RNS Number : 3675S
ConvaTec Group PLC
09 March 2023

9 March 2023

Convatec Group Plc

Annual Results for the twelve months ended 31 December 2022

Strong financial performance and continued strategic progress

- Delivered good revenue growth and positive margin expansion, notwithstanding the challenging market backdrop
- Continued to strengthen competitive position through execution of FISBE (Focus, Innovate, Simplify, Build, Execute) strategy, notably:
    - Over 90% of revenue now derived from chronic care categories; entered the attractive wound biologics[1] segment and exited non-core hospital care and related sales
    - Good progress with three new product launches: GentleCath™ Air for Men, InnovaMatrix® and Extended Wear Infusion Sets
    - Significantly advanced our simplification and productivity agenda, reducing adjusted G&A[2] spend to 8.9% of sales (2021: 11.7%)
    - Refreshed Convatec masterbrand launched, including new 'forever caring' promise reflected in strengthened digital presence and improved packaging
    - Continued progress embedding 'Convatec Cares', our Environmental, Social & Governance (ESG) framework

Key financial highlights

	Reported results			Adjusted[2] results			
	FY 2022	**FY 2021**	**Change**	**FY 2022**	**FY 2021**	**Change**	**CC Change[3]**
Revenue	\$2,073m	\$2,038m	1.7%	\$2,073m	\$2,038m	1.7%	6.9%
Operating profit	\$207m	\$204m	1.8%	\$404m	\$362m	11.6%	12.2%
Operating profit margin	10.0%	10.0%	-	*19.5%*	*17.7%*	1.8%pts	-
Diluted earnings per share	3.1 cents	5.8 cents	(46.6)%	12.6 cents	13.0 cents	(3.1)%	-
Dividend per share	6.047	5.871	3.0%				

- Good revenue growth: reported +1.7% with significant FX headwind. +6.9% on a constant currency[3] basis and +5.6% on an organic[4] basis
    - Strong organic[4] growth in Advanced Wound Care and Infusion Care, good organic growth in Ostomy Care and Continence & Critical Care
    - There was additional revenue from the acquisition in the wound biologics[1] segment, which was partially offset by the hospital care exit
- Adjusted operating profit[2]: +11.6% and +12.2% on a constant currency[3] basis despite significant COGS inflation of 8.6% in line with guidance. Reported operating profit +1.8%
- Adjusted operating profit[2] margin was 19.5% (2021: 17.7%) with price and mix improvement, G&A spend reduction and 80bps FX tailwind more than offsetting inflation and continued organic investment in commercial capabilities
- Adjusted[2] diluted EPS was 3.1% lower, primarily because of a significant increase in the effective book tax rate to 23.9% (2021: 15.0%), compared to a cash tax rate of 15.7%. Reported diluted EPS was down 46.6% primarily owing to higher adjusting items mostly relating to the exit of hospital care and Triad acquisition.
- Strategic investments in acquisitions, higher capex to support future growth and increased inventory to improve resilience led to an increase in net debt[5] of \$187 million.
- Leverage[6] at year end of 2.1x (2021: 1.9x) was in line with guidance.
- Increased final dividend of 4.330 cents proposed, giving total dividend of 6.047 cents (2021: 5.871 cents)

2023 outlook

For 2023 we expect organic[4] revenue growth to be between 4.5 - 6%, consistent with our medium-term target shared at our Capital Markets Event in November.

We remain focused on expanding our operating margin by growing revenue, improving our mix/price and delivering on our simplification and productivity agenda. Inflation is expected to remain a significant headwind in 2023 with COGS inflation of 5-

7%. In addition we anticipate labour inflation in opex of 5-7% which is approximately double that of 2022. On this basis, we expect modest further improvement in the adjusted operating margin in 2023 to at least 19.7% on a constant currency basis[3].

Karim Bitar, Chief Executive Officer, commented:

"Convatec achieved good sales growth and, despite the challenging market backdrop, delivered positive adjusted operating margin expansion, ahead of guidance. Over the course of the year, we continued to make progress with our FISBE strategy, launching three new products and improving our competitive positions. The resulting financial performance is further proof that Convatec is pivoting to sustainable and profitable growth.

"We remain focused on executing our FISBE 2.0 strategy and are confident in Convatec's growth prospects and ability to increase its operating margin to the mid-20s over the medium term."

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

(2) Certain financial measures in this document, including adjusted results above, are not prepared in accordance with International Financial Reporting Standards ("IFRS"). All adjusted measures are reconciled to the most directly comparable measure prepared in accordance with IFRS in the Non-IFRS Financial Information below (pages 41 to 46).

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

(4) Organic growth presents period over period growth at constant currency, adjusted for: Triad Life Sciences (Mar'22), Cure Medical (Mar'21) and Patient Care Medical (Dec'21) acquisitions; Incontinence divestment (Dec'21) and, from 31st May 2022, the discontinuation of hospital care, related industrial sales and associated Russia operations.

(5) Net debt (excluding lease liabilities)

(6) Net debt[5]/adjusted EBITDA[2]

(7) Market size and growth based on aggregate of category estimates, internal analysis and publicly available sources, including SmartTRAK and Global Industry Analysts Inc. reports.

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Investor and analyst presentation

The results presentation will be held in person at The Auditorium, Chartered Accountants' Hall, One Moorgate Place, London EC2R 6EA at 9.30am (UK time) today. The event will be simultaneously webcast and the link can be found here.

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

Forthcoming Events

AGM and Trading update (for 4 months)	18 May 2023
Interim Results	2 August 2023

Dividend calendar

Ex-dividend date*	6 April 2023
Dividend record date*	11 April 2023
Scrip dividend election date*	3 May 2023
Annual General Meeting	18 May 2023
Dividend payment date*	25 May 2023

* subject to approval at AGM.

About Convatec

Pioneering trusted medical solutions to improve the lives we touch: Convatec is a global medical products and technologies company, focused on solutions for the management of chronic conditions, with leading positions in advanced wound care, ostomy care, continence and critical care, and infusion care. With around 10,000 colleagues, we provide our products and services in almost 100 countries, united by a promise to be forever caring. Our solutions provide a range of benefits, from infection prevention and protection of at-risk skin, to improved patient outcomes and reduced care costs. Group revenues in 2022 were over $2 billion. The company is a constituent of the FTSE 100 Index (LSE:CTEC). To learn more about Convatec, please visit http://www.convatecgroup.com

Forward Looking Statements

This document includes certain forward-looking statements with respect to the operations, performance and financial condition of the Group. Forward-looking statements are generally identified by the use of terms such as "believes", "estimates", "aims", "anticipates", "expects", "intends", "plans", "predicts", "may", "will", "could", "targets", continues", or their negatives or other similar expressions. These forward-looking statements include all matters that are not historical facts.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies that are difficult to predict and many of which are outside the Group's control. As such, no assurance can be given that such future results, including guidance provided by the Group, will be achieved. Forward-looking statements are not guarantees of future performance and such uncertainties and contingencies, including the factors set out in the "Principal Risks" section of the Strategic Report in our Annual Report and Accounts, could cause the actual results of operations, financial condition and liquidity, and the development of the industry in which the Group operates, to differ materially from the position expressed or implied in the forward-looking statements set out in this document. Past performance of the Group cannot be relied on as a guide to future performance.

Forward-looking statements are based only on knowledge and information available to the Group at the date of preparation of this document and speak only as at the date of this document. The Group and its directors, officers, employees, agents, affiliates and advisers expressly disclaim any obligations to update any forward-looking statements (except to the extent required by applicable law or regulation).

Chief Executive's Review

Convatec continued to successfully execute its FISBE strategy, strengthening its competitive position and delivering on our forever caring promise for patients and customers. The various strategic initiatives actioned during the period have enhanced the quality of the business and improved our financial performance and prospects.

Attractive growth prospects

Convatec operates in the structurally-growing, attractive chronic care markets. We focus on four categories. These have a combined market size[7] of $14 billion p.a. and market growth rates[7] of between 4-8% p.a. We are leaders in the categories in which we operate and expect to grow revenue in line with or faster than each market.

We serve a diverse set of chronic care markets, producing high-volume, high-quality consumables resulting in attractive recurring revenues. This diversity provides resilience and synergies, notably in areas such as: biomaterial sciences, product and clinical development, automated manufacturing and shared supply chain capabilities. Consistent with our FISBE strategy we have been investing in our innovation pipeline, building mission-critical capabilities, expanding capacity and increasing our resilience.

A chronic care focused business well positioned to deliver sustainable and profitable growth

We continued to make progress executing our FISBE strategy, thereby strengthening our competitive position and our ability to consistently deliver sustainable and profitable growth.

Over the course of 2022, through acquisitions and exits, we further focused the Group on chronic care categories - entering the fast-growing wound biologics[1] segment while exiting our hospital care business. Our continued focus on innovation has resulted in three new products being launched (2021: one new launch), and the R&D function has been strengthened by an increased emphasis on intellectual property. We continue to invest in building core capabilities. Our Centres of Excellence (in Marketing, Pricing and Sales) are having a positive impact which, coupled with our simplification and productivity agenda, are driving better results.

The progress made under FISBE 1.0 has resulted in a stronger, higher-quality business. Further details on the progress made under each pillar can be found on pages 7 to 9. We hosted an Innovation Day on 17 May 2022 and then a Capital Markets Event in November where we outlined our refreshed strategy, FISBE 2.0. Details of this next stage are set out below.

We delivered a strong financial performance

Group reported revenue of $2,073 million rose 1.7% (2021: $2,038 million). Adjusting for the significant FX headwind, revenue grew 6.9% on a constant currency[3] basis and 5.6% on an organic[4] basis, slightly ahead of our initial guidance.

Adjusted operating profit[2] rose 11.6% and 12.2% on a constant currency[3] basis despite significant COGS inflation of 8.6%. Adjusted operating profit[2] margin was 19.5% (2021: 17.7%) with mix/price, operations productivity, significant G&A spend reduction and 80bps of foreign exchange tailwind more than offsetting significant inflation and continued investment in commercial capabilities.

Reported operating profit was broadly flat over the previous year, as G&A savings were partially offset by higher operating expenses arising from selling and distribution as well as costs related to the exit of hospital care.

Adjusted diluted EPS[2] was down 3.1% with operating profit growth more than offset by higher adjusted tax expenses and finance expense from higher market interest rates.

Reported diluted EPS was down 46.6% impacted by higher adjusting items mostly relating to the exit of hospital care and Triad acquisition.

Capital expenditure during 2022 was $144.2 million as we continued to invest for future growth, expanding our manufacturing facilities in Infusion Care, beginning to increase the automation at our production facilities and developing new digital technologies to deliver enhanced customer experiences. We were able to accelerate our plans, making good progress on several significant projects, notably the expansion of capacity in Osted and Reynosa for our Infusion Care business, and beginning to increase automation at our Deeside wound care facility. We also invested in acquiring intellectual property for our Ostomy Care accessories portfolio.

Cash conversion was 55.6% (2021: 73.0%) primarily reflecting increased capital expenditure and the strategic decision to build inventory for resilience, coupled with the timing of receivables. We expect phasing of some receivables to reverse in H1 2023 while strategic capex investment and inventory will remain elevated in 2023.

Net debt[5] increased by $187 million after the acquisition of Triad Life Sciences ($173 million) and investment in BlueWind Medical ($31 million). Leverage[6] was 2.1x (2021: 1.9x) in line with our guidance. We continue to target leverage[6] of 2x over time but will be comfortable going up to c.2.5x for appropriate M&A opportunities.

Revenue

Total Group revenue increased by 1.7% on a reported basis to $2,073 million. There was a significant FX headwind during the period and on a constant currency[3] basis revenue rose 6.9%. Given the largely reimbursed markets that we serve, there is limited opportunity to pass on the significant inflation we have seen in 2022. However, initiatives executed through our Pricing Centre of Excellence (CoE) in collaboration with the business units have successfully delivered positive price impact on revenue. Adjusting for M&A and business restructuring (see footnote 4 on page 2) Group revenue rose 5.6% on an organic[4] basis.

	Twelve months ended 31 December					
	2022 $m	**2021 $m**	**Reported growth / (decline)**	**Foreign Exchange impact**	**Constant Currency[3] growth**	**Organic[4] growth**
Revenue by Category						
Advanced Wound Care	621	592	4.8%	(7.9)%	12.7%	6.8%
Ostomy Care	522	546	(4.5)%	(7.3)%	2.8%	3.4%
Continence and Critical Care	546	543	0.6%	(2.0)%	2.6%	3.6%
Infusion Care	384	357	7.5%	(2.7)%	10.2%	9.8%
Total	2,073	2,038	1.7%	(5.2)%	6.9%	5.6%

<u>Advanced Wound Care</u> (AWC)

During 2022, the business achieved strong growth in GEM and Europe which more than offset a decline in North America where our limited position in the foam segment and lower surgical volumes continued to weigh on performance. As a result, the business saw overall growth across all segments globally.

Revenue of $621 million increased 4.8% on a reported basis or 12.7% on a constant currency[3] basis. This performance reflected the acquisition of Triad Life Sciences, now known as Advanced Tissue Technologies (ATT) which generated $35 million of revenue. On an organic[4] basis revenue rose by 6.8%.

We made continued strategic progress in AWC during the period. In March 2022, we strengthened our position with our entry into the wound biologics[1] segment through the acquisition of Triad Life Sciences. Our commercial execution continued to improve, as we leveraged our common Customer Relationship Management (CRM) platform in North America and Europe. ConvaFoam was cleared for launch at the end of 2022 and began the US roll out in early 2023, which will strengthen our competitive position in the large and rapidly growing foam segment.

In 2023 we will focus on:

- Successfully launching ConvaFoam in the US and preparing for a European launch in 2024; driving development of ConvaVac and preparing to launch in 2024
- Growing the InnovaMatrix™ platform in the US and developing the product outside the US.
- Continuing to strengthen commercial execution globally

Ostomy Care (OC)

Under the new leadership of Bruno Pinheiro, our OC business continued to make good strategic progress during 2022. He and the team increased the focus on driving an improved experience across the continuum of care. The highly-rated Home Services Group is helping to grow the number of new US ostomy patients, while in Europe, during the year, we launched new digital services to support both health care professionals and patients better.

Revenue of $522 million declined 4.5% on a reported basis but increased 2.8% on a constant currency[3] basis and 3.4% on an organic[4] basis.

The business achieved continued strong growth in GEM, particularly in Latin America and China, while Europe achieved a robust performance with some pricing initiatives helping to offset the continued planned rationalisation of lower-margin non-Convatec products at Amcare UK. In North America, new patient starts remained stable, supported by HSG ostomy sales.

Overall, we have continued to improve our mix and expand our margins. We saw good demand for Convatec products, for example our accessories sales saw strong growth in 2022, following the relaunch of the Esenta brand. Across all geographies, revenue from Convatec ostomy products grew 5.5% on an organic basis.

In 2023 we will focus on:

- Driving new patient starts and continuing collaboration with HSG
- Improving consistency of commercial execution across the continuum of care
- Preparing to launch Esteem 2.0 in H1 2024

Continence & Critical Care **(CCC)**

Revenue of $546 million rose 0.6% on a reported basis, 2.6% on a constant currency[3] basis and 3.6% on an organic[4] basis. A good operating performance in Continence Care was supported by contributions from the Cure Medical and Patient Care Medical acquisitions, as well as an improving pricing environment in North America.

Continence Care achieved revenue of $409 million in 2022, up 5.0% on an organic[4] basis, with continued strength in new patient starts and high customer retention. This was complemented by good demand for our Cure and GentleCath™ portfolios in the US and Latin America, and our developing presence in France and the UK following the launch of the GentleCath™ Air for Men compact catheter.

During 2022 the strategic decision was taken to exit hospital care and related industrial sales. The hospital care activities, reported as part of CCC, generated $72 million of revenue in 2022 (2021: $79 million). From 31 May, when we closed the Belarus factory, revenue has been excluded from organic[4] calculations. The related industrial sales, reported as part of IC, generated $26 million of revenue in 2022 (2021: $22 million).

Critical Care revenue of $137 million declined 1.3% on an organic[4] basis with Flexi-Seal™, which remains in the Group portfolio, declining following strong COVID-19 impacted comparatives.

In 2023 Continence Care will focus on:

- Continuing to drive US growth via
  - Exceptional service,
  - Both Cure Medical and GentleCath™ portfolios (including the new GC Air for Men)
- Expanding in Europe and Global Emerging Markets
- Preparing to launch GentleCath™ Air for Women in late 2023/early 2024

From 2023 onwards, Flexi-Seal™ (2022 revenue: $66 million), our faecal management system, will move from Critical Care to Ostomy Care. The remaining industrial sales, predominantly continence related supplies for B2B customers (2022 revenue: $17 million), will move from Infusion Care into Continence Care. Going forward the CCC category will be renamed Continence Care and we will restate comparatives.

Infusion Care (IC)

Our Infusion Care business continued to strengthen in 2022. To respond to the underlying demand for automated insulin delivery systems and their accessories, during 2022, we built additional capacity at our Osted, Denmark and Reynosa, Mexico plants. We continued to innovate, launching our MioAdvance Extended Wear Infusion Sets (EWIS) in the US, and are diversifying our customer base by growing applications outside of diabetes, such as Parkinson's.

Revenue of $384 million increased 7.5% on a reported basis, 10.2% on a constant currency[3] basis and 9.8% on an organic[4] basis. The difference between constant currency and organic growth was due to the impact of the industrial sales exit. This strong growth was primarily driven by continued demand for our infusion sets used by diabetic patients. Growth was also supported by increasing demand for differentiated infusion sets for alternative therapies, such as pain management, albeit off a small base.

In 2023 we will focus on:

- Scaling up production of MioAdvance EWIS
- Expanding the usage of infusion sets for the delivery of other subcutaneous therapies, including launching with AbbVie, once regulatory approval is received for their Parkinson's drug therapy

- Successfully launching a tailored infusion set for Tandem Mobi once regulatory approval is received

Delivering continued strategic progress

The execution of our FISBE strategy is progressing well. We continue to make progress in each of the five pillars as we drive towards our vision of pioneering trusted medical solutions to improve the lives we touch. In November, at our Capital Markets Event, we announced that in 2023 our strategy will evolve to FISBE 2.0.

Focus

We further reshaped the business to focus on our four chronic care categories through bolt-on acquisitions, notably the Triad Life Sciences acquisition which gives us a foothold in the important wound biologics[1] segment. This, coupled with the withdrawal from non-core hospital care activities and related industrial sales, means that over 90% of our revenue now comes from chronic care markets.

We continued to focus and invest in our 12 key markets which cumulatively delivered constant currency[3] revenue growth of 9.6%, ahead of the overall group growth.

Looking ahead to 2023, with FISBE 2.0, we will become even more focused on strengthening customer loyalty in our key markets and categories, measuring and tracking our net promoter scores. We will continue to invest in the US and China, our most important markets and continue to evaluate appropriate bolt-on M&A opportunities to further strengthen the business in our core categories.

Innovate

Innovation remains at the heart of our business. We have made significant progress advancing our pipeline and strengthened our Technology & Innovation capabilities. The R&D expenditure for the year increased 3.7% on a constant currency basis. On a reported basis R&D expenditure was $92 million (2021: $95 million), and additional capital expenditure of $14 million was incurred over the period. We invested a further $10 million in Intellectual Property licenses relating to accessories products, accounted for as capital expenditure.

We began launching three new products during 2022, a step up from our historical level:

- ATT's porcine placenta-derived extracellular matrix product, InnovaMatrix™, in the US, which has contributed meaningfully to the growth in AWC during 2022
- GentleCath™ Air for Men, our new hydrophilic compact male catheter (utilising our proprietary FeelClean™ Technology), began rolling-out in France and the UK, with plans to roll out in the US and other key markets in 2023, and has been well received
- The Extended Wear Infusion Set (EWIS), our innovative seven-day wear technology improving value and use to customers whilst also reducing its environmental impact, available in Europe and now the US

It is by continually refreshing our product portfolio and ensuring it is differentiated that we can deliver sustained and profitable growth over time.

In addition, we acquired a minority stake in BlueWind Medical Ltd, the developer of an innovative implantable tibial neuromodulation device for the over-active bladder segment, securing a relationship with a company developing a proprietary and differentiated solution to treat over-active bladders in the continence space.

We have also made progress on product sustainability as it relates to technology & innovation, part of our wider ESG agenda. Green Design Guidelines are an important part of our development process, and we are systematically examining the environmental footprint of our solutions and considering ways to reduce waste.

We are developing a much richer longer-term pipeline, as mentioned at the Capital Markets Day, and have further visibility on product launches - for example, we're already working on the next generation hydrofiber® technology platform.

We continue to pursue our R&D without walls approach; as well as driving organic projects we will pursue inorganic activity. We will continue leveraging the IDEAL process, launched in 2021, and are seeking to improve cycle time. Our goal is to more frequently refresh our portfolio to provide an improved customer experience. This deeper and broader innovation pipeline will underpin our growth in the future. To measure progress against this ambition we are targeting that by the end of 2025, 30% of our revenue will be generated from new products launched in the previous five years.

In 2023, we will continue to strengthen our product pipeline, innovation capabilities and improve our cycle time. In AWC we began the US roll out of ConvaFoam in January 2023, which will strengthen our competitive position in the large foam segment. We intend to roll-out ATT's new products, InnovaBurn ™ and InnovaMatrix™ PD, for which we have already received clearance. In CC, we will be preparing for the launch of GentleCath™ Air for Women in late 2023/early 2024, ahead of schedule, whilst in IC, during 2023, we expect to launch tailored infusion sets for Tandem's new Mobi hybrid micro-pump and for AbbVie's Parkinson's therapy, both of which are subject to regulatory approval. The other major new products are progressing well. The Esteem 2.0 ostomy product and AWC's ConvaVac are expected to launch in 2024.

Simplify

We made significant progress on our simplification and productivity agenda in 2022. Adjusted G&A expenditure was reduced by 22.2% to $185 million, down 16.4% on a constant currency[3] basis, or 8.9% of sales (2021: 11.7%) as positive progress with initiatives brought forward benefits. We transitioned more finance and IT activities to our Global Business Services (GBS) centres in Lisbon and Bogota. 2022 was the first complete year of GBS activity and we have started to see early benefits of standardised processes and automation, lowering finance and IT costs. An increasing number of activities are also now being resourced by internal talent, thus reducing spend on external consultants. The foundations are now in place to build additional in-house expertise to further streamline processes and reduce additional spend.

During 2022 we also initiated a review of our facilities footprint and are in the process of closing some underutilised offices, replacing them with flexible working alternatives which will improve our colleagues' experience.

In 2023, as part of FISBE 2.0, we will look to improve productivity further across the organisation, reducing low value activity and driving economies of scale. On the commercial front we will leverage the Salesforce CoE and our CRM system more broadly across the organisation. In quality and operations, we will increase automation and drive our continuous improvement agenda. In G&A we will expand the scope of GBS and build more end-to-end processes. For example, we have started our HR transformation, which will see us leverage central processes such as payroll, training and onboarding transitioning to GBS.

Build

We strengthened the Convatec Executive Leadership Team (CELT) during 2022. Jonny Mason joined us as CFO of the Group

We strengthened the Convatec Executive Leadership Team (CELT) during 2022. Jonny Mason joined us as CFO of the Group during Q1, while Kjersti Grimsrud took over leadership of our Infusion Care business and consequently Seth Segel added Continence Care to his existing HSG responsibilities. Anne Belcher joined the Group from GSK to lead our Global Emerging Markets business and Bruno Pinheiro, who led our successful LATAM business before acting as Interim President for GEM, took over Ostomy Care. John Haller joined us as EVP, Chief Quality and Operations Officer, having previously been at Stryker Corporation.

We developed and embedded our Pricing CoE, which in collaboration with our business units, achieved 50 bps of pricing improvement on gross margin over the period.

Our refreshed brand and new company promise of 'forever caring' was launched in May. It has been well received by customers and HCPs. In the second half of the year we rolled-out new websites and social media digital interfaces reflecting the refreshed brand across all of our focus markets.

Our Salesforce CoE has now established a single CRM platform in North America and Europe, and we have begun rolling it out across GEM. This is driving enhanced salesforce productivity by increasing call rates and improving account targeting.

Going forward we will leverage the Marketing CoE more broadly across the Group and build new capabilities, particularly focused on customer experience and measurement of Net Promoter Scores.

Culture is a critical element in building high performing teams and creating a motivating work environment. Results from our latest Organisational Health Index (OHI) survey were strong, sustaining our top performance from 2020. We will continue to cultivate talent, recognise colleagues and focus on Diversity, Equity & Inclusion (DE&I) and Wellbeing over the next year.

Execute

We continue to execute well on our strategic initiatives, following a consistent methodology that identifies metrics and tracks milestones regularly.

We delivered positive manufacturing productivity improvements in the face of significant COGS inflation and continued to improve the resilience of the supply chain. We are committed to sustaining our strong safety record while improving the quality of our products and services for our customers. Complaints per million decreased by 13% over the period.

One year on since launching 'Convatec Cares', our refreshed Environmental, Social & Governance (ESG) approach, we have made good progress integrating ESG practices across our business and value chain:

- **Elevated ESG through our strategic planning process** and engaging all business units and functional areas on priorities, targets and commitments
- **Emissions reduction:** In line with our net zero commitment, we reduced Scope 1 and Scope 2 greenhouse gas emissions by 32% in 2022. We are on track to validate our Scope 1, 2 and 3 (near term) Science Based Targets in 2023. Our manufacturing sites increasingly use renewable electricity, and we expect that to reach 100% by the end of 2023
- **Progress in DE&I and Wellbeing approach** where now 36% of our CELT are women, 40% of our Board are women, and we are on track to ensure 40% of our senior management (CELT member plus their direct reports) are women by the end of 2024
- **Elevated our focus on supply chain sustainability**, improving the average EcoVadis score of our suppliers by 6.5%
- We committed more than $2 million in both product and cash donations in 2022, including **a humanitarian relief response** for Ukraine valued at over $1.5 million. This year, we've also committed more than $100k in response to the earthquakes in Turkey and Syria in both product and cash donations.

We announced today a new $2 million health partnership with ***Partners In Health*** (PIH), a leading international NGO focused on building equitable health systems globally. The innovative partnership expands recruitment and support of Community Health Workers and improves their training on chronic conditions. Living in the communities where they work, Community Health Workers are trusted neighbours who are able to provide high-quality health services. Over three years, Convatec's support - through cash, product donation and training - will enable PIH to reach over 250,000 children and adults, with a particular focus on programmes in Mexico, Peru and the United States.

Dividend

The Board is pleased to recommend a 3.0% increase in the full year dividend reflecting the improved underlying performance of the business and confidence in its future growth prospects. This equates to a proposed final dividend of 4.330 cents to bring FY dividend to 6.047 cents (2021: 5.871 cents).

Group 2023 outlook

We are pleased with the growth we achieved in 2022 and are focused on pivoting to sustainable and profitable growth.

We expect organic[4] revenue growth to be between 4.5 - 6%, consistent with our medium-term target shared at our Capital Markets Event in November. Growth will be H2 weighted because of stronger comparatives in H1 2022, especially in Infusion Care, and because ATT will contribute to organic growth following the anniversary of the acquisition.

The reported revenue will be impacted by the exit of hospital care and related sales, which generated $102 million in 2022.

We remain focused on expanding our operating margin by growing revenue, improving our mix/price and delivering on our simplification and productivity agenda. Inflation is expected to remain a significant headwind in 2023 with COGS inflation of 5-7%. In addition we anticipate labour inflation in opex of 5-7% which is approximately double that of 2022. On this basis, we expect modest improvement in the adjusted operating margin in 2023 to at least 19.7% on a constant currency[3] basis. Furthermore, our medium-term target of mid-20s operating margin remains unchanged.

Based on current interest rates, we expect adjusted net finance expense for the full year to be $70-80 million. The cash tax rate for the year is expected to be around 19%, while the adjusted book tax rate is expected to be approximately 25%. Capex will remain elevated at around $120-140 million for the full year reflecting the continued growth investments we are making across the Group and we intend to increase inventory by c.$20 million to further strengthen supply chain resilience.

We are confident about the future prospects for the Group as we continue to pivot to sustainable and profitable growth.

Principal risks

The Board reviews and agrees our principal risks on a bi - annual basis, taking account of our risk appetite together with our evolving strategy, current business environment and any emerging risks that could impact the business. Our system of risk management and internal control continues to develop and updates to the principal risks and mitigation plans are made as required in response to changes in our risk landscape. Details of our enterprise risk management framework will be set out in the Group's 2022 Annual Report and Accounts to be published later in the month.

The Board has reviewed the principal risks as at 31 December 2022 and made a number of changes to reflect our assessment of their movement from those identified in 2021, the effect on the Group, our evolving strategy and the current business environment. The principal risks have been assessed against the context of the global inflationary cost pressures that are continuing to impact all businesses at present. The overall profile for the risks set out below remains largely unchanged over continuing to impact all businesses at present. The overall profile for the risks set out below remains largely unchanged over the financial year in terms of their potential impact on our ability to successfully deliver on our strategy:

- Operational Resilience and Quality;
- Information Systems, Security and Privacy;
- Customer and Markets;
- Legal and Compliance;
- Strategy and Change Management;
- Environment and Communities; and,
- Tax and Treasury.

The risk landscape, however, has changed for the following principal risks, since the publication of the 2021 Annual Report and Accounts:

- Innovation and Regulatory - has reduced in risk level following the delivery of three key new products, the increased robustness of our development pipeline and the continued delivery of the EU-MDR compliance programme.
- Political and Economic Environment - has been elevated reflecting the continuing global inflationary pressure challenges on all aspects of the business cost base, as well as ongoing global supply chain constraints.
- People - has increased as we see rising cost of living pressures for our workforce and increased competition for talent across our markets, which could impact our ability to attract, recruit and retain key talent and skills.

The Board assesses the overall risk profile of the Group to ensure it is within our risk appetite. In making this assessment the Board considered the continued upward pressure from the macro-economic environment and broader risk landscape (including the ongoing supply chain and commercial impact of the war in Ukraine and the fallout from the pandemic) on the business environment and any continued or additional impact on the Group's business and principal risks, coupled with the controls and mitigations in place to address these challenges. In the main, as our processes and risk mitigations further develop and mature, we have continued to manage the challenges facing the wider business landscape and build further resilience into our operations. Principal risks continue to be appropriately mitigated and work continues to reduce the net exposure to the business to ensure that each risk remains within our risk appetite.

Financial review

We made good progress in 2022 in executing or FISBE strategy and demonstrated that we are pivoting to sustainable and profitable growth. Revenue grew by 1.7% on a reported basis and 6.9% on a constant currency basis. We delivered an adjusted operating profit margin of 19.5%, representing expansion of 180bps over the previous year with mix/price, operations productivity, significant G&A spend reduction and 80bps of foreign exchange tailwind more than offsetting significant inflation and continued investment in commercial capabilities.

Adjusted basic earnings per share reduced year-on year primarily due to adjusted operating profit growth being more than offset by increases in adjusted net finance, non-operating and income tax expenses. These are explained in further detail on page 13.

The competitive position of the Group was further strengthened during the year, entering the attractive wound biologics [1] segment through our acquisition of Triad Life Sciences whilst exiting the lower-margin and lower-growth hospital care and industrial sales activities. We also made good progress with our simplification and productivity initiatives, most notably reducing G&A spend in the year.

In November 2022, we successfully refinanced our bank facilities with $1.2 billion committed for five years at slightly improved margins over base rates compared to the previous facilities. The Group's $500.0 million senior unsecured notes remain in place and are committed until 2029. The Group's financial prospects are attractive, and we have confidence in our ability, over the medium term, to deliver sustainable annual mid-single-digit organic revenue growth and to expand our adjusted operating profit margin into the mid-20s.

1. Wound biologics segment as defined by SmartTRAK. Includes skin substitutes, active collagen dressings and topical drug delivery.

Reported and Adjusted results

The Group's financial performance, measured in accordance with IFRS, is set out in the Financial Statements and Notes thereto on pages 21 to 40 and referred to in this Annual Report as "reported" measures.

The commentary in this Financial review includes discussion of the Group's reported results and alternative performance measures (or adjusted measures) ('APMs'). Management and the Board use APMs as meaningful measures in monitoring the underlying performance of the business. These measures are disclosed in accordance with the ESMA guidelines and are explained and reconciled to the most directly comparable reported measures prepared in accordance with IFRS on pages 41 to 46.

Constant Currency Growth

Management and the Board review revenue on a constant currency basis which removes the effect of fluctuations in exchange rates to focus on the underlying revenue performance. Constant currency information is calculated by applying the applicable prior period average exchange rates to the Group's reported revenue performance in the current period. Revenue and the revenue growth on a constant currency basis are non-IFRS financial measures and should not be viewed as replacements of IFRS reported revenue.

Group financial performance

	Reported	Reported	**Adjusted[1]**	Adjusted[1]
	2022	2021	**2022**	2021
	$m	$m	**$m**	$m
Revenue	**2,072.5**	2,038.3	**2,072.5**	2,038.3
Gross profit	**1,103.9**	1,123.1	**1,245.6**	1,233.3
Operating profit	**207.3**	203.6	**403.7**	361.7
Profit before income taxes	**81.9**	151.3	**337.6**	309.4
Net profit	**62.9**	117.6	**256.8**	263.0
Basic earnings per share (cents per share)	**3.1¢**	5.9¢	**12.7¢**	13.1¢

Basic earnings per share (cents per share)	**3.1¢**	5.9¢	**12.7¢**	13.1¢
Diluted earnings per share (cents per share)	**3.1¢**	5.8¢	**12.6¢**	13.0¢
Dividend per share (cents)	**6.047¢**	5.871¢		

1. These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measures prepared in accordance with IFRS on pages 41 to 46.

Revenue

Group revenue for the year ended 31 December 2022 of $2,072.5 million (2021: $2,038.3 million) increased 1.7% year-on-year on a reported basis or 6.9% on a constant currency basis.

The Group experienced significant foreign exchange headwinds of 5.2% on its reported revenue growth. The majority of the Group's 2022 revenue was denominated in US Dollar (52%), however there are other significant currencies in which revenue is denominated, notably EUR (20%), GBP (6%) and DKK (2%). These currencies depreciated significantly against the US Dollar during the year.

Adjusting for the foreign exchange headwind and acquisition and divestiture-related activities[1], Group revenue grew by 5.6% on an organic basis. This was driven by continued strong growth in Advanced Wound Care and Infusion Care, with good growth seen in Ostomy Care and Continence & Critical Care. Given the largely reimbursed markets that we serve, there was limited opportunity to pass on the significant inflation we have seen in 2022. However, initiatives executed through our Pricing Centre of Excellence have successfully delivered positive price impact on revenue. Further detail of the Group's revenue is discussed above on pages 5 to 6.

1. Acquisitions were Triad Life Sciences in 2022 and Cure Medical and Patient Care Medical in 2021. Divestiture-related activities in 2022 were the discontinuation of hospital care, related industrial sales and associated Russia operations, whilst in 2021 it was the divestment of incontinence activities.

Revenue impact of strategic exits during 2022

The strategic exit of hospital care and industrial sales will impact revenues as we move into 2023. The table below shows the 2022 revenue attributable to these activities. The ongoing activities are more focused on higher-margin and higher-growth chronic-care categories.

	2022 reported	Impact[1]	**2022 revenue from ongoing activities**
	$m	$m	**$m**
Advanced Wound Care	**620.7**	-	**620.7**
Ostomy Care	**522.1**	(4.9)	**517.2**
Continence & Critical Care	**546.3**	(71.8)	**474.5**
Infusion Care	**383.4**	(25.6)	**357.8**
Total	**2,072.5**	(102.3)	**1,970.2**

1. Sales related to discontinuation from hospital care, related industrial sales and associated Russia operations.

Reported net profit

Reported operating profit was $207.3 million, an increase of $3.7 million to the prior year. Reported gross margin decreased year-on-year from 55.1% to 53.3%, driven by inflationary headwinds on raw materials and freight. The reported gross margin was also impacted by increases in one-time divestiture and termination costs (primarily relating to the exit from hospital care and industrial sales activities) of $21.4 million and the release of the fair value uplift of inventory arising from the acquisition of Triad Life Sciences of $8.7 million. These were partly offset by foreign exchange tailwinds and mix/price benefits.

Reported operating expenses decreased by $22.9 million, which was primarily due to a reduction of $70.4 million in general and administrative expenses partly offset by increases in selling and distribution expenses of $36.2 million and other operating expenses of $13.8 million. The improvement in G&A reflected the Group's increasing focus on simplifying its global processes and improving productivity. The increase in selling and distribution expenses was primarily driven by increases in headcount associated with higher revenue, the inclusion of acquired businesses and inflationary impacts on distribution costs. Other operating expenses of $13.8 million (2021: nil) largely reflected impairments arising from the exit from hospital care and related industrial sales activities in 2022.

Reported net finance costs and non-operating expenses totalled $125.4 million (2021: $52.3 million). Reported net finance costs increased by $24.2 million to $67.7 million, reflecting an additional $8.6 million of net finance expenses and $15.6 million (2021: nil) for the unwind of discount relating to the contingent consideration arising from the acquisitions of Cure Medical in 2021 and Triad Life Sciences in 2022. Reported non-operating expenses of $57.7 million (2021: $8.8 million) principally arose from the remeasurement charges in the year relating to the contingent consideration payable in respect of the Cure Medical and Triad Life Sciences acquisitions of $29.5 million (2021: nil), foreign exchange losses of $14.2 million (2021: loss of $9.3 million), the recycling of cumulative translation losses from reserves following the closure activities associated with the hospital care and industrial sales exit of $12.2 million (2021: nil) and a loss on divestiture related activities of $2.0 million (2021: $0.5 million gain).

After income tax expense of $19.0 million (2021: $33.7 million), reported net profit was $62.9 million (2021: $117.6 million) generating basic earnings per share of 3.1 cents (2021: 5.9 cents).

Adjusted net profit

Adjusted gross profit increased by 1.0% to $1,245.6 million (2021: $1,233.3 million). The adjusted gross margin of 60.1% was broadly flat to the previous year (2021: 60.5%), with the significant inflationary pressures on both raw materials and freight broadly flat to the previous year (2021: 60.5%), with the significant inflationary pressures on both raw materials and freight costs partly offset by foreign exchange tailwinds and mix/price benefits.

The Group achieved adjusted operating profit of $403.7 million (2021: $361.7 million) with an adjusted operating profit margin of 19.5% (2021: 17.7%). There was a decrease in operating expenses in the year, with adjusted G&A reduced by $52.8 million, to 8.9% of revenue (2021: 11.7%). This was partially offset by an increase of $25.7 million in adjusted selling and distribution expenses.

Adjusted net profit fell 2.4% to $256.8 million (2021: $263.0 million) given the $8.6 million increase in adjusted net finance expense from higher market interest rates coupled with a $34.4 million increase in the adjusted income tax expense (which is explained below).

Adjusted basic and diluted EPS were 12.7 cents and 12.6 cents respectively (2021: 13.1 cents and 13.0 cents), calculated on the basic weighted average ordinary shares of 2,024 million shares (2021: 2,009 million shares) and 2,040 million diluted shares (2021: 2,026 million) respectively.

Taxation and tax strategy

	Reported 2022 $m	Reported 2021 $m	**Adjusted[1] 2022 $m**	Adjusted[1] 2021 $m
Profit before income taxes	**81.9**	151.3	**337.6**	309.4
Income tax expense	**(19.0)**	(33.7)	**(80.8)**	(46.4)
Effective tax rate	**23.2%**	22.3%	**23.9%**	15.0%

1. These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 41 to 46.

The Group's reported income tax expense was $19.0 million (2021: $33.7 million). The Group's reported effective tax rate of 23.2% for the year was higher than the prior year (2021: 22.3%) mainly due to the increase in US tax expenses following the acquisition of Triad Life Sciences and non-deductible contingent consideration relating to the acquisition of both Triad Life Sciences and Cure Medical, partially offset by the recognition of deferred tax assets for previously unrecognised tax losses of $20.1 million in the US (2021: $6.8 million related to recognition of deferred tax assets following the acquisition of Cure Medical). For further information, see Note 6 - Income taxes to the Financial Statements.

After adjusting items, the adjusted effective tax rate was 23.9% (2021: 15.0%). The increase in adjusted effective tax rate was principally driven by the non-cash deferred tax expenses due to the utilisation of US Federal tax losses which are now fully recognised as deferred tax assets following the acquisition of Triad Life Sciences, based on stronger future taxable profitability forecasts, and the impact of profit mix between jurisdictions in which the Group has a taxable presence. The adjusted effective tax rate of 23.9% was in line with guidance provided in the interim results for the period ended 30 June 2022.

In 2021, the adjusted effective tax rate of 15.0% was principally because of the lower incidence of taxes in the US, and a net tax benefit in the UK for additional tax reliefs claimed in respect of prior years. These factors were partially offset by the impact of profit mix between jurisdictions in which the Group has a taxable presence. Strategy has been published, which is available on the corporate website (www.convatecgroup.com/corporate-responsibility/socio-economic-contribution/tax-statement).

Convatec is a responsible business and promotes the highest standards of compliance and ethical behaviour. Management takes a responsible attitude to tax, recognising that it affects all of our stakeholders. The Group had on average more than 10,000 employees worldwide during 2022 and operated in over 100 countries through direct sales and local distributors. As a result, our business activities generated a substantial amount of taxes. These included both corporate income taxes and non-income taxes such as payroll taxes, property taxes, VAT/Sales & Use taxes, and other taxes. In order to provide transparency on the Group's approach to tax, the Global Tax Strategy has been published, which is available on the corporate website (www.convatecgroup.com/corporate-responsibility/socio-economic-contribution/tax-statement).

Alternative performance measures ("APMs")

In line with the Group's APM policy, the following adjustments were made to derive adjusted operating profit and adjusted profit before tax.

	Operating profit $'m		**Finance expense $'m**		**Non-operating expense $'m**	
	2022	2021	**2022**	2021	**2022**	2021
Reported	**207.3**	203.6	**(67.7)**	(43.5)	**(57.7)**	(8.8)
Amortisation of acquired intangibles	**131.3**	130.4	**-**	-	**-**	-
Acquisitions and divestitures	**56.6**	17.8	**15.6**	-	**43.7**	-
Termination benefits and related costs	**7.1**	4.3	**-**	-	**-**	-
Impairment of assets	**1.4**	-	**-**	-	**-**	-
Litigation expenses	**-**	5.6	**-**	-	**-**	-
Adjusted	**403.7**	361.7	**(52.1)**	(43.5)	**(14.0)**	(8.8)

Adjustments made to derive adjusted operating profit in 2022 included the amortisation of acquired intangibles of $131.3 million (2021: $130.4 million), of which $93.0 million (2021: $96.8 million) resulted from intangible assets arising from the spin-out from Bristol-Myers Squibb in 2008 and will be fully amortised by December 2026, divestiture-related costs of $39.7 million principally related to the exit from the hospital care and industrial sales activities and acquisition-related costs of $16.9 million primarily related to the acquisition of Triad Life Sciences. Termination costs of $7.1 million were in respect of the exit from hospital care and industrial sales activities and an impairment charge of $1.4 million related to a legacy acquisition-related customer relationship asset.

In 2021, acquisition and divestiture costs of $17.8 million related to potential and actual strategic transactions which were

In 2021, acquisition and divestiture costs of $17.8 million related to potential and actual strategic transactions which were executed, aborted or in-flight and sought to improve the strategic positioning on the Group. Termination costs of $4.3 million were in respect of the Group's Transformation Initiative whilst litigation expenses of $5.6 million related to a one-off claim that was also settled in 2021.

The adjustment of $15.6 million made to derive adjusted finance expenses in 2022 wholly related to the discount unwind in respect of the contingent consideration payable on the Triad Life Sciences and Cure Medical acquisitions.

Adjustments made to derive adjusted non-operating expenses in 2022 included remeasurement charges of $29.5 million in respect of the contingent consideration payable on the Triad Life Sciences and Cure Medical acquisitions and divestiture-related costs of $14.2 million principally related to cumulative translation adjustments and a loss on disposal from the exit of the hospital care and industrial sales activities.

Of the total of $255.7 million of adjusting items in the year, $244.6 million were non-cash items. For further information on Non-IFRS financial information, see pages 41 to 46.

The Board, through the Audit and Risk Committee, continuously reviews the Group's APM policy to ensure that it remains appropriate and represents the way in which the performance of the Group is managed.

Strategic transformation

During 2022, the Group completed the first phase of its FISBE strategy ('FISBE 1.0'), a global multi-year transformation programme which commenced in 2019. FISBE 1.0 started to position the Group for sustainable and profitable growth and in 2022, we saw improved organic revenue growth performance and adjusted operating profit margin growth. Transformation costs associated with FISBE 1.0, treated as an adjusting item, were minimal in 2022 (2021: $4.3 million).

FISBE 1.0 strengthened the Group, with the business becoming more focused on chronic care, developing a deeper and broader innovation pipeline, notably delivering three new product launches during 2022, and improving commercial and operational execution, for example the significant reduction in complaints per million across the past three years.

The Group has explored and executed acquisitions and divestitures to strengthen the strategic positioning of the Group and increase its focus on the four key categories. During 2022, this included the acquisition of Triad Life Sciences, the equity investment in the preference shares of BlueWind Medical Ltd (BlueWind Medical), the strategic decision to withdraw from hospital care activities and related industrial sales as announced on 12 May 2022 and other potential transactions. Further details are provided in Note 8 - Investment in financial assets, Note 9 - Acquisitions, Note 10 - Divestitures and the Non-IFRS financial information section to the Financial Statements.

As announced at the Capital Markets Event on 17 November 2022, following the completion of FISBE 1.0, our strategy is now evolving to deliver the pivot ('FISBE 2.0'). This is discussed further on pages 7 to 9. Medium-term targets associated with FISBE 2.0 include delivering sustainable mid-single-digit organic revenue growth per annum and expanding the adjusted operating margin into the mid-20s. This is to be delivered through simplification and productivity initiatives, improving the product margin mix and operating leverage. Furthermore, there may be potential M&A opportunities to further strengthen the Group. The outcome of delivering on these targets will be sustainable and profitable growth with double-digit adjusted EPS and adjusted free cash flow compound annual growth over the medium term.

Acquisitions and investments

As noted above, in line with our strategic transformation and consistent with the "Focus" pillar of FISBE (see page 7), we acquired Triad Life Sciences, a US based medical device company on 14 March 2022 for an initial consideration of $125.3 million. The acquisition of Triad Life Sciences strengthens the Group's Advanced Wound Care position in the US, securing access to a complementary and innovative technology platform that enhances advanced wound management and patient outcomes. In addition to the initial consideration, there is further contingent consideration payable of up to $325.0 million, based on the achievement of two short-term milestones (totalling $50.0 million) and sales performance during the first two years post-completion (maximum earnout of $275.0 million based on stretching financial performance over the period). The two short-term milestones were successfully achieved in 2022, resulting in $50.0 million being paid during the year. Based on the latest available information, the discounted fair value of the remaining contingent consideration as at 31 December 2022 was $130.8 million. Refer to Note 9 - Acquisitions to the Financial Statements for further details.

Management have identified that reasonably possible changes in certain key assumptions and forecasts may cause the calculated fair value of the contingent consideration to vary materially within the next financial year and accordingly, management have deemed this to be a key estimate. See Note 1.2 - Critical accounting judgements and key sources of estimation uncertainty to the Financial Statements for further details.

The Group also has contingent consideration of up to $10.0 million in respect of the acquisition of Cure Medical in 2021, which is based upon post-acquisition performance targets and due to be paid within three years of the acquisition date. Based on the latest available information, the discounted fair value of the remaining contingent consideration as at 31 December 2022 was $9.2 million (2021: $3.1 million).

On 9 May 2022, the Group invested $30.7 million in preference shares of BlueWind Medical, inclusive of transaction costs. This represents an investment into an innovative technology in the large and growing overactive bladder market, related to the Continence space. Refer to Note 8 - Investment in financial assets to the Financial Statements for further details.

Strategic decision to exit from hospital care and industrial sales

On 12 May 2022, it was announced that the Group would be withdrawing from its hospital care activities and related industrial sales during the remainder of 2022. The withdrawal from these lower-margin and lower-growth activities is consistent with the Group's FISBE strategy, with the Group focusing on higher-growth chronic care markets with higher margins and higher levels of recurring revenue.

The manufacturing plant in Belarus which produced hospital care goods ceased manufacturing on 31 May 2022 alongside the discontinuation of associated Russia activities. The remainder of the hospital care and industrial sales activities were mostly phased out in the second half of 2022. The majority of the exit and closure activities have been completed at the end of the year with minimal residual sales expected in 2023. Further details are provided in Note 10 - Divestitures to the Financial year, with minimal residual sales expected in 2023. Further details are provided in Note 10 - Divestitures to the Financial Statements.

Dividends

Dividends are distributed based on the distributable reserves of the Company, which are primarily derived from the dividends received from subsidiary companies and are not based directly on the Group's retained earnings. The distributable reserves of the Company at 31 December 2022 were $1,562.9 million (2021: $1,590.3 million).

The Board declared an interim dividend of 1.717 cents per share in August 2022 and has recommended a final 2022 dividend of 4.330 cents per share, which would bring the full year dividend to 6.047 cents per share (2021: 5.871 cents per share), an increase of 3% and a pay-out ratio when compared to adjusted net profit of 48%. Our stated policy is a pay-out ratio of 35% to 45% of adjusted net profit but this is interpreted flexibly over time to reflect the underlying performance of the business and the Board's confidence in its future growth prospects.

Refer to Note 7 - Dividends to the Financial Statements for further information.

Sources of cash and free cash flow

Sources of cash

One of the Group's primary sources of cash is net cash generated from operations.

Net cash generated from operations	**Reported 2022 $m**	Reported 2021 $m
EBITDA[1]	**432.0**	420.1
Share based payments	**16.7**	16.4
Working capital movement	**(62.5)**	(31.6)
(Loss) on foreign exchange derivatives	**(1.7)**	(4.3)
Net cash generated from operations	**384.5**	400.6

1. EBITDA is reconciled to the most directly comparable financial measure prepared in accordance with IFRS in the cash conversion table on page 45.

Reported net cash generated from operations decreased by $16.1 million to $384.5 million during the year, mainly due to working capital movements. The increase in working capital in the year ended 31 December 2022 was driven by increased inventory levels of $36.3 million to build resilience across the Group and increases in trade and other receivables of $63.6 million due to sales phasing and the timing of receipts. This was partially offset by increases in trade and other payables of $40.7 million primarily due to the increase in derivative financial liabilities as a result of the mark to market ("MTM") valuations at the year end and an increase in restructuring provisions.

Free cash flow

Adjusted free cash flow (post-tax), is one of the four key financial performance indicators we use to monitor the delivery of our strategy.

	Reported 2022 $m	Reported 2021 $m	**Adjusted[2] 2022 $m**	Adjusted[2] 2021 $m
EBITDA	**432.0**	420.1	**500.0**	464.2
Share-based payments	**16.7**	16.4	**-**	-
Working capital movement	**(62.5)**	(31.6)	**(98.6)**	(32.3)
(Loss) on foreign exchange derivatives	**(1.7)**	(4.3)	**(1.7)**	(3.9)
Capital expenditure (net)	**(144.2)**	(94.1)	**(144.2)**	(94.1)
Net cash generated from operations, net of capital expenditure	**240.3**	306.5	**255.5**	333.9
Cash conversion	**55.6%**	73.0%	**51.1%**	71.9%
Income taxes paid	**(52.9)**	(59.2)	**(52.9)**	(59.2)
Free cash flow (post tax)	**187.4**	247.3	**202.6**	274.7

2. Adjusted free cash flow, adjusted EBITDA, adjusted working capital and adjusted non-cash items are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS in the cash conversion table on page 45.

Adjusted free cash flow (post-tax), was $202.6 million (2021: $274.7 million). The $35.8 million increase in adjusted EBITDA, primarily driven by a reduction in adjusted operating costs (see commentary in Adjusted net profit section), was more than offset by the $50.1 million increase in capital programmes as well as the increase in working capital.

Cash conversion was 55.6% (2021: 73.0%) and adjusted cash conversion was 51.1% (2021: 71.9%). The decline in the ratio in 2022 primarily reflected the strategic decision to increase capital expenditure and build inventory for resilience, coupled with the timing of receipts from customers.

The $1.7 million loss (2021: $4.3 million loss) from foreign exchange derivatives was a result of hedging activity to help mitigate the impact on underlying exposures from volatility in foreign exchange rates.

Liquidity and net debt

Net debt bridge

	Reported 2022 $m	**Adjusted 2022 $m**
Net debt[2] at 1 January	**(881.2)**	**(881.2)**

Net debt[2] at 1 January	(881.2)	(881.2)
EBITDA[1,3]	**432.0**	**500.0**
Working capital[3] & FX on derivatives	**(64.2)**	**(100.3)**
Capital expenditure	**(144.2)**	**(144.2)**
Acquisitions and divestitures	**(173.4)**	**(173.4)**
Investment in financial assets	**(30.7)**	**(30.7)**
Debt servicing	**(77.2)**	**(77.2)**
Tax & others[3]	**(41.1)**	**(73.0)**
Dividends	**(88.1)**	**(88.1)**
Net debt[2] at 31 December	**(1,068.1)**	**(1,068.1)**

1. Reported and Adjusted EBITDA are reconciled to the most directly comparable financial measure prepared in accordance with IFRS in the cash conversion table on page 45 and reconciliation of earnings to adjusted earnings table on page 43 respectively.
2. Net debt is calculated as the carrying value of current and non-current borrowings, net of cash and cash equivalents and excluding lease liabilities.
3. EBITDA, working capital and tax & others are on an adjusted basis. The reported numbers are disclosed above commented on further below.

Adjusted EBITDA was $500.0 million and excludes $39.2 million in respect of working capital movements arising from acquisitions and divestitures, primarily driven by the Triad Life Sciences acquisition and the exit from hospital care and related industrial sales during the year. Other items excluded to derive adjusted EBITDA were $5.0 million of acquisition and divestiture expenses, $10.2 million of termination costs and $16.7 million of share-based payments, offset by a decrease in termination accruals of $3.1 million. These numbers can be seen within the non-IFRS financial information section on pages 45 to 46.

Adjusted working capital & FX on derivatives of $100.3 million included the $39.2 million working capital movement arising from acquisitions and divestitures as explained above. A reconciliation of adjusted working capital to reported working capital is shown in the Non-IFRS financial information section on page 46.

The Group continued to make significant investments to strengthen and grow the business such as expanding the manufacturing facilities in its Infusion Care business, adding more automation to our production lines and developing new digital technologies to deliver enhanced customer experiences. Consequently, capital expenditure during 2022 was $144.2 million.

The Group made several strategic investments in 2022 to strengthen its competitive position, including the acquisition of Triad Life Sciences for an initial consideration of $123.3 million and two additional payments totalling $50.0 million for the successful achievement of two milestones in 2022 in relation to that acquisition. The Group also made a $30.7 million equity investment in BlueWind Medical, inclusive of transaction costs.

Debt servicing payments of $77.2 million are comprised of net interest payments of $49.9 million, lease payments of $20.7 million and the amortisation of financing fees of $6.6 million.

Tax & others of $73.0 million, on an adjusted basis, consisted of income taxes paid of $52.9 million, foreign exchange on cash and cash equivalents of $15.9 million, $5.0 million of acquisition and divestiture expenses and $10.2 million of termination costs, offset by foreign exchange on borrowings of $11.0 million. Excluding $5.0 million of acquisition and divestiture expenses, $10.2 million of termination costs and $16.7 million of share-based payments, tax & others, on a reported basis, was $41.1 million.

Dividend cash payments of $88.1 million were made to shareholders in the year. This represented 78.2% of total dividends declared in the year, with the remaining 21.8% electing to settle via scrip dividends.

Borrowings and net debt	**2022**	**2021**
	$m	**$m**
Senior notes[1]	**(493.1)**	(492.1)
Credit facilities[1]	**(718.8)**	(852.5)
Cash and cash equivalents	**143.8**	463.4
Net debt (excluding leases)	**(1,068.1)**	(881.2)
Lease liabilities	**(88.3)**	(90.5)
Interest bearing liabilities net of cash	**(1,156.4)**	(971.7)

Net debt (excluding leases)/adjusted EBITDA		
At 31 December	**2.1x**	1.9x

1. Senior notes of $493.1 million (2021: $492.1 million) are stated net of financing fees of $6.9 million (2021: $7.9 million). Credit facilities of $718.8 million (2021: $852.5 million) are stated net of financing fees of $8.4 million (2021: $5.4 million).

As at 31 December 2022, the Group's cash and cash equivalents were $143.8 million (31 December 2021: $463.4 million) and the debt outstanding on borrowings was $1,211.9 million (31 December 2021: $1,344.6 million).

The Group successfully refinanced its bank facilities in November 2022, with $1.2 billion committed for five years at slightly improved margins over base rates compared to the previous facilities, comprising a multicurrency revolving credit facility of $950.0 million and a term loan of $250.0 million, both with maturity in November 2027. The Group's $500.0 million senior unsecured notes, issued in October 2021, remain in place with maturity in October 2029.

As at 31 December 2022, $472.8 million of the multicurrency revolving credit facility remained undrawn. This, combined with cash of $143.8 million, provided the Group with total liquidity of $616.6 million at 31 December 2022 (31 December 2021: $663.4 million). Of this, $19.2 million was held in territories where there are restrictions related to repatriation (31 December 2021: $37.5 million).

At 31 December 2022, the Group had total interest-bearing liabilities, including IFRS 16 lease liabilities, of $1,300.2 million (2021: $1,435.1 million). Offsetting cash of $143.8 million (2021: $463.4 million) and excluding lease liabilities, net debt was $1,068.1 million (2021: $881.2 million), equivalent to 2.1x adjusted EBITDA (2021: 1.9x adjusted EBITDA), with the increase primarily driven by strategic investments such as the acquisition of Triad Life Sciences, equity investment in BlueWind Medical and increased investment in capital expenditure.

For further information on borrowings see Note 11 - Borrowings to the Financial Statements.

Covenants

At 31 December 2022, the Group was in compliance with all financial and non-financial covenants associated with the Group's outstanding debt.

The Group has two financial covenants, being net leverage and interest cover, each of which is defined, where applicable, within the borrowing documentation. The table below summarises the Group's most restrictive covenant thresholds and position as at 31 December 2022 and 2021.

	Maximum covenant net leverage[2]	Covenant net leverage[2]	Minimum covenant interest cover[2]	Covenant interest cover[2]
31 December 2022	**3.50x**	**2.28x**	**3.5x**	**9.9x**
31 December 2021	3.50x	1.97x	3.5x	11.7x

2. Net leverage is net debt/adjusted EBITDA and interest cover is adjusted EBITDA/interest expense (net) in accordance with the definitions contained in underlying borrowing documentation and are not the same as the definitions of these measures presented in the Adjusted Performance Measures section on pages 41 to 46 and applied in the commentary in this Financial review.

Group financial position

At 31 December	2022 $m	2021 $m	Change $m
Intangible assets and goodwill	**2,149.5**	2,058.5	91.0
Other non-current assets	**553.2**	504.7	48.5
Cash and cash equivalents	**143.8**	463.4	(319.6)
Other current assets	**745.5**	647.4	98.1
Total assets	**3,592.0**	3,674.0	(82.0)
Current liabilities	**(533.1)**	(569.2)	36.1
Non-current liabilities	**(1,449.2)**	(1,410.0)	(39.2)
Equity	**(1,609.7)**	(1,694.8)	85.1
Total equity and liabilities	**(3,592.0)**	(3,674.0)	82.0

Intangible assets and goodwill
Intangible assets and goodwill increased by $91.0 million to $2,149.5 million (2021: $2,058.5 million). This was primarily due to intangible assets and goodwill arising from the Triad Life Sciences acquisition of $284.7 million combined with intangible asset additions of $44.6 million, partially offset by the in-year amortisation of intangible assets of $147.4 million, the net effect of foreign exchange of $84.7 million and an impairment charge of $5.7 million against intangible assets. We regularly review our trading performance to establish whether there were any triggers that would require an impairment review of goodwill or other intangible assets. During 2022, there was an impairment of $4.3 million relating to a product related intangible asset which has been phased out as part of the hospital care exit. There was also a $1.4 million impairment relating to a legacy acquisition-related customer relationship intangible asset as part of the rationalisation of activities in the portfolio.

The annual Cash Generating Unit ("CGU") impairment review was conducted on the CGU groups and, taking into consideration our future forecasts and reasonably possible scenarios, significant headroom remained in the carrying value of all CGU groups in comparison to the sensitised recoverable value. No impairment was recognised against goodwill or indefinite lived intangible assets during the year. In addition, management considered the severe but plausible downside scenarios used in the Viability assessment and headroom remained on the carrying value of all CGU groups.

Other non-current assets
Other non-current assets, including property, plant and equipment ("PP&E"), right-of-use assets ("ROU assets"), investment in financial assets, deferred tax assets, restricted cash and other assets increased by $48.5 million to $553.2 million (2021: $504.7 million). The increase reflected the continued investment in our manufacturing facilities, with additions in PP&E of $100.0 million offset by depreciation of $39.7 million, the net effect of foreign exchange of $17.9 million and impairments of $7.4 million. Included within other non-current assets was the investment made in May 2022 in the preference shares of BlueWind Medical. This was held at fair value of $30.7 million, which has not changed since the date of investment. Restricted cash reduced by $6.3 million primarily due to the reclassification to current assets whilst ROU assets have reduced by $4.2 million.

Current assets excluding cash and cash equivalents
Current assets, excluding cash and cash equivalents, increased by $98.1 million to $745.5 million (2021: $647.4 million), driven by increases in trade and other receivables of $40.5 million, inventory of $28.1 million and restricted cash of $17.8 million. The increase in trade and other receivables, net of foreign exchange effects of $17.2 million, was mainly due to sales phasing and the timing of receipts whilst the increase in inventories, net of foreign exchange effects of $19.0 million, was largely attributable to the ramp-up of inventory in order to build resilience across the Group.

Restricted cash increased by $17.8 million to $18.2 million, driven by escrow amounts arising from the acquisition of Triad Life Sciences in 2022 and the reclassification of escrow amounts arising from the acquisitions of Cure Medical and Patient Care Medical in 2021 from non-current assets to current assets.

Current liabilities
Current liabilities decreased by $36.1 million to $533.1 million (2021: $569.2 million), reflecting a $144.8 million decrease in the current portion of borrowings as a result of a change in profile of the Group's borrowings under the new credit facilities, largely offset by a $95.2 million increase in provisions largely driven by the contingent consideration payable on the Triad Life Sciences acquisition and an increase of $20.8 million in derivative financial liabilities, due to movements in the MTM valuations at the year end.

Non-current liabilities
Non-current liabilities increased by $39.2 million to $1,449.2 million (2021: $1,410.0 million). This included an increase in non-

current borrowings of $12.1 million, resulting from a change in profile of the Group's borrowings under the new credit facilities and an increase in provisions of $51.4 million driven by the contingent consideration payable on the Triad Life Sciences and Cure Medical acquisitions. This was partially offset by a reduction in other non-current liabilities primarily due to a reduction in the Group's pension obligations and the reclassification of escrow amounts from non-current liabilities to current liabilities.

Going concern

In preparing their assessment of going concern, the Directors considered available cash resources, access to committed funding, financial performance and forecast performance, including continued implementation of the FISBE strategy, together with the Group's financial covenant compliance requirements and principal risks and uncertainties.

Management also applied the same severe but plausible downside scenarios utilised in the preparation of the Viability statement. Under each scenario, the Group retained significant liquidity and covenant headroom throughout the going concern period, i.e. 12 months from the date of this report. A reverse stress test, before mitigation, was also considered to demonstrate what reduction in revenue would be required in the next 12 months to create conditions which may lead to a potential covenant breach. For a breach of covenants to occur in the next 12 months, before mitigation, the Group would need to experience a sustained revenue reduction of more than 10% across all categories and markets. This was considered implausible given the Group's strong global market position, diversified portfolio of products and the mitigations available to the Board and management.

Accordingly, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

Financial control environment

The Group continues to closely monitor the financial & IT general control environment, using a single system for the self-certification of effectiveness of key financial controls across our operations globally. The response rate remained high throughout the year. The Global Financial Controls (GFC) team, acting as the second line of defence, monitors responses and reviews all notified control failures to ensure that there is no risk of material financial misstatement. Focused support and training is given to Global Business Services (GBS) and market finance teams to review controls and ensure that the control framework continues to operate effectively. A similar self-certification process is operated by the IT governance, risk & compliance team for IT controls covering cyber, privacy and financial systems.

The global financial control framework was refreshed in 2022 to increase focus on material risk, with the introduction of a less resource-intensive framework for the smaller operating entities, and additional controls to address new risk areas identified. The control frameworks will continue to evolve to respond to the development of corporate governance requirements in the UK.

Independent assurance on these control frameworks is provided by the Internal Audit team, with a review of the global financial controls and the IT general controls performed in the year, in addition to sample testing carried out by the GFC and IT Governance teams and reviews of financial controls of specific markets and GBS.

Consolidated Income Statement
For the year ended 31 December 2022

	Notes	**2022** **$m**	2021 $m
Revenue	2	**2,072.5**	2,038.3
Cost of sales		**(968.6)**	(915.2)
Gross profit		**1,103.9**	1,123.1
Selling and distribution expenses		**(575.9)**	(539.7)
General and administrative expenses		**(214.9)**	(285.3)
Research and development expenses		**(92.0)**	(94.5)
Other operating expenses	3	**(13.8)**	-
Operating profit		**207.3**	203.6
Finance income	4	**5.5**	0.8
Finance expense	4	**(73.2)**	(44.3)
Non-operating expense, net	5	**(57.7)**	(8.8)
Profit before income taxes		**81.9**	151.3
Income tax expense	6	**(19.0)**	(33.7)
Net profit		**62.9**	117.6
Earnings per share			
Basic earnings per share (cents per share)		**3.1¢**	5.9¢
Diluted earnings per share (cents per share)		**3.1¢**	5.8¢

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

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2022

	Notes	**2022** **$m**	2021 $m

Net profit		**62.9**	117.6
Other comprehensive (expense)/income			
Items that will not be reclassified subsequently to the Consolidated Income Statement			
Remeasurement of defined benefit pension plans, net of tax		**8.4**	3.3
Change in pension asset restriction		**-**	1.3
Items that may be reclassified subsequently to the Consolidated Income Statement			
Foreign currency translation, net of tax		**(113.6)**	(29.6)
Realisation of cumulative translation adjustments		**12.2**	-
Effective portion of changes in fair value of cash flow hedges	12	**(7.7)**	(5.1)
Changes in fair value of cash flow hedges reclassified to the Consolidated Income Statement	12	**16.5**	5.7
Costs of hedging	12	**(1.1)**	(0.4)
Income tax in respect of items that may be reclassified		**2.4**	(0.9)
Other comprehensive expense		**(82.9)**	(25.7)
Total comprehensive (expense)/income		**(20.0)**	91.9

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

Consolidated Statement of Financial Position
As at 31 December 2022

	Notes	2022 $m	2021 $m
Assets			
Non-current assets			
Property, plant and equipment		**400.4**	366.7
Right-of-use assets		**79.4**	83.6
Intangible assets and goodwill		**2,149.5**	2,058.5
Investment in financial assets	8	**30.7**	-
Deferred tax assets		**26.6**	28.9
Derivative financial assets	12	**0.2**	-
Restricted cash		**7.3**	13.6
Other non-current receivables		**8.6**	11.9
		2,702.7	2,563.2
Current assets			
Inventories		**336.9**	308.8
Trade and other receivables		**364.0**	323.5
Derivative financial assets	12	**26.4**	15.1
Restricted cash		**18.2**	-
Cash and cash equivalents		**143.8**	463.4
		889.3	1,110.8
Total assets		**3,592.0**	3,674.0
Equity and liabilities			
Current liabilities			
Trade and other payables		**346.6**	342.5
Borrowings	11	**-**	144.8
Lease liabilities		**20.3**	19.7
Current tax payable		**33.5**	45.5
Derivative financial liabilities	12	**32.5**	11.7
Provisions	13	**100.2**	5.0
		533.1	569.2
Non-current liabilities			
Borrowings	11	**1,211.9**	1,199.8
Lease liabilities		**68.0**	70.8
Deferred tax liabilities		**83.2**	87.2
Provisions	13	**53.1**	1.7
Derivative financial liabilities	12	**0.3**	2.9
Other non-current liabilities		**32.7**	47.6
		1,449.2	1,410.0
Total liabilities		**1,982.3**	1,979.2
Net assets		**1,609.7**	1,694.8
Equity			
Share capital		**250.7**	247.0
Share premium		**165.7**	142.3
Own shares		**(1.5)**	(2.2)
Retained deficit		**(892.2)**	(842.0)
Merger reserve		**2,098.9**	2,098.9
Cumulative translation reserve		**(177.1)**	(75.7)
Other reserves		**165.2**	126.5
Total equity		**1,609.7**	1,694.8
Total equity and liabilities		**3,592.0**	3,674.0

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Notes	Share capital $m	Share premium $m	Own shares $m	Retained deficit $m	Merger reserve $m	Cumulative translation reserve $m	Other reserves $m	Total $m
At 1 January 2021		245.5	115.3	(6.7)	(845.3)	2,098.9	(46.1)	109.1	1,670.7
Net profit		-	-	-	117.6	-	-	-	117.6
Other comprehensive income:									
Foreign currency translation adjustment, net of tax		-	-	-	-	-	(29.6)	-	(29.6)
Remeasurement of defined benefit pension plans, net of tax		-	-	-	-	-	-	3.3	3.3
Change in pension asset restriction		-	-	-	-	-	-	1.3	1.3
Changes in fair value of cash flow hedges, net of tax		-	-	-	-	-	-	(0.7)	(0.7)
Other comprehensive (expense)/income		-	-	-	-	-	(29.6)	3.9	(25.7)
Total comprehensive income		-	-	-	117.6	-	(29.6)	3.9	91.9
Dividends paid	7	-	-	-	(85.8)	-	-	-	(85.8)
Scrip dividend	7	1.5	27.0	-	(28.5)	-	-	-	-
Share-based payments		-	-	-	-	-	-	16.4	16.4
Share awards vested		-	-	4.5	-	-	-	(3.5)	1.0
Excess deferred tax benefit from share-based payments		-	-	-	-	-	-	0.6	0.6
At 31 December 2021		247.0	142.3	(2.2)	(842.0)	2,098.9	(75.7)	126.5	1,694.8
Net profit		**-**	**-**	**-**	**62.9**	**-**	**-**	**-**	**62.9**
Other comprehensive (expense)/income:									
Foreign currency translation adjustment, net of tax		**-**	**-**	**-**	**-**	**-**	**(113.6)**	**-**	**(113.6)**
Realisation of cumulative translation adjustments		**-**	**-**	**-**	**-**	**-**	**12.2**	**-**	**12.2**
Remeasurement of defined benefit pension plans, net of tax		**-**	**-**	**-**	**-**	**-**	**-**	**8.4**	**8.4**
Changes in fair value of cash flow hedges, net of tax		**-**	**-**	**-**	**-**	**-**	**-**	**10.1**	**10.1**
Other comprehensive (expense)/income		**-**	**-**	**-**	**-**	**-**	**(101.4)**	**18.5**	**(82.9)**
Total comprehensive income		**-**	**-**	**-**	**62.9**	**-**	**(101.4)**	**18.5**	**(20.0)**
Dividends paid	7	**-**	**-**	**-**	**(88.1)**	**-**	**-**	**-**	**(88.1)**
Scrip dividend	7	**1.1**	**23.4**	**-**	**(24.5)**	**-**	**-**	**-**	**-**
Allotment of shares to Employee Benefit Trust		**2.6**	**-**	**(2.6)**	**-**	**-**	**-**	**-**	**-**
Share-based payments		**-**	**-**	**-**	**-**	**-**	**-**	**16.6**	**16.6**
Share awards vested		**-**	**-**	**3.3**	**-**	**-**	**-**	**2.9**	**6.2**
Excess deferred tax benefit from share-based payments		**-**	**-**	**-**	**-**	**-**	**-**	**0.2**	**0.2**
Transfer between reserves		**-**	**-**	**-**	**(0.5)**	**-**	**-**	**0.5**	**-**
At 31 December 2022		**250.7**	**165.7**	**(1.5)**	**(892.2)**	**2,098.9**	**(177.1)**	**165.2**	**1,609.7**

Consolidated Statement of Cash Flows
For the year ended 31 December 2022

	Notes	2022 $m	2021 $m
Cash flows from operating activities			
Net profit		**62.9**	117.6
Adjustments for			
Depreciation of property, plant and equipment		**39.7**	40.6
Depreciation of right-of-use assets		**22.1**	22.8
Amortisation of intangible assets		**147.4**	147.2
Income tax	6	**19.0**	33.7
Non-operating expense, net	5	**56.0**	4.5
Finance costs, net	4	**67.7**	43.5
Share-based payments		**16.7**	16.4
Impairment/write-off of intangible assets		**6.3**	2.9
Impairment/write-off of property, plant and equipment		**9.2**	3.0
Change in assets and liabilities:			
Inventories		**(36.3)**	(19.6)
Trade and other receivables		**(63.6)**	(29.4)
Other non-current receivables		**3.0**	1.1
Restricted cash		**(11.8)**	(8.4)
Trade and other payables		**40.7**	10.7
Other non-current payables		**5.5**	14.0
Net cash generated from operations		384.5	400.6

Net cash generated from operations		**384.5**	400.6
Interest received		**5.5**	0.8
Interest paid		**(55.4)**	(36.3)
Income taxes paid		**(52.9)**	(59.2)
Net cash generated from operating activities		**281.7**	305.9
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		**(144.2)**	(94.1)
Acquisitions, net of cash acquired	9	**(123.3)**	(113.8)
Payment of contingent consideration arising from acquisitions	9	**(50.0)**	-
Net cash (outflow)/inflow arising from divestitures	10	**(0.1)**	1.4
Investment in financial assets	8	**(30.7)**	-
Net cash used in investing activities		**(348.3)**	(206.5)
Cash flows from financing activities			
Repayment of borrowings	11	**(842.5)**	(583.9)
Proceeds from borrowings	11	**714.2**	491.8
Payment of lease liabilities		**(20.7)**	(22.0)
Dividends paid	7	**(88.1)**	(85.8)
Net cash used in financing activities		**(237.1)**	(199.9)
Net change in cash and cash equivalents		**(303.7)**	(100.5)
Cash and cash equivalents at beginning of the year		**463.4**	565.4
Effect of exchange rate changes on cash and cash equivalents		**(15.9)**	(1.5)
Cash and cash equivalents at end of the year		**143.8**	463.4

1. Basis of preparation

1.1 General information

Convatec Group Plc (the "Company") is a public limited company incorporated in the United Kingdom under the Companies Act of 2006. The Company's registered office is 3 Forbury Place, 23 Forbury Road, Reading, RG1 3JH, United Kingdom.

The Company and its subsidiaries (collectively, the "Group") are a global medical products and technologies group focused on therapies for the management of chronic conditions, with leading market positions in advanced wound care, ostomy care, continence and critical care and infusion care.

The announcement is based on the Group's Consolidated Financial Statements which have been prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

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

The financial information set out in this announcement does not constitute the Group's statutory accounts for the year ended 31 December 2022 and 2021 but is derived from those accounts. Statutory accounts for 2021 have been delivered to the Registrar of Companies and those for 2022 will be delivered following the Company's Annual General Meeting. The auditor's reports on the 2022 and 2021 accounts were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

1.2 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements, in conformity with adopted IFRS, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported value of assets and liabilities, income and expense. Actual results may differ from these estimates or judgements of likely outcome. Management regularly reviews, and revises as necessary, the accounting judgements that significantly impact the amounts recognised in the Consolidated Financial Statements and the sources of estimation uncertainty that are considered to be "key estimates" due to their potential to give rise to material adjustments in the Group's Consolidated Financial Statements within the next financial year.

Considerations for the identification of critical accounting judgements and key estimates

A detailed assessment was performed by management of the potential impact on each balance sheet caption and associated accounting estimates and judgements at each reporting date during the year. In preparing the Consolidated Financial Statements, no critical accounting judgements have been identified. A key estimate has been identified in relation to the valuation of the contingent consideration related to the acquisition of Triad Life Sciences Inc.

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

Valuation of the contingent consideration in relation to the acquisition of Triad Life Sciences

The contingent consideration is based on both specified post-acquisition financial and non-financial performance targets as defined by the Merger Agreement. The contingent consideration is fair valued at the date of acquisition with key inputs including a weighted probability of different scenarios and revenue projections based on internal forecasts, discounted using an appropriate discount rate that reflects the relative risk of the investment as well as the time value of money.

Actual revenue results may differ from estimates, leading to a change in the fair value of the contingent consideration. Management has identified that reasonably possible changes in certain key assumptions and forecasts may cause the calculated fair value of the contingent consideration to vary materially within the next financial year. The maximum undiscounted contingent consideration payable under the Merger Agreement was $325.0 million, of which $50.0 million was paid during the year following successful attainment of the two short-term milestones. The estimated discounted fair value of the remaining contingent consideration as at 31 December 2022 was $130.8 million.

Management has determined that the reasonable potential range of discounted outcomes within the next financial year is between $85.2 million and $230.8 million, compared to a maximum remaining undiscounted contingent consideration of $275.0 million.

million.

The timing and amount of future contingent elements of consideration is therefore considered a key source of estimation uncertainty. Refer to Note 9 - Acquisitions for more information.

1.3 Accounting standards

New standards, interpretations and amendments applied for the first time

On 1 January 2022, the Group adopted the following amendments which are mandatorily effective for the period beginning 1 January 2022:

- *Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37);*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);*
- *Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41);* and
- *References to Conceptional Framework (Amendments to IFRS 3).*

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

Apart from these changes, the accounting policies set out in the Notes have been applied consistently to both years presented in these Consolidated Financial Statements.

New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2023:

- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);*
- *Definition of Accounting Estimates (Amendments to IAS 8);* and
- *Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).*

The following amendments are effective for the period beginning 1 January 2024:

- *IFRS 16 Leases (Amendment - Liability in a Sale and Leaseback);*
- *IAS 1 Presentation of Financial Statements (Amendment - Classification of Liabilities as Current or Non-current);* and
- *IAS 1 Presentation of Financial Statements (Amendment - Non-current liabilities with Covenants)*

The Group is currently assessing the impact of these new accounting standards and amendments and does not believe these will have a material impact on the Group.

Other interpretations and amendments

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

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

2. Revenue and segmental information

The Board considers the Group's business to be a single segment entity engaged in the development, manufacture and sale of medical products, services and technologies. R&D, manufacturing and central support functions are managed globally for the Group, supporting all categories of sales. Revenues are managed both on a category and regional basis. This note presents the performance and activities of the Group as a single segment.

Pages 5 to 6 of the Chief Executive's Review provide further detail of category revenue.

The Group's CEO, who is the Group's Chief Operating Decision Maker, evaluates the Group's global product portfolios on a revenue basis and evaluates profitability and associated investment on an enterprise-wide basis due to shared infrastructures and support functions between the categories and geographies. Financial information in respect of revenues provided to the CEO for decision-making purposes is made on both a category and geographic basis. Resources are allocated on a Group-wide basis, with a focus on key categories and the key markets. The allocations are based on the relative merits of the individual proposals across the Group.

Revenue by category

The Group generates revenue across four major product categories. The following table sets out the Group's revenue for the year ended 31 December by category:

	2022	2021
	$m	$m
Advanced Wound Care	**620.7**	592.3
Ostomy Care	**522.1**	546.5
Continence & Critical Care	**546.3**	542.9
Infusion Care	**383.4**	356.6
Total	**2,072.5**	2,038.3

From 2023 onwards, Flexi-Seal™ (2022 revenue: $65.8 million), our faecal management system, will move from Continence & Critical Care to Ostomy Care. The remaining industrial sales, predominantly continence-related supplies for B2B customers (2022 revenue: $16.7 million) will move from Infusion Care into Continence Care. Going forward, the Continence & Critical Care

(2022 revenue: $16.7 million) will move from Infusion Care into Continence Care. Going forward, the Continence & Critical Care category will be renamed Continence Care.

Geographic information

Geographic markets
The following table sets out the Group's revenue by geographic market in which third-party customers are located:

	2022	2021
	$m	$m
Europe	**688.6**	741.6
North America	**1,090.3**	1,022.1
RoW[1]	**293.6**	274.6
Total	**2,072.5**	2,038.3

1. Rest of World ("RoW") comprises all countries in Asia-Pacific, Latin America (including Mexico and the Caribbean), South America, the Middle East (including Turkey) and Africa.

3. Other operating expenses

Other operating expenses were as follows:

	2022	2021
	$m	$m
Exit and divestiture-related activities	**12.4**	-
Impairment of other intangible assets	**1.4**	-
	13.8	-

As a result of the exit from hospital care and industrial sales-related activities and disposal of a foreign subsidiary, impairments of $8.1 million to property, plant and equipment and $4.3 million to intangible assets have been recognised during the period. See Note 10 - Divestitures for further details. The impairment of other intangible assets relates to a legacy acquisition-related customer relationship asset which was impaired as part of the rationalisation of activities in the portfolio.

4. Finance income and expense

Finance expenses arise from interest on the Group's borrowings and lease liabilities and unwind of discount on contingent consideration payable on acquisitions. Finance income arises from interest earned on investment of surplus cash.

Finance costs, net for the year ended 31 December were as follows:

	2022	2021
	$m	$m
Finance income		
Interest income on cash and cash equivalents	**5.5**	0.8
Total finance income	**5.5**	0.8
Finance expense		
Interest expense on borrowings	**(46.4)**	(29.2)
Other financing-related fees[1]	**(8.2)**	(8.1)
Interest expense on interest rate derivatives	**(1.4)**	(3.8)
Interest expense on lease liabilities	**(3.3)**	(3.8)
Capitalised interest[2]	**2.0**	0.6
Unwinding of discount[3]	**(15.6)**	-
Other finance costs	**(0.3)**	-
Total finance expense	**(73.2)**	(44.3)
Finance costs, net	**(67.7)**	(43.5)

1. Other financing-related fees include the amortisation of deferred financing fees associated with the multicurrency revolving credit facilities, term loan facilities and senior notes. This also includes $2.7 million of deferred financing fees related to the early termination of the Group's previous credit agreement.
2. Capitalised interest was calculated using the Group's weighted average interest rate over the year of 3.4% (2021: 2.0%).
3. The unwinding of discount is in respect of the contingent consideration payable in relation to the Triad Life Sciences and Cure Medical acquisitions. Refer to Note 9 - Acquisitions.

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

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

		2022	2021
	Notes	**$m**	$m
Net foreign exchange (loss)/gain[1]		**(13.5)**	4.3
Realisation of cumulative translation adjustments	10	**(12.2)**	-
Gain/(loss) on foreign exchange forward contracts	12	**15.8**	(9.7)
Loss on foreign exchange cash flow hedges	12	**(16.5)**	(3.9)
Change in contingent consideration[2]	9	**(29.5)**	-
(Loss)/gain on divestiture	10	**(2.0)**	0.5
Other non-operating income		**0.2**	-
Non-operating expense, net[3]		**(57.7)**	(8.8)

1. The foreign exchange losses in 2022 primarily relate to the foreign exchange impact on intercompany transactions, including loans transacted in non-functional currencies. The Group uses foreign exchange forward contracts to manage these exposures in accordance with the Group's foreign exchange risk management policy.

2. The $29.5 million expense relates to the change in fair value of the contingent consideration for the Cure Medical ($5.8 million) and Triad Life Sciences ($23.7 million) acquisitions as described in Note 9 - Acquisitions.
3. Of the total net non-operating expense, $1.7 million (2021: $4.3 million) relates to mark-to-market derivatives, the cash flow impact of which have been shown within the changes in working capital section of the Consolidated Statement of Cash Flows.

6. Income taxes

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

6.1 Taxation

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

	2022 $m	2021 $m
Current tax		
UK corporation tax	**-**	0.8
Overseas taxation	**46.8**	46.8
Adjustment to prior years	**(2.0)**	(4.3)
Total current tax expense	**44.8**	43.3
Deferred tax		
Origination and reversal of temporary differences	**(3.7)**	(6.5)
Change in tax rates	**(3.2)**	4.4
Adjustment to prior years	**1.2**	(0.7)
Benefit from previously unrecognised tax losses	**(20.1)**	(6.8)
Total deferred tax benefit	**(25.8)**	(9.6)
Income tax expense	**19.0**	33.7

In 2022, the deferred tax movement included a benefit of $20.1 million in respect of the recognition of previously unrecognised tax losses in the US following the acquisition of Triad Life Sciences.

In 2021, the change in tax rates mainly relates to the revaluation of the net deferred tax liability in the UK following the enactment of Finance Act 2021, which increases the UK corporation tax rate from 19.0% to 25.0% from 1 April 2023.

The Group's deferred tax benefit in the year ended 31 December 2021 was mainly influenced by the deferred tax benefit of $6.8 million for the recognition of deferred tax assets following the acquisition of Cure Medical LLC ("Cure Medical") in respect of previously unrecognised tax losses in the US.

6.2 Reconciliation of effective tax rate

The effective tax rate for the year ended 31 December 2022 was 23.2%, as compared with 22.3% for the year ended 31 December 2021.

Tax reconciliation to UK statutory rate

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

	2022 $m		2021 $m	
Profit before income taxes	**81.9**		151.3	
Profit before income taxes multiplied by rate of corporation tax in the UK of 19.0% (2021: 19.0%)	**15.6**		28.7	
Difference between UK and overseas tax rates[1]	**3.0**		4.0	
Deferred tax impact for increase in UK tax rate	**-**		4.8	
Non-deductible/non-taxable items	**14.4**		1.3	
Movement in unrecognised tax losses and other assets	**1.0**		(0.1)	
Recognition of previously unrecognised US deferred tax assets	**(20.1)**		(6.8)	
Movement in provision for uncertain tax positions	**2.5**		(0.3)	
Other[2]	**2.6**		2.1	
Income tax expense and effective tax rate	**19.0**	**23.2%**	33.7	22.3%

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

The Group's income tax expense includes a $20.1 million tax benefit due to the recognition of deferred tax assets following the acquisition of Triad in respect of previously unrecognised tax losses in the US, and the $9.5 million effect of non-deductible contingent consideration on the acquisition of both Triad Life Sciences and Cure Medical. Refer to Note 9 - Acquisitions for the acquisition accounting of Triad Life Sciences.

The Group has worldwide operations and therefore is subject to several factors that may affect future tax charges, principally the levels and mix of profitability in different tax jurisdictions, transfer pricing regulations, tax rates imposed and tax regime reforms. The calculation of the Group's tax expense involves a degree of estimation and judgements in respect of certain items for which the tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority, specifically in relation to open tax and transfer pricing matters. Due to the high volume of intercompany transactions, the Group's evolving business model and the increasing complexity in interaction between multiple tax laws and regulations, transfer pricing requires judgement in determining the appropriate allocation of profits between jurisdictions. The Group assessed the impact of ongoing changes to the Group's operating model, the supporting documentation for the tax and transfer pricing positions, existing tax authority challenges, and the likelihood of new challenges by tax authorities. In line with the requirements of IFRIC 23, *Uncertainty over Income Tax Treatments*, the Group has provided for uncertain tax positions in respect of transfer pricing positions and withholding tax liabilities. The net increase in provisions during 2022 was driven by the reassessment of estimates and settlement and expiry of open tax issues in various jurisdictions. Where open issues exist, the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of discussions with the relevant tax authorities or, where applicable, appeal proceedings. Accordingly, settlement and expiry of open tax issues could have a significant impact on future tax expenses.

The Group is monitoring tax reforms driven by the OECD's project to address the tax challenges arising from the digitalisation of the economy, including Global Anti-Base Erosion Model Rules (Pillar Two). The Group has analysed the tax impact of the project to the Group based on OECD model rules issued on 20 December 2021 and draft legislations available in jurisdictions in which the Group operates in and expect the tax impact to be not material in the foreseeable future. The Group will reassess the tax impact once new legislation becomes available. This has no impact on the Group's result for 2022.

7. Dividends

Dividends paid and proposed were as follows:

	Pence per share	Cents per share	Total $m	Settled in cash $m	Settled via scrip $m	No of scrip shares issued
Final dividend 2020	2.845	3.983	79.7	53.6	26.1	9,475,532
Interim dividend 2021	1.229	1.717	34.6	32.2	2.4	750,265
Paid in 2021	4.074	5.700	114.3	85.8	28.5	10,225,797
Final dividend 2021	**3.161**	**4.154**	**77.8**	**58.9**	**18.9**	**7,192,010**
Interim dividend 2022	**1.410**	**1.717**	**34.8**	**29.2**	**5.6**	**2,107,103**
Paid in 2022	**4.571**	**5.871**	**112.6**	**88.1**	**24.5**	**9,299,113**
Final dividend 2022 proposed	**3.657**	**4.330**	**88.5**			

The final dividend proposed for 2022, to be distributed on 25 May 2023 to shareholders on the register at the close of business on 11 April 2023, is based upon the issued and fully paid share capital as at 31 December 2022 and is subject to shareholder approval at the Annual General Meeting on 18 May 2023. The dividend will be declared in US dollars and will be paid in Sterling at the chosen exchange rate of $1.184/£1.00 determined on 8 March 2023.

The Company operates a scrip dividend scheme allowing shareholders to elect to receive their dividends in the form of new fully paid ordinary shares. For any particular dividend, the Directors may decide whether or not to make the scrip offer available. A scrip dividend alternative will be offered allowing shareholders to elect by 3 May 2023 to receive their dividend in the form of new ordinary shares.

The interim and final dividends for 2022 give a total dividend for the year of 6.047 cents per share, an increase of 3.0% over the prior year (2021: 5.871 cents per share).

8. Investment in financial assets

On 9 May 2022, the Group invested $30.0 million in preference shares of BlueWind Medical Limited (BlueWind Medical). BlueWind Medical is developing an implantable tibial neuromodulation device, for the treatment of urge incontinence and urinary urgency. This represents an investment into an innovative technology in the large and growing overactive bladder market, related to the Continence space.

In line with IFRS 9 *Financial Instruments*, the investment met the definition of an equity instrument, and the Group has made an irrevocable election on initial recognition to measure the investment at FVOCI. The Group considers this investment to be strategic in nature and it is not held for trading.

In line with IFRS 13 *Fair value measurement*, this investment has been classified as Level 3 in the fair value hierarchy as its measurement is derived from significant unobservable inputs. As at the date of the transaction, the equity investment was recorded at its cost of investment which approximates to fair value plus transaction costs of $0.7 million.

As at 31 December 2022, the fair value of the investment has been remeasured and remained at $30.7 million. No dividends were recognised during the year.

9. Acquisitions

During the year to 31 December 2022, the Group completed the acquisition of Triad Life Sciences Inc (Triad Life Sciences), a US-based medical device company.

This note provides details of the transaction and the acquisition accounting that has been recorded to reflect the fair value of assets acquired and liabilities assumed as well as the intangible assets and goodwill recognised upon acquisition. This note also provides details of any fair value changes identified post-acquisition in respect of previous acquisitions that the Group has completed.

Triad Life Sciences Inc

Description of the transaction

On 14 March 2022, the Group completed its acquisition of 100% of the share capital of Triad Life Sciences Inc. The acquisition of Triad strengthens the Group's Advanced Wound Care position in the US, securing access to a complementary and innovative technology platform that enhances advanced wound management and patient outcomes.

In addition to the initial consideration of $125.3 million, the sellers may earn contingent consideration up to a maximum of $325.0 million, in the form of (i) two additional payments of $25.0 million each relating to short-term milestones; and (ii) two earnout payments conditional on performance during year 1 and year 2 post completion, with the maximum earnout for these two payments totalling $275.0 million based on stretching financial performance over the period.

The discounted fair value of the contingent consideration at the date of acquisition was $141.8 million, of which $25.0 million was paid in April 2022 and a further $25.0 million paid in October 2022 following attainment of the first and second short-term milestones. The earnout payments are due to be paid within three years of the acquisition date, subject to achieving the specified targets.

Following completion of the initial acquisition accounting, any changes in the fair value of the contingent consideration at each reporting date will be recorded in the Consolidated Income Statement in accordance with the Group's accounting policies. This is explained further on in this note.

Assets acquired and liabilities assumed

The transaction meets the definition of a business combination and has been accounted for under the acquisition method of accounting. The following table summarises the provisional fair values of the assets acquired and liabilities assumed as of the acquisition date:

	Triad Life Sciences
	Provisional
	$m
Non-current assets	
Property, plant & equipment	**0.5**
Right-of-use assets	**2.2**
Intangible assets - Product-related	**154.8**
Current assets	
Trade and other receivables	**4.7**
Inventories	**10.8**
Cash and cash equivalents	**15.9**
Total assets acquired	**188.9**
Non-current liabilities	
Lease liabilities	**(2.7)**
Deferred tax liabilities	**(32.3)**
Current liabilities	
Trade and other payables	**(2.6)**
Lease liabilities	**(0.2)**
Total liabilities assumed	**(37.8)**
Net assets acquired	**151.1**
Goodwill	**129.9**
Total	**281.0**
Initial cash consideration	**125.3**
Deferred purchase consideration paid into escrow[1]	**13.8**
Working capital adjustment[2]	**0.1**
Contingent consideration	**141.8**
Total consideration	**281.0**

Analysis of cash outflow in the Consolidated Statement of Cash Flows	***Provisional*** **$m**
Initial cash consideration	**125.3**
Deferred purchase consideration paid into escrow[1]	**13.8**
Cash and cash equivalents acquired	**(15.9)**
Working capital adjustment[2]	**0.1**
Net cash outflow from acquisitions, net of cash acquired	**123.3**

1. $13.8 million was paid on closing into escrow as security and indemnity by the seller for its obligations under the Merger Agreement. $1.3 million was released in December 2022 to the sellers following agreement of the closing statement. It is expected that the remaining balance will be released within the next 12 months subject to the terms of the Merger Agreement.
2. This is the Group's calculation of the working capital adjustment and forms part of the initial consideration. The final amount was determined in accordance with the terms of the Merger Agreement and this was finalised and paid by the reporting date.

The fair values of the assets acquired and liabilities assumed are provisional at 31 December 2022. The Group will finalise these amounts as it obtains the information necessary to complete the measurement process. Any changes resulting from facts and circumstances that existed as of the acquisition date may result in retrospective adjustments to the provisional amounts recognised at the acquisition date. The Group will finalise these amounts no later than one year from the acquisition date.

As part of the acquisition accounting, a $10.2 million fair value adjustment was applied to the carrying value of inventory held at the acquisition date. The fair value adjustment relates to work-in-progress and finished goods and was calculated as the estimated selling price less costs to complete and sell the inventory, associated margins on these activities, and holding costs. As at 31 December 2022, $8.7 million has been expensed to cost of goods sold in the Consolidated Income Statement as these have been sold. The remaining fair value uplift of $1.5 million is expected to be released over the next 6 to 12 months, in line with forecast revenues.

The fair value of trade and other receivables amounts to $4.7 million, with a gross contractual amount of $7.0 million. At the acquisition date, the Group's best estimate of the contractual cash flows expected not to be collected amounts to $2.3 million.

The goodwill recorded, which is not deductible for tax purposes, represents the cost savings, operating synergies and future growth opportunities expected to result from combining the operations of Triad with those of the Group. The Triad acquisition is included in the Advanced Wound Care CGU group.

Fair value of contingent consideration at reporting date

The two short term milestones were achieved and paid during the year ended 31 December 2022. As at 31 December 2022, management reviewed the fair value of the remaining contingent consideration since the acquisition date, based on the most recent Board approved strategic plan and forecast information. Consequently, the discounted fair value of the remaining contingent consideration was increased by $23.7 million since the amount recognised at 30 June 2022, and was recognised in non-operating expenses in the Consolidated Income Statement (see Note 5 - Non-operating (expense)/income, net). The amount of discount unwind recognised in the Consolidated Income Statement during 2022 was $15.3 million and shown within finance expenses (see Note 4 - Finance income and expense). The discounted fair value of the remaining contingent consideration as at 31 December 2022 was $130.8 million. Refer to Note 13 - Provisions for the movement in the contingent consideration during the year.

Management have determined that the potential range of discounted outcomes within the next financial year is between $85.2 million and $230.8 million, from a maximum undiscounted contingent consideration of $275.0 million.

Acquisition-related costs

The Group incurred $2.4 million of acquisition-related costs directly related to the Triad acquisition in the year ended 31 December 2022, primarily in respect of legal and advisers' fees. The acquisition-related costs have been recognised in general and administrative expenses in the Consolidated Income Statement.

Revenue and profit

The revenue of Triad for the period from the acquisition date to 31 December 2022 was $34.8 million and net profit for the period was $5.8 million, before recognising acquisition-related intangible asset amortisation charge of $9.2 million and the inventory fair value uplift release of $8.7 million. If the acquisition had been completed on 1 January 2022, reported Group revenue would have been $4.4 million higher and Group profit for the year would have been $0.9 million lower, before recognising acquisition-related intangible asset amortisation charges of $2.0 million.

Cure Medical LLC ("Cure Medical")

On 15 March 2021, the Group acquired 100% of the share capital of Cure Medical.

During 2022, management reviewed the expectation of the contingent consideration based on the most recent Board-approved strategic plan and forecast information. The Cure Medical business has outperformed its performance targets to date and forecast financial performance was expected to exceed the original expectations. Consequently, the discounted fair value of the contingent consideration has been revised from $3.1 million to $8.9 million during the year and the remeasurement charge of $5.8 million has been recognised in non-operating expenses in the Consolidated Income Statement (see Note 5 - Non-operating (expense)/income, net). The amount of discount unwind recognised in the Consolidated Income Statement during 2022 was $0.3 million and shown within finance expenses (see Note 4 - Finance income and expense). The discounted fair value of the contingent consideration as at 31 December 2022 was $9.2 million. Refer to Note 13 - Provisions for the movement in the contingent consideration during the year.

This is due to be paid within three years of the acquisition date, subject to the terms of the Share Purchase Agreement.

10. Divestitures

During the year ended 31 December 2022, the Group withdrew from its hospital care activities and related industrial sales.

Exit from hospital care and industrial sales activities

On 12 May 2022, following a strategic review, it was announced that the Group would be withdrawing from its hospital care activities and related industrial sales during 2022. This does not represent a separate major line of business or component of the Group.

As a result of the exit from the hospital care and industrial sales activities, the Group recognised impairment losses in the year ended 31 December 2022 in relation to the following:

- $8.1 million was recognised, within other operating expenses, as an impairment to property, plant and equipment, primarily in relation to manufacturing equipment in Belarus and Slovakia.
- $4.3 million was recognised, within other operating expenses, as an impairment to product-related intangible assets.
- $13.4 million was recognised, within cost of sales, in relation to the write-off of inventories and provision for those which are not expected to be sold.

In addition, the Group recognised $7.3 million of severance costs, of which $1.2 million remains as a provision as at 31 December 2022, and also recognised a $6.9 million provision in relation to contract exit costs. Management will review this at each reporting period. The Group incurred $6.7 million of divestiture-related costs in relation to legal fees and closing down of manufacturing site costs. The majority of the exit and closure activities have been completed at the end of the year, with minimal costs expected in 2023.

As part of the exit from all hospital care and related industrial sales activities, a subsidiary was sold during the year. The cumulative amount of exchange losses of $12.2 million recognised in Other Comprehensive Income relating to those operations, and a loss on disposal of $2.0 million, have been recognised in the Consolidated Income Statement as non-operating expenses. All costs associated with the exit have been classified as an adjusting item in accordance with our Alternative Performance Measures policy.

11. Borrowings

The Group's sources of borrowing for funding and liquidity purposes derive from senior notes and credit facilities including a committed revolving credit facility.

In November 2022, the Group refinanced its bank facilities with $1.2 billion committed for a 5-year term. The Group's 2029 unsecured senior notes of $500.0 million remain in place.

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

			2022	2021
	Currency	**Year of maturity**	**Face value $m**	Face value $m
Revolving Credit Facility[1]	USD/Euro	2027	**477.2**	-

Term Loan	USD	2027	**250.0**	-
Senior Notes	USD	2029	**500.0**	500.0
Revolving Credit Facility	Multicurrency	2024	**-**	-
Term Loan Facility A[2]	USD/Euro	2024	**-**	461.2
Term Loan Facility B[3]	USD/Euro	2024	**-**	396.7
Interest-bearing borrowings			**1,227.2**	1,357.9
Financing fees[4]			**(15.3)**	(13.3)
Total carrying value of borrowings			**1,211.9**	1,344.6
Current portion of borrowings			**-**	144.8
Non-current portion of borrowings			**1,211.9**	1,199.8

1. Included within the Revolving Credit Facility was €145.0 million ($155.2 million) at 31 December 2022 (2021: nil), representing 32.5% of RCF debt denominated in Euros and 67.5% denominated in US dollars.
2. Included within Term Loan Facility A as at 31 December 2021 was €78.4 million ($89.2 million) representing 19% of the loan denominated in Euros and 81% denominated in US dollars.
3. Included within Term Loan Facility B as at 31 December 2021 was €67.5 million ($76.7 million), representing 19% of the loan denominated in Euros and 81% denominated in US dollars.
4. Financing fees of $15.3 million (2021: $13.3 million) related to the remaining unamortised fees incurred on the credit facilities of $8.4 million (2021: $5.4 million) and on the senior notes of $6.9 million (2021: $7.9 million).

Credit facilities

The credit facilities held by the Group are committed and available for the refinancing of certain existing financial indebtedness and general corporate purposes. On 15 November 2022, the Group refinanced its credit facilities. The original facilities, maturing in October 2024 and, consisting of two five-year multicurrency term loans totalling $1.5 billion and an undrawn $200.0 million multicurrency revolving credit facility, were settled and extinguished respectively on refinancing. During the year and until the refinancing activity, $27.5 million (2021: $88.4 million) was repaid in accordance with the repayment schedule for the original facilities.

The new credit facility for $1.2 billion comprises of a $250.0 million term loan and a $950.0 million multicurrency revolving credit facility, both committed for a five-year term. As at 31 December 2022, the term loan was fully drawn and $477.2 million of the revolving credit facility was drawn, with $472.8 million undrawn.

Transaction costs directly attributable to the refinancing have been capitalised and are amortised over the term of the facility using the effective interest rate method. Unamortised deferred financing fees of $2.7 million associated with the previous credit agreement have been written off to the Consolidated Income Statement in 2022 (refer to Note 4 - Finance income and expense).

The principal financial covenants are based on a permitted net debt to covenant-adjusted EBITDA[1] ratio and interest cover test as defined in the credit facilities agreement. Testing is required on a semi-annual basis, at June and December, based on the last 12 months' financial performance. At 31 December 2022, the permitted net debt to covenant-adjusted EBITDA[1] ratio was a maximum of 3.50 times and the interest cover a minimum of 3.50 times, terms as defined by the credit facilities agreement. In accordance with the credit facilities agreement, the net debt to covenant-adjusted EBITDA[1] ratio can increase to a maximum 4.00 times for permitted acquisitions or investments.

Senior notes

Unsecured senior notes of $500.0 million were issued on 7 October 2021 with a maturity date of 15 October 2029 at a coupon rate of 3.875% per annum, payable semi-annually and, except for certain options redemption conditions, is not redeemable at the issuer's option prior to 7 October 2024. The Group's refinancing activity did not affect the senior notes.

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

Financial covenants

The Group was in compliance with all financial and non-financial covenants at 31 December 2022, with significant available headroom on the financial covenants (in excess of $588 million debt headroom on net debt to covenant-adjusted EBITDA[1]).

Excluding the impact of interest rate swaps, the weighted average interest rate on borrowings for the year ended 31 December 2022 was 3.4% (2021: 2.0%). The increase in the weighted average interest rate was due to rising underlying reference base rates on debt with floating rates and a full year of interest on the senior notes issued in 2021.

1. Covenant-adjusted EBITDA is calculated based on terms as defined in the credit facilities agreement. This is different to adjusted EBITDA, which is an alternative performance measure ("APM") as disclosed on pages 41 to 46.

Borrowings not measured at fair value

The senior notes are listed and their fair value at 31 December 2022 of $430.8 million (2021: $507.7 million) has been obtained from quoted market data and therefore categorised as a Level 1 measurement in the fair value hierarchy under IFRS 13, *Fair Value Measurements*. For the Group's other borrowings, the fair value is based on discounted cash flows using a current borrowing rate and is categorised as a Level 2 measurement. At 31 December 2022, the estimated fair value of the Group's other borrowings was $762.4 million (2021: $847.3 million).

12. Financial instruments

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

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

Financial instruments are classified as Level 1, Level 2 or Level 3 in the fair value hierarchy in accordance with IFRS 13, *Fair*

Value Measurements, based upon the degree to which the fair value movements are observable. The only instrument classified as Level 1 are the senior notes, given the availability of quoted market price (Note 11 - Borrowings). The Group's derivative financial instruments, discussed below, are classified as Level 2, and the Group's equity investment in preference shares is classified as Level 3 (Note 8 - Investment in financial assets). The Group holds interest rate swap agreements to fix a proportion of variable interest on US dollar denominated debt, in accordance with the Group's risk management policy. The interest rate swaps are designated as hedging instruments in a cash flow hedging relationship.

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

The Group further utilises foreign exchange contracts and swaps classified as FVTPL to manage short-term foreign exchange exposure.

Cash flow hedges

The fair values are based on market values of equivalent instruments at 31 December. The following table presents the Group's outstanding interest rate swaps, which were designated as cash flow hedges at 31 December:

			2022		2021	
	Effective date	**Maturity date**	**Notional amount**	**Fair value[1] assets/ (liabilities)**	Notional amount	Fair value[1] assets/ (liabilities)
			$m	**$m**	$m	$m
3 Month LIBOR Float to Fixed Interest Rate Swap	24 Jan 2020	24 Jan 2023	**275.0**	**2.0**	275.0	(2.9)
6 Month term SOFR Float to Fixed Interest Rate Swap	23 Jan 2023	23 Jan 2024	**90.0**	**0.2**	-	-
6 Month term SOFR Float to Fixed Interest Rate Swap	23 Jan 2023	23 July 2024	**40.0**	**-**	-	-
6 Month term SOFR Float to Fixed Interest Rate Swap	23 Jan 2023	23 Jan 2025	**50.0**	**(0.3)**	-	-

1. The fair values of the interest rate swaps were disclosed in non-current derivative financial liabilities in the Consolidated Statement of Financial Position. There was no ineffectiveness recognised in the Consolidated Income Statement.

Foreign exchange forward contracts

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

		2022		2021	
	Term	**Notional amount**	**Fair value assets/ (liabilities)**	Notional amount	Fair value assets/ (liabilities)
		$m	**$m**	$m	$m
Foreign exchange contracts	≤ 3 months	**996.6**	**21.3**	864.6	14.5
Foreign currency forward exchange contracts designated as cash flow hedges	≤ 12 months	**72.7**	**3.1**	40.8	0.6
Derivative financial assets		**1,069.3**	**24.4**	905.4	15.1
Foreign exchange contracts	≤ 3 months	**703.7**	**(30.2)**	695.9	(6.5)
Foreign currency forward exchange contracts designated as cash flow hedges	≤ 12 months	**132.8**	**(2.3)**	130.2	(5.2)
Derivative financial liabilities		**836.5**	**(32.5)**	826.1	(11.7)

During the year ended 31 December 2022, the Group realised a net gain of $15.8 million (2021: $9.7 million loss) on foreign exchange forward contracts designated as FVTPL in Note 5 - Non-operating (expenses)income, net, in the Consolidated Income Statement.

Impact of hedging on other comprehensive income

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

	2022	2021
	$m	$m
Recognised in other comprehensive income:		
Effective portion of changes in fair value of cash flow hedges:		
Interest rate swaps	**3.3**	(1.0)
Foreign currency forward exchange contracts designated as cash flow hedges	**(11.0)**	(4.1)
Changes in fair value of cash flow hedges reclassified to the Consolidated Income Statement	**16.5**	5.7
Cost of hedging	**(1.1)**	(0.4)
Total	**7.7**	0.2

13. Provisions

A provision is an obligation recognised when there is uncertainty over the timing or amount that will be paid. Provisions held by the Group are primarily in respect of restructuring, decommissioning, dilapidations, legal liabilities and contingent consideration relating to acquisitions.

The movements in provisions are as follows:

	Decommissioning and dilapidations $m	Restructuring $m	Legal $m	Contingent consideration $m	Total $m
1 January 2022	**1.2**	**5.0**	**0.5**	**-**	**6.7**
Contingent consideration from acquisitions	-	-	-	141.8	141.8
Charged to income statement	1.7	15.7	(0.3)	29.5	46.6
Utilised	-	(10.4)	-	(50.0)	(60.4)
Discount unwinding	-	-	-	15.6	15.6
Reclassification from trade and other payables[1]	-	-	-	3.1	3.1
Foreign exchange	(0.1)	-	-	-	(0.1)
31 December 2022	**2.8**	**10.3**	**0.2**	**140.0**	**153.3**
Current	**-**	**10.3**	**-**	**89.9**	**100.2**
Non-current[2]	**2.8**	**-**	**0.2**	**50.1**	**53.1**

1. During the year ended 31 December 2022, $3.1 million was reclassified from trade and other payables in relation to the Cure Medical acquisition to better reflect the estimation uncertainty of the contingent consideration.

2. The expected timings of the payment of the contingent consideration are disclosed in Note 9 - Acquisitions. The timing for other non-current provisions is undefined.

Decommissioning and dilapidation provisions

Decommissioning provisions represent the estimated costs of dismantling and removing PP&E and restoring the site on which it was located. Dilapidation provisions are in respect of contractual obligations, on the expiry of a lease, to return leased properties in the condition which is specified in the individual leases.

Restructuring provisions

Restructuring provisions are mainly related to the exit from the low margin hospital care and industrial sales portfolio. Further details are provided in Note 10 - Divestitures. All restructuring provisions are supported by detailed plans and a valid expectation has been raised in those affected as required by the Group's accounting policy.

Legal provision

Legal provision of $0.2 million is in respect of an ongoing case. Legal issues are often subject to uncertainties over the timing and the final amounts of any settlement.

Contingent consideration

Contingent consideration arising from business combinations is fair valued on acquisition and at each reporting period.

As at 31 December 2022, the discounted fair value of the contingent consideration payable in respect of the Cure Medical acquisition was $9.2 million (2021: $3.1 million) with an increase of $5.8 million arising as a result of good performance to date, together with the latest financial forecasts, and the unwind of discount of $0.3 million during the year. This has been charged to the Consolidated Income Statement.

As at 31 December 2022, the discounted fair value of the contingent consideration payable in respect of the Triad acquisition was $130.8 million, with the movements since the acquisition date fair value of $141.8 million being a combination of an increase of $23.7 million arising from management's view that the latest available financials are expected to exceed original expectations and the unwind of discount of $15.3 million during the year, partly offset by the payments of $50.0 million to the sellers following successful attainment of the two short-term milestones per the Merger Agreement. Further detail is provided in Note 9 - Acquisitions.

14. Commitments and contingencies

Capital commitments

At 31 December 2022, the Group had non-cancellable commitments for the purchase of property, plant and equipment, capitalised software and development of $39.3 million (2021: $32.1 million).

Contingent liabilities

There are no contingent liabilities recognised as at 31 December 2022 and 31 December 2021.

15. Subsequent events

The Group has evaluated subsequent events through to 8 March 2023, the date the Consolidated Financial Statements were approved by the Board of Directors.

Details of the proposed final dividend are disclosed in Note 7 - Dividends.

16. Responsibility statement of the directors on the Annual Report

The Responsibility Statement below has been prepared in connection with the 2022 Annual Report. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

- The Financial Statements, prepared in accordance with United Kingdom adopted international accounting standards which have been prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- The Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Group's and Company's performance, business model and strategy.

This Responsibility Statement was approved by the Board of Directors on 8 March 2023 and is signed on its behalf by:

Karim Bitar	**Jonny Mason**
Chief Executive Officer	Chief Financial Officer
8 March 2023	8 March 2023

Non-IFRS financial information

Non-IFRS financial information or alternative performance measures ("APMs") are those measures used by management on a day-to-day basis in their assessment of profit and performance and comparison between periods. The adjustments applied to IFRS measures reflect the effect of certain cash and non-cash items that the Board believes distort the understanding of the quality of earnings and cashflows as, by their size or nature, they are not considered part of the core operations of the business. Adjusted measures also form the basis for performance measures for remuneration, e.g. adjusted operating profit. For further information see pages 42 to 46.

The APMs used include adjusted gross profit, adjusted general & administrative expenses, adjusted selling and distribution expenses, adjusted operating profit, EBITDA, adjusted EBITDA, adjusted net finance expenses, adjusted non-operating expenses, adjusted net profit, adjusted earnings per share, adjusted working capital, adjusted cash conversion, adjusted free cash flow and net debt. Reconciliations for these adjusted measures determined under IFRS are shown on pages 43 to 46. The definitions of adjusted measures are as calculated within the reconciliation tables.

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

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

If an item meets at least one of these criteria, the Board, through the Audit and Risk Committee, then exercises judgement as to whether the item should be classified as an allowable adjustment to IFRS performance measures.

Adjustments to derive adjusted operating profit, excluding the impact of tax, for the years ended 31 December 2022 and 2021 include the following costs:
- Amortisation of intangible assets in respect of material acquisitions ($131.3 million and $130.4 million respectively).
- Costs incurred in respect of acquisition and divestiture activities ($56.6 million and $17.8 million respectively).
- Impairment of intangible assets from material acquisitions ($1.4 million and $nil respectively).
- Termination costs in respect of the Group's transformation programme and exit from hospital care business and related industrial sales activities ($7.1 million and $4.3 million respectively).
- Litigation expenses arising on matters deemed outside the ordinary course of business ($nil and $5.6 respectively).

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

Adjusted EBITDA, which is used to calculate the metric of adjusted cash conversion and adjusted working capital, is calculated by adding back share-based payments to adjusted operating profit, together with the annual depreciation, amortisation charge and impairment/write-off of assets not already removed within the adjusted operating profit.

Amortisation of acquisition-related intangible assets

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

Acquisition-related activities

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

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

Adjusted measures in relation to acquisition also include aborted deal costs.

Divestiture-related activities

Divestiture-related activities comprise the gains or losses resulting from disposal of assets or divestment of a business as a result of a sale, major business change or restructuring programme. These include write-down of non-current assets, provisions to recognise inventories at realisable value, provisions for costs of exiting contracts and associated legal fees, and any other directly attributable costs. Any income from the ultimate disposal of a business or subsidiary is included in the gain or loss.

Adjusted measures in relation to divestiture also include aborted deal costs.

Impairment of assets

Impairments, write-offs and gains and losses from defined programmes and where the Group considers the circumstances of such event are not reflective of normal business trading performance or when transactions relate to acquisition-related intangible assets where the amortisation is already excluded from the calculation of adjusted measures.

Termination benefits and related costs

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

Litigation expenses

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

Reconciliation of earnings to adjusted earnings for the years ended 31 December 2022 and 2021

Year ended 31 December 2022	Revenue $m	Gross profit $m	Operating costs $m	**Operating profit $m**	Finance expense, net $m	Non-operating expense, net $m	**PBT $m**	Income tax $m	**Net profit $m**
As reported	**2,072.5**	**1,103.9**	**(896.6)**	**207.3**	**(67.7)**	**(57.7)**	**81.9**	**(19.0)**	**62.9**
Amortisation of acquired intangibles	-	111.6	19.7	**131.3**	-	-	**131.3**	(29.2)	**102.1**
Acquisition related costs	-	8.7	8.2	**16.9**	15.6	29.5	**62.0**	(3.5)	**58.5**
Divestiture related costs	-	16.6	23.1	**39.7**	-	14.2	**53.9**	(7.8)	**46.1**
Termination benefits and related costs	-	4.8	2.3	**7.1**	-	-	**7.1**	(1.2)	**5.9**
Impairment of assets	-	-	1.4	**1.4**	-	-	**1.4**	-	**1.4**
Total adjustments including tax effect	**-**	**141.7**	**54.7**	**196.4**	**15.6**	**43.7**	**255.7**	**(41.7)**	**214.0**
Other discrete tax items	-	-	-	**-**	-	-	**-**	(20.1)	**(20.1)**
Adjusted	**2,072.5**	**1,245.6**	**(841.9)**	**403.7**	**(52.1)**	**(14.0)**	**337.6**	**(80.8)**	**256.8**

Software and R&D amortisation	16.1
Depreciation	61.8
Impairment/write-off of assets	1.7
Share-based payments	16.7
Adjusted EBITDA	**500.0**

Year ended 31 December 2021	Revenue $m	Gross profit $m	Operating costs $m	Operating profit $m	Finance expense, net $m	Non-operating expense, net $m	PBT $m	Income tax $m	Net profit $m
As reported	2,038.3	1,123.1	(919.5)	203.6	(43.5)	(8.8)	151.3	(33.7)	117.6
Amortisation of acquired intangibles	-	109.5	20.9	130.4	-	-	130.4	(10.8)	119.6
Acquisitions and divestitures	-	-	17.8	17.8	-	-	17.8	-	17.8
Termination benefits and related costs	-	0.7	3.6	4.3	-	-	4.3	(0.7)	3.6
Litigation expenses	-	-	5.6	5.6	-	-	5.6	-	5.6
Total adjustments including tax effect	-	110.2	47.9	158.1	-	-	158.1	(11.5)	146.6
Other discrete tax items	-	-	-	-	-	-	-	(1.2)	(1.2)
Adjusted	2,038.3	1,233.3	(871.6)	361.7	(43.5)	(8.8)	309.4	(46.4)	263.0

Software and R&D amortisation	13.7
Amortisation of immaterial acquired intangibles	3.1
Depreciation	63.4
Impairment/write-off of assets	5.9
Share-based payments	16.4
Adjusted EBITDA	464.2

Included within the amortisation of acquired intangibles of $131.3 million (2021: $130.4 million), $93.0 million (2021: $96.8 million) related to intangible assets arising from the spin-out from Bristol-Myers Squibb in 2008. The carrying amount of these intangible assets at 31 December 2022 was $330.2 million and will be fully amortised by 31 December 2026.

Acquisition-related costs of $62.0 million are directly related to potential and actual strategic transactions which have been executed, aborted or are in-flight and which seek to improve the strategic positioning of the Group. The majority of acquisition-related costs are in respect of the Triad acquisition, which included $2.4 million of legal and adviser's fees, $23.7 million of remeasurement charge on contingent consideration, $15.3 million of discounting unwind and $8.7 million of inventory fair value uplift release. The net cash impact in relation to acquisition-related costs was $2.9 million.

Divestiture-related costs of $53.9 million are mainly related to the phased exit from the low margin hospital care business and industrial sales portfolio, and include the impairment of intangible assets and property, plant and equipment, write-off of inventories, and contract exit costs (refer to Note 10 - Divestitures). The net cash impact in relation to divestiture-related costs was $2.1 million.

Termination benefits and related costs of $7.1 million, pre-tax, are primarily in respect of the severance costs from the Group's withdrawal from its hospital care and industrial sales portfolio. The net cash impact of these costs was $10.3 million.

Of the total net cash impact of $15.3 million as presented above, $4.2 million related to accruals recorded in the prior year.

Impairment of assets of $1.4 million relates to a legacy acquisition-related customer relationship asset which was impaired as part of rationalisation of activities in the portfolio.

Other discrete tax items in 2022 relate to the tax benefit from the recognition of deferred tax assets following the acquisition of Triad Life Sciences. In 2021, other discrete tax items related to the tax benefit of $6.8 million resulting from the recognition of deferred tax following the acquisition of Cure Medical, partially offset by a tax expense of $5.6 million relating to the revaluation of deferred tax liabilities on UK-acquired intangibles as a result of the increase in the UK corporation tax rate from 1 April 2023.

Reconciliation of operating costs to adjusted operating costs for the years ended 31 December 2022 and 31 December 2021

	2022					2021			
	S&D[1]	**G&A[2]**	**R&D[3]**	**Other[4]**	**Operating costs**	S&D[1]	G&A[2]	R&D[3]	Operating costs
	$m	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m
As reported	**(575.9)**	**(214.9)**	**(92.0)**	**(13.8)**	**(896.6)**	(539.7)	(285.3)	(94.5)	(919.5)
Amortisation of acquired intangibles	**-**	**19.7**	**-**	**-**	**19.7**	-	20.9	-	20.9
Acquisitions and divestitures	**9.0**	**9.9**	**-**	**12.4**	**31.3**	0.5	17.3	-	17.8
Impairment of assets	**-**	**-**	**-**	**1.4**	**1.4**	-	-	-	-
Termination benefits and related costs	**2.0**	**0.3**	**-**	**-**	**2.3**	-	3.7	(0.1)	3.6
Litigation expenses	**-**	**-**	**-**	**-**	**-**	-	5.6	-	5.6
Adjusted	**(564.9)**	**(185.0)**	**(92.0)**	**(0.0)**	**(841.9)**	(539.2)	(237.8)	(94.6)	(871.6)

1. "S&D" represents selling and distribution expenses.
2. "G&A" represents general and administrative expenses.
3. "R&D" represents research and development expenses.
4. "Other" relates to the impairment of assets from the Group's withdrawal from hospital care and industrial sales portfolio and impairment of product-related intangible assets from previous acquisition.

Reconciliation of income tax expense to adjusted income tax expense

	2022	2021
	$m	$m
Income tax expense	**(19.0)**	(33.7)
Tax effect of adjustments	**(41.7)**	(11.5)
Other discrete tax items[1]	**(20.1)**	(1.2)
Adjusted income tax expense	**(80.8)**	(46.4)

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

Reconciliation of basic and diluted earnings per share to adjusted earnings per share for the years ended 31 December 2022 and 31 December 2021

	2022	**Adjusted 2022**	2021	Adjusted 2021
	$m	**$m**	$m	$m
Net profit attributable to the shareholders of the Group	**62.9**	**256.8**	117.6	263.0
		Number		Number
Basic weighted average ordinary shares in issue		**2,023,839,657**		2,008,923,797
Diluted weighted average ordinary shares in issue		**2,040,247,468**		2,026,340,345
	Cents per share	**Cents per share**	Cents per share	Cents per share
Basic earnings per share	**3.1**	**12.7**	5.9	13.1
Diluted earnings per share	**3.1**	**12.6**	5.8	13.0

Cash conversion for the years ended 31 December 2022 and 31 December 2021

	2022	2021
	$m	$m
Operating profit	**207.3**	203.6
Depreciation of property, plant and equipment	**39.7**	40.6
Depreciation of right-of-use assets	**22.1**	22.8
Amortisation of intangible assets	**147.4**	147.2
Impairment/write-off of intangible assets and property, plant and equipment	**15.5**	5.9
EBITDA	**432.0**	420.1
Non-cash items		
Share-based payments	**16.7**	16.4
Working capital movement	**(62.5)**	(31.6)
Loss on foreign exchange derivatives	**(1.7)**	(4.3)
Net cash generated from operations	**384.5**	400.6

Net cash generated from operations	**384.5**	400.6
Acquisition of property, plant and equipment and intangibles assets	**(144.2)**	(94.1)
Net cash for cash conversion	**240.3**	306.5
Income taxes paid	**(52.9)**	(59.2)
Free cash flow (post-tax)	**187.4**	247.3

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

	2022 **$m**	2021 $m
Net cash for cash conversion	**240.3**	306.5
Non-operating (gain)/loss on foreign exchange forward contracts	**-**	0.4
Acquisitions and divestitures adjustments	**5.0**	13.0
Termination benefits and related costs adjustments	**10.2**	8.4
Litigation costs adjustments	**-**	5.6
Adjusted net cash for cash conversion	**255.5**	333.9
Income taxes paid	**(52.9)**	(59.2)
Adjusted free cash flow (post-tax)	**202.6**	274.7

EBITDA	**432.0**	420.1
Adjusted EBITDA	**500.0**	464.2
Cash conversion	**55.6%**	73.0%
Adjusted cash conversion	**51.1%**	71.9%

Reconciliation of adjusted working capital

	2022 **$m**	2021 $m
Working capital movement[1]	**(62.5)**	(31.6)
Decrease in termination benefits[2]	**3.1**	4.1
Increase in respect of acquisitions and divestitures[2]	**(39.2)**	(4.8)
Adjusted working capital movement	**(98.6)**	(32.3)

1. Working capital movement is the change in assets and liabilities total within the Consolidated Statement of Cash Flows on page 25.
2. These are the cash flow impacts to the adjusted items shown in the reconciliation of earnings to adjusted earnings table on page 43.

Net debt

Net debt is calculated as the carrying value of current and non-current borrowings on the face of the Consolidated Statement of Financial Position, net of cash and cash equivalents and excluding lease liabilities.

	2022 **$m**	2021 $m
Borrowings	**1,211.9**	1,344.6
Lease liabilities	**88.3**	90.5
Interest-bearing liabilities	**1,300.2**	1,435.1
Cash and cash equivalents	**(143.8)**	(463.4)
Interest-bearing liabilities net of cash	**1,156.4**	971.7
Net debt (excluding lease liabilities)	**1,068.1**	881.2
Net debt (excluding lease liabilities)/adjusted EBITDA	**2.1**	1.9

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