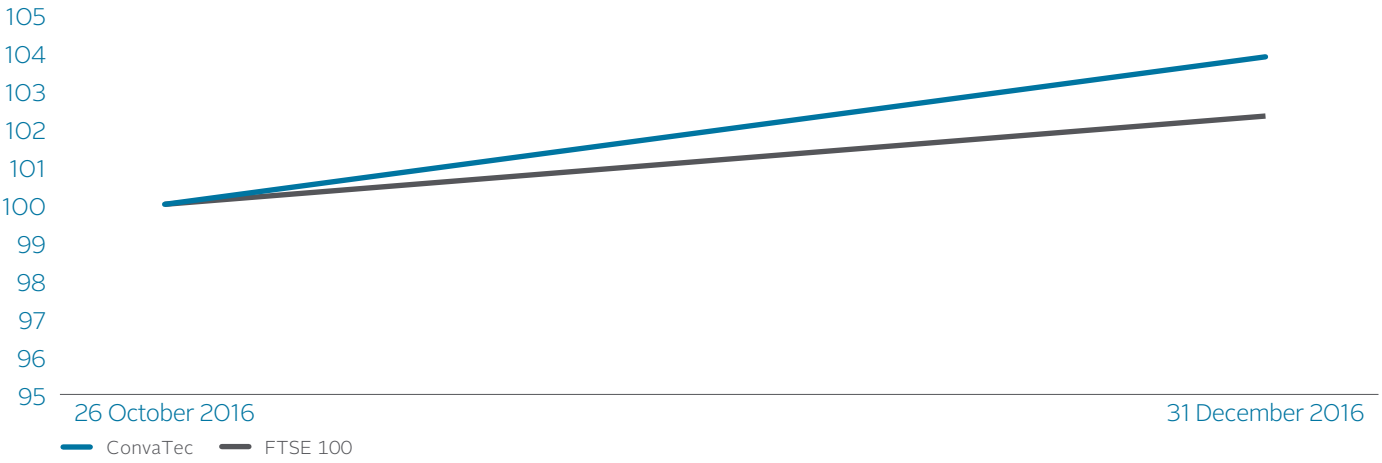
Exit payments made in the year (audited)
No exit payments were made during the year.

Payments to past Directors (audited)
No payments were made to past Directors in the year.

External appointments
Neither Executive Director currently holds any external appointments.

Review of past performance
This graph shows the Group's Total Shareholder Return (TSR) compared to the FTSE 100 Index, of which the Group is now a constituent. Performance, as required by legislation, is measured by TSR over the period from commencement of conditional dealing (26 October 2016) to 31 December 2016.

TSR chart for 2016 DRR – ConvaTec vs the FTSE 100 index
Value of £100 invested on 26 October 2016 in ConvaTec and the FTSE 100 index (£)



The table below details the CEO's single total figure of remuneration and incentive outcomes over the same period:

	2016
CEO	Paul Moraviec
CEO single figure ('000)	£1,413
Annual bonus (% max)	40%
LTIP vesting (% max)	n/a

Implementation of Executive Director Remuneration Policy for 2017
Base salary
Base salaries were set on Listing taking into account competitive practice for similar roles in other international MedTech companies and FTSE 100 companies of similar size. The current salaries of the Executive Directors, effective from Listing, are set out below:

Director	Base salary
Paul Moraviec	£670,000
Nigel Clerkin	€465,000

Executive Director salary levels will remain at these levels for 2017, and will be first reviewed later in the year (with any increases that may be awarded being effective 1 April 2018).

Pension
Both Executive Directors receive a cash allowance of 15% of base salary in lieu of a pension contribution.

Annual bonus

For 2017, the CEO will have a maximum bonus opportunity of 200% of salary, and the CFO will have a maximum bonus opportunity of 150% of salary. The on-target bonus opportunity is 50% of maximum. Two-thirds of any bonus earned will be paid in cash, with the remainder deferred into ConvaTec Group Plc shares for a further three-year period.

The annual bonus for 2017 will be based on the following measures and weightings:

Measure	Weighting
Organic revenue growth	40%
Adjusted EBIT[1]	40%
Personal strategic objectives	20%

1. Excludes exceptional one-off items and the impact of portfolio changes occurring in the performance year.

The Committee will normally disclose the annual bonus targets retrospectively in next year's Annual Report on Remuneration. In the event the Board considers these targets to remain commercially sensitive, they will be disclosed as soon as possible once they are no longer considered to be sensitive.

In line with our policy, bonuses for the 2017 financial year will be subject to the Group's malus and clawback provisions (see page 72 for further details).

Long-Term Incentive Plan ("LTIP")

In 2017, the Executive Directors will receive conditional awards of shares under the ConvaTec LTIP, with face values of 225% of salary for the CEO, and 175% of salary for the CFO.

The 2017 LTIP will vest after three years, subject to the following performance measures and targets:

Measure	Weighting	Threshold (25% vesting)	Maximum (100% vesting)
3-year Relative TSR	50%	Median	90th percentile
3-year cumulative EPS	50%	62¢	69¢

Relative TSR has been selected by the Committee to closely align executive interests with those of shareholders. The Committee took into account a number of factors, including the ongoing debate on executive remuneration, in determining that a relative calibration of TSR targets would be more appropriate for the 2017 LTIP cycle than an absolute calibration, as previously disclosed in the Prospectus. ConvaTec's TSR performance will be measured over the three-year period commencing 1 January 2017, and compared to the following companies on the basis of TSR rank:

Ambu, Beckton Dickinson, Coloplast, C R Bard, Fresenius, Getinge, GN Store Nord, Integra Lifesciences, Smith & Nephew, Stryker, Teleflex, William Demant and Zimmer Biomet.

EPS has been selected by the Committee because it closely aligns with, and incentivises delivery of, the Group's strategy. It is also a measure welcomed by the majority of our shareholders. The performance target ranges have been set at stretching levels taking into account both internal and external forecasts, and commensurate with the targets set for the Relative TSR element of the LTIP (median to 90th percentile). EPS performance shall be measured on a constant currency basis by reference to 2016 average rates. The maximum vesting level is set to represent very stretching performance.

The Committee retains discretion to adjust performance targets under the EPS element to appropriately reflect the impact of acquisitions and disposals occurring during the performance period, to ensure fairness to shareholders and participants. The use of any such discretion would be detailed in the relevant Annual Report on Remuneration.

To provide further alignment with shareholders, LTIP awards will be subject to an additional post vesting holding period. To the extent an award vests subject to three-year performance, shares will be required to be held for a further two years (i.e. until the fifth anniversary of the date of grant).

In line with our policy, LTIP awards will also be subject to the Group's malus and clawback provisions.

Implementation of Non-Executive Director Remuneration Policy for 2017

Non-Executive Director fees were set on Listing taking into account competitive practice for similar roles in other international MedTech companies and FTSE 100 companies of similar size. The current fees payable to the Non-Executive Directors are set out below:

Role	Fee
Chairman	£400,000
Deputy Chairman basic fee	£110,000
Non-Executive Director basic fee	£60,000
Additional fees:	
Senior Independent Director	£20,000
Chairman of the Audit Committee	£22,000
Chairman of the Remuneration Committee	£20,000
Membership of Board committees	£12,000

Non-Executive Director fees will remain at these levels for 2017. As appointees of the Group's significant shareholders, Raj Shah, Thomas Vetander and Kunal Pandit do not receive fees in connection with their appointment as Non-Executive Directors of the Company.

Directors' shareholdings (audited)

The table below sets out details of the current shareholdings of each Director (and any relevant connected persons) as at 31 December 2016 and, for Executive Directors, compares this to their shareholding guideline as set out below. No prior year data is available given Listing occurred on 31 October 2016.

	Shares			Options			
Director	Owned outright or vested[1]	Unvested and not subject to performance	Unvested and subject to performance[2]	Vested but not exercised	Unvested and not subject to performance[2]	Current shareholding[3] (% salary)	Shareholding guideline (% salary)
Paul Moraviec	4,837,448	403,614	0	0	605,422	1,726%	400%
Nigel Clerkin	3,976,976	200,186	0	0	291,938	2,289%	300%
Sir Christopher Gent	111,111	–	–	–	–	–	–
Steve Holliday	88,889	–	–	–	–	–	–
Jesper Ovesen	88,889	–	–	–	–	–	–
Rick Anderson	72,651	–	–	–	–	–	–
Raj Shah	–	–	–	–	–	–	–
Thomas Vetander	–	–	–	–	–	–	–
Kunal Pandit	–	–	–	–	–	–	–

1. Vested shares remain subject to a time-based lock-up arrangement and/or a forfeiture arrangement as follows:
   a. Pursuant to an Underwriting Agreement entered into in connection with the Listing, the Executive Directors have agreed subject to certain exemptions, during the period of 12 months from the date of the Listing (31 October 2016), they will not dispose of shares held by them at Listing other than shares sold at the time of the Listing. In addition, the Executive Directors (alongside other senior employees of the Group) entered into a lock-up arrangement with the Company and ConvaTec Management Holdings Limited in relation to shares in the Company that they did not sell in connection with the Listing. Pursuant to this arrangement, the Executive Directors have agreed that, subject to certain exceptions, they will not sell or otherwise dispose of, directly or indirectly, any of their shares (or any interest therein) or enter into any transaction with the same economic effect as a sale or disposal in respect of any of their shares prior to the first anniversary of the Listing (on 31 October 2016) and in respect of 50% of their shares prior to the second anniversary of Listing.
   b. A maximum of: (i) 2,892,346 shares held by Paul Moraviec; and (ii) 1,908,948 shares held by Nigel Clerkin are subject to a forfeiture arrangement (the "Forfeit Mechanism") pursuant to which these shares (which are held through a nominee arrangement with ConvaTec Management Holdings Limited) may be acquired by the Employee Benefit Trust in the event that a Termination Event occurs. For these purposes, a "Termination Event" occurs when an individual gives notice to terminate his contract of employment other than for good reason or an individual is dismissed for cause within a specified period following the Listing (the "Forfeit Period"). Where the Termination Event occurs by reason of an individual being dismissed for cause, the Forfeit Period will last 24 months in the case of Paul Moraviec and for 12 months in the case of Nigel Clerkin. Where the Termination Event occurs by reason of the Executive Director giving notice to terminate his contract of employment other than for good reason, the Forfeit Period shall last for nine months for Nigel Clerkin and 21 months for Paul Moraviec. The proportion of shares that can be forfeited is dependent on when a Termination Event occurs. After the Forfeit Period no shares will be subject to the Forfeit Mechanism.
2. Unvested awards not subject to performance reflect the Transition Awards granted on 11 November 2016, which vest in equal tranches on each of the first, second and third anniversaries of the date of grant, subject to continued employment.
3. Executive Director shareholdings calculated using a share price of 239.05p, being the average share price from Listing to 31 December 2016.

No further shares were acquired by the Directors between 31 December 2016 and 17 March 2017, being the latest practicable date prior to publication of this Annual Report.

The Directors' Remuneration Report has been approved by the Board and signed on its behalf by:

Steve Holliday
Chairman of the Remuneration Committee
17 March 2017

Directors' report

The Directors present their Annual Report on the affairs of the Group, together with the Financial Statements and auditor's report, for the year ended 31 December 2016.

The Corporate governance report set out on pages 56 to 59 forms part of this Directors' report and is incorporated by reference. Disclosures elsewhere in the Annual Report are cross-referenced where appropriate. Taken together, the Strategic report on pages 10 to 52 and this Directors' report fulfil the requirements of the Disclosure and Transparency Rules to provide a management report.

Post balance sheet events

Details of significant events since the balance sheet date are contained in Note 25 to the Financial Statements. An indication of likely future developments in the business of the Company and details of research and development activities are included on pages 22 to 25 and 37 to 43 of the Strategic report.

Disclosure of information to the auditor

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of Section 418 of the Companies Act 2006.

Deloitte have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Going concern

The Directors have, at the time of approving the Financial Statements, a reasonable expectation and a high level of confidence that the Group and the Company has the adequate liquid resources to meet its liabilities as they become due and will be able to sustain its business model, strategy and operations and remain solvent for the foreseeable future. Thus the Directors continue to adopt the going concern basis in preparing the Financial Statements.

Financial Instruments

Information about the use of financial instruments by the Company and its subsidiaries is contained in Note 24 to the Financial Statements.

Branches of the Company

There are no branches of the Company.

Dividends

The Company's dividend policy is set out on page 11 in the Strategic report. Any decision to declare and pay dividends will be made at the discretion of the Directors and will depend on, among other things, applicable law, regulation, restrictions, the Group's financial position, working capital requirements, restrictions on dividends in the Group's banking facilities, finance costs, general economic conditions and other factors the Directors deem significant. In February 2017 the Company carried out a capital reduction to convert the amount standing to the credit of the share premium account to distributable reserves to facilitate its ability to declare and pay dividends subject to the discretion of the Directors. Further, a resolution will be proposed at the Annual General Meeting to authorise the Directors to implement a scrip dividend scheme within the next three years from the date of the AGM for those shareholders who elect to avail of such scheme.

Capital structure

Share capital

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in Note 20 to the Financial Statements. As at 31 December 2016 the Company had two classes of share: ordinary shares of 10p each and non-voting redeemable preference shares of £1.00 each. On 7 February 2017 the Company redeemed all of its non-voting redeemable preference shares such that the Company has only one class of share: ordinary shares of 10p each.

Shareholders' rights

The rights attaching to the ordinary shares are governed by the Company's Articles of Association and prevailing legislation. There are no specific restrictions on the size of a holding. Subject to applicable law and the Articles of Association, holders of ordinary shares are entitled to receive all shareholder documents, including notice of any general meeting, attend, speak and exercise voting rights at general meetings, either in person or by proxy, and participate in any distribution of income or capital.

Restrictions on voting

There are no specific restrictions on voting rights, save in situations where the Company is legally entitled to impose such restrictions (usually where amounts remain unpaid on shares after request, or the shareholder is otherwise in default of an obligation to the Company). Currently all issued ordinary shares are fully paid.

Shares held by the Company's employee benefit trust

The Company's offshore employee benefit trust (the "EBT") is used to purchase the Company's shares for the benefit of employees, including satisfying outstanding awards made under its employee share plans. In respect of all shares held in the EBT, the trustee has waived its right to receive dividends. Further details regarding the EBT are contained in Note 20 to the Financial Statements.

Restrictions on the transfer of ordinary shares

From admission of the Company's securities on the Main Market of the London Stock Exchange, the companies ultimately owned by Nordic Capital and Avista (the "Significant Shareholders") entered into a lock-up period of 180 days and the Company's Directors and certain senior employees entered into a lock-up period of 365 days. During the lock-up periods, the Significant Shareholders, the Directors and certain senior employees agree not to dispose of any securities in the Company. Certain of the underwriting banks may, however, waive the restrictions in respect of the lock-up periods before they expire and there was an exception for the security interests granted to margin loan lenders.

The transfer of ordinary shares is governed by the general provisions of the Company's Articles of Association and applicable legislation. There are no restrictions on the transfer of ordinary shares other than (i) as set out in the lock-up arrangements described in the preceding paragraph; (ii) as set out in the Articles of Association; (iii) certain restrictions which may from time to time be imposed by laws and regulations and pursuant to the Listing Rules of the Financial Conduct Authority (the "Listing Rules") whereby Directors and certain officers and employees of the Company require approval to deal in the ordinary shares in accordance with the Company's share dealing policies and the Market Abuse Regulation.

Directors

The membership of the Board and biographical details of the Directors are included in the Governance section on pages 54 and 55. With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Code, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of the Directors are described in the Board's terms of reference, which can be found at www.convatecgroup.com and in the Corporate governance report on page 56.

Share issues

Under its Articles of Association and authority granted under a shareholder resolution on 25 October 2016, the Company has authority to issue 1,951,472,651 ordinary shares out of which authority 1,300,000,000 shares were issued as part of the reorganisation, details of which are contained in Note 3 to the Financial Statements, and 651,472,651 shares were issued on Listing.

Significant agreements

There are also a number of other agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, bank loan agreements, property lease arrangements and employees' share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Company Secretary

The Company Secretary provides ongoing support to the Board in relation to corporate governance issues and compliance with the Listing Rules. She is responsible for establishing, implementing and monitoring the corporate governance framework, attending all Board and committee meetings, advising on effective board processes, advising on directors' statutory duties, disclosure obligations and Listing Rule requirements, and working in conjunction with investor relations and corporate affairs regarding dialogue with investors.

Political donations

No political donations, including non-EU political parties, were made during the period.

Substantial shareholdings

At 31 December 2016, the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company.

Shareholder	No. of ordinary shares	Percentage of voting rights
The Capital Group Companies, Inc	99,839,000	5.11%
Companies owned by Nordic Capital	849,181,983	43.52%
Companies owned by Avista	366,540,257	18.78%

During the period between 31 December 2016 and 17 March 2017, being the latest practicable date prior to publication of this Annual Report, the Company did not receive any notifications under Chapter 5 of the Disclosure and Transparency Rules.

Relationship agreement with controlling shareholders

Nordic Capital and Avista together own the majority of the Company's shares. The Company entered into on Listing a relationship agreement with Nordic Capital and Avista as controlling shareholders as required by Listing Rule 9.2.2A R(2)(a). Given its significant investment in the Company, Nordic Capital is entitled to appoint two Non-Executive Directors to the Board for so long as it and its associates are entitled to exercise, or to control the exercise of, 25% or more of the votes able to be cast on all or substantially all matters at general meetings of the Company. Nordic Capital and Avista together are entitled to appoint one Non-Executive Director to the Board for so long as they and their associates are entitled to exercise, or control the exercise of, 10% per cent or more of the votes able to be cast on all or substantially all matters at general meetings of the Company. Pursuant to the relationship agreement, if Nordic Capital and Avista transfer such number of shares as represent 15% or more of the votes able to be cast on all or substantially all matters at general meetings of the Company in a single transaction to another entity ("New Shareholder"), they will be able to offer such New Shareholder the right to appoint one Non-Executive Director on substantially the same terms as the relationship agreement, provided that, among other things, the Board is satisfied that the New Shareholder is a long term investor, such as a charitable foundation or a sovereign wealth fund (as opposed to a more typical institutional investor in the public market or a hedge fund) which is not a competitor of the Company; the Nomination Committee may prevent a proposed appointment if it is not in the best interests of the Company; there will be no more than three Nordic Capital, Avista or New Shareholder appointed Non-Executive Directors; and there may only ever be one such appointment. In the period from Listing to 31 December 2016 (and also from 31 December 2016 to 17 March 2017, being the latest practicable date prior to publication of this Annual Report), the Company has complied with the

independence provisions of the relationship agreement, and so far as the Company is aware, Nordic Capital and Avista and their associates also complied with the independence provisions.

Acquisition of Company's own shares

At the end of the year, the Directors had authority, under the shareholders' resolutions of 25 October 2016, to purchase through the market up to 10% of the Company's ordinary shares at prices per share at the higher of (i) up to 105% of middle market quotations of the price of shares for the five business days prior to the date of purchase, and (ii) an amount equal to the higher of the last independent trade and the highest current independent bid at the time of purchase. This authority expires at the date of the Company's AGM and the Company will seek its renewal at the AGM. It is confirmed that no acquisition of the Company's own shares have been made under such authority.

Related party transactions

Details of the Company's one related party transaction are contained in Note 26 to the Financial Statements.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The Group places considerable value on creating a positive collaborative working environment and to ensuring that all employees are engaged and motivated. Details of employee engagement are provided on page 47 of the Strategic report.

A resolution is to be proposed at the Annual General Meeting to approve an all employee share scheme of the Group. The Directors believe that such a scheme is a benefit to the Company as it will facilitate the ability for all employees to purchase shares in the Company, thus enabling them to benefit directly from the anticipated growth and success of the Company in the future.

Greenhouse emissions reporting

The disclosures concerning greenhouse gas emissions required by law are included in the Strategic report on page 48.

Listing Rules – compliance with LR 9.8.4C

Section	Applicable sub-paragraph within LR 9.8.4C	Location
1	Interest capitalised	Group Financial Statements, Note 3, page 111
4	Details of long term incentive schemes	Remuneration Committee report, page 66
14	Confirmation of relationship agreement	Directors' report, page 84

Special business

The Annual General Meeting will be held at Reading Town Hall, Blagrave Street, Reading, Berkshire RG1 1QH, on 11 May 2017 at 11am. Notice of the meeting, containing details of the resolutions to be put to the meeting, will be available on the Company's website.

Clare Bates
Company Secretary
17 March 2017

ConvaTec Group Plc is registered in England No. 10361298

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company Financial Statements, the directors are required to:
- Select suitable accounting policies and then apply them consistently.
- Make judgements and accounting estimates that are reasonable and prudent.
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements.
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that directors:
- Properly select and apply accounting policies.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:
- The Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face and a statement as to the viability of the Company.
- The Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance and position, business model and strategy.

This responsibility statement was approved by the Board of Directors on 17 March 2017 and is signed on its behalf by:

Paul Moraviec
Chief Executive Officer

Nigel Clerkin
Chief Financial Officer

Financial review

Results of operations

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

	2016 $m	2015 $m
Revenue[1]	**1,688.3**	1,650.4
Cost of goods sold	**(821.0)**	(799.9)
Gross profit	**867.3**	850.5
Selling and distribution expenses	**(357.0)**	(346.7)
General and administrative expenses	**(318.2)**	(233.1)
Research and development expenses	**(38.1)**	(40.3)
Operating profit	**154.0**	230.4
Finance costs	**(271.4)**	(303.6)
Other expense, net	**(8.4)**	(37.1)
Loss before income taxes	**(125.8)**	(110.3)
Income tax (expense) benefit	**(77.0)**	16.9
Net loss	**(202.8)**	(93.4)

1. Revenue comprises sales of the Group's products net of rebates and discounts.

The discussion below mentions revenue and certain costs and expenses on a constant exchange rate basis. Constant currency information is calculated by applying the applicable prior period average exchange rates to the Group's actual performance in the respective period. Revenue and costs and expenses on a constant exchange rate basis are non-IFRS financial measures and should not be viewed as a replacement of IFRS results. Such measures are presented because the Group believes they enable it to focus on the actual performance related changes in the results of operations from year to year without the effects of changes in exchange rates.

Revenue

On a reported basis, revenue increased 2.3%, to $1,688.3 million in 2016 from $1,650.4 million in 2015. On a constant exchange rate basis, revenue increased 4.0% in 2016. The primary exchange rate movement that impacted revenue was the movement of the British Pound sterling compared to the US dollar. The average British Pound sterling exchange rate was $1.356 in 2016 compared to $1.529 in 2015. The changes in revenue are further described below under "Revenue by franchise".

Revenue by franchise

The following table sets forth the Group's revenue by franchise for each of the last two years and the percentage change on a reported and constant exchange rate basis:

	2016 $m	2015 $m	Change[1]	At constant
Revenue by franchise				
Advanced Wound Care	**559.5**	536.1	4.4%	6.5%
Ostomy Care	**512.1**	515.5	(0.7)%	1.7%
Continence & Critical Care	**356.5**	348.2	2.4%	3.6%
Infusion Devices	**260.2**	250.6	3.8%	4.0%
Total revenue	**1,688.3**	1,650.4	2.3%	4.0%

1. Represents the percentage change as reported.

Advanced Wound Care

On a reported basis, Advanced Wound Care revenue in 2016 was $559.5 million, an increase of $23.4 million, or approximately 4.4%, from $536.1 million in 2015. At a constant exchange rate, Advanced Wound Care revenue increased 6.5% in 2016. We continued to see consistent growth in our AQUACEL® product lines, particularly in EMEA and the US with strong growth from AQUACEL® Foam.

Ostomy Care

On a reported basis, Ostomy Care revenue in 2016 was $512.1 million, a decrease of $3.4 million, or approximately 0.7%, from $515.5 million in 2015. At a constant exchange rate, Ostomy Care revenue increased 1.7% in 2016, as the implementation of our plan to return the franchise to consistent growth continued to gain traction.

Continence & Critical Care

On a reported basis, CCC franchise revenue in 2016 was $356.5 million, an increase of $8.3 million, or approximately 2.4%, from $348.2 million in 2015. At a constant exchange rate, CCC revenue increased 3.6% in 2016, primarily due to strong growth in our GentleCath™ intermittent catheter portfolio, partially offset in the second half of the year by the beginning of rationalisation initiatives within our Hospital Care business. These have been identified as part of our ongoing Margin Improvement Programme.

Infusion Devices

On a reported basis, Infusion Devices revenue in 2016 was $260.2 million, an increase of $9.6 million, or approximately 3.8%, from $250.6 million in 2015. At a constant exchange rate, Infusion Devices revenue increased 4.0% in 2016. Our partners are seeing strong end-market demand for infusion pumps.

Operating costs and expenses

The following is a summary of operating costs and expenses for each of the last two years and the percentage of each category compared with total revenue in the respective period. Percentages may not sum due to rounding.

	2016 $m	2015 $m	2016[1]	2015[1]
Operating costs and expenses – reported:				
Cost of goods sold	**(821.0)**	(799.9)	**48.6%**	48.5%
Selling and distribution expenses	**(357.0)**	(346.7)	**21.1%**	21.0%
General and administrative expenses	**(318.2)**	(233.1)	**18.8%**	14.1%
Research and development expenses	**(38.1)**	(40.3)	**2.3%**	2.4%
Total operating costs and expenses – reported	**(1,534.3)**	(1,420.0)	**90.9%**	86.0%

	2016 $m	2015 $m	2016[1]	2015[1]
Operating costs and expenses – adjusted:				
Cost of goods sold	**(660.2)**	(667.4)	**39.1%**	40.4%
Selling and distribution expenses	**(355.2)**	(346.7)	**21.0%**	21.0%
General and administrative expenses	**(164.4)**	(161.4)	**9.7%**	9.8%
Research and development expenses	**(36.3)**	(38.1)	**2.2%**	2.3%
Total operating costs and expenses – adjusted	**(1,216.1)**	(1,213.6)	**72.0%**	73.5%

	2016 $m	2015 $m
Other costs and net (expenses) income:		
Finance costs	**(271.4)**	(303.6)
Other expense, net	**(8.4)**	(37.1)
Income tax (expense) benefit	**(77.0)**	16.9

1. Represents the percentage of revenue.

Cost of goods sold

Cost of goods sold primarily comprises manufacturing and production costs, including raw materials, labour, overhead and processing costs and any freight costs borne by the Group in the transport of goods to the Group from suppliers, depreciation of manufacturing facilities and equipment and lower of cost or market adjustments to inventories.

Cost of goods sold increased $21.1 million, or 2.6%, to $821.0 million in 2016 from $799.9 million in 2015, primarily due to incremental restructuring and other related costs of $31.8 million, primarily resulting from closure of the Group's manufacturing facility in Malaysia in 2016 and manufacturing operations in Greensboro, United States by early 2017, along with increased volumes sold. For additional information related to restructuring costs, please refer to Note 18 – Provisions. As a percentage of revenue, cost of goods sold increased to 48.6% in 2016 from 48.5% in 2015.

Gross profit (revenue less cost of goods sold) increased $16.8 million, or 2.0%, and gross profit margin (gross profit as a percentage of revenue) was 51.4% and 51.5% in 2016 and 2015, respectively. Gross profit margin excluding impacts from amortisation of certain intangible assets and certain non-recurring costs in 2016 was 60.9%, as compared with 59.6% in 2015. This 130 basis points (bps) improvement in the Group's adjusted gross margin percentage reflects strong initial benefits from the first year of implementation of the Margin Improvement Programme (90 bps), along with favourable foreign exchange impacts (40 bps). Refer to Non-IFRS Financial Information below for further details.

Selling and distribution expenses

Selling and distribution expenses consist of advertising, promotion, marketing, sales force, and distribution costs.

Selling and distribution expenses increased $10.3 million, or 3.0%, to $357.0 million in 2016 from $346.7 million in 2015. As a percentage of revenue, selling and distribution expenses were 21.1% and 21.0% in 2016 and 2015, respectively. On a constant exchange rate basis, selling and distribution expenses increased $17.8 million (5.1%), primarily due to an increase in compensation costs and spending on marketing support programmes.

General and administrative expenses

General and administrative expenses consist of executive management, human resources, finance, information management, legal, facilities and other costs.

General and administrative expenses increased $85.1 million, or 36.5%, to $318.2 million in 2016 from $233.1 million in 2015. On a constant exchange rate basis, general and administrative expenses increased $90.0 million (38.6%), primarily due to (i) an increase in share-based compensation expenses of $74.2 million driven by the impact of the accelerated vesting of legacy equity compensation plans in 2016 (refer to Note 22 – Share-Based Payments for further details), (ii) an increase in professional service fees mainly related to the IPO of $23.9 million, (iii) incremental compensation and benefit costs, and (iv) impairment charges on the Group's former corporate facility located in Skillman, New Jersey of $4.6 million. These increases were partially offset by (i) settlement of ordinary

course multi-year patent-related litigations in 2015 of $13.3 million (for more details, see Note 21 – Commitment and Contingencies – Smith & Nephew/Patent Litigations and Settlement) and (ii) lower professional service fees primarily related to a number of remediation activities that were undertaken in the prior year period to enhance the Group's compliance function and strengthen its control environment within finance.

As a percentage of revenue, adjusted general and administrative expenses were 9.7% and 9.8% in 2016 and 2015, respectively. On a constant exchange rate basis and excluding other income and expense items discussed under Non-IFRS Financial Information below, general and administrative expenses increased by $7.5 million (4.6%), primarily due to incremental compensation costs.

Research and development expenses

Research and development ("R&D") expenses consist of product development and enhancement costs incurred within a centralised R&D function.

R&D expenses decreased $2.2 million, or 5.5%, to $38.1 million in 2016 from $40.3 million in 2015. As a percentage of revenue, R&D expenses were 2.3% and 2.4% in 2016 and 2015, respectively. On a constant exchange rate basis, R&D expenses increased $0.3 million (0.7%). This increase in R&D expense is primarily driven by spending on certain development programmes, partially offset by lower regulatory compliance costs and FDA remediation costs. On a constant exchange rate basis and excluding other income and expense items discussed under Non-IFRS Financial Information below, R&D expenses increased by $0.5 million (1.4%).

Operating profit

Operating profit decreased $76.4 million, or 33.2%, to $154.0 million in 2016 from $230.4 million in 2015, primarily due to overall increases in the Group's operating expenses (discussed above), partially offset by higher revenues and an increase in gross margin as described above. As a percentage of revenue, operating profit was 9.1% and 14.0% in 2016 and 2015, respectively.

Adjusted operating profit increased $35.4 million, or 8.1%, to $472.2 million in 2016 from $436.8 million in 2015, primarily due to higher revenue and an increase in gross margin as described above, partially offset by overall increases in the Group's operating expenses (discussed above). As a percentage of revenue, adjusted operating profit was 28.0% and 26.5% in 2016 and 2015, respectively. On a constant exchange rate basis, adjusted operating profit increased $31.2 million, or 7.1% in 2016.

Other costs and net (expenses) income

Finance costs

Finance costs consist of interest costs, standby fees, and any loss related to debt extinguishment.

Finance costs decreased $32.2 million, or 10.6%, to $271.4 million in 2016 from $303.6 million in 2015, primarily reflecting the following: (i) a decrease in interest expense on long-term borrowings of $24.2 million, (ii) a decrease in the non-cash amortisation of debt discounts and deferred financing fees of $9.5 million, and (iii) a decrease in the loss on extinguishment of debt of $5.9 million. These decreases were partially offset by the write off of deferred financing fees of $7.3 million, in the aggregate, related to the Group's revolving credit facility financing in October 2016 and the commitment letter entered into in connection with the financing of the Group's credit facilities (refer to Note 17 – Long-term Borrowings for further information).

The decrease in interest expense was primarily driven by the early redemption of (i) the Payment-in-Kind notes ("PIK Notes") due 15 January 2019, (ii) the 7.375% senior secured notes due 2017 (the "Secured Notes") in June 2015 and (iii) the 10.5% senior notes due 2018 and the 10.875% senior notes due 2018 (collectively, the "Senior Notes"), partially offset by borrowings related to the new US dollar and euro term loan A facility under the Group's Credit Agreement as a result of the October 2016 financing.

Adjusted finance costs decreased $33.6 million to $242.2 million in 2016 from $275.8 million in 2015, primarily reflecting the following: (i) a decrease in interest expense on long-term borrowings of $24.2 million and (ii) a decrease in the non-cash amortisation of debt discounts and deferred financing fees of $9.5 million. The decrease in interest expense was primarily driven by the early redemption of (i) the PIK Notes in October 2016 (ii) the Secured Notes in June 2015 and (iii) the Senior Notes in October 2016. These decreases were partially offset by an increase in interest expense driven by borrowings related to the new US dollar and euro term loan A facility under the Group's Credit Agreement as a result of the October 2016 financing.

Other expense, net

Other expense, net primarily consists of net gains and losses resulting from (i) the re-measurement or settlement of transactions that are denominated in a currency that is not the functional currency of a transacting subsidiary and (ii) derivative financial instruments.

Other expense decreased $28.7 million to $8.4 million in 2016 from $37.1 million in 2015, primarily driven by a foreign exchange net gain related to (i) intercompany transactions, including loans transacted in non-functional currencies and (ii) foreign currency impact on re-measurement of the Group's long-term borrowings denominated in non-functional currency. These gains were partially offset by (i) reclassification of foreign exchange accumulated losses of $36.4 million from other comprehensive income to the Consolidated Statement of Profit or Loss as a result of restructuring of certain foreign subsidiaries as part of the IPO process and (ii) a loss of $17.8 million related to the settlement of a foreign currency forward exchange contract. Refer to Note 9 – Other Expense, Net for further information.

Income tax (expense) benefit

Income tax increased by $93.9 million to $77.0 million for the year ended 31 December 2016, compared to a tax benefit of $16.9 million for the year ended 31 December 2015. The increase is mainly driven by deferred tax expense, from a benefit of $55.8 million in 2015 to expense of $37.2 million in 2016. This change was mainly driven by a change related to unremitted earnings, due to a change in tax law in Dominican Republic. In addition, in 2016 the Group had a $10.8 million prior period impact on deferred tax related to indefinite-lived intangible assets in the United States.

After adjusting for certain financial measures which the Group believes are useful supplemental indicators of future operating performance (see reconciliation to adjusted earnings for the years ended 2016 and 2015), the adjusted tax rate on continuing operations was 22.3% and 22.7% for the years ended 31 December 2016 and 2015, respectively.

The Group's pro forma effective tax rate was 14.2% and 12.0% for the years ended 31 December 2016 and 2015.

Net loss

As a result of all of the above, net loss increased $109.4 million to a net loss of $202.8 million in 2016, compared to a net loss of $93.4 million in 2015.

Adjusted net income increased $54.4 million, or 43.7%, to $178.8 million in 2016 from $124.4 million in 2015. As a percentage of revenue, adjusted net income was 10.6% and 7.5% in 2016 and 2015, respectively. The increase was primarily driven by higher operating profit due to revenue growth, strong gross margin expansion and solid cost control combined with decreased finance costs as described above.

Exchange rates

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

Currency	Average rate/ Closing rate	2016	2015
USD/EUR	Average	**1.11**	1.11
	Closing	**1.05**	1.09
USD/GBP	Average	**1.36**	1.53
	Closing	**1.23**	1.47
USD/DKK	Average	**0.15**	0.15
	Closing	**0.14**	0.15

Our business is primarily impacted by foreign exchange movements in the British pound ("GBP"), Euro ("EUR") and Danish Krona ("DKK"). The approximate impact of a 1% movement of the US dollar on both our revenue and EBITDA is as follows:

Currency	Revenue	Adjusted EBITDA
EUR/DKK	~$4 million	~$2 million
GBP	~$2 million	~Neutral

Our cost base in the UK provides a natural offset to the impact of GBP currency movements on revenues.

Non-IFRS financial information

This Annual Report contains certain financial measures that are not defined or recognised under IFRS. These measures are referred to as "Adjusted" measures and include: Adjusted Cost of goods sold, Adjusted Gross margin, Adjusted Selling and distribution expenses, Adjusted General and administrative expenses, Adjusted Research and development expenses, Adjusted Operating profit ("Adjusted EBIT"), Adjusted Profit before tax, Adjusted Finance costs, Adjusted Other expense net, Adjusted Net income; Adjusted Earnings per share (shown collectively in the reconciliation to adjusted earnings, below), Adjusted EBITDA (defined below), and Cash conversion. These measures are not measurements of financial performance or liquidity under IFRS and should not replace measures of liquidity or operating profit that are derived in accordance with IFRS.

The Group believes these measures are useful supplemental indicators that may be used to assist in evaluating the Group's operating performance, which management uses to assess and measure the Group's operating performance. Accordingly, this information has been disclosed to permit a more complete and comprehensive analysis of the Group's operating performance, consistent with how the Group's business performance is evaluated by management. Items adjusted for include acquisition-related amortisation, restructuring and other costs primarily related to the Margin Improvement Programme, and costs incurred in connection with the Group's refinancing and initial public offering.

Reconciliation to adjusted earnings – for the years ended 31 December 2016 and 2015

2016	Reported $m	Adjustments (a) $m	(b) $m	(c) $m	(d) $m	(e) $m	(f) $m	(g) $m	Adjusted $m
Revenue	1,688.3	–	–	–	–	–	–	–	1,688.3
Cost of goods sold	(821.0)	136.8	23.8	–	–	–	–	0.2	(660.2)
Gross profit	**867.3**	**136.8**	**23.8**	**–**	**–**	**–**	**–**	**0.2**	**1,028.1**
Gross Margin %	*51.4%*								*60.9%*
Selling and distribution expenses	(357.0)	–	0.9	–	–	–	–	0.9	(355.2)
General and administrative expenses	(318.2)	18.1	5.0	11.7	0.8	–	90.2	28.0	(164.4)
Research and development expenses	(38.1)	0.2	1.2	–	–	–	–	0.4	(36.3)
Operating profit	**154.0**	**155.1**	**30.9**	**11.7**	**0.8**	**–**	**90.2**	**29.5**	**472.2**
Operating Profit %	*9.1%*								*28.0%*
Finance costs	(271.4)	–	–	–	–	29.2	–	–	(242.2)
Other expense, net	(8.4)	–	–	–	–	8.4	–	–	–
(Loss) profit before income taxes	**(125.8)**	**155.1**	**30.9**	**11.7**	**0.8**	**37.6**	**90.2**	**29.5**	**230.0**
Income tax expense[(h)]	(77.0)								(51.2)
Net (loss) profit	**(202.8)**								**178.8**
Net (Loss) Profit %	*(12.0)%*								*10.6%*
Basic Earnings Per Share ($ per share)	**(0.15)**								**0.13**
Diluted Earnings Per Share ($ per share)	**(0.15)**								**0.13**

2015	Reported $m	Adjustments (a) $m	(b) $m	(c) $m	(d) $m	(e) $m	(f) $m	(g) $m	Adjusted $m
Revenue	1,650.4	–	–	–	–	–	–	–	1,650.4
Cost of goods sold	(799.9)	130.0	2.5	–	–	–	–	–	(667.4)
Gross profit	**850.5**	**130.0**	**2.5**	**–**	**–**	**–**	**–**	**–**	**983.0**
Gross Margin %	*51.5%*								*59.6%*
Selling and distribution expenses	(346.7)	–	–	–	–	–	–	–	(346.7)
General and administrative expenses	(233.1)	15.5	7.6	12.1	13.8	–	18.6	4.1	(161.4)
Research and development expenses	(40.3)	–	0.2	2.0	–	–	–	–	(38.1)
Operating profit	**230.4**	**145.5**	**10.3**	**14.1**	**13.8**	**–**	**18.6**	**4.1**	**436.8**
Operating Profit %	*14.0%*								*26.5%*
Finance costs	(303.6)	–	–	–	–	27.8	–	–	(275.8)
Other expense, net	(37.1)	–	–	–	–	37.1	–	–	–
(Loss) profit before income taxes	**(110.3)**	**145.5**	**10.3**	**14.1**	**13.8**	**64.9**	**18.6**	**4.1**	**161.0**
Income tax benefit (expense)[(h)]	16.9								(36.6)
Net (loss) profit	**(93.4)**								**124.4**
Net (Loss) Profit %	*(5.7)%*								*7.5%*
Basic Earnings Per Share ($ per share)	**(0.07)**								**0.10**
Diluted Earnings Per Share ($ per share)	**(0.07)**								**0.10**

(a). Represents an adjustment to exclude (i) acquisition-related amortisation expense of $136.1 million and $143.5 million in 2016 and 2015, respectively, (ii) accelerated depreciation of $11.1 million and $0.6 million in 2016 and 2015, respectively, related to the closure of certain manufacturing facilities, and (iii) impairment charges and assets write offs related to property, plant and equipment and intangible assets of $7.9 million and $1.4 million, in the aggregate, in 2016 and 2015, respectively. Refer to Note 12 – Property, Plant and Equipment and Note 13 – Intangible Assets for further information.
(b). Represents restructuring costs and other-related costs (excluding accelerated depreciation described above under (a)) primarily incurred in connection with the Margin Improvement Programme. Refer to Note 18 - Provisions for further details related to the restructuring costs.
(c). Represents remediation costs which include regulatory compliance costs related to FDA activities, IT enhancement costs, and professional service fees associated with activities that were undertaken in respect of the Group's compliance function and to strengthen its control environment within finance.
(d). Represents costs primarily related to (i) corporate development activities and (ii) a settlement of ordinary course multi-year patent-related litigations in 2015 (refer to Note 21 - Commitments and Contingencies – Smith & Nephew/Patent Litigations and Settlement for further information).
(e). Represents adjustments to exclude (i) loss on extinguishment of debt and write-off of deferred financing fees (refer to Note 8 – Finance Costs and Note 17 – Long-term Borrowings for further information) and (ii) foreign exchange related transactions (refer to Note 9 – Other Expense, Net for further information).
(f). Represents an adjustment to exclude (i) share-based compensation expense of $85.9 million and $12.5 million in 2016 and 2015, respectively, arising from pre-IPO employee equity grants (refer to Note 22 – Share-Based Payments for further details) and (ii) pre-IPO ownership structure related costs, including management fees to Nordic Capital and Avista (refer to Note 26 – Related Party Transactions for further information).
(g). Represents IPO related costs, primarily advisory fees.
(h). Adjusted income tax expense/benefit is income tax (expense) benefit net of tax adjustments.

Pro forma earnings per share

Pro forma basic earnings per share is computed as pro forma adjusted net profit allocated to each outstanding share of common stock as if the Group's shares outstanding at 31 December 2016 were outstanding for the entire year for both 2016 and 2015. Pro forma diluted earnings per share is computed as pro forma adjusted net profit allocated to each outstanding share of common stock and dilutive awards outstanding at 31 December 2016 as if they were outstanding for the entire year for both 2016 and 2015.

	2016 $m	2015 $m
Adjusted net profit	**178.8**	124.4
Pro forma interest adjustment	**185.5**	218.8
Tax effect of pro forma interest adjustment	**(7.8)**	(8.9)
Pro forma adjusted net profit[1]	**356.5**	334.3
Pro forma basic and diluted earnings per share ($ per share)	**0.18**	0.17
Pro forma effective tax rate	**14.2%**	12.0%

1. Pro forma adjusted net profit is computed as adjusted net profit further adjusted to reflect the post-IPO debt structure as if it had been in place as of 1 January 2016 and 2015.

Adjusted EBITDA

Adjusted EBITDA is defined as Adjusted EBIT (defined above) further adjusted to exclude (i) software and R&D amortisation, (ii) depreciation, and (iii) post-IPO employee share-based compensation.

The following table reconciles the Group's Adjusted EBIT to Adjusted EBITDA.

	2016 $m	2015 $m
Adjusted EBIT	**472.2**	436.8
Software and R&D amortisation[1]	**6.7**	6.6
Depreciation[2]	**27.9**	30.4
Post-IPO share-based compensation[3]	**0.8**	–
Adjusted EBITDA	**507.6**	473.8

1. The following is a summary of software and R&D amortisation as recorded in the Consolidated Statement of Profit or Loss for each of the last two years:

	2016 $m	2015 $m
Cost of goods sold	**0.5**	1.0
General and administrative expenses	**6.2**	5.6
Software and R&D amortisation	**6.7**	6.6

2. The following is a summary of depreciation (excluding accelerated depreciation), as recorded in the Consolidated Statement of Profit or Loss for each of the last two years:

	2016 $m	2015 $m
Cost of goods sold	**23.6**	25.8
Selling and distribution expenses	**0.3**	0.3
General and administrative expenses	**3.2**	3.5
Research and development expenses	**0.8**	0.8
Depreciation, excluding accelerated depreciation	**27.9**	30.4

3. The share-based compensation related to the transition awards was recorded in General and administrative expenses in the Consolidated Statement of Profit or Loss.

Cash conversion

The Group believes that cash conversion is a useful supplemental metric that provides a measure of efficiency by which the Group is able to turn profit from operations into cash flow to service the requirements of debt and equity investors, as well as paying for the Group's tax obligations, re-investing in the business for growth and enhancing dividend capacity.

Cash conversion is computed as the ratio of Adjusted EBITDA less change in working capital and capital expenditure to Adjusted EBITDA.

The computation of cash conversion for 2016 and 2015 is as follows:

	2016 $m	2015 $m
Adjusted EBITDA	**507.6**	473.8
Working capital increase	**(37.0)**	(22.1)
PP&E purchases	**(66.5)**	(36.7)
	404.1	415.0
Cash conversion	**79.6%**	87.6%

Cash conversion is also computed as the ratio of net cash generated from operating activities adjusted for (i) cash interest payments, (ii) cash tax payments, (iii) payments related to cash-settled AEP and MIP awards, and (iv) other payments within operating activities, less capital expenditure to Adjusted EBITDA. The resulting cash conversion figures are the same under either definition.

The computation of cash conversion for 2016 and 2015 is as follows:

	2016 $m	2015 $m
Net cash generated from operating activities	**74.9**	100.3
Add:		
Cash interest payments	**270.6**	257.9
Cash tax payments	**39.0**	42.2
Cash-settled AEP and MIP awards[1]	**30.2**	–
Other payments[2]	**55.9**	51.3
Less:		
PP&E Purchases	**(66.5)**	(36.7)
	404.1	415.0
Adjusted EBITDA	**507.6**	473.8
Cash conversion	**79.6%**	87.6%

1. Refer to Note 22 – Share-Based Payments for further information.
2. Other payments represent payments related to the IPO-related costs, restructuring and other related costs, a settlement payment made in 2015 related to multi-year patent-related litigations (refer to Note 21 - Commitments and Contingencies – Smith & Nephew/Patent Litigations and Settlement for further information), remediation costs, ownership structure costs and corporate development costs.

Financial position

Selected measures of financial position

The following table presents a summary of the Group's financial position at 31 December 2016 and 2015:

	2016 $m	2015 $m	Change $m	Change %
Asset (liability)				
Long-lived assets[1]	**2,707.2**	2,999.9	(292.7)	(9.8)%
Cash and cash equivalents	**264.1**	273.0	(8.9)	(3.3)%
Long-term borrowings, including current portion	**(1,775.6)**	(3,498.5)	1,722.9	(49.2)%

1. Long-lived assets comprise property, plant and equipment, intangible assets, and goodwill.

Long-lived assets

Long-lived assets decreased $292.7 million, or 9.8%, to $2,707.2 million at 31 December 2016, from $2,999.9 million at 31 December 2015, primarily due to (i) the depreciation of property, plant, and equipment and amortisation of intangible assets of $181.8 million, in the aggregate, (ii) a decrease from foreign currency exchange of $192.0 million, and (iii) impairment and write-off charges on property, plant, and equipment of $11.1 million, partially offset by (iv) additions of property, plant, and equipment of $91.0 million.

Cash and cash equivalents

Cash and cash equivalents decreased $8.9 million, or 3.3%, to $264.1 million at 31 December 2016, from $273.0 million at 31 December 2015, primarily due to (i) purchases of property, plant, and equipment and capitalised software of $66.5 million, and (ii) the effect of exchange rate changes on cash and cash equivalents of $24.6 million. These decreases were partially offset by (i) cash generated from operating activities of $74.9 million and (ii) cash generated from financing activities of $4.5 million driven by the financing transaction in October 2016 (refer to Note 17 - Long-term Borrowings for further information).

Long-term borrowings

Long-term borrowings decreased $1,722.9 million, or 49.2%, to $1,775.6 million at 31 December 2016, from $3,498.5 million at 31 December 2015, primarily due to the net IPO proceeds that allowed the Group to redeem the PIK Notes and the Senior Notes in October 2016. The decrease was partially offset by (i) incremental borrowings under the Group's credit facilities as a result of the October 2016 financing and (ii) an increase in finance leases in 2016. Refer to Note 17 - Long-term Borrowings for further information. As a result of the above the net debt to adjusted EBITDA ratio was 3.0x as of 31 December 2016 down from 6.9x as of 31 December 2015.

Liquidity and capital resources

Overview

At 31 December 2016, the Group's cash and cash equivalents were $264.1 million. Additionally, at 31 December 2016, the Group had $198.7 million of availability under the revolving credit facility. Restricted cash was $5.1 million at 31 December 2016 (refer to Note 3 – Significant Accounting Policies for further information).

The Group's primary source of liquidity is cash flow generated from operations. Historically, the non-elective nature of the Group's product offerings has resulted in significant recurring cash inflows. In 2016, the Group generated $74.9 million of cash from operating activities. Significant cash uses in 2016 included (i) interest payments of $270.6 million, (ii) capital expenditures of $66.5 million, (iii) income tax payments of $39.0 million, and (iv) payments related to cash-settled AEP and MIP awards of $30.2 million.

The Group's business may not continue to generate cash flow at current levels and, if it is unable to generate sufficient cash flow from operations to service its debt, the Group may be required to reduce costs and expenses, sell assets, reduce capital expenditures, refinance all or a portion of existing debt or obtain additional financing. The Group may not be able to complete these initiatives on a timely basis, on satisfactory terms, or at all. The Group's ability to make scheduled principal payments or to pay interest on or to refinance its indebtedness depends on the Group's future performance and financial results, which, to a certain extent, are subject to general conditions in or affecting the healthcare industry and to general economic, political, financial, competitive, legislative and regulatory factors beyond the Group's control.

The Group believes that the business has characteristics of strong cash flow generation. The Group's strengths include the recurring, non-discretionary nature of its products, its diverse product offering and geographic footprint, and the strong market position of the Group's leading brands. The Group believes that its existing cash on hand, combined with the Group's operating cash flow and available borrowings under the credit facilities will provide sufficient liquidity to fund current obligations, working capital and capital expenditure requirements, as well as future investment opportunities.

Cash flows

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

	2016 $m	2015 $m
Net cash generated from operating activities	**74.9**	100.3
Net cash used in investing activities	**(63.7)**	(36.9)
Net cash generated from (used in) financing activities	**4.5**	(8.3)
Net change in cash and cash equivalents	**15.7**	55.1
Cash and cash equivalents at beginning of the period	**273.0**	237.5
Effect of exchange rate changes on cash and cash equivalents	**(24.6)**	(19.6)
Cash and cash equivalents at end of the year	**264.1**	273.0

Cash flows from operating activities

Net cash generated from operating activities was $74.9 million and $100.3 million in 2016 and 2015, respectively. The following table sets forth the components of net cash generated from operating activities for each of the last two years:

	2016 $m	2015 $m
Adjusted EBITDA	**507.6**	473.8
Cash interest payments	**(270.6)**	(257.9)
Cash tax payment	**(39.0)**	(42.2)
Cash-settled AEP and MIP awards[1]	**(30.2)**	—
Other payments[2]	**(55.9)**	(51.3)
Working capital increase	**(37.0)**	(22.1)
Net cash generated from operating activities	**74.9**	100.3

1. Refer to Note 22 – Share-Based Payments for further information.
2. Other payments represent payments related to the IPO-related costs, restructuring and other related costs, a settlement payment made in 2015 related to multi-year patent-related litigations (refer to Note 21-Commitments and Contingencies – *Smith & Nephew/Patent Litigations and Settlement* for further information), remediation costs, ownership structure costs and corporate development costs.

Cash interest payments increased $12.7 million, to $270.6 million in 2016, from $257.9 million in 2015, primarily due to (i) the payment of accrued interest associated with the PIK Notes at redemption in October 2016 and (ii) the payment of commitment fees as a result of the financing (described in Note 17 – Long-term Borrowings). These increases were partially offset by a decrease in interest payments related to (i) the redemption of the Secured Notes in June 2015 and (ii) the timing of interest payments related to the Group's credit facilities, as under the Credit Agreement, no interest payment shall occur prior to 31 March 2017.

The other payments increased $4.6 million, to $55.9 million in 2016, from $51.3 million in 2015, primarily driven by an increase in payments related to (i) incremental professional service fees mainly associated with IPO-related activities and (ii) restructuring charges. These payments were partially offset by (i) a payment related to the settlement of multi-year patent litigation in 2015 and (ii) a decrease in payments related to Management Equity Plan awards and remediation and compliance costs.

The working capital increase of $37.0 million in 2016 was primarily related to (i) an increase in inventory to support franchises through the Margin Improvement Programme consolidation of manufacturing facilities and (ii) timing of receipts and payments in the ordinary course of business. The working capital increase of $22.1 million in 2015 was primarily related to timing of receipts and payments in the ordinary course of business.

Cash flows from investing activities

Net cash used in investing activities increased $26.8 million, to $63.7 million in 2016, from $36.9 million in 2015. The increase in capital expenditures was primarily related to new manufacturing equipment to support the Margin Improvement Programme productivity initiative and additional capacity for the Advanced Wound Care product portfolio.

Cash flows from financing activities

Net cash generated from financing activities was $4.5 million in 2016, compared with net cash used in financing activities of $8.3 million in 2015, reflecting a change of $12.8 million, primarily due to (i) net proceeds from the issue of share capital of $1,764.3 million, (ii) $338.5 million paid on the redemption of the Secured Notes in June 2015, (iii) a decrease of $34.4 million in mandatory prepayments for excess cash retained in the business and quarterly amortisation payments under the Group's credit facilities, and (iv) a decrease in deferred financing fees paid of $6.9 million. These increases were partially offset by (i) $1,917.3 million paid, in the aggregate, on redemption of the PIK Notes and the Senior Notes in October 2016 and (ii) a decrease of $213.7 million in net borrowings under the Group's credit facilities as a result of the financing in October 2016.

Contractual obligations

The Group's contractual obligations consist mainly of payments related to long-term borrowings and related interest, operating leases, finance lease obligations and unconditional purchase obligations. The following table summarises the Group's contractual obligations at 31 December 2016:

	Payments Due by Period				
	Total $m	Within 1 year or on demand $m	1 to 2 years $m	2 to 5 years $m	More than 5 years $m
Long-term borrowings, including interest[1]	2,034.2	96.7	121.2	1,383.2	433.1
Operating lease obligations	61.9	18.9	14.5	19.8	8.7
Finance lease obligations	38.4	2.2	2.3	7.7	26.2
Purchase obligations[2]	363.7	108.6	75.9	170.0	9.2
Total	**2,498.2**	**226.4**	**213.9**	**1,580.7**	**477.2**

1. Expected interest payments assume repayment of the principal amount of the debt obligations at maturity.
2. Purchase obligations consist of agreements to purchase goods and services that are enforceable and legally binding which primarily include (i) capital expenditures, (ii) minimum inventory purchases, and (iii) obligations for warehouse, distribution, freight, and services.

Independent auditor's report to the members of ConvaTec Group Plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of ConvaTec Group Plc (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the Consolidated Statement of Profit or Loss;
- the Consolidated Statement of Comprehensive Loss;
- the Consolidated Statement of Financial Position and the Company Balance Sheet;
- the Consolidated Statement of Cash Flows;
- the Consolidated and Company Statements of Changes in Equity; and
- the related notes 1 to 26 of the Consolidated Financial Statements and notes 1 to 10 of the Company Financial Statements.

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS101 "Reduced Disclosure Framework".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key risks that we identified were: – **Revenue Recognition** – focusing on whether sales are valid with higher risk in the recording of revenue for sales/shipments that either did not occur, or did not occur at the level recorded by management, or for which the risks and rewards have not passed to the customer. – **Valuation of goodwill** – focusing on the revenue growth projections applied to forecast trading performance based on management's view on future business prospects, which are noted to be inherently uncertain. – **Taxation** – focusing on the tax impact of the IPO restructuring on provisions for uncertain tax positions and recognition of deferred tax assets and the related impact on taxation charge and balance sheet amounts.
Materiality	We determined materiality for the Group to be $16.9m, utilising a blended rate of financial metrics including revenue, adjusted EBITDA and current assets.
Scoping	We performed full scope audit procedures on 12 legal entities covering 9 countries. In addition, we have performed specified audit procedures in 11 legal entities across 7 countries. Together, these accounted for 85% of revenue and 80% of current assets.

Conclusions related to going concern, principal risks and viability statement

We are required to state whether we have anything material to add or draw attention to in relation to: – the disclosures on pages 30 to 33 that describe the principal risks and explain how they are being managed or mitigated; – the directors' confirmation on page 28 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; – the directors' statement in Note 3 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; – the directors' explanation on page 52 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions; or – whether the directors' statements relating to going concern and the prospects of the Company required in accordance with Listing Rule 9.8.6R(3) are materially inconsistent with our knowledge obtained in the audit.	We confirm that we have nothing material to add or draw attention to in respect of these matters. We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition	
Key audit matter description	ISAs (UK) require that, as part of our overall response to the risk of fraud, when identifying and assessing the risks of material misstatement due to fraud, we evaluate which types of revenue or revenue transactions might give rise to potential fraud risks. We have specifically focused this risk to whether sales are valid with higher risk in the area of recording revenue for sales/ shipments that either did not occur, or did not occur at the level recorded by management, or for which the risks and rewards have not passed to the customer. Pressures to meet stakeholder expectations post IPO as well as sales targets could provide incentives to record revenues where risk and reward have not passed. *The associated disclosure is included within Note 5 and revenue recognition is included within the critical accounting policies in Note 4. For specific detail on the Groups accounting policy, please see Note 3.*
How the scope of our audit responded to the key audit matter	Our audit response consisted of several procedures including those summarised below. The specific combination of procedures varied by location. We performed walkthroughs of the revenue cycle at significant components to gain an understanding of when the revenue should be recognised, to map out the relevant controls end to end and the processes in place. We have assessed the design and implementation of these controls. We performed sample tests of individual sales transactions and traced to sales invoices, final sales contracts or purchase orders. We compared invoice prices to Company price lists to assess levels of discount. We performed monthly analytic reviews to identify any unusual sales trends. We obtained confirmations from customers in certain locations to support the assertion that revenue has been appropriately recognised. We have tested sample transactions through agreement to shipping records and subsequent payment from customers. In addition, we also reviewed a sample of distributor contracts to assess the terms of sale and to support recalculation of rebates and chargebacks associated with the revenue. We held interviews with a selection of key sales personnel to determine the existence of any side agreements or unusual arrangements which may impact when revenue can be recognised. We held quarterly review calls with business leaders to identify changes in customer demand and new product introductions that might impact sales patterns. Our procedures performed allowed us to gain a thorough understanding of the revenue cycle with a variety of procedures performed to minimise the risk associated to potential fraud.
Key observations	We were satisfied that the key assumptions used in the application of revenue recognition have been applied appropriately. We noted no material instances of inappropriate revenue recognition arising from our testing.

Valuation of goodwill	
Key audit matter description	As at 31 December 2016 the carrying value of goodwill was $921.0m (2015: $1,019.3m). Goodwill is a highly material balance in the Consolidated Statement of Financial Position and there are a number of judgements applied by management in determining the recoverable amounts including short-term and long-term growth projections, identification of cash generating units (CGUs) and discount rates applied. We have particularly focused on the growth projections applied to forecast trading performance based on management's view of future business prospects since the growth rates are inherently uncertain. *The associated disclosure is included within Note 14. The Audit Committee has included their assessment of this risk on page 65 and it is included within the key sources of estimation uncertainty in Note 4. For specific detail on the Group's accounting policy, please see Note 3.*
How the scope of our audit responded to the key audit matter	We challenged the adequacy and reasonableness of short-term and long-term growth rates through: – attending quarterly meetings with franchise and business lead heads; – challenging the budget assumptions, using external data sources where available to support the assumptions applied; – challenging the Board approved budgets against historical performance assessing historical forecasting accuracy; – assessing post period trading data; and – challenging the arithmetic accuracy and integrity of the model used in the valuation. We used our internal valuation specialists within the audit team to determine an acceptable range of discount rates and compared our range to that determined by management. We challenged management's sensitivity analysis to assess whether it reflected a reasonable worst case scenario and performed additional sensitivity analysis on the growth and discount rate assumptions to determine if there are any scenarios whereby a reasonably possible expectation of impairment could be present. We assessed the number of CGUs identified and whether the CGUs represent the lowest level within the Group at which goodwill is monitored for internal management purposes and the appropriateness of allocating the goodwill to the CGUs.
Key observations	Overall we found the assumptions adopted by management in the valuation to be reasonable and the methodology applied was fair in all material respects. When finalising the Financial Statements, an incorrect allocation was identified in the foreign currency apportionment of goodwill arising on the acquisition of ConvaTec from Bristol-Myers Squibb on 1 August 2008. The allocation solely impacts the translation of foreign exchange on goodwill reflected through the cumulative translation reserve. As a result foreign exchange movements related to goodwill were misstated. The Financial Statements have been restated to reflect the appropriate amounts and the impact is shown in Note 14. Significant levels of headroom were identified across all CGUs both before and after the restatement.
Taxation	
Key audit matter description	The Group operates internationally with intercompany trading across tax jurisdictions. A number of activities occur through its Swiss subsidiary, the income of which is taxed at the comparably low Swiss tax rate. Debt levels prior to IPO were also high and losses were incurred in various jurisdictions. As a result the group is potentially exposed to transfer pricing risk and challenges on interest deductions, and has to make judgements about uncertain tax positions and deferred tax asset recognition. These positions were considered prior to the IPO restructuring. The IPO restructuring included capitalisation of shareholder debt, a new UK holding company as a listing vehicle and the refinancing of external debt. This gives rise to risk of triggering further exposures, additional challenge to pre-existing arrangements or changes to expected recoverability of deferred tax assets. Legal and tax professional advice was taken on the steps required to achieve the restructuring, and the tax implications for the Group. As at 31 December 2016 the Group held a provision of $19.1m (2015: $22.6m) for uncertain tax positions. Total recognised deferred tax assets (DTAs) at 31 December 2016 were $22.0m (2015: $5.3m). At 31 December 2016 there were unrecognised deferred tax assets of $511.7m (2015: $546.2m). *The associated disclosure is included within Note 10. The Audit Committee has included their assessment of this risk on page 65 and it is included within the key sources of estimation uncertainty in Note 4. For specific detail on the Groups accounting policy, please see Note 3.*
How the scope of our audit responded to the key audit matter	In conjunction with our tax audit specialists we reviewed and challenged the tax implications of the executed IPO steps and the associated professional tax advice. We confirmed that the required legal steps were appropriately implemented. As part of the audit challenge, Deloitte tax specialists were engaged in a number of jurisdictions. We assessed and challenged the assumptions and judgements in management's calculations concerning the adequacy of tax provisions for uncertain positions. We assessed the completeness of the calculation for the provisions and the procedures in place to analyse the movements including the rationale for any release, increase or continued provision in the year. We assessed the judgements regarding whether to recognise DTAs and challenged the movements of these allowances. Our challenge included an assessment of the future forecast results of the relevant Group entities. We reviewed the Group's transfer pricing reports and analysis of permanent establishment risk.
Key observations	We did not identify any material tax errors or changes to the provisions or assets recognised. We concur with the treatment adopted by management both for DTAs unrecognised, and for those recognised. The tax charge on the loss for the year is primarily driven by the following factors: significant levels of non-deductible expenditure following the IPO and reorganisation; the recognition of previously unrecognised losses and the recognition of a deferred tax liability on unremitted earnings from a subsidiary.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole as follows:

Group materiality	$16.9m
Basis for determining materiality	We have used a number of benchmarks to determine our materiality. Whilst the Group has made a statutory loss, for the assessment of audit materiality we have selected three benchmarks which we believe cover key metrics of the Group which are used by stakeholders, taking an average to determine our Group materiality: – revenue – adjusted EBITDA – current assets The items adjusted in the adjusted EBITDA are explained further in the Financial Review.
Rationale for the benchmark applied	We believe that using a materiality based on these benchmarks reflects critical underlying measures of the Group, which are given substantial prominence throughout the Annual Report, and reflects the key metrics used by analysts and investors. The materiality figure represents the following percentage of the benchmarks.

Benchmark	Metric	Materiality as % of balance
Revenue	Performance	1.0%
Adjusted EBITDA	Performance	3.3%
Current Assets	Liquidity	2.2%

Materiality applied by the component auditors ranged from $8.5m to $13m, depending on the scale of the component's operations and our assessment of risks specific to each location.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $0.9m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped on an entity level basis, assessing components against the risk of material misstatement at the Group level. We have also considered the quantum of financial statement balances and individual financial transactions of a significant nature. In performing our assessment, we have considered the geographical spread of the Group and any risks presented within each region.

Based on this assessment, we focused our work on 12 legal entities covering 9 countries, 75% of revenue and 77% of current assets. All 12 entities were subject to a full scope audit. The 12 legal entities are located in the United States of America, the United Kingdom, Switzerland, Denmark, Germany, Italy, France, the Dominican Republic and Japan, representing the principal operating units of the Group.

In addition, we have performed specified audit procedures in 11 legal entities covering 7 countries, 10% of revenue and 3% of current assets. The 11 entities are located in the United States of America, the United Kingdom, Denmark, the Netherlands, Portugal, Spain, Australia and Slovakia. All remaining entities have been covered by review procedures.

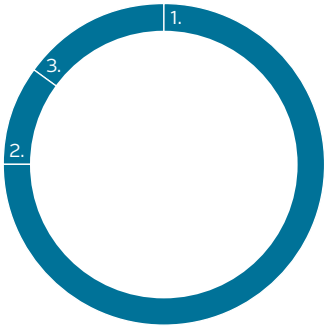
At the parent entity level we also tested the consolidation process and carried out review procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full scope audit or specified audit procedures.

As part of our first year audit, a senior member of the Group audit team visited each of the most significant components of the Group, including the United States of America, the United Kingdom, Denmark and Switzerland. The locations that we visited encompass 63% of the Group's revenue. In addition to our visits, we send detailed instructions to our component audit teams, include them in our team briefings, discuss their risk assessment and as deemed necessary attend closing meetings and review their audit working papers.

Independent auditor's report to the members of ConvaTec Group Plc continued

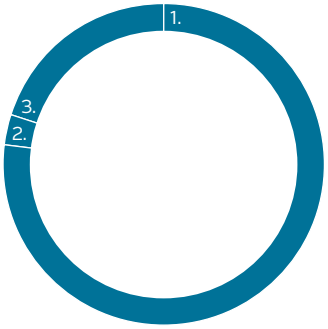
Full and specified audit component coverage analysis

Revenue %



1. Full audit scope **75%**
2. Specified audit procedures **10%**
3. Review at group level **15%**

Current assets %



1. Full audit scope **77%**
2. Specified audit procedures **3%**
3. Review at group level **20%**

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report including the Overview, Strategic Report, Governance and Financial Review sections but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our auditor's report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude in relation to the following aspects of the other information that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Our communications to the Audit Committee – the section describing the work of the audit committee does not appropriately addresses matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of the directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: – we have not received all the information and explanations we require for our audit; or – adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or – the parent company financial statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.	We have nothing to report arising from these matters.

Other matters we are required to report

Auditor tenure
The company was newly incorporated and has not yet had an annual general meeting. Accordingly, following the recommendation of the audit committee, we were appointed by the directors on 12 December 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 1 year.

Consistency of the audit report with the additional report to the audit committee
Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Gregory Culshaw, ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
17 March 2017

Consolidated Statement of Profit or Loss
For the year ended 31 December 2016

	Notes	2016 $m	2015 $m
Revenue	5	**1,688.3**	1,650.4
Cost of goods sold	7,12,13	**(821.0)**	(799.9)
Gross profit		**867.3**	850.5
Selling and distribution expenses	7	**(357.0)**	(346.7)
General and administrative expenses	7,12,13,14	**(318.2)**	(233.1)
Research and development expenses	7, 13	**(38.1)**	(40.3)
Operating profit		**154.0**	230.4
Finance costs	8	**(271.4)**	(303.6)
Other expense, net	9	**(8.4)**	(37.1)
Loss before income taxes		**(125.8)**	(110.3)
Income tax (expense) benefit	10	**(77.0)**	16.9
Net loss		**(202.8)**	(93.4)
Earnings Per Share			
Basic and diluted loss per share ($ per share)	11	**(0.15)**	(0.07)

The accounting policies and notes on pages 107 to 142 form an integral part of the Financial Statements. All results are attributable to equity holders of the Group and wholly derived from continuing operations.

Consolidated Statement of Comprehensive Loss
For the year ended 31 December 2016

	2016 $m	2015 $m
		Restated[1]
Net loss	**(202.8)**	(93.4)
Other comprehensive income		
Items that will not be reclassified subsequently to Statement of Profit or Loss		
Remeasurement of defined benefit obligation, net of tax	**(0.4)**	(0.8)
Recognition of the pension assets restriction	**(6.3)**	–
Items that may be reclassified subsequently to Statement of Profit and Loss		
Foreign operations – foreign currency translation differences, net of a tax benefit of $31.6 and a tax expense of $19.7 in 31 December 2016 and 2015, respectively	**(152.3)**	5.1
Other comprehensive loss for the year, net of taxation	**(159.0)**	4.3
Total comprehensive loss	**(361.8)**	(89.1)

(1) Refer to Note 14 – Goodwill for further information.

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

Consolidated Statement of Financial Position
As at 31 December 2016

	Notes	2016 $m	2015 $m
Assets			*Restated*[1]
Non-current assets			
Property, plant and equipment	12	**264.8**	251.5
Intangible assets	13	**1,521.4**	1,729.1
Goodwill	14	**921.0**	1,019.3
Deferred tax assets	10	**22.0**	5.3
Restricted cash	3	**2.5**	5.7
Other assets		**11.4**	23.3
		2,743.1	3,034.2
Current assets			
Inventories	15	**247.5**	228.9
Trade and other receivables	16	**233.7**	232.1
Prepaid expenses and other current assets		**19.9**	23.2
Cash and cash equivalents		**264.1**	273.0
Assets held for sale	12	**5.6**	–
		770.8	757.2
Total Assets		**3,513.9**	3,791.4
Equity and Liabilities			
Current liabilities			
Trade and other payables	24	**111.6**	114.5
Long-term borrowings	17, 24	**38.5**	21.5
Accrued expenses and other current liabilities		**81.3**	98.1
Accrued compensation		**57.0**	43.6
Provisions	18	**9.4**	3.6
Deferred revenue		**2.2**	4.3
		300.0	285.6
Non-current liabilities			
Long-term borrowings	17, 24	**1,737.1**	3,477.0
Deferred tax liabilities	10	**192.2**	186.9
Provisions	18	**1.1**	1.1
Other liabilities	19	**37.3**	59.6
		1,967.7	3,724.6
Total Liabilities		**2,267.7**	4,010.2
Equity			
Share capital	20	**238.8**	154.4
Share premium	20	**1,674.1**	–
Retained deficit		**(2,650.2)**	(2,440.7)
Merger reserve		**2,098.9**	2,098.9
Cumulative translation reserve		**(172.8)**	(27.2)
Other reserves	20	**57.4**	(4.2)
Total Equity		**1,246.2**	(218.8)
Total Equity and Liabilities		**3,513.9**	3,791.4

(1) Refer to Note 14 – Goodwill for further information.

The Financial Statements of ConvaTec Group Plc, company number 10361298 were approved by the Board of Directors and authorised for issue on 17 March 2017 and signed on its behalf by:

Nigel Clerkin
Chief Financial Officer

Consolidated Statement of Changes in Equity
For the year ended 31 December 2016

	Notes	Share capital $m	Share premium $m	Retained deficit $m	Merger reserve $m	Cumulative translation reserve $m	Other reserves $m	Total $m
At 1 January 2015[1]		154.4	–	(2,343.7)	2,098.9	(35.9)	(3.4)	(129.7)
Net loss		–	–	(93.4)	–	–	–	(93.4)
Other comprehensive (loss)/income:								
Foreign currency translation adjustment, net of tax		–	–	(3.6)	–	8.7	–	5.1
Remeasurement of defined benefit obligation, net of tax		–	–	–	–	–	(0.8)	(0.8)
Total other comprehensive (loss)/income		–	–	(3.6)	–	8.7	(0.8)	4.3
Total comprehensive (loss)/income		–	–	(97.0)	–	8.7	(0.8)	(89.1)
At 31 December 2015[1]		**154.4**	**–**	**(2,440.7)**	**2,098.9**	**(27.2)**	**(4.2)**	**(218.8)**
Net loss		**–**	**–**	**(202.8)**	**–**	**–**	**–**	**(202.8)**
Other comprehensive (loss)/income:								
Foreign currency translation adjustment, net of tax		**–**	**–**	**(6.7)**	**–**	**(145.6)**	**–**	**(152.3)**
Remeasurement of defined benefit obligation, net of tax		**–**	**–**	**–**	**–**	**–**	**(0.4)**	**(0.4)**
Recognition of pension assets restriction	23	**–**	**–**	**–**	**–**	**–**	**(6.3)**	**(6.3)**
Total other comprehensive (loss)/income		**–**	**–**	**(6.7)**	**–**	**(145.6)**	**(6.7)**	**(159.0)**
Total comprehensive (loss)/income		**–**	**–**	**(209.5)**	**–**	**(145.6)**	**(6.7)**	**(361.8)**
Issuance of shares under share-based compensation plans	22	**4.7**	**–**	**–**	**–**	**–**	**67.5**	**72.2**
Issue of share capital	20	**79.7**	**1,713.7**	**–**	**–**	**–**	**–**	**1,793.4**
Cost of issue of share capital	20	**–**	**(39.6)**	**–**	**–**	**–**	**–**	**(39.6)**
Share-based payments	22	**–**	**–**	**–**	**–**	**–**	**0.8**	**0.8**
Deferred tax on share-based payments transactions		**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2016		**238.8**	**1,674.1**	**(2,650.2)**	**2,098.9**	**(172.8)**	**57.4**	**1,246.2**

(1) Restated, refer to Note 14 – Goodwill for further information.

Consolidated Statement of Cash Flows
For the year ended 31 December 2016

	Notes	2016 $m	2015 $m
Cash flows from operating activities			
Net loss		**(202.8)**	(93.4)
Adjustments for			
Depreciation	12	**39.0**	31.0
Amortisation	13	**142.8**	150.1
Income tax expense (benefit)	10	**77.0**	(16.9)
Impairment losses	12,13	**4.7**	–
Other expense, net	9	**8.4**	37.1
Finance costs	8	**271.4**	303.6
Share-based compensation	22	**53.0**	12.5
Hyperinflation		**(6.7)**	3.1
Write off/disposal of assets	12,13	**6.7**	2.0
Changes in assets and liabilities:			
Inventories		**(27.3)**	(3.3)
Trade and other receivables		**(8.9)**	(11.7)
Other current assets		**0.3**	5.4
Deferred revenue		**(2.1)**	(10.9)
Accounts payable and accrued expenses		**25.6**	(9.3)
Other liabilities		**3.4**	0.9
Other		**–**	0.2
Cash generated from operations		**384.5**	400.4
Interest paid		**(270.6)**	(257.9)
Income taxes paid		**(39.0)**	(42.2)
Net cash generated from operating activities		**74.9**	100.3
Cash flows from investing activities			
Acquisition of property, plant and equipment and capitalised software		**(66.5)**	(36.7)
Proceeds from sale of property, plant and equipment and other assets		**0.7**	–
Change in restricted cash		**3.5**	(0.8)
Capitalised development expenditure	13	**(1.4)**	(0.9)
Other		**–**	1.5
Net cash used in investing activities		**(63.7)**	(36.9)
Cash flows from financing activities			
Proceeds from issue of share capital, net	20	**1,764.3**	–
Proceeds from long-term borrowings, net of discount		**1,792.6**	1,649.9
Repayment of borrowings		**(3,531.6)**	(1,630.9)
Payment of finance lease liabilities		**(0.4)**	–
Payments of deferred financing fees		**(20.4)**	(27.3)
Net cash generated from (used in) financing activities		**4.5**	(8.3)
Net change in cash and cash equivalents		**15.7**	55.1
Cash and cash equivalents at beginning of the year		**273.0**	237.5
Effect of exchange rate changes on cash and cash equivalents		**(24.6)**	(19.6)
Cash and cash equivalents at end of the year		**264.1**	273.0
Supplemental cash flow information			
Non-cash investing activities			
Accrued capital expenditures included in accounts payable and accrued expenses		**13.4**	8.6

Notes to the Consolidated Financial Statements

1. General Information

ConvaTec Group Plc (the "Company") is a company incorporated in the United Kingdom under the Companies Act of 2006 with its registered office situated in England and Wales. The Company's registered office and principal place of business is at 3 Forbury Place, 23 Forbury Road, Reading, RG1 3JH, United Kingdom.

The Company and its subsidiaries (collectively, the "Group") is a global medical products and technologies group focused on therapies for the management of chronic conditions, including products used for advanced chronic and acute wound care, ostomy care, continence and critical care and infusion devices used in treatment of diabetes and other conditions. A list of the Company's subsidiary companies is set out on pages 146 to 148 of the ConvaTec Group Plc company only financial statements.

The Financial Statements are presented in US dollars ("USD"), being the functional currency of the primary economic environment in which the Group operates. All values are rounded to the nearest $0.1 million except where otherwise indicated.

2. Accounting Standards

New standards and interpretations applied for the first time

In the current year the Group has applied a number of amendments to International Financial Reporting Standards ("IFRS" or "IFRSs") issued by the International Accounting Standards Board ("IASB"). Their adoption has not had a material impact on the disclosures or on the amounts reported in these Financial Statements. The following amendments were applied:

- Amendments to IAS 1, Presentation of Financial Statements: Disclosure Initiative.
- Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation.
- Annual Improvements 2012-2014 Cycle, specifically amendments to (i) IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, (ii) IFRS 7, Financial Instruments: Disclosures, and (iii) IAS 19, Employee Benefits.

Otherwise the accounting policies set out in Note 3 – Significant Accounting Policies, below, have been applied consistently to both years presented in these Financial Statements.

New standards and interpretations not yet applied

At the date of authorisation of these Financial Statements, the following new and revised IFRSs that are potentially relevant to the Group, and which have not been applied in these Financial Statements, were in issue but not yet effective (and in some cases had not yet been adopted by the European Union ("EU")):

- IFRS 2, Share-based Payment – effective for accounting periods beginning on or after 1 January 2018.
- IFRS 16, Leases – effective for accounting periods beginning on or after 1 January 2019.
- IAS 7, Statement of Cash Flows – effective for accounting periods beginning on or after 1 January 2017.
- IAS 12, Income Taxes – effective for accounting periods beginning on or after 1 January 2017.
- IFRS 9, Financial Instruments: Classification and measurement – effective for accounting periods beginning on or after 1 January 2018.
- IFRS 15, Revenue from Contracts with Customers – effective for accounting periods beginning on or after 1 January 2018.

The directors anticipate that the adoption of these standards in the future periods will have no material impact on the Financial Statements of the Group except for IFRS 16, Leases, which will bring a significant portion of the Group's operating leases on to the statement of financial position.

The Group is currently evaluating the impact on its Financial Statements related to the following standards (i) IFRS 9, Financial Instruments, which will introduce a number of changes in the presentation of financial instruments and (ii) IFRS 15, Revenue from Contracts with Customers, which may change the timing of revenue recognition to some companies within the Group.

3. Significant Accounting Policies

Statement of Compliance

The Financial Statements have been prepared in accordance with IFRS as adopted by EU and therefore comply with Article 4 of the EU IAS Regulations. IFRS includes the standards and interpretations approved by the IASB including International Accounting Standards ("IAS") and interpretations issued by the IFRS Interpretations Committee ("IFRSIC"). The financial data presented within the Prospectus represented the first IFRS financial statements of the Group. Accordingly, the required disclosures of IFRS 1 *First-time adoption of International Financial Reporting Standards* presenting the impacts of adoption of IFRS have not been included within these Financial Statements.

The principal Group accounting policies are explained below and have been applied consistently throughout the years ended 31 December 2016 and 2015 other than those noted in Note 2 – Accounting Standards above.

Basis of Preparation

The consolidated financial information has been prepared on a historical cost basis, except for derivatives where fair value has been applied. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Reorganisation

On 31 October 2016, the Group completed the initial public offering ("IPO") of its ordinary shares, was admitted to the premium listing segment of the Official List of the Financial Conduct Authority and is trading on the main market of the London Stock Exchange.

The Company was initially incorporated as ConvaTec Group Limited on 6 September 2016, with its registered office situated in the United Kingdom, and was registered as a public company and changed its name to ConvaTec Group Plc on 10 October 2016.

3. Significant Accounting Policies (continued)

Basis of Preparation (continued)

Prior to listing, the Company became the holding company of the Group through the acquisition of the full share capital of Cidron Healthcare Limited ("Cidron") and its subsidiaries (the "Existing Group"). Shares in Cidron, an entity formerly owned by Nordic Capital and Avista Capital Partners, the former equity sponsors and principal shareholders, were exchanged for 1,261,343,801 shares in the Company. These shares were issued and credited as fully paid of 10 pence each giving rise to the share capital of $154.4 million.

Both the Company and the Existing Group were under common control before and after the reorganisation. As a common control transaction, this does not meet the definition of a business combination under IFRS 3 *Business Combinations* and as such, falls outside the scope of that standard. As a consequence, following guidance from IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the introduction of the company has been prepared under merger accounting principles. This policy, which does not conflict with IFRS, reflects the economic substance of the transaction. Under these principles, no acquirer is required to be identified and all entities are included at their pre-combination carrying amounts. This accounting treatment leads to differences on consolidation between share capital in issue ($154.4 million) and the book value of the underlying net assets acquired, this difference is included within equity as a merger reserve. Under these principals, the Group has presented its Financial Statements of the Group as though the current Group structure had always been in place. Accordingly, the results of the combined entities for both the current and prior period are presented as if the Group had been in existence throughout the periods presented, rather than from the restructuring date.

Immediately prior to listing, management shares held in the subsidiaries of the Group were converted to shares in the Company. Furthermore, the modification of the MEP (defined below) management incentive plan resulted in the issuance of further shares (see Note 22 – Share-Based Payments for further details). The effects of these two events was to bring the total shares in the Company immediately prior to listing to 1,300,000,000 from 1,261,343,801.

Basis of Consolidation

The Group Financial Statements include the results of the Company and all its subsidiary undertakings. Subsidiaries are entities controlled by the group. Control exists when the Group: (i) has power over the investee, (ii) is exposed, or has rights, to variable returns from its involvement in the investee and (iii) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. All intercompany transactions and balances have been eliminated. The consolidated financial information of the Company's subsidiaries is included within the Group's Financial Statements from the date that control commences until the date that control ceases, and are prepared for the same year end date using consistent accounting policies.

When finalising the Financial Statements, an incorrect allocation was identified in the foreign currency apportionment of goodwill arising on the acquisition of ConvaTec from Bristol-Myers Squibb on 1 August 2008. The allocation was made on the original recording of the acquisition in 2008. The allocation solely impacts the translation of foreign exchange on goodwill reflected through the cumulative translation reserve. As a result foreign exchange movements related to goodwill were misstated. The Group's Financial Statements have been restated to reflect the appropriate amounts and the impact is shown in Note 14 – Goodwill. This non-cash adjustment does not impact any of the Group's Key Performance Indicators including Earnings per share, the Consolidated Statement of Profit or Loss, or the Consolidated Statement of Cash Flows. Refer to Note 14 – Goodwill for further information.

Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method of accounting. Consideration transferred in respect of the acquisition is measured at the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed on the date of the acquisition. Identified assets acquired and liabilities assumed are measured at their respective acquisition-date fair values. The excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired is recorded as goodwill. Acquisition-related cost is expensed as incurred. The operating results of the acquired business are reflected in the Group's Financial Statements after the date of acquisition.

Going Concern

The directors have, at the time of approving these Financial Statements, a reasonable expectation and a high level of confidence that the Group and the Company has the adequate liquid resources to meet its liabilities as they become due and will be able to sustain its business model, strategy and operations and remain solvent for the foreseeable future. Thus the directors continue to adopt the going concern basis in preparing these Financial Statements.

Revenue Recognition

Revenue for goods sold is recognised to the extent that it is probable that economic benefits will flow to the Group upon transfer to the customer of the significant risks and rewards of ownership and revenue can be reliably measured. Generally, products are insured through delivery and revenue is recognised upon the date of receipt by the customer.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business to external customers, net of sales discounts and volume rebates. Due to the short term nature of the receivables from sale of goods, the Group measures them at the original invoice amounts without discounting.

Revenues are recorded based on the price specified in the sales contracts, net of value-added tax, and sales rebates and returns estimated at the time of sale. Revenues are reduced at the time of recognition to reflect expected product returns and chargebacks, discounts, rebates and estimated sales allowances based on historical experience and updated for changes in facts and circumstances, as appropriate.

3. Significant Accounting Policies (continued)

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Current tax and deferred tax for the year

Current and deferred tax are recognised in the Consolidated Statement of Profit or Loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Cash and Cash Equivalents

Cash represents cash on hand and cash held at banks. All liquid investments with original maturities of three months or less are considered cash equivalents.

Restricted Cash

In certain instances, there are requirements to set aside cash for guarantees on the payment of value-added taxes, custom duties on imports, tender programs, and vehicle/office leases by financial institutions on the Group's behalf. Total restricted cash balances were $5.1 million and $8.6 million, at 31 December 2016 and 2015, respectively, of which $2.6 million and $2.9 million were current assets included in Prepaid expenses and other current assets within the Consolidated Statement of Financial Position.

Dividends

Dividends payable to the Company's shareholders are recognised as a liability in the period in which the distribution is approved by the Company's shareholders.

Trade and Other Receivables

Credit is extended to customers based on the evaluation of the customer's financial condition. Creditworthiness of customers is evaluated on a regular basis. Trade and other receivables consist of amounts billed and currently due from customers. An allowance for doubtful accounts is maintained for estimated losses that result from the failure or inability of customers to make required payments. In determining the allowance, consideration includes the probability of recoverability based on past experience and general economic factors. Certain trade and other receivables may be fully reserved when specific collection issues are known to exist, such as pending bankruptcy. The Group charges off uncollectible receivables at the time it is determined the receivable is no longer collectable. The Group does not charge interest on past due amounts. The analysis of receivable recoverability is monitored and the bad debt allowances are adjusted accordingly.

Trade and other receivables are not collateralised or factored. The Group sells its products primarily through an internal sales force and sales are made through various distributors around the world. Credit risk with respect to accounts receivable is generally diversified due to the large dispersion of customers across many different industries and geographies. Exposure to credit risk is managed through credit approvals, credit limits and monitoring procedures.

3. Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost or net realisable value with the cost determined using an average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and indirect production overhead. Production overhead comprise indirect material and labour costs, maintenance and depreciation of the machinery and production buildings used in the manufacturing process as well as costs of production administration and management.

Net realisable value is defined as anticipated selling price or anticipated revenue less cost to completion. Estimates of net realisable value are based on the average selling prices at the end of the reporting period, net of applicable direct selling expenses. Subsequent events related to the fluctuation of prices and costs are also considered, if relevant. If net realisable values are below inventory costs, a provision corresponding to this difference is recognised. Provisions are also made for obsolescence of products, materials, or supplies that (i) do not meet the Group's specifications, (ii) have exceeded their expiration date, or (iii) are considered slow-moving inventory. The Group evaluates the carrying value of inventories on a regular basis, taking into account such factors as historical and anticipated future sales compared with quantities on hand, the price the Group expects to obtain for products in their respective markets compared with historical cost and the remaining shelf life of goods on hand.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of an asset. Expenditures for additions, renewals and improvements are capitalised at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Group and the cost can be measured reliably. Replacements of major units of property are capitalised and replaced properties are retired. The carrying amount of a replaced asset is derecognised when replaced. Repairs and maintenance costs are charged to the Consolidated Statement of Profit or Loss during the period in which they are incurred.

Depreciation is calculated using straight-line method over the estimated useful lives of each part of a property's, plant and equipment item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated. Depreciation commences when the assets become available for productive use, based on the following estimated useful lives:

Buildings	– 20 to 50 years
Building equipment and depreciable land improvements	– 15 to 40 years
Machinery, equipment and fixtures	– 3 to 20 years

Leasehold improvements and assets under finance lease arrangements are amortised over the lesser of the asset's estimated useful life or the term of the respective lease. Maintenance costs are expensed as incurred. Construction-in-progress reflects amounts incurred for property, plant, equipment construction or improvements that have not been placed in service. Interest is capitalised in connection with the construction of qualifying capital assets during the period in which the asset is being installed and prepared for its intended use. Interest capitalisation ceases when the construction of the asset is substantially complete and the asset is available for use. Capitalised interest cost is depreciated on a straight-line method over the estimated useful lives of the related assets.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

On disposal of items of property and equipment, the cost and related accumulated depreciation and impairments are removed from the Consolidated Statement of Financial Position and the net amount, less any proceeds, is taken to the Consolidated Statement of Profit or Loss.

Intangible Assets

To meet the definition of an intangible asset, an item lacks physical substance and is: (i) identifiable, (ii) non-monetary, and (iii) controlled by the entity and expected to provide future economic benefits to the entity. The Group's intangible assets consist of patents/trademarks and licenses, technology, capitalised software (acquired and internally generated), contracts and customer relationships, non-compete agreements, trade names and development costs.

Initial recognition

Intangible assets acquired separately by the Group are measured at cost on initial recognition and those acquired in business combinations are measured at fair value at the date of acquisition. Following initial recognition of the intangible asset, the asset is carried at cost less any subsequent accumulated amortisation and accumulated impairment losses.

Purchased computer software and certain costs of information technology projects are capitalised as intangible assets. Software that is integral to computer hardware is capitalised as property, plant and equipment.

The Group follows the guidance of IAS 38 *Intangible Assets* ("IAS 38") on internally generated development costs associated with its system. The costs incurred in the preliminary stages of development are expensed as incurred. Once a project has reached the application development stage, internal and external costs, if direct and incremental, are capitalised until the software is substantially complete and ready for its intended use. Costs related to design or maintenance of internal-use software are expensed as incurred. Upgrades and enhancements are capitalised to the extent they will result in added functionality.

3. Significant Accounting Policies (continued)

Intangible Assets (continued)

Amortisation of intangible assets is calculated using the straight-line method based on the following estimated useful lives:

Patents, trademarks and licenses	– 3 to 20 years
Technology	– 10 to 18 years
Capitalised software (acquired and internally generated)	– 3 to 10 years
Contracts and customer relationships	– 2 to 20 years
Non-compete agreements	– 3 to 5 years
Trade names	– 10 years
Development costs	– 5 years

The Group has finite-lived and indefinite-lived trade names. Indefinite-lived trade names are not amortised but are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired, either individually or at the cash generating unit ("CGU") level. The assessment of indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Impairment of Non-Monetary Assets including Goodwill

The Group tests goodwill and indefinite-lived intangibles for impairment annually or more frequently, if there are any impairment indicators. However, property, plant and equipment and finite-lived intangibles are tested for impairment only if indicators of impairment are present. For impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use and are largely independent of the cash inflows of other assets or CGUs. Additionally, goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Recoverable amount is the higher of value in use and fair value, less costs of disposal. Impairment losses are recognised in the Consolidated Statement of Profit or Loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the remaining assets in the CGU, on a prorated basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The Group has not recognised any impairment reversals in 2016 and 2015.

Finance Costs

Finance costs include interest costs, standby fees, and any loss related to debt extinguishment. Interest costs are expensed as incurred, except to the extent such interest is related to construction in progress, in which case interest is capitalised. The capitalised interest recorded in 2016 and 2015 was $1.1 million and $0.3 million, respectively.

Provisions

A provision is recognised when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and that obligation can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are reviewed on a regular basis and adjusted to reflect management's best current estimates. Due to the judgmental nature of these items, future settlements may differ from amounts recognised. Provisions consist of decommissioning provisions, restructuring provisions, and legal claims and obligations.

The Group does not recognise contingent assets in the Consolidated Statement of Financial Position. However, if an inflow of economic benefits is probable, then it is appropriately disclosed in the notes to the Financial Statements. For a discussion on provisions, refer to Note 18 – Provisions and Note 21 – Commitments and Contingencies.

Research and Development

Research and development expenses are comprised of costs incurred in performing research and development activities including payroll and benefits, clinical manufacturing and pre-launch clinical trial costs, manufacturing development and scale-up costs, product development and regulatory costs, contract services and other outside contractors costs, research license fees, depreciation and amortisation of lab facilities, and lab supplies.

Research costs are expensed as incurred. Development expenditures are capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and use or sell the asset. Otherwise, development expenditures are expensed as incurred. Subsequent to initial recognition, development expenditures are measured at cost less accumulated amortisation and any accumulated impairment losses.

Share-Based Payments

Prior to listing, the Group had granted share-based compensation to employees under the Annual Equity Plan ("AEP"), Management Executive Plan ("MEP"), and Management Incentive Plan ("MIP"). Post IPO, share-based incentives are provided to employees under the Group's Long-Term Incentive Plan ("LTIP"), Deferred Bonus Plan ("DBP") and Matching Share Plan ("MSP").

3. Significant Accounting Policies (continued)

Share-Based Payments (continued)

Certain features of share-based awards, such as cash-settled share-based payments to employees require the awards to be accounted for as liabilities as opposed to equity. Liability awards are measured at the grant date based on the fair value of the award and are required to be remeasured to the fair value at the end of each reporting period until settlement. True up compensation cost is recognised in each reporting period for changes in fair value prorated for the portion of the requisite service period rendered in the Consolidated Statement of Profit or Loss (General and administrative expenses). The Group's reorganisation (discussed above) triggered the modification accounting where the terms of awards (MEP units) were changed immediately prior to listing to vested equity shares. The liability recognised for such shares was converted to equity, with a true up cost recognised to reflect the accelerated vesting period for shares not subject to a continued employment clawback. Shares subject to continued employment are recognised over the term of the clawback arrangement.

Equity-settled share-based payments to employees are measured at the fair value of the award on the grant date. The fair value of the awards at the date of the grant, which is estimated to be equal to the market value, is expensed to the Consolidated Statement of Profit or Loss (General and administrative expenses) over the vesting period, with appropriate adjustments being made during the period to reflect expected and actual forfeitures. The corresponding credit is to Other reserves in the Consolidated Statement of Financial Position.

Refer to Note 22 – Share-Based Payments for a further description of the plans and the relevant accounting guidance applied.

Financial Instruments

The carrying amounts reflected in the Consolidated Statement of Financial Position for cash and cash equivalents, trade and other receivables, restricted cash, trade and other payables, and certain accrued expenses and other current liabilities approximate fair value due to their short-term maturities. Debt obligations are initially carried at fair value less any directly attributable transaction costs and subsequently at amortised cost.

At initial recognition, the Group classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

i. Financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at cost, less any accumulated impairment losses.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

ii. Financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, terminated or expired. When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Groups accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

The Group classifies financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3. Significant Accounting Policies (continued)

Foreign Currency Translation and Transactions

Assets and liabilities of subsidiaries whose functional currency is not USD are translated into USD at the rate of exchange in effect on the statement of financial position date. The related equity accounts of subsidiaries are translated into USD at the historical rate of exchange. Income and expenses are translated into USD at the average rates of exchange prevailing during the year. Foreign currency gains and losses resulting from the translation of subsidiaries into USD are recognised in the statement of other comprehensive income. Exchange differences arising from the translation of the net investment in foreign operations are taken to a separate translation reserve within equity. They are recycled and recognised in the Consolidated Statement of Profit or Loss upon disposal of the operation.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Any gain or loss arising from subsequent exchange rate movements is included as an exchange gain or loss in the Consolidated Statement of Profit and Loss.

Hyperinflationary Economies

IAS 29, *Financial Reporting in Hyperinflationary Economies* ("IAS 29") requires financial statements to be stated in terms of the measuring unit current at the end of the reporting period whose functional currency is the currency of a hyperinflationary economy. The financial information is restated based on the consumer price index ("CPI") before being translated into a different presentation currency. All amounts are translated at the closing exchange rate at the date of the most recent Consolidated Statement of Financial Position. Hyperinflation is indicated by the characteristics of an economy, which includes a cumulative inflation rate over three years that approaches or exceeds 100 percent, sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short and the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency.

Venezuela has been considered as a hyperinflationary economy since 2010. The hyperinflation accounting has been applied to Boston Estada (Venezuela based subsidiary) in the Financial Statements. The financial information of the subsidiary has been restated for the changes in the CPI (as published by the Central Bank of Venezuela) of the functional currency and, as a result, are stated in terms of the measuring unit current at the end of the reporting period. This complies with the accounting treatment described in IAS 29. The gain on the net monetary position in 2016 and 2015 were $12.2 million and $9.5 million, respectively. The following table summarises the changes in the Venezuelan CPI for the reporting periods ended 31 December 2016 and 2015:

Reporting Period	CPI*	Movement from previous reporting period
31 December 2015	2,357.9	86.9%
31 December 2016	**7,729.5**	**228.0%**

* Base period, 31 December 2007 = 100

Retirement Benefit Costs

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the Consolidated Statement of Financial Position with a charge or credit to the Consolidated Statement of Comprehensive Loss in the period in which they occur. Remeasurement recorded in the Consolidated Statement of Comprehensive Loss is not recycled. Past service cost is recognised in the Consolidated Statement of Profit or Loss in the period of scheme amendment. Net-interest is calculated by applying a discount rate to the net defined benefit liability or asset.

3. Significant Accounting Policies (continued)

Leases

i. Operating leases

Payments made under operating leases are charged to the Consolidated Statement of Profit or Loss on a straight-line basis over the term of the lease.

ii. Finance leases

Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases as if the asset had been purchased outright. Assets acquired under the finance leases are recognised as assets of the Group and the capital and interest elements of the leasing commitments are shown as obligations to creditors. Depreciation is charged on a consistent basis with similar owned assets or over the lease term if shorter. The interest element of the lease payment is charged to the Consolidated Statement of Profit or Loss on a basis which produces a consistent rate of charge over the period of the liability.

Non-current Assets Held for Sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs of disposal. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Derivative Financial Instruments

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk using foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in Note 9 – Other Expense, Net.

Derivative financial instruments are classified at fair value through profit or loss unless they are in a designated hedge relationship.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the Consolidated Statement of Profit or Loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 3 – Significant Accounting Policies, the directors are required to make judgements, estimates and assumptions, that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of income and expenses for the years presented. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following three areas of critical accounting judgements and key sources of estimation uncertainty have been identified as having significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period:

Critical accounting judgements

Revenue recognition

The Group has a number of agreements with customers which require careful consideration as to when revenue recognition is appropriate. In management's assessment of the judgements against the accounting criteria, the terms of each contract are assessed. Together with available historic information and trends, informed decisions are made to ensure appropriate allowances are recognised. Refer to Note 3 – Significant Accounting Policies – Revenue Recognition for detailed information of the Group's accounting policy.

Key sources of estimation uncertainty

Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the CGU or groups of CGUs to which goodwill and intangible assets have been allocated. The value in use calculation involves an estimation of the present value of future cash flows of CGUs. The future cash flows are based on the forecasts, as approved by the Board, to which the management's expectation of terminal value growth rates are applied. The present value is then calculated based on management's judgement of future discount rates. The Board reviews these key assumptions (terminal value growth rates and discount rates) and the sensitivity analysis around these assumptions. Refer to Note 13 – Intangible Assets and Note 14 – Goodwill for further details.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

Key sources of estimation uncertainty (continued)

Uncertain tax position

The Group operates globally and is required to submit tax returns to the relevant tax authorities in numerous tax jurisdictions. While the Group policy is to submit tax returns on a timely basis, at any given time tax authorities have years outstanding to make additional tax assessments, or initiate tax audits. This may result in tax disputes, and significant issues may take several years to resolve. The assessment and recognition of tax charges and benefits requires management judgement supplemented by views of external advisors, as needed. Tax charges related to tax risks are included within deferred tax liabilities, or current tax liabilities where applicable. The ultimate tax liability may differ from the amount provided depending on interpretation of (or changes in) tax laws, regulations and other authoritative tax guidance in the various tax jurisdictions in which the Group operates.

The Group defines an 'uncertain tax treatment' or 'uncertain tax position' as an item, the tax treatment of which is either unclear or is a matter of unresolved dispute between the Group's reporting entities and the relevant tax authority. Uncertain tax treatments occur where there is an uncertainty as to the meaning of the law, or to the applicability of the law to a particular transaction, or both.

The Group measures uncertain tax positions as "the single likely amount" of the expenditure required to settle the present obligation at the end of the reporting period. The single likely amount approach utilises the single most likely amount of a range of possible outcomes.

With respect to "detection risk", the Group assumes that where a taxation authority has a right to examine amounts reported to it, they will do so; and that when it performs those examinations, the taxation authority will have full knowledge of all relevant information.

5. Segment Information

The Group's management considers its business to be a single segment entity, being engaged in the development, manufacture and sales of medical products and technologies. The Group is a global medical products and technologies group focused on therapies for the management of chronic conditions, including products used for advanced chronic and acute wound care, ostomy care and management, continence and critical care, and infusion devices used in the treatment of diabetes and other conditions. The Group sells a broad range of products to a wide range of customers, including healthcare providers, patients and manufacturers. The R&D manufacturing and central functions are managed globally for the Group. The revenues are managed both on a franchise and regional basis. The Group's CEO, who is the Group's Chief Operating Decision Maker evaluates the Group's global product portfolios on a revenue basis and generally evaluates profitability and associated investment on an enterprise-wide basis due to shared geographic infrastructures between the franchises. In making these decisions, the CEO evaluates the financial information on a Group wide basis to determine the most appropriate allocation of resources. This financial information relating to revenues provided to the CEO for the decision making purposes is made on a combination of a franchise and regional basis, however profitability measures are presented on a global basis.

Revenue by franchise

The Group generates revenue across four major market franchises:

Advanced Wound Care: The Advanced Wound Care franchise includes advanced wound dressings and skin care products. These dressings and products are used for the management of chronic wounds resulting from ongoing conditions such as diabetes, immobility and venous disease, as well as acute conditions resulting from traumatic injury, burns, invasive surgery and other causes.

Ostomy Care: The Ostomy Care franchise includes devices, accessories and services for people with an ostomy or stoma (a surgically-created opening where bodily waste is discharged), commonly resulting from colorectal cancer, inflammatory bowel disease, bladder cancer, obesity and other causes.

Continence and Critical Care ("CCC"): The CCC franchise includes products for people with urinary continence issues related to spinal cord injuries, multiple sclerosis, spina bifida and other causes. The franchise also includes devices and products used in intensive care units and hospital settings.

Infusion Devices: The Infusion Devices franchise provides disposable infusion sets to manufacturers of insulin pumps for diabetes and similar pumps used in continuous infusion treatments for other conditions. In addition, the franchise supplies a range of products to hospitals and the home healthcare sector.

The following table sets forth the Group's revenue for the years ended 31 December 2016 and 2015 by market franchise:

	2016 $m	2015 $m
Revenue by market franchise		
Advanced Wound Care	**559.5**	536.1
Ostomy Care	**512.1**	515.5
Continence & Critical Care	**356.5**	348.2
Infusion Devices	**260.2**	250.6
	1,688.3	1,650.4

5. Segment Information (continued)

Geographic information

Geographic markets

The following table sets forth the Group's revenue for the years ended 31 December 2016 and 2015 in each geographic market in which customers are located:

	2016 $m	2015 $m
Geographic markets		
EMEA	**726.4**	735.5
Americas	**829.4**	787.8
APAC	**132.5**	127.1
	1,688.3	1,650.4

Geographic regions

The following table sets forth the Group's revenue for the years ended 31 December 2016 and 2015 on the basis of geographic regions where the legal entity resides and from which those revenues were made:

	2016 $m	2015 $m
Geographic regions		
U.S.	**543.8**	509.2
Denmark	**293.5**	289.7
U.K.	**157.0**	170.8
Switzerland	**110.8**	110.9
France	**90.1**	84.6
Other(1)	**493.1**	485.2
	1,688.3	1,650.4

(1) Other consists primarily of countries in Europe, APAC, Latin America and Canada.

The following table sets forth the Group's long-lived assets at 31 December 2016 and 2015 by geographic regions:

	2016 $m	2015 $m
Long-lived assets(1)		
U.S.	**1,125.0**	1,232.8
U.K.	**432.9**	558.6
Denmark	**124.8**	132.8
Slovakia	**45.0**	17.5
Other(2)	**58.5**	38.9
Total long-lived assets	**1,786.2**	1,980.6

(1) Long-lived assets consist of property, plant and equipment and intangible assets.
(2) Other consists primarily of countries in Europe and Latin America.

Major Customers

In 2016, and 2015, no single customer generated more than 10% of the Group's revenue.

6. Auditor Remuneration

Auditor remuneration for the years ended 31 December 2016 and 2015 is as follows:

	2016 $m	2015 $m
Fees for audit services		
Group	**5.0**	3.1
Subsidiaries	**3.7**	2.0
Total fees for audit services	**8.7**	5.1
Fees for non-audit services		
Corporate finance transactions	**3.4**	1.1
Other non-audit services	**–**	–
Total fees for non-audit services	**3.4**	1.1
Total auditor remuneration	**12.1**	6.2

Auditor remuneration for corporate finance transactions during the year relates to Reporting Accountant work performed as part of the IPO process and has been recognised in the Consolidated Statement of Profit or Loss.

7. Staff Costs

The following table details the numbers of the Group's employees by function (full and part time) at 31 December 2016 and 2015:

	2016	2015
Operations	**5,376**	5,850
Sales and marketing	**2,220**	2,084
General and administrative	**680**	869
R&D	**248**	253
Total	**8,524**	9,056

The following table details the numbers of the Group's employees by location (full and part time) at 31 December 2016 and 2015:

	2016	2015
EMEA	**3,470**	3,386
Americas	**4,578**	4,505
APAC	**476**	1,165
Total	**8,524**	9,056

The following table details the Group's employees' aggregate remuneration (full and part time) at 31 December 2016 and 2015:

	2016 $m	2015 $m
Wages and salaries[a]	**349.1**	323.2
Share-based compensation[b]	**86.7**	12.5
Social security costs	**72.9**	62.2
Pension related costs	**16.3**	13.4
Recruitment and other employment related fees	**3.9**	3.6
Total	**528.9**	414.9

(a) Includes wages, salaries, bonuses and severance costs.
(b) Refer to Note 22 – Share-Based Payments for further details.

The remuneration of the Directors is set out on pages 66 to 82 within the Remuneration Report described as being audited and forms part of these Financial Statements.

8. Finance Costs

Finance costs for the years ended 31 December 2016 and 2015 were as follows:

	2016 $m	2015 $m
Interest expense on long-term borrowings[a]	**(233.8)**	(258.0)
Loss on extinguishment of debt	**(21.9)**	(27.8)
Amortisation of deferred financing fees and OID	**(8.9)**	(18.4)
Write-off of deferred financing fees[b]	**(7.3)**	–
Interest expense on finance leases	**(0.6)**	–
Other income	**1.7**	1.0
Other expense	**(0.6)**	(0.4)
Finance costs	**(271.4)**	(303.6)

(a) Refer to Note 17 – Long-term Borrowings for further details.
(b) Includes the write-off of deferred financing fees related to (i) the Group's revolving credit facility financing in October 2016 ($3.8 million) and (ii) the commitment letter entered into connection with the financing of the Group's credit facilities ($3.5 million). Refer to Note 17 – Long-term Borrowings for further information.

9. Other Expense, Net

Other expense, net for the years ended 31 December 2016 and 2015 was as follows:

	2016 $m	2015 $m
Foreign exchange loss on restructuring of certain foreign subsidiaries[a]	(36.4)	–
Foreign exchange gains/(losses)[b]	44.1	(36.4)
Foreign currency forward exchange contract[c]	(17.8)	–
Other	1.7	(0.7)
Other expense, net	**(8.4)**	(37.1)

(a) Refer to Note 20 – Share Capital and Reserves for further details.
(b) Relates to the foreign currency impact on re-measurement of the Group's long-term borrowings denominated in non-functional currency and to intercompany transactions, including loans transacted in non-functional currencies.
(c) On 25 October 2016, the Group entered into foreign currency forward-exchange contracts to (i) sell £332.6 million and buy euro and (ii) sell £1,092.5 million and buy USD in order to reduce its exposure to the variability in expected cash inflows attributable to the changes in foreign exchange rates related to the repayment of our long-term borrowings immediately following the listing (refer to Note 17 – Long-term Borrowings for further information). These derivative contracts are not designated as hedges for accounting purposes, and such contracts matured on 31 October 2016. For the year ended 31 December 2016, the Company recorded a foreign exchange loss of $17.8 million in Other expense, net in the Consolidated Statement of Profit or Loss related to the settlement of these derivative contracts.

10. Income Taxes

A. Tax on loss for the year

Current tax on the net loss in 2016 and 2015 is recognised as an expense in the Consolidated Statement of Profit or Loss, along with any change in the provision for deferred tax:

	2016 $m	2015 $m
Current		
UK current year charge	4.7	–
Overseas taxation	35.3	39.6
Adjustment for prior years	(0.2)	(0.7)
Total current tax expense	**39.8**	38.9
Deferred		
Origination and reversal of temporary differences	43.4	(48.2)
Change in tax rate	(5.7)	(7.0)
Adjustment for prior years	(0.5)	(0.6)
Total deferred tax expense (benefit)	**37.2**	(55.8)
Income tax expense (benefit)	**77.0**	(16.9)

B. Reconciliation of effective tax rate

The Group has a substantial business presence in many countries around the globe. The impact of differences in overseas taxation rates arose from profits being earned in countries with tax rates higher than the UK statutory rate, the most significant of which in 2016 was Denmark. Taxes on unremitted earnings in 2016 include a charge from change in taxation of unremitted earnings in Latin America. Prior year effect on deferred adjustment is the difference between book and tax amortisation of indefinite life intangibles. The UK standard rate of corporation tax for 2016 is 20.0% (2015 - 20.3%). Overseas taxation is calculated at the rates prevailing in the respective jurisdictions. The reported tax rate differs from the UK standard rate as follows:

	2016 $m		2015 $m	
Loss before income taxes	**(125.8)**		(110.3)	
UK statutory rate of taxation	**(25.2)**		(22.3)	
Difference between UK and rest of world tax rates	**13.1**		(1.3)	
Non-deductible/non-taxable items	**35.6**		(8.0)	
Previously unrecognised losses and other assets	**19.0**		34.6	
Amortisation of indefinite life intangibles	**7.9**		2.6	
Taxes on unremitted earnings	**20.0**		(18.1)	
Deferred impact of tax rate changes	**(5.7)**		(7.0)	
Prior year effect on deferred	**10.8**		–	
Other	**1.5**		2.6	
Income tax expense (benefit) reported in the Consolidated Statement of Profit or Loss at the effective tax rate	**77.0**	**(61.2)%**	(16.9)	15.3%

10. Income Taxes (continued)

C. Movement in deferred tax balances

A provision is recorded for deferred tax on the basis of all temporary differences in accordance with the balance sheet liability method. Temporary differences arise between the tax base of assets and liabilities and their carrying amounts which are offset over time. Deferred tax is measured on the basis of the tax rates applicable at the statement of financial position date. Deferred tax assets are recognised to the extent that it is probable that future positive taxable income will be generated, against which the temporary differences and tax losses can be offset. Deferred tax assets are measured at expected net realisable values in 2016 and 2015:

	Inventory $m	Tax losses $m	Retirement benefit obligation $m	Equity component $m	Accelerated tax depreciation $m	Intangibles $m	Taxes on unremitted earnings $m	Intercompany profit on inventory $m	Other $m	Total $m
At 1 January 2015	(2.4)	14.1	1.1	(31.7)	(11.4)	(183.7)	(29.0)	10.7	3.9	**(228.4)**
Exchange differences	—	2.2	0.3	(2.0)	0.9	8.9	—	—	0.9	**11.2**
Credit (charge) to income statement	1.7	(10.7)	0.4	15.3	3.1	19.2	25.6	3.9	(2.7)	**55.8**
Credit (charge) to statement of comprehensive income	—	—	(0.5)	(19.7)	—	—	—	—	—	**(20.2)**
At 1 January 2016	(0.7)	5.6	1.3	(38.1)	(7.4)	(155.6)	(3.4)	14.6	2.1	**(181.6)**
Exchange differences	—	0.1	0.5	1.4	0.7	14.6	—	—	—	**17.3**
Credit (charge) to income statement	(0.3)	(5.3)	(0.2)	4.5	(1.1)	(3.5)	(29.6)	3.4	(5.1)	**(37.2)**
Credit (charge) to statement of comprehensive income	—	—	(0.3)	31.6	—	—	—	—	—	**31.3**
At 31 December 2016	(1.0)	0.4	1.3	(0.6)	(7.8)	(144.5)	(33.0)	18.0	(3.0)	**(170.2)**

D. Components of deferred tax assets and liabilities

The components of deferred tax assets and liabilities at 31 December 2016 and 2015 are as follows:

	2016 $m	2015 $m
Inventory	**(1.0)**	(0.7)
Tax losses	**0.4**	5.6
Retirement benefit obligations	**1.3**	1.3
Equity component	**(0.6)**	(38.1)
Accelerated tax depreciation	**(7.8)**	(7.4)
Intangibles	**(144.5)**	(155.6)
Taxes on unremitted earnings	**(33.0)**	(3.4)
Intercompany profit on inventory	**18.0**	14.6
Other	**(3.0)**	2.1
Net deferred tax liability	**(170.2)**	(181.6)
Deferred tax assets	**22.0**	5.3
Deferred tax liabilities	**(192.2)**	(186.9)
Net position at the end of the period	**(170.2)**	(181.6)

Certain deferred tax assets and liabilities have been offset. The analysis of the deferred tax balances presented is shown after offset.

Equity decreased by $37.5 million primarily on IPO restructuring. Unremitted earnings increased by $29.6 million primarily due to change in tax law in Latin America. The Group also recognises tax on all unremitted earnings where applicable.

The Group offsets non-current deferred tax assets and liabilities in jurisdictions where group tax relief or consolidated tax filing is available.

E. Unrecognised deferred tax assets (tax effected)

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom. The following is a summary of unrecognised deferred tax assets at 31 December 2016 and 2015:

	2016 $m	2015 $m
Deductible temporary differences	**19.9**	34.2
Tax losses	**491.8**	512.0
Unrecognised deferred tax assets (tax effected)	**511.7**	546.2

10. Income Taxes (continued)

F. Tax losses carried forward

The Group recorded U.K. net corporation tax losses carried forwards of $15.4 million and overseas net corporation tax losses carried forwards of $1,872.5 million at 31 December 2016. The Group recorded U.K. net corporation tax losses carried forwards of $15.5 million, and overseas net corporation tax losses carried forwards of $1,835.6 million at 31 December 2015. U.K. net corporation tax losses can be carried forward indefinitely. The 2016 overseas net corporation tax losses carried forwards and years in which they begin to expire are shown below:

Country	Gross Corporation tax losses $m	Corporation tax losses expiration
Luxembourg	1,418.1	Indefinite
US	387.1	2021
Other overseas	67.3	Various
Total	1,872.5	

11. Earnings Per Share

Basic and diluted loss per ordinary share for the years ended 31 December 2016 and 2015 was calculated as follows:

	2016 $m	2015 $m
	(except share data)	
Net loss attributable to the equity holders of the Group	**(202.8)**	(93.4)
Basic weighted average ordinary shares in issue	**1,376,365,276**	1,261,343,801
Dilution	**–**	–
Diluted weighted average ordinary shares in issue	**1,376,365,276**	1,261,343,801
Basic loss per share ($ per share)	**(0.15)**	(0.07)
Diluted loss per share ($ per share)	**(0.15)**	(0.07)

In 2016, all share awards granted on 11 November 2016 were excluded from the calculation of diluted loss per share, as the effect of including them would have been anti-dilutive. The dilutive effect of potential shares issuable for share awards on the weighted average ordinary shares in issue would have been as follows:

	2016	2015
Basic weighted average ordinary shares in issue	**1,376,365,276**	1,261,343,801
Dilutive effect of share awards	**282,672**	–
Diluted weighted average ordinary shares in issue	**1,376,647,948**	1,261,343,801

In 2016, share options granted on 11 November 2016 to purchase approximately 3,120,000 ordinary shares of the Group were not included in the computation of diluted loss per share because the exercise prices of the share options were greater than the average market price of the Group's ordinary shares and, therefore, the effect would have been anti-dilutive.

12. Property, Plant and Equipment

The major categories of property, plant and equipment ("PP&E") and movement in the carrying value of each category is as follows:

	Land & Land Improvements $m	Building, Building Equipment, and Leasehold Improvements $m	Machinery, Equipment and Fixtures $m	Construction in Progress $m	Total $m
Property, Plant & Equipment at Cost					
At 1 January 2015	19.6	119.4	350.5	28.0	517.5
Additions	0.2	0.4	1.8	37.6	40.0
Impairments/write offs	–	(0.2)	(3.5)	(0.7)	(4.4)
Disposals	–	(1.2)	(8.6)	–	(9.8)
Transfers	0.8	1.5	16.2	(18.5)	–
Foreign exchange	(0.9)	(4.5)	(23.3)	(2.3)	(31.0)
At 31 December 2015	**19.7**	**115.4**	**333.1**	**44.1**	**512.3**
Additions	**–**	**25.5**	**2.7**	**62.8**	**91.0**
Impairments/write offs	**(1.3)**	**(5.1)**	**(11.1)**	**(4.5)**	**(22.0)**
Disposals	**–**	**(1.1)**	**(10.3)**	**(0.1)**	**(11.5)**
Transfers	**–**	**3.7**	**30.5**	**(34.2)**	**–**
Reclassified as held for sale[a]	**(1.9)**	**(11.5)**	**–**	**–**	**(13.4)**
Foreign exchange	**(1.6)**	**(10.6)**	**(21.1)**	**(5.6)**	**(38.9)**
31 December 2016	**14.9**	**116.3**	**323.8**	**62.5**	**517.5**

	Land & Land Improvements $m	Building, Building Equipment, and Leasehold Improvements $m	Machinery, Equipment and Fixtures $m	Construction in Progress $m	Total $m
Accumulated Depreciation					
1 January 2015	1.0	45.0	211.1	–	257.1
Depreciation[b]	0.1	4.5	26.4	–	31.0
Disposals	–	(1.2)	(8.6)	–	(9.8)
Write offs	–	(0.2)	(2.2)	–	(2.4)
Foreign exchange	(0.1)	(1.1)	(13.9)	–	(15.1)
31 December 2015	**1.0**	**47.0**	**212.8**	**–**	**260.8**
Depreciation[b]	**0.6**	**11.2**	**27.2**	**–**	**39.0**
Disposals	**–**	**(1.1)**	**(9.8)**	**–**	**(10.9)**
Write offs	**–**	**(1.9)**	**(9.0)**	**–**	**(10.9)**
On assets reclassified as held for sale[a]	**(0.3)**	**(7.5)**	**–**	**–**	**(7.8)**
Foreign exchange	**(0.1)**	**(3.6)**	**(13.8)**	**–**	**(17.5)**
31 December 2016	**1.2**	**44.1**	**207.4**	**–**	**252.7**

(a) In August 2016, the Group signed an agreement for the sale of the Skillman facility and subsequently transferred the $5.6 million carrying value of related assets to Assets held for sale. The transaction is expected to close in 2017.
(b) Includes accelerated depreciation of $11.1 million and $0.6 million in 2016 and 2015, respectively, related to the closure of certain manufacturing facilities.

	Land & Land Improvements $m	Building, Building Equipment, and Leasehold Improvements $m	Machinery, Equipment and Fixtures $m	Construction in Progress $m	Total $m
Net Carrying Amount					
31 December 2015	18.7	68.4	120.3	44.1	251.5
31 December 2016	**13.7**	**72.2**	**116.4**	**62.5**	**264.8**

Included within building and building equipment and machinery, equipment, and fixtures are finance leases with a net carrying value of $22.2 million and $0.4 million, respectively, at 31 December 2016. Included within machinery, equipment, and fixtures are finance leases with a net carrying value of $0.1 million at 31 December 2015. Pursuant to the Credit Agreement, the Group pledged certain property, plant and equipment as collateral with an aggregate net carrying amount of $12.6 million at 31 December 2016.

12. Property, Plant and Equipment (continued)

The Group recorded impairment and write-off charges on PP&E of $11.1 million and $2.0 million for the years ended 31 December 2016 and 2015, respectively. The charges recorded for the year ended 31 December 2016 were primarily related to (i) an impairment of $4.6 million included in General and administrative expenses, related to the Group's former corporate facility located in Skillman, New Jersey and (ii) asset write-offs of $6.5 million, in the aggregate, of which $5.7 million, $0.7 million, and $0.1 million were included in Cost of goods sold, General and administrative expenses, and Research and development expenses, respectively. The asset write-offs for the year ended 31 December 2016 were primarily related to restructuring activities associated with the closure of the Group's manufacturing operations in Greensboro, U.S., which are described further in Note 18 – Provisions. The charges for the year ended 31 December 2015 were related to write-offs only.

Asset impairment charges were measured at fair value less costs to sell (market value approach) using significant unobservable inputs that are categorised as Level 3 measurement in the fair value hierarchy under IFRS 13 *Fair Value Measurement*.

13. Intangible Assets

The major categories of intangible assets and the changes in the carrying value of each category were as follows:

	Patents, trademarks & licenses $m	Technology $m	Acquired capitalised software $m	Internally generated software $m	Contracts & customer relationship $m	Non-compete agreements $m	Trade names $m	Development costs[a] $m	Total $m
Intangibles at Cost									
At 1 January 2015	2,001.6	238.8	76.2	3.6	246.4	5.7	257.2	6.9	2,836.4
Additions	–	–	–	3.3	–	–	–	0.9	4.2
Transfer	(12.3)	–	–	–	12.3	–	–	–	–
Foreign exchange[b]	(35.3)	(14.5)	(0.3)	0.2	(11.3)	–	(1.7)	(0.7)	(63.6)
At 31 December 2015	**1,954.0**	**224.3**	**75.9**	**7.1**	**247.4**	**5.7**	**255.5**	**7.1**	**2,777.0**
Additions	**–**	**–**	**0.1**	**6.0**	**–**	**–**	**–**	**1.4**	**7.5**
Disposals[c]	**–**	**–**	**(2.8)**	**–**	**(4.5)**	**–**	**–**	**–**	**(7.3)**
Impairments[d]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Foreign exchange[b]	**(100.5)**	**(24.0)**	**(0.2)**	**–**	**(4.3)**	**(0.1)**	**(0.4)**	**(0.2)**	**(129.7)**
At 31 December 2016	**1,853.5**	**200.3**	**73.0**	**13.1**	**238.6**	**5.6**	**255.1**	**8.2**	**2,647.4**

(a) Development costs have been internally generated.
(b) Primarily related to intangible assets denominated in British Pound sterling.
(c) In 2016, the Group disposed of fully amortised intangible assets related to (i) acquired capitalised software and (ii) contracts and customer relationships.
(d) The impairment relates to development costs which no longer satisfy criteria of IAS 38.

	Patents, trademarks & licenses $m	Technology $m	Acquired capitalised software $m	Internally generated software $m	Contracts & customer relationship $m	Non-compete agreements $m	Trade names $m	Development costs $m	Total $m
Accumulated amortisation									
1 January 2015	710.1	86.9	51.1	1.5	65.9	2.5	1.1	4.0	923.1
Amortisation	110.3	14.0	5.4	0.2	17.7	1.0	0.5	1.0	150.1
Transfer	(2.9)	–	–	–	2.9	–	–	–	–
Foreign exchange	(13.8)	(5.9)	(0.2)	–	(5.0)	–	–	(0.4)	(25.3)
31 December 2015	**803.7**	**95.0**	**56.3**	**1.7**	**81.5**	**3.5**	**1.6**	**4.6**	**1,047.9**
Amortisation	**106.2**	**13.1**	**5.0**	**1.1**	**15.3**	**1.0**	**0.5**	**0.6**	**142.8**
Disposals	**–**	**–**	**(2.8)**	**–**	**(4.5)**	**–**	**–**	**–**	**(7.3)**
Foreign exchange	**(44.2)**	**(10.7)**	**–**	**–**	**(2.2)**	**(0.1)**	**–**	**(0.2)**	**(57.4)**
31 December 2016	**865.7**	**97.4**	**58.5**	**2.8**	**90.1**	**4.4**	**2.1**	**5.0**	**1,126.0**

	Patents, trademarks & licenses $m	Technology $m	Acquired capitalised software $m	Internally generated software $m	Contracts & customer relationship $m	Non-compete agreements $m	Trade names $m	Development costs $m	Total $m
Net carrying amounts									
31 December 2015	**1,150.3**	**129.3**	**19.6**	**5.4**	**165.9**	**2.2**	**253.9**	**2.5**	**1,729.1**
31 December 2016	**987.8**	**102.9**	**14.5**	**10.3**	**148.5**	**1.2**	**253.0**	**3.2**	**1,521.4**

The carrying amount of indefinite-lived trade names was $250.3 million and $250.7 million at 31 December 2016 and 2015, respectively. Each of these trade names is considered to have an indefinite life, given the strength and durability of the trade name and the level of marketing support. The trade names are in relatively similar stable and profitable market sectors, with similar risk profiles, and their size, diversification and market shares mean that the risk of market-related factors causing a reduction in the lives of the trade names is considered to be relatively low. The Group is not aware of any material legal, regulatory, contractual, competitive, economic or other factor which could limit their useful lives. Accordingly, these indefinite-lived trade names are not amortised.

13. Intangible Assets (continued)

The carrying values of indefinite-lived intangible assets (i.e. indefinite-lived trade names) allocated to each of the Group's CGUs (see Note 14 – Goodwill for definition of CGUs) at 31 December 2016 and 2015 were as follows:

	2016 $m	2015 $m
CGUs		
Americas	**234.6**	234.6
180 Medical	**1.6**	1.6
ID	**12.3**	12.7
IS	**1.8**	1.8
Indefinite-lived Intangible Assets	**250.3**	250.7

In 2016 and 2015, the Group performed its annual CGU-based impairment tests in respect of indefinite-lived intangible assets and determined that none of its indefinite-lived intangible assets were impaired. Refer to Note 14 – Goodwill for details of the annual CGU-based impairment tests.

Amortisation expense related to finite-lived intangible assets for the years ended 31 December 2016 and 2015 was as follows:

	2016 $m	2015 $m
Cost of goods sold	**123.8**	129.1
General and administrative expenses	**19.0**	21.0
Total amortisation expense	**142.8**	150.1

14. Goodwill

The changes in the carrying value of goodwill for the years ended 31 December 2016 and 2015 were as follows:

	Total $m
1 January 2015[1]	1,065.2
Effect of foreign currency translation rates	(45.9)
31 December 2015[1]	**1,019.3**
Effect of foreign currency translation rates	**(98.3)**
31 December 2016	**921.0**

(1) Restated, refer below for further information.

Restatement

When finalising the Financial Statements, an incorrect allocation was identified in the foreign currency apportionment of goodwill arising on the acquisition of ConvaTec from Bristol-Myers Squibb on 1 August 2008. The allocation was made on the original recording of the acquisition in 2008. The allocation solely impacts the translation of foreign exchange on goodwill reflected through the cumulative translation reserve. As a result foreign exchange movements related to goodwill were misstated. The Group's Financial Statements have been restated to reflect the appropriate amounts and the impact is shown in the table below. This non-cash adjustment does not impact any of the Group's Key Performance Indicators including Earnings per share, the Consolidated Statement of Profit or Loss, or the Consolidated Statement of Cash Flows.

14. Goodwill (continued)

Restatement (continued)

	As Reported $m	Adjustment $m	As Restated $m
Consolidated Statement of Comprehensive Loss:			
	For the year ended 31 December 2013		
Foreign operations - foreign currency translation differences, net of tax	19.1	(45.0)	(25.9)
Other comprehensive income for the year, net of taxation	20.1	(45.0)	(24.9)
Total comprehensive income	35.3	(45.0)	(9.7)
	For the year ended 31 December 2014		
Foreign operations - foreign currency translation differences, net of tax	(142.8)	129.0	(13.8)
Other comprehensive loss for the year, net of taxation	(142.2)	129.0	(13.2)
Total comprehensive loss	(269.4)	129.0	(140.4)
	For the year ended 31 December 2015		
Foreign operations - foreign currency translation differences, net of tax	(84.1)	89.2	5.1
Other comprehensive loss for the year, net of taxation	(84.9)	89.2	4.3
Total comprehensive loss	(178.3)	89.2	(89.1)
Consolidated Statement of Financial Position:			
	At 1 January 2013		
Goodwill	1,127.8	8.0	1,135.8
Retained deficit[1]	(1,366.7)	8.0	(1,358.7)
	At 31 December 2013		
Goodwill	1,183.3	(37.0)	1,146.3
Retained deficit[1]	(2,220.7)	8.0	(2,212.7)
Cumulative translation reserve	19.1	(45.0)	(25.9)
	At 31 December 2014 / 1 January 2015		
Goodwill	973.2	92.0	1,065.2
Retained deficit[1]	(2,351.7)	8.0	(2,343.7)
Cumulative translation reserve	(119.9)	84.0	(35.9)
	At 31 December 2015		
Goodwill	838.1	181.2	1,019.3
Retained deficit[1]	(2,448.7)	8.0	(2,440.7)
Cumulative translation reserve	(200.4)	173.2	(27.2)
Consolidated Statement of Changes in Equity:			
	At 1 January 2013		
Retained deficit[1]	(1,366.7)	8.0	(1,358.7)
	For the year ended 31 December 2013		
Foreign currency translation adjustment, net of tax	19.1	(45.0)	(25.9)
	At 31 December 2013		
Retained deficit[1]	(2,220.7)	8.0	(2,212.7)
Cumulative translation reserve	19.1	(45.0)	(25.9)
	For the year ended 31 December 2014		
Foreign currency translation adjustment, net of tax	(139.0)	129.0	(10.0)
	At 31 December 2014 / 1 January 2015		
Retained deficit[1]	(2,351.7)	8.0	(2,343.7)
Cumulative translation reserve	(119.9)	84.0	(35.9)
	For the year ended 31 December 2015		
Foreign currency translation adjustment, net of tax	(80.5)	89.2	8.7
	At 31 December 2015		
Retained deficit[1]	(2,448.7)	8.0	(2,440.7)
Cumulative translation reserve	(200.4)	173.2	(27.2)

(1) Reflects an adjustment to retained deficit, since the Group made the election to deem previously recognised cumulative foreign exchange differences to be zero at the date of transition to IFRS as indicated in the Prospectus.

14. Goodwill (continued)

The Group identifies CGUs at the operating company level as this represents the lowest level at which cash flows are largely independent of other cash flows. Goodwill acquired in a business combination is allocated, at acquisition, to the Group's CGUs, or groups of CGUs, that are expected to benefit from that business combination.

The Group has completed an evaluation of goodwill for impairment for each CGU or groups of CGUs (hereafter referred to as individual CGUs for ease of reference) and compared the carrying amount of each CGU with its recoverable amount. All of the Group's corporate assets have been allocated to the following CGUs for the purpose of impairment testing: (i) Americas, (ii) 180 Medical, (iii) Europe, Middle East and Africa ("EMEA"), (iv) Asia-Pacific ("APAC"), (v) Infusion Devices ("ID"), and (vi) Industrial Sales ("IS"). The Group has no unallocated assets.

The carrying value of goodwill for each respective CGU at 31 December 2016 and 2015 was as follows:

	2016 $m	2015 $m
CGUs		*Restated*
Americas	**15.2**	16.1
180 Medical	**237.6**	238.3
EMEA	**582.9**	678.0
ID	**47.4**	48.6
IS	**37.9**	38.3
Goodwill	**921.0**	1,019.3

The recoverable amounts of the CGUs have been determined based on value in use calculations, which are based on estimated future cash flows of each CGU discounted by an estimated weighted average cost of capital, reflecting the overall level of inherent risk of a CGU and the rate of return an outside investor would expect to earn. Determining the estimated recoverable amount of a CGU is judgmental in nature and requires the use of significant estimates and assumptions, including estimated future cash flows and discount rates.

Future cash flows are determined using Board approved forecasts. Such forecasts are based on the revenue growth, earnings and strategy plans. These forecasts are based on specific assumptions for each CGU during the planning period with respect to revenue, results of operations, working capital, capital investments and other general assumptions for the projected period. The forecast assumptions are based on the historical results of each CGU combined with external market information. The key assumptions used in the estimation of value in use at 31 December 2016 were as follows:

Discount rate (pre-tax)	2016 %
Americas	**12.0**
180 Medical	**14.0**
EMEA	**12.7**
APAC	**14.7**
ID	**15.3**
IS	**15.3**
Terminal value growth rate[a]	**2.0**

(a) The estimated terminal value growth rate of 2.0% for the CGUs is based on expectations concerning the growth trends of the CGUs and the industry, the CGUs' strengths and weaknesses relative to its competitors and general long-term inflation and population expectations. The key significant factors considered in analysis included the business risks and uncertainties introduced by the healthcare reform, such as the downward pressure on reimbursement rates.

In 2016 and 2015, the Group performed its annual goodwill impairment tests and determined that there was no goodwill impairment.

Sensitivity analysis shows that if terminal value growth rate assumptions are lowered by 2% and discount rates (pre-tax) increased by 2%, no goodwill impairment would arise at any of the CGUs.

15. Inventories

The components of inventories at 31 December 2016 and 2015 were as follows:

	2016 $m	2015 $m
Raw and packaging material	53.7	52.7
Work in progress	23.0	25.1
Finished goods	170.8	151.1
Inventories	**247.5**	228.9

For the years ended 31 December 2016 and 2015, inventories of $662.5 million and $644.6 million, respectively, were recognised as an expense and included in Cost of goods sold.

The adjustments recorded as write-downs of inventory to net realisable value were $15.0 million and $15.2 million for the years ended 31 December 2016 and 2015, respectively. The write-downs are included in Cost of goods sold.

16. Trade and Other Receivables

The following table contains balances for trade and other receivables at 31 December 2016 and 2015:

	2016 $m	2015 $m
Trade receivables	266.9	268.2
Other receivables	6.9	8.3
Less: allowances for bad and doubtful debts	(12.6)	(14.0)
Less: sales discounts and chargebacks	(27.5)	(30.4)
Trade and other receivables	**233.7**	232.1

The Group establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade and other receivables. The Group believes that its allowance for doubtful accounts is sufficient to reflect the related credit risk associated with the Group's accounts receivable.

The aging analysis of trade receivables at 31 December 2016 and 2015 was as follows:

	2016 $m	2015 $m
Current	192.7	160.3
Past due 1 to 30 days	20.8	38.8
Past due 31 to 90 days	15.8	21.0
Past due 91 to 180 days	19.3	23.1
Past due by more than 180 days	18.3	25.0
	266.9	268.2

Current receivables increased at 31 December 2016 compared to 31 December 2015 in part due to refinements impacting the recording of customer deductions. At 31 December 2016 and 2015, the unimpaired amounts that are past due are $61.6 million and $93.9 million, respectively. There are no impaired trade receivables that are current. The Group believes that the unimpaired amounts that are past due are still collectible in full, based on historic payment behaviour and extensive analysis of customer credit risk.

Movements in the allowance for bad and doubtful debts for the years ended 31 December 2016 and 2015 were as follows:

	2016 $m	2015 $m
At the beginning of the period	(14.0)	(15.0)
Charges	(2.0)	(6.3)
Utilisation of provision	3.3	6.4
Foreign exchange adjustment	0.1	0.9
At the end of the period	(12.6)	(14.0)

17. Long-term Borrowings

A summary of the Group's consolidated long-term borrowings at 31 December 2016 and 2015 is outlined in the table below:

	2016 $m	2015 $m
Credit Facilities Agreement[1]:		
Revolving Credit Facility	–	–
US Dollar Term A Loan Facility	760.5	–
Euro Term A Loan Facility	567.5	–
US Dollar Term B Loan Facility	424.6	792.5
Euro Term B Loan Facility	–	814.6
Total Credit Facilities	1,752.6	1,607.1
Senior Notes:		
10.5% US Dollar Senior Notes	–	736.4
10.875% Euro Senior Notes	–	268.3
8.25% PIK Notes	–	886.5
Finance Lease Obligations	23.0	0.2
Total long-term borrowings	1,775.6	3,498.5
Less: Current portion of long-term borrowings	38.5	21.5
Total non-current long-term borrowings	1,737.1	3,477.0

(1) On 25 October 2016, the Group entered into the Credit Agreement which consists of (i) US dollar and euro term loans, (ii) a revolving credit facility, and (iii) incremental unfunded term facilities (collectively, the "Credit Facilities").

The terms and conditions of total long-term borrowings outstanding at 31 December 2016 and 2015 are as follows:

			2016		2015	
	Currency	Year of maturity	Face value $m	Carrying amount $m	Face value $m	Carrying amount $m
Revolving Credit Facilities[1]		2021	–	–	–	–
US Dollar Term A Loan Facility[1]	USD	2021	770.0	760.5	–	–
Euro Term A Loan Facility[1][2]	EURO	2021	574.2	567.5	–	–
US Dollar Term B Loan Facility[1][3]	USD	2023	430.0	424.6	796.0	792.5
Euro Term B Loan Facility[2][3]	EURO	–	–	–	816.0	814.6
10.5% US Dollar Senior Notes[3]	USD	–	–	–	745.0	736.4
10.875% Euro Senior Notes[3]	EURO	–	–	–	271.6	268.3
PIK Notes[3]	USD	–	–	–	900.0	886.5
Finance lease obligations	EURO/USD	–	23.0	23.0	0.2	0.2
Total interest-bearing liabilities			1,797.2	1,775.6	3,528.8	3,498.5

(1) The current nominal interest rates for the Credit Facilities included in the table above are described below.
(2) Total face value of the borrowings outstanding under the Euro Term A Loan Facility denominated in euros was €546.0 million ($574.2 million) at 31 December 2016. Total face value of the borrowings outstanding under the Euro Term B Loan Facility denominated in euro was €751.2 million ($816.0 million) at 31 December 2015.
(3) The net proceeds from the issue of share capital, together with approximately $1,795 million drawn under the Credit Facilities were used to redeem immediately following the listing all of the outstanding Payment-in-Kind Notes ("PIK Notes"), all of the existing Senior Notes (as defined below) then outstanding, and to repay all amounts outstanding under the existing credit facilities and cancel the available revolving commitments. As a result, for the year ended 31 December 2016, the Group recognised a loss on extinguishment of debt of $21.9 million, in the aggregate. Refer to the discussion below for detailed information related to these transactions.

The Group's Credit Facilities contain customary operating and negative covenants, including, among other things, covenants limiting: (i) incurrence of indebtedness; (ii) incurrence of liens; (iii) mergers, consolidations, liquidations, dissolutions and other fundamental changes; (iv) sales of assets; (v) dividends and other payments in respect of capital stock or junior debt subject to an available amount built by consolidated net income; (vi) acquisitions; (vii) transactions with affiliates; (viii) changes in fiscal year; (ix) negative pledge clauses and clauses restricting subsidiary distributions; and (x) holding companies.

The Group's Credit Facilities also contain a financial covenant, various customary affirmative covenants and specified events of default.

At 31 December 2016 and 2015, the Group was in compliance with all financial covenants associated with the Group's outstanding debt.

17. Long-term Borrowings (continued)

Credit Facilities

On 15 June 2015, the Group executed the amendment to the existing Credit Facility Agreement dated 22 December 2010 (the "Amended Credit Facility Agreement") to refinance the Group's previous US dollar and euro term B loans and the revolving credit facility (the "Refinancing"). The Amended Credit Facility Agreement provided for (i) US dollar and euro term B loans of $800.0 million (issued for a discount of $2.0 million) and €755.0 million ($851.9 million at 15 June 2015), respectively, (the "Pre-IPO Term Loan Facilities") and (ii) a $200.0 million revolving credit facility (the "Pre-IPO Revolving Credit Facility"). The Pre-IPO Term Loan Facilities were amortised quarterly at an annual rate of 1%. The Pre-IPO Revolving Credit Facility was not amortised. The net proceeds from the Refinancing were used to (i) repay amounts outstanding prior to the Refinancing under the US dollar term B loans of $744.1 million and the euro term B loans of €436.4 million ($492.4 million) and (ii) redeem all of the outstanding €300.0 million ($338.5 million) aggregate principal amount of 7.375% senior secured notes due 15 December 2017 (the "Secured Notes") for €322.1 million ($363.4 million), including a call premium of €11.1 million ($12.5 million), plus accrued and unpaid interest, and satisfied and discharged the Secured Notes indenture. As a result, for the year ended 31 December 2015, the Group recognised a loss on extinguishment of debt of $27.8 million, in the aggregate.

On 25 October 2016, the Group entered into the Credit Agreement (the "Credit Agreement") with various financial institutions (the "Financing").The Credit Agreement provides for (i) term A loans denominated in USD of $770.0 million and euros of €546.0 million ($594.7 million at 25 October 2016) (the "Term A Loan Facilities"), (ii) term B loans denominated in USD of $430.0 million (issued at an offering price of 99.5%, after adjustment for a discount of $2.2 million) (the "Term B Loan Facility" and together with the Term A Loan Facilities, the "Term Loan Facilities") and (iii) a $200.0 million revolving credit facility (the "Revolving Credit Facility", and together with the Term Loan Facilities, the "Credit Facilities"). The Term A Loan Facilities are repayable in semi-annual instalments (commencing 30 June 2017) in aggregate annual amounts equal to (i) 2.5% in year one, (ii) 5.0% in year two, (iii) 7.5% in year three, (iv) 10.0% in year four, and (v) 7.5% in year five, in each case of the original principal amount of the Term A Loan Facilities. The Term B Loan Facility is repayable in semi-annual instalments (commencing 30 June 2017) in an aggregate annual amount equal to 1.0% of the original principal amount of the Term B Loan Facility. Interest on outstanding principal under the Credit Facilities is payable quarterly in arrears, providing that no interest payment date shall occur prior to 31 March 2017. In connection with the Financing, the Group entered into a commitment letter dated 30 September 2016 with various financial institutions and incurred $3.5 million in fees, which were expensed to Finance costs in the Consolidated Statement of Profit or Loss.

The net proceeds from the Financing, together with the net proceeds from the issue of share capital, were used to (i) repay all amounts outstanding prior to the Financing under the US dollar and euro term B loans of $785.5 million and €741.3 million ($807.3 million), respectively, and (ii) redeem all of the outstanding PIK Notes and all of the existing Senior Notes further discussed below. As a result, for the year ended 31 December 2016, the Group recognised (i) a loss on extinguishment of debt of $21.9 million, in the aggregate, of which $2.6 million was recognised with respect to the Pre-IPO Term Loan Facilities and was comprised of $1.9 million of unamortised deferred financing fees and $0.7 million of unamortised original issue discount ("OID") and (ii) a write off of deferred financing fees of $3.8 million related to the Pre-IPO Revolving Credit Facility. The Group incurred fees of approximately $23.9 million, in the aggregate, of which $21.3 million were deferred and capitalised over the term of the Term Loan Facilities and $2.5 million were deferred and capitalised over the term of the Revolving Credit Facility (recorded in Other assets).

The Revolving Credit Facility of $200.0 million is available through its termination date in certain currencies (USD, euro and sterling) at the borrower's option and is used to provide for ongoing working capital requirements, letters of credit, and general corporate purposes of the Group. The Revolving Credit Facility allows for up to $50.0 million of letter of credit issuances as well as $25.0 million for borrowings on same-day notice, referred to as the swingline loans. There were no borrowings outstanding under each revolving credit facility at 31 December 2016 and 2015. Availability under each revolving credit facility, after deducting letters of credit of $1.3 million and $2.6 million, was $198.7 million and $197.4 million at 31 December 2016 and 2015, respectively.

The Credit Agreement also provides for the ability of the Group to enter into incremental term facilities (the "Incremental Term Facilities") and incremental revolving facilities (the "Incremental Revolving Credit Facilities") and to issue senior secured, senior unsecured, senior subordinated or subordinated notes (the "Incremental Notes" and together with the Incremental Term Facilities and the Incremental Revolving Credit Facilities, the "Incremental Facilities").

The Incremental Term Facilities and Incremental Revolving Credit Facilities are subject to certain conditions and are available in (i) a cash-capped amount equal to the greater of $475 million and consolidated EBITDA as of the end of the most recently ended two half-fiscal year period, provided that the consolidated total net leverage ratio (as defined in the Credit Agreement) does not exceed 4.00 to 1.00, (ii) an unlimited amount so long as the maximum total leverage requirement (as defined in the Credit Agreement) is satisfied, and (iii) an amount equal to all voluntary prepayments or repurchases under the Term Loan Facilities and voluntary prepayments under the Revolving Credit Facility (to the extent accompanied by a corresponding permanent reduction in the revolving commitments) (such sum, the "Incremental Amount"), in US dollars and/or euro (and, in the case of the Incremental Revolving Credit Facilities, pounds sterling), provided that the Group satisfies certain other requirements, including: no default or event of default, minimum borrowing amounts of $15.0 million and, in respect of Incremental Term Facilities, a maturity date and weighted average life to maturity of each individual loan within the Incremental Term Facilities that is greater than the weighted average maturity date of the Term Loan Facilities and if shorter, shall not have an amortisation of greater than 5.0% per annum. Additionally, should the yield on any Incremental Term Facility exceed the interest margin on the Term Loan Facilities denominated in the same currency by more than 0.50%, then the yield on the applicable Term Loan Facilities will automatically increase such that the yield on such Term Loan Facilities denominated in the same currency shall be 0.50% below the yield on the applicable Incremental Term Facilities. Any loan advances made under the Incremental Term Facilities will rank pari passu with or junior to the Term Loan Facilities and the Revolving Credit Facility.

17. Long-term Borrowings (continued)

Credit Facilities (continued)

The Incremental Notes shall not exceed the Incremental Amount and are available in US dollars and euro, provided that the Group satisfies certain other requirements, including: no default or event of default and the issuance shall be in an amount of no more than $15.0 million (or its equivalent).

Subject to certain conditions, the Group may voluntarily prepay their utilisations under the Credit Facilities in a minimum amount of $1.0 million (or its equivalent) for term loans or revolving facilities. Amounts repaid under the Term Loan Facilities may not be re-borrowed. In addition to voluntary prepayments, the Credit Agreement requires mandatory prepayment in full or in part in certain circumstances including, in relation to the Term Loan Facilities and subject to certain criteria, from the proceeds of asset sales in excess of $20.0 million and the issuance or incurrence of debt and from excess cash flow. In 2016, the Group made payments of $21.5 million, in the aggregate, related to the Pre-IPO Term Loan Facilities as follows: (i) mandatory prepayment of $17.4 million for excess cash retained in the business and (ii) scheduled March 2016 amortisation payment of $4.1 million. In 2015, the Group made payments of $55.9 million, in the aggregate, related to the Pre-IPO Term Loan Facilities as follows: (i) mandatory prepayment of $43.6 million for excess cash retained in the business, (ii) scheduled September and December 2015 amortisation payments of $8.2 million, in the aggregate, and (iii) principal payment of $4.1 million in May 2015.

Borrowings under the Credit Facilities bear interest at either EURIBOR rate, Eurodollar rate, or an Alternate Base Rate ("ABR"), in each case, plus an applicable margin. Under the Term Loan Facilities, EURIBOR interest is associated with the borrowings in euros; while LIBOR and ABR interest is associated with borrowings in USD. EURIBOR, Eurodollar or ABR interest rates may apply to any outstanding borrowings under the Revolving Credit Facility. ABR, as defined in the Credit Agreement, is the greater of (a) the Prime Rate, (b) the Federal Funds Effective Rate plus 0.50% or (c) the Eurodollar Rate for a one month interest period plus 1.00%, provided that the ABR for the Term Loan Facilities may not be less than 1.00%. The Eurodollar rate is subject to a floor of 0.75% per annum in respect of the Term B Loan Facility and 0.00% per annum in respect of all other loans. The margins applicable to the Term A Loan Facilities denominated in euro range from 2.0% to 2.25% and the margins applicable to the Term A Loan Facilities denominated in USD range from 1.0% to 1.25% if using ABR and 2.0% to 2.25% if using the Eurodollar rate and the margins applicable to the Term B Loan Facility range from 1.25% to 1.50% if using ABR and 2.25% to 2.50% if using the Eurodollar rate, in each case, with the relevant step-down in margin occurring depending on the relevant first lien net leverage ratio.

Borrowings under the Credit Agreement are secured by substantially all of the Group's assets. Pursuant to the Credit Agreement, the Group pledged certain property, plant and equipment as collateral with an aggregate net carrying amount of $12.6 million at 31 December 2016.

Senior Notes

The Senior Notes consisted of $745.0 million (the "US Dollar Senior Notes") and €250.0 million ($271.6 million at 31 December 2015) senior notes (the "Euro Senior Notes") each due 15 December 2018 (collectively, the "Senior Notes"). The US Dollar Senior Notes and the Euro Senior Notes bore interest at the rate of 10.5% and 10.875% per annum, respectively, which was payable semi-annually on 15 June and 15 December of each year.

As discussed above, the Group redeemed all $745.0 million and €250.0 million ($272.3 million) of the outstanding principal amount of the US Dollar Senior Notes and Euro Senior Notes, respectively, plus accrued and unpaid interest of $39.1 million and €13.6 million ($14.8 million), respectively. In connection with these transactions, the Group recognised a loss on extinguishment of debt related to unamortised deferred financing fees of $9.1 million, in the aggregate, in the year ended 31 December 2016.

PIK Notes

On 12 August 2013, the Group issued $900.0 million principal amount of the PIK Notes. The PIK Notes accrued cash interest at a rate of 8.25% per annum and PIK Notes interest (if cash interest was not elected to be paid) at a rate of 9.00% per annum.

As discussed above, the Group redeemed all $900.0 million of the outstanding principal amount of the PIK Notes, plus accrued and unpaid interest of $22.1 million. In connection with this transaction, the Group recognised a loss on extinguishment of debt of $10.2 million, comprised of $6.8 million of unamortised deferred financing fees and $3.4 million of OID.

17. Long-term Borrowings (continued)

Interest Related Information

Accrued interest related to the Group's long-term borrowings was $8.7 million and $39.2 million at 31 December 2016 and 2015, respectively, and is recorded in Accrued expenses and other current liabilities. Interest expense for the years ended 31 December 2016 and 2015 associated with the Group's long-term borrowings was as follows:

	2016 $m	2015 $m
Revolving Credit Facility[a]	1.4	1.7
US Dollar Term A Loan Facility	3.9	–
Euro Term A Loan Facility	2.3	–
US Dollar Term B Loan Facility	30.7	32.9
Euro Term B Loan Facility	29.8	29.5
10.5% US Dollar Senior Notes	74.7	78.2
10.875% Euro Senior Notes	28.9	30.2
8.25% PIK Notes	62.1	74.3
7.375% Secured Notes	–	11.2
Total interest expense on long-term borrowings	**233.8**	258.0

(a) Represents the commitment fees in respect of the unutilised commitments under the Revolving Credit Facility.

The weighted average interest rate for borrowings under the Group's outstanding long-term borrowings was 6.9% and 7.2% for the years ended 31 December 2016 and 2015, respectively.

Finance Lease Obligations

The table below presents total obligations under finance leases at 31 December 2016 and 2015:

	Minimum lease payments		Present value of lease payments	
	2016 $m	2015 $m	2016 $m	2015 $m
Amount payable:				
Within 1 year	2.2	0.1	0.6	0.1
1 to 5 years inclusive	10.0	0.1	3.7	0.1
After 5 years	26.2	–	18.7	–
	38.4	0.2	23.0	0.2
Less future finance charges	15.4	–	–	–
Total obligations under finance leases	**23.0**	0.2	**23.0**	0.2

18. Provisions

	Legal Provisions[1] $m	Restructuring Provisions[1] $m	Decommissioning Provisions[2] $m	Total $m
1 January 2015	3.6	4.7	1.9	10.2
Charges	13.3	2.1	–	15.4
Utilisation	(16.6)	(3.2)	(0.7)	(20.5)
Changes in estimate	–	(0.2)	–	(0.2)
Foreign exchange impact	(0.1)	–	(0.1)	(0.2)
31 December 2015	**0.2**	**3.4**	**1.1**	**4.7**
Charges	–	15.6	–	15.6
Utilisation	(0.3)	(9.6)	–	(9.9)
Changes in estimate	0.2	(0.3)	–	(0.1)
Foreign exchange impact	–	0.2	–	0.2
31 December 2016	**0.1**	**9.3**	**1.1**	**10.5**

(1) Legal and Restructuring provisions for all years presented in the above table are included as current Provisions on the Consolidated Statement of Financial Position.
(2) Decommissioning provisions represent the estimated costs of dismantling and removing PP&E, and restoring the site on which it was located when an item is acquired or as a consequence of using the item during a particular period other than to produce inventory. Decommissioning provisions at 31 December 2016 and 2015 are included as non-current Provisions on the Consolidated Statement of Financial Position.

Legal Provisions

At 31 December 2016 and 2015, the Group's provision for unsettled lawsuits, claims, proceedings and investigations amounted to $0.1 million and $0.2 million, respectively. In accordance with the accounting guidance related to provisions, the Group records accruals for such contingencies when it is probable that a liability will be incurred and the loss can be reasonably estimated. These legal matters involve intellectual property, commercial or environmental health and safety matters. For further details, please refer to Note 21 – Commitments and Contingencies.

18. Provisions (continued)

Restructuring Provisions

2016 Initiatives

In 2016, the Group approved the plan for business restructuring activities, primarily related to severance benefits for involuntary workforce reductions associated with (i) the closure of the Group's Hospital Care ("HC") manufacturing facility in Sungai-Petani (Malaysia) by the end of the third quarter of 2016 and manufacturing operations in Greensboro, U.S. by early 2017 and (ii) the restructure of the Deeside, U.K. organisation to become a manufacturing facility designated as a technology and automation centre of excellence for advanced wound care. The Group plans to expand its capabilities at the other ConvaTec facilities, including Deeside, U.K., Haina, Dominican Republic, Michalovce, Slovakia, Rhymney, U.K., and Herlev, Denmark to optimise its supply chain for the Advanced Wound, Ostomy, and CCC franchises.

2015 Initiatives

In 2015, the Group approved the plan for business restructuring activities, primarily related to severance benefits for involuntary workforce reductions associated with the closure of the Group's HC manufacturing facility in Reynosa, Mexico. The Group's Infusion Devices franchise, which has a separate existing facility in Reynosa, Mexico, plans to expand and repurpose the HC plant to support its manufacturing operations and its customers.

2014 Initiatives

In 2014, the Group incurred restructuring charges for business restructuring activities, primarily related to termination benefits for involuntary workforce reductions associated with closure of the Group's operational headquarters in Skillman, New Jersey and the termination of certain executive management team members. All business activities performed at the facility in Skillman, New Jersey were transferred to other ConvaTec sites around the world.

Charges and changes in estimate recorded for the year ended 31 December 2016 related to the above initiatives were as follows:

	Employee Termination Costs[1] $m	Lease Termination Costs[1] $m	Asset Write-offs $m	Accelerated Depreciation $m	Total $m
2016 Initiatives	**14.7**	**–**	**4.6**	**7.9**	**27.2**
2015 Initiatives	0.2	0.8	–	1.1	2.1
2014 Initiatives	(0.2)	–	–	–	(0.2)
Total	**14.7**	**0.8**	**4.6**	**9.0**	**29.1**
Classified in the Consolidated Statement of Profit or Loss:					
Cost of goods sold	14.7	0.8	4.6	9.0	29.1

Charges and changes in estimate recorded for the year ended 31 December 2015 related to the above initiatives were as follows:

	Employee Termination Costs[1] $m	Asset Write-offs $m	Accelerated Depreciation $m	Total $m
2015 Initiatives	2.1	–	–	2.1
2014 Initiatives	(0.2)	–	–	(0.2)
Total	**1.9**	**–**	**–**	**1.9**
Classified in the Consolidated Statement of Profit or Loss:				
Cost of goods sold	1.2	–	–	1.2
General and administrative expense	0.5	–	–	0.5
Research and development expense	0.2	–	–	0.2

(1) The movement in restructuring provisions during the years ended 31 December 2016 and 2015 related to employee termination costs and lease terminations is outlined in the table above.

19. Other Liabilities

The major components of Other liabilities at 31 December 2016 and 2015 were as follows:

	2016 $m	2015 $m
Uncertain tax position	**19.1**	22.6
Cash-settled MEP units[a]	**–**	20.0
Defined benefit obligation[b]	**13.1**	10.9
Employee costs	**3.5**	3.0
Other	**1.6**	3.1
Other liabilities	**37.3**	59.6

(a) Refer to Note 22 – Share Based Payments for further details.
(b) Refer to Note 23 – Employee Benefits for further details.

20. Share Capital and Reserves

Share capital

The share capital recognised as equity comprised of ordinary shares issued and fully paid or credited as fully paid at 31 December 2016 and 2015 was as follows:

	2016 $m	2015 $m
Issued and fully paid or credited as fully paid ordinary shares of 10p each	238.8	154.4

At 31 December 2016, 25,992,671 shares were held in an Employee Benefit Trust. Additionally the Company has issued 50,000 redeemable preference shares of £1.00 each classified as liabilities. These shares do not carry any voting rights and have no rights to the payment of dividends. The preference shares were redeemed in February 2017.

The movement in ordinary shares in issue during the year was as follows:

Issued and fully paid or credited as fully paid	Ordinary shares number
1 January 2015 and 1 January 2016[a]	**1,261,343,801**
Issue of shares under share-based compensation plan[b]	**38,656,199**
Ordinary shares prior to listing	**1,300,000,000**
Shares issued upon IPO[c]	**651,472,651**
31 December 2016	**1,951,472,651**

(a) Represents the ordinary shares in issue as a result of reorganisation. Refer to Note 3 - Significant Accounting Policies — *Basis of Preparation* for detailed information.
(b) Represents management shares converted into ordinary shares in the Company as a result of reorganisation. Approximately 8,623,885 of the shares in the Company were sold by selling shareholders pursuant to the IPO. Refer to Note 3 - Significant Accounting Policies — *Basis of Preparation* and Note 22 - Share-Based Payments for additional information.
(c) Represents the shares issued and fully paid upon IPO, excluding 8,623,885 shares in the Company discussed above.

The rights attaching to the ordinary shares are uniform in all respects, they form a single class for all purposes, including with respect to voting and for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Group.

Share premium

The share premium represents amounts received in excess of the nominal value of shares issued upon IPO ($1,713.7 million), net of the direct costs associated with issuing those shares ($39.6 million). $10.5 million of the costs of issue of share capital charged to the share premium remained unpaid at 31 December 2016.

Merger reserve

As described in Note 3 - Significant Accounting Policies - *Basis of Preparation*, the Financial Statements have been prepared under merger accounting principles. Under these principles, no acquirer is required to be identified and all entities are included at their pre-combination carrying amounts. This accounting treatment leads to differences on consolidation between share capital in issue and the book value of the underlying net assets acquired, this difference is included within equity as a merger reserve.

Cumulative translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. In 2016, the Group reclassified foreign exchange accumulated losses of $36.4 million from other comprehensive income to the Consolidated Statement of Profit or Loss as a result of restructuring of certain foreign subsidiaries as part of the IPO process.

When finalising the Financial Statements, an incorrect allocation was identified in the foreign currency apportionment of goodwill arising on the acquisition of ConvaTec from Bristol-Myers Squibb on 1 August 2008. The allocation was made on the original recording of the acquisition in 2008. The allocation solely impacts the translation of foreign exchange on goodwill reflected through the cumulative translation reserve. Refer to Note 14 - Goodwill for further information.

20. Share Capital and Reserves (continued)

Other reserves

Other reserves in the Consolidated Statement of Changes in Equity are comprised of the following:

	1 January 2016 $m	Change in year $m	31 December 2016 $m
Issuance of shares under share-based compensation plans	–	67.5	67.5
Share-based payments	–	0.8	0.8
Deferred tax on share-based payments transactions	–	–	–
Remeasurement of defined benefit obligation, net of tax	(4.2)	(0.4)	(4.6)
Recognition of pension assets restriction	–	(6.3)	(6.3)
Other reserves	(4.2)	61.6	57.4

	1 January 2015 $m	Change in year $m	31 December 2015 $m
Remeasurement of defined benefit obligation, net of tax	(3.4)	(0.8)	(4.2)
Other reserves	(3.4)	(0.8)	(4.2)

21. Commitments and Contingencies

Operating Leases

Future minimum rental commitments under all non-cancellable operating leases in effect at 31 December 2016 and 2015 were as follows:

	2016 $m	2015 $m
Within 1 year	18.9	18.3
After 1 and within 5 years	34.3	37.3
After 5 years	8.7	8.7
Total	61.9	64.3

Certain lease agreements, primarily for real estate, contain renewal options and rent escalation clauses. Operating lease rental expense was $22.9 million and $20.3 million for the years ended 31 December 2016 and 2015, respectively.

Other commitments

The Group had commitments related to capital expenditures of approximately $18.2 million and $27.8 million at 31 December 2016 and 2015, respectively, primarily related to manufacturing equipment for new products, capacity expansions and productivity primarily related to the Margin Improvement Programme implementation.

Legal Proceedings

The nature of the Group business exposes it to a variety of product liability, regulatory and IP claims. The Group makes appropriate provision for liabilities and disclosure of contingent liabilities in accordance with its accounting policies, using informed and unbiased management judgement based on the best available information at the time. However, it is not always possible to predict outcomes and additional facts may come to light. As a result, provision amounts and contingency disclosures are subject to revision over time. In accordance with the accounting guidance related to contingencies, the Group records provisions for liabilities when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. Legal costs related to litigation matters are expensed as incurred.

Corrections and Removals

In May 2015, the Group initiated a voluntary recall of certain batches of its Steel cannula infusion set devices, including the Sure-T, Sure-T Paradigm, contact detach, contact, Sub Q, neria, neria detach, neria multi and thalaset models, due to an increase in reported needle breakage. The recall is currently limited to affected devices in Germany and certain other European countries, and in some other countries, such as the U.S., a Field Safety notification has been issued. The Group also initiated a voluntary recall of its Suction Catheter devices in June 2015 after an increase in reported complaints of splitting of the connector portion. The recall has been initiated in Australia and the Czech Republic and is a precaution to ensure that distributed products are of the highest quality. The Group has completed destruction of the affected devices that have been returned and the recall has been closed.

In January 2016, the Group initiated a recall of a range of nebuliser products in Europe, the U.S., Canada and China due to an increase in complaints related to the products' failure to generate an atomised spray as intended. Following an investigation, the Group determined that the issue was due to variability in a molding process during manufacturing. The FDA classified this recall as a Class II recall, reflecting a determination that exposure to the device may cause temporary or reversible adverse health consequences or that the probability of serious health consequences is remote. The Group is in the process of completing destruction of the affected devices that have been returned and anticipates closing out this recall shortly.

21. Commitments and Contingencies (continued)

Legal Proceedings (continued)

In April 2016, post-market reports identified a limited issue with the Instructions for Use ("IFU") on the Group's Italian models for the Flexi-Seal™ Catheter system where the local language requirements were missing. As a precautionary measure, shipments were held for a short period of time to update the IFU and the Group supplied Italian language instructions to the customers. The device is now back in production.

In June 2013, Medtronic MiniMed, Inc. ("Medtronic"), issued a recall of certain infusion sets, including the Quick-Set® and Silhouette® infusion sets, which include P-Cap connectors designed by Medtronic and manufactured for Medtronic by the Group for use with Medtronic insulin infusion pumps in diabetes care. Medtronic issued this recall due to a potential safety issue that can occur if insulin or other fluids come in contact with the inside of the tubing/P-Cap connector. This recall has resulted in pending or threatened litigation against various of the Group's entities. These lawsuits allege that the infusion sets are defective and have caused injuries or death to various plaintiffs. All of these cases also include claims against Medtronic, and allegations that their insulin pumps (which the Group does not make or sell) are defective. To the best of the Group's knowledge, as of this report date, approximately twenty-one product liability lawsuits had been filed. The Group's entities have been voluntarily dismissed without prejudice from eleven of these lawsuits and dismissed with prejudice from one lawsuit that was settled by Medtronic. In one other lawsuit the parties have agreed upon settlement terms and are preparing a settlement. The Group has sent a demand to Medtronic seeking indemnification for these lawsuits consistent with the terms of the agreements between them. To date, Medtronic has rejected this demand. The Group also carries product liability insurance, subject to a self-insured retention, and has notified the insurance carrier about these lawsuits. The remaining pending lawsuits are all in their early stages. At this point the Group is unable to predict the likelihood of an unfavourable outcome or estimate any potential loss.

Smith & Nephew/Patent Litigations and Settlement

The Group and its competitor Smith & Nephew ("S&N") have engaged in a series of multi-year litigations related to patents concerning various wound care products. In one of these matters, the defendants (including S&N) agreed to not market the product (Durafiber) during the pendency of the litigation provided that in the event the Group lost at trial it would pay for the defendants' lost profits. The Group lost at trial and on appeal and had engaged in litigation with the defendants as to the amount of their lost profits. The parties entered into a confidential settlement agreement dated 5 December 2015, which resolved this litigation.

22. Share-Based Payments

Prior to listing, the Group had granted share-based compensation to employees under the AEP, MEP, and MIP (collectively, the "Pre-IPO Share Plans"). On 25 October 2016, the Group has established the following additional share-based compensation plans: LTIP, DBP and MSP (collectively, the "New Share Plans"). With the exception of the MEP plan, the Pre-IPO Share Plans were dissolved upon completion of the reorganisation of the Group. The details on each scheme are given in the Annual report on remuneration 2016 on pages 71 to 72.

The total share-based compensation expense recognised in the Consolidated Statement of Profit or Loss related to the outlined above share-based compensation plans in the years ended 31 December 2016 and 2015 was as follows:

	2016			2015		
	Equity – settled $m	**Cash – settled $m**	**Total $m**	Equity – settled $m	Cash – settled $m	Total $m
AEP	**–**	**28.9**	**28.9**	–	–	–
MEP[a]	**17.6**	**34.6**	**52.2**	–	12.5	12.5
MIP	**–**	**4.8**	**4.8**	–	–	–
LTIP	**0.8**	**–**	**0.8**	–	–	–
DBP	**–**	**–**	**–**	–	–	–
MSP	**–**	**–**	**–**	–	–	–
	18.4	**68.3**	**86.7**	–	12.5	12.5

(a) Prior to the IPO, the MEP units were accounted for as liabilities awards ("cash-settled") as opposed to equity awards ("equity-settled") due to their underlying terms. The Group's reorganisation discussed in Note 3 - Significant Accounting Policies triggered a modification in the accounting for these awards, where the terms of awards (MEP units) were changed immediately prior to listing to vested equity shares. Accordingly, while they are described as "cash-settled" in the table above under accounting rules, they were in fact settled through the issuance of equity shares at the IPO.

Annual equity program (AEP) and Management incentive plan (MIP)

The AEP and MIP allowed for the issuance of units to employees for shares of common stock. The AEP and MIP units were granted at the allocable fair market value of a share of stock on the date of grant. The units could only vested upon a liquidity event, such as an IPO where they would be settled in cash. Upon completion of the IPO, the AEP and MIP units were settled in cash. As a result, the Group recorded a charge of $33.7 million ($3.5 million remained unpaid at 31 December 2016), in the aggregate, in the year ended 31 December 2016 in General and administrative expenses on the Consolidated Statement of Profit or Loss for the redemption of these units.

No share-based compensation has been recognised for the AEP and MIP units in the year ended 31 December 2015, since these units vest upon a liquidity event.

22. Share-Based Payments (continued)

Annual equity program (AEP) and Management incentive plan (MIP) (continued)

AEP and MIP activity during the years ended 31 December 2016 and 2015 is as follows:

	AEP Units 000s	MIP Units 000s
Outstanding at 1 January 2015	872	2,117
Granted	119	–
Forfeited/cancelled	(158)	(953)
Outstanding at 31 December 2015	**833**	**1,164**
Granted	**94**	**–**
Forfeited/cancelled	**(61)**	**(72)**
Settled for cash	**(866)**	**(1,092)**
Outstanding at 31 December 2016	**–**	**–**

Management executive plan (MEP)

The MEP allowed for the issuance of units to employees for shares of common stock. The MEP units were granted at the allocable fair market value of a share of stock on the date of grant and vested over five years or upon a liquidity event, such as an IPO. The units could be settled in cash or through the issuance of common stock.

Prior to listing, MEP units were accounted as liability awards. Accordingly, the Consolidated Statement of Financial Position at 31 December 2015 includes liabilities of $20.0 million related to outstanding MEP awards as a component of Other liabilities. Upon completion of the reorganisation (prior to listing), the MEP units were converted into shares, which are held by the Company (38,656,199).

The Group's reorganisation and IPO triggered the modification of the MEP units related to the (i) reclassification of an award from liability-classified award to equity-classified award and (ii) an acceleration of vesting. Accordingly, in the fourth quarter of 2016, the Group reclassified the previously recorded liability (prior to listing) of $54.6 million to Other reserves and recognised additional compensation expense of $17.6 million equal to the excess of the modified award's fair value ($72.2 million) over the liability award's fair value prior to the modification ($54.6 million). The modification of the MEP units included a clawback provision whereby 60% of units previously held by the scheme which had not fully vested are subject to a two year lock-in arrangement. These units held by the employee are subject to continued employment over a two year period with proportional vesting. The total unrecognised compensation expense related to the fair value of these units at 31 December 2016 amounted to $34.2 million, which will be expensed through 31 October 2018 ($27.4 million in 2017 and $6.8 million in 2018).

MEP activity during the years ended 31 December 2016 and 2015 is as follows:

	MEP Units 000s
Outstanding at 1 January 2015	682
Granted	350
Forfeited/cancelled	(59)
Repurchased	(222)
Outstanding at 31 December 2015	**751**
Granted	**70**
Forfeited/cancelled	**(9)**
Repurchased	**(10)**
Settled in equity upon modification	**(802)**
Outstanding at 31 December 2016	**—**

Long-term incentive plan (LTIP)

The LTIP provides for grants of awards over shares to executive directors and employees of the Group in the form of performance share awards, restricted share awards, options, forfeitable shares, and also cash settled phantom awards and are subject to the lock-up and clawback provisions. The remuneration committee will determine (i) the appropriate level of LTIP award for participants and (ii) the form of the award and its performance and other conditions.

The LTIP awards will vest in the ordinary course on the latest of: (i) the vesting date or dates specified by the remuneration committee at the time of grant (which will ordinarily be no less than three years from the date of grant), (ii) in respect of an LTIP award subject to performance conditions, the date or dates on which the remuneration committee determines the extent to which the specified performance conditions have been satisfied, and (iii) any other date determined by the remuneration committee at the date of grant. Any part of an LTIP Award which does not vest in accordance with its terms and, if relevant the performance conditions, will immediately lapse.

On 11 November 2016, the Group granted one-off awards to the executive directors, the senior managers and certain senior employees under the LTIP (the "Transition Awards"). The Transition Awards granted were a combination of conditional awards over shares and options over shares, which vest as to one-third subject only to continued employment on the first, second, and third anniversary. The Transition Awards are not subject to performance conditions.

22. Share-Based Payments (continued)

Long-term incentive plan (LTIP) (continued)

Share Options

A summary of the movements in the share options granted under the LTIP is as follows:

	Options 000s	Weighted-Average Exercise Price £ per share
Outstanding at 1 January 2016	–	–
Granted	3,120	2.49
Forfeited	–	–
Exercised	–	–
Expired	–	–
Outstanding at 31 December 2016	3,120	2.49
Exercisable at 31 December 2016	–	
Weighted average remaining contractual life (years)	4.8	

The fair value of share options granted was calculated using a Black-Scholes option-pricing model with the following assumptions:

	2016 Grant
Grant date	11th November
Weighted time to vesting as of the grant date[a]	2 years
Contractual term	5 years
Expected life[a]	3.5 years
Risk-free interest rate[b]	0.4%
Share price at date of grant	£2.44
Expected volatility[c]	23.5%
Dividend yield[d]	1.7%
Exercise price	£2.49
Fair value	£0.34

(a) Weighted time to vest based on contractual vesting schedule; expected life as the midpoint between the time to vest and the time to expiration.
(b) Determined based on the GPB UK Sovereign Curve Yields commensurate with the expected life.
(c) Determined based on the median asset volatility of the comparable companies adjusted for the Group's leverage.
(d) The future expected dividend payments are discounted at cost of equity. The cumulative sum is divided by the valuation date market cap to estimate a dividend yield assumption over the term of the award.

Share Awards

A summary of the movements in the share awards granted under the LTIP is as follows:

	Number of shares	
	2016 000s	2015 000s
Outstanding at 1 January 2016	–	–
Granted	2,069	–
Forfeited	–	–
Vested	–	–
Expired	–	–
Outstanding at 31 December 2016	2,069	–
Exercisable at 31 December 2016	–	–
Fair value of share awards granted during the year (£ per share)	2.44	–

Deferred bonus plan (DBP)

The DBP provides for grants of awards or nil-cost options over shares and also cash-settled phantom awards (collectively, the "DBP Awards") to executive directors and other employees of the Group with a market value at the date of grant equal to the participant's proportional annual cash bonus that he or she may be required to defer by the remuneration committee from time to time. The remuneration committee will determine (i) the appropriate level of the DBP Awards for participants, (ii) the form, amount and other terms and conditions of the DBP Awards, and (iii) the persons to whom the DBP Awards will be granted. The DBP Awards will not be subject to performance conditions but will normally vest subject to continued employment only.

The DBP Awards will vest in the ordinary course on the latest of: (i) the vesting date or dates specified by the remuneration committee at the time of grant (which will ordinarily be no less than three years from the date of grant) and (ii) any other date determined by the remuneration committee at the date of grant. Any part of a DBP Award which does not vest in accordance with its terms will immediately lapse.

At 31 December 2016, no DBP Awards were granted.

22. Share-Based Payments (continued)

Matching share plan (MSP)

The MSP provides for grants of awards over shares in the form of restricted share awards, options, forfeitable shares, and also cash-settled phantom awards (collectively, the "MSP Awards") to employees of the Group, other than executive directors with a market value at the date of grant equal to the participant's proportional annual cash bonus as may be determined by the remuneration committee from time to time. The remuneration committee may determine (i) the form, amount and other terms and conditions of the MSP Awards and (ii) the persons to whom the MSP Awards will be granted. The remuneration committee will determine the appropriate level of the MSP Awards for participants. The MSP Awards will not be subject to performance conditions but will normally vest subject to continued employment only.

The MSP Awards will vest in the ordinary course on the latest of: (i) the vesting date or dates specified by the remuneration committee at the time of grant (which will ordinarily be no less than three years from the date of grant) and (ii) any other date determined by the remuneration committee at the date of grant. Any part of an MSP Award which does not vest in accordance with its terms and, if relevant the performance conditions, will immediately lapse.

At 31 December 2016, no MSP Awards were granted.

23. Employee Benefits

Retirement benefit obligations

The Group operates a wide range of retirement benefit arrangements, which are established in accordance with local conditions and practices within the countries concerned. These include funded defined contribution and funded and unfunded defined benefit schemes.

Defined contribution arrangements

The Group operates several defined contribution arrangements where the employer contribution and the resulting charge to the Consolidated Statement of Profit or Loss is fixed at a set level or is a set percentage of employees' pay. Contributions made to defined contribution schemes and charged to the Consolidated Statement of Profit or Loss totalled $14.6 million and $11.8 million for the years ended 31 December 2016 and 2015, respectively.

Defined benefit arrangements

The Group operates several defined benefit schemes covering certain international employees where the benefits are based on employees' length of service. Whilst the Group's primary schemes are funded and partially funded schemes in the UK and Switzerland, respectively, it also operates other material unfunded benefit schemes in Germany, Austria and France (referred to as "Other" in the tables below). The UK scheme is closed to new participants and closed to future benefit accruals. The Switzerland scheme is still funded and under the Switzerland pension plan, the estimated contributions to be paid within the next year are $0.5 million. In funded arrangements, the assets of defined benefit schemes are held in separate trustee-administered funds or similar structures in the countries concerned. The asset surplus of $6.3 million within the UK plan have been restricted in accordance with IFRIC Interpretation 14 - *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* and have been recorded within the Consolidated Statement of Comprehensive Loss for the year ended 31 December 2016.

The principal actuarial assumptions for each defined benefit arrangement used at 31 December 2016 and 2015 were as follows:

	UK		Switzerland		Other	
	2016	2015	**2016**	2015	**2016**	2015
Discount rate	**2.80%**	3.55%	**0.50%**	1.00%	**1.50% to 2.25%**	1.75% to 2.25%
Rate of price inflation	**2.40%**	2.00%	**0.50%**	0.50%	**1.70% to 2.00%**	1.70% to 2.00%

The amount recognised for each defined benefit arrangement in the Consolidated Statement of Financial Position at 31 December 2016 and 2015 was as follows:

	UK		Switzerland		Other		Total	
	2016 $m	2015 $m	**2016 $m**	2015 $m	**2016 $m**	2015 $m	**2016 $m**	2015 $m
Fair value of schemes' assets	**18.2**	20.2	**4.8**	4.5	**–**	–	**23.0**	24.7
Present value of funded schemes' liabilities	**(11.9)**	(14.3)	**(8.9)**	(7.7)	**–**	–	**(20.8)**	(22.0)
Surplus (deficit) in the funded schemes	**6.3**	5.9	**(4.1)**	(3.2)	**–**	–	**2.2**	2.7
Present value of unfunded schemes' liabilities	**–**	–	**–**	–	**(9.0)**	(7.7)	**(9.0)**	(7.7)
Restrict recognition of asset	**(6.3)**	–	**–**	–	**–**	–	**(6.3)**	–
Net pension assets (liability)	**–**	5.9	**(4.1)**	(3.2)	**(9.0)**	(7.7)	**(13.1)**	(5.0)

23. Employee Benefits (continued)

Defined benefit arrangements (continued)

Plan assets for each defined benefit arrangement, all of which are quoted consist of the following at 31 December 2016 and 2015:

	UK		Switzerland		Other		Total	
	2016 $m	2015 $m	**2016 $m**	2015 $m	**2016 $m**	2015 $m	**2016 $m**	2015 $m
Bonds	**18.2**	20.2	**2.0**	1.9	**–**	–	**20.2**	22.1
Equity	**–**	–	**1.3**	1.2	**–**	–	**1.3**	1.2
Other	**–**	–	**1.5**	1.4	**–**	–	**1.5**	1.4
Plan assets	**18.2**	20.2	**4.8**	4.5	**–**	–	**23.0**	24.7

The movements in the defined benefit obligation during the years ended 31 December 2016 and 2015 were as follows:

	UK		Switzerland		Other		Total	
	2016 $m	2015 $m	**2016 $m**	2015 $m	**2016 $m**	2015 $m	**2016 $m**	2015 $m
Defined benefit obligation at beginning of year	**(14.3)**	(15.4)	**(7.7)**	(6.7)	**(7.7)**	(8.3)	**(29.7)**	(30.4)
Current service cost	**–**	–	**(0.9)**	(0.8)	**(0.8)**	(0.7)	**(1.7)**	(1.5)
Past service cost	**–**	–	**–**	(0.1)	**–**	–	**–**	(0.1)
Interest cost	**(0.4)**	(0.5)	**(0.1)**	(0.1)	**(0.2)**	(0.2)	**(0.7)**	(0.8)
Contributions by members	**–**	–	**(0.5)**	(0.4)	**–**	–	**(0.5)**	(0.4)
Remeasurement (loss) gain	**(1.6)**	0.2	**(0.3)**	(0.5)	**(1.0)**	(0.1)	**(2.9)**	(0.4)
Actual benefit payments	**2.4**	0.4	**0.4**	0.5	**0.1**	0.1	**2.9**	1.0
Experience (loss) gain	**(0.3)**	0.1	**(0.2)**	–	**0.3**	0.5	**(0.2)**	0.6
Risk insurance premium	**–**	–	**0.1**	0.1	**–**	–	**0.1**	0.1
Currency translation adjustment	**2.3**	0.9	**0.3**	0.3	**0.3**	1.0	**2.9**	2.2
Defined benefit obligation at end of year	**(11.9)**	(14.3)	**(8.9)**	(7.7)	**(9.0)**	(7.7)	**(29.8)**	(29.7)

The movements in the fair value of plan assets during the years ended 31 December 2016 and 2015 were as follows:

	UK		Switzerland		Other		Total	
	2016 $m	2015 $m	**2016 $m**	2015 $m	**2016 $m**	2015 $m	**2016 $m**	2015 $m
Fair value of plan assets at beginning of year	**20.2**	21.3	**4.5**	4.4	**–**	–	**24.7**	25.7
Expected return on assets	**0.6**	0.7	**0.1**	0.1	**–**	–	**0.7**	0.8
Remeasurement gain (loss)	**3.1**	(0.6)	**–**	–	**–**	–	**3.1**	(0.6)
Contributions paid by employer	**–**	0.5	**0.5**	0.4	**–**	–	**0.5**	0.9
Contributions paid by members	**–**	–	**0.5**	0.4	**–**	–	**0.5**	0.4
Actual benefit payments	**(2.4)**	(0.4)	**(0.4)**	(0.6)	**–**	–	**(2.8)**	(1.0)
Risk insurance premium	**–**	–	**(0.1)**	(0.1)	**–**	–	**(0.1)**	(0.1)
Currency translation adjustment	**(3.3)**	(1.3)	**(0.3)**	(0.1)	**–**	–	**(3.6)**	(1.4)
Fair value of plan assets at end of year	**18.2**	20.2	**4.8**	4.5	**–**	–	**23.0**	24.7

The history of experience adjustments related to the defined benefit obligation were as follows:

	UK		Switzerland		Other		Total	
	2016 $m	2015 $m	**2016 $m**	2015 $m	**2016 $m**	2015 $m	**2016 $m**	2015 $m
Defined benefit obligation at end of year	**(11.9)**	(14.3)	**(8.9)**	(7.7)	**(9.0)**	(7.7)	**(29.8)**	(29.7)
Experience adjustment on schemes' liabilities	**(0.3)**	0.1	**(0.2)**	–	**0.3**	0.5	**(0.2)**	0.6
Experience adjustment as a percentage of scheme's liabilities	**2.5%**	(0.7)%	**2.2%**	–%	**(3.3)%**	(6.5)%	**0.7%**	(2.0)%

23. Employee Benefits (continued)

Defined benefit arrangements (continued)

The aggregate expense for all defined benefit plans recognised in the Group's Consolidated Statement of Profit or Loss for the years ended 31 December 2016 and 2015 was as follows:

	2016 $m	2015 $m
Current service cost	(1.7)	(1.5)
Past service cost	–	(0.1)
Expected return on assets	0.7	0.8
Net interest on schemes' liabilities	(0.7)	(0.8)
Total expense	(1.7)	(1.6)

Aggregate actuarial gains and losses for all defined benefit plans recognised in the Group's Consolidated Statement of Comprehensive Loss for the years ended 31 December 2016 and 2015 were as follows:

	2016 $m	2015 $m
Remeasurement effects recognised in OCL:		
Actuarial (loss) gain on liability due to experience	(0.2)	0.6
Other remeasurement loss on liability	(2.9)	(0.4)
Actuarial gain (loss) on asset	3.1	(0.6)
Total remeasurement loss recognised in OCL	–	(0.4)
Deferred tax on remeasurement gain or loss recognised in OCL	(0.3)	(0.5)
Recognition of the pension assets restriction	(6.3)	–
Currency translation adjustment	(0.1)	0.1
Cumulative loss recognised in OCL at the beginning of the year	(4.1)	(3.3)
Cumulative loss at the end of the year	(10.8)	(4.1)

Sensitivity Analysis

The effect of an increase or decrease in key actuarial assumptions on the defined benefit obligations related to the UK and Switzerland plans at 31 December 2016 is as follows:

UK Plan	2016 $m decrease/ (increase)
Discount rate increase by 0.5%	1.0
Increase in inflation by 0.5%	(0.4)

Switzerland Plan	2016 $m decrease/ (increase)
Discount rate increase by 0.25%	0.5
Discount rate decrease by 0.25%	(0.5)
Inflation rate decrease by 0.25%	0.1
Inflation rate increase by 0.25%	(0.2)

24. Financial Instruments

Policy

The Group's treasury policies seek to minimise financial risks and to ensure sufficient liquidity for the Group's operations and strategic plans. No complex derivative financial instruments are used, and no trading or speculative transactions in financial instruments are undertaken. Where the Group does use financial instruments these are mainly to manage the currency risks arising from normal operations and its financing. Operations are financed mainly through retained profits and, in certain geographic locations, bank borrowings. Foreign currency risk is the most significant aspect for the Group in the area of financial instruments. It is exposed to a lesser extent to other risks such as interest rate risk and liquidity risk. The Group's policies have remained unchanged since the beginning of the year.

Detail of the significant policies and methods adopted for each class of financial asset and financial liability are disclosed in Note 3 - Significant Accounting Policies.

24. Financial Instruments (continued)

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 17- Long-term Borrowings, cash and cash equivalents and equity of the Group, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity.

Financial risk management objectives

Based on the operations of the Group throughout the world, the Directors consider that the key financial risks that it faces are liquidity risk, currency risk, interest rate risk, and credit risk. The objectives under each of these risks are as follows:

- **Liquidity risk:** ensure adequate funding to support working capital and future capital expenditure requirements.
- **Currency risk:** reduce exposure to foreign exchange movements principally between euro, USD and the British Pound sterling ("GBP").
- **Interest rate risk:** mitigate risk of significant change in market rates on the cash flow of issued variable rate debt.
- **Credit risk:** minimise the risk of default and concentration (discussed in Note 16 - Trade and Other Receivables and in Note 3 – Significant Accounting Policies – *Trade and Other Receivables*).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by continuously monitoring actual and projected cash outflows to ensure that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

The tables below analyse the Group's financial liabilities at 31 December 2016 and 2015 by contractual maturity date, including interest payments:

	Contractual cash flows					
	Within 1 year or on demand $m	1 to 2 years $m	2 to 5 years $m	More than 5 years $m	Total $m	Carrying amount $m
31 December 2016						
Long-term borrowings	**37.9**	**71.5**	**1,256.3**	**408.5**	**1,774.2**	**1,752.6**
Finance lease obligations	**2.2**	**2.3**	**7.7**	**26.2**	**38.4**	**23.0**
Trade and other payables	**111.6**	**–**	**–**	**–**	**111.6**	**111.6**
Accrued expenses and other current liabilities	**60.1**	**–**	**–**	**–**	**60.1**	**60.1**
31 December 2015						
Long-term borrowings	21.4	–	3,507.2	–	3,528.6	3,498.3
Finance lease obligations	0.1	0.1	–	–	0.2	0.2
Trade and other payables	114.5	–	–	–	114.5	114.5
Accrued expenses and other current liabilities	69.4	–	–	–	69.4	69.4

The contractual maturities of long-term borrowings (excluding finance lease obligations), inclusive of interest payments at 31 December 2016 and 2015 were as follows:

	Contractual cash flows				
Long-term borrowings, including interest[1]	Within 1 year or on demand $m	1 to 2 years $m	2 to 5 years $m	More than 5 years $m	Total $m
31 December 2016	**96.7**	**121.2**	**1,383.2**	**433.1**	**2,034.2**
31 December 2015	272.7	258.6	3,883.4	–	4,414.7

(1) Assumes repayment of the principal amount of debt obligations at maturity.

Additionally, if the Group was fully drawn against the $200.0 million Revolving Credit Facility, the cash interest payments would have increased by approximately $6.0 million and $9.5 million for the years ended 31 December 2016 and 2015, respectively.

Currency risk

The Group manufactures and sells its products in various countries around the world and as a result of the global nature of the operations, it is exposed to market risk arising from changes in currency exchange rates; however the Group foreign currency risk is diversified. The Group's primary net foreign currency translation exposures are the euro, GBP, and Danish Krone ("DKK"). Where possible, the Group manages foreign currency risk by managing same currency revenues to same currency expenses and strategically denominating its debt in certain functional currencies in order to match with the projected functional currency exposures within its operations and thereby minimising foreign currency risk. As a result, the impact of the fluctuations in the market values of assets and liabilities and the settlement of foreign currency transactions are reduced.

24. Financial Instruments (continued)

Currency risk (continued)

Significant increases in the value of the USD relative to foreign currencies could have a material adverse effect on the results of operations. Assets and liabilities are converted based on the exchange rate on the statement of financial position date, and statement of profit or loss items are converted based on the average exchange rate during the period. Transactions that are to be settled in a currency that is not the functional currency of the transacting entity are recorded to the Consolidated Statement of Profit or Loss at each remeasurement date or settlement date. Additionally, assets and liabilities of subsidiaries whose functional currency is not USD are translated into USD at the exchange rate at each statement of financial position date. Any cumulative translation difference is recorded within equity.

The following exchange rates for the major currencies have been applied at 31 December 2016 and 2015:

Currency	Average rate/ Closing rate	2016	2015
USD/EUR	Average	**1.11**	1.11
	Closing	**1.05**	1.09
USD/GBP	Average	**1.36**	1.53
	Closing	**1.23**	1.47
USD/DKK	Average	**0.15**	0.15
	Closing	**0.14**	0.15

Sensitivity analysis on currency risk

The most significant exposure to foreign currency risk relates to certain long-term borrowings. A reasonably possible 10% fluctuation of the USD against the EUR applied to long-term borrowings from third parties existing at 31 December 2016 would have affected equity by the amounts shown below. This calculation assumes that the change occurred at the reporting date and had been applied to long-term borrowings from third parties existing at that date. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any tax impact.

	Equity $m
10% strengthening of USD compared to EUR	57.4
10% weakening of USD compared to EUR	(57.4)

Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to interest rate cash flow risk.

Currency and Nature of Interest Rate of the Nominal Value of Borrowings

The currency and rate structure of the Group's long-term borrowings at 31 December 2016 and 2015 were as follows:

	2016 $m	%	2015 $m	%
Currency structure				
USD	**1,200.4**	**67%**	2,441.2	69%
EUR	**596.8**	**33%**	1,087.6	31%
Total	**1,797.2**	**100%**	3,528.8	100%
Rate structure				
Fixed	**23.0**	**1%**	1,916.8	54%
Floating	**1,774.2**	**99%**	1,612.0	46%
Total	**1,797.2**	**100%**	3,528.8	100%

Sensitivity analysis on interest rate risk

The loans under the Group's Credit Facilities bear interest at floating rates of interest per annum equal to LIBOR and/or EURIBOR, or ABR, as adjusted periodically, plus a spread. A plus or minus change of 1% in the interest rates in effect on 31 December 2016 and 2015, would have a negative or positive impact on the Consolidated Statement of Profit or Loss and on equity of $17.7 million and $16.1 million, respectively, assuming that all other variables remain constant and ignoring any tax effect. Currently, the Group does not use derivatives or similar instruments to mitigate exposure to interest rate risk.

Fair values of financial assets and financial liabilities

The carrying amounts reflected in the Consolidated Statement of Financial Position at 31 December 2016 and 2015 for cash and cash equivalents, trade and other receivables, restricted cash, trade and other payable, and certain accrued expenses and other current liabilities approximate fair value due to their short-term maturities. There are no other assets or liabilities measured at fair value on a recurring or non-recurring basis.

24. Financial Instruments (continued)

Fair values of financial assets and financial liabilities (continued)

Liabilities not Measured at Fair Value

The long-term borrowings are initially carried at fair value less any directly attributable transaction costs and subsequently at amortised cost. At 31 December 2016 and 2015, the estimated fair value of the Group's long-term borrowings, excluding finance leases approximated $1,775.2 million and $3,503.2 million, in the aggregate, respectively. The fair values were estimated using the quoted market prices and current interest rates offered for similar debt issuances. Long-term borrowings are categorised as Level 2 measurement in the fair value hierarchy under IFRS 13 *Fair Value Measurements*. See Note 17 – Long-term Borrowings for the face and the carrying values of the Group's long-term borrowings.

25. Subsequent Events

The Group has evaluated subsequent events through 17 March 2017, the date the Financial Statements were approved by the board of directors.

Post year end the Company carried out a capital reduction, converting share premium of $1,713.7 million to distributable reserves. As part of this capital reduction, expenses of issue of equity shares which had been offset against the same share premium balance has also been taken to retained earnings. The net impact of the capital reduction exercise has resulted in distributable earnings being increased by $1,674.1 million.

On 3 January 2017, the Group acquired the entire share capital of Eurotec Beheer B.V. ("EuroTec") for approximately €30 million in cash. EuroTec manufactures ostomy care systems and commercialises its products directly in the Benelux region and through distributor partners in other markets. The transaction will be accounted for as a business combination under the acquisition method of accounting. The Group will record the assets and liabilities assumed at their fair values as of the respective acquisition date. Due to the limited time since the closing of the acquisition, the valuation efforts and related acquisition accounting are incomplete at the time the Financial Statements are authorised for issue. As a result, the Group is unable to provide amounts recognised as of the acquisition date for major classes of assets and liabilities acquired, including goodwill.

26. Related Party Transactions

Prior to listing, the Group maintained an agreement with its equity sponsors (the "Management Agreement"), whereby the equity sponsors provided certain management advisory services. For services rendered by the equity sponsors, an annual fee of $3.0 million was payable in equal quarterly instalments. The Group also paid other specified fees, in accordance with the Management Agreement. For the years ended 31 December 2016 and 2015, the Group incurred $2.5 million ($1.8 million-Nordic Capital and $0.7 million-Avista Capital Partners) and $3.0 million ($2.1 million-Nordic Capital and $0.9 million-Avista Capital Partners), respectively, in contractual fees to the equity sponsors for services rendered in accordance with the Management Agreement. Upon completion of the IPO, the Management Agreement was terminated.

The Group's revenue included $7.4 million and $7.6 million for the years ended 31 December 2016 and 2015, respectively, of revenue to a related party (customers affiliated with Nordic Capital, former equity sponsor and principal shareholder). The accompanying Consolidated Statement of Financial Position includes a receivable from the Group's related party revenue recorded in Trade and other receivables in the amount of $1.2 million and $0.8 million at 31 December 2016 and 2015, respectively. In addition, during the year ended 31 December 2016, the Group purchased inventory product totalling $0.7 million from a related party (vendors affiliated with Nordic Capital, former equity sponsor and principal shareholder). These purchases were fully paid at 31 December 2016. The Group did not make purchases from a related party during the year ended 31 December 2015.

Key management personnel compensation

Key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the Group. The definition of key management personnel includes directors (both executive and non-executive) and other executives from the management team with significant authority and responsibility for planning, directing and controlling the entity's activities.

Key management personnel compensation for the years ended 31 December 2016 and 2015 comprised the following:

	2016 $m	2015 $m
Short-term employee benefits	7.2	9.3
Share-based expense	38.2	8.7
Post-employment benefits	0.7	1.0
Total	46.1	19.0

The above table does not include an outstanding loan of $0.3 million and $0.4 million at 31 December 2016 and 2015, respectively, to the Group's CEO. The amounts of share-based compensation to the key management personnel disclosed in the table above are based on the expense recognised under IFRS 2. Further details of short-term employee benefits, share-based expense and post-employment benefits for the executive directors are shown in the remuneration report on page 78.

Company Balance Sheet
As at 31 December 2016

	Notes	2016 $m
Non-current assets		
Investment in subsidiaries	4	5,316.0
		5,316.0
Current assets		
Trade and other receivables	5	0.3
Cash and bank balances		20.1
		20.4
Total assets		5,336.4
Equity and Liabilities		
Current liabilities		
Trade and other payables	6	13.1
		13.1
Non-current liabilities		
Redeemable preference shares	7	0.1
		0.1
Total liabilities		13.2
Equity		
Share capital	7	238.8
Share premium account	7	1,674.1
Retained loss	9	(21.6)
Merger reserve	8	3,381.9
Cumulative translation reserve		44.6
Other reserve	8	5.4
Total Equity		5,323.2
Total Equity and Liabilities		5,336.4

The Company reported a loss for the financial period ended 31 December 2016 of $21.6 million.

The financial statements of ConvaTec Group Plc (registered number 10361298) were approved by the board of directors and authorised for issue on 17 March 2017. They were signed on its behalf by:

Nigel Clerkin
Chief Financial Officer

Company Statement of Changes in Equity
For the period ended 31 December 2016

	Equity attributable to equity holders of the Company						
	Share capital $m	Share premium account $m	Merger reserve $m	Retained loss $m	Cumulative translation reserve $m	Other reserves $m	Total equity $m
Loss for the period	–	–	–	(21.6)	–	–	(21.6)
Foreign currency translation adjustment	–	–	–	–	44.6	–	44.6
Total comprehensive income for the period	–	–	–	(21.6)	44.6	–	23.0
Issue of share capital	238.8	1,713.7	–	–	–	–	1,952.5
Expenses of issue of equity shares	–	(39.6)	–	–	–	–	(39.6)
Fair value in excess of par value of share exchange	–	–	3,381.9	–	–	–	3,381.9
Credit to equity for equity-settled share based payments	–	–	–	–	–	5.4	5.4
Balance at 31 December 2016	238.8	1,674.1	3,381.9	(21.6)	44.6	5.4	5,323.2

Notes to the Company Financial Statements

1. Significant accounting policies

Basis of preparation

The company was incorporated on 6 September 2016. The financial statements of the company reflect the period from incorporation to 31 December 2016.

The separate financial statements of the company are presented as required by the Companies Act 2006. The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the period ended 31 December 2016 the company has decided to adopt FRS 101. Accordingly, the financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) *Reduced Disclosure Framework* as issued by the Financial Reporting Council incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and July 2016.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements

The financial statements have been prepared on the historical cost basis except for the re measurement of certain financial instruments to fair value. The principal accounting policies adopted are the same as those set out in Note 3 to the consolidated financial statements except as noted below.

Foreign currencies

The functional currency of the Company is Sterling, being the currency of the primary economic environment in which it operates.

The Company has adopted US Dollars as the presentation currency for its financial statements, in line with the presentation currency for the consolidated financial statements.

For the purpose of presenting individual company financial statements, assets and liabilities of the Company are translated into US Dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity, the currency translation reserve.

Investments

Investments in Group undertakings are stated at cost less any provision for impairment.

The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of the recoverable amount. If the recoverable amount of the cash-generating unit is less than the value of the investment, the investment is considered to be impaired and is written down to its recoverable amount. Any impairment loss is offset against the merger reserve. If the merger reserve is not sufficient to cover an impairment loss the excess impairment is recognised immediately in the profit and loss account.

Merger reserve

As part of the Group reorganisation, the company entered into a common control transaction to acquire the former ConvaTec Group. The Company acquired the entire issued share capital of Cidron Healthcare Limited and obtained full control of the ConvaTec Group. As a common control transaction, this did not meet the definition of a business combination under IFRS 3 Business Combinations and as such, fell outside the scope of that standard. As a consequence, after considering guidance from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the transaction has been accounted for by applying merger accounting principles. The fair value of the shares acquired, representing the fair value of the Group on the date of the IPO, was recorded as the fair value of the investment held. The difference between the nominal value and the fair value of shares acquired was taken to the merger reserve.

2. Loss for the period

As permitted by s408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account or statement of other comprehensive income for the period 6 September 2016 to 31 December 2016. The loss attributable to the Company is disclosed in the footnote to the Company's balance sheet.

The auditor's remuneration for audit and other services is disclosed in note 6 to the consolidated financial statements.

3. Staff costs

The average monthly number of employees (including executive directors) was:

	2016 Number
General and administrative	2
	2

Their aggregate remuneration comprised:

	Year ended 2016 $m
Wages and salaries	0.3
	0.3

4. Investment in subsidiaries

	$m
Cost and net book value	
Additions	5,316.0
At 31 December 2016	5,316.0

Details of the Company's subsidiaries at 31 December 2016 are as follows:

Name	Place of business and registered office	Proportion of ownership interest %	Proportion of voting power held %
ConvaTec Management Holdings Limited[1]	United Kingdom	100%	100%
Cidron Healthcare Limited[2]	Jersey	100%	100%
ConvaTec Healthcare D S.à.r.l.[3]	Luxembourg	100%	100%
ConvaTec Holdings U.K. Limited[4]	United Kingdom	100%	100%
ConvaTec Limited[4]	United Kingdom	100%	100%
Amcare Limited[4]	United Kingdom	100%	100%
ConvaTec International U.K. Limited[4]	United Kingdom	100%	100%
ConvaTec Speciality Fibres Limited[4]	United Kingdom	100%	100%
ConvaTec Accessories Limited[4]	United Kingdom	100%	100%
SureCalm Healthcare Holdings Limited[4]	United Kingdom	100%	100%
Arthur Wood Limited[4]	United Kingdom	100%	100%
Farnhurst Medical Limited[4]	United Kingdom	100%	100%
Novacare U.K. Limited[4]	United Kingdom	100%	100%
Allied Medical Services (UK) Limited[4]	United Kingdom	100%	100%
Alpha-Med (Medical & Surgical) Limited[4]	United Kingdom	100%	100%
B.C.A. Direct Limited[4]	United Kingdom	100%	100%
Resus Positive Limited[4]	United Kingdom	100%	100%
SureCalm Healthcare Limited[4]	United Kingdom	100%	100%
SureCalm Pharmacy Limited[4]	United Kingdom	100%	100%
ConvaTec Canada Limited[5]	Canada	100%	100%
ConvaTec International Services GmbH[6]	Switzerland	100%	100%
ConvaTec Malaysia Sdn Bhn[7]	Malaysia	100%	100%
ConvaTec (Thailand) Co. Limited[8]	Thailand	100%	100%
ConvaTec (Australia) PTY Limited[9]	Australia	100%	100%
ConvaTec (New Zealand) Limited[10]	New Zealand	100%	100%
ConvaTec France Holdings SAS[11]	France	100%	100%
Laboratoires ConvaTec SAS[11]	France	100%	100%
Convatec (Switzerland) GmbH[6]	Switzerland	100%	100%
ConvaTec Polska Sp. Z.o.o.[12]	Poland	100%	100%
ConvaTec Sağlik Ürünleri Limited Şirketi[13]	Turkey	100%	100%
ConvaTec Japan Karlskrona[14]	Japan	100%	100%
ConvaTec (Germany) GmbH[15]	Germany	100%	100%
ConvaTec Nederland B.V.[16]	Netherlands	100%	100%
ConvaTec Ceska Republika s.r.o.[17]	Czech Republic	100%	100%
ConvaTec Italia S.r.l.[18]	Italy	100%	100%

4. Investment in subsidiaries (continued)

Name	Place of business and registered office	Proportion of ownership interest %	Proportion of voting power held %
ConvaTec Belgium BVBA[19]	Belgium	100%	100%
ConvaTec Hong Kong Limited[20]	Hong Kong	100%	100%
ConvaTec (Singapore) PTE Limited[21]	Singapore	100%	100%
ConvaTec India Private Limited[22]	India	100%	100%
ConvaTec China Limited[23]	China	100%	100%
KVTech Portugal – Produtos Medicos Unipessoal Ltda[24]	Portugal	100%	100%
ConvaTec (Austria) GmbH[25]	Austria	100%	100%
ConvaTec Healthcare Ireland Limited[26]	Ireland	100%	100%
ConvaTec Middle East & Africa LLC[27]	Egypt	100%	100%
ConvaTec Spain Holdings S.L.[28]	Spain	100%	100%
ConvaTec S.L.[28]	Spain	100%	100%
ConvaTec Peru S.A.C.[29]	Peru	100%	100%
ConvaTec Argentina SRL[30]	Argentina	100%	100%
ConvaTec Norway A/S[31]	Norway	100%	100%
ConvaTec South Africa (PTY) Limited[32]	South Africa	100%	100%
ConvaTec (Sweden) AB[33]	Sweden	100%	100%
ConvaTec Hellas Medical Products S.A.[34]	Greece	100%	100%
ConvaTec Denmark A/S[35]	Denmark	100%	100%
Unomedical Holdings A/S[36]	Denmark	100%	100%
Unomedical A/S[36]	Denmark	100%	100%
Papyro-Tex A/S[35]	Denmark	100%	100%
FE Unomedical Limited[37]	Belarus	99%	99%
Unomedical sdn Bhd.[38]	Malaysia	75%	75%
Unomedical France SAS[11]	France	100%	100%
Unomedical Holdings Limited[4]	United Kingdom	100%	100%
Unomedical Limited[4]	United Kingdom	100%	100%
Unomedical Developments Limited[4]	United Kingdom	100%	100%
M.S.B. Limited[4]	United Kingdom	100%	100%
Bradgate-Unitech Limited[4]	United Kingdom	100%	100%
Pharma-Plast Limited[4]	United Kingdom	100%	100%
Unoplast (U.K.) Limited[4]	United Kingdom	100%	100%
Steriseal Limited[4]	United Kingdom	100%	100%
Rotax Razor Company Limited[4]	United Kingdom	100%	100%
Nottingham Medical Equipment Limited[4]	United Kingdom	100%	100%
Shrimpton & Fletcher Limited[4]	United Kingdom	100%	100%
Lance Blades Limited[4]	United Kingdom	100%	100%
Needle Industries (Sheffield) Limited[4]	United Kingdom	100%	100%
Akers & Dickinson Limited[4]	United Kingdom	100%	100%
Unomedical Devices SA de CV[39]	Mexico	100%	100%
Unomedical (Americas) Inc.[40]	US	100%	100%
Unomedical SA de CV[41]	Mexico	100%	100%
Unomedical s.r.o.[42]	Slovakia	100%	100%
Unomedical Inc.[40]	US	100%	100%
ZAO ConvaTec[43]	Russia	100%	100%
ConvaTec OY[44]	Finland	100%	100%
ConvaTec Inc.[45]	US	100%	100%
ConvaTec Korea Limited[46]	Korea	100%	100%
180 Medical Holdings Inc.[47]	US	100%	100%
180 Medical Acquisition Inc.[47]	US	100%	100%
180 Medical Inc.[47]	US	100%	100%
South Shore Medical Supply Inc.[48]	US	100%	100%
Symbius Medical Inc.[49]	US	100%	100%
ConvaTec Technologies Inc.[50]	US	100%	100%
Boston Medical Device Inc.[45]	US	100%	100%
BMD Comercio de Productos Medicos Ltda[51]	Brazil	100%	100%

4. Investment in subsidiaries (continued)

Name	Place of business and registered office	Proportion of ownership interest %	Proportion of voting power held %
Boston Medical Device de Mexico S de RL de CVR[52]	Mexico	100%	100%
Boston Medical Devices Columbia Ltda[53]	Colombia	100%	100%
Boston Medical Device de Venezuela C.A.[54]	Venezuela	100%	100%
Boston Medical Device de Chile S.A.[55]	Chile	100%	100%
Boston Medical Device Dominicana S.R.L.[56]	Dominican Republic	100%	100%
Boston Medical Device Ecuador S.A.[57]	Ecuador	100%	100%
Boston Medical Care de Mexico S de RL de CVR[52]	Mexico	100%	100%
Boston Medical Care S.A.S IPS[58]	Colombia	100%	100%
Boston Medical Care de Chile SPA[55]	Chile	100%	100%
AbViser Medical LLC[45]	US	100%	100%
Boston Medical Devices LLC[45]	US	100%	100%
ConvaTec Dominican Republic Inc[59]	Dominican Republic	100%	100%
PRNMS Investments LLC[49]	US	100%	100%
PRN Medical Services, LLC[49]	US	100%	100%
Cidron Healthcare GP, Inc[60]	Jersey	100%	100%

\+ Investments held directly by ConvaTec Group Plc

1. 3 Forbury Place, 23 Forbury Road, Reading RG1 3JH, UK
2. 44 Esplanade, St. Helier, Jersey JE4 9WG, Channel Islands
3. 1, Rue Hildegard von Bingen, L-1282, Luxembourg
4. GDC First Avenue, Deeside Industrial Park, Deeside, Flintshire CH5 2NU, UK
5. 1959 Upper Water Street, P.O. Box 997, Halifax, Nova Scotia, B3J 2N2, Canada
6. Mühlentalstrasse 36/38, 8200 Schaffhausen, Switzerland
7. 10th floor, Menara Hap Seng, No. 1 & 3, Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia
8. 87M Thai Tower, All Seasons Place, 9/F, Wireless Road, Lumpini, Phatumwan, Bangkok 10330, Thailand
9. Brandon Building 5 Office Park, 530-540 Springvale Road, Glen Waverley VIC 3150 Australia
10. Crowe Horwath, level 29, 188 Quay Street, Auckland, 1010, New Zealand
11. Immeuble le Sigma, 90 Boulevard National, 92250 La Garenne Colombes, Paris, France
12. Al. Armii Ludowej 26, 00-609 Warsaw, Poland
13. Şehit İlknur Keles, No.5/3 Kozyatagi/, Istanbul, Turkey
14. 8-7, Roppongi 1-chome, Minato-ku, Tokyo, Japan
15. Radlkoferstraße 2, 81373 München, Germany
16. Houttuinlaan 5F, 3447 GM Woerden, Netherlands
17. Olivova 2096/4, Prague 1, 110 00, Czech Republic
18. Via della Sierra Nevada, 60-00144 Rome, Italy
19. Parc d'Alliance, Boulevard de France 9, B-1420 Braine l'Alleud, Belgium
20. Unit 1901 Yue Xiu Bldg 160-174, Lockhart Road, Wan Chai, Hong Kong
21. Shenton Way #20-01, SGX Centre 1, Singapore 068804
22. S-604, 6th Floor, BRIGADE GATEWAY, World Trade Centre, Dr. Rajkumar Road, Yeshwantpur Bangalore - 560055, Karnataka, India
23. Room 1705-1705, Rui On Plaza, 333 Middle Huai Hai Road, Huangpu District, Shanghai, China
24. Avenida da Libertade, 144, 7º 1250-146, Lisbon, Portugal
25. Schubertring 6, 1010 Wien, Austria
26. Arthur Cox Building, Earlsfort Terrace, Dublin 2, Ireland
27. 22 Kamal El Din Hussein St, 3rd Floor, Heliopolis Sheraton, Post Code 11977., Cairo, Egypt
28. Constitucion 1, 3ªPlanta, 08960 Sant Just Desvern, Barcelona, Spain
29. Estudio Lazo de Romaña Gagiufli, Av. Pardo y Aliaga 699, Piso 7, San Isidro, Lima, Perú
30. Calle Cerrito No. 1070 Tercer Piso, oficina 71. Buenos Aires, Argentina
31. Nils Hansen vei 2, 0667 Oslo, Norway
32. 24A-18th Street, Menlo Park, Pretoria 0081 , South Africa
33. Gårdsfogdevägen 18 B, 167 15 Bromma, Sweden
34. 317 Mesogeion Avenue and Locridos (2nd floor), Municipality of Halandri, Greece
35. Skinderskovvej 32-36, 2730 Herlev, Denmark
36. Aaholmvej 1-3, Osted, 4320 Lejre, Denmark
37. Zavodskaya str., 50, Fanipol, 222750, Dzerzhinsk reg., Minsk distr., Belarus
38. Bakar Arang Industrial Estate, 08000 Sungai Petani, Kedah, Malaysia
39. Fomento Industrial L9 M3, Parque Ind.del Norte, Reynosa Tam. Mexico
40. 5701-1 S Ware RD, McAllen, TX 78504, US
41. Ave Industrial Falcon Lote 7, Parque Industrial Del Norte, Cd Reynosa Tamaulipas, CP88736 Mexico
42. Priemyselny Park 3, 071 01 Michalovce, Slovakia
43. Kosmodamianskaya nab.52 bld.1, 115054, Moscow, Russia
44. Keilaranta 16, 02150 Espoo, Finland
45. 1160 Route 22 East, Suite 304, Bridgewater, NJ 08807, US
46. (Samsung-dong, American Standard B/D) 4F, Yeongdongdaero 112gil 66, Gangnam-Gu, Seoul, Korea
47. 8516 Northwest Expressway, Oklahoma City, OK 73162, US
48. 58 Norfolk Avenue, Unit 2, Easton, MA 02375 US
49. 2311 W. Utopia Road, Phoenix, AZ 85027, US
50. 3993 Howard Hughes Pkwy Ste 250, Las Vegas, NV 89169, US
51. Rua Alexandre Dumas, 2100-15º Andar - Cj. 152 - CEP 04717-913 Chácara, Santo Antônio, São Paulo - SP, Brazil
52. Osos Num.40, Mezanine Col. Del Valle, Mexico City, Mexico, CP 03100
53. Calle 76 No. 11-17, Piso, 5, Bogota, Colombia 110221
54. Av. Sorocaima, Libertador con Venezuela, Edif Atrium. Piso 3, Oficina 3G, Urb El Rosal, Municipio Chacao, Edo, Miranda, Venezuela
55. Av El Salvador 149 of 401, Piso 4, Providencia. Santiago, Chile
56. Av. Lope de Vega No.59, Plaza Lope de Vega, Local C-8, Santo Domingo, Republica Dominicana
57. Pedro Ponce Carrasco E8-06 y Av. Diego de Almagro. Ed. Almagro Plaza Of. 1204 Quito, Ecuador
58. Calle 82 No. 18-31, Bogota, Colombia
59. Carretera Sanchez km 18 ½, Parque Industrial Itabo, Haina, San Cristóbal, Dominican Republic
60. 26 Esplanade, St Helier, Jersey JE2 3QA, Channel Islands

The investments in subsidiaries are all stated at cost less provision for impairments.

5. Trade and other receivables

	2016 $m
Amounts falling due within one year:	
Other debtors	0.3
	0.3

6. Trade and other payables

	2016 $m
Amounts falling due within one year:	
Amounts owed to group undertakings	1.2
Accruals and deferred income	11.9
	13.1

7. Share capital and share premium account

	Share capital $m	Share premium account $m
Issue of share capital 1,951,472,651 ordinary shares of 10p each	238.8	1,713.7
Expenses of issue of equity shares	–	(39.6)
Balance at 31 December 2016	238.8	1,674.1

Share capital
The rights attaching to the ordinary shares are uniform in all respects, they form a single class for all purposes, including with respect to voting and for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Company.

Redeemable preference shares
The Company has issued 50,000 redeemable preference shares with a nominal value of $0.1 million; these are held in long term liabilities and remained unpaid at 31 December 2016. The preference shares were redeemed in February 2017.

Share premium
The share premium represents amounts received in excess of the nominal value of shares issued upon IPO ($1,713.7 million), net of the direct costs associated with issuing those shares ($39.6 million). $10.5 million of the costs of issue of share capital charged to the share premium remained unpaid at 31 December 2016.

8. Other reserves
Merger reserve
The merger reserve represents the fair value in excess of the par value of shares issued as part of a share exchange. Shareholders of Cidron Healthcare Limited and the subsidiaries exchanged their shareholdings for 1,300 million shares in ConvaTec Group Plc. The excess over the £0.10 par value of $3,381.9 million is held in the merger reserve.

Currency translation reserve
The movement on the currency translation reserve is the exchange differences arising on the translation of the assets and liabilities of the Company into US Dollars at the prevailing balance sheet rate and income and expense items being translated at the average exchange rates for the period.

Other reserves
The movements in other reserves are a credit to equity for equity settled-share based payments.

9. Retained loss

	$m
Net loss for the year	(21.6)
Credit to equity for equity settled-share based payments	5.4
Balance at 31 December 2016	(16.2)

10. Events after the balance sheet date
Capital reduction
Post year end the Company carried out a capital reduction, converting share premium of $1,713.7 million to distributable reserves. As part of this capital reduction, expenses of issue of equity shares which had been offset against the same share premium balance has also been taken to retained earnings. The net impact of the capital reduction exercise has resulted in distributable earnings being increased by $1,674.1 million.

Redeemable preference shares
Post year end the preference shares were redeemed which will result in a reduction of long term liabilities of $0.1 million.

Shareholder information

Our corporate website – www.convatecgroup.com

Information about our Stock Exchange announcements, key dates in our financial calendar, our share price information and background information is available on our corporate website by clicking www.convatecgroup.com/investors.

The date for the release of our interim results for the six months ended 30 June 2017 will be posted in due course on our website.

Shareholders may also receive information by email by signing up to the news alert service available on our corporate website at www.convatecgroup.com/investors/sign-up-for-more-information.

Share price information

Our closing share price on 31 December, 2016 was 232 pence.

Managing your shareholding

You can manage your shareholding online by registering to use Investor Centre, a free and secure website. Investor Centre is available 24 hours a day, 365 days a year. To find out more about Investor Centre visit www.investorcentre.co.uk. Registration is a straightforward process and all you will need is your shareholder reference number (the "SRN") and registered address details.

Shareholders who prefer not to manage their shareholding online can contact our Registrars, Computershare Investor Services PLC who manage our share dealing service. The share dealing contact telephone number is +44 (0) 370 703 6219 and further information about Computershare Investor Services PLC is set out below.

Share fraud

We would like to warn all of our shareholders to be very wary of any unsolicited telephone calls or letters which offer investment advice, offer to buy your shares at a discounted price, or sell them at an inflated price or offers free company reports. This type of call should be treated as an investment scam. Further information about investment scams and how they should be reported is available on our corporate website.

Company Secretary and registered office

Clare Bates
3 Forbury Place
23 Forbury Road
Reading RG1 3JH

Registrars

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
BRISTOL
Telephone +44 (0) 370 703 6219
Email webqueries@computershare.co.uk

Auditor

Deloitte LLP

Brokers

Goldman Sachs International
UBS Limited

Solicitors

Freshfields Bruckhaus Deringer LLP

Important information for readers of this Annual Report

Cautionary statement regarding forward looking statements

The purpose of this Annual Report is to provide information to the members of the Company. The Company and its Directors, employees, agents and advisers do not accept or assume responsibility to any other person to whom this Annual Report is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. In order, among other things, to utilise the "safe harbour" provisions of the US Private Securities Litigation Reform Act 1995 and the UK Companies Act 2006, we are providing the following cautionary statement: This Annual Report contains statements that are, or may be deemed to be, "forward-looking" statements with respect to the operations, performance and financial condition of the Group, including among other things, statements about expected revenues, margins, earnings per share or other financial or other measures. Forward-looking statements are statements relating to the future which are based on information available at the time such statements are made, including information relating to risks and uncertainties. Although we believe that the forward-looking statements in this Annual Report are based on reasonable assumptions, the matters discussed in the forward-looking statements may be influenced by factors that could cause actual outcomes and results to be materially different from those expressed or implied by these statements, many of which are beyond the Company's control. The forward-looking statements reflect knowledge and information available at the date of the preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. We identify the forward-looking statements by using the words "anticipates", "believes", "expects", "intends" and similar expressions in such statements. Important factors that could cause actual results to differ materially from those contained in forward-looking statements, certain of which are beyond our control include, among other things those factors identified in the Principal Risks and Uncertainties section which begins on page 28. 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 Company operates, may differ materially from those made or suggested by the forward-looking statements set out in this Annual Report. Past performance of the Company cannot be relied on as a guide to future performance. Nothing in this Annual Report should be construed as a profit forecast.

Third Party Data

To the extent available, the industry and market data contained in this Annual Report has come from third party sources. Third party industry publications, studies and surveys generally state that the data contained therein has been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. In addition, certain of the industry and market data in this Annual Report came from the Company's own internal research and estimates based on the knowledge and experience of the Company's management in the market in which the Company operates. While the Company believes that such research and estimates are reasonable and reliable, they, and their underlying methodology and assumptions, have not been verified by any independent source for accuracy or completeness and are subject to change without notice. Accordingly, undue reliance should not be placed on any of the industry or market data in this Annual Report.

ConvaTec website

Information on or accessible through our website www.convatecgroup.com and other websites mentioned in this Annual Report, does not form part of and is not incorporated into this Annual Report.

Figures

Figures in parentheses in tables and in the Financial Statements are used to represent negative numbers.

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ConvaTec Group Plc
3 Forbury Place
23 Forbury Road
Reading
RG1 3JH

T: 0118 952 8100
www.convatecgroup.com

Company No: 10361298

ConvaTec