

**Pioneering trusted medical
solutions to improve the
lives we touch**



**ConvaTec Group Plc
Annual Report and Accounts 2021**



“During 2021 we have made good progress pivoting the business to sustainable and profitable growth.

We have continued to execute our ‘FISBE’ strategy and have strengthened the Group through both organic investments and through acquisitions.

The performance of the Group continued to improve although the financial progress in 2021 was moderated by foreign exchange and inflationary headwinds.”

Karim Bitar
Chief Executive Officer

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2021 highlights

Financial highlights¹

Revenue ▲7.6%

| | |
|-------------|-----------------|
| 2021 | \$2,038m |
| 2020 | \$1,894m |

Adjusted EBIT margin ▼80bps

| | |
|-------------|--------------|
| 2021 | 17.7% |
| 2020 | 18.5% |

Operating profit ▼3.5%

| | |
|-------------|---------------|
| 2021 | \$204m |
| 2020 | \$211m |

Basic earnings per share ▲3.6%

| | |
|-------------|-------------|
| 2021 | 5.9c |
| 2020 | 5.7c |

Adjusted EBIT² ▲3.3%

| | |
|-------------|---------------|
| 2021 | \$362m |
| 2020 | \$350m |

Adjusted basic earnings per share ▲8.3%

| | |
|-------------|--------------|
| 2021 | 13.1c |
| 2020 | 12.1c |

1. Certain financial measures in this Annual Report and Accounts, including adjusted performance measures above, are not prepared in accordance with IFRS. All adjusted performance measures are reconciled to the most directly comparable measure prepared in accordance with IFRS on pages 207 to 210.
2. Adjusted EBIT is equivalent to adjusted operating profit as reconciled on page 208.

Strategic 'FISBE' highlights



Focus

- Revenue in our top 12 markets grew revenue by 7.9% on a constant currency basis³
- Acquired Cure Medical and Patient Care Medical strengthening our continence business



Innovate

- Invested \$95m in R&D (2020: \$82m)
- Rolled out consistent new product development/launch process across all business units
- Launched Extended Wear Infusion Set in Europe



Simplify

- Further expanded Global Business Service Centre in Lisbon
- Continued to rationalise Ostomy product portfolio

3. Revenue growth is stated at constant currency (CER).



Build

- Salesforce Centre of Excellence ("CoE") rolled out single Customer Relationship Management ("CRM") platform across Europe and North America
- Marketing CoE established and good progress building digital capabilities
- Professional Education CoE trained >300k healthcare professionals globally



Execute

- Embedded Transformation Execution Office ("TEO")
- Increasing focus on operational transformation initiatives
- Expanded 'Ability2Execute' training to instil execution excellence mindset, with 77% of senior managers having already participated in training

Responsible business highlights

- Set up Executive-level Environmental, Social and Governance ("ESG") Steering Committee, chaired by the CEO and created new 'ConvaTec Cares' ESG framework
- Developed new company-wide Diversity, Equity & Inclusion and Wellbeing approach, programmes and commitments
- Launched our Green Design Guidelines tool to enhance sustainable product design
- Delivered a further 9.5% reduction in Scope 1 and 2 greenhouse gas ("GHG") emissions (from 2018 baseline) and committed to Science Based Targets initiative

At a glance

What we do

We develop and produce innovative medical solutions that give people living with chronic conditions confidence, freedom and mobility. We offer a range of services to support these people and the healthcare professionals who care for them.

We market and sell our solutions and services in four categories: Advanced Wound Care, Ostomy Care, Continence & Critical Care, and Infusion Care. We have a direct presence in certain markets and an extensive network of wholesalers and distributors.

Our vision

Pioneering trusted medical solutions to improve the lives we touch.

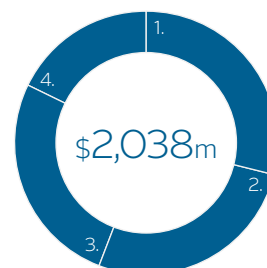
Our values



Scale of our business

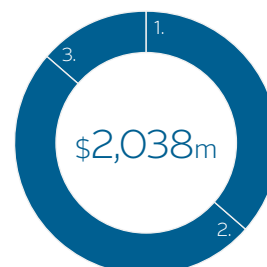
Group reported revenue by category

1. Advanced Wound Care:
29.0% \$592m
2. Ostomy Care:
26.8% \$546m
3. Continence & Critical Care:
26.6% \$543m
4. Infusion Care:
17.6% \$357m



Group reported revenue by geography

1. Europe:
36.4% \$742m
2. North America:
50.1% \$1,022m
3. Rest of World:
13.5% \$274m



Key facts

100+

Number of countries where our products are available

12

Key Markets

10,100+

Number of employees

9

Number of manufacturing operations

Our categories



Advanced Wound Care (“AWC”)

Advanced dressings for the management of acute and chronic wounds resulting from ongoing conditions, such as diabetes, and acute conditions resulting from traumatic injury and burns.



Ostomy Care (“OC”)

Devices, accessories and services for people with a stoma (a surgically-created opening where bodily waste is discharged), commonly resulting from causes such as colorectal cancer, inflammatory bowel disease and bladder cancer.



Continence & Critical Care (“CCC”)

Products and services for people with urinary continence issues related to spinal cord injuries, multiple sclerosis, spina bifida and other causes. Plus devices and products used in intensive care units and hospital settings.



Infusion Care (“IC”)

Disposable infusion sets for diabetes insulin pumps, or for pumps used in continuous subcutaneous infusion treatments for conditions such as Parkinson's disease.

Chairman's statement

Dear Shareholder

As COVID-19 continued to impact the operating environment last year, I am encouraged by how our people have continued to navigate changes in all our lives, against a tightening economic backdrop, shifting societal norms and the impacts on healthcare markets that create both opportunities and challenges for the Group.

Our success this year is reflected in our financial performance and the progress we are making towards our strategic goals, as well as in the way our people have continued to adapt and respond to the continuing changes brought by the pandemic. By focusing on our people and culture, we have been able to continue to serve and support customers and patients who use our products and services, enabling continued strategic progress, as we pivot towards sustainable and profitable growth. Additionally during 2021, we have further strengthened our Continence and Critical Care business by the acquisition of Cure Medical and of Patient Care Medical. We also improved our balance sheet, extending our maturity profile and diversifying our debt, though a successful debut bond issue for ConvaTec.

On behalf of the Board, I would like to thank all our people for their hard work, dedication and resilience.

2021 performance

Revenue of \$2,038 million increased 7.6% on a reported basis and 5.8% on a constant currency basis. Operating profit was \$204 million on a reported basis (2020: \$211 million) and \$362 million on an adjusted basis (2020: \$350 million). Adjusted EBIT margin declined c.80bps to 17.7%, largely because of foreign exchange. The constant currency adjusted margin was broadly flat year-on-year notwithstanding the strategic investments made and significant inflation headwinds. Cash flow from operations remained robust and the leverage reduced from 2.0x to 1.9x net debt/adjusted EBITDA.

Dividend

Despite the impact of currency fluctuation and inflation, we are pleased with our financial progress and the potential for growth over the medium to long term. Accordingly, the Board is proposing a final dividend of 4.154 cents per share which brings the 2021 full year dividend to 5.871 cents per share, a 3% increase over the 2020 full year dividend, subject to shareholder approval at our Annual General Meeting on 12 May 2022. This level is at the top of our stated dividend policy of 35% to 45% of adjusted net profit and reflects the Board's confidence in the future growth prospects of the Group, its underlying financial strength, realised distributable reserves position, cash generation and liquidity.

Board changes and governance

There have been a number of changes to the composition of the Board and Board committees during the year, and since the year end. In December 2021 we announced the succession of our Chief Financial Officer, Frank Schulkes, who is stepping down from the Board on 11 March 2022. Frank has made a valuable contribution to the Group and provided strong leadership during our transformation. We wish Frank every success for the future.

Jonny Mason was appointed as CFO Designate with effect from 31 January 2022 and will become CFO and a Director of the Company on 12 March 2022. Jonny has an impressive track record as a CFO and brings a wealth of relevant strategic and operational experience.

On 1 February 2022, we welcomed Kimberly ("Kim") Lody as a Non-Executive Director. Since 2019, Kim has been the President and Chief Executive Officer of Sonida Senior Living Corporation, one of the US's largest owner-operators of senior housing communities. Kim has an extensive background in international, multi-cultural environments with more than 25 years of healthcare experience including alternate site healthcare services, durable medical equipment and medical devices. Kim has joined our Nomination and Remuneration Committees.

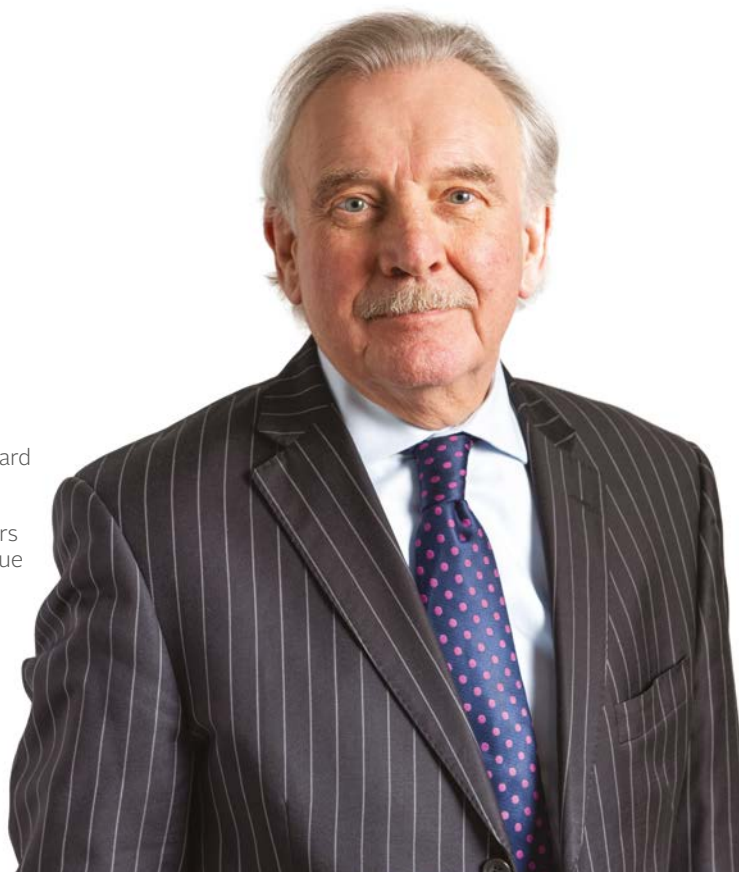
On 28 February 2022, we announced the appointment of Sharon O'Keefe as a Non-Executive Director with effect from 1 March 2022. Sharon has over 40 years' experience in the healthcare sector and was until 2020, President and COO of U Chicago Medicine, a US nationally-ranked medical centre, with a network of physicians and clinics with over 10,000 employees, and revenue in excess of \$2 billion. Sharon joined our Nomination and Remuneration Committees on the same date. Also, on 28 February we announced that Rick Anderson, Non-Executive Director, would be resigning from the Board with effect from 3 March 2022. Rick has made a significant contribution to the Group since 2016 and we wish Rick every success for the future.

We also announced that Professor Constantin Coussios, Non-Executive Director, became a member of our Remuneration and Nomination Committees on 27 January 2022. Further biographical information on Board members, including those referred to above, is set out on pages 94 and 95.

Recognising that directors with diverse backgrounds and experience bring a valuable range of perspectives to the Board's deliberations, I am pleased that following the recent changes to the composition of our Board we have now achieved gender diversity of 45% female directors. Below Board level, we are equally ambitious about Diversity, Equity, Inclusion and Wellbeing and we have made significant progress in bringing in new leadership talent to the business over the past year, accelerating the work we are doing to build a high-performance culture and deliver our FISBE strategy.

Stakeholder perspectives and responsible business

This year's report includes extended commentary about our Responsible Business programme, including the development of our new Environmental, Social and Governance framework (ESG), ConvaTec Cares, outlined on page 33. We established our new ESG Steering Committee, chaired by the CEO, and including six Executive Committee (CELT) members. The Committee completed a wide-ranging peer review, gap analysis and approved a new materiality matrix (see page 32) to inform and validate the new framework. The Board will closely monitor progress on ESG regularly throughout the year, and we will continue to ensure that our Board discussions (including those regarding ESG progress) take account of our stakeholders' interests.

**Looking forward**

In a rapidly evolving environment, we have continued to strengthen our chronic care offerings with strong brands and differentiated products, holding leading market positions in large and structurally-growing markets. I want to thank all the employees of ConvaTec for their hard work and progress toward achieving our strategic ambitions.

Finally, I would also like to acknowledge and thank our investors for their confidence in and support of the Group as we continue our path to sustainable and profitable growth.

Dr John McAdam CBE
Chairman

7 March 2022

Dr John McAdam CBE
Chairman

“During 2021, ConvaTec continued pivoting to sustainable and profitable growth. Revenue of \$2,038 million increased 7.6% on a reported basis and 5.8% on a constant currency basis.”

Chief Executive Officer's review



Karim Bitar
Chief Executive Officer

“ConvaTec’s competitive position continues to strengthen as we successfully execute our FISBE strategy. Our strategic transformation investments over the past few years have significantly enhanced the quality of our business and position us well for future growth.”

Strategic transformation – FISBE – pivoting to sustainable & profitable growth



Focus
on key categories
and markets



Innovate
in our work and
trusted solutions



Simplify
our organisation
and operations



Build
core
capabilities



Execute
with
excellence

Sustainable and
Profitable Growth

Our growth prospects are attractive

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

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

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

We are pivoting to sustainable and profitable growth

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

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

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

During 2021 we built capabilities and processes in Corporate Development and have utilised our cash for strategic acquisitions – spending a total of \$114 million to strengthen our US continence business and, since the year end, we have also announced the proposed acquisition of Triad Life Sciences which will enable us to enter the attractive Wound Biologics¹ segment while leveraging our innovation and commercial capabilities.

Further details on the progress made under each pillar of our FISBE strategy are outlined on pages 12 to 17.

Our financial performance continued to strengthen

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

Reported operating profit was \$204 million (2020: \$211 million). The year-on-year decline principally reflected the foreign exchange and inflationary headwinds, continued strategic investment, amortisation of acquisition intangibles and acquisition and divestiture related costs partially offset by the positive revenue growth. Adjusted EBIT rose 3.3% to \$362 million (2020: \$350 million) with an adjusted EBIT margin of 17.7% (2020: 18.5%). The adverse foreign exchange translation impact was \$7 million and on a constant currency basis adjusted EBIT rose 5.4%, with the constant currency adjusted EBIT margin broadly flat at 18.4%, in line with our expectations. The strong growth in revenue and productivity improvements were offset by inflationary headwinds and the cost of continued strategic investments to further strengthen the core capabilities within the Group.

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

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

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

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

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

Delivering continued strategic progress

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

On pages 12 to 17 you can read about the progress we have made with each our strategic pillars and our priorities for 2022.

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

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

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

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



Our strategy
See pages 12 to 17.

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

We are making progress on our ESG journey

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

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

ConvaTec Executive Leadership Team ("CELT") changes

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

The CELT has continued to evolve following expected retirements. John Lindskog recently retired and Kjersti Grimsrud, who previously led our Continence Care business and has over two decades of experience in diabetes care, has taken over to lead our Infusion Care business. Consequently, Seth Segel has added Continence Care to his existing responsibilities for the Home Services Group, where there is natural synergy. Supratim Bose also retired during the period and Bruno Pinheiro, who for the last three years has been leading our impressive LATAM business, has stepped up to act as Interim President and COO of GEM. Finally, Adam Deutsch left the Group and Evelyn Douglas has therefore assumed additional responsibility for legal, compliance and Company Secretariat given her significant experience in corporate legal roles. I would like to take this opportunity to thank John, Supratim and Adam for their significant contribution to the Group and its transformation.

Ukraine situation

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

2022 outlook

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

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

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

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

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

Karim Bitar
Chief Executive Officer
7 March 2022

Our market environment

We have established positions in attractive, growing markets. These markets are being impacted by global megatrends coupled with an evolution of the healthcare landscape. This is shaping the way we do business.

Chronic care – global market size¹

c.\$14bn

Expected CAGR¹ of Advanced Wound Care, Ostomy Care and Continence & Critical Care markets

+c.4%

Expected CAGR¹ of the Infusion Care market

+c.7%



For more detail about the market size and growth rates for each category please visit pages 24 to 30.

1. Market size and growth information contained on this page are segmental estimates and are based on internal analysis and publicly available sources, including SmartTRAK and Global Industry Analysts Inc. reports.

Mega-trends driving demand for our products

Three global trends are driving structural growth in our markets and increasing demand for our products and technologies.

Megatrends

An ageing population

Global population aged 60+

1.0bn
2020

2.1bn
2050

Source: United Nations, World Population Prospects, 2019 revision.

Chronic conditions are on the increase

~1 in 3

of all adults globally suffer from multiple chronic conditions.

Source: The global burden of multiple chronic conditions, Cothar Hajat and Emma Stein (2019).

700m

adults globally with diabetes by 2045, up from 463m in 2019.

Source: IDF Diabetes Atlas, 9th Edition 2019.

50m

globally reported cases of patients suffering from hard-to-heal wounds.

Source: Frost & Sullivan.

People are living longer

Average life expectancy in the world

47yrs
1950

73yrs
2020

Source: United Nations Population Divisions estimates.

What does this mean for ConvaTec?

Demand for our products is growing, driven by the increasing prevalence of long-term chronic conditions such as:

- Diabetes (AWC & IC)
- Vascular diseases (AWC)
- Chronic ulcers (AWC)
- Colorectal and bladder cancers (OC)
- Crohn's disease (OC)
- Ulcerative colitis (OC)
- Multiple sclerosis (CCC)
- Benign prostatic hyperplasia (CCC)

There is a strong correlation between age and the incidence of chronic conditions which is fuelling demand for our products.

Many patients may need to use our products throughout their lives so the increasing average life expectancy may also generate long-term demand for our medical solutions.

The megatrends being seen drive our strategic desire to FOCUS on our four key chronic care categories of Advanced Wound Care, Ostomy Care, Continence and Critical Care and Infusion Care. Under that same strategic pillar we also recognise the importance of investing to support growth in different geographies, including the Emerging Markets. China, Brazil and Columbia are amongst the top 12 key markets where we are focusing investment.

Dynamics shaping our business

An evolving healthcare landscape.

Dynamics

Growing healthcare cost pressures

\$15tn by 2050

Projected global health spending.

Source: Global Burden of Disease Health Financing Collaborator Network.

Cost pressures on healthcare systems are prompting initiatives to reduce overall spending including:

- Greater emphasis on value-based healthcare solutions which deliver better outcomes at lower costs
- Increasing price pressures
- More outpatient care

High-growth in the Emerging Markets

\$2.4tn **\$6.2tn**
2020 2030

Global Emerging Markets healthcare spending

Source: WHO – Global Health Expenditure Database, FrontierView

Global Emerging Markets continue to grow faster given population dynamics, increased government healthcare spending, greater access to healthcare and expanding middle classes with access to health insurance are increasing demand for healthcare products and services.

Homecare, patient-centric and digitally-enabled ecosystem has accelerated during the pandemic

+c.7%

growth in US home health 2019-2028.

Source: National Health Expenditure projections, CMS

64%

of EU health providers increased adoption of digital technologies to provide virtual support during 2021.

Source: Global Burden of Disease Health Financing Collaborator Network.

76%

of institutional decision-makers believe interactions with MedTech companies will be more digital post COVID-19.

Source: ConvaTec New Normal Customer Survey (2020).

Increase in patient/consumer influence

76%

of consumers prefer digital solutions making digital a core part of healthcare delivery.

Source: 2020 McKinsey Consumer Health Insights Survey.

Patients are increasingly comparing healthcare companies to customer experience leaders. They are becoming more engaged in their healthcare and are actively seeking out products and technologies that address their needs in a convenient way that fits with their lifestyle.

What does this mean for ConvaTec?

We are continually responding to the evolving healthcare landscape.



We are investing to ensure we deliver trusted medical solutions that provide optimal outcomes and enable healthcare providers to deliver their services in the most cost-effective way. We are increasing the number of studies supporting our new products and in-market solutions which provide meaningful evidence for our customers and patients and valuable insight for product enhancements.



We are investing resources in key markets including China, Brazil and Colombia.



We are continuing to invest in our Home Services Group plus other platforms, such as me+™, which directly support our customers in their home environments. We regularly engage with the people who use our products and utilise their feedback in our innovation process to ensure we understand and meet their personal preferences, emotional and lifestyle needs.



Tech-enabled innovation is affecting all types of disease management and digitisation in particular is enabling remote management of therapies and real-time monitoring. We are therefore focused on developing differentiated solutions that utilise smart technologies and data and meet the distinct needs of our customers. We have been investing in digital tools and omnichannel solutions for our patients.



We are also looking to support healthcare providers and have embraced virtual webinars to provide value-added solutions, support and advice to healthcare practitioners ("HCPs") – during 2021 more than 300k HCPs participated in ConvaTec's Medical Education programme.



Furthermore, given the impact of COVID-19 on patient care and the way the healthcare systems are operating, we have simplified our business to ensure patient-centricity and increase agility. We have, for example, structured our salesforce to enable engagement in an in-person or virtual setting.

Our strategy

During 2021 we have made good progress with our strategic transformation. We have strengthened the Group's foundations and begun pivoting to sustainable and profitable growth.

Key objectives

Our vision

Pioneering trusted medical solutions to improve the lives we touch

Our strategic intent

To pivot to sustainable and profitable growth

Our strategy

"FISBE" is the strategy we are adopting to enable us to deliver on this intent.

We have, over the last three years, been making good progress:

- We have stabilised the business
- We have been investing in our core capabilities
- We have been strengthening our internal and external innovation pipeline



KPIs

On pages 18 to 19 you can see the Key Performance Indicators we use to measure progress with our strategy.

Our strategic pillars

Through implementation of our five-pillar strategy we are focused on pivoting to sustainable and profitable growth.

Focus

Focus on key categories and markets.



Innovate

Invest in our R&D capabilities to develop trusted medical solutions that customers need most. Our innovation will focus on providing differentiated, patient-centric as well as digital solutions delivered across products and services.



Simplify

Simplify and strengthen our operations by having a more customer-centric and agile operating model with improved productivity.



Build

Build critical core capabilities across the value chain via centres of excellence, including salesforce effectiveness and quality.



Execute

Execute with excellence across the Group by instilling a culture of operational discipline.





Becoming more focused

We are focusing on four categories in 12 key markets that include the US and China.

Progress in 2021

During 2021 we strengthened our position in two of the four categories ConvaTec is focused on.

In Q1 we enhanced our US continence business (part of CCC) with the acquisition of Cure Medical. In Q2 we enhanced our AWC portfolio by signing a collaboration agreement with RLS Global to commercialise the Chlorasolv® wound debrider as part of ConvaTec's Wound Hygiene™ Protocol. Then in the second half we acquired Patient Care Medical and divested lower-margin incontinence activities, both impacting CCC.

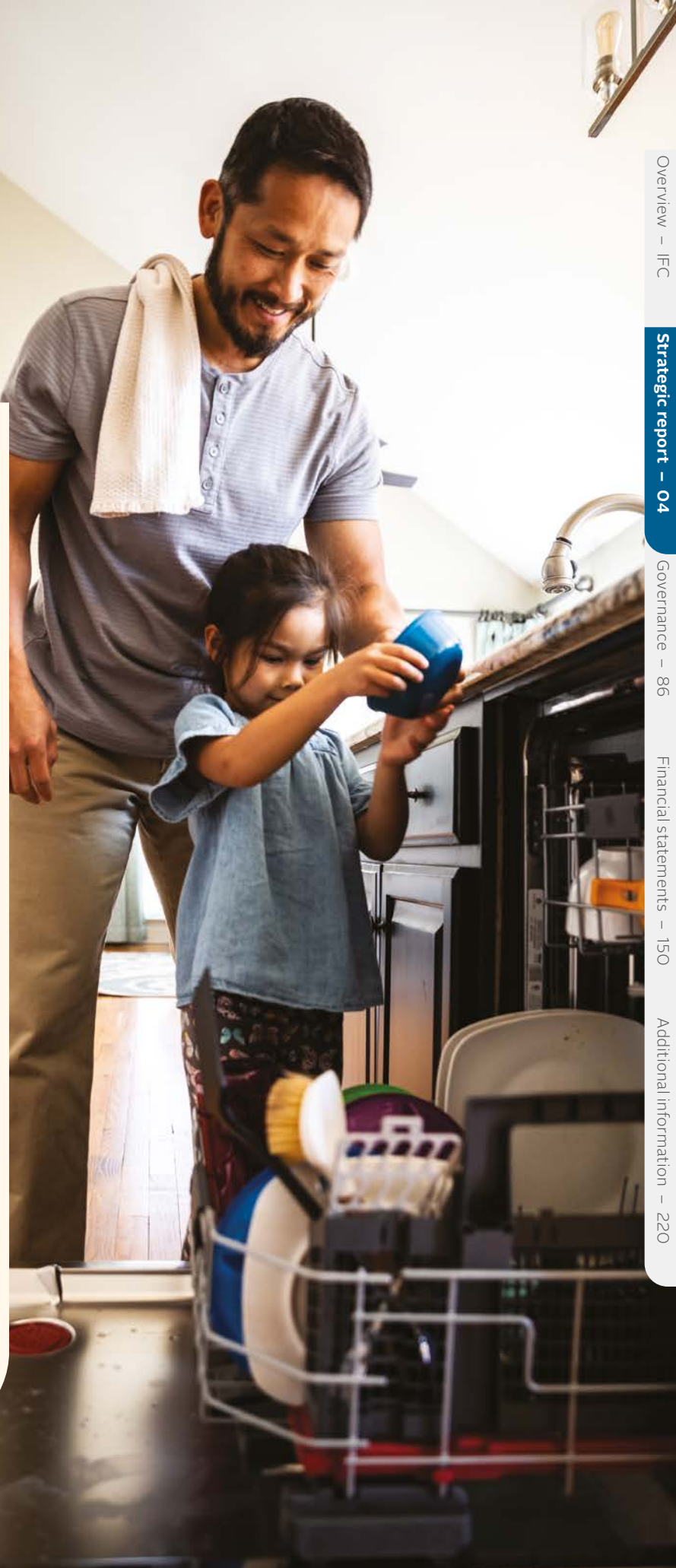
We also continued to focus and invest in our 12 key markets which cumulatively delivered constant currency revenue growth of 7.9%.

Priorities for 2022

One of our main priorities in 2022 will be to complete the acquisition of, and integrate, Triad Life Sciences into our AWC business. The acquisition, announced on 28 January 2022, represents an exciting opportunity for ConvaTec to enter the highly attractive wound biologics¹ segment, which is worth c.\$1.8 billion and growing at high single digits percentage each year. The transaction is subject to regulatory approvals and customary closing conditions and is expected to close in March.

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

1. Wound Biologics segment as defined by SmartTRAK. Includes skin substitutes, active collagen dressings and topical drug delivery. Based on 5-year CAGR.





Enhancing our R&D capabilities

We are investing to strengthen our R&D capabilities.

Progress in 2021

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

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

Priorities for 2022

Looking forward, in 2022 we shall focus on successfully launching and scaling up three of our new products: the GC AirMale compact catheter (CCC) in Q2/Q3, the EWIS (IC) in the US market during the year and finally ConvaFoam™ (AWC) at the end of the year.

Another key priority will be embedding our new Green Design Guidelines and associated tools, which allow us to examine the green credentials of potential ingredients, into our new product development process.





Simplifying our business

We introduced a more customer-centric and agile operating model to improve accountability and strengthen our organisation.

Progress in 2021

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

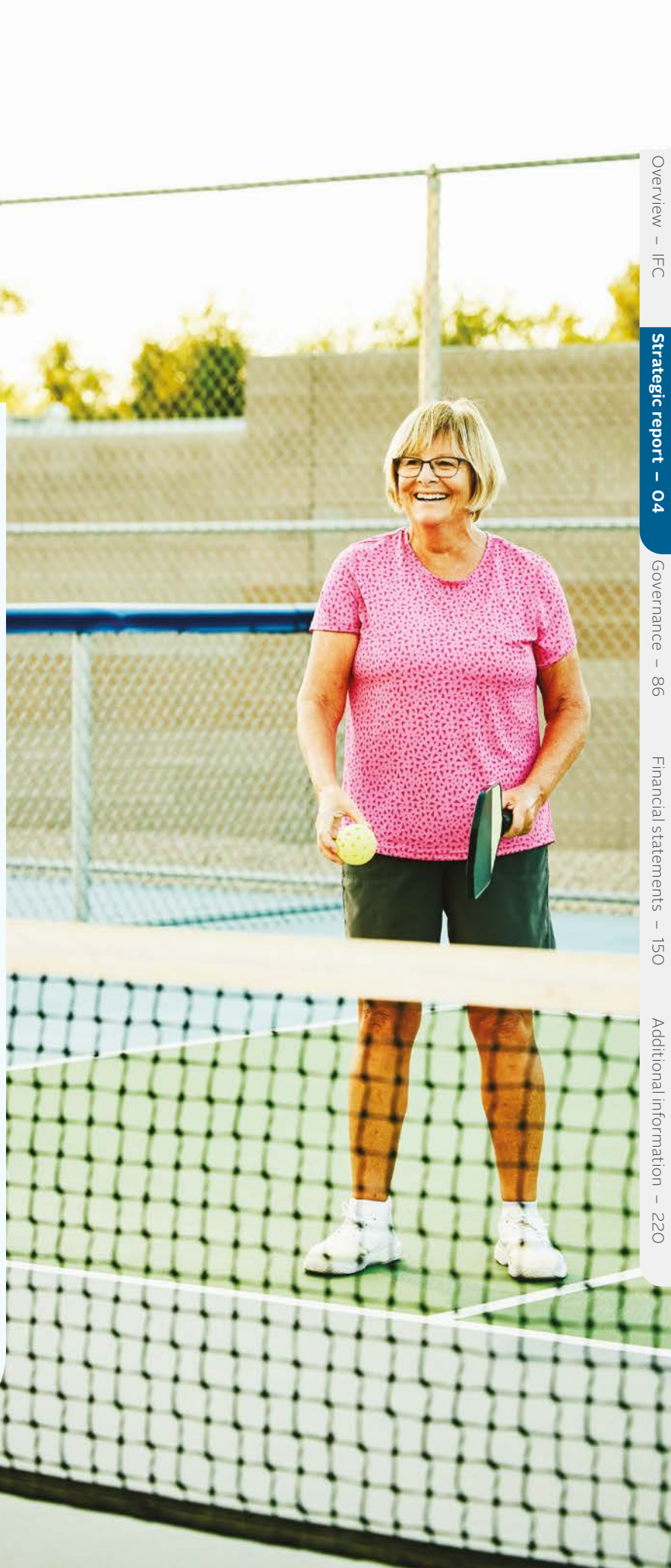
During the year we further expanded our Global Business Services (“GBS”) centre in Lisbon, Portugal, migrating additional financial processes and certain IT expertise.

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

Priorities for 2022

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

The Ostomy Care rationalisation programme will continue.





Building core capabilities

We are building critical core capabilities across the Group.

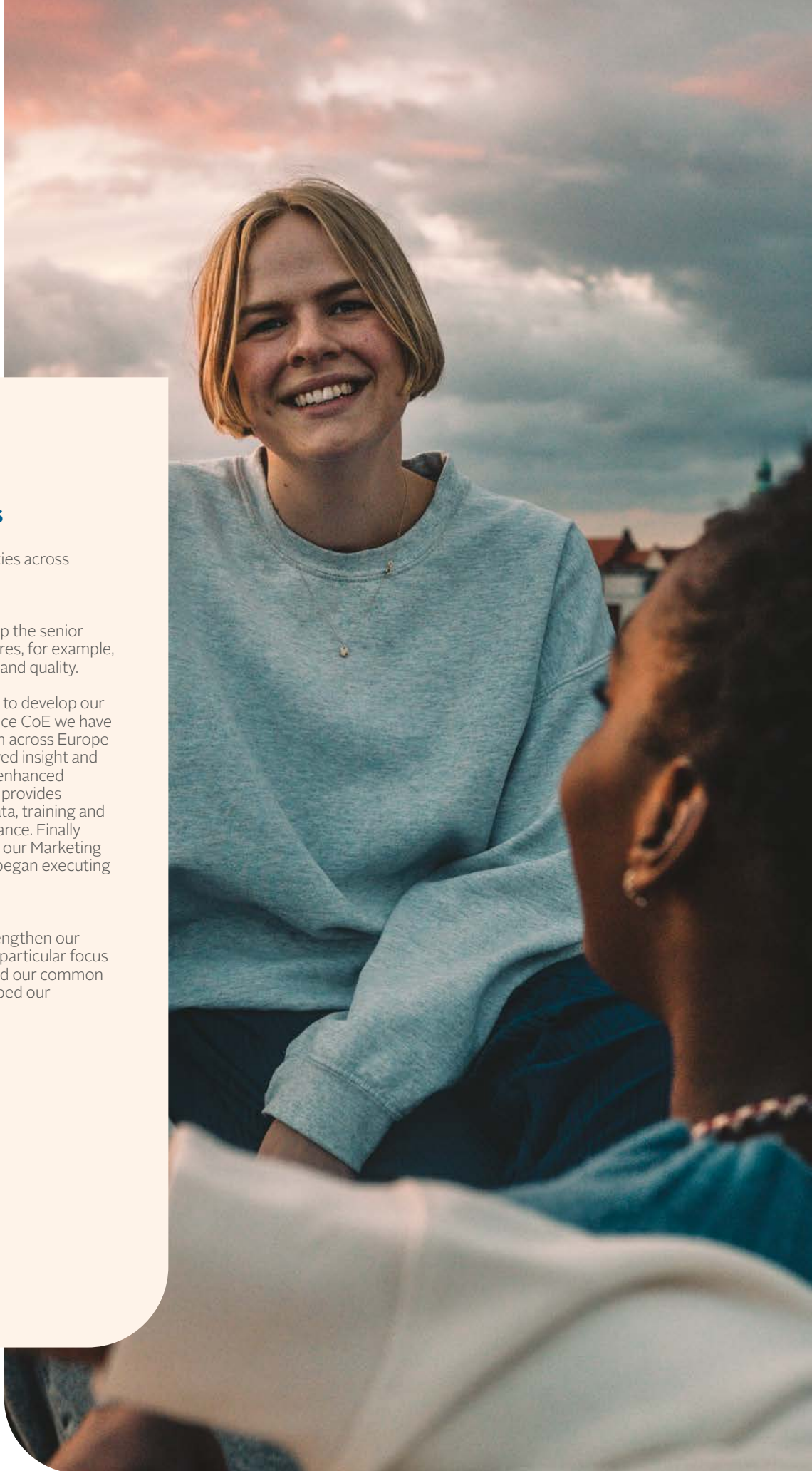
Progress in 2021

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

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

Priorities for 2022

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





Executing with excellence

We are instilling execution discipline via our Transformation Execution Office ("TEO").

Progress in 2021

Our Transformation Execution Office is now well established and during 2021 we continued to embed the execution methodology we use to develop and monitor major initiatives.

To ensure the execution mindset pervades the organisation we have continued our roll out of "Ability to Execute" training modules – with 77% of senior managers having already participated in the training.

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

Priorities for 2022

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



Our key performance indicators

We use a mix of financial and non-financial metrics to measure delivery of our strategy.

Group revenue growth¹

\$m

| | | |
|------|------------|-------|
| 2021 | \$2,038.3m | +5.8% |
| 2020 | \$1,894.3m | +4.0% |
| 2019 | \$1,827.2m | +2.4% |

Metric

Group revenue growth compares the revenue generated from the sale of the Group's products in the current year with the prior year.

Relevance to strategy

Group revenue performance reflects the growth of our business and our progress towards achieving our ambition of delivering 4%+ revenue growth year-on-year.



Focus



Innovate



Build

2021 performance

- 5.8% increase on constant currency basis.
- AWC revenues grew 5.5% driven by strong growth over the relatively weak 2020 comparative partially offset by the impact of the US Skin Care disposal
- OC revenues grew 1.7%, driven by strong performance in APAC, Latin America and Europe, partially offset by rationalisation headwind
- CCC revenues grew 7.9% primarily driven by Cure Medical acquisition, although supported by good organic growth in Continence Care and stable demand for Critical Care products
- IC revenues grew 9.6% driven by continued growth in the use of our innovative infusion sets by diabetes patients

Adjusted EBIT margin²

%

| | |
|------|-------|
| 2021 | 17.7% |
| 2020 | 18.5% |
| 2019 | 19.4% |

Metric

Adjusted EBIT margin is equivalent to adjusted operating profit margin as reconciled on page 208.

Target: gradual improvement in the margin over time

Relevance to strategy

Adjusted EBIT margin reflects how effectively we are running our business – a key factor if we are to deliver sustainable and profitable growth.



Focus



Innovate



Build

2021 performance

- Adjusted EBIT margin declined by c.80bps to 17.7%.
- Revenue growth and improvement in gross margin more than offset by foreign exchange and inflationary headwinds coupled with continued strategic investments
- Constant currency adjusted EBIT margin was broadly flat at 18.4%, in line with guidance

1. Revenue growth is stated at constant currency (CER).

2. Certain financial measures in this Annual Report and Accounts, including the adjusted performance measure above, are not prepared in accordance with IFRS. All adjusted performance measures are reconciled to the most directly comparable measure prepared in accordance with IFRS on pages 207 to 210.

Adjusted free cash flow²

\$m

| | |
|------|----------|
| 2021 | \$274.7m |
| 2020 | \$347.4m |
| 2019 | \$396.8m |

Metric

Adjusted free cash flow is adjusted net cash less tax paid.

Relevance to strategy

Adjusted free cash flow reflects how effectively we are able to convert the profit we generate into available cash (after accounting for working capital movements, making capital investments and paying tax). By simplifying our organisation, and executing with excellence, we can enable greater investment in innovation, to deliver the trusted medical solutions our customers need most.



Focus



Innovate



Simplify



Execute

2021 performance

- Adjusted free cash flow has reduced by \$72.7m (-20.9%) year-on-year.
- Principally reflecting increase in working capital and capital expenditure.

Quality

(complaints per million (“CPM”) products sold)

| | | |
|------|----|--------|
| 2021 | 47 | -11.3% |
| 2020 | 53 | -15.9% |
| 2019 | 63 | 0.0% |

Metric

CPM measures the number of complaints we receive per million products sold.

Relevance to strategy

CPM is a strong indication of our manufacturing quality and is key to ensuring that we develop trusted medical solutions. It is also a reflection of our core capabilities and our ability to execute effectively.



Innovate



Build



Execute

2021 performance

- Established Quality CoE in 2021.
- Overall year-on-year reduction of 11.3% across all categories.
- Driven by implementation of continuous improvement across our manufacturing and quality operations.

Our business model

Our FISBE strategy is aligned to our Company purpose and is designed to enable us to realise our vision and continually strengthen our business model.

Our resources and relationships

- A talented and diverse workforce
- Category knowledge and understanding
- Innovation and intellectual property
- Relationships with patients and healthcare professionals
- A robust quality function and supply chain
- Strong brands
- Global sales and marketing platform



See page 2 and 3 for further information about our business.



See pages 9 to 11 for information about our marketplace.



ConvaTec Cares, page 33

How we create value

Our FISBE strategy

More on page 12



ConvaTec Cares

More on page 33

Creating stakeholder value

Patients

Solutions to improve the lives we touch

>1bn

products shipped

Healthcare professionals

Providing value-added solutions, support and advice

>300k

HCPs participated in ConvaTec medical Education

Health plan contracts

Enabling healthcare systems to reduce costs and increase efficiency

~1,700

Health plan contracts

Employees

Providing employment and development opportunities

10,100+

Shareholders

Generating returns for investors

\$85.8m

Cash dividends paid to shareholders

Society

Making a positive contribution through community engagement and paying tax

\$59.2m

Corporate tax paid

Section 172 and Non-financial information statements

Section 172 statement

Information about our stakeholders and how we engage with them is set out on pages 36 and 37.

Section 172 of the Companies Act 2006 requires each of our Directors to act in a way that he or she considers, in good faith, would most likely promote ConvaTec's long-term success for the benefit of its shareholders and other stakeholders. In doing this, section 172 requires our Directors to have regard, amongst other matters, to the:

- a) Likely consequences of any decisions in the long term.
- b) Interests of the company's employees.
- c) Need to foster the company's business relationships with suppliers, customers and others.
- d) Impact of the company's operations on the community and environment. An example of this is given on page 58, ESG report.
- e) Desirability of the company maintaining a reputation for high standards of business conduct. An example of this is given on page 51, behaving ethically and transparently.
- f) Need to act fairly between members of the company. An example of this is given on page 146, dividend policy.

On pages 102 to 103 (which should be read in conjunction with this statement) we explain how our Board gains an understanding of stakeholder issues and, during the year, discharged its section 172 duty by factoring the matters highlighted (a) to (f), into the Board discussions and decision-making process.

The Directors also have regard to other factors which they consider relevant to the decision being made, acknowledging that every decision made will not necessarily result in a positive outcome for all stakeholders. However by considering our vision and values, together with our strategic priorities, and having a process in place for decision making, the Board aims to make sure that all decisions are consistent and well-considered.

This approach ensures that we continue to serve and support the people who rely on our products and services. It also supports our ambition to become a "destination employer" and our strategy to pivot to sustainable and profitable growth.

Non-financial information statement

In accordance with the requirements of section 414CB of the Companies Act 2006, the information below is provided to help our stakeholders understand our position in relation to key non-financial matters including, where appropriate, the relevant policies and processes we operate.

| Key non-financial matter | Policies and processes we implement | Information |
|---|---|----------------|
| Environmental matters | Climate change and environmental strategy | Pages 53 to 57 |
| Employees | Our vision and values | Page 2 |
| | Code of Conduct | Page 50 |
| | Diversity, Equity & Inclusion and Wellbeing Policy | Page 45 |
| | Our people strategy | Page 43 |
| | Employee induction, training and development programmes | Page 44 |
| | Employee engagement | Page 48 |
| | Diversity targets and review of metrics | |
| Human rights | Human Rights and Labour Standards Policy | Page 50 |
| | Modern Slavery Act statement | Page 50 |
| Social and community matters | Community engagement | Page 59 |
| Anti-corruption and anti-bribery | Supplier Code of Conduct | Page 51 |
| | Compliance Helpline and web link | Page 51 |
| Principal risks and impact of business activity | – | Pages 68 to 73 |
| Non-financial key performance indicators | – | Page 19 |
| Our business model | – | Page 20 |

“The implementation of our FISBE strategy is delivering improved performance across each of our four categories.”

Karim Bitar
Chief Executive Officer



Advanced Wound Care



David Shepherd

President and Chief Operating Officer, Global Advanced Wound Care

2021 revenue

\$592m

Market size¹

c. \$8.0bn

Market growth

c. 4%

Key competitors

- 3M
- Smith & Nephew
- Mölnlycke
- Others

Category position

No. 2

Global advanced wound dressings

No. 1

Global antimicrobial dressings

No. 1

Global alginate and fiber dressings

No. 1

Global hydrocolloid dressings

Key brands

AQUACEL™
AQUACEL™ Ag+
AQUACEL™ Ag Foam
AQUACEL™ Ag Surgical
AQUACEL™ Ag Advantage
AQUACEL™ Ag Advantage Surgical
Avelle™ System
ConvaMax™
DuoDERM™

2021 Performance

We made good strategic progress in AWC during 2021.

The commercial performance in key markets improved in all regions and the business succeeded in driving the use of digital tools and platforms.

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

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

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

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

2022 Priorities

In 2022 we will focus on the following areas:

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

1. Size, growth and position information contained in this Operational review section are estimates and are based on internal analysis and publicly available sources, including SmartTRAK and Global Industry Analysts Inc. reports. AWC includes advanced dressings (Foams, Antimicrobials, Composite/Island Dressings, Alginate & Fibre Dressings, Contact layers, Hydrocolloids, Films, Super Absorbents, Hydrogels), Biologics and External devices (Negative Pressure Wound Therapy, Debridement, Energy & Oxygen) segments.



Execute

Improving commercial execution in AWC UK

Back in 2019 the market share of AWC's UK business was declining. Given the UK is one of ConvaTec's key markets a local level transformation was executed.

We revised our commercial strategy and go-to-market model – building on our existing reputation for excellence in service provision. Our ConvaTec Complete™ direct delivery offering and partnership with the NHS supported by a national team of specialist Wound Care nurses were already well regarded. Core capabilities were strengthened, we attracted new talent and leveraged the Group SalesForce CoE. The UK was one of the first countries to introduce the enhanced Dynamics CRM platform and swiftly increase compliance.

Our revised go-to-market model supported a streamlined organisation with focused role responsibilities. During COVID-19 the value of creating a remote engagement model was recognised and we created an "inside sales" team to maximise efficiency of sales delivery. The UK was one of the early adopters of the hybrid model and an inside sales offering is available in ten countries.

As a consequence of these actions, we have seen the UK improve its channel quality and position, enhance pricing discipline and, in 2021, turn around the three-year market share decline.

Ostomy Care



Mani Gopal

President and Chief Operating Officer, Global Ostomy Care

2021 revenue

\$546m

Market size¹

c. \$2.6bn

Market growth

c. 4%

Key competitors

- Coloplast
- Hollister/Dansac
- Others

Category position

No. 3

Global ostomy

No. 2

US

No. 3

EMEA

Key brands

Esteem™+
Natura™
Natura™+
Stomahesive™
DuraHesive™
InvisiClose™
me+™

2021 Performance

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

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

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

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

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

2022 Priorities

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

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

1. Size, growth and position information contained in this Operational review section are estimates and are based on internal analysis and publicly available sources.



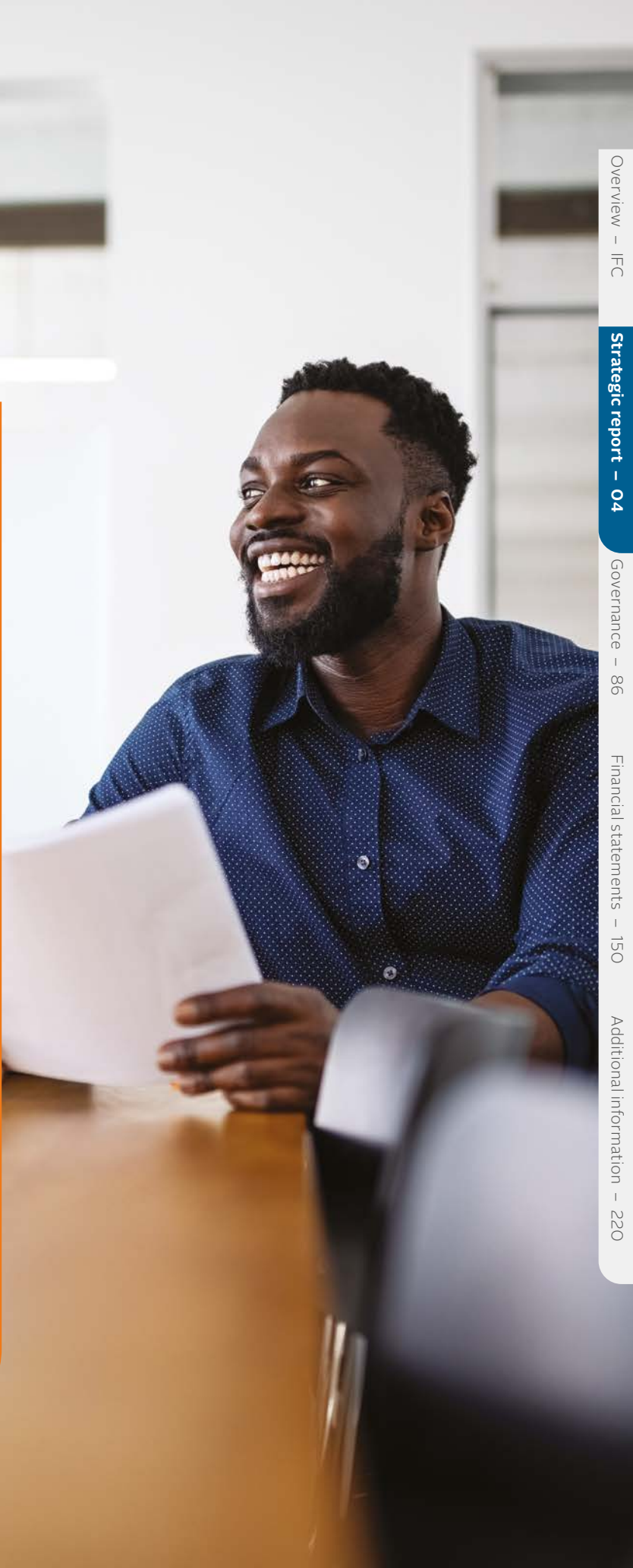
Build

'Help me choose' digital app

One of the problems faced by less experienced nurses is determining which product is most suitable for ostomy patients.

To solve this need, ConvaTec has developed a digital app that can help the nurse choose the right product for the patient. The app was designed based on extensive interviews with experienced Wound and Ostomy Care Nurses ("WOCN") who shared with us the algorithm and process they use to identify the most appropriate product.

ConvaTec used this feedback to develop our own algorithm, which consists of a series of questions about the patient to be treated. Depending on the answers to the sequence of questions, the app recommends the products that would likely work best. The app was launched in the US in October 2021 to positive reviews.



Continence & Critical Care



Seth Segel

President and Chief Operating Officer, Home Services Group and Global Continence Care

2021 revenue

\$543m

Market size¹

c. \$2.0+bn

Market growth

c. 4%

Key competitors

- Coloplast
- Hollister
- Bard
- Wellspect

Category position

No. 1

Retailer in intermittent catheters in the US

No. 1

US faecal management systems

Key brands

GentleCath™
FeelClean™
Cure Medical®
Flexi-Seal™
UnoMeter™
me+™

2021 Performance

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

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

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

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

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

2022 Priorities

In 2022 we will focus on the following areas:

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

1. Continence & Critical Care comprises the global intermittent catheter segment plus the faecal management segment.



Focus

Strengthening our Continence Care business

This year, consistent with our Focus pillar, we have further strengthened our Continence Care business.

In March we acquired Cure Medical, LLC. Based in California the business develops, manufactures and distributes intermittent catheters. Bringing together Cure and ConvaTec's portfolios of products enables us to better serve our continence customers. The Cure portfolio is broad and, for example, includes pre-lubricated catheters, paediatric catheters and closed systems whilst ConvaTec's GentleCath portfolio features premium hydrophilic catheters with FeelClean™ technology. Together we can now offer a more comprehensive range of continence products and services to meet the diverse needs of our patients and our healthcare partners.

Then in December we acquired Patient Care Medical. This quality service provider based in Austin, Texas, is a complementary bolt-on for HSG. The commercial focus and expertise marries well to HSG's 180 Medical. Patient Care Medical has developed a distinctive, direct-to-consumer digital approach focused on the installed base of existing catheter users in the U.S., whilst 180 Medical is oriented to new patient starts.

During 2021 we also disposed of a segment of HSG's non-core lower-margin incontinence activities.



Infusion Care



Kjersti Grimsrud

President and Chief Operating Officer, Global Infusion Care

2021 revenue

\$357m

Market size¹

c. \$1.2+bn

Market growth²

c. 7%

Key competitors

- Smiths
- Ypsomed
- Gerresheimer
- Apex Medical

Category position

No. 1

Global infusion sets
for insulin pumps

Key brands

inset™
comfort™
neria™

2021 Performance

IC achieved another strong performance in 2021 as we made continued strategic progress. The business launched the highly innovative and differentiated extended wear infusion set ("EWIS") in Europe and secured FDA clearance for the US as well. The product delivers significant benefits for patients who have to change their sets less frequently.

The business also signed a number of long-term contracts with customers and successfully increased capacity in certain manufacturing lines to respond to the elevated demand.

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

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

2022 Priorities

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

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

1. Infusion Care comprises infusion set market

2. Based on growth of the durable pump market from 2021 to 2026.



Innovate

Innovating to deliver more for our patients

As a world leader in subcutaneous infusion sets we offer a wide range of products including automated insertion technologies, various insertion angles and cannula types. In close cooperation with our partners we develop products that improve the quality of life for patients with intuitive interfaces and safety features.

In the late 1980s, we launched our first infusion set and now have over ten different types of set families on the market. In 2017, we became the first company to launch an infusion set with an integrated insertion device which offers passive needle safety design, no visible needle (for those with trypanophobia) and effective single-hand insertion.

This track record of differentiated innovation has been further enhanced in 2021. In April, in collaboration with our partner Medtronic, we launched the first and only infusion set that can be worn for up to seven days. This innovation is significant for diabetes patients – it doubles the length of time an infusion set can be worn so users can safely stay on insulin pump therapy with fewer interruptions and insertions while introducing enhanced convenience and comfort to their diabetes management routine.



Responsible business review

Our approach to Environmental, Social and Governance (ESG) aims to drive the actions necessary to help us to realise our vision whilst acting in a way that engenders trust with all our stakeholders.

Identifying key issues for stakeholders

We understand the importance of operating responsibly and generating value sustainably. As we transform our company, we are making important progress in managing the operational, people-led and environmental issues that are most material to us and our stakeholders.

During 2021 we made significant progress. Leveraging independent support to undertake a peer review, gap analysis and materiality assessment, we have validated our ESG approach.

Our materiality assessment helps us to identify and focus on issues and impacts that matter most to our business and our stakeholders, including our customers, colleagues, communities and shareholders.

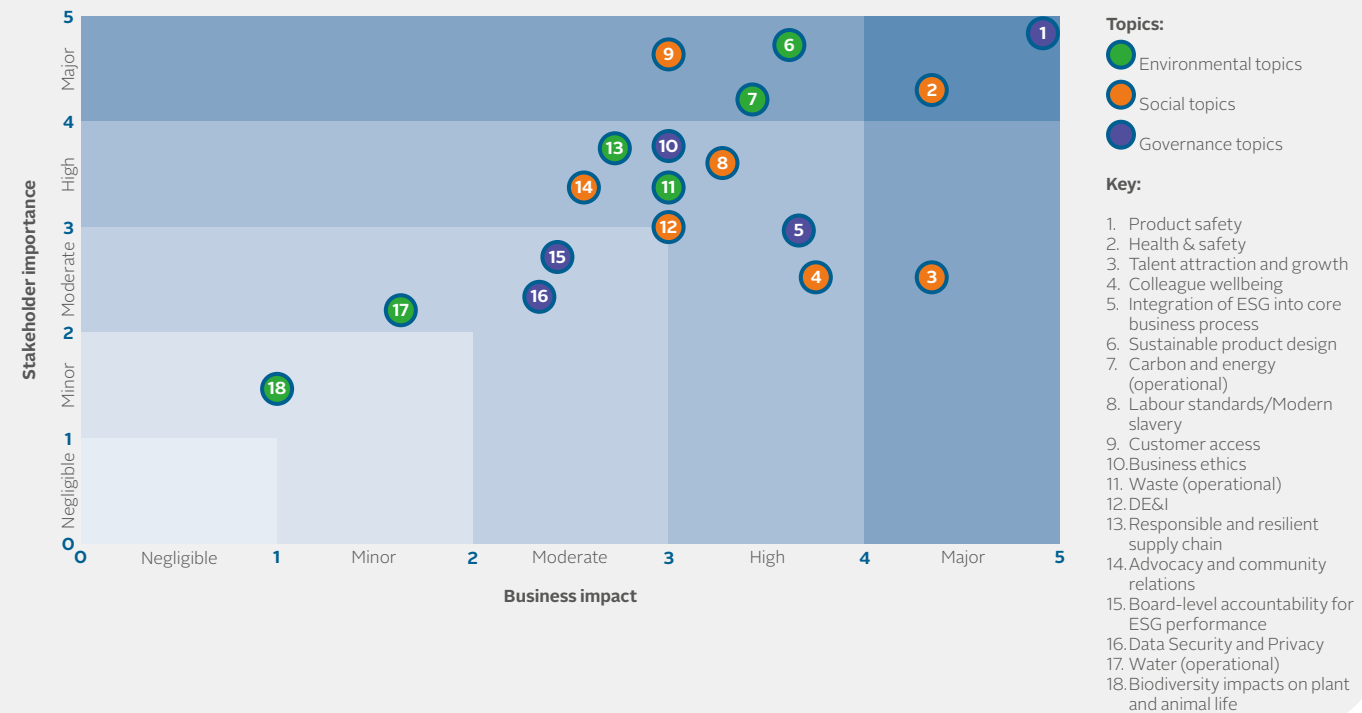
The assessment takes into account a range of factors including our business priorities, stakeholder views, the UN Sustainable Development Goals, long-term market trends and government policy.

We updated our materiality assessment in 2019 and then worked with an independent partner to refresh this work in 2021 to ensure we remain focused on the key issues for our business and stakeholders. We use the results of our materiality assessment to inform our approach to managing ESG risks and opportunities including the development of our framework outlined in this report (see opposite).

The process we followed



2021 ESG materiality matrix



“We are proud of the progress we have made but recognise there's more to do. We are committed to building stakeholder trust and confidence by acting on issues that are important to them, and meeting standards that demonstrate these commitments in action.”

Karim Bitar
CEO and Chair, ESG Steering Committee

ConvaTec Cares ESG framework

The materiality assessment helped inform our new ESG framework, ConvaTec Cares, which identifies the commitments and activities across the company that will help us pivot to sustainable and profitable growth. It focuses on the topics which are most material for the Group and our stakeholders.

ESG mission

Underpinned by our values (see page 2), our ESG mission is to drive progress towards our vision of *pioneering trusted medical solutions to improve the lives we touch* by aligning and enabling ESG-related initiatives across the business for the benefit of our customers, colleagues, community and shareholders. Our ESG framework is built around four ESG pillars.

ESG strategic pillars

- **Delivering for our customers** with innovative products, services and solutions that are patient-centric and informed by HCP needs and which improve lives
- **Enabling our people** to thrive by protecting their health and safety and using their talent for good
- **Behaving ethically and transparently** to protect and enhance our reputation with all our stakeholders
- **Protecting the planet and supporting communities** through the way we operate and the contribution we make to the world around us



ESG Governance: Board and management

Role of the Board

Our Board has ultimate oversight on ESG and climate-related risks and opportunities at ConvaTec. The Executive Director responsible for these issues is our CEO, Karim Bitar. As a Board member, he brings together continuity and responsibility for our ESG strategy. Moving forward, the Board will frequently review progress in respect of executing on our ESG strategy, including conducting twice yearly rotating deep-dive reviews into key elements of our ESG strategy. See pages 100 to 101 for information about the Board's activities in this area during 2021.

The Board's Audit and Risk Committee (ARC) is responsible for reviewing and approving our ESG and Task Force on Climate-related Financial Disclosures (TCFD) reporting, in terms of data integrity and compliance with regulatory requirements, as well as for oversight of the annual assurance of the Responsible Business review carried out by an external partner. See page 112 of the ARC report for more information on the ARC's activities in this area.

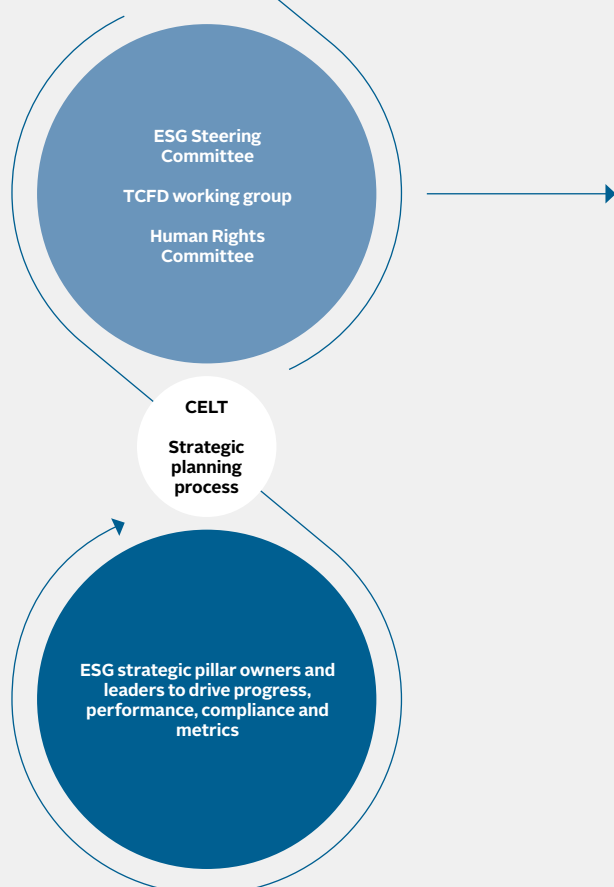
Role of management

Building on previous commitments, during 2021, our ESG Steering Committee (the Committee) was established. The Committee is chaired by the CEO and includes six members of our ConvaTec Executive Leadership Team (ELT). The Chief Human Resources Officer (CHRO) is the day-to-day ELT sponsor for ESG, providing ESG stewardship across the Group with the support of the CEO.

The Committee oversees the formulation and delivery of the ESG strategy and during 2021 met three times. The Committee drives the strategy, progress and required actions to manage our ESG-related risks and capitalise on opportunities. This is then reported to the ELT, and the Board as required, for discussion, review and challenge. In addition, as part of our overall annual strategic planning process, each Business Unit considers ESG priorities and targets and, importantly, how climate-related risks may be specifically relevant to their particular business.

Together, these measures ensure that all members of the ELT understand our business response to ESG topics and are committed to delivering against our commitments to become a more sustainable business. We have also formed two sub-committees composed of leaders across the business to advance the essential work needed to meet TCFD requirements and to monitor and protect human rights in our operations and supply chain.

We have a dedicated Environmental, Health and Safety (EHS) team within our Global Quality & Operations function. They work across our manufacturing and R&D facilities to deliver environmental management systems in line with our corporate requirements, aligned with ISO 14001.



Introducing our ESG Steering Committee

Responsibilities

- Custodian of ESG strategy and objectives, including our approach to key sustainability topics such as:
 - Our impact on the environment and communities
 - Engagement with the workforce and the Group's Diversity, Equity & Inclusion and Wellbeing approach, as well as protection of human rights in the supply chain
- Leads on relevant key stakeholder engagement across ConvaTec (and beyond)
- Establishes and oversees subcommittees to drive execution and focus in particular areas, and in 2021, did so through our Human Rights Committee and a new TCFD working group



Details on the relevant skills and experience of our CELT members can be found online at:
<https://www.convatecgroup.com/about-us/convatec-executive-leadership-team/>

Engaging stakeholders

We proactively engage with our stakeholders to understand their issues and build positive relationships. Our section 172 statement is set out on page 22.

| Stakeholder | Importance of stakeholders and their key needs | How we engage | Outcomes |
|---|---|---|---|
| The people who use our products and rely on our services | | | |
| Consumers/Patients | <ul style="list-style-type: none"> Our customers and patients, those with chronic conditions, are the people we serve and for whom all our products and services are produced. Safe, effective, accessible and innovative products Support and information | <ul style="list-style-type: none"> Direct-to-consumer channels Home delivery companies Specialist nurses and call centres Targeted consumer research Responding to specific consumer questions, feedback and complaints | <ul style="list-style-type: none"> Incorporation of relevant consumer feedback in our research and development processes Service provision reviews based on customer feedback, and implementation of enhancements as required Tracking and management of customer issues |
| Direct enablers who help us deliver | | | |
| Healthcare professionals | <ul style="list-style-type: none"> Products and services that meet patients' needs and benefit the healthcare delivery system Fair pricing | <ul style="list-style-type: none"> Ongoing clinical and commercial dialogue Targeted research Specialist training programmes Advisory boards Key opinion leader meetings | <ul style="list-style-type: none"> Product and service insights inform our development processes and our day-to-day operations |
| Our people | <ul style="list-style-type: none"> Our employees bring our vision, values and FISBE strategy to life, fostering an inclusive and supportive culture that enables them to deliver for customers and patients. Safe, healthy, ethical and fair working environment Diversity, equity and inclusion (DE&I) and wellbeing practices Making a difference to the people who rely on our products and services Career growth opportunities Attractive reward and recognition | <ul style="list-style-type: none"> Group-wide interaction via our intranet, our MyConvaTec app and regular town hall meetings Performance reviews Employee recognition activities DE&I and Wellbeing initiatives, including Employee Resource Groups Customer stories Group-wide employee surveys Union representation and works councils (where relevant) Board-level engagement programme Independent third-party managed whistleblower hotline (Compliance Helpline/web link) | <ul style="list-style-type: none"> Incorporation of insights to shape our people strategy, talent processes and development/training programmes Cadence of employee communications and engagement |
| Suppliers and other supply chain partners | <ul style="list-style-type: none"> Our suppliers and partners are critical to ConvaTec's ability to deliver our products and services to our customers and patients. Long-term relationships Fair pricing and commercial terms Predictable business | <ul style="list-style-type: none"> Commercial dialogue Supplier assessments | <ul style="list-style-type: none"> Development of valuable partnerships to address consumers' needs Supplier awards |
| Channel partners* | <ul style="list-style-type: none"> Our channel partners are critical to ensure that ConvaTec's products and services are available to those with chronic conditions. Effective, competitively priced products Fair pricing and commercial terms Continuity of supply | <ul style="list-style-type: none"> Commercial dialogue Marketing activities Tender processes Distributor due diligence and compliance training Quarterly reviews with partners | <ul style="list-style-type: none"> Continued inclusion in tender processes Development of valuable relationships to address consumers' needs |

| Stakeholder | Importance of stakeholders and their key needs | How we engage | Outcomes |
|--|--|---|---|
| B2B customers | <ul style="list-style-type: none"> Our B2B customers are critical to ensuring that ConvaTec's innovative products can be used with other companies' own products to address patient needs. Innovative products for use with their own products Long-term relationships Fair pricing and commercial terms Continuity of supply | <ul style="list-style-type: none"> Commercial dialogue and partnership | <ul style="list-style-type: none"> Development of long-term partnerships focussed on addressing patient needs |
| Investors and debt providers | <ul style="list-style-type: none"> Our investors and debt providers are critical to supporting and maintaining ConvaTec's high standing and reputation in the financial markets. Strategy and delivery Sustainable returns Responsible business practices Cash flow to pay dividends and service debt obligations | <ul style="list-style-type: none"> Annual General Meeting Board members accessibility Quarterly results announcements Active investor relations programme: in 2021 we hosted more than 320 investor meetings including two multi-day virtual roadshows and participation in 12 virtual conferences Relationship-led engagement with debt providers Executed an investor perception study Feedback from corporate brokers | <ul style="list-style-type: none"> Quality materials to ensure the capital markets appreciate the health of the business and its future prospects |
| Evaluators who hold us to account for our performance | | | |
| Regulators | <ul style="list-style-type: none"> Adherence to legislation and regulation Proactive engagement when challenges arise | <ul style="list-style-type: none"> Regular and ad hoc dialogue in relation to product approvals and other matters | <ul style="list-style-type: none"> Implementation of responsible and diligent business practices Compliance with legislation and regulation Input into relevant industry consultations |
| Governments | <ul style="list-style-type: none"> Responsible business practices Employment Income generation via taxes | <ul style="list-style-type: none"> Ad hoc dialogue in relation to specific matters including Brexit, fiscal (e.g. taxation), employment (e.g. apprenticeships) and corporate governance, membership of All Party Parliamentary Groups | <ul style="list-style-type: none"> Making a socio-economic contribution to a range of stakeholders |
| Communities | <ul style="list-style-type: none"> Employment opportunities Medical education Active management of negative environmental impact from operations | <ul style="list-style-type: none"> Ad hoc dialogue in relation to specific matters Support for a range of medical education initiatives Charitable partnerships and donations, including plans for new NGO partnerships | <ul style="list-style-type: none"> Enhancing the communities where we operate Building our reputation in our communities and across broader society |
| Industry bodies | <ul style="list-style-type: none"> High-quality input into industry policies and standards development Proactive engagement in relation to relevant issues | <ul style="list-style-type: none"> Membership of several industry bodies including Association of British HealthTech Industries, MedTech Europe and AdvaMed Participation in meetings and discussions in relation to industry issues including best practice | <ul style="list-style-type: none"> Contributing to improved understanding of key industry issues Helping to shape relevant agendas and standards |

* Including distributors, large buying organisations, integrated delivery networks, hospitals and national and regional payors

Our ESG targets

These new targets reflect ConvaTec's intentions for the next stage of our ESG journey, under our new ConvaTec Cares framework. Going forward we intend to track our progress throughout the year towards these revised targets and report progress to the Board. For some new targets, historic benchmark data is currently unavailable.

The status of all targets has been reviewed as part of the assurance process. For further details please see the assurance statement at <https://www.convatecgroup.com/corporate-responsibility/corporate-responsibility-reports/>.

| Target ¹ | Progress/status in 2021 | Further information |
|---|---|---------------------|
| ESG strategic pillar: delivering for customers | | |
| 1. Align existing quality metrics to industry standards and our continued focus in product safety by Q4 2022 | Reviewed legacy product quality disclosures to bring 2022 approach into line with industry practice | Page 40 |
| 2. Improve Vitality Index (percentage of revenues that are generated from new or significantly upgraded products and services launched by ConvaTec in the preceding five-year period) to 30% by Q4 2025 | 25% | Page 42 |
| 3. Fully implement Green Design Guidelines (GDGs) as part of product development process and expand our GDGs digital tool user base to at least 50 users by Q4 2022 | Supporting digital tools piloted and roll out plans developed | Page 41 |
| ESG strategic pillar: enabling our people to thrive | | |
| 4. Health & Safety: 4.1 Increase our Operations Hazard Observation Rate to above 200 per 200,000 hours worked by Q4 2022 | 190 per 200,000 hours worked (173 in 2020) | Page 48 |
| 4.2 Reduce Operations Lost Time Injury Rate to below 0.22 per 200,000 hours worked by Q4 2025 | 0.3 per 200,000 hours worked (0.23 in 2020) | Page 49 |
| 5. Diversity, Equity & Inclusion and Wellbeing: 5.1 Reach at least 40% females in combined CELT and senior management by Q4 2024 | 32% (34% in 2020) | Page 48 |
| 5.2 Reduce voluntary turnover to less than 10% by Q4 2023 | 11% in 2021 (7% in 2020) | Page 43 |
| ESG strategic pillar: behaving ethically and transparently | | |
| 6. Human rights: complete the review, update and publication of our Human Rights and Labour Standards Policy and Supplier Code of Conduct by Q4 2022 | Review ongoing. To be completed during 2022 | Page 50 |
| 7. Code of Conduct: have at least 95% of employees trained on our Code of Conduct on an annual basis, by Q4 2023 and in subsequent years | Expanded categories of topics included in Code of Ethics and business conduct | Page 50 |
| 8. Procurement and supply chain: ensure that 80% of ConvaTec's spend is supported by suppliers with whom we have engaged to request their participation in our EcoVadis platform, by Q4 2023 | EcoVadis participation requested in 4 of 7 request for proposal/request for information events | Page 52 |
| ESG strategic pillar: protecting the planet and supporting communities | | |
| 9. Emission reduction: 9.1 Achieve Net Zero Carbon in line with our Science Based Target initiative (SBTi) target by Q1 2045 | SBTi commitment made in 2021 | Page 53 |
| 9.2 Complete the Scope 3 Materiality Assessment and develop the measurement strategy by Q4 2022, with the intention of publishing our Scope 3 greenhouse gas (GHG) inventory by Q4 2023 | SBTi commitment made in 2021 | Page 57 |
| 9.3 Reduce our combined Scope 1 and 2 GHG emissions by 5%, against a 2021 baseline by Q4 2022 | SBTi commitment made in 2021 | Page 53 |

| Target (continued) | Progress/status in 2021 | Further information |
|---|---|---------------------|
| 10. Science Based Target commitment: 10.1 Set quantitative targets for Scope 1 and 2 GHG emissions, against a 2021 baseline, aligned with the Science Based Targets criteria, by Q4 2022 | SBTi commitment made in 2021 | Page 53 |
| 10.2 Set quantitative targets for Scope 3 GHG emissions, against a 2021 baseline, aligned with the Science Based Targets criteria by Q4 2023 | SBTi commitment made in 2021 | Page 57 |
| 10.3 Achieve validated Science Based Targets for Scope 1, 2 and 3 emissions by Q4 2023 | SBTi commitment made in 2021 | Page 53 |
| 11. Community contributions: 11.1 Establish new NGO partnership(s) and funding commitments by Q4 2022 | Review of existing communities activity | Page 59 |
| 11.2 Contribute responsibly to a range of HCP and patient education programmes. Set specific targets for 2023 and subsequent years on reach and impacts | Governance in place for processing medical educational grants | Page 59 |

1. Complete definitions for each target are provided on page 220.

How we support the UN Sustainable Development Goals (SDGs)

We support the United Nations SDGs which aim to align governments, businesses and the third sector in their efforts to end poverty, fight inequality and address climate change. ConvaTec joins over 15,000 other companies as a participant of the UN Global Compact (UNGC) in which we pledge to follow the UNGC's 10 principles on human rights, labour, environment and anti-corruption.

Our ESG Steering Committee has reviewed the SDGs and their relevance to our business as part of the development of our ESG framework. During the development of the framework, we identified six goals where we can contribute to a more sustainable future. We also used the goals to inform our materiality process and the development of our ESG targets. While our business is linked to all 17 goals, the following are core to what we do and how we do it.

Relevant SDGs



Ensure healthy lives and promote wellbeing for all at all ages.

As explained throughout this Annual Report our core business is primarily aligned with this goal and most closely with the target to “by 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and wellbeing.”



Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Our role as an employer, our commitment to our people and diversity, equity & inclusion and wellbeing, and our support of medical education activities aligns to this goal. See pages 44 and 59.



Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Our Human Rights and Labour Standards Policy, and Supplier Code of Conduct assessments, aim to reduce the risk of child and forced labour, and other poor practices across our own operations and supply chain. See page 50.



Reduce inequality within and among countries

Our focus on helping people with chronic conditions, global emerging markets, and building capacity through employment opportunities aligns to this goal. See pages 40 and 48.



Ensure sustainable consumption and production patterns

Our product life-cycle analysis programme and GDGs aim to support more sustainable products. See page 41.



Take urgent action to combat climate change and its impacts

Our climate strategy and commitment to developing SBTs are aligned with the goal of combatting climate change. See page 53.



Delivering for our customers:

Producing innovative products, services and solutions that improve lives, are patient-centric and informed by HCP needs



“Our entire business is oriented to helping people manage challenging chronic conditions so that they are able to live their lives to the fullest. Our products help people with a wide range of personal and often private conditions. Our customers, patients and the healthcare professionals who care for them, rely on us and if we do not deliver for them, we have no business. Engagement with our customers is fundamental to our success. We listen to them to better understand their needs and use their feedback to improve existing products and innovate new solutions.”

Divakar Ramakrishnan
Chief Technology Officer

2021 highlights

- Launched GDGs as part of our product development process
- Made 33 patent filings and eight product launches
- Reached a vitality index of 25%. Launched new direct-to-customer platform for Ostomy Care

2022 priorities

- Expand the user base of our GDGs digital tools
- Launch of several new products and continue improvement of vitality index towards 2025 goal
- Continue focus on product safety, with product quality disclosures in line with industry best practice

Innovation and efficacy

Innovation starts with the culture of encouraging every employee to take responsibility and explore how we can improve the lives of our patients. We are encouraging collective innovation – any employee is empowered to provide ideas and work with colleagues throughout the company. We are fostering a culture where we are all responsible for propelling the company to the next breakthrough however big or small. We also offer employees the opportunity to hear innovative external speakers talk about new technologies to spark ideas and creativity within the company.

This has been supported by creating capability centres in Technology and Innovation to attract the brightest talent to key areas including materials science, infection prevention, mechatronics, software and data analytics and manufacturing process. This has resulted in a significant increase in our innovation as indicated by the breadth and number of new patents. During 2021, a total of 33 patent filings were made (2020: 35) and ideation has been supported by new capabilities in pre-clinical research that looks at the underlying physiologic process enabling our engineers to have highly targeted solutions to address the most challenging problems. Furthermore, we now run healthy volunteer studies in controlled environments to enable our engineering teams to rapidly get feedback from people to improve and test our new product designs.

Product safety

Product safety is a key issue for our customers and pivotal in earning ConvaTec a reputation as a trusted provider. Regulators consider most of the products and solutions we develop to be of low risk to users. Nevertheless, we have a rigorous and robust supplier audit mechanism and quality management system. Notified bodies (such as BSI) also review our quality processes and procedures.

We conducted a total of 187 audits during 2021 (2020: 121). Our ability to conduct on-site supplier audits in 2021 improved in comparison to 2020. While we still faced challenges due to COVID-19 travel restrictions, some of the supplier and contract manufacturing audits did take place on site, allowing us to evaluate and address any residual risk from previous audits.

In rare circumstances it may be necessary to trigger a product recall, following a detailed internal quality investigation. Recalls are controlled by standard operating procedures, all of which underwent improvements in 2021 as part of our focus to elevate standards across the quality system. With this improvement and enhancements in quality governance, all pending investigations were closed in 2021. As such, we implemented eight voluntary product recalls in 2021. While there was no risk of harm to patients, the distributed products did not meet the enhanced requirements of the quality system.

Use of animals in research

ConvaTec believes strongly in avoiding the use of live animals in research and testing unless absolutely necessary. Every effort is made to conduct as much of our research with bench work and cell cultures. If there is a critical need to conduct animal studies then the highest of ethical standards are followed. Any discomfort to an animal is avoided and all work is undertaken in certified facilities under the watchful eye of a veterinarian.

In 2021, there was a research study requiring the use of three swine to investigate the physiological response of tissue to devices inserted into the subcutaneous layer, before future use in humans. In 2020 we did not conduct any studies using animal research.

Sustainable product design

Our new product development (NPD) processes include a review of the proposed materials against certain externally compiled lists of 'substances of concern', including the requirements of California Proposition 65 and REACH25 and this approach is consolidated within our Ethical Issues and NPD policy.

As well as focusing on our key product development priorities, we are endeavouring to develop future, more sustainable portfolios. In 2021, we launched the pilot of a digital tool for our Green Design Guidelines (GDGs), which cover a range of aspects including consideration of carbon footprint, water footprint, circularity, substances of concern and non-quantitative 'red flags' (e.g. potential use of substances which are fully legal, but controversial). This tool assesses the sustainability of new products compared to existing products. While piloted with a core group of eight trained users in 2021, the tool has already assessed 12 existing products and it is expected that all existing products will be incorporated in 2022 to offer a baseline for comparison when assessing new products. In line with our goal of expanding the user base to 50 trained users by Q4 2022, the GDGs will be integrated within our NPD and material change processes to ensure the most appropriate materials are selected to reduce the future environmental impact of our products and packaging.

Given the paramount importance of patient safety and the regulatory framework in place for MedTech products, it is not a straightforward task to change device form and components. Extensive requalification and reapproval of products are necessary after any change before modified products can be launched. It is also problematic to include recycled content in device materials due to regulatory constraints regarding quality and traceability.

Spotlight: me+™ programme



Our me+™ programme operates throughout the US and Europe and aims to support people managing chronic conditions and help them enjoy their lives. The programme provides access to a dedicated me+™ team along with a range of online resources covering lifestyle tips and advice, educational and guided recovery tools and peer-to-peer support.

We continued to offer virtual support services and have expanded our virtual telehealth service in the US to also service our Spanish-speaking customers. These services continue to provide valuable support to many patients and consumers.

We have increased investment in digital capability in the US and Poland, providing a key role in connecting people living with an ostomy throughout their journey and improving customer experience when using our products and services. The COVID-19 pandemic has shifted and expanded the role of digital tools among healthcare professionals and the Ostomy Digital Transformation Programme was launched to deliver globally scalable digital products with quality customer experience.

At the end of December 2021, there had been over 400,000 members enrolled – at no cost – since the programme launched.

New products

In 2018 we set a target to launch 35 new products (including incremental enhancements to existing products) by 31 December 2020. As shown below we achieved this target by 2020. To fulfil our vision and harness growth opportunities, we need to strengthen and augment our R&D capabilities and make innovation an integral part of our organisation. We are increasing our investment in this critically important area and during 2021 continued to strengthen our R&D function (see page 14).

In addition to our efforts towards product enhancements, we currently have seven exciting new products to be launched over the next few years. These are expected to contribute to the vitality of our portfolio. We have introduced a new target to measure progress in this regard with our goal that by 2025, 30% of our revenue will be generated from new products launched in the preceding five years. Furthermore during 2021 we had eight product launches.

Reliability of supply

Satisfying our customer expectations is of the highest importance to ConvaTec. Close collaboration across all relevant functions is enabled by our Sales and Operations teams planning for short, medium, and long-term requirements, in order to anticipate changes to demand dynamics, to ensure production and logistics readiness, and to monitor our performance in successfully making products both available and accessible to our customers. Throughout the pandemic and more recently, in light of the capacity constraints seen in the global logistics freight infrastructure, ConvaTec has proactively worked with logistics partners to reserve freight capacity and increased end-to-end inventory levels to de-risk any interruption in supply to our customers as a result of possible transport delays.

Access to healthcare

Access to healthcare is a basic human right that should be available to all who need it. This fundamental principle is integrated in our vision and we run our business to ensure the following:

- Availability: we continue to evolve our sales channels to best meet our customers' needs. New services in 2021 included the launch of a new direct-to-customer platform in OC which supports HCPs in selecting and recommending the best products for their patients, and provides patients with a convenient one-stop shop to fulfil their prescriptions, find advice and schedule a consultation with a nurse.
- Adaptability: based on feedback from users and healthcare professionals our products address a broad range of patient needs reflecting the different challenges that individual users experience. Getting the range of products right relies on research and stakeholder engagement (see pages 36 and 37).
- Usability: a product may 'do a job' medically, but given the social and emotional contextual needs of the people we serve, we need to provide solutions which go beyond the provision of a functional device. To lower 'access barriers' we help patients identify the right device which best suits their needs, provide easy-to-follow literature, videos and online support and deliver millions of products a year.
- Economic: affordability is a key issue which we strive to address through competitive pricing and innovation to increase product effectiveness and, as a result, reduce healthcare costs and improve patients' lives.

Data privacy

We operate a privacy governance framework to ensure that we protect and properly process personal data and comply with all privacy regulations including the European Union General Data Protection Regulation (GDPR) and the California Consumer Privacy Act (CCPA).

This framework includes policies, procedures, controls and records which operate across our business on a global basis. The implementation of this framework is supported by mandatory employee training, which forms part of our induction process for new employees and annual updates for existing employees, underpinned by our Group compliance programme. Its effectiveness is overseen by several internal governance groups, including our Cybersecurity Steering Committee, and our various data policies, procedures and controls are regularly assessed by our internal audit team. In various markets, trained privacy champions, supported by third-party experts, provide first-line local support on privacy matters. This framework is continually reviewed to ensure any changes in legislation are incorporated and is regularly reviewed for effectiveness by the ARC.

From time to time, we may experience theft or inadvertent disclosure of data. In 2021 there were no reportable issues to data protection authorities and no significant volume of data subject access requests were received.



For further information on our information systems, security and privacy risk, see page 70.



Enabling our people to thrive:

Protecting their health and safety and using their talent for good



“Our people are central to our ambition to transform our business, deliver our strategy and realise our vision. As we continue to invest in our people, we are building a culture that

focuses on promoting wellbeing in the workplace, driving diversity, equity and inclusion for all and acting respectfully and responsibly in order to ensure safe, fair and rewarding careers. I am proud of the progress we are making to deliver our people mission and confident we have the right plans in place to realise the potential of our people.”

Natalia Kozmina,
Chief Human Resources Officer
& ESG Stewardship

2021 highlights

- Began implementation of our refreshed people strategy
- Developed a new DE&I and Wellbeing framework based on insights from more than 3,000 colleagues
- Enhanced wide range of capability-building programmes

2022 priorities

- Implement new DE&I and Wellbeing framework
- Continued improvement on health and safety
- Sustain our focus on employee engagement measures

At the end of 2021 we employed 10,142¹ people (2020: 9,914), an increase of 2% on the prior year. Employee turnover in 2021 was 19%² (2020: 14%), largely driven by both natural churn and a series of ongoing transformation initiatives. Information on our employee profile is illustrated in the graphs on the following pages, while our definitions for employee count and gender diversity is detailed on page 48.

While our employees are spread across our global footprint, based in 47 countries, approximately 59% of our workforce is employed at our nine manufacturing locations (2020: 61%). In addition to our facilities in the Dominican Republic, Mexico and Slovakia, we have manufacturing operations in the UK (two locations), Denmark (two locations), Belarus and the Netherlands. Of countries with no manufacturing operations, the US has the largest concentration of employees.

Our people strategy

In March 2021 the refreshed people strategy, which is deeply rooted in ConvaTec's vision and strategy, was approved by the Board. Our people mission is to *create a stimulating, inclusive and rewarding environment for our people to thrive and grow together, for the benefit of our customers, colleagues, communities and shareholders*. To do this we will continue to focus on:

- Aligning talent to value and building diverse talent succession for critical roles
- Building high-performance teams
- Embedding our values-based culture across the Group
- Developing our reputation as a world-class employer with a compelling employer value proposition whilst raising our profile in the communities we serve

As part of our FISBE strategy we are significantly enhancing core capabilities in several areas and strengthening our people and culture practices. See how we are building core capabilities on page 16. In 2021, we also commenced an HR transformation programme. We still have work to do, but 2021 has been an important year in building foundations to enable the journey to deliver our people strategy. Progressing all of this work is a key focus area for 2022.

1. Includes eight Non-Executive Directors. For full breakdown, see pages 94 and 95
2. This includes voluntary and involuntary turnover

Our culture

Our people strategy guides our day-to-day work and was designed to help shape an engaging, inclusive and high-performance culture that enables all our people to give their best and fulfil their potential wherever they work. Our values guide our behaviours and how we run our business every day. They are embedded in our policies and processes, including our performance reviews, which assess both the 'what' and 'how' of each employee's contribution.

Reports are provided to the Board regularly to assist the Board with assessing and monitoring culture, including progress on our people strategy, Organisational Health Index (OHI) analysis and results and progress on talent and succession planning.

During 2021, we took actions based on insights from our most recent OHI assessment undertaken in November 2020. There are three core themes below, which we have focused on during 2021:

- **Customer focus:** We further strengthened our connections with our customer stakeholders (from patient groups to payors) and reinforced our customer-centric approach. Progress included the introduction of a company-wide portfolio of customer stories and a regular cadence of meetings with patients and healthcare professionals to listen and engage with their needs, including a discussion directly between patients and healthcare professionals with the Board.
- **Operational discipline and innovation:** We continue to build our core capabilities, including our operational processes. We encouraged employees to participate in execution excellence training. We have enhanced our culture of innovation by engaging leaders and teams to deliver new products we are planning to launch over the next few years. During the year we launched a consistent process to progress new product development more effectively and efficiently.
- **Motivation and engagement:** We have enhanced the way we engage, involve and motivate our people, including improving the way we communicate. We sustained momentum around employee engagement through hosting the 'Big Conversation', a company-wide initiative to help everyone understand our strategy and their role in it. This was further supported by a range of learning resources. We expanded the global ConvaTec Champion Recognition Awards and 1,338 employees were recognised for values in action. We also introduced an annual equity award programme for employees below senior management level.

Building core capabilities

In 2021, we focused on developing our employees through an enterprise-wide training programme called Ability to Execute (A2E) which enables executional excellence by focusing on 15 key skills and enabling the business to develop a common language around execution excellence. The programme was delivered digitally, and by classroom and virtual classroom. To date, 42% of employees have completed the programme, and 80% of our manufacturing employees, with representation from all of our nine manufacturing sites, completed the programme. We have also launched the first global line manager skills programme called Manager to Leader and 150 line managers participated in 2021 which focused on a range of leadership skills. We have continued to provide LEAN, Six Sigma and Project Management programmes. We also established a strategic partnership with Michigan Ross School of Business to support the development of high-performance teams, which will continue in 2022.

To ensure we have the relevant manufacturing skills and competencies to support our strategy, we created a globally consistent technical training and assessment process for our key manufacturing sites. As a result of this process, we have mapped all the required training needs, duly identified by process and positions within our operations and the timing at which each training should be delivered; this achievement comes as a complement to the existing regulatory matrix already in place. Full deployment will be completed, for all manufacturing sites by 2022, as completion was hindered given the pandemic and our decision to prioritise the health and wellbeing of our people and the continued supply of our products.

In addition, our online Development Matters site supports employee growth and development throughout their careers. The site is a portal to access a range of formal, self-directed, and innovative approaches that are available to equip employees with the knowledge and skills to develop and perform effectively. Categorised into three levels of leadership communities, from aspiring leaders to strategic leaders, the site aims to provide employees with fundamental management skills and development of leadership skills including personal effectiveness, managing change and strategic leadership and delegation.

Diversity, Equity & Inclusion and Wellbeing

Our colleagues represent multiple nationalities, as well as the many cultures, religions, races, sexual orientations, backgrounds and beliefs. Aligned to our core values of delivering results for our customers and patients, we recognise that we will only 'grow together' and 'improve care' if we harness the power of our differences and encourage diverse thinking.

Our colleagues should feel included, valued and respected – not just because it's the right thing to do, but because people are the best versions of themselves when they feel they are being treated fairly and respectfully. Diverse opinions and perspectives spark the innovation ConvaTec needs to pivot to sustainable and profitable growth. We cannot expect to meet diverse customer needs without embracing the diversity of our colleagues.

In 2021, we engaged more than 3,000 colleagues at all levels of the business, including Board members, to help us shape our company-wide DE&I and Wellbeing framework. This work culminated in the articulation of a new model that our programmes and commitments from 2022 will align to, under four key areas:

- Cultivate an inclusive culture for our colleagues
- Build a diverse workforce with greater gender and ethnic diversity across our leadership
- Support wellbeing as a priority for colleagues and the wellbeing of others
- Enhance our reputation through leveraging our scale, partnerships and programmes



Spotlight: Wellbeing



Recognising the ongoing impacts of the pandemic on both physical and mental health, in 2021 we provided a wide range of information, support and initiatives to help ensure our people have the opportunity to thrive. These included how we have gone about establishing a hybrid way of working, informed by a philosophy we call Our Work Life. In this initiative, colleagues in roles that allow it can split their time between working at home and collaborating with colleagues in our offices (several of which have been refurbished to become more collaborative workspaces). This ensures colleagues can always work in the environment that suits them best.

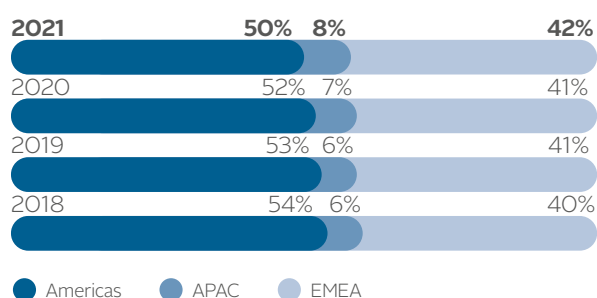
We are also supporting colleagues across the company through a range of initiatives to support remote working, including:

- **Focus Fridays**, where we try as much as possible to avoid scheduling regular/recurring meetings to give people time each week for reflection and personal priorities;
- **ConvaFit**, an allowance of \$200 (or the local currency equivalent) per employee, to purchase sports equipment, and/or take part in fitness classes to ensure our people can focus on their physical and mental health; and
- In October 2021, we hosted our second annual **ConvaTec Day**, which gives colleagues time off and more time to think and plan. We aligned the day to World Mental Health Day to further amplify the importance we place on this topic.

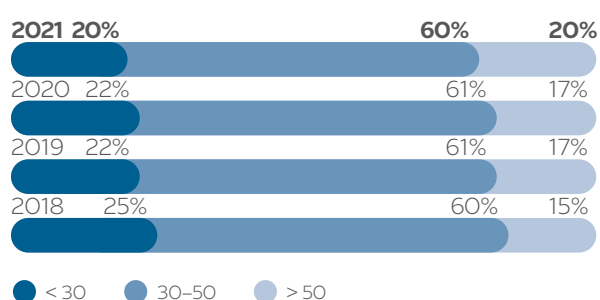
Employees and contractors



Employees by geography¹

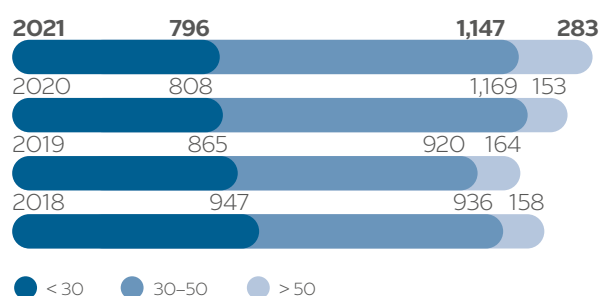


Employees by age bracket

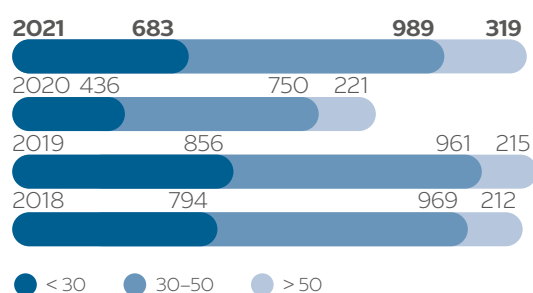


Leavers and hires by age band

Hires

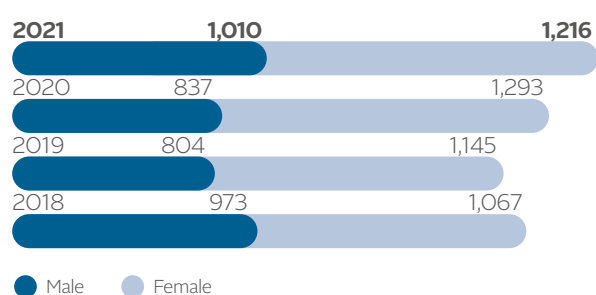


Leavers

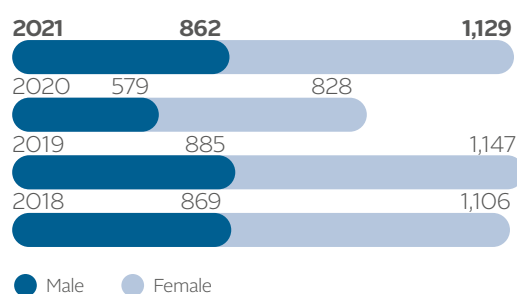


Leavers and hires by gender

Hires



Leavers



1. CEO and CFO are included in regional employee count.

Increasing diversity

We are committed to increasing gender and other forms of diversity including age and ethnicity across all parts of our business through the continuous and effective implementation of our Diversity, Equity & Inclusion and Wellbeing strategy. In particular, we track employee diversity through our HR systems, and the Board will continue to review our diversity profile on an annual basis.

Our three established Employee Resources Groups (ERGs), LGBTQIA+ (Pride), Black Employees (BEN) and Women's Network, continue to grow their memberships and strengthen engagement of key populations across our communities with significant executive support and sponsorship. In 2021, our ERGs promoted and celebrated key moments on the calendar such as Pride month, Black History Month and International Women's Day. Our ERGs have CELT-level sponsorship and ambitious plans to grow further, with all our ERGs expanding their footprint throughout 2021.



As at 31 December 2021, women represented 30% of our Board membership, 32% of our senior management team and 27% of the CELT. Our Diversity, Equity & Inclusion and Wellbeing target is to reach at least a combined 40% females in senior management and CELT roles by Q4 2024, and our current progress in 2021 is 32% for senior management and CELT combined (34% in 2020). Our gender diversity profile as at 31 December 2021 is below.

| | Total | Male | | Female | |
|--------------------------------|--------|--------|----|--------|----|
| | | Number | % | Number | % |
| Board ^{1, 2} | 10 | 7 | 70 | 3 | 30 |
| CELT ² | 11 | 8 | 73 | 3 | 27 |
| Senior management ³ | 115 | 78 | 68 | 37 | 32 |
| Other employees | 10,006 | 3,751 | 37 | 6,255 | 63 |
| Total ⁴ | 10,142 | 3,844 | 38 | 6,298 | 62 |

1. Includes eight Non-Executive Directors

2. The CEO and the CFO are included as members of the Board and CELT

3. Includes direct reports of CELT, excluding administrative staff

4. Excludes freelancers, independent contractors or other outsourced and non-permanent workers who are hired on a project or temporary basis and includes Non-Executive Directors

In 2022 we will continue to expand our diversity efforts further, beyond gender, and continue building a more racially and ethnically diverse workforce that reflects the diversity of the communities, customers and patients we serve, equally paying attention to our focus on disability and the creation of employment opportunities for disabled people.

Our gender pay gap

In 2021, the median hourly pay difference between our UK male and female employees was 6.9% (2020: 13.7%), which is significantly below the UK median pay gap of 15.4% (Source: Office for National Statistics, November 2021). Further information about our pay data is included in our Gender Pay Gap Report which can be found here <https://convatecgroup.com/corporate-responsibility/enabling-our-people/gender-pay-report/>.

6.9%

The median hourly pay difference between our UK male and female employees (compared with the UK median pay gap – 15.4%)

Paying a living wage

We are committed to providing fair pay for our employees. Following our accreditation in November 2017 by the UK Living Wage Foundation, we have been confirmed as a 'real living wage' employer in the UK for a fourth consecutive year. In the UK, we also require and work together with our contractors to pay their employees at the same rates. We require all our contractors to comply with local laws on employment rights.

In 2020, our second global living wage assessment confirmed that in 95% of our locations we were paying at, or above, the living wage. In April 2021, we worked with local HR in the locations where we were paying under the living wage and adjusted employee salaries accordingly during the annual compensation review. Our next global living wage assessment will be completed in 2022.

Health and Safety

We have a team of dedicated Environment, Health and Safety (EHS) managers, located across our operations and R&D facilities, where over 60% of our colleagues are located. Our global EHS team leads the development of the EHS strategy, corporate policies, and standards; audits performance; supports the site teams to improve working practices; and ensures both legislative and company requirements are met. The global EHS team reports to the Executive Vice President of Global Quality and Operations, who is a member of the CELT and ESG Steering Committee. EHS performance is reported to senior management on a monthly basis, with updates provided to the CELT and Board during the year.

Notable achievements realised in 2021 include our manufacturing sites in Deeside and Michalovce gaining ISO 45001 (Occupational Health & Safety management) certification, complementing their existing ISO 14001 (Environmental) certification, and further strengthening their management systems.

During 2021, key initiatives included identifying improvement opportunities and realising increased engagement with all operations colleagues. The programmes targeted electrical safety, machinery and equipment safety, developing safety specific standard work instructions (SWI) and rolling out Total Safety Leadership (TSL) across all locations (see spotlight opposite). The Electrical & Machinery Safety programmes used a team-based approach to identify improvement opportunities, with the site teams using a risk-based analysis to prioritise the actions identified and develop future implementation plans supported by both in-house personnel and third-party expertise where needed.

The focus on creating safety and increasing engagement is being enhanced through our Safety SWI programme and by deploying TSL across all our sites. The SWI programme will continue throughout 2022, with dedicated teams being formed to assess each manufacturing operation, developing pictorial-based safety guides to enhance the training of our personnel, realising increased awareness, ownership and improved safeguards benefiting all employees.

ISO 45001

Certification gained in Deeside and Michalovce manufacturing sites

During 2021 there were no fatalities. The target of maintaining a Group-wide Lost Time Injury Rate (LTIR) per 200,000 hours worked below 0.27 was achieved, though the LTIR increased slightly from 2020, trending against the reductions realised in previous years. Analysis of the underlying causes highlights the need for increased focus on behavioural aspects, which is being addressed as part of TSL and the 'See something, say something, do something.' programme planned for 2022. The focus on engagement and eliminating hazards at source is also reflected in the continued increase in Hazard Observation reporting, realising an 8% increase from 2020, providing continuous improvement opportunities protecting all our employees. Our focus remains on delivering a sustained reduction in accidents and incidents through ongoing engagement and practices that win 'hearts and minds'.

Our H&S performance¹

| | 2021 | 2020 | 2019 | 2018 |
|--|------|------|------|------|
| Fatalities | 0 | 0 | 0 | 0 |
| Group Lost Time Injury Rate ² | 0.26 | 0.21 | 0.27 | 0.33 |
| Group Hazard Observation Rate ³ | 148 | 138 | 86 | 65 |
| Operations Lost Time Injury Rate* | 0.30 | 0.23 | 0.30 | 0.37 |
| Operations Hazard Observation Rate* | 190 | 173 | 96 | 108 |
| Lost time Injuries | 18 | 15 | 16 | 20 |

1. The data includes contractor/ agency staff working on our sites, as well as permanent staff, and is based on OSHA definitions. Rates are calculated based on 200,000 hours worked.

2. Lower rates are desirable for Lost Time Injury Rates

3. Higher rates are desirable for Hazard Observation Rates

* ESG target

Spotlight: Total Safety Leadership



TSL has been the flagship of our Journey to Safety Excellence during 2021, with 42 of our colleagues gaining certification as TSL Trainers. During 2021 we rolled out TSL to over 350 colleagues across our operations and R&D locations, promoting 'Everyone, Engaged, Everyday – Creating Safety'.

The feedback has been overwhelmingly positive, reinforcing the primary aspects of leadership, ownership, and engagement, enabling all teams to continue developing our proactive approach through continued integration of safety into all aspects of our work.

Building on the success of TSL, during 2022 we will extend the proactive approach company wide, including engaging directly with all operations and R&D personnel with a tailored programme titled 'See something, say something, do something', highlighting how individual contributions quickly add up, realising a significant and beneficial change.



Behaving ethically and transparently:

Protecting and enhancing our reputation across all our stakeholders and with our supply chain



“Doing what’s right and owning it are two values that represent who we are at ConvaTec. We recognise that we need to make sure that our business decisions at all levels embody these values and we embed ethical behaviour in everything we do. By doing so, we earn trust, build stakeholder confidence and ensure that we act with integrity and do what we say we will do.

This is essential if we are to achieve our vision and create value for our stakeholders.”

Evelyn Douglas,
EVP, Corporate Strategy and Business Development,
General Counsel and Company Secretary

2021 highlights

- Established our Human Rights Committee as a working group under the direction of our ESG Steering Committee
- Updated our Code of Conduct to reflect amended laws and industry codes
- Expanded scope of our due diligence process for added categories of third parties by 24% from the 2020 baseline

2022 priorities

- Review, update and re-publish human rights-related policies
- Expand Code of Conduct training
- Expand use of EcoVadis platform to additional suppliers

Our extensive ethics and compliance programme incorporates several policies and procedures including:

- Maintaining a Code of Ethics and Business Conduct (Our Code of Conduct) that is updated regularly and mandating annual training for all employees either online, with electronic acknowledgement of completion, or through participation in town hall meetings.
- Making available an independently provided Compliance Helpline and web link for employees and third parties (<https://secure.ethicspoint.eu/domain/media/en/gui/102192/index.html>), for seeking guidance and to report suspected deviations or breaches.
- Assuring the existence of mechanisms to ensure issues can be reported by colleagues, reviewed by our Ethics & Compliance team and where appropriate, that any resulting investigation and outcome of any significant issues are overseen by the ARC (see page 117).

In March 2021, we refreshed our Code of Conduct to reflect updated laws and industry codes and to enhance the provisions relating to product evaluation, sampling and corruption and bribery, including preventing the facilitation of tax evasion. Although we believe that our conflict-of-interest measures operated effectively in 2021, we are now piloting a web-based survey mechanism which invites managers to identify actual or potential conflicts of interest.

We are committed to creating a working environment where everyone is treated fairly with respect, dignity and consideration and where there are opportunities for all. Our Human Rights and Labour Standards Policy, which incorporates principles and guidelines set out in the United Nations Universal Declaration of Human Rights, Modern Slavery Act and the UN Guiding Principles on Business and Human Rights, addresses a range of issues including equal opportunities, anti-harassment and dignity at work. Many elements of our Human Rights and Labour Standards Policy are reflected in our Code of Conduct. Our Code of Conduct and Human Rights and Labour Standards Policy are available and viewed here respectively <https://www.convatecgroup.com/corporate-responsibility/behaving-ethically-and-transparently/code-of-ethics-and-business-conduct/> and our Modern Slavery Act statement can be viewed <https://www.convatecgroup.com/modern-slavery-statement-2020/>.

In 2021, we relaunched our cross-functional Human Rights Committee following the disruption caused by the COVID-19 pandemic, as a sub-committee of our ESG Steering Committee, to continue driving forward this important agenda.

The Committee chair is Natalia Kozmina, Chief Human Resources Officer. In 2022, we will conclude work to review and refresh both our Human Rights and Labour Standards Policy and our Supplier Code of Conduct to further strengthen our practices. To drive further engagement internally, we also celebrated Human Rights Day on 10 December.

We deploy policies and procedures that are consistent with our Code of Conduct, which cover the third parties we rely upon to fulfil our vision, and we have expanded the categories of business partners covered by our third-party due diligence processes.

We also engage with stakeholders on ethical topics within our sector. Following on from the support we provided to AdvaMed in 2019 in relation to the update of their Code of Ethics on Interactions with HCPs, during 2021 we participated in a number of their meetings and discussions in relation to key legal, ethical and compliance issues, including Code of Ethics updates and addressing the COVID-19 pandemic related HCP interactions. AdvaMed is the largest medical device industry organisation in the US and a global leader in harmonising MedTech industry codes on ethics and assuring transparent interactions with healthcare professionals.

Transparency and ratings

Being transparent with our stakeholders about how we run our business is a vital part of building strong, long-term relationships based on trust. Measuring transparency is not straightforward. Our disclosures and reporting are assessed and scored by a range of external ESG analysts and other organisations and we use this information to benchmark our progress.

In 2017 we set targets to improve our ISS-oekom research rating to at least C+, and our Sustainalytics rating to at least 75/100, based on our reporting of the 2019 financial year. In 2020 we maintained a B-score with ISS-oekom and in 2021 improved to B. Our Sustainalytics rating has improved since 2017. In 2021 Sustainalytics changed its methodology for better comparability of scores across industries with the Overall Performance indicator being phased out. We now follow the Risk Rating metric and will review these again in 2022.

| Rating organisation | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|--------|--------|--------|--------|----------------------|
| ISS-oekom | C- | C | B- | B- | B |
| Sustainalytics Overall Performance | 64/100 | 72/100 | 74/100 | 73/100 | Not available |
| Sustainalytics Risk Rating ¹ | | 16.5 | 15.3 | 15.2 | 14.6 |

1. As at 28 Oct 2021. Lower scores are desirable for Risk Rating while higher scores are desirable for Overall Performance.

Working responsibly with partners

We aim to build long-term, mutually beneficial relationships with third parties along the value chain, including suppliers of materials and services, transport and logistics companies, and distribution businesses. Our relationships with these third parties must be consistent with our vision and values, and the regulatory framework which underpins our ethical business practices.

We accept our responsibility for setting the correct standards of behaviour and ensuring our partners meet, exceed or are working positively towards these standards. We believe that developing a more sustainable supply chain will benefit our business over the long term through increased efficiency, product improvements, reduced risk and deeper, more collaborative relationships.

Our spend is concentrated towards a relatively small number of suppliers. For example:

- Ten suppliers represent approximately 80% of our contract manufacturing spend;
- Three suppliers represent approximately 70% of our logistics spend; while
- Our raw materials supply chain is more diverse, with 34 suppliers representing approximately 75% of our total raw material spend.

Like many medical device companies, our products are often sold by third parties, such as distributors.

Supplier due diligence

To help protect against the risk of a third party acting unethically, our compliance team conducts a range of due diligence and compliance audits.

Our distributor agreements contain appropriate assurances that the distributors will deliver both online and live compliance training programmes to their staff, based on our Global Third Party Compliance Manual. Using a risk-based approach, we conduct due diligence on distributors when they are initially engaged, and every three years thereafter, using an external due diligence web tool. Our third-party distributors complete the Global Third Party Compliance Manual via our external, electronic learning system.

In the first half of 2021, we enhanced our due diligence process to expand its scope to include other third parties (including wholesalers and group purchasing organisations) that provide us with services and may also interact with government entities and healthcare professionals. We will continue to evaluate whether other third parties should be submitted to our enhanced due diligence process.

We require new suppliers to adhere to our Supplier Code of Conduct (SCoC) which covers a range of topics, including commitments to the International Labour Organization conventions and the Principles of the UN Global Compact and environmental protections, and extends our Code of Conduct and our Human Rights and Labour Standards Policy to the supply chain. The SCoC is introduced to all existing supplier contracts as these are renewed. A copy of our SCoC is available at <https://www.convatecgroup.com/corporate-responsibility/working-responsibly-with-partners/>.

We monitor and assess suppliers using third-party risk platforms, which provide in-depth, real-time coverage of a range of factors that could impact on supplier performance (including geopolitical, climatic and civil unrest), as well as events that may have been caused by our suppliers (for example major pollution and strikes incidents). We also operate processes that ensure vendors are engaged promptly when a risk event occurs and that these events are tracked through to satisfactory closure of the potential risk.

Spotlight: EcoVadis platform



We strengthened our supplier due diligence further in 2021 by expanding the use of a third-party provider, EcoVadis. The EcoVadis platform offers an evidence-based assessment of our supply base covering four themes: environment, labour and human rights, ethics and sustainable procurement. The resulting EcoVadis score is now incorporated in the compliance section of our supplier relationship management scorecards.

With 67 suppliers assessed in 2021, we increased the number of suppliers assessed by 24% from 2020. Over two-thirds of our suppliers which were re-evaluated had increased their overall score. As part of our continuous improvement activities we have reviewed these scorecards with our partners and have created corrective action requests focused on driving year-on-year improvements in their ratings. As in previous years, the ratings generated for ConvaTec suppliers have continued to outperform the average of all vendors monitored across the EcoVadis platform.

As of December 2021, we include an assessment of potential new suppliers' ability to participate in EcoVadis as part of our new sourcing process. This assessment is part of the Request for Information (RFI) and Request for Proposal (RFP) phases. In 2021, four out of seven RFI/RFP events requested details of EcoVadis status. The remaining three did not require assessment due to the type of service.

24%

Increase in the number of suppliers assessed in 2021



Protecting the planet and supporting communities:

The way we operate and the contribution we make to the world around us



“Climate change is impacting our planet and our health. We recognise the environmental impacts of our own operations, our upstream supply chain, as well as the downstream distribution, use and final disposal of our products. We also understand the ripple effects climate change has on our stakeholders in the long term, through physical and social risks such as water shortages, desertification, pandemics or forced migration. We recognise the multiple benefits of taking proactive action to address our impacts, increasing resilience in our manufacturing operations and the ability to meet customer expectations with more sustainable products.”

Donal Balfe,
EVP, Global Quality and Operations

2021 highlights

- Registered our commitment to SBTi
- Progressed Scope 1 and Scope 2 GHG reductions, with a 9.5% reduction year-on-year at manufacturing sites
- Strengthened community relations by contributing through a range of partnerships

2022 priorities

- Develop SBTs
- Reduce Scope 1 and 2 emissions by 5% against a 2021 baseline
- Develop strategic partnerships with NGOs, with dedicated funding commitments

Protecting the planet

During 2021 we refreshed our climate change and environmental strategy, and have begun outlining our commitment and delivery plans supporting our sustainability objectives. This follows on from the achievement of the targets set in 2018 and the successful early achievement of our 2023 Scope 1 and Scope 2 GHG emissions reduction target of 10%, with a reduction of 18.5% by the end of 2020. As part of the strategy, we have confirmed a 2021 baseline for our Scope 1 and 2 GHG emissions, our commitment to SBTs as well as achieving carbon net zero (Scope 1, 2 and 3) by 2045, to ensure we contribute to the global effort to address climate change.

In 2021, a study was completed to help shape our climate change and environmental strategy, interviewing a range of stakeholders to assess needs and expectations, and to prioritise actions to address the factors affecting our business today.

As informed by the study, the key elements of our refreshed climate change and environmental strategy are:

- Governance, to facilitate and ensure coherent action across the company to reduce the Group's impact on the environment
- Carbon & Energy, to update our targets to ensure carbon emissions reductions in our own operations are in line with the Paris Accord
- Sustainable Product Design & Supply Chain, to ensure innovation in product design to reduce the cradle-to-grave carbon footprint, including assessing our value chain Scope 3 emissions
- Waste, increasing attention to the environmental impacts of waste at the end of the production and use lifecycle
- Water, addressing the impact of production and manufacturing on freshwater ecotoxicity and the consumption of water in water-stressed environments



See also: Environmental Policy at <https://www.convatecgroup.com/corporate-responsibility/conserving-our-planet/> and TCFD disclosure on page 60.

Energy consumption

In 2021, total energy consumption across the Group was 112,858 MWh (2020: 101,728 MWh).

Total energy consumption (by function) (MWh)

| | 2021 ¹ | 2020 | 2019 | 2018 |
|-----------------------------|-------------------|---------|---------|---------|
| Manufacturing locations | 103,207 | 95,523 | 97,233 | 104,690 |
| Non-manufacturing locations | 9,651 | 6,205 | 7,279 | 6,932 |
| Total energy consumption | 112,858 | 101,728 | 104,512 | 111,622 |
| Total UK energy consumption | 10,733 | 10,381 | | |

Total energy consumption (by fuel source) (MWh)

| | 2021 ¹ | 2020 | 2019 | 2018 |
|---------------------------|-------------------|---------|---------|---------|
| Non-renewable electricity | 43,754 | 66,047 | 66,833 | 78,781 |
| Renewable electricity | 31,869 | 10,607 | 11,528 | 3,014 |
| Natural gas | 36,542 | 24,766 | 16,699 | 24,444 |
| Green gas | - | - | 8,546 | 2,756 |
| District heating | 642 | 254 | 828 | 2,560 |
| Diesel | 51 | 53 | 78 | 66 |
| Total energy consumption | 112,858 | 101,728 | 104,512 | 111,622 |

1. Total energy includes data for global offices and warehouse buildings, which were not included in data for previous years.

Energy intensity

Our overall energy intensity ratio has increased in 2021 due to the impact of the cogeneration engine project at our manufacturing site in Slovakia. This project has reduced our reliance on grid supplied electricity by 4,067 MWh, increasing the amount of natural gas used by 10,600 MWh. Implementation of this project has had additional environmental benefits, such as the use of more environmentally friendly refrigerants in our HVAC systems to generate more efficient cooling and the use of waste heat from air compressors to generate additional cooling capacity in our clean rooms and processes.

Excluding the Slovakian site, we have reduced the energy intensity ratio at our manufacturing sites by 5.5% (GWh/\$m revenue) in 2021 through implementation of our energy, water and waste efficiency programme, which was launched in 2019. During 2020 and 2021, 38 new energy efficiency projects have been delivered across our sites, with a further 17 projects being evaluated, awaiting approval and funding, or being implemented.

Energy intensity (GWh/\$m revenue)

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|------------------|-------|-------|-------|-------|-------|
| Energy intensity | 0.055 | 0.054 | 0.057 | 0.060 | 0.059 |

Energy efficiency

As part of our climate change and environmental strategy, we continue to identify projects to improve our energy efficiency and where possible allow us to generate our own renewable energy. As such, an appropriately extended return on investment period for investments has been agreed to ensure strategic environmental projects are approved and progressed. Examples of projects approved during 2021 include: solar panels in Haina, freecooling unit replacement in Herlev and lead chiller replacement in Reynosa, all of which will be operational in 2022.

Information about some of the energy-saving initiatives implemented during 2021 is included below.

| Facilities | Initiative | Energy consumption reduction (MWh)/% |
|---------------------------------------|---|--------------------------------------|
| UK Deeside & Rhymey | Low energy LED lighting replacements in corridors, plant rooms and supporting areas. | 74/(1%) |
| Dominican Republic Haina | Replacement of compressed air systems with efficient variable speed motors and a centralised air monitoring system. | 529/(3%) |
| Denmark Herlev | Production system pump operating pressure optimisation and extract fan automation | 20/(0.3%) |
| UK Slovakia Dominican Republic Mexico | Sub-metering of electrical systems, centralised monitoring and targeting of consumption trends. | 318/(0.8%) |
| Belarus Minsk | Boiler water pump automation | 11/(0.2%) |
| Mexico Reynosa | Clean room air change rate and centralised chiller control optimisation | 1,371/(9%) |

Our GHG emissions

Our GHG reporting follows the methodologies set out in 'The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition)', developed by the World Business Council for Sustainable Development and the World Resources Institute. We participated in the Carbon Disclosure Project (CDP) and our response is available on the CDP website. Our disclosure score, published in December 2021 is B (2020: B).

As part of our updated environmental strategy, we have taken the decision to re-baseline our emissions to include all Scope 1 and 2 emissions in the overall baseline figure. This excludes fleet emissions which are estimated for 2021, but will be included from 2022. Our GHG emissions therefore relate to consumption of natural gas,

diesel, electricity, district heating and refrigerant gases, used to power, heat and cool our facilities and production processes. The emissions estimate from our vehicle fleet is based on data provided by service providers and from our fuel expenses platform.

Our 2021 GHG emissions under the market-based method totalled 26,858 tonnes CO₂e. In 2021, a reduction in market-based GHG emissions of 9.5% was achieved at our manufacturing locations, achieved through improved energy efficiency and sourcing of renewable electricity at six of our nine global locations. Our fleet of 1,519 vehicles generated estimated emissions of 5,853 tonnes CO₂e. In 2021, our refrigerant gas emissions data has been included within the baseline emissions, amounting to 408 (2020: 925) tonnes CO₂e, emitted from our manufacturing facilities.

GHG (market-based method) (tonnes CO₂e)

| | 2021 | 2020 | 2019 | 2018 |
|----------------------------|---------------|--------|--------|--------|
| Scope 1 (Global) | 5,521 | 2,887 | 3,403 | 4,901 |
| Scope 1 (UK) | 234 | | | |
| Scope 2 (Global) | 21,337 | 24,650 | 24,016 | 28,885 |
| Scope 2 (UK) | 13 | | | |
| Total GHG emissions | 26,858 | 27,537 | 27,419 | 33,786 |
| Total UK | 247 | | | |

GHG (location-based method) (tonnes CO₂e)

| | 2021 | 2020* | 2019 | 2018 |
|-------------------------------------|---------------|--------|--------|--------|
| Scope 1 (Global) | 7,530 | 4,875 | 5,046 | 5,435 |
| Scope 1 (UK) | 2,242 | 1,989 | | |
| Scope 2 (Global) | 25,940 | 27,169 | 27,318 | 30,657 |
| Scope 2 (UK) | 2,332 | 2,433 | | |
| Total (Global) GHG emissions | 33,470 | 32,045 | 32,364 | 36,092 |
| Total UK | 4,574 | 4,422 | | |

GHG emission intensity (tonnes/\$m revenue)

| | 2021 | 2020 | 2019 | 2018 |
|---|------|------|------|------|
| GHG emission intensity (location basis) | 16.4 | 16.9 | 17.7 | 19.6 |
| GHG emission intensity (location basis, UK) | 2.2 | 2.3 | | |
| GHG emission intensity (market basis) | 13.2 | 14.5 | 15.0 | 18.3 |
| GHG emission intensity (market basis, UK) | 0.1 | | | |

* Data includes 12 tonnes CO₂e previously unreported relating to electricity use at our Singapore office.

In 2021, in addition to sourcing renewable electricity in a number of locations, we also procured carbon offsets to maintain carbon neutrality for our UK Scope 1 natural gas emissions. A total of 1,437 tonnes of CO₂e were offset through carbon emissions reduction certificates, in line with the clean development mechanism, purchased through CDM projects (covering the period Q1 to Q3 2021). An additional 572 tonnes CO₂e were also offset through Verified Carbon Standard (VCS) reduction projects (covering Q4 2021), complemented by UK-based tree planting for every tonne of carbon offset.

We understand the need to reduce our Scope 1 emissions through the implementation of improvement projects as part of our energy efficiency programme, combining the implementation of emerging technologies such as heat pumps and hydrogen to replace our natural gas-fuelled processes. We are also monitoring the opportunity to source green gas as part of our energy sourcing strategy.

Renewable energy

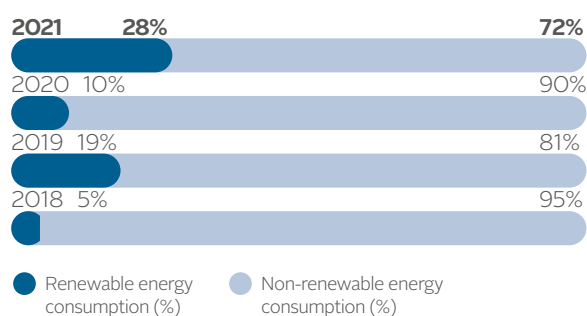
As part of our 2021 environment and climate change strategy refresh, we commit to and will set aligned SBTs in 2022, using a 2021 performance baseline. This will guide our transition to renewable energy at our facilities.

During 2021, we actively progressed renewable energy programmes across our manufacturing operations sites. For example:

- We procured 100% origin certificate-backed renewable electricity across all our UK facilities. The energy was generated from a mix of solar, hydro, thermal, biomass, wind and waste and the contract has been extended until the end of Q3 2022.
- In Denmark, we purchased wind energy backed renewable energy certificates in Herlev covering 12 months' electricity use, and nine months in Osted for the period April to December.
- In the Netherlands, we purchased 12 months of guaranteed origin certificate backed electricity from solar sources.
- In Slovakia, manufacturing was supplied with 100% origin certificate backed renewable electricity.

Renewable energy accounted for approximately 28% of total energy consumption in 2021 compared to 10% in 2020. Information about the methodology we use for disclosing renewable energy in relation to our Scope 1 and 2 emissions can be found on page 221.

Renewable energy (%)



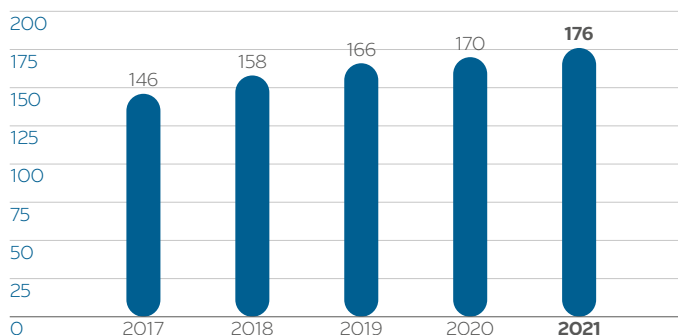
In 2021, we consumed approximately 176 megalitres of water (2020: 170 megalitres), all of which was provided by municipal water suppliers or other public or private water utilities. The majority of water (95%) is consumed at our manufacturing sites in the Dominican Republic, Mexico, Slovakia and the UK. No water is abstracted directly from lakes, rivers or other bodies of water. Data is compiled from invoiced amounts and meter readings. A small percentage of water is treated on site (2021: 0.04%, 2020: 0.03%).

In 2022, we will complete a water scarcity risk assessment (WRI Aqueduct 2019) and set targets for reduction of water use in our high-risk locations.

5,391 tonnes of water (2020: 5,053 tonnes) are tankered offsite as hazardous waste, the vast majority of this relating to our Rhymney site in the UK where, as part of normal process operation water becomes contaminated with Industrial Denatured Alcohol (IDA) and is segregated for further processing. After processing, a significant proportion of the IDA is recovered, which is reused on the site. The remaining treated water is returned to the environment via a sewer as part of a permitted discharge. Other uncontaminated waste water is discharged via a sewer.

As set out in our Environmental Policy statement, we are committed to understanding, quantifying and minimising our waste (hazardous and non-hazardous), and water consumption. We are also intensifying our focus on initiatives which will drive a reduction in waste generated by our product, packaging and non-manufacturing activities.

Water use (megalitres purchased)*



* 2020 data includes previously unreported consumption of 1 megalitre.

Waste

The table below shows our waste recycling and disposal performance over the last five years for both hazardous and non-hazardous waste. Non-hazardous waste represents 73% of the total waste generated and the chart indicates the proportion of this waste recycled is 17% and the proportion disposed of to landfill is 70%. The change in the split between recycling and landfill seen during 2021 compared to 2020 is attributable to increased recycling levels in the Dominican Republic, Slovakia and the UK.

Hazardous waste represents 27% of total waste generated and 99% of this is recycled. The vast majority of hazardous waste (95%) is generated at our Rhymney site and its treatment is described in the previous section. Of the remainder, 1% is disposed of to landfill.

During 2022, we commit to set both a production waste recycling target and a global net zero waste to landfill target. A focus team has been formed at our facility in Haina, Dominican Republic, to improve segregation and processing of waste, and develop an action plan to eliminate waste to landfill. In addition, we are also exploring opportunities at all locations for potential partnerships for recovery, recycling and the alternative use of waste.

Waste recycled (tonnes)

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Non-hazardous waste | | | | | |
| Disposed of | 12,557 | 11,806 | 10,060 | 9,224 | 12,574 |
| Recycled | 2,591 | 2,120 | 3,671 | 2,333 | 3,243 |
| Generated | 15,148 | 13,926 | 13,731 | 11,557 | 15,817 |
| Hazardous waste | | | | | |
| Disposed of | 81 | 72 | 78 | 57 | 209 |
| Recycled | 5,606 | 5,337 | 5,716 | 5,663 | 8,146 |
| Generated | 5,688 | 5,409 | 5,794 | 5,720 | 8,355 |
| Total Generated | 20,835 | 19,335 | 19,525 | 17,277 | 24,172 |

Fate of non-hazardous waste generated (%)

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|--|------|------|------|------|------|
| Recycled | 17% | 15% | 27% | 20% | 21% |
| Incineration (with energy recovery) | 13% | 10% | 8% | 9% | 6% |
| Incineration (without energy recovery) | 0% | 0% | 6% | 2% | 7% |
| Landfill | 70% | 75% | 59% | 69% | 67% |

Environmental impacts along the value chain

As well as the environmental impact of our own operations, the delivery, use and disposal of our products also creates impacts along the value chain, including the sourcing of raw materials, sterilisation, supplier manufacturing, packaging, logistics and transport. To minimise this 'indirect' environmental impact we will be assessing the environmental performance of key suppliers, reporting value chain impacts and assessing product and packaging performance.

Assessing our suppliers

As explained on page 51, we assess suppliers' environmental performance against our SCoC and we require new suppliers to sign our SCoC. No supply contracts were terminated on the basis of the environmental assessments conducted in 2021.

Scope 3 GHG emissions action

Scope 3 emissions are estimated to be more than 70% of our total carbon footprint. As such, reporting of Scope 3 emissions are essential if we are to achieve our net zero target by 2045. Therefore, in 2022 we will be completing a Scope 3 materiality study to assess which of the 15 categories of value chain carbon emissions are relevant and quantifiable based on the data available. We aim to deliver an approved measurement strategy by the end of 2022, with the future goal of a Scope 3 science-based target being confirmed by end 2023, adding to our Scope 1 and 2 emissions target.

Scope 3 GHG emissions estimates

In 2021, our reporting includes the following estimates:

- Category 1: purchased goods and services
- Raw materials: we have estimated the carbon footprint of products placed on the market in 2021 to be between 40,000 and 60,000 tonnes of CO₂e. This estimate is based on a study undertaken in 2019 (see page 221).
- Packaging: using data gathered from actual and projected packaging procurement records, from engagement with key packaging suppliers and databases for the CO₂e impact of materials we estimate the carbon footprint of the packaging placed on the market during 2021 to be approximately 16,000 tonnes CO₂e. This estimate is based on a study undertaken in 2019 (see page 221).
- Category 6: business travel. With data provided by our travel agents, we estimate business flights contributed 1,007 tonnes of CO₂e (2020: between 680 and 750 tonnes). Although this figure has increased as restrictions have been lifted, our experience during the last two years has demonstrated our ability to operate effectively and remotely using digital tools. As proportionate business travel progressively resumes, we will continue to encourage a combination of virtual and in-person meetings.

Environmental impact of products and packaging

Our products are the most visible element of our environmental performance and encapsulate accumulated environmental impacts along the value chain, from extraction of raw materials, through manufacture and logistics, use by customers, and final disposal.

By better understanding where the most significant impacts are created, we are better able to focus on the priorities for attention. In previous years we have undertaken projects to build our knowledge in this key area. However, as highlighted above, we need to do more work and this will be a key priority in 2022 and is captured in our ESG targets on pages 38 and 39.

In 2021, we made significant progress on several packaging-reduction initiatives, including the reduction of label sizes in Ostomy Care and the launch of our 'Stop wasting space' campaign to reduce the number of pallets used when shipping product by sea. Our NPD process and GDGs help to facilitate this progress further, as described on page 41.

In 2019, we estimated that our 2019 packaging baseline footprint was approximately 16,000 tonnes of CO₂e. We are in the process of establishing an environmental strategy delivery team collaborating across operations and a review of the carbon impact of our packaging will be considered as part of this initiative.

Product review

Based on historical product environmental impact reviews, analysis indicates between 85% to 95% of materials used in our products are plastics or thermoplastics/elastomers. Within these categories, the following materials are amongst the most significant from an environmental impact perspective: polyvinyl chloride (PVC), polyester, polyurethane and acrylonitrile butadiene styrene. Where we are aware of existing products or packaging containing substances of concern, we work progressively to reduce and/or replace those substances as appropriate.

Product life-cycle assessments

During 2021, we completed the third-party reviewed life-cycle assessment for Continence and Critical Care in accordance with the requirements of the international standards ISO 14040:2006 and ISO 14044:2006. This completes our target to have assessments in all four of our product categories, adding to the LCAs previously undertaken in 2018 for Advanced Wound Care, Ostomy Care and Infusion Care.

The results and improvement opportunities identified by these one-off reports have been compiled and published internally, forming the basis for the delivery of our Scope 3 emissions reporting and sustainable product design actions set out in our climate change and environment strategy.

Spotlight: Energy efficiency in Reynosa



Throughout 2021, ConvaTec developed and delivered an improved control strategy of the HVAC (heating, ventilation and air conditioning) systems at our manufacturing plant in Reynosa, Mexico. The new strategy optimises the start-up and run time of the air-cooled chillers which provide chilled water to air-handling units, maintaining the clean room cooling supply in a more efficient manner.

The clean room air change rates have also been optimised, reducing the power used for the air handling units while maintaining the validated state.

This project is delivering energy savings of 1,371 MWh per annum (9% of total site energy), which equates to a 546 tonnes CO₂e carbon reduction.

Socio-economic contribution to society

Through running our business, we aim to make a socio-economic contribution to society. This contribution, which is important to a range of stakeholders, is summarised below.

| | 2021 \$m | 2020 \$m | 2019 \$m | 2018 \$m | 2017 \$m |
|--|----------------|-------------|-------------|-------------|-------------|
| Direct Economic Value Generated¹ | 2,038.3 | 1,910.8 | 1,827.2 | 1,832.1 | 1,764.6 |
| Economic Value Distributed | | | | | |
| Operating costs ² | 962.3 | 891.7 | 890.0 | 895.4 | 857.1 |
| Employee wages and benefits | 650.1 | 579.7 | 515.0 | 473.2 | 472.7 |
| Payments to providers of capital ³ | 262.7 | 254.0 | 351.2 | 335.2 | 131.6 |
| Payments to governments ⁴ | 47.6 | 56.3 | 38.2 | 45.9 | 49.1 |
| Community investment | 1.5 | 0.7 | 0.5 | 0.4 | 0.2 |
| Economic Value Retained | 114.1 | 128.4 | 32.3 | 82.0 | 253.9 |

1. Direct economic value generated in 2020 includes the gain recognised from the sale of our US Skincare product line.

2. Operating costs exclude depreciation, amortisation, impairment charges, asset write-offs and operating taxes. Employee wages and benefits, payments to governments and community investments are normally part of operating costs, but have been excluded as they appear on separate lines in the table.

3. Payments to providers of capital have been included on an accruals basis and include interest paid on long-term debt, capital and interest payments on right of use assets, net debt repayment, dividends and own share reserve purchase paid to ConvaTec shareholders.

4. Payments to governments include corporate income taxes, sales taxes, real estate taxes and other taxes, but exclude employer portion of payroll taxes, as they are included in employee wages and benefits.

Contribution to governments

We are fully committed to meeting our legal tax obligations in each of the countries in which we operate. We fully support and embrace greater transparency with tax authorities and the initiatives being introduced by the Organisation for Economic Co-operation and Development (OECD) and governments to ensure clarity and adherence to the tax laws of each jurisdiction in which we operate. Our Tax Policy is available at www.convatecgroup.com/corporate-responsibility.

Giving back

We recognise that for ConvaTec to deliver our vision, we must have an impact beyond our core operations. In 2021, we refreshed our communities programme under three pillars:

- Access to healthcare and tackling health inequities
- Education
- Disaster relief

Our approach aims to encourage local action in the many places we work, leveraging the reach we have as a global company. The fund we established in 2020 in response to the COVID-19 pandemic concluded at the end of 2021, as we move towards establishing a range of new strategic partnerships in 2022/23.

We strengthened our communities strategy further in October 2021 with the launch of a new volunteering policy, encouraging and enabling colleagues to take two days per calendar year to volunteer with established charities, NGOs and non-profit organisations.

Spotlight: Tackling health inequities



In July 2021, a group of colleagues from our Advanced Wound Care team volunteered in the United States and packed almost 18,000 meals for Feed My Starving Children, a local NGO in Mesa, Arizona. In a matter of hours, the team packed 83 boxes that will feed 49 children for a year. Their work is a great example of how volunteering can have a tangible impact on communities and help colleagues understand challenges their local community faces.

Education

In partnership with the United Ostomy Associations of America and their Youth Rally Committee, we donated \$35,000 to support a youth engagement programme for 11- to 17-year-olds who have faced or may someday face ostomy surgery. The programme was facilitated by volunteer counsellors who live with the same conditions as the young people, who have varying physical abilities, and encourages the participants to gain independence and confidence while having fun. We also funded a range of educational resources and support for those who have or will have ostomy surgery, their caregivers, family members and medical professionals.

In November 2021, we announced a \$250,000 flagship partnership with the Welsh Wound Innovation Centre (WWIC) to support medical education grants for wound care courses benefitting 250 students from around the world. WWIC, the first national wound healing centre in the world, and ConvaTec have a long association. Having operated in Wales since 1982, ConvaTec's operations now bring more than 800 jobs to Wales across three locations. More information can be found at <https://www.convatecgroup.com/media/press-releases/2021/25-years-of-aquacel/>.

Disaster relief

Following the earthquake in Haiti in August 2021, we were proud to donate \$25,000 to Partners in Health (PIH), a global NGO focused on strengthening health systems through community-focused partnerships that promote health equity. With a 30-year history working in Haiti, PIH was positioned to mobilise trauma care for earthquake victims quickly by working with local nurses and physicians that they had trained in the decade since the 2010 earthquake. ConvaTec's donation added to their response by mobilising supplies to the first responders treating those impacted. In addition to its rapid response, PIH is also developing capacity for a continuum of care for earthquake victims in Haiti, including psychological first aid and COVID-19 vaccinations.

Product donation

We donated more than \$180,000 worth of products in support of Friends of Ostomates Worldwide. The NGO supports ostomates in developing countries who may not be able to get affordable supplies and may have to manage their ostomy using plastic bags, metal cans, rubber gloves, or rags or towels. Their quality of life is poor, and skin care is a major issue. By offering access to proper supplies, we are able to help these ostomates improve their health and improve their quality of life.

TCFD Disclosure

We are committed to implementing and fully complying with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), providing investors and other stakeholders with useful information on climate-related risks and opportunities that are relevant to our business, including their financial implications. Here we provide a summary of our TCFD disclosure, which indicates our current status and sets out our ongoing plans to continue assessing the impact of climate change scenarios and how they may affect our business model over both the short and long term.

We have continued to make progress towards meeting the requirements of TCFD this year, but we still have more to do as we establish clear Science Based Targets for our business and make sure our business is set up to deliver on those commitments. Today, we are not fully compliant with the requirements of TCFD, but we set out below our plans for achieving full compliance over the course of the next year, with many of the planned initiatives being further explained in our Responsible business review above.

Climate-related risks and opportunities

The Board recognises the scale of the climate emergency and the potential impact this may have on communities and our business model. Accordingly, we also recognise our responsibility to do what we can to minimise our carbon footprint, including within our supply chain. As a medical devices and technology business with a presence in more than 100 countries and global manufacturing operations, we are exposed to both physical and transitional risks and opportunities from climate change. We are committed to assessing and mitigating risks that are material to our business.

We continued to progress this work through 2021, and in our disclosure below have set out how we are implementing the recommendations of the TCFD to provide investors and other stakeholders with useful information on climate-related risks and opportunities that are relevant to our business.

Listing rules compliance

ConvaTec Group Plc has complied with the requirements of LR9.8.6R by including climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures except for Scope 3 GHG emissions metrics and developing quantitative climate-related risk scenarios. Our business operates with significant complexity and diversity in our operational value chains and we recognise the importance of understanding Scope 3

emissions and are committed to assessing our Scope 3 footprint in 2022. We aim to deliver an approved Scope 3 measurement strategy by the end of 2022, with the future goal of a Scope 3 science-based target being confirmed by the end of 2023, and this will help us to prioritise GHG reductions and climate risk mitigation actions within our value chains. In addition, we are committed to developing our current qualitative climate-related risk scenarios into quantitative assessments in 2022, which look at the business impact of scenarios where the global average temperature increases by less than two degrees, and those where temperatures rise by three degrees or more by the end of the century.

Governance

We set out on pages 34 and 35 our approach and the framework to ESG governance, including climate-related risks at ConvaTec. Our disclosure sets out our intentions to achieve full compliance with the TCFD recommendations in 2022.

2021 Progress: ESG Steering Committee established

The Committee met three times in 2021. The Committee reports on the strategy, progress and required actions in response to climate-related risks and opportunities to the CELT for discussion, review and challenge. This ensures that all members of the executive leadership team understand our business response to climate change and are committed to delivering against our commitments to become a more sustainable business. During 2021, the ESG Steering Committee has refreshed our ESG framework. One of our ESG strategic pillars relates to how we protect the environment and support our communities through the way we operate and the contribution we make to society. As part of our focus on this pillar, the Committee has performed a detailed review of the TCFD requirements and set out clear CELT member accountability for each element of the TCFD requirements.

The Board has delegated elements of its responsibility for climate-change to the Audit and Risk Committee (ARC). The ARC is responsible for reviewing and approving the content of our TCFD disclosures, as well as for oversight of the annual ESG assurance exercise carried out by external consultants. The ARC considered proposals for refreshing our ESG framework (including climate change considerations), which was subsequently approved by the Board, and has received detailed briefings on the new reporting requirements relating to financial reporting and disclosure considerations in respect of climate change. In addition, the ARC supports the Board in the management of risk, which includes a strategic principal risk of Environment and Communities with climate change as one of the key drivers of this risk – see page 72.

2022 Plan: Board deep-dive reviews of operational and product life-cycle environment impacts

Moving forward, the Board will conduct twice yearly rotating deep-dive reviews into the key elements of our environmental agenda. One review will cover our operational impact on the environment and the other review will cover our product life-cycle development impact on the environment. These deep-dive reviews will commence in 2022.

Strategy

We worked with an independent expert adviser to identify and assess the impact of climate-related risks and opportunities through a qualitative scenario analysis that considered how these might evolve under a business-as-usual scenario (where current commitment leads to global warming significantly exceeding 3.0 degrees Celsius by 2100) and under a two-degrees-compliant scenario. This assessment confirmed that, while our business model is not highly exposed to climate-related risks in the short or medium term (up to five years), the impact of these risks will become more relevant in the long term (greater than five years). However, immediate focus on such matters as transitional risks, including emissions reduction is important, particularly in light of expected policy and regulatory changes and shifts in customer preferences.

2021 Progress: established 'Protecting the planet and supporting communities' as an ESG strategic pillar

The Board has assessed the climate-related risks facing the business and is satisfied that it is highly unlikely that the operational and financial risks associated with climate change threaten our business model or the long-term viability of the business. However, there will be implications for the business. As noted above, we have established our overall ESG governance structure, at Board and CELT levels, in order to develop and drive execution of our overall ESG strategy, including our climate-focused efforts. The key elements of our climate change strategy, which we have developed during 2021 are:

- Enhanced governance and oversight: assigned clear accountability to relevant CELT members to deliver on our strategic commitments to manage our climate-related business impacts
- Driving greener operations: reduced our energy consumption through increasing energy efficiency across our operations, reducing energy intensity and increasing our use of renewable energy sources. We remain committed to ensuring GHG emissions in our own operations (Scope 1 and 2 emissions) are reduced and we have set our goal of achieving net zero by 2045 at the latest
- Sustainable product design: implemented Green Design Guidelines (GDGs) within our R&D and operations functions to reduce the cradle-to-grave carbon footprint of our products and packaging
- Reducing waste generation and our consumption of water: understanding, quantifying and minimising our levels of waste (hazardous and non-hazardous), and our consumption of water in water-stressed environments. We are also intensifying our focus on initiatives which will drive a reduction in waste
- Science Based Targets Initiative (SBTi): registered our commitment with the SBTi to deliver on achieving our net zero ambition by 2045

2022 Plan: enhanced development of our climate strategy

We will continue to highlight climate-related risks as part of our annual strategic planning cycle, during which all of our Business Units and functional teams will critically assess their role in supporting our ESG and climate-related ambitions.

In 2022, we will also develop aligned Scope 1 and 2 Science Based Targets by which we will drive and measure our progress against the 2021 baseline set out in the section above. In addition, in 2022 we will undertake a Scope 3 materiality study of all 15 categories of value chain emissions and develop our Scope 3 measurement methodology.

Climate-related opportunities

Efforts to mitigate and adapt to climate change also produce opportunities for our business and we are committed to our strategy of improving our resource efficiency to realise cost savings, accelerate the adoption of low-emission energy sources, where possible, and embed green design principles into the development of new products and services. All of these actions will not only help us address the climate emergency, but also allow us to build enhanced resilience into our supply chain.

Spotlight: Energy efficiency



A global energy management initiative was undertaken during 2021 at our manufacturing sites to install smart metering on equipment consuming high levels of energy.

The meters are connected to a cloud-based platform for data recording, trending and analysis.

The enhanced visibility of consumption patterns enables identification of energy efficiency opportunities, continuous improvement and the quantification of energy savings following project implementation. This project saved approximately 318 MWh (1% of total global energy at sites in scope) in 2021, and is expected to increase in 2022.

Resource efficiency

We believe that our efforts to improve efficiency across our end-to-end operations will result in operating cost savings over the medium to long term. As we set out above, during 2020 and 2021, 38 new energy efficiency projects were delivered across our sites and we have made investments in developing efficient heating solutions, enhancing our usage of LED lighting technology and upgrading our industrial motor technology. See page 54 for examples of our energy efficiency programmes.

Energy source

We are determined to do our part to meet global emission-reduction goals, and a key element of this is the opportunity to transition a significant proportion of our energy consumption to low-emission alternatives such as wind, solar, and hydro sources. Under our ESG strategic pillar of 'Protecting the planet and supporting communities', our expectation is that our SBTs will include a commitment to the sourcing of 100% renewable energy at our facilities. During 2021, renewable energy across our manufacturing operations sites accounted for approximately 28% of total energy consumption compared to 10% in 2020.

Products and services

A key element of our ESG strategic pillar 'Delivering for our customers', was the implementation of the Green Design Guidelines (GDGs) in 2021 referred to above. The GDGs will ensure the most appropriate materials are selected to reduce the future environmental impact of our products and packaging. We believe that innovation and development of new low-emission products will improve our competitive position and provide the opportunity for us to address changing consumer and producer preferences. In addition, our packaging reduction initiatives, allied to the life-cycle assessments for all of our product categories, give us further opportunities to reduce our products' carbon footprint.

Resilience

We continue to identify opportunities to allow us to generate our own renewable energy at sites, design new production processes and to improve efficiency which will allow us to improve our supply chain resilience to climate risks. This also includes reducing or eliminating some plant inter-dependencies and building additional capacity at some key sites to meet increasing demand.

Risk management

We recognise the importance of identifying and monitoring climate-related risks, which feature as drivers of our principal risks. Ownership and management of all risks is assigned to relevant members of the CELT, who are responsible for ensuring the operating effectiveness of the internal control processes and for implementing effective key risk-mitigation plans.

The Board undertakes a bi-annual assessment of the Group's principal risks. The CELT is supported by the Group risk team and a network of risk champions across the business, who are tasked with maintaining awareness of key risks and control measures. Our risk management process to address our principal risks and uncertainties, including Environment and Communities risk that incorporates climate change as one of the key drivers (the CELT leader responsible for the Environment and Communities risk is the Chief Human Resources Officer), is discussed further on page 72.

2021 Progress: climate-related risks identified and assessed using qualitative analysis

We have worked with our independent expert adviser, DNV, to identify and assess the impact of climate-related risks through qualitative-scenario analysis, considering both short-term and long-term impacts on our business model. In line with the TCFD recommendations, our assessment covered both physical risks and transition risks. The ESG Steering Committee was updated on key findings in Q4 2021, and the ARC reviewed the findings at its meeting immediately prior to the issue of this report.

Our assessment concluded that our overall exposure to climate-related risk is relatively low in the short to medium term (up to five years), although this increases as we look longer term (greater than five years). From our analysis, the areas where risk is highest are:

- Policy, regulation and legal: our costs/revenue could be impacted by potential regulation relating to products and raw materials, particularly in relation to the use of plastics within our products and packaging. The majority of our products are single-use due to the nature of their medical application.
- Market: there is potential impact of increases in costs of raw material prices due to climate change-driven factors such as raw material shortages, water scarcity or increased energy costs. There is also rising customer concerns, for example from the NHS and next-generation customers, relating to carbon footprint and single-use plastics.
- Technology: over time the return on investment of both manufacturing and product technology is likely to be impacted by climate-related factors such as carbon pricing. Capital allocation decisions and product design guidelines will need to take into account such factors going forward as standard practice in financial planning processes.
- Reputation: whilst it is unlikely that we would suffer sustained stakeholder criticism for a perceived lack of responsibility in relation to our products (due to the nature of the medical devices we supply), our reputation could be damaged relative to competitors should we fail to keep pace with climate-related sector innovations, or fail to compellingly demonstrate climate resilience to external stakeholders.
- Physical: we assess the potential for disruption to our own operations to be limited in scope in the short term and we are focused on continuing to invest in resilience improvement measures across our manufacturing plants, supply chains and distribution networks which will reduce our longer-term exposure to climate-related risks. We also assess that sales of certain products could potentially suffer disruption through the vulnerability of certain supply chains to climate risk. This could relate particularly to raw materials obtained from natural resources.

2022 Plan: climate-related risk scenarios to be developed using quantitative analysis

During 2022, in line with the requirements of TCFD, we are committed to developing those qualitative scenario assessments into quantitative assessments which look at the business impact of scenarios where the global average temperature increases by less than two degrees, and those where temperatures rise by three degrees or more by the end of the century. Further, we have identified a number of potential opportunities to mitigate the physical and transitional impacts of climate change and these will be further assessed for feasibility in 2022 in conjunction with the ESG Steering Committee.

Targets – what are we committed to deliver?

2021 Progress: good progress against our climate-related targets, but we must do more

We already have a number of established metrics and targets which are driving our business towards becoming more sustainable and improving our management of climate-related risks. However, we are committed to doing more in this area and we are challenging ourselves to go further with our targets and to move faster in achieving those targets.

2022 Plan: develop and register science-based targets to transition us to net zero carbon by 2045

We are committed to becoming a net zero carbon business by 2045 and will set out our plans to achieve this in 2022. We have committed to establishing science-based carbon reduction targets to deliver on this vision, aligned with a 1.5°C global warming scenario. We are currently carrying out detailed diligence reviews across our business to ensure that we have robust plans to achieve our vision. Our Responsible business review on pages 32 to 59 provides more details on those climate-related targets, how we are measuring our performance and progress to date.

Our GDGs applied in our new product development process will help ensure we are developing more sustainable product portfolios for the longer term which will more actively consider the carbon footprint, water footprint and raw material selection.

In addition to the net zero carbon commitment, we will continue to reduce waste in the overall supply chain including identifying the pathway and timeline for production waste recycling targets and a net zero waste to landfill target. This is supported by a water scarcity risk assessment and setting targets for reduction of water use in high-risk locations. See page 56 for further information on our waste and water targets.

As well as managing the environmental impact of our own operations, we are working closely with our suppliers to minimise the environmental impact elsewhere in our value chain. To become a net zero carbon business, the measurement and monitoring of our Scope 3 emissions are essential and in 2022 we will be completing a Scope 3 materiality study to assess which of the 15 categories of value chain carbon emissions are relevant and quantifiable based on the data available with a view to adding a Scope 3 Science Based Target in 2023.

Independent assurance

In line with our commitment to transparency, we commissioned DNV Business Assurance Services UK Limited (DNV) to undertake independent limited level assurance of our Responsible business review 2021. We have partnered with DNV since 2017. The assurance was completed using DNV's assurance methodology, VeriSustain™, which is based on their professional experience, international assurance best practice including the International Standard on Assurance Engagements 3000 and the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. The Responsible Business review was evaluated for adherence to the GRI principles for defining report content of stakeholder inclusiveness, materiality, sustainability context and completeness.

Performance data

The scope of DNV's work covered the following 2021 disclosures ('performance data') from the review:

- Scope 1 and 2 total greenhouse gas (GHG) emissions (tonnes CO₂e) (market based and location based) (page 55)
- Fatalities, Lost time injuries and rate, hazard observation rate (number and per 200,000 hours worked) (page 49)
- Diversity: percentage of females in senior management (page 48)

DNV's full Assurance Statement, including opinion, basis of opinion and observations is available at <https://www.convatecgroup.com/corporate-responsibility/corporate-responsibility-reports/>.



Completeness of information

The information contained in the Responsible business review section of our 2021 Annual Report and Accounts covers all operations over which we had financial control for the 2021 financial and calendar year. It also covers all of the issues identified in our ESG framework and places emphasis on the most material issues.

Where a reported KPI does not relate to the entire organisation for the whole year, the scope of its boundaries is indicated. Businesses acquired or disposed of during the year are not included in our reporting for that year except where disclosed otherwise.

Risk management

Understanding and appropriately managing risk inherent to our business maximises potential opportunities to deliver our strategy and realise our vision.

Risk culture

The Board is responsible for risk management and promotes a transparent and accountable culture that does not inhibit sensible risk taking critical to growth but also sets the boundaries for such risk taking. The Board and its committees set the tone for the CELT and other senior management to promote and cascade this culture through the Group and with external stakeholders.

The Board, its committees and the CELT ensure that our risk management systems are robust, effective and take account of appropriate exposures. The Board supports effective risk management across the Group by implementing and overseeing a framework of appropriate and effective controls that enable risk to be assessed and managed.

The risk-related responsibilities of the Board's committees

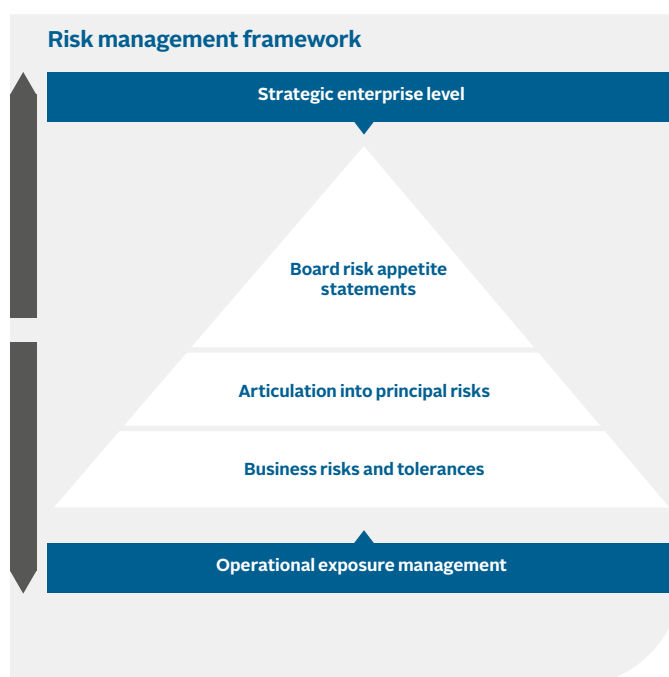
| | |
|---|--|
| Audit and Risk Committee ("ARC") | – Monitors and reviews all risk management processes, including the effectiveness of risk mitigation and control measures. |
| Nomination Committee | – Oversight to ensure that the Group has a talented, diverse and effective leadership team, combining extensive corporate experience with knowledge of our markets and regulatory environment, as well as a pipeline of senior future talent that together are capable of managing risk to enable strategy delivery. |
| Remuneration Committee | – Oversees the implementation of appropriate reward arrangements to drive a high-performing culture that manages risk in line with our risk appetite. |

Our risk appetite

The Board sets the level of risk we are prepared to accept to deliver our strategy and realise our vision. As part of our programme to evolve and enhance our risk management framework, in 2021 we reviewed the articulation of our risk appetite to align with our principal risk profile. Our risk appetite is now defined through four lenses, which are detailed on this page, and each principal risk is aligned to one of the four statements. On an ongoing basis, the ARC monitors the level of risk to which the Group is exposed and how the business continues to mitigate the risk and operate within the stated risk appetite levels. In 2022 we will continue to enhance our approach to risk appetite with the identification of relevant metrics that support the Group to continue operating within our risk appetite, and as a management tool for business decisions.

Board risk-appetite statements

| | |
|-----------------|--|
| Seek | Risk is taken in order to choose strategic options that offer potentially higher business rewards and/or there is confidence in the level of robust systems of internal control to respond effectively and limit the duration of potential impact. |
| Accept | Risks that arise from events that are outside realistic boundaries for ConvaTec's immediate direct influence and control. A focus is required to build a reasonable level of resilience to impacts on strategic objectives. |
| Manage | Risk is accepted by ConvaTec in order to achieve strategic objectives, and where the risk is able to be managed to a level that would not result in material impact to strategic objectives. |
| Cautious | Risks arising from ConvaTec's people, processes, and systems that are controllable and where there is no appetite for risk taking in this area. The objective is to eliminate the risk or to reduce it to a minimal level of tolerance. |

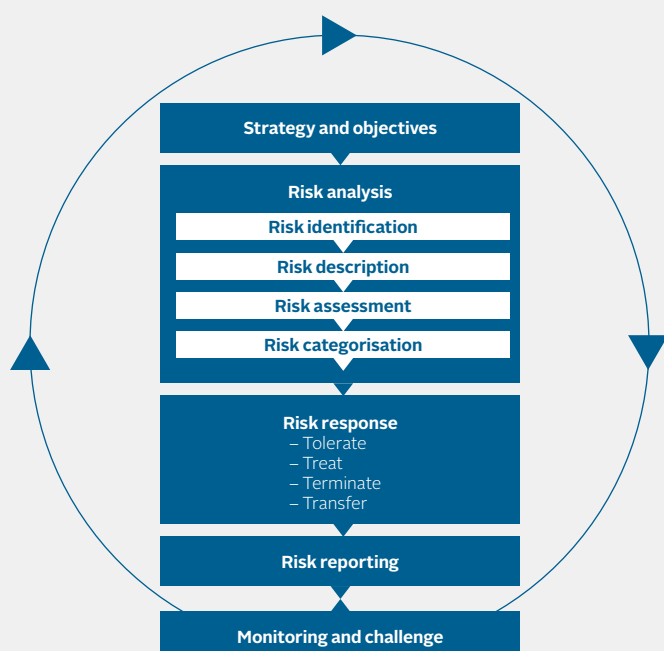


Risk management framework

We continue to strengthen our risk management approach through the development of a process that is based upon ISO 31000, Risk Management, and complies with the requirements of the UK Corporate Governance Code.

Our process has been developed to undertake a continuous bottom-up review of risk (current and emerging) across each area of our business to identify the main threats to delivery of our strategy. The resulting business risk profile is used to inform our bi-annual principal risk update process, working with subject matter experts from the business and supported by the CELT sponsor(s). We identify, assess and prioritise our business and principal risks in accordance with our defined risk assessment criteria. Risk ratings are used to prioritise our risks and are a product of the expected impact and the likelihood of that impact to occur as a result of an event. Risk controls have been identified and certain additional risk mitigation measures implemented and monitored to further reduce our risk exposure and ensure alignment with our risk appetite. The ARC oversees the risk management process each quarter. For further information see page 116.

Our risk management process



Governance and oversight

The work of the Board and the ARC is underpinned by a formal structure of delegated authority and supported by Group policies covering key areas of operation, including risk management. The diagram below shows the key roles, responsibilities and overall arrangements for collecting, monitoring and reviewing risk information.

The Board

- Sets the Group's risk appetite.
- Ensures appropriate risk management and internal control systems are in place to enable the identification and robust assessment of the principal and emerging risks.
- Ensures effective processes exist to manage the principal risks and takes a balanced view of those risks against ConvaTec's strategy and risk appetite.
- Assesses the Group's prospects and resilience through the Viability statement.
- Sets the "tone from the top" and the culture for managing risk.
- Sets strategic priorities in light of the Group's risk profile.

Audit and Risk Committee (ARC)

- Considers the risk environment through reporting from management, internal audit and the external auditor.
- Reviews, and reports to the Board on the effectiveness of the internal control environment and risk management systems.
- Sets the internal audit annual plan and external audit scope to provide assurance on a materiality basis that the Group operates within the Board's approved risk appetite through appropriate and effective controls and mitigations.

ConvaTec Executive Leadership Team (CELT)

- Sponsors a coordinated approach to establishing enterprise risk management.
- Employs a central risk team to establish and facilitate the risk management process across the Group to provide risk information for management oversight and decision.
- Manages the principal risks appropriately to operate within the Group's risk appetite.
- Ensures that risk recognition and appetite are integral to determining strategy.
- Delivers strategy by managing risks.

Principal risks: Risks with potential consequences material at a Group level or where the risk is connected and may trigger a succession of events that, in aggregate, become material to the Group. Risks may materialise individually, simultaneously or in combination to impact the delivery of our strategic priorities and the long-term value of ConvaTec.

Business risks: Risks identified from any aspect of the group that are relevant to one or more categories, functions and/or centres of excellence, and can be owned at that level.

Business Leadership Teams

- Reviews management of their specific risks on a quarterly basis against the Group's risk appetite.
- Identifies additional mitigations to reduce risk exposure on an ongoing basis.
- Assigns senior business representatives (Risk Champions) for each category and function to take a lead role in the identification of risk, and updating risk information for senior management oversight.

Risk information top down

Risk information bottom up

2021's risk landscape

During 2021, our overall risk landscape remained largely unchanged despite the challenges from the continuing COVID-19 pandemic. In 2020, the risk profile was elevated as a result of the emerging pandemic, and we have continued to manage the challenges facing the wider business landscape as a consequence of the COVID-19 environment. As such we remain well placed to successfully deliver our strategy. To support our objectives and mitigate specific external events we increased our focus in certain areas as detailed below.

Strategic risks:

In 2021, we continued to drive good momentum in the business whilst monitoring and responding to changes in the external environment as a result of COVID-19 and post-Brexit effects. Further strategic progress was made through implementing key transformation initiatives, improving execution and delivering acquisitions and divestment. We continued to maintain executive oversight over our transformation programme, which is shifting from strategic transformation to ongoing operational transformation execution initiatives. For our product development pipeline, we implemented a new process to improve delivery effectiveness and, during the period, we continued to improve our processes within the regulatory function. We put more resources into our ESG capability and reset our agenda and forward-looking plans in this area, for which more information can be found in our Responsible Business review on pages 32 to 59.

Operational risks:

The current climate, driven by COVID-19 effects, continues to bring certain challenges to the business. We have experienced external supply chain pressures both in cost inflation for raw materials and freight, as well as through constraints in shipping lanes and overall supplies. The business has continued to effectively manage and respond to the issues faced and work closely with freight forwarders and vendors to prioritise, rebalance and gain foresight into potential areas of exposure to minimise any possible impact. Over the course of 2021, we have continued to improve the robustness of our IT infrastructure in line with the changing business environment and support our people through the transition to a hybrid-working environment for the office-based and site non-essential workforce.

Financial risks:

As summarised on pages 77 to 85, we continue to experience minimal negative trading implications from COVID-19 in our businesses and overall have driven robust revenue growth in 2021, despite challenging prior-year comparatives. Over the year, we have continued to migrate our core finance activities into our expanding Global Business Services centre and drive efficiencies through the introduction of new technologies. Through the issuance of \$500 million 2029 senior unsecured notes we strengthened our balance sheet, diversified Group debt and extended its maturity profile. Tax governance also continued to be strengthened through effective implementation of transformational change and managing the impact of changes in tax law and regulation.

Compliance risks:

We continued to strengthen and adapt our compliance framework as we grow in mature markets and target investment in emerging markets, whilst still anticipating and responding to the changing conditions under COVID-19. We took steps to ensure the

maintenance of ongoing compliance in both remote and hybrid-working environments, including the continued provision of virtual ethics training and focused global compliance resources and initiatives. Expected standards of compliance within our third-party partners was also monitored and managed through due diligence by our Compliance team and an independent, expert third party.

2022's anticipated risks

We expect certain risks to impact in 2022 and have put in place mitigation measures to reduce any adverse implications for the Group's financial results, operations, reputation and strategy. While these specific risks are embedded in many of our principal risks, further details are provided below.

Ukraine and surrounding region:

The Ukraine situation is being monitored with particular regard to our customers, people, production and the supply chain. We are continually assessing the potential impacts on our ability to operate effectively across all of our chosen markets and manufacturing locations, and in compliance with the evolving sanctions environment. This is a fast moving situation, and we are evaluating all options as we develop appropriate response plans.

Global supply chain pressure:

We continue to monitor, manage and respond to COVID-19 related disruption, along with existing geopolitical pressures, on our supply chain. We have taken appropriate steps to prepare for foreseeable consequences, particularly in the current environment that includes challenges over high inflation on commodities, lead times and shortages for raw materials and manufactured goods, fluctuations and adverse movement in shipping costs, congestion and capacity constraints, which are all expected to continue into 2022. Whilst the management of our supply chain is a core competence, we will monitor the situation as it evolves, taking into consideration the continuing potential for shutdowns and other pandemic impacts, including on national economies, which may exacerbate pressure on the global supply chain environment in different regions, and assess any further mitigating actions that are required.

New market growth and product delivery:

We expect to launch new products for Advanced Wound Care, Continence Care and Infusion Care in 2022 and products across all of our categories continuing into 2024. Delivery of our product pipeline is supported by our product development and launch process, which acts end-to-end to govern our actions and milestones from ideation through development to scale-up and finally approval and launch in a consistent manner. We have also identified 12 markets of focus around the world, with a particular emphasis on China and the US. In 2022, from a markets perspective, we will continue our investment in China as a key market going forward and continue to enhance our commercial execution in the US. We will continue to strengthen our competitive position by evaluating potential partnerships and acquisitions. However, any delays or failure to meet market expectations in our growth plans may result in a lack of stakeholder confidence to deliver against stated plans.

MDR:

The EU Medical Device Regulations ("MDR") came into effect in May 2021. Our markets in the EU, and other regions that align their product registrations to EU requirements, are affected by the new

requirements for all CE-marked products and we are finalising the remainder of our products until May 2024, through the allowed transition period. Within the UK markets there is also a transition period towards the UK Conformity Assessed (UKCA) marking scheme until June 2023. Non-compliance with regulatory requirements could result in increased scrutiny, financial penalties and an inability to trade within our chosen markets. Our Regulatory Affairs team is working with our businesses towards ensuring compliance across the Group for all products.

Emerging risks

On a quarterly basis our Enterprise Risk Management (“ERM”) team engages with senior management to identify any emerging risks that relate to new or changing conditions in our market environment, which may impact the Group beyond the horizon of our long-term Viability statement. As at the date of this report, the following emerging risks have been identified.

Political and regulatory environment:

Anticipating, responding effectively and demonstrating organisational resilience to geopolitical trends and movement. The effects from these trends and movements on our business could be amplified by pandemics, the potential for international sanctions being applied to markets in which we operate, as well as interventions and/or changing laws, regulation and corporate governance requirements emerging at pace from governments and regulatory bodies across the multiple jurisdictions in which we operate. The consequences of these factors could influence our ability to comply with our obligations, source commodities and services, operate in certain markets and/or retain a presence in our current locations.

Patient and product liability:

Our ambition to drive growth and further develop our clinical business and care delivery system increases our exposure to patient liability and the need to ensure we continue to embed a robust framework to manage patients and customers and protect their data. Our future business is also dependent on our ability to anticipate and/or adapt to future health, safety and environmental concerns or studies on the materials and processes used in the manufacture of current and future products, as well as political and regulatory strengthening of protection over consumers and customer, particularly in respect of personal data.

Disruptive (Next Generation) technology:

Technology and innovation are essential if we are to meet customer demands and/or regulatory requirements necessitating a move towards a lowest possible cost environment and re-usable, low-carbon and low-plastic economy in a competitive way. If we do not develop the right products, have access to the right technology or deploy it effectively within our key markets, respond to the prospect of aggressive pricing strategies or adjust to medical advancements in detection, cure and prevention we may lose market share in multiple key markets to existing and new-entrant competitors. The value of customer data has increased and our ability to adapt to an increase in the management of customer data, expanding data commercialisation capability and technology and widening range of virtual capability allows for potential disintermediation and/or bundling of other products and services by emerging, non-traditional competitors entering the market.

Other factors

For further information relevant to our risk profile see:

- Our market environment – pages 9 to 11.
- Our business model – pages 20 to 21
- Our strategy – pages 12 to 17
- Our key performance indicators – pages 18 to 19
- Responsible business review – pages 32 to 59
- Viability statement – pages 74 to 76
- Our governance arrangements – pages 98 to 99



Principal risks

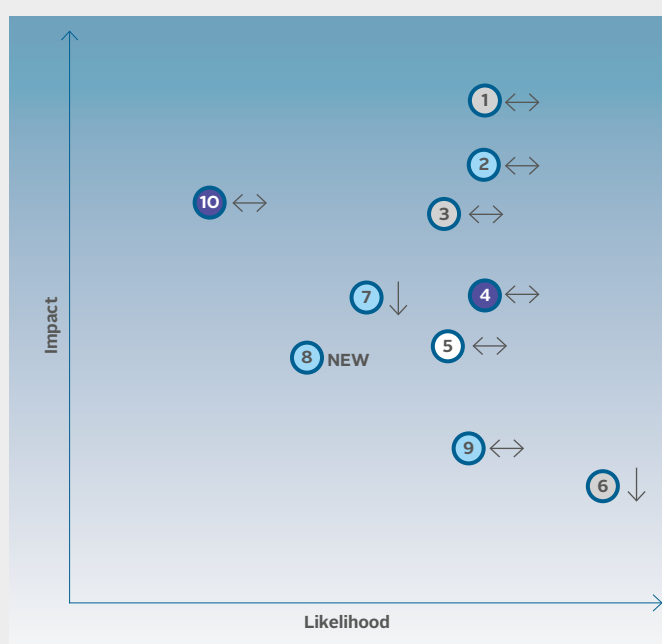
Below in order of priority is an overview of the Group's principal risks that could threaten the delivery of our strategy and the realisation of our vision. The Board has oversight of all principal risks that the Group faces.

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. During 2021, we made a number of changes to our principal risks to reflect our assessment of their effect on the Group and the current environment for the business. A new principal risk has been included to take account of our increasing focus on the **Environment and Communities** landscape in areas such as long-term climate change, the impact of our activity within the communities that we operate in and the importance of sustainability within our product portfolio. Our principal risks are set out over the following pages in order of priority (based on the rating of residual likelihood and impact, as described opposite). They are also reflected in the key adverse scenarios underlying the Viability statement (see pages 74 to 76).



Risk heatmap

The graphic below summarises our assessment of the expected impact and the likelihood of that impact to happen as a result of our principal risks occurring after taking into consideration the mitigating actions and effective controls in place to manage each risk, with an indication of the change in the risk profile since December 2020.



Key:

- Operational Resilience and Quality
- Innovation and Regulatory
- Information Systems, Security and Privacy
- Customer and Markets
- Legal and Compliance
- People
- Strategy and Change Management
- Environment and Communities
- Political and Economic Environment
- Tax and Treasury

Risk category:

- Strategic
- Operational
- Financial
- Compliance

↑ Increased

↔ Unchanged

↓ Decreased

NEW New risk

Risk and link to strategy

1. Operational Resilience and Quality

Supply and manufacture of products and packaging are reliant on the resilience of supply chain partners and manufacturing assets, and robust clinical and quality system processes. We invest in and develop our assets, systems and processes to provide a level of operational integrity and performance. Failure to respond to events, including pandemics and any increase in extreme weather patterns from climate change, that result in production and/or supply chain delays, adverse product quality and health, safety and environmental incidents could result in underperformance, a requirement to recall a product, reputational harm or a loss of stakeholder confidence in our ability to deliver our strategic ambitions.

Risk category

Operational

Risk appetite

Manage

CELT accountability

Donal Balfe, Executive Vice President, Global Quality and Operations

Link to strategy



Key drivers

- Supply chain resilience.
- Future, sustained waves of COVID-19.
- Extreme weather events.
- Health and safety of employees and contractors.
- Single source or sole suppliers for raw materials and services.
- Quality standards and resolution of existing and emerging quality issues within the supply chain, manufacturing and packaging processes.

Opportunity

Increase the efficiency and effectiveness of operations to support future market and customer demands.

Risk profile change

2021: no material change.

Risk mitigation

- Executive-led operational business continuity governance group provides high-level oversight. Business continuity plans for manufacturing facilities, inventory movement and our key supply chain to maintain capability to respond rapidly and appropriately to any incident.
- Procurement and supply chain processes to monitor, manage and provide assurance to supply-based risk across our markets, inventory, key suppliers and supply routes, ports and countries of operation.
- Dedicated engineering, health, safety and environment, and quality project teams and processes to prioritise and address risk to manufacturing processes, facilities and people.



For further information
See pages 32 to 63.

2. Innovation and Regulatory

Failure to invest in and develop safe, effective, profitable and sustainable long-life products to meet customer and market expectations, fill unmet medical needs or respond to disruptive new technologies, could result in lost market share, underperformance and a lack of stakeholder confidence to deliver in line with expectations. We are subject to oversight by a number of regulatory jurisdictions that continue to implement significant obligations and scrutinise how we operate. Failure to fulfil emerging obligations, provide safe clinical processes, or produce products and packaging that meet stringent and transparent customer, environmental and performance criteria, or operate inadequate or environmentally inappropriate manufacturing and quality systems could impact our ability to supply or a requirement to recall product(s), with the potential for regulatory action, liability claims, due to non-compliance with regulatory bodies, a failure to meet stakeholder expectations or patient harm from faulty products.

Risk category

Strategic

Risk appetite

Cautious

CELT accountability

Divakar Ramakrishnan, Chief Technology Officer

Link to strategy



Key drivers

- Transition from end-of-life technology and ageing products.
- Short and long-term management of customer demands.
- Disruptive and new technologies. Changing customer and market needs.
- Sustainable approach to responsible products, packaging and development.
- Compliance with MDR and anticipation of emerging regulatory environment.
- Managing safe clinical services.

Opportunity

Create a leading and responsive position in the regulatory environment, and through a sustainable development pipeline improve the long-term customer experience, meet market demands and capture growth opportunities in our markets.

Risk profile change

2021: No material change

Risk mitigation

- Central Technology & Innovation team provides strategic direction for continued R&D investment, product development, regulatory approval and new product launches to cultivate the product pipeline.
- Product portfolio reviews provide oversight on short-medium and long-term innovations and the balance across product categories and market regions.
- Regulatory teams and regulatory intelligence process supports the business to meet the latest standards in all our jurisdictions and manages our relationship with regulatory bodies.



For further information
See pages 40 to 42.

Risk and link to strategy

3. Information Systems, Security and Privacy

Failure to ensure that our systems, data management and related controls supporting our global business are effective, available, integral and secure, and recoverable, including those of our third-party partners, could adversely affect our ability to maintain continuity in our operations and the trust of our customers and other stakeholders. Information security breaches can lead to data theft, fraud or accidental disclosure and result in non-compliance with global data protection laws. Any real or perceived failure to comply with laws and regulations, or to adjust to a change in conditions and increase in scrutiny, could result in adverse consequences such as penalties, regulatory investigation, a decrease in corporate trust from stakeholders or additional compliance measures.

Risk category

Operational

Risk appetite

Manage

CELT accountability

Frank Schulkes, Chief Financial Officer
(Jonny Mason on appointment)

Link to strategy



Key drivers

- Cyber security.
- Data management and privacy.
- IT and network resilience, business continuity and disaster recovery arrangements.
- Replacement of legacy and end-of-life technology.
- Digitisation.
- Third-party partner performance and resilience.

Opportunity

Enhance the efficiency and resilience of our IT systems and processes to support effective delivery of our operations.

Risk profile change

2021: no material change

Risk mitigation

- Global Information Security and Compliance function supports the business with CELT-led governance groups providing oversight and monitoring as well as an escalation route for IT risks.
- Cyber security leadership council, ethics committee and privacy leadership team provide governance and oversight with policies, methodologies, training and accountability framework in place to manage the protection and use of personal data.
- Regularly evaluate, improve and test the resilience of our infrastructure, exposure to legacy and end-of-life technology, third party partners and IT general control framework for continued effectiveness and proportionality.



For further information
See pages 42 and 75.

4. Customer and Markets

Growth and value in our markets rely on our product portfolio, future innovation pipeline and digital strategy delivering to expectations, meeting customer demands, and a competitive pricing strategy. There is continued pressure on pricing and cost containment from rising global inflation rates, large and consolidating buying groups, as well as on reimbursement rates for products sold into the home care setting from government or commercial payers managing and reducing their costs. Competitor behaviour, attractiveness of our portfolio from market trends or public perception, and maintaining a low-cost base, all increase competition for sales and reduce prices and margins. Failure to identify, react or plan effectively to changes in market conditions, competition, customer demand, expectations and behaviours could result in suboptimal decisions, underperformance and adverse results.

Risk category

Financial

Risk appetite

Manage

CELT accountability

Presidents and Chief Operating Officers

Link to strategy



Key drivers

- Local or national government healthcare budget provisions.
- Operational, contracting and price review process.
- Product portfolio rationalisation.
- Competitive markets and behaviours and consolidation of buying groups.
- Changes in customer buying patterns and service level expectations.
- Manufacturing costs in a low-margin driven pricing environment and as a result of changes in consumer and government behaviour/attitude to sustainability.

Opportunity

Grow portfolio and market share through cost efficient, innovative products that strengthen the relationship with our customer base.

Risk profile change

2021: no material change

Risk mitigation

- Executive operational reviews in place to drive manufacturing cost efficiencies and focus through dedicated R&D and technology innovation teams on new product development and launch.
- Voice of customer processes in place to support strategy and long-term plan delivery. Investment and enhanced focus in digital strategy capability, including online services, digital marketing and e-channels.
- Key market and geographies focus supported by the Global Pricing Centre of Excellence established in key regions to provide control on changing market conditions and insight and information in a timely manner to respond to increases in risk, with regular pricing analysis and reviews undertaken. Supply chain team manages and mitigates market and region challenges and logistics.



For further information
See pages 24 to 31.

Risk and link to strategy

5. Legal and Compliance

Our business is subject to a complex environment of laws and regulations across multiple jurisdictions. Any real or perceived failure to comply with required and/or new and emerging laws and regulations, adjust to a change in conditions and increase in scrutiny, or exposure to litigation from contractual obligations or intellectual property could result in adverse consequences such as penalties, government investigation, a decrease in corporate trust from stakeholders, competitive disadvantage or additional compliance measures.

Risk category

Compliance

Risk appetite

Cautious

CELT accountability

Evelyn Douglas, Executive Vice President, Chief of Corporate Strategy Business Development, General Counsel and Company Secretary

Link to strategy



Key drivers

- Government investigations and complex legal and regulatory environment.
- Commercial litigation.
- Local cultural differences in-market.
- Product liability.
- Corporate governance structure.
- Complexity and transparency of IP and patent environment, including in tax and operations.

Opportunity

Create an industry-leading legal and compliance approach to our obligations and stakeholder expectations.

Risk profile change

2021: no material change

Risk mitigation

- Our Code of Conduct, group policies and standards govern how we conduct our affairs through our values and culture. Executive-level Compliance Steering Committee provides oversight to the Group on compliance initiatives and emerging exposures.
- Dedicated Group compliance function, annual compliance assurance programme with oversight at every Audit and Risk Committee meeting, ongoing employee compliance training and independent whistleblower process in place.
- In-house legal counsel team with external counsel engaged when appropriate. Contract approval process and Grant of Authority scheme in place. Third-party risk control framework for onboarding due diligence process and distributor training. Patent counsel manages patent protection and ongoing market IP monitoring processes.



For further information
See pages 50 and 51.

6. People

Failure to effectively recruit, retain and develop strong succession to align the right talent, particularly in our senior management and through the development of the talent pipeline, to enable key business imperatives. Failing to successfully manage transformation and/or the effects of high business disruption could impact employee effectiveness, engagement and wellbeing and adversely affect our ability to transform our business, achieve our strategic objectives and deliver growth.

Risk category

Operational

Risk appetite

Manage

CELT accountability

Natalia Kozmina, Executive Vice President, Human Resources

Link to strategy



Key drivers

- Attraction and retention of key skills and capabilities, including salary and remuneration inflation challenges in critical areas.
- Development of key individuals in key roles.
- Effective succession planning strategy for senior leadership.
- Knowledge retention within key markets and functions.
- Competitive industry and regional recruitment markets.
- Speed and volume of management change.

Opportunity

Create a sustainable level of expertise and key skills across the Group.

Risk profile change

2021: decreased – implementation of hybrid-working environment.

Risk mitigation

- Maintaining a diverse and effective leadership team with a pipeline of senior future talent. Implementation of appropriate reward arrangements. Continuing focus on the Employee Resource Groups (ERGs).
- Succession back-up plans, cross-training and third-party resource availability in place to support critical activities and the CELT and senior management team.
- Aligning a talent to value approach in the strategic planning process. Work life philosophy includes introduction of a hybrid working environment and support for site non-essential and office-based workforce. OHI survey in place to identify the impact of our practices and culture on performance.



For further information
See pages 43 to 48.

Risk and link to strategy

7. Strategy and Change Management

Delivery of our strategy will involve growth in a number of networks, maintaining a low-cost base and divestiture to position ourselves to deliver targets whilst sustaining a stable platform for investment. Any failure to ensure that we deliver material growth in key markets, integrate M&A activity and establish strategic partnerships, contend with new market entrants and maximise the value of data could fail to create shareholder value, erode investor confidence, and have a significant impact on the Group's revenues and profits. The successful delivery of business change is fundamental to our future success. Large-scale change initiatives carry complexity and a material delay or challenge to our change programme and the realisation of planned benefits may affect objectives, strategic growth, investor confidence and cause financial loss.

Risk category

Strategic

Risk appetite

Seek

CELT accountability

Evelyn Douglas, Executive Vice President, Chief of Corporate Strategy Business Development, General Counsel and Company Secretary

Link to strategy



Key drivers

- Strategy delivery and our strategic drivers.
- Change management delivery.
- Realisation of benefits.
- Speed and volume of change management.
- M&A and divestiture programme.
- Stakeholder and shareholder expectations.

Opportunity

Create a continuous streamlined business model that assesses value-adding opportunities, maximises investment returns and delivers strategy to meet stakeholder expectations.

Risk profile change

2021: decreased – shift from strategic transformation to ongoing operational transformation execution initiatives

Risk mitigation

- The Board approves the Group strategic plan setting the strategic direction and confirming strategic choices that are embedded in targets across the business. Central strategy team supports the business delivering against the embedded strategic planning process and timetable to define clear delegated targets in business plans.
- Dedicated Transformation Execution Office ("TEO"), with CEO sponsorship, provides overarching global oversight to delivery of transformation programme. The TEO framework works to ensure capital is allocated in line with strategy and towards projects best able to deliver expected business benefits.
- Robust and transparent transformation execution process implemented with clear accountability, governance and reporting arrangements established. CELT oversight of business transformation portfolio for direction and alignment.



For further information
See pages 12 to 17.

8. Environment and Communities

Long-term success relies on addressing the challenges to the sustainability of our operations (including environmental and social aspects), supply chain resilience, products and the ability to manage the impact of climate change, developing trends in the political environment and increasing pressure and scrutiny from external groups, society, customers and communities in which we operate. The level of requirements and expectation from stakeholders is increasing, which requires a robust, transparent and equitable level of sustainable corporate culture to underpin the way in which the Group operates. Failure to implement appropriate plans could hinder efforts to mitigate long-term risks and bring a range of reputational and commercial impacts to the business across a range of stakeholders.

Risk category

Strategic

Risk appetite

Manage

CELT accountability

Natalia Kozmina, Executive Vice President, Human Resources

Link to strategy



Key drivers

- Emerging ESG reporting requirements and standards.
- Recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).
- Net-zero commitment and Science Based Targets initiative.
- Responsible and sustainable behaviours across the supply chain.
- Community investment programme
- Product impacts and sustainable product design.

Opportunity

Achieve an effective balance between short-term needs and delivery versus longer-term requirements and commitments, in response to anticipated exposures from changes and events in the climate, the environment and society.

Risk profile change

2021: new risk

Risk mitigation

- Executive steering committee provides oversight and direction on group strategy and execution. Functions across the business support group reporting and regulatory requirements, with policies and independent third-party expert assurance in place.
- Environmental strategy developed with key material topics and targets identified. Local community impacts addressed through an environmental policy and audit process. Supply chain partners managed through contracts, supplier code of conduct and performance monitoring with third party assurance process in place for key suppliers.
- Refreshed strategy to strengthen communities programme and drive greater focus on key priority areas: education, access to healthcare and disaster relief.



For further information
See pages 53 and 59.

Risk and link to strategy

9. Political and Economic Environment

Our global operations and markets are subject to various political interventions and changes to corporate governance requirements, particularly in relation to global inflationary and supply chain pressures, security of raw material supply, healthcare system reform, regulatory reform, governance of industry operations, amendment to existing tax and disclosure regimes and fiscal terms, and protection of consumers and business customers. Continuing volatility in the international political climate increases the possibility of tariff structure changes, sanctions or other trade limiting actions. A failure to identify and adapt to these factors could impact sourcing commodities and services, as well as our ability to maintain a presence in current and future markets and countries.

Risk category

Strategic

Risk appetite

Accept

CELT accountability

Frank Schulkes, Chief Financial Officer
(Jonny Mason on appointment)

Link to strategy



Key drivers

- Geopolitics, national elections, referendums, interstate conflict and social unrest affecting key markets.
- National healthcare reforms.
- Supply chain resilience.
- Compliance with regulatory frameworks.
- Adverse customs duties and tariffs.
- Financial markets, inflationary and supply chain pressures and macroeconomics.

Opportunity

Effective minimisation of political and macroeconomic disruption will enable us to identify areas for operational improvement, deliver further value and maintain our competitive market positions.

Risk profile change

2021: no material change

Risk mitigation

- Global supply chain function manages our presence in markets and across regions. Third-party contracts in place to maintain the security of supply. Monitoring of supply chain through implemented systems and third-party partners.
- Compliance, IR, Legal, Regulatory and Tax teams support the business, liaise with external stakeholders and respond to changing requirements where appropriate.
- Dialogue with governments in relation to specific matters. Membership of appropriate industry bodies and participation on industry issues including development and implementation of best practice. External support via third-party consultants to identify and manage risks present to our operations.



For further information
See pages 9 to 11.

10. Tax and Treasury

Our business operates across multiple jurisdictions with complex tax laws and regulations, and manufactures and/operates across markets with multiple currencies. Changes in tax law and regulations as well as any organisational change that affects the Group's tax operations framework, may impact tax liabilities and increase filing and disclosure requirements and obligations. Failure to manage tax compliance, fluctuations in interest and foreign exchange movements, counterparty exposure, the cost of and access to financing or a deterioration in cash-flow and liquidity as a result of impacts to our revenue, costs and/or global financial systems could drive reductions in stakeholder trust, financial performance and future investment.

Risk category

Financial

Risk appetite

Manage

CELT accountability

Frank Schulkes, Chief Financial Officer
(Jonny Mason on appointment)

Link to strategy



Key drivers

- Multiple tax jurisdictions and emerging changes to tax law and regulations.
- Complex global tax regulatory environment and complex Group trading structure and inter-group trading.
- Unprovided tax liabilities.
- Volatile geopolitical environment.
- Global economic environment, including implications for interest and foreign exchange rates.
- Counterparty exposure.

Opportunity

Robust tax arrangements, financial performance and balance sheet to increase stakeholder and shareholder confidence.

Risk profile change

2021: no material change

Risk mitigation

- Central global tax function monitor changes in tax laws and regulations, as well as support during major internal projects, to advise the business regularly on obligations, requirements and future improvements to the tax governance framework.
- Engagement of external expert tax advice, support and compliance services to enhance internal team's capabilities.
- Central corporate Treasury function positions are managed in accordance with the Treasury policy including foreign exchange movement, financial transaction execution, capital structure and interest rate fluctuations.



For further information
See pages 80 and 83.

Viability statement

The Group's future prospects and viability

An understanding of the Group's strategy, to pivot to sustainable and profitable growth, and its business model (pages 12 to 17 and pages 20 and 21), are central in allowing the Board to assess the Group's prospects, liquidity, resilience and viability. The principal and emerging risks being addressed by the Company (see page 68 and pages 69 to 73) are reflected in the determination of the Group's strategy and its successful implementation.

Assessment of future prospects

The Group's annual planning process consists of monthly monitoring of progress against the financial budget and key objectives for the current year by the CELT and the Board, reforecasting throughout the year in respect of the expected outcome for the current year, preparing a detailed budget for the following year and updating a rolling five-year strategic plan, following a detailed review by the Board, which forms the main basis on which to assess the longer-term prospects of the Group.

In 2021, the Board approved a detailed operational plan and execution model to deliver sustainable and profitable growth over the medium to long term. The Board subsequently approved the revised financial plan that underpins the Group's five-year strategic plan. The financial plan forecasts the Group's profitability, cash flows and funding requirements for the relevant period.

Our strategy is customer-centric, agile, focuses on innovation and ensures clear accountability. It has been developed from strategic plans for each of our business units and functional areas, supplemented by items managed at a Group level and assumptions such as macro-economic activity, sector market growth forecasts, competitor activity and exchange rates. This has then been supplemented by the CELT's plans for improving the operational effectiveness and execution of all elements of the Group.

Key factors affecting the Board's view of the Group's prospects over the period of the viability assessment and the longer term are:

- The fundamentals of our markets, products and brands remain sound, as does our current and future strategy of leveraging our product portfolio for growth in attractive segments and geographies, developing and commercialising new technologies and services and striving to reduce complexity and increase efficiency.
- The continued strengthening of the Group's execution discipline via the Transformation Executive Office to capitalise on the Group's core strengths.
- Established positions in large, structurally growing markets; strong brands and a range of differentiated products; a well-diversified business platform across a range of market segments and geographies; and cash generation capabilities.
- The five strategic pillars that will support the delivery of the strategy, which are set out on page 12.

The key assumptions considered in the strategic plan, on which this viability assessment is based, include:

- Our markets remain structurally sound and continue to grow at existing levels with no significant change to re-imbursement environments.
- Margin improvement is driven by successful execution of our operational excellence programmes in order to deliver productivity gains in excess of pricing and other headwinds.
- Although the persistence of COVID-19 remains uncertain, impacts on operations remain limited and have been embedded into the assumptions for the strategic planning cycle.
- Climate risk has been considered but is not expected to have an impact during the viability period of three years.
- Through the execution of our strategy, we simplify our business, remove excess costs and re-invest in future innovation.
- The Group will be able to refinance its current bank debt, including its \$200 million RCF, in 2024, when it matures.
- Maintaining the existing dividend policy over the viability period.

Viability assessment

Throughout the year, the Board has undertaken a robust assessment of the principal risks affecting the Group and also emerging risks, particularly those that could threaten the business model and the Group's viability over an extended period, including an assessment of the likelihood of them materialising. These risks and the actions being taken to manage or mitigate these risks are explained in detail on pages 69 to 73. This analysis has then been applied to allow the Board to assess the prospects, liquidity, resilience and viability of the Group.

The directors are of the view that the appropriate period of assessment remains a three-year period from January 2022 to December 2024 ("the Viability Period"). Although the Directors have no reason to believe that the Group will not be viable over a longer period, the Board has chosen to conduct the assessment for this three-year period because:

- A three year viability period aligns with the repayment profile of the majority of the Groups bank debt, maturing in 2024.
- Our R&D and production cycles tend to be of a duration of less than three years with key innovation pipeline programs targeting launch within the Viability Period.
- Significant capital investments are being made over the next two years to realise the Group's strategy over the medium to long term. The Group's business model means that its capital investment is discretionary and it has the ability to respond in a timely manner to reasonably possible Group specific and market events, therefore does not require a longer time horizon assessment.
- Implicitly, it is harder to accurately forecast the latter years of a five-year plan.

The viability assessment has consisted of stress testing the forecasts underlying the strategic plan by modelling severe but plausible scenarios in which a number of the Group's principal risks and uncertainties materialise within the Viability Period. We have modelled scenarios which group together principal risks where we believe interdependencies exist between risks, in addition to scenarios where unconnected risks occur simultaneously. These scenarios focused on both external factors, such as the possible impact of, economic recession in some markets leading to material pricing pressure and increased inflation headwinds, and internal factors, such as the Group's transformation initiatives delivering less than expected and a regulatory breach resulting in a loss of revenues.

We continue to strengthen and develop the link between the Group's principal risks and the viability assessment and scenarios. The Group's principal risks are updated through the lens of our risk appetite together with assessing our evolving strategy, current business environment and any emerging risks. During 2021, we made a number of changes to our principal risks to reflect our assessment of their effect on the Group and the current environment for the business. As such we reviewed the severe and plausible risk events from each principal risk and prioritised those by relative impact to form revised long-term viability scenarios. As a result of ongoing investment in our operational resilience over the course of 2021 we have determined to shift focus in our EHS incident scenario from a severe hurricane to a significant fire as a more plausible scenario against group viability. The Group has taken into account the COVID-19 situation as part of the budget and strategic plan cycle. We have, therefore, replaced the global pandemic scenario as we have now operated for over two years in the COVID-19 environment and have successfully put into place amended ways of working and adapted to the evolving circumstances. We have updated the long-term viability model to instead include scenarios on significant cyber and regulatory incidents. This reflects the importance of both these areas to our business as we grow new and emerging markets as well as the changing and emerging external environment that our current and future operations work within.

The scenarios and sensitivity testing have been based upon the current Board-approved strategic plan and forecast revenues, operating profit and balance sheets and were reviewed against the current and projected liquidity and funding position. The main severe, but plausible scenarios included the following in the table adjacent.

| Scenarios | Linkage to risks on pages 69 to 73 |
|--|---|
| Impacts from a significant EHS incident, linked to a fire, at the Haina plant in the Dominican Republic <ul style="list-style-type: none"> – Impact on supplying customers before plant production restored – Reduced production or extended period of shut down – Loss of sales could have a material adverse impact on the Group's reputation – Impact of supply disruption | <ul style="list-style-type: none"> – Operational Resilience and Quality |
| Impacts from a significant cyber incident producing a significant interruption <ul style="list-style-type: none"> – A significant data privacy breach, leading to a regulatory penalty and subsequent costs for investigation and remediation – We have modelled a one-off significant fine (3% of revenue) resulting from a privacy issue in 2022 | <ul style="list-style-type: none"> – Information Systems, Security and Privacy – Operational Resilience and Quality |
| Impacts from significant regulatory issues <ul style="list-style-type: none"> – Significant breach of regulatory compliance in a product line – Reduced production and loss of sales due to reputation – Impact of supply disruption | <ul style="list-style-type: none"> – Legal and Compliance – Innovation and Regulatory – Operational Resilience and Quality |
| Key transformation initiatives do not deliver expected benefits <ul style="list-style-type: none"> – Commercial transformation investments fail to deliver anticipated revenue growth benefits – Loss of sales due to a material adverse impact on the Group's reputation | <ul style="list-style-type: none"> – Innovation and Regulatory – Operational Resilience and Quality |
| Reduced revenues and increased costs across the globe <ul style="list-style-type: none"> – Reduction in pricing and reimbursement rates in a major market – Increased costs as a result of inflationary pressure on materials prices and global logistics costs | <ul style="list-style-type: none"> – Customer and Markets – Political and Economic Environment |

Consideration was also given to a number of other scenarios as well as the combination of the main severe plausible scenarios, reflecting individual risks and events. In the Board's estimation these events would not plausibly occur to a level of materiality that, in themselves, would endanger the Group's viability.

The scenarios took no account of the likely mitigating actions available to the Directors through adjustments to the Group's strategy and other means in the normal course of business for example reducing employee bonuses, lower capital investment or reduced dividends. They did assume the Group would refinance its outstanding debt in 2024.

Viability statements

continued

This assessment was informed by Management's and the Board's combined judgement as to the potential financial (particularly liquidity) impact of these risks if they were to materialise, together with their likelihood of occurrence. The Directors reviewed and discussed the process undertaken by Management and also reviewed the results of reverse stress testing performed to provide an illustration of the level of deterioration in operating income which would trigger a breach of the Group's debt covenants. The conditions of the reverse stress test were considered implausible given that a reduction of more than \$177 million EBITDA would be required in FY22 to create conditions which may lead to a covenant breach and substantially higher reductions in profitability in subsequent years.

In addition, the Board undertook an independent review of market information, including investors' and analysts' views and the insights from market commentators on the future viability of the Group and the market prospects. This review was undertaken to ensure that where there was an external view or information that was contradictory to the views of Management, the Board understood the rationale for the difference of opinion and agreed with Management's view. This independent review and the scenario tests enabled the Board to conclude on the Group's viability and resilience.

Viability statement

Having assessed the Group's principal risks and uncertainties, and the consolidated financial impact of sensitivity analysis (including a severe, but plausible set of scenarios, which did not take into consideration any mitigating actions available to the Group), plus the Group's level of cash generation and existing financing facilities, and the timing of the peak cash outflows, the Board has determined that it has a reasonable expectation that the Group will be able to continue to operate within its existing bank covenants and meet its liabilities over the Viability Period to December 2024.

The Group's Going Concern statement is detailed on page 114 to 115.



Karim Bitar
Chief Executive Officer



Frank Schulkes
Chief Financial Officer



Frank Schulkes
Chief Financial Officer

“2021 was a year of continued financial progress – demonstrating that the Group is pivoting to sustainable and profitable growth while continuing to improve the balance sheet.”

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

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

The Group's Financials and Adjusted results

The Group's financial performance, measured in accordance with IFRS, is set out in the Financial Statements and Notes thereto on pages 150 to 197 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 ('APMs'). Management and the Board use APMs as meaningful supplemental measures in monitoring the performance of the business. These measures are disclosed in accordance with the ESMA guidelines and are explained and reconciled to the most directly comparable reported measure prepared in accordance with IFRS on pages 207 to 210.

Constant Currency Growth (CER)

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

Alternative performance measures ("APMs")

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

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

For further information on Non-IFRS financial information, see pages 207 to 210.

Revenue

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

Revenue by product category

| | 2021 \$m | 2020 \$m | Reported growth % | Foreign exchange impact % | Constant currency growth % | Organic growth % |
|------------------------------|----------------|----------------|-------------------------|------------------------------------|-------------------------------------|------------------------|
| Advanced Wound Care | 592.3 | 546.8 | 8.3% | 2.8% | 5.5% | 9.2% |
| Ostomy Care | 546.5 | 525.9 | 3.9% | 2.2% | 1.7% | 1.7% |
| Continence and Critical Care | 542.9 | 498.6 | 8.9% | 1.0% | 7.9% | 2.1% |
| Infusion Care | 356.6 | 323.0 | 10.4% | 0.8% | 9.6% | 9.6% |
| Total | 2,038.3 | 1,894.3 | 7.6% | 1.8% | 5.8% | 5.3% |

AWC revenue grew 8.3%, or 5.5% on a constant currency basis, with strong growth over the relatively weak 2020 comparative partially offset by the impact of the US Skin Care disposal. OC revenue grew 3.9% and 1.7% year-on-year on a constant currency basis with improving growth in the ConvaTec products partially offset by the deliberate product rationalisation and declines in sales of Non-ConvaTec ostomy products. CCC revenue grew 8.9%, or 7.9% on a constant currency basis, principally reflecting the incremental sales from the Cure Medical acquisition partially offset by a slight decline in certain products, following strong demand for those products during 2020 as a result of the pandemic. IC revenue grew 10.4%, or 9.6% on a constant currency basis, driven by continued strong demand for our innovative infusion sets by diabetes patients. See pages 24 to 31 for detail on the performance of each category.

Reported net profit

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

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

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

Adjusted net profit

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

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

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

Taxation and tax strategy

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

The Group's income tax expense was \$33.7 million (2020: \$62.2 million). The Group's effective tax rate of 22.3% for the year was lower than the prior year (2020: 35.6%) mainly due to the recognition of a deferred tax asset following the acquisition of Cure Medical (in respect of previously unrecognised tax losses in the US), lower incidence of certain minimum taxes in the US, and a net tax benefit in the UK for additional tax reliefs claimed in respect of prior years. These factors were partially offset by the impact of profit mix between jurisdictions in which the Group has a taxable presence and an increase in deferred tax expense arising from an increase in the UK corporation tax rate from 19% to 25% from 1 April 2023. For further information, see Note 5 to the Consolidated Financial Statements.

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

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

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

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

ConvaTec is a responsible business and promotes the highest standards of compliance and ethical behaviour. Management 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 2021 and operated in over 100 countries through direct sales and local distributors. As a result, our business activities generate a substantial amount of taxes. These include both corporate income taxes and non-income taxes such as payroll taxes, property taxes, VAT/Sales & Use taxes, and other taxes. In order to provide transparency on the Group's approach to tax, the Global Tax Strategy has been published, which is available on the corporate website (<https://www.convatecgroup.com/corporate-responsibility/socio-economic-contribution/tax-statement>).

Strategic transformation

During 2021, the Group continued with its strategic transformation programme and invested a further \$171.7 million, comprising:

- \$30.4 million of non-recurring operational costs (2020: \$50.6 million)
- \$71.8 million of recurring transformation investment (2020: \$41.9 million)
- An additional \$4.2 million of costs to be excluded from adjusted EBIT (2020: \$12.2 million)
- \$65.3 million of capital expenditure (2020: \$26.0 million)

In addition to the above organic investments, the Group also explored and executed acquisitions or divestitures to improve the strategic positioning of the Group and increase focus on our four key categories. During 2021, this included the acquisition of Cure Medical and Patient Care Medical, the divestiture of the incontinence activities, the announcement on 28 January 2022 of the proposed acquisition of Triad Life Sciences and other projects. Costs related to all these projects, which have been executed, aborted or are in-flight, were \$17.8 million in 2021 and these costs have been excluded from adjusted EBIT given their one-off nature.

Acquisitions

As noted above, in line with our strategic transformation and consistent with the “Focus” pillar of FISBE (see page 13), we acquired Cure Medical and Patient Care Medical for a net consideration of \$113.8 million and disposed of an incontinence patient list in the US for \$1.4 million, generating a gain of \$0.5 million.

Cure Medical, a California-based manufacturer and distributor of catheter-related supplies, was acquired in March 2021 for a net cash consideration of \$84.7 million. The sellers may earn an additional consideration of up to \$10.0 million which is contingent on post-acquisition performance targets and is payable within three years of the acquisition date. The acquisition of Cure Medical allows the Group to better serve the US intermittent catheter market, improving and expanding relationships with patients, care givers and partners.

Patient Care Medical is a US distributor and service company focused on disposable, intermittent catheters in the US market. It was acquired in December 2021, for a consideration of \$29.1 million which included \$6.0 million of deferred consideration paid into escrow.

Refer to Note 8.4 to the Consolidated Financial Statements for further details.

Post the 31 December 2021 balance sheet date, the Group announced it had signed an agreement to acquire Triad Life Sciences, subject to obtaining the necessary regulatory approvals and other customary clearances. This proposed acquisition, which is expected to be completed in March 2022, is another important step forward as the Group pursues its FISBE strategy and continues its journey of pivoting to sustainable and profitable growth. It will strengthen AWC's position in the U.S. (“Focus”) and provide access to a complementary and innovative technology platform (“Innovate”) that enhances advanced wound management and patient outcomes. Refer to Note 26 to the Consolidated Financial Statements for further details.

Dividends

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

As discussed in the Chairman's letter, the Group's dividend policy is to target a pay-out ratio of between 35% and 45% of adjusted net profit. In selecting the dividend policy, the Board considers the Group's strategic objectives, capital management, the Group's various stakeholders (for further information see the s172 statement on page 22), review of our comparator peer group, available and forecast realised distributable reserves of the Company and the forecast cashflows and liquidity of the Group. For further information see the Directors' report on page 146.

In July 2021, the Board declared an interim dividend of 1.717 cents per share and has proposed a final dividend of 4.154 cents per share. The Board has recommended a dividend increase of 3.0%. This represents a pay-out ratio (when compared to adjusted net profit) for 2021 of 45.0%, which is in line with the stated pay-out policy of 35% to 45% and reflects the Board's confidence in the future performance of the Group, its underlying financial strength, realised distributable reserves position, cash generation and liquidity. Further information about the Group's dividend policy and dividends paid can be found on page 146 and information on capital maintenance and the available distributable reserves position can be found on page 185.

Foreign exchange

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

| Currency | Average rate/ Closing rate | 2021 | 2020 |
|----------|-------------------------------|-------------|------|
| USD/EUR | Average | 1.18 | 1.14 |
| | Closing | 1.14 | 1.22 |
| USD/GBP | Average | 1.38 | 1.28 |
| | Closing | 1.35 | 1.37 |
| USD/DKK | Average | 0.16 | 0.15 |
| | Closing | 0.15 | 0.16 |

During 2021, revenue was predominantly USD denominated (50%). Other significant currencies were EUR (22%), GBP (7%) and DKK (2%). The balance comprises a basket of other currencies which, on an individual basis, were each less than 2% of revenue.

Sources and uses of cash

Sources of cash

The Group's primary source of liquidity is net cash generated from operations.

Net cash generated from operations

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

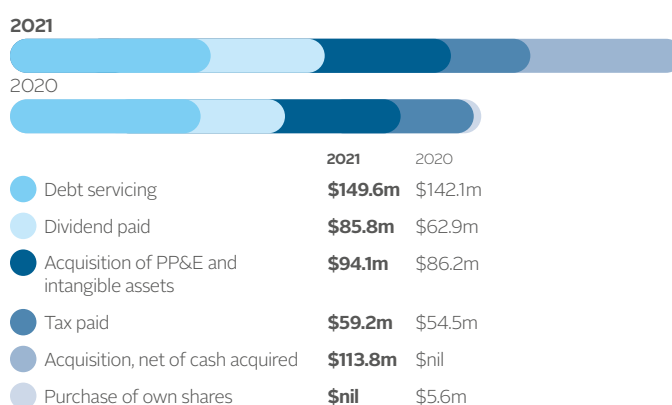
Net cash generated from operations decreased by \$101.9 million to \$400.6 million during the year, mainly due to working capital movement. The increase in working capital in the year ended 31 December 2021 is due to growth in revenue and the associated increase in the receivables position, an increase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

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

Uses of cash

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

Significant cash outflows (\$m)



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

Cash conversion

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

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

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

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

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

Liquidity and net debt

Borrowings and net debt

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

Net debt/adjusted EBITDA

| | |
|----------------------------|-------------|
| At 31 December 2020 | 2.0x |
| At 31 December 2021 | 1.9x |

In October 2021, the Group successfully secured \$500 million with a debut US bond issue – diversifying the Group's debt structure, lengthening our debt maturity profile and reducing our refinancing risk. As part of our Group Treasury policy, we continuously review our debt structure, seeking opportunities to optimise profile and pricing. The \$500 million bond has an eight-year tenor and priced at a coupon of 3.875%, demonstrating the attraction of our industry and confidence in ConvaTec's ability to pivot to sustainable and profitable growth. The proceeds were used to partially prepay existing bank debt (with \$8.2 million of issuance costs incurred and to be amortised over the life of the senior notes), leaving the Group at 31 December 2021 with \$844.6 million (excluding unamortised fees) of bank debt maturing in October 2024 and \$500.0 million of bond debt maturing in 2029. This new debt profile will support our continued investment and growth, aligned to our FISBE strategy (see page 12).

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

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

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

* Interest cover is adjusted EBITDA/interest expense (net) and net leverage is net debt/adjusted EBITDA in accordance with the definitions contained in underlying borrowing documentation and are not the same as the definitions of these measures presented in the Alternative Performance Measures section on pages 207 to 210 and applied in the commentary in this Financial review.

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

For further information on borrowings see Note 19 to the Consolidated Financial Statements.

Financial position

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

Intangible assets and goodwill

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

Other non-current assets

Other non-current assets, including property, plant and equipment, right-of-use assets, deferred tax assets, restricted cash and other assets increased by \$6.3 million to \$504.7 million (2020: \$498.4 million). The increase primarily reflects continual investment in our manufacturing facilities, with additions in PP&E of \$70.8 million offset by depreciation of \$40.6 million. The net increase in other non-current assets includes a \$18.2 million unfavourable foreign exchange movement. Deferred tax assets decreased by \$12.5 million to \$28.9 million principally relating to the decrease in intra-group profits eliminated on intercompany inventory and other temporary difference.

Current assets excluding cash and cash equivalents

Current assets excluding cash and cash equivalents increased by \$34.3 million to \$647.4 million (2020: \$613.1 million), primarily driven by the net effect of foreign exchange of \$33.4 million within inventories and trade and other receivables.

Current liabilities

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

Non-current liabilities

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

Going concern

As discussed above, the overall financial performance of the business has remained robust with a strong liquidity position maintained throughout the year and access to committed funding through to October 2024, of which \$200 million has remained undrawn throughout the year. In preparing the Group's Viability statement, the Board-approved strategic plan was used as a foundation, overlaid with the forecasts and maximum consideration for the proposed acquisition of Triad Life Sciences and severe but plausible downside scenarios linked to the Group's principal and potential emerging risks, including supply chain disruption (incorporating the effect of climate change), delivery of transformation initiatives, and customer and markets, applied against the strategic plan. Brexit was not considered a significant risk for the Group and therefore, is not included in the scenarios. After the application of these scenarios, and before mitigations to address them, the Group is forecast to maintain a strong liquidity position and to operate comfortably within the debt covenants. A reverse stress test, before mitigation, was also considered but the conditions of the reverse stress test were considered implausible given that a reduction of >\$177 million EBITDA would be required in 2022 to create conditions which may lead to a potential covenant breach and substantially higher reductions in profitability in subsequent years.

In relation to going concern, given available cash resources, forecast performance for the next 18 months, including covenant compliance, the going concern assumption has been adopted in the preparation of the Financial Statements. In reaching this conclusion and given the economic uncertainty that has been created by the pandemic, the Board applied the same severe but plausible scenarios utilised in the preparation of the Viability statement. Under each scenario, the Group retained significant liquidity and covenant headroom throughout the going concern period i.e., 12 months from the date of this report. For further information on the Viability statement see pages 74 and 76 and for Going concern, see Note 1.2 to the Financial Statements.

Impairment of goodwill and other intangible assets

We regularly review our trading performance to establish whether there are any triggers that would require an impairment review of goodwill or other intangible assets. As part of the review, we have determined that the ongoing transformation programme and the further embedding of the new operating model during the year has triggered a change in CGU groups categorisation, and have identified new CGU groups. The annual CGU impairment review was conducted on the new and former CGU groups and, taking into consideration our future forecasts and reasonably possible scenarios, significant headroom remained in the carrying value of all CGUs in comparison to the sensitised recoverable value. No impairment has been recognised. In addition, management considered the severe but plausible downside scenarios used in the Viability assessment and, again, headroom remained on the carrying value of all CGUs. Further information on goodwill and other intangible assets can be found in Note 8.5 to the Financial Statements.

Financial control environment

With a substantial number of office-based employees continuing to work from home during the year, including within the finance community, we continued to monitor closely the financial and IT general control environment.

The Group uses a single system for the self-certification of global financial controls across all markets. The self-certification process continued throughout the year with no deterioration in response rates, which remained high. The Global Financial Controls team, acting as the second line of defence, investigates all notified control failures to ensure that there is no risk of material financial misstatement. Where issues were identified the financial controls team would give focused support and training to ensure adherence with global standards. In addition, internal audit reviews continued to be completed, reviewing our financial internal controls as part of their audit programme.

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

A review of the operation of IT general controls was conducted on a regular basis during the year by the IT governance risk and compliance team and continue our process of internal control improvement and rationalisation into 2022.

Frank Schulkes
Chief Financial Officer
7 March 2022

Governance report at a glance

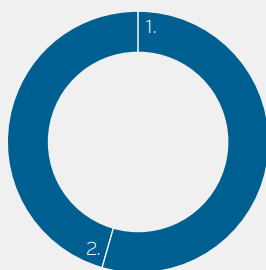
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Board statistics

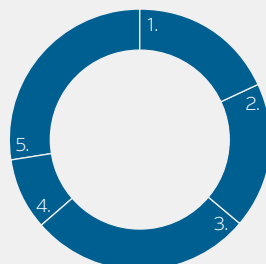
Gender¹

1. Male: 6
2. Female: 5



Length of tenure

1. 1 year or less: 2
2. 1–2 years: 2
3. 2–3 years: 3
4. 3–4 years: 1
5. 4 years or more: 3



1. Composition as at 7 March 2022. At 31 December 2021, the Board comprised seven males and three females.

Governance highlights

Board

- Acquisition of Cure Medical, LLC for upfront net consideration of \$84.7million.
- Ongoing review of M&A opportunities.
- Approval of issue of \$500 million Senior Notes due 2029 and repayment of bank debt.
- Capital expenditure approvals for manufacturing expansion
- Approval of Group's Strategic Plans.

Nomination Committee

- Search for new Non-Executive Directors and subsequent appointments effective from 1 February 2022 and 1 March 2022.
- Search for new Chief Financial Officer and subsequent appointment effective from 12 March 2022.
- Undertook succession and talent review of CELT and wider Global Leadership Team.

Audit and Risk Committee

- Considered new ESG framework and strategy; reviewed and approved TCFD disclosures and ESG assurance.
- Approved audit plan for the 2021 statutory audit and assessed effectiveness of external auditor.

Remuneration Committee

- Alignment of remuneration arrangements to support Group's culture and strategy.
- Approved remuneration aspects relating to a change in CFO.

Board and Committee meetings:

9

Board meetings

7

Audit and Risk meetings

3

Nomination Committee meetings

5

Remuneration Committee meetings

Board statements

ConvaTec is subject to the requirements of the UK Corporate Governance Code 2018¹ (the “Code”) on which the Board is required to make a number of different statements.

These are set out in the table below.

| Requirement | Board statement | More information |
|--|--|------------------|
| UK Corporate Governance Code compliance | Throughout the financial year ended 31 December 2021, except as explained on page 89, the Company has complied with the Code. | Page 89 |
| Going concern | The Directors are satisfied that the Group has sufficient financial resources to continue operating for at least 12 months from the date of signing and, therefore, have adopted the going concern basis in preparing the Group's 2021 Financial Statements. | Page 155 |
| Viability statement | The Directors have assessed the viability of the Group over a three-year period ending 31 December 2024, taking into account the principal risks identified by the Board as set out on pages 74 to 76. This assessment had led the Board to the reasonable expectation that the Group will remain viable and continue in operation and meet its liabilities as they become due over the Viability Period through to December 2024. | Page 74 |
| Fair, balanced, and understandable | The Directors consider that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the necessary information for all stakeholders to assess the Group's position and performance and its business model and strategy. | Page 115 |
| Assessment of the Group's principal and emerging risks | The Directors confirm that they have undertaken a robust assessment of the principal and emerging risks facing the Group. | Page 68 |
| Annual review of risk management and internal control systems | The Board undertook a review of the effectiveness of the Group's risk management framework and internal controls, including those over the financial reporting period and concluded that these provided assurance that there were no control failures in the year which could materially impact the financial statements or the future financial performance of the Group. | Page 104 |
| Stakeholder engagement | The Board has taken steps to understand stakeholders' views and has considered them in its discussions and decision-making process. | Page 102 |

1. A copy of the 2018 Code is available from the Financial Reporting Council's website.

Chairman's governance letter



"Despite following remote and hybrid models of working during the year, our governance arrangements, including risk management and internal controls, continue to be strong and effective."

Dr John McAdam CBE
Chairman

Dear Shareholder

This governance report covers key 2021 developments, progress with execution of our FISBE strategy and evolution of our ESG strategy.

Our key priorities during 2021:

- Oversight and delivery of the Group's FISBE strategy with a focus on execution excellence.
- Ensuring that, despite following remote and hybrid models of working during the year, our governance arrangements, including risk management and internal controls, continue to be strong and effective.
- Adoption of a new ESG framework

Governance practices

During the year the Board continued to hold board meetings using video and audio conference facilities. Although our governance arrangements continue to remain effective despite holding virtual meetings, we were pleased to return to holding physical meetings in October 2021. Our 2021 Annual General Meeting took place as a hybrid physical and electronic meeting, with the added functionality of enabling shareholders to fully participate in voting and asking questions.

Board and leadership changes

On 9 December 2021, the Company announced that Frank Schulkes will be stepping down as Chief Financial Officer on 11 March 2022. Jonny Mason joined ConvaTec as Chief Financial Officer Designate on 31 January 2022 and will become Chief Financial Officer and a Director of the Company on 12 March 2022.

On 16 December 2021, the Company announced the appointment of Kim Lody as a Non-Executive Director effective from 1 February 2022. On 28 February 2022, the Company announced the appointment of Sharon O'Keefe as a Non-Executive Director with effect from 1 March 2022.

Also on 28 February 2022, the Company announced that Rick Anderson, Non-Executive Director, would be stepping down from the Board with effect from 3 March 2022.

The Board has reviewed the resulting composition of the Board and has concluded that, following the above changes, there continues to be an appropriate mix of skills to fulfil the Board's vision and support the delivery of our FISBE strategy.

Membership of each of the Board's committees is detailed within the reports on pages 107, 110 and 122.

In accordance with the UK Corporate Governance Code requirements, an externally facilitated performance evaluation of the Board and Board Committees, by way of questionnaires, was carried out in Q4 of 2021. Details of the evaluation process and key points arising from the 2021 review can be found on page 105.

Vision, values and culture

We have a clear vision statement which encapsulates our purpose and ambition and a set of values that reflect our culture which is becoming embedded throughout the Group. Our vision and values are set out on page 20.

We continued to prioritise employee safety during the pandemic and observed strict adherence to applicable guidelines. Although the restrictions partially hampered the Board's employee engagement programme, we launched "Our Work Life" to encompass our new approach to working in more agile and flexible ways, and support employees' physical health and wellbeing. This consisted of mental health awareness campaigns and other wellbeing workshops, support to encourage fitness activities, and seminars and focus groups. The Board has continued to assess and monitor culture through reports provided regularly to the Board, including progress on our people strategy and reports on talent and succession planning.

Stakeholder engagement

Our key stakeholder groups are identified and detailed on pages 36 and 37. Recognising that the sustainable success of our business is dependent on our stakeholders and, mindful of our duty under section 172 of the Companies Act 2006, we have ensured that all Directors have timely and effective access to information about our stakeholders' (including employees) issues and concerns. Information about our stakeholders and how the Board has taken account of section 172 considerations in our Board discussions and decision-making processes is set out on pages 102 to 103. Our section 172 statement is on page 22.

Diversity

The Board is committed to achieving diversity and inclusion across the Group. As at 31 December 2021, the proportion of women on our Board was 30%, in alignment with our internal target of at least 30%.

Following the changes to our Board's composition since the year end (as outlined on the adjacent page), at the date of this report, the Board comprises 11 directors, of whom five (45%) are female.

We are compliant with the recommendations of the Parker Review on ethnic diversity and will continue to monitor board composition to ensure that we maintain an appropriately diverse Board in all respects.

We have set a new objective to achieve 40% of senior management roles (members of the CELT and their direct reports, excluding administrative staff) held by female executives by the end of 2025. As at 31 December 2021, women held 32% of our senior management roles.

During the year the Board has considered diversity, equity, inclusion and wellbeing insights across a range of metrics and globally with a focus on gender, and also received insights from our Employee Resource Groups (see page 48 for details). Initiatives to increase diversity, equity, inclusion and wellbeing are being consistently implemented across the Group and the Board and the Nomination Committee will continue to review and monitor the Group's efforts and the implementation of its people strategy.

Our diversity policy for the Board and wider workforce is a key pillar of our ESG strategy (see page 33) and is fully aligned to our FISBE strategy and our people strategy. The objectives of our diversity policy are set out on page 45 – Diversity, Equity & Inclusion and Wellbeing.

Environmental, social and governance (“ESG”)

The Board oversees our responsible business programme and details of its work in this area during the year are included on page 34.

In recent years we have laid strong foundations to ensure we operate in a responsible and sustainable way (see pages 54 to 59) and in 2021, we made progress against sustainability targets, and have set new targets in a number of areas. During the year the Audit and Risk Committee continued to review the Group's progress in meeting the increasing stakeholder and regulatory reporting requirements and disclosures, including TCFD reporting (see page 60).

During the year we established a CELT-led ESG Steering Committee chaired by the CEO. The Committee developed a new ESG framework and strategy which was approved by the Board and is described on pages 33 to 35. The committee will provide regular updates to the Board on ESG strategic aims, and to the Audit and Risk Committee in relation to TCFD disclosures and ESG assurance. The remit of the ESG Steering Committee includes reviewing progress on our sustainability targets, setting new targets where required and enhancing our TCFD disclosures.

The Code

During the year we have complied with the Code other than:

- Provision 36: formal policy for post-employment shareholding requirements. As stated in our Remuneration Policy, the Remuneration Committee believes that the current structure of the Deferred Bonus Plan and LTIP sufficiently support the requirement for Executive Directors to maintain a meaningful shareholding in the Company for a period of time after they leave the Group. However, the Committee has considered feedback from shareholders and evolving investor sentiment on post-employment shareholding requirements and is committed to developing a post-employment shareholding requirement which will form part of any proposals for a new policy which is due for renewal in 2023 (see page 124).
- Provision 38: pension contribution rate for Executive Directors should be aligned to those available to the workforce. The pension benefit for Karim Bitar reflects the shareholder approved Policy in force at the time of his appointment, but will be aligned to the wider UK workforce by 1 January 2023. (See page 140). The contribution rate for the Chief Financial Officer Designate, appointed with effect from 31 January 2022 is already aligned with the wider UK workforce.
- Provisions 40 and 41: the Board firmly supports the principle of engagement with key stakeholder groups; and the Remuneration Committee periodically engages with shareholders on remuneration policy design and at such time as any material changes to the implementation of policy is under consideration. As set out on page 122, the Committee will be reviewing remuneration policy design during 2022, and looks forward to engaging with shareholders throughout this process. However, during 2021, no company-led engagement with shareholders took place on remuneration matters. The Board recognises that another key stakeholder group is our workforce, and continues to develop processes and mechanisms for engaging with employees. Face-to-face employee engagement (led by Regina Benjamin) remained limited during 2021 due to the ongoing impact on travel because of the COVID-19 pandemic, but the Board hopes to re-commence these activities during 2022, and evolve this to capture a broader range of topics (including executive remuneration, as appropriate).

We explain how we have applied the Code's core principles on pages 90 to 93. These core principles also serve as a framework for the following sections of this Annual Report which explain our governance structure and the processes we operate to support the Group's long term success.

2022 priorities

- Continue to drive successful delivery of our FISBE strategy, with continued focus on execution
- Complete the development of, and successfully launch, a range of new products
- Expand manufacturing capacity to build resilience and meet additional demand
- Continue to monitor the transition of key central functions to our Global Business Services team in Lisbon

Dr John McAdam CBE
Chairman

7 March 2022

How we have applied the Code's core principles

Board leadership and purpose

Principles

A.
An effective and entrepreneurial Board that promotes long-term sustainable success that generates value for shareholders and contributes to society.

B.
Establishment of purpose, values and strategy and promotion of desired culture.

C.
Ensuring resources are in place to meet objectives, measuring performance and establishing controls which assess and manage risk.

D.
Effective stakeholder engagement and participation.

E.
Ensuring workforce policies and practices are consistent with the company's values and support long-term sustainable success, and that mechanisms are in place to allow the workforce to raise concerns.

Application

The Board discharges its responsibilities through a programme of activities that include review and approval of the Group's strategy, regular progress reviews of its implementation, discussion on arising key issues and monitoring of performance, to enable the Group to deliver sustainable and profitable growth.

The Board endorses the Group's vision statement (which encapsulates our purpose and ambition), and its values. During the year it has reviewed the Group's strategy and continued to assess and monitor culture to ensure their alignment.

The Board regularly reviews the Group's financial and non-financial resources to ensure that it has the resources available to deliver its strategy. The Board has approved and regularly reviews a series of KPIs. The Board has established an effective risk management framework.

To fulfil its duty to promote the Group's long-term success and generate value for shareholders and wider society, the Board has established a number of mechanisms to facilitate stakeholder engagement and ensure that the Directors consider all relevant stakeholder issues and concerns.

The Board has ensured that workforce policies and practices are consistent with the Group's values and has established mechanisms, including an independently provided whistleblowing/ speaking-up facility to allow the workforce to raise concerns.

Where further information is available

Key matters the Board considered during 2021

Pages 100 to 104

Purpose, vision, values and culture

Pages 12 to 17

The Group's KPIs

Pages 18 and 19

The Group's risk management framework

Pages 64 and 65

Audit and Risk Committee report

Pages 110 to 121

Stakeholder engagement and consideration of issues including section 172 statement

Pages 102 and 103

Page 22

Culture and policies

Page 43 to 46

Compliance Helpline and web link

Page 50

Audit and Risk Committee report

Page 110

Division of responsibilities

Principles

F. The Chair's role.

G. Clear division of responsibilities and appropriate combination of executive and non-executive roles.

H. Time commitment, constructive challenge and strategic guidance.

I. Effective and efficient Board.

Application

The Chairman's role is clearly defined.

The Board includes eight Non-Executive Directors and two Executive Directors. Their responsibilities are clearly defined.

All Directors have demonstrated that they have sufficient time to fulfil their duties and responsibilities. In their roles the Non-Executive Directors have provided constructive challenge, strategic guidance and held management to account.

All Directors have access to an encrypted electronic portal system which enables them to receive accurate and timely information. They also have access to the advice of the Company Secretary and independent professional advice at the expense of the Group. The Board undertook an externally facilitated Board evaluation by way of detailed questionnaires, the conclusions of which are contained within this report.

Where further information is available

Chair's role

Page 99

Directors' responsibilities and roles

Pages 98 and 99

Time commitment confirmation

Page 108

How the Non-Executive Directors have fulfilled their roles

Pages 98 and 99

Effective and efficient Board

Pages 105 and 106

Composition, succession and evaluation

Principles

J.
Board appointments and succession.

K.
Combination of skills, experience and knowledge.

L.
Annual evaluation.

Application

Board appointments are made in accordance with a formal, rigorous and transparent procedure.

Our Board is balanced and diverse and its members have proven leadership capabilities and relevant healthcare, operational and financial skills and experience.

In compliance with the Code, during 2021 the Board undertook an externally facilitated evaluation of its performance and that of its committees. The evaluation was by way of detailed questionnaires facilitated by Lintstock.

Where further information is available

Board appointment procedure

Page 108

Directors' biographical information

Pages 94 and 95

Skills and experience matrix

Page 94

Key findings of 2021 Board review

Pages 105 to 106

Audit, risk and internal control

Principles

M.
Independent and effective internal and external audit functions.

N.
Fair, balanced and understandable assessment.

O.
Risk management and internal control systems.

Application

The Board has delegated a number of responsibilities to the Audit and Risk Committee including oversight of the Group's financial reporting processes and ensuring the effectiveness and independence of the external and internal auditors.

The Board has established arrangements to ensure that reports and other information published by the Group are fair, balanced and understandable.

The Board sets the Group's risk appetite and assesses the nature and extent of its principal risks. Annually the Board reviews the effectiveness of the Group's risk management and internal control systems and processes. The Audit and Risk Committee regularly reviews the effectiveness of these systems and processes throughout the year.

Where further information is available

Audit and Risk Committee report

Pages 110 to 121

Audit and Risk Committee report

Page 115

Risk management

Pages 64 to 73

Audit and Risk Committee report

Pages 116 and 117

Remuneration

Principles

P.
Remuneration policy and practices.

Q.
Development of remuneration policy and packages.

R.
Independent judgement and discretion.

Application

The Group's Remuneration Policy, which was approved by shareholders at the 2020 AGM, is designed to support our strategy, be aligned to our vision and our employee and shareholder interests and promote long-term sustainable success.

Following a formal and transparent procedure, the Remuneration Committee sets the remuneration for the Executive Directors and oversees the remuneration of senior management. In doing so it applies judgement and, if required, discretion to ensure a considered outcome on remuneration issues.

Where further information is available

Remuneration Policy

Pages 136 to 145

Remuneration Committee report

Pages 122 to 145

Board of directors

A diverse Board with proven leadership capabilities and relevant healthcare, operational and financial skills and experience. This reflects the Board's composition as at 7 March 2022, being the date of this report.

Key to Committee

- AR** Audit and Risk Committee
- N** Nomination Committee
- R** Remuneration Committee

* Committee Chair

Skills and experience

| | |
|----------------|-----|
| Listed company | 90% |
| Finance | 70% |
| Healthcare | 70% |
| Innovation | 30% |
| M&A | 70% |
| Global | 80% |
| Operations | 70% |



Dr John McAdam CBE
Chairman

Date of appointment
September 2019

Independent
Yes (on appointment)

Relevant skills and experience

- Extensive chair and board leadership experience including as former Chair of Rentokil Initial plc and United Utilities Group PLC and as a Non-Executive Director of a number of FTSE 100 and US companies.
- Extensive experience of leading companies undergoing transformation including as Chief Executive of ICI plc between 2003 and 2008.

Current external appointments

Advisor to BlackRock's Long Term Investment Group



Karim Bitar
Chief Executive Officer

Date of appointment
September 2019

Independent
No

Relevant skills and experience

- Significant board level and leadership experience including as Non-Executive Director of Spectris plc between 2017 and 2021 and Chief Executive Officer of Genus plc between 2011 and 2019.
- Successful business transformation track record.
- Extensive and broad management experience.
- Relevant sector knowledge and experience including 15 years with Eli Lilly where from 2008 he was President of Europe, Australia and Canada.

Current external appointments

Member of the University of Michigan, Ross School of Business Advisory Board.



Frank Schulkes
Chief Financial Officer

Date of appointment

November 2017. The Company announced on 9 December that Frank will be stepping down from the Board on 11 March 2022

Independent
No

Relevant skills and experience

- Previously CFO of Wittur Group, a privately-held industrial company based in Germany, and former Executive Vice President and CFO of GE Healthcare ("GE").
- Significant global healthcare experience and strong financial background across a variety of increasingly senior financial roles which includes 27 years spent with GE

Current external appointments

Director of Floquet de Neu SARL



Margaret Ewing
Senior Independent Director

Date of appointment
August 2017

Independent
Yes

Relevant skills and experience

- Chartered Accountant with significant financial experience including as former Managing Partner of Deloitte LLP and CFO of BAA plc.
- Extensive audit and risk management experience.
- Strong board experience, having served as a Non-Executive Director of Whitbread plc and Standard Chartered plc and CFO of BAA plc and Trinity Mirror plc

Current external appointments

Non-Executive Director and Chair of the Audit and Risk Committee of ITV plc. Non-Executive Director, Chair of the Audit and Compliance Committee and a member of the Nominations Committee of International Consolidated Airlines Group, S.A.



Brian May
Non-Executive Director

Date of appointment
March 2020

Independent
Yes

Relevant skills and experience:

- Significant financial and international business experience including as Chief Financial Officer of Bunzl plc from 2006 to 2019 and, prior to that, he held a number of senior management finance roles with Bunzl, including divisional Finance Director, Group Treasurer and Head of Internal Audit.
- Experience as a Non-Executive Director including of United Utilities Group Plc between 2012 and 2021, where Brian was also Chair of the Audit Committee.
- Extensive experience of significant strategic initiatives that delivered growth and sustained shareholder returns over the long term.
- Chartered Accountant.

Current external appointments

Non-Executive Director of Ferguson plc where Brian is also a member of its Nominations and Audit Committees. Non-Executive Director of OFI Group Limited.



Dr Regina Benjamin
Non-Executive Director

Date of appointment

August 2017

Independent:

Yes

Relevant skills and experience

- Extensive healthcare knowledge and experience both as a practicing physician and in senior management roles including as former United States Surgeon General (2009 to 2013), member of the board of the Medical Association of Alabama and the first Young Physician to be elected to the American Medical Association Board of Trustees.
- Holds an endowed Chair in Public Health Sciences at Xavier University of Louisiana.

Current external appointments

CEO and a practicing physician at the Bayou La Batre Rural Health Clinic. Independent Director of Oak Street Health, Inc., Computer Programs and Systems, Inc., where Regina is a member of the Audit and Innovation Committees and Chair of the Corporate Governance Committee. Independent Director of Kaiser Foundation Health Plan and Hospitals, Ascension Health Alliance, Doximity, Inc., 98point6, Inc., Professional Disposables International, Inc., Nurx, Inc. and EverlyWell, Inc.



Professor Constantin Coussios FREng
Non-Executive Director

Date of appointment

September 2020

Independent:

Yes

Relevant skills and experience

- Internationally recognised key opinion leader in the field of biomedical engineering.
- Proven track record of translating research into commercial technologies through academic entrepreneurship including as Founder, Chief Technology Officer and Chief Scientific Officer of three successful spin-outs.
- Significant experience of drug delivery devices and technologies including between 2014 and 2020 directing and leading the Oxford Centre for Drug Delivery Devices, a cross-disciplinary centre working across pharmaceutical and medical device companies and the NHS.

Current external appointments

Director, Institute of Biomedical Engineering, University of Oxford. Professorial Fellow, Magdalen College, Oxford, Founder and Director of OrganOx Limited, OxSonics Limited and OrthoSon Limited. Trustee of the Oxford Transplant Foundation and Governor of Magdalen College School Oxford.



Kimberly Lody
Non-Executive Director

Date of appointment:

February 2022

Independent

Yes

Relevant skills and experience

- Extensive healthcare experience and a background in international and multi-cultural environments.
- Leadership and management experience, serving as President of Resound in the US, President of GN Hearing for North America and President of Chronic Care for the US subsidiary of Coloplast. Kimberly has also held various other senior leadership roles.

Current external appointments

President and CEO of Sonida Senior Living Corporation.



Heather Mason
Non-Executive Director

Date of appointment

July 2020

Independent

Yes

Relevant skills and experience

- Significant international healthcare experience leading fully integrated global businesses including 27 years with Abbott Laboratories where she held a number of global senior operational and strategic leadership roles, including Senior Vice President of Abbott Diabetes Care and most recently Executive Vice President of Abbott Nutrition.
- Extensive relevant international, commercial and operational experience.
- Proven track record of overseeing the development of commercially viable new product pipelines and brand building.

Current external appointments

Non-Executive Director and member of the Audit and Compensation Committees of Immatics, Inc., Non-Executive Director of Pendulum Therapeutics, Inc. and of Assertio Therapeutics, Inc., where Heather is Chair of the Governance Committee and member of the Audit and Compensation Committees. Chair of SCA Pharmaceuticals, LLC and Co-Chair of the University of Michigan's College of Engineering Innovation Committee and a member of its Leadership Advisory Board.



Sharon O'Keefe
Non-Executive Director

Date of appointment:

March 2022

Independent

Yes

Relevant skills and experience

- Extensive healthcare and executive experience, with focus on driving quality, efficiency and innovation.
- Previously President and Chief Operating Officer of U Chicago Medicine and Non-Executive director of Aviv REIT.
- Holds an M.S in Nursing Administration from the Loyola University of Chicago, and a B.S in Nursing from the Northern Illinois University.

Current external appointments

- Non-Executive Director of Adtalem Global Education, and of Vocera Communications.



Sten Scheibye
Non-Executive Director

Date of appointment

July 2018

Independent

No

Relevant skills and experience

- Substantial healthcare knowledge and significant operational experience as former President and CEO of Coloplast A/S.
- Board experience including previous roles as Chair of the Novo Nordisk Foundation and of Novo Holdings A/S.
- Extensive governance experience including as a member of the Danish Corporate Governance Committee, also serving as the committee's Chair.

Current external appointments

Senior Advisor to Novo Holdings A/S. Chairman of, BioInnovation Institute Foundation, Bll Holdings A/S, EA/S Knud Højgaards Hus, Højgaard Ejendomme A/S, The Danish Industry Foundation, The Knud Højgaard Foundation, Bll Holdings A/S and Simpel Kredit A/S.

ConvaTec Executive Leadership Team (“CELT”)

The CELT is responsible for the management and performance of the individual business units with frequent reporting to, and oversight by, the Board.

Karim Bitar, CEO and Frank Schulkes CFO, are also members of the CELT. Their details are provided on page 94.

* Members of the ESG Steering Committee

1. Joined the CELT on 10 September 2021.
2. Joined CELT on 31 January 2022 as CFO Designate, to become CFO and a Director of the Company with effect from 12 March 2022.



CELT member biographical information is available at www.convatecgroup.com



David Shepherd
President and Chief Operating Officer,
Global Advanced Wound Care



Dr. Mani Gopal
President and Chief Operating Officer,
Global Ostomy Care



Natalia Kozmina
Executive Vice President, Chief Human Resources
Officer and ESG Stewardship*



Kjersti Grimsrud
President and Chief Operating Officer,
Infusion Care



Seth Segel
President and Chief Operating Officer,
Continence Care & Home Services Group



Dr. Divakar Ramakrishnan
Executive Vice President,
Chief Technology Officer*



Bruno Pinheiro
President and Chief Operating Officer (Interim),
Global Emerging Markets¹



Evelyn Douglas
Executive Vice President, Chief of Corporate Strategy and Business
Development, General Counsel and Company Secretary*



Donal Balfe
Executive Vice President,
Chief of Quality and Operations*



Jonny Mason
Chief Financial Officer Designate²

How we are governed

An effective and diverse Board

Our Board comprises eleven Directors: Chair, two Executive Directors, seven independent Non-Executive Directors and one non-independent Non-Executive Director (Sten Scheibye). Sten is the representative of our significant shareholder Novo Holdings A/S (“Novo”) (see page 148).

Our Directors have proven leadership capabilities and a range of healthcare, operational and financial skills and experience. Relevant biographical information, which includes up-to-date information about external appointments, where relevant, is set out on pages 94 and 95.

All Directors are collectively responsible for the success of the Group. The independent Non-Executive Directors exercise independent, objective judgement in respect of decisions of the Board, and scrutinise and challenge management. Through the

Governance framework

Our governance framework, which includes the Board and its three committees, is set out below.

The Board

Led by Chairman: Dr John McAdam CBE

Senior Independent Director: Margaret Ewing

Supported by the Company Secretary: Evelyn Douglas

Responsibilities:

- Responsible for the long-term success of the Group and for ensuring that there is a framework of appropriate and effective controls which enables risk to be assessed and managed.
- Sets the Group's strategic aims, determines resource allocation to ensure that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance.
- Monitors and assesses the Group's culture and ensures that its obligations to shareholders and other stakeholders are understood and met.

Nomination Committee

Led by Committee Chair, Dr John McAdam CBE

Responsibilities:

- Proposes appointments to the Board and reviews Board composition.
- Considers succession planning for the Board and senior management.
- Sets diversity and inclusion targets and objectives for Board and senior management.



See pages 107 to 109

Audit and Risk Committee

Led by Committee Chair, Margaret Ewing

Responsibilities:

- Oversees integrity of Group's financial reporting, internal controls and risk management.
- Ensures the Group complies with legal and regulatory governance requirements, including those related to environmental and climate change-related matters.
- Assessment of the independence and effectiveness of the external and internal auditors.



See pages 110 to 121

Remuneration Committee

Led by Committee Chair, Brian May

Responsibilities:

- Ensures Remuneration Policy and practices are designed to support the Group's strategy and promote long term sustainable success.
- Oversees Remuneration Policy implementation for Executive Directors and senior management.
- Regularly reviews its provisions. Reviews workforce remuneration and related policies.



See pages 122 to 145

ConvaTec Executive Leadership Team (“CELT”)

Led by CEO, Karim Bitar

Responsibilities:

- Responsible for the long term success of the Group and for ensuring that there is a framework of appropriate and effective controls which enables risk to be assessed and managed.
- Executes and delivers against the Group's strategic aims, determines resource allocation to ensure that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance.
- Monitors and assesses the Group's culture and ensures that its obligations to shareholders and other stakeholders are understood and met.

various committees of the Board, they have responsibility for ensuring the robustness and integrity of financial information, internal controls and risk management, and that remuneration arrangements appropriately support the Group's culture and strategic ambition.

The Board is satisfied that the Company's culture is fully aligned to the Company's purpose, values and strategy. This is monitored primarily through regular progress reports on implementation of FISBE strategy and our people strategy.

The Board is responsible for setting the Group's strategy and policies to support its implementation, overseeing risk and corporate governance, assessing and monitoring the Group's culture, and monitoring progress towards delivery of objectives and annual plans. The Board is accountable to the Company's shareholders for the proper conduct of the Group's business and its long-term success and seeks to represent the interests of all stakeholders. The CEO, CFO and other members of the CELT take the lead in developing the Group's strategy which, on an annual basis, is reviewed, constructively challenged and approved by the Board.

Key Board roles and responsibilities

Chairman

- Leads the Board
- Promotes high standards of governance
- Sets the Board agenda
- Supports and guides CEO

Senior Independent Director

- Sounding board for Chairman
- Serves as intermediary for other directors
- Available to shareholders should they have concerns where contact through the normal channels has either failed to resolve or would be inappropriate

Non-Executive Directors

- Provide constructive challenge and independent judgement
- Monitor strategic execution in accordance with risk and control framework
- Serve on the Board's committees

Chief Executive Officer

- Leads the executive management team in delivery of the Group Strategy and objectives as determined by the Board
- Day-to-day responsibility for executive management matters
- Responsible for maintaining dialogue with the Chairman and the Group's stakeholders

Company Secretary

- Responsible for advising the Board on all corporate governance matters and best practice
- Works with the Chairman to ensure Directors receive accurate and timely information to enable them to discharge their duties
- Works with Chairman to design induction programme for new Board members and ongoing training.

Matters reserved for the Board

The Board has a schedule of matters reserved for its approval and a formal structure of delegated authority. It has delegated certain responsibilities to the Board committees, which all operate in accordance with Board approved terms of reference. The Board has also delegated specified management control to the Executive Directors and the CELT.

The principal activities undertaken during the year by the Nomination, Audit and Risk and Remuneration Committees are set out in their respective reports in this Annual Report. The paragraphs under the heading "Directors' Remuneration report" on pages 122 to 135 are incorporated by reference into this Corporate governance report.

The decisions which can only be made by the Board are clearly defined in the schedule of matters reserved for the Board. This schedule is available at www.convatecgroup.com/investors/corporate-governance, and largely relates to matters of governance and business, where independence from executive management is important. No changes were made to this schedule during the year. The written terms of reference that each of the committees operates under can also be found within the web link referenced above.

Board and committee meetings

Details of the number of board and committee meetings which took place during the year can be found on page 86. Board meeting attendance was 100% by all eligible directors during the year. All meetings were conducted using video and audio conference facilities other than an in person Board meeting and committee meetings which took place in October 2021. The Non-Executive Directors met on one occasion during the year without the Chairman and Executive Directors present.

The Company Secretary and Deputy Company Secretary attend all Board meetings. External advisers also attend meetings where independent guidance and expertise is required to facilitate the Board in carrying out its duties. Where appropriate, senior executives below Board level, including members of the CELT, also attend relevant parts of meetings to make presentations and provide their input on a range of topics.

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Board and committee meetings held

Board activity and actions

Board focus and principal matters considered in 2021

The principal matters considered by the Board during 2021 and the link to the Company's strategic priorities are set out in the table below.

As part of the business of each Board meeting, the CEO submits a progress report on business performance, including areas of progress and areas which are not progressing to plan. At each Board meeting, the Board also receives a report from the CFO providing updates on the Group's financial progress. Members of the CELT regularly attend Board meetings to ensure that the Board has good visibility of the business developments, principal and emerging risks and their mitigation, and key operating decisions within the categories. The Board also receives presentations from internal and external speakers on topics relevant to the business and the environment it operates in.

| Areas of focus | Activities | Strategic priorities |
|--|--|---|
| Strategy <ul style="list-style-type: none"> Approving the Group's strategy and any changes and monitoring delivery. Approving any major capital project, corporate action or investment by the Company. Stakeholders considered: All stakeholders. | <ul style="list-style-type: none"> Acquisition of Cure Medical, LLC for \$84.7 million. Approval of issue of \$500 million Senior Notes due 2029 and repayment of bank debt. Acquisition of Patient Care Medical for \$29.1 million. Reviewed progress of FISBE strategy including participation in three-day strategy session and approval of individual Business Unit strategic plans. Reviewed corporate development opportunities to ensure alignment with our FISBE strategy and Business Unit plans. Reviewed and approved ESG strategy and framework. Reviewed and approved our people strategy. |  Focus  Innovate  Simplify  Build  Execute |
| Leadership <ul style="list-style-type: none"> Making appointments to the Board, following recommendations from the Nomination Committee. Reviewing the performance of the Board and its committees, individual directors and the Group's overall corporate governance framework. Stakeholders considered: All stakeholders. | <ul style="list-style-type: none"> Approved appointments to the Board of Jonny Mason, Kimberly Lody and Sharon O'Keefe following recommendations from the Nomination Committee. Board evaluation facilitated by external provider in Q4 2021, see page 106 for details. |  Build  Execute |
| Business plan and performance <ul style="list-style-type: none"> Approving annual budget and business plan and regularly reviewing actual performance and latest forecasts against the budget and business plan. Stakeholders considered: All stakeholders | <ul style="list-style-type: none"> Approved 2022 budget and business plan. |  Focus  Innovate  Simplify  Build  Execute |

| Areas of focus | Activities | Strategic priorities |
|--|---|---|
| Financial reporting <ul style="list-style-type: none"> – Approving final and interim results, trading updates, the Annual Report and the release of price sensitive information. – Approving the dividend policy, determination of any interim dividend and the recommendation (subject to the approval of shareholders) of any final dividend to be paid by the Company. Stakeholders considered: All stakeholders | <ul style="list-style-type: none"> – Approved Viability and Going Concern statements. – Approved half-year and full-year results and quarterly trading announcements. – Reviewed dividend policy taking into account stakeholder perspectives and confirmed the policy. – Confirmed and approved interim dividend and recommended final dividend. – Approved Annual Report and Notice of AGM, held AGM as a hybrid physical and electronic meeting. |  Focus  Execute |
| Risk <ul style="list-style-type: none"> – Ensuring the Group has effective systems of internal control and risk management in place, including approving the Group's risk appetite. Stakeholders considered: All stakeholders | <ul style="list-style-type: none"> – Reviewed effectiveness of the Group's risk management and internal control systems. – Approved enhancements to the Group's risk management framework and processes. – Reviewed and approved the Group's risk appetite. |  Focus  Innovate  Simplify  Build  Execute |
| Stakeholder engagement <ul style="list-style-type: none"> – Considering the balance of interests between the Group's stakeholders. – Receiving and considering the views of the Company's shareholders. Stakeholders considered: All stakeholders | <ul style="list-style-type: none"> – Considered investor feedback on the interim results provided by the Investor Relations team and also the Group's corporate brokers. – Reviewed employee gender pay gap data. – Reviewed progress report on diversity and inclusion initiatives including gender data. – The Board met healthcare practitioners and patients from the US and UK, to obtain valuable insights into their concerns and needs. – The Chairman had meetings with three of our top 20 institutional shareholders during the year. |  Innovate  Build  Execute |
| Responsible business <ul style="list-style-type: none"> – Overseeing the Group's responsible business programme. – Reviewing the Group's responsible business strategy and its implementation. Stakeholders considered: All stakeholders | <ul style="list-style-type: none"> – Established a new ESG Steering Committee chaired by CEO. – Established new ESG framework. – Reviewed progress against sustainability targets and agreed priorities for 2022, including setting new targets where required. |  Innovate  Build  Execute |

Connecting with our stakeholders and discharge of section 172 duty

When making decisions, the Board acts in a way that the Directors consider most likely to promote the success of the Company, for the benefit of its stakeholders as a whole, while also considering the broad range of stakeholders who interact with the business.

Our section 172 statement is set out on page 22.

How we engage as a Company

We regard all of our stakeholders as highly important, as described on page 36. Identifying our key stakeholders was essential to underpin the implementation of our FISBE strategy. We are committed to maintaining strong relationships and good communication with all stakeholders as we consider this fundamental to the successful delivery of our strategy and long term prospects and aligns with our purpose.

Our vision, pioneering trusted medical solutions to improve the lives we touch, is fulfilled through interaction with our stakeholders. We proactively engage with a broad range of stakeholders to understand their issues and to build positive relationships (see pages 36 and 37). Our values frame the Group's culture and our employees' behaviours, determine how we do business and underpin our strategy. Our vision and values also provide a framework which helps our employees make decisions in the best interests of the Group and our stakeholders. This approach ensures that stakeholder issues are considered throughout the organisation and not just at Board level.

How the Board understands stakeholders' interests

The table below summarises how our Board gains an understanding of stakeholder issues. The table on pages 103 and 104 describes how the Board considered different stakeholders in making three key decisions in 2021.

| Stakeholders | Board-level engagement |
|---|--|
| Our People | <p>Workforce engagement with our designated NED, Regina Benjamin, remained limited during 2021 due to the ongoing impact on travel because of the COVID-19 pandemic. We expect to recommence these activities in 2022. Engagement activities are expected to include participation in leadership team meetings, interaction with Employee Resource Groups; communications via ConvaTec's intranet; site visits and our continuing OHI surveys. Updates to the Board will be provided by our designated NED at regular intervals.</p> <p>Members of the management team regularly attend relevant parts of Board and committee meetings to present on specific topics.</p> <p>The Chairman will be attending the Global Leaders Meetings in 2022, bringing together our top 100 leaders across the business.</p> <p>The Board and the Audit and Risk Committee receives reports from the Group's compliance function detailing input from the Group's Compliance Helpline and web link. When relevant, the Group's compliance function provides the Audit and Risk Committee with details of investigations arising from information provided via the Compliance Helpline and web link and the resulting outcome (see page 117).</p> <p>Management reported to the Board following extensive engagement with over 3,000 employees to obtain their feedback and insights as a foundation for the development of and discussion about the Diversity, Equity & Inclusion (DE&I) and Wellbeing strategy (approved by the Nomination Committee in Q4 2021) and the ESG framework (approved by the Board in Q4 2021).</p> |
| Investors | <p>All members of the Board are available to meet with shareholders.</p> <p>The Chairman had meetings with three of our top 20 institutional shareholders during the year.</p> <p>The Chairman and Committee Chairs have regular dialogue with ConvaTec's major shareholder, Novo, through Novo's representative on our Board, Sten Scheibye, and directly with the CEO of Novo.</p> <p>Margaret Ewing met with the Institutional Voting Information Service ("IVIS") proxy voting agency to discuss certain aspects of our 2020 Annual report and to ensure that our 2021 Annual Report and Accounts addresses any concerns that were highlighted.</p> <p>The Board receives analysts' notes published about the Group and the sector and receives regular updates on investor relations matters.</p> <p>Our IR programme, which includes activities undertaken by the Executive Directors, continued to be active despite the pandemic. We have continued to successfully engage with shareholders and potential investors. (See page 37).</p> <p>Feedback and insights from investors are provided to the Board at regular intervals. The Board considers this feedback important to understand our investors' views on ConvaTec's progress in pivoting to sustainable and profitable growth. Investors' feedback and insights are taken into account by the Board in our communications to shareholders.</p> <p>All Directors participated in our 2021 AGM which took the form of a hybrid meeting, which enabled shareholders to attend, vote and ask questions.</p> |
| Consumers/ Patients/Healthcare professionals | <p>During the year, the Board held an in-depth session with two health care practitioners and two patients; from the UK and US which provided valuable insight into patient and HCP needs. These insights were applied to the constructive challenge and debate regarding the Group and Business Unit strategies in July, 2021.</p> |

| Stakeholders | Board-level engagement |
|---|---|
| Supply chain partners and channel partners | <p>During the year, the Board received reports from the Global Quality and Operations team with respect to initiatives they have undertaken to improve the resilience of our supply chain as part of the strategic transformation programme and our COVID-19 response.</p> <p>Reports were received by the Audit and Risk Committee from Internal Audit with respect to audits undertaken on management of suppliers, distributors and other channel partners in certain markets.</p> <p>The Board confirms its compliance with the UK Payment Practices Reporting Duty and the Prompt Payment Code and similar legislation across the Group in relation to the year ended 31 December 2021.</p> <p>The Board reviewed and discussed strategic plans for each of our business units during the year which included an in-depth review of our supply chain partners and channel partners. The Board supported engagement and close collaboration with one of our key partners, Medtronic, with whom we launched the first and only infusion set that can be worn for up to seven days. We work in close co-operation with all of our partners to develop products that improve the quality of life for patients. The Board also reviewed our supply chain resilience and approved a proposal to expand our manufacturing capabilities across two sites, in Denmark and Mexico, to strengthen ConvaTec's supply chain and resilience whilst also scaling up production and availability of life-enhancing products for the customers and patients we serve.</p> |
| B2B customers | Business Units have provided in-depth analysis of their customer relationships and competitive landscape. |
| Regulators | The Board has received reports on the implementation of MDR from the Group's regulatory function. |
| Governments | The Audit and Risk Committee received reports from the Global Tax function on taxation matters across the Group and approved the Tax Statement including tax strategy. |
| All other stakeholders | The Board receives information relating to our stakeholder groups through the executive reports at each Board meeting and in the annual strategy sessions from Business Units. |

| Principal decision | Summary | S.172 – How the Board considered different stakeholders in making the decision |
|--|---|--|
| Acquisition of Cure Medical LLC | <p>In March 2021 we acquired Cure Medical LLC for net cash consideration of \$84.7 million and a contingent consideration of up to \$10 million.</p> <p>Based in California the business develops, manufactures and distributes intermittent catheters. Bringing together Cure Medical and ConvaTec's Continence Care business allows us to better serve continence customers in the US.</p> <p>The two portfolios are complementary; together we will offer a more comprehensive range of continence products and services for patients and our partners to better serve their broad range of needs.</p> | <p>The acquisition was fully aligned with our FISBE strategy.</p> <p>Investors: The acquisition strengthened our US position and accelerated revenue growth; increasing the potential for higher shareholder returns.</p> <p>Patients and HCPs: The broadened portfolio is even better suited to meet the needs of patients in the US, which accounts for the largest demand for such products in the world.</p> <p>Our People: While the integration impacted a small number of employees in redundant positions, the transaction benefited employees of both organizations by better serving customers and increasing the strength of the combined business and creating opportunities with a larger scale Continence Care business.</p> <p>Communities: strengthening ConvaTec's presence, product range and reach to the customers and patients we serve in communities across the US.</p> <p>Suppliers and Distributors: building our partnerships with trusted suppliers and distribution network across the US.</p> |

| Principal decision | Summary | S.172 – How the Board considered different stakeholders in making the decision |
|--|---|---|
| \$500m Senior Notes issue | <p>In September 2021, we launched an offering of \$500m Senior Notes due 2029.</p> <p>The Notes bear interest at a rate of 3.875% per annum. The proceeds of the issue were utilised to prepay a portion of existing bank debt.</p> | <p>The issue was fully aligned with our FISBE strategy and gave the group access to additional funding markets to support all prongs of its strategy going forward.</p> <p>Investors: The issue strengthened our balance sheet, diversified Group debt and extended the weighted average maturity profile by c.2 years to 4.3 years.</p> <p>Lenders: The proceeds were used to repay a portion of existing bank debt.</p> <p>Our people: An important step in strengthening the financial health of the enterprise.</p> <p>Other stakeholders: The Board considered that the issue of the Senior Notes and resulting strengthening of our balance sheet was in the best interests of the Group and all stakeholders for the long term.</p> |
| Infusion Care manufacturing plant expansion | <p>In May 2021, the Board approved an investment of around \$30m to expand manufacturing facilities in Osted, Denmark and Reynosa, Mexico.</p> | <p>The investment was fully aligned with our FISBE strategy.</p> <p>Customers and Patients: provides greater output of subcutaneous infusion set solutions for patients, particularly those with diabetes who rely on ConvaTec's automated insulin delivery systems. It also provides more opportunity for ConvaTec to innovate and develop new technology for our customers and patients.</p> <p>Suppliers and Distributors: expanding our capacity to deliver more Infusion Care products not only provides more resilience in the supply chain for ConvaTec, but also spreads the manufacturing of these vital products across two different manufacturing sites, helping to ensure a consistent supply feed.</p> <p>Investors: investing in manufacturing plant expansion is expected to lead to additional revenue for ConvaTec, and ultimately to higher returns for investors. It is also underpins confidence in ConvaTec's future growth and the overall success of the business.</p> <p>Local communities: the expansion plans will lead to employment opportunities for local communities in Osted and Reynosa. Being able to produce more of these vital and life-enhancing products will have a positive impact on our customers and patients in all communities around the world.</p> |

Board assessment of risk management and internal control effectiveness

The Board is ultimately responsible for overseeing how we manage both internal and external risks (current and emerging) that could impact our business model and strategic goals. The Board also determines the Group's risk appetite and monitors adherence to it through reports received by the Audit and Risk Committee and VP of Internal Audit & Enterprise Risk. The Board also regularly reviews the Group's principal risks and, on an annual basis, reviews the effectiveness of our risk management and internal control systems and undertakes horizon scanning to identify new emerging risks. The Group's principal risks are set out on pages 68 to 73.

During 2021, the Board has directly, or through delegated authority to the Audit and Risk Committee, monitored and reviewed the Group's risk management activities and processes, including a review of the effectiveness of all material risk mitigations and the financial, operational and compliance internal controls. The Audit and Risk Committee's activities in these areas are set out in the Audit and Risk Committee report on page 110. Following this review, the Board is satisfied that the Group's risk management and internal control framework provided assurance that there were no control failures in the year that could have a material impact on the Group's financial statements or its future financial situation.

Statement of review

The Board's statement of annual review of the effectiveness of the Group's risk management and internal control systems is set out on page 87.

Operation of the Board and its committees

The Directors have access to an encrypted electronic portal system, which enables them to receive and review Board and committee papers quickly and securely electronically. The meetings of the Board and its committees have been held via video conferencing throughout the year other than an in-person meeting which took place in October 2021. The Board intends to hold a combination of virtual and physical meetings during 2022.

Board evaluation

Chairman evaluation

The evaluation of the performance of the Chairman by the other Directors was led by the SID and absent the Chairman. The overall conclusion was that he was performing very well in all aspects of the role. The Chairman values the individual opinions of all Directors and seeks and listens to their views. He chairs effective meetings, allows debate and encourages contribution and challenge, with a focus on clarity and pragmatism in decision making. He has a strong relationship with the Executive Directors, particularly the CEO, and provides appropriate challenge and support. He has been in role since September 2019 and during that time the composition of the Board has changed significantly. He has proactively led the recruitment of new Non-Executive Directors.

The SID provided feedback to the Chairman, after the review of his performance. This included a request to the Chairman to ensure more time is devoted to topics on which investors are currently focused (such as ESG and climate change-related matters) and lead a further Board discussion about potential additional skills and experience, to be represented on the Board as the Group's strategy evolves.

2020 Board evaluation progress report and 2021 Board evaluation review

During 2020 the Board undertook an internal evaluation of its effectiveness that focused primarily on identifying priority issues to be addressed during 2021 by the Chairman and CEO. Information about the key priorities arising from this evaluation and progress to date is set out below.

In October 2021 the Board undertook an evaluation of its effectiveness which took the form of detailed questionnaires, facilitated by an external provider, Lintstock. The key findings from the 2021 Board evaluation process, including the actions agreed to address recommendations resulting from the review process, are set out on the adjacent page. ConvaTec subscribes to Lintstock's insider list management system. Lintstock has no other connection with ConvaTec or any of the individual ConvaTec Directors.

Progress in relation to actions arising from the 2020 Board evaluation

| Actions | Progress |
|---|---|
| Continue to challenge the Group's strategy, overall and at a category level, to drive delivery of value to investors and stakeholders. | The Board held a three-day day strategy meeting in July 2021, which included a comprehensive review of the Group's strategy with presentations from Business Unit and functional leaders which allowed the Board to not only challenge and question different aspects of the strategy but also to provide their valuable feedback and ideas. The strategy session was considered by all Board members to be extremely informative and an effective use of time. The Business Unit leaders also found the sessions, with direct input and insights from Board members, to be valuable. |
| Improve the Board's understanding of the Group's competitive landscape, product development and product profitability. | The Board strategy sessions in July 2021 included deep dives into each of our Business units, their competitive landscape and product development. |
| Improve stakeholder insights. Ensure the Board receives direct input from and engagement with customers (being end-users and caregivers), including their evidence-based insights. Also maintain focus on meeting shareholder aspirations. | The April 2021 board meeting included an in-depth session from two health care practitioners and two patients from the UK and USA which provided valuable insight into the needs of patients and HCPs. |
| Further develop succession planning and talent development. Continue to enhance the Group's succession planning and talent development processes. The Board, through the Nomination Committee, will oversee the outputs of these processes and monitor progress of diversity and inclusion initiatives. | Significant change occurred during 2021 in the CELT team membership and the Global Leadership Team where a number of exceptionally experienced hires were secured, building capabilities in key areas of the business including commercial leadership, quality and operations, finance, talent and reward. |
| Board meetings Continue to embed new members of the Board. When possible, resume physical meetings to assist the development of a fully cohesive and effective Board. | Newer members of the Board have settled into their roles very well during 2021 despite being unable to meet in person for most of the year due to the pandemic. |

Key findings arising from 2021 Board evaluation together with priority actions for 2022

| Key findings | Priority actions for 2022 |
|---|---|
| Board composition The profile of the Board should evolve over the next 3 to 5 years to match ConvaTec's strategic goals. The Board should continue to ensure that digital, innovation and international experience is sought and in addition, medical expertise would be considered to further strengthen the Board, whilst ensuring a sufficient level of diversity is maintained. | Nomination Committee to allocate dedicated time in 2022 to discuss Board composition and succession planning. |
| Strategic and Operational Oversight The Board would benefit from deep dives into areas such as technological developments in medical solutions; and greater understanding of medical regulations, patients' needs and suppliers/distributors. | Deep dives in these areas to be included on Board agenda during 2022. |

The evaluation questionnaire explored the functioning of the Board as a unit and the relationships among Board members. It was established that the Board considered its composition and diversity of skills and experience to be well balanced, although members felt that more time should be devoted to discussing future alignment of Board skills to ConvaTec's strategic goals (see Chairman's evaluation above). There was consensus that the continuation of virtual meetings in 2021 had been successful, but by their nature they were less free flowing and the return to physical meetings, achieved in October 2021, has further improved the effectiveness of meetings.

Nomination Committee report



“There has been significant progress in recruiting talent across our Global Leadership Team, helping us to accelerate execution of our strategy and realise our vision of building a skilled, diverse and effective leadership team.”

Dr John McAdam CBE
Chairman of the Nomination Committee

Committee membership, meetings and attendance

The table below shows the number of meetings attended out of the number of meetings members were eligible to attend during 2021. Since the year end, Constantin Coussios was appointed as a member of the Committee on 27 January 2022, Kimberly Lody was appointed to the Committee on 1 February 2022, and Sharon O'Keefe was appointed to the Committee on 1 March 2022.

| Director | Member since | Attended |
|---|----------------|----------|
| John McAdam (Chair from 30 September 2019) | September 2019 | 3/3 |
| Margaret Ewing | May 2019 | 3/3 |
| Rick Anderson | May 2019 | 3/3 |
| Regina Benjamin | September 2020 | 3/3 |
| Heather Mason | September 2020 | 2/3 |
| Brian May | September 2020 | 3/3 |

The Deputy Company Secretary attends meetings as Secretary to the Committee and the EVP, Chief Human Resources Officer regularly attends the Committee's meetings to provide information and support to the Committee to enable it to carry out its duties and responsibilities effectively.

Key numbers

3
Meetings held

94%
Attendance

Activity highlights

- Reviewed and adjusted the composition of the Board's committees.
- Considered and made recommendations for the appointment of new CFO and Non-Executive Directors.
- Reviewed the progress and assessed metrics relating to our diversity, equity and inclusion strategy.
- Undertook a comprehensive succession and talent review of the CELT.

2022 priorities

The Committee conducted an evaluation of its performance in the form of a detailed questionnaire facilitated by an external provider Lintstock, the results of which were highly rated overall and identified the following areas for attention in 2022:

- Increase focus on succession planning for the Executive and Non-Executive Directors and senior management.
- Provide additional support and training for new members of the Committee.
- Continue to identify high potential talent and monitor plans for their development.
- Continue to monitor progress and ongoing development of diversity, equity and inclusion initiatives across the Group.

Committee focus and activities in 2021

| Focus areas | Activities |
|--|---|
| Board composition <ul style="list-style-type: none"> – Leads Board appointments process. – Reviews regularly the Board's composition. – Oversees and recommends orderly Board and senior management succession. | <ul style="list-style-type: none"> – Reviewed skills, experience and characteristics of board members. – Recommendations for the appointment of new CFO and Non-Executive Directors. |
| Corporate governance <ul style="list-style-type: none"> – Reviews whether each Non-Executive Director is devoting enough time to his or her duties. – Oversees the balance of skills and experience within the Group and on the Board. – Monitors diversity within the Board and across the Group. | <ul style="list-style-type: none"> – Reviewed progress and development of the Group's diversity, equity and inclusion strategy and assessed key metrics. – Reviewed succession planning for the CELT. – Reviewed progress in strengthening Global Leadership Team talent, achieved through making significant new hires during 2021, accelerating our vision to build a sustainable, diverse and inclusive organisation. |

Dear Shareholder

This report provides a summary of the Nomination Committee's activities during the course of the year.

Our role

As we continue with our purpose of pioneering trusted medical solutions that improve the lives we touch, and create sustainable value for all our stakeholders, we continue to focus on ensuring that we have a skilled, diverse and effective Board and leadership team and a good pipeline of future talent. The effectiveness of our leadership team continues to be a primary focus as the Group continues its pivot to sustainable and profitable growth. The senior leadership team has a crucial role to play in inspiring and motivating our people to accelerate and deliver on our strategic aims.

As a Committee we continue to focus on recruiting the best talent to lead our business and have considered and made recommendations to the Board for the succession of appointments to the Board and for CELT. During the year, the appointments of Jonny Mason as our new CFO and Kimberly Lody, Non-Executive Director, were approved, and since the year end, the appointment of Kimberly Lody was approved. In addition, a number of senior managers were successfully recruited during the year who are already making a valuable contribution and helping to accelerate the implementation of our strategic initiatives. The Committee will continue to focus on the development and retention of this important group of leaders.

Changes to membership

During the year there were no changes to the composition of the Committee. Since the end of 2021, Constantin Coussios, Kimberly Lody and Sharon O'Keefe were appointed as members of the Committee.

Board composition

Following the resignation of Frank Schulkes, Jonny Mason will be appointed as Executive Director and CFO, with effect from 12 March 2022, Kimberly Lody was appointed as a Non-Executive Director with effect from 1 February 2022. Sharon O'Keefe was appointed as a Non-Executive Director with effect from 1 March 2022. Rick Anderson resigned as Non-Executive Director on 3 March 2022.

Board committees' composition

Constantin Coussios was appointed to both the Remuneration Committee and Nomination Committee with effect from 27 January 2022. Kimberly Lody and Sharon O'Keefe were appointed to the Remuneration Committee and Nomination Committee with effect from 1 February 2022 and 1 March 2022 respectively. Rick Anderson stood down from his committee membership roles on 3 March 2022 upon resigning as a Non-Executive Director of the Company.

Diversity

The Board endorses the aims of the Davies' report entitled "Women on Boards", the Hampton-Alexander report entitled "FTSE Women Leaders – Improving Gender Balance in FTSE Leadership", and the Parker report entitled "A Report into the Ethnic Diversity of UK Boards". The Board also endorses the Government's new five-year review to monitor women's representation in FTSE350 companies, entitled "The FTSE Women Leaders Review".

At Board level we have members of various nationalities, gender and ethnicity who have an excellent range of appropriate skills and expertise. As at 31 December 2021, the proportion of women on our Board was 30% which is in line with our previous target of at least 30%.

Following the appointments of Kimberly Lody, Sharon O'Keefe, and the resignation of Rick Anderson, the proportion of women on the board has increased to 45%. The Committee will continue to monitor Board diversity in other respects including experience, skills, personal attributes, age and ethnicity. In all instances individuals will continue to be appointed on merit and the Committee will remain focused on always ensuring that the Board has the relevant skills and expertise to perform effectively. The Committee acknowledges the challenge set by the Parker report for there to be one non-white director by 2024 for FTSE 250 companies.

As part of our ongoing diversity and inclusion strategy, we have set a new target to achieve 40% of senior management roles to be held by female executives by 2025 and this currently stands at 32%. During the year the Board has considered diversity insights across a range of metrics with a focus on gender and the initiatives to advance women in leadership. In 2022 it will continue to monitor the ongoing development of Diversity, Equity & Inclusion and Wellbeing initiatives across the Group.

Relevant skills and expertise

The Board benefits from a wide variety of relevant of skills, experience and knowledge, details of which are on page 94.

Board appointments

Appointments to our Board are made solely on merit with the overriding objective of ensuring that the Board maintains the correct balance of diversity, experience, skills, length of service and knowledge of the Group to successfully establish and oversee the delivery of the Group's strategy. Appointments are made based on the recommendation of the Nomination Committee with due consideration given to the benefits of diversity in its widest sense, including gender, social and ethnic backgrounds. The Nomination Committee also reviews the ongoing commitments of candidates prior to making recommendations for the appointment of new Directors. Directors are required to seek Board approval prior to taking on additional commitments to ensure that existing roles and responsibilities continue to be met and conflicts are avoided or managed.

When recruiting new Non-Executive Directors, members of the Nomination Committee review and recommend candidates for appointment to the Board. Meetings are held between potential candidates, and the Chairman and CEO, CFO and Non-Executive Directors. Decisions relating to such appointments are made by the entire Board based on a number of criteria including the candidate's skills and experience, the contribution they can make to our business and their ability to devote sufficient time to properly fulfil their duties and responsibilities.

Re-appointment of Directors

All Directors are subject to annual re-election and will be proposed for election or re-election (as appropriate) by shareholders at the AGM to be held on 12 May 2022. In relation to the re-elections, the Chairman has confirmed that following evaluation, all Directors continue to be effective and have the time available to commit to their role.

Non-Executive Directors are initially appointed for a three-year term and retiring Directors, if willing to act, will be deemed to be re-appointed unless the resolution for their re-appointment is not approved.

Talent and succession planning

Succession planning work during 2021 focused on the CELT and the Global Leadership Team. The Committee has considered succession planning for each member of the CELT.

External search firms

For all independent Non-Executive and Executive Director appointments, we engage international search and selection firms to support the Board including Heidrick & Struggles, Spencer Stuart, Russell Reynolds and Korn Ferry. None of them have any connection with the Group, or any Director, other than they may be engaged to assist with Board and senior management appointments from time to time.

Board induction and development

On joining the Board, all Non-Executive Directors participate in a formal induction programme. The programme is monitored by the Chairman (other than in relation to his own induction, which is guided by the Senior Independent Director) and is the responsibility of the Company Secretary. Its purpose is to ensure that each newly appointed Non-Executive Director is able to contribute to Board discussions as quickly as possible. While each induction programme is tailored to the individual Director's needs based on their skills and experience, typically each programme provides new Directors with insight into the Group's strategy, culture and operations and informs them about the governance and compliance processes and procedures we operate. We were pleased to resume in-person Board meetings in October 2021 and have a full schedule of Board meetings and Board visits arranged for 2022, including a board visit to our Deeside plant.

During the year, the Directors received directors' duties training and an update on governance and regulatory matters from our external lawyers Freshfields Bruckhaus Deringer. The Board also received updates and training from the Group's senior management and external advisers covering a range of matters.

We continued to evolve our training programme and, in particular, its scope was expanded to include training from external advisers to both the Remuneration and Audit and Risk Committees. Training focused on matters specific to their respective committee activities, including corporate governance updates, executive remuneration, corporate reporting and audit updates.

All Directors have access to the advice and services of the Company Secretary and, through her, have access to independent professional advice in respect of their duties, at the Group's expense.

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

On behalf of the Nomination Committee.

Dr John McAdam CBE

Chairman of the Nomination Committee

7 March 2022

Audit and Risk Committee report



"I am pleased to note that the pandemic had minimal impact on the Group's 2021 financial affairs, control environment and reporting."

Margaret Ewing
Chair of the Audit and Risk Committee

Committee membership, meetings and attendance

As Committee members, we collectively have a wide range of financial, audit, risk management and relevant sector and business experience that enables the Committee to provide constructive challenge and support to management. In accordance with the Code, the Board has determined that Margaret Ewing and Brian May have recent and relevant financial experience and is satisfied that the Committee has competence relevant to the sector and its overall responsibilities.

The table below shows the number of meetings attended out of the number of meetings members were eligible to attend during 2021 (all meetings were held virtually due to the pandemic, other than the October meeting).

| Director | Member since | Attended |
|---|----------------|----------|
| Margaret Ewing (Chair from 28 June 2019) | August 2017 | 7/7 |
| Brian May | March 2020 | 7/7 |
| Heather Mason | September 2020 | 7/7 |

The Deputy Company Secretary is Secretary to the Committee and attends all meetings. Other regular attendees, at the invitation of the Committee, include the Chairman, CEO, CFO, General Counsel and Company Secretary, Corporate Controller, VP Internal Audit and Enterprise Risk and external audit partners.

Throughout the year the Committee periodically met without others present and held separate private sessions with the CFO, VP Internal Audit and Enterprise Risk and the external audit partners, allowing the Committee to discuss issues in more detail.

Key numbers

7

Meetings held

100%

Attendance

Activity highlights

- Review of key judgements and estimates, adjusted measures and disclosures in respect of the 2021 financial statements
- Consideration of improvements to enterprise risk framework and embedding of related processes
- Review of ESG and TCFD related disclosures, commitments and targets

2022 priorities

- Undertake deep dives on known and emerging risks
- Increased focus on plans for delivering environmental and other sustainability commitments and targets, and integrity of measures
- Implementation of corporate governance reforms expected to be announced in early 2022

Committee's role and responsibilities

The role and responsibilities of the Committee are set out in its terms of reference (available on the Company's website), which were reviewed and updated by the Committee in January 2022 to reflect changes in relevant legislation and regulations and recommended good practice.

The Committee's responsibilities include, but are not limited to, the following matters:

- Oversight of the integrity of the Company's financial statements
- Review of the Company's half yearly and annual financial statements (including clarity and completeness of disclosure) and approval of the quarterly trading statements for quarter one and quarter three
- Oversight of risk management and internal control arrangements
- Oversight of compliance with legal and regulatory requirements, including those related to environmental and climate-change matters
- Oversight of the external auditors' performance, objectivity, independence and qualifications; the approval process for non-audit services; recommendation to the Board of the nomination of the external auditors for shareholder approval; and approval of their fees
- Performance of the internal audit function

To help the Committee meet its oversight responsibilities, Management-organised knowledge sessions for the Committee during 2021 on cyber security, data privacy, the finance transformation programme, activities of the recently established GBS function and proposed regulatory reforms.

Dear Shareholder

On behalf of the Board, I am pleased to present the 2021 Audit and Risk Committee report, which provides an overview of the role of the Committee and the key matters considered in 2021, and to the date of this report, including how the Committee has discharged its responsibilities and provided assurance on the integrity of the 2021 Annual Report and Accounts ("2021 ARA"). It is our responsibility to ensure the financial and non-financial information (including in respect of ESG-related matters, and specifically TCFD) published by the Group properly presents its activities to all stakeholders in a way that is transparent, useful and understandable and is aligned with the latest guidance and requirements of regulators. In addition, the

Committee's fundamental priorities include ensuring the quality and effectiveness of the external and internal audit processes and monitoring the management of the principal risks and effectiveness of the internal controls of the business.

During the year Management focused on ensuring that the Group's response to the COVID-19 pandemic and Brexit continued to be agile and effective so that we could continue to serve and support the people who rely on our products and services. At the same time, extensive work and investment to deliver the Group's strategic transformation continued. In planning the Committee's agenda and reviewing the audit plans of the internal and external auditors, we took account of management's areas of focus and any consequential significant issues and operational, compliance and financial risks likely to have an impact on the Group's financial statements. I am pleased to note that the pandemic and Brexit had minimal impact on the Group's 2021 financial affairs, control environment and reporting.

Throughout 2021 I have maintained regular dialogue with members of the Committee, the CFO, other members of management and the internal auditor, including meeting with agenda topic owners prior to Committee meetings, ensuring the Committee would be provided with the necessary information to enable it to guide, challenge and advise and, when required, make informed decisions. I also met regularly with the lead partners from Deloitte, the external auditor, as part of my ongoing review of their effectiveness.

The Committee held seven formal meetings during 2021, three meetings in 2022 to the date of this report and one ad hoc meeting at which we discussed the effectiveness of both the internal and external auditors and the risk management processes. The key items discussed by the Committee in discharging its oversight responsibilities and its areas of focus are set out in further detail in this report. I believe that, throughout 2021, we have ensured: the key challenges and risks faced by the Group were reflected in the external and internal audit plans; the Group's control environment is monitored and enhancements discussed; changes in the Group's principal and emerging risks were identified and effectively managed; compliance with all regulatory and legal obligations; and

sound financial judgements and estimates continued to be made. The evaluation of the Committee's effectiveness during 2021, which took the form of detailed questionnaires facilitated by an external provider, Lintstock, supported this conclusion. The evaluation findings, which were shared with the Board, indicated that the Committee continued to perform very effectively and had addressed its key priorities and action plan for 2021.

Although no direct meetings with ConvaTec shareholders were held during 2021, I met with representatives of the Institutional Voting Information Service ("IVIS"), a proxy agency, to better understand IVIS's priorities regarding audit committee activity and reports and their rating of the ConvaTec 2020 Committee report. In addition, I met with many stakeholders, including investors, during the consultation period for the Business, Energy & Industrial Strategy ("BEIS") Audit and Corporate Governance Reform proposals. As a member of the Audit Committee Chair's Independent Forum steering group in respect of the consultation, I participated in many discussions with BEIS representatives, CEO and management of the Financial Reporting Council ("FRC"), investor representatives and other key stakeholder groups. This allowed me to share the insights gained with the ConvaTec Board and Management, facilitating our detailed response to the consultation and our initial plans for implementation of relevant aspects of the proposals.

I would like to thank Frank Schulkes, who steps down as our CFO on 11 March after more than four years in the role, a period of significant change for the Group, Board and management. I also look forward to supporting and working with Jonny Mason as he steps into the role of CFO from 12 March. I would also like to thank my fellow Committee members and all teams involved with the Committee's activities for their contribution during 2021 and their relentless focus on quality, sound judgements, controls and risk during another year when remote working was the norm.

I hope that you find this report informative and responsive to shareholders' and other stakeholders' expectations and can take assurance from the work undertaken by the Committee during the year and planned for 2022.

Committee focus and activities in 2021

| Focus area | Activities |
|----------------------|---|
| Financial statements | <ul style="list-style-type: none"> For recommendation to the Board – reviewed quarterly, interim and full-year results statements, prior to publication, together with supporting reports from CFO and Corporate Controller highlighting all key judgements and estimates and external auditor reports to the Committee in respect of the interim review and full year audit – reviewed final draft 2021 ARA, the auditor's and Management reports on all key judgements, scenario assumptions, supporting analysis/ evidence, including appropriateness of going concern basis of preparation and viability assessment. |
| External auditor | <ul style="list-style-type: none"> Reviewed and approved – audit plan for the 2021 statutory audit, including the key audit risks, scope and materiality level – 2021 interim review plan – audit fee for 2021 plus non-audit services, and related fees, provided by the external auditor <p>Reviewed reports from the external auditor on the financial statements and areas of challenge and focus Assessed the effectiveness of the external auditor and recommended to the Board the reappointment of Deloitte.</p> |
| Enterprise risk | <ul style="list-style-type: none"> Reviewed for recommendation to the Board – the Group's principal and emerging risks, including the interim and full-year risk management statements and disclosures – assessment of the viability of the Group over the next three years considering severe but plausible scenarios of the impact of the Group's principal risks <p>Review of/updates on</p> <ul style="list-style-type: none"> – proposed enhancements to enterprise risk management strategy and framework and subsequent monitoring of implementation – progress in implementing improvements in cyber security and data privacy risk management processes – effectiveness of the Group's risk management processes |

Audit and Risk Committee report

continued

| Focus Area | Activities |
|------------------------------|--|
| Compliance and fraud risk | <p>Review of/updates on</p> <ul style="list-style-type: none"> – global compliance programme, monitoring and assessment of processes and issues identified, and matters at risk or pending litigation – fraud risk management framework, fraud risk control programme and fraud risk assessment – the independent whistleblowing processes and report on complaints received, trends and actions |
| ESG and TCFD | <p>Review of Management's enhancements to ESG governance and framework, milestones in plans to achieve commitments and preparedness for complying with TCFD and other non-financial information reporting requirements</p> |
| Internal audit | <p>Review of/updates on</p> <ul style="list-style-type: none"> – annual internal audit plan, resourcing and budget, subsequently approved – conclusions and recommendations arising from completed internal audits, including implementation of management actions – proposed enhancements to internal audit strategic priorities, including capabilities and approach – programmes to address internal control and compliance weaknesses identified in parts of the Group – effectiveness of the Group's internal audit function and processes <p>Discussion of key themes emerging from internal audits with executive management</p> |
| Regulatory updates | <p>Briefings and discussion on BEIS Audit and Corporate Governance reform proposals and approval of ConvaTec's letter of response and initial assessment of implications for Board and management briefing on BEIS consultation on mandatory Climate-related Financial Disclosures</p> |
| Treasury, debt and insurance | <p>Review of</p> <ul style="list-style-type: none"> – Group's treasury policy (approved) – debt covenant compliance at relevant reporting dates – proposed issue of \$500 million Senior Notes and repayment of \$500m of bank debt (recommendation to Board) – plans for transition from IBORs to new Alternative Reference Rates in existing funding facilities (approved) – annual insurance renewal programme, subsequently approved (other than Board-approved D&O insurance) |
| Tax | <p>Review of</p> <ul style="list-style-type: none"> – Group's key tax risks, effectiveness of related controls and mitigations and tax transparency agenda – appropriateness of the global tax strategy in supporting the Group's FISBE strategy – Company's published Tax Statement, subsequently approved by the Board – estimated effective tax rates applied in interim and full year financial statements, judgements and disclosures in respect of underlying key tax issues/risks |
| Finance transformation | <p>Briefings on finance target operating model reflecting Group's business unit/matrix operating model</p> <ul style="list-style-type: none"> – monitoring of progress in implementation of global Finance Transformation, with focus on retention/implementation of effective controls throughout the programme – progress on establishment of GBS and programme of transition of finance processes from country to GBS – conclusions from EY's independent review of proposed finance operating model and contentious process assessment <p>Approved changes to Grant of Authority to reflect evolving operating model</p> |
| Committee effectiveness | <p>Ensured all financial reporting, including 2021 ARA, reflects regulatory guidance</p> <p>Updated the Committee's terms of reference to reflect evolving best practice</p> <p>Conducted externally facilitated review of Committee effectiveness, including input from regular Committee meeting attendees</p> <p>Committee members completed four mandatory compliance on-line training programmes</p> |

All relevant matters arising are brought to the attention of the Board. There were no topics addressed by the Committee where the conclusion resulted in significant disagreement between Management, the external auditor and the Committee or unresolved issues that needed to be referred to the Board.

How the Committee has discharged its responsibilities

Financial Statements

In the process of applying the Group's accounting policies, Management necessarily makes judgements and estimates that may have a significant effect on the amounts recognised in the financial statements. The Committee used its collective expertise, with input from the external auditor, to provide challenge to the approach and judgements made by Management in the treatment and value of financial matters and the resulting disclosures within the Group's financial statements. The Committee discussed with the external auditor how Management's judgement and assertions were challenged and how professional scepticism was demonstrated during their audit of these areas. Following considerable discussion and review of each potentially significant accounting judgement with Management and the auditor, the Committee was satisfied that there were relevant accounting policies in place that had been correctly applied and reasonable judgement had been exercised. The Committee consequently agreed with Management's and the external auditor's conclusion that there were no critical accounting judgements impacting the 2021 financial statements or key sources of estimation uncertainty that have the potential to give rise to a material adjustment to the Group's financial statements during 2022.

Significant audit risks and accounting judgements

Although there are no critical accounting judgements, there were a number of judgements considered by the Committee as significant, and these were reviewed throughout the year and when recommending approval of the 2021 ARA to the Board and are summarised below. These include the four significant areas of audit focus, as described in the Independent Auditor's Report on pages 211 to 219. In addition, our external auditors, as required by auditing standards, also considered the risk of Management override of controls. Nothing has come to the Committee's attention to suggest any material misstatement with respect to suspected or actual fraud relating to Management override of controls.

Change in CGU groups and goodwill impairment

During 2021 management reassessed the applicable Cash Generating Units (CGUs), including reallocation of goodwill, triggered by the evolution of the global operating model of the Group and, specifically, the change in monitoring cash inflows from geographical to category leadership. The identification of appropriate CGU groups and reallocation of goodwill and indefinite-lived intangible assets involve significant judgements. The Committee reviewed and challenged management's reasons for determining the appropriate CGU groups to be adopted and considered the external auditor's conclusions. The Committee concluded that the evolution of the new operating model resulted in goodwill being predominantly monitored by categories and the resulting decision-making and approach to monitoring by management were significant triggers and concurred with the change in CGU groups (see pages 174 and 175).

Management reviews the carrying amounts of the Group's goodwill and indefinite-lived intangible assets on an annual basis and its other intangible assets and property, plant and equipment assets when there is a trigger to determine whether any impairment of the carrying value of those assets is required to be recorded. An impairment review requires the exercise of considerable judgement and application of assumptions by Management in determining the value in use of each asset. The Committee challenged the appropriateness of the relative value measures used in the reallocation of goodwill to the revised CGU groups, which included consideration of alternative measures, and concurred with Management's assessment. In respect of goodwill and indefinite-lived intangible assets, the sensitivity of the headroom between the resulting value in use and carrying value is determined by applying reasonably possible changes in key assumptions, including the assumptions applied in the scenarios adopted in reviewing the Viability statement. Adopting the new CGU groups, management assessed the recoverable amount of each CGU group to identify potential goodwill impairment. After challenge of the reasonableness of the underlying assumptions applied in determining the value in use of each CGU group with Management and the external auditor, the Committee was satisfied that, while judgemental and uncertain, the assumptions applied, and the methodology used to identify any potential impairment triggers or indicators for each new CGU group, were appropriate. The Committee consequently agreed with Management's conclusion that there were no impairment triggers or indicators to the carrying value of all CGU groups and the useful economic lives remained appropriate.

Acquisitions

As reported on pages 172 to 174, the Group acquired Cure Medical in March and Patient Care Medical in December for a total purchase consideration of \$88.5 million and \$29.1 million respectively and on 28 January 2022 announced the agreed purchase of Triad Life Sciences (expected to be completed in March 2022 subject to regulatory clearances) for an initial consideration of \$125 million and a total potential consideration of \$450 million. In respect of the acquisitions during 2021, the Committee reviewed and challenged the key judgements made by Management in determining the fair value of the assets and liabilities acquired, particularly the key drivers of the valuation of intangible assets (specifically the appropriateness of the assumptions regarding the economic life of customer relationships) and the resulting value of goodwill. The materiality of the acquisition of Cure Medical poses a significant risk related to the accounting for this transaction. To address this risk, the Committee compared the performance of Cure Medical's latest forecasts with the expectations in the acquisition business case and considered the audit work performed by Deloitte, including the conclusions of their valuation experts. The Committee also ensured that the implications of the proposed acquisition of Triad Life Sciences, including the total potential consideration, were reflected in management's going concern and viability assessments.

Alternative performance measures (APMs)

In early 2021 the Committee approved a revision to the policy for identifying APMs to better reflect the Group's strategy but also ensuring the Group's policy, approach and disclosures in respect of APMs are compliant with the various FRC and ESMA guidelines. In reviewing management's proposed 2021 adjusting items, the Committee recognised that certain aspects of the revised policy could be subject to an interpretation that was not the Committee's intention. Consequently, the Committee agreed further amendments to the policy to provide the necessary clarity (see pages 207 and 208).

In October 2021 the Chairman received a letter from the FRC with respect to its thematic review of APM disclosures. The FRC undertook a limited scope review¹ of the Company's 2020 APM disclosures, which resulted in the FRC noting instances where our disclosure regarding APMs could be improved, including: clarifying the rationale for classifying amounts as adjusted items and the Company's meaning of 'underlying performance'; altering the labelling of APMs; and disclosing the impact of adjusting items on cashflows.

The Committee reviewed Management's proposals in respect of adjusting items, ensuring they were consistent with the updated policy; challenged the draft disclosure in respect of two items and agreed amended disclosure notes (having also considered the views of the auditors); and ultimately concluded that all items treated as adjusting items in the FY21 Financial Statements and other parts of the ARA were consistent with the updated policy and fully disclosed, reflecting the disclosure recommendations of the FRC, ensuring appropriate prominence of reported/statutory financial information compared to the APMs.

Uncertain tax positions on transfer pricing ("TP")

Refer to page 164. There is significant judgement involved in determining appropriate transfer pricing to allocate profits appropriately between jurisdictions, and particularly the UK, US, Switzerland, China and Denmark, given the Group's evolving business model and the high volume of intercompany transactions, together with the increasing complexity of tax laws applicable to a global group. Management has provided for uncertain tax positions on TP where the risk of a successful challenge by tax authorities is considered probable, in line with the requirements of IFRIC 23. The Committee considered the impact of ongoing changes to the Group's operating model, the supporting documentation for the TP position, existing tax authority challenges, the likelihood of new challenge by tax authorities and the external auditor's assessment and challenge of management's position and supported management's provision for uncertain tax positions, agreeing that this does not represent a key source of estimation or critical judgement.

Other important accounting and disclosure judgements

For each of the following areas the Committee considered the key facts and judgements outlined by Management. Members of Management attended the section of the Committee meeting where their item was discussed to answer any questions or challenges posed by the Committee. The issues were also discussed with the external auditor.

Viability and Going Concern statements

At the request of the Board, the Committee reviewed the appropriateness of adopting the going concern basis of accounting in preparing the 2021 Financial Statements and assessed the longer-term viability of the Group in accordance with the requirements of the UK Code. The Board's Viability statement and the Going Concern statement are included on page 76 and page 155 respectively, and the methodology adopted in assessing the robustness and appropriateness of the supporting evidence to the Viability statement is set out on pages 74 to 76. The forecasts and stress test scenarios, including the reverse stress test, applied in assessing the viability of the Group were also applied in the Committee's review of the appropriateness of adopting the going concern basis of accounting.

The Committee's viability assessment included: review of the process and methodology adopted by management; challenge of the appropriateness of a three-year viability period; consideration of the Group's principal risks, their potential impact (in severe but plausible scenarios) during the viability period adopted and the mitigations available and Management of the risks; the payment of the potential full consideration of \$450 million in respect of Triad Life Sciences, and the required performance of the company to realise the maximum consideration, during the viability period; and the Group's ability to comply with the financial covenants within its financing facilities and maintain adequate liquidity headroom in each sensitivity scenario. The Committee also considered a reverse stress test, before mitigations, to determine the impact required on the performance of the Group to cause it to no longer be considered resilient or viable over the three-year period. The Committee concluded that this scenario is not plausible. When considering the principal risks that could impact the Group during both the going concern and viability periods, the Committee also assessed any potential impact of the ongoing COVID-19 pandemic, Brexit, current and forecast global economic conditions and climate change. Other than economic conditions, which are adequately taken into consideration in the scenarios applied, the Committee concluded that the impact of these factors was likely to be minimal during the viability period (as noted on pages 75 and 75 of this ARA). In addition, the Committee obtained a summary of external views (from investors, analysts, other stakeholders, and industry commentators) on the future direction of the sector and ConvaTec over the next three years and compared this to the viability scenarios as a reasonableness check.

The external auditor confirmed that the Directors' statements on Viability and Going Concern had been read and evaluated in conjunction with the balance of their audit work and concluded that they were consistent with the knowledge obtained during the audit. Based on the analysis and scenarios provided by management, the Committee's review and challenge, and the report of the auditor, the Committee recommended to the Board that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next 12 months and adoption of the going concern basis of accounting is appropriate. The Committee also recommended to the Board that the Group should remain resilient and have adequate liquidity throughout the three-year period of the viability assessment and providing the Viability statement is appropriate.

1. We note the inherent limitations of the FRC's review. The FRC stated that the scope of its review was based solely on the Group's 2020 Annual Report and Accounts and was conducted by FRC staff who have an understanding of the relevant legal and accounting framework. The review did not benefit from detailed knowledge of the Group's business or an understanding of the underlying transactions entered into. The FRC's review only covered specific disclosures and does not provide assurance that the Group's 2020 Annual Report and Accounts are correct in all material respects.

Manual adjustments to revenue

Current financial processes allow local markets' financial management to make manual adjusting entries to the relevant component results, thereby giving rise to a presumed fraud risk that could result in a material misstatement of the Group's results. Management's control procedures and review of the adjustments, including supporting evidence, and the financial control self-attestations across the Group, plus the review and challenge by the external auditor, have provided the Committee with confidence that this risk has not been realised. In addition, no revenue related frauds that would be material to the financial statements were identified by internal audit, external audit, compliance processes, financial control procedures, the Group's whistleblowing facility or business unit management.

Taxation

The Committee considered the Group's tax risk profile in light of: tax authorities around the world undertaking an increasing number of tax audits; requirements for greater transparency; and new tax legislation in jurisdictions where the Group has a presence. The Committee also reviewed key aspects of the Group's taxation affairs including compliance, accounting judgements, reporting, strategy and external reporting requirements of regulators and tax bodies and was satisfied that the Group manages its tax affairs carefully, ensuring that we operate within our tax risk appetite.

Recognition of US deferred tax assets ("DTAs")

The Committee considered management's proposal to not recognise DTAs on excess US tax losses other than to the extent there are suitable offsetting taxable temporary differences. Management provided papers setting out the background to the US DTAs and their proposed treatment. The Committee agreed with management's proposal, having discussed the judgement applied with management, challenged the robustness of the underlying profitability forecast of the US operations and the corresponding expected utilisation of the tax losses and considered Deloitte's assessment and challenge.

Dividends and distributable reserves

Based on analysis provided by management, with its integrity challenged by the Committee, the Committee considered the availability of realised distributable reserves and liquidity, including the effect of sensitivities aligned to the Viability statement. The Committee concluded that it was able to advise the Board that there were sufficient realised distributable reserves and cash resources to enable the Board to approve the 2021 interim and final dividends.

Operating segment reporting

The Committee considered management's assessment to support the position that, for the purposes of financial reporting, no triggers had been identified that contradicted the view that the Group's business should be regarded as a single segment entity. Management's assessment concluded that the CEO continues to be the CODM and, whilst the business transformation has changed certain elements of the operational leadership structure, the business continues to operate in a matrix structure. Financial information in respect of revenues provided to the CEO for decision-making purposes is made on both a category and key market basis. The primary focus of financial reporting in 2021 continued to be based on the consolidated Group results. In forming its own view, the Committee had regard to IFRS 8. The Committee also noted that resource allocation continues to be driven with the support of global functions and Centres of Excellence and, consequently, concurred with management's view that the Group should continue to report as a single segment for the purposes of disclosures in the 2021 ARA. As the Group completes its pivot to its new operating model and the Group's internal reporting evolves, the Committee will continue to review the appropriateness of the single segment approach.

Fair, balanced and understandable ("FBU")

The Committee advised the Board that the 2021 ARA, taken as a whole, is fair, balanced, and understandable, and provides the information necessary for shareholders and other stakeholders to assess the Group's performance, business model, strategy and key risks that challenge the Group, including the disclosures made in relation to COVID-19, Brexit, TCFD and ESG. The Committee's review, conclusion and advice to the Board was informed by the assurance framework, process and controls that were applied in its preparation. This included:

- a verification process dealing with the factual content
- comprehensive reviews undertaken independently by senior management to consider messaging, adequacy of disclosures, compliance with regulatory and legal reporting requirements, and balance
- specific reviews by the Board, CELT, and legal advisers in relation to key sections of the ARA and relevant sections of the ARA as audited by Deloitte
- confirmation from management that the assurance framework had been adhered to for the preparation of the 2021 ARA

Discharge of other key areas of responsibility

The Committee also addressed its other key areas of responsibility during the year, each contributing to its ability to provide assurance to the Board that it could conclude on the effectiveness of the Company's internal controls and risk management processes throughout the year.

Enterprise risk management (“ERM”)

The framework and processes the Group operates to manage risk are set out on pages 64 to 67.

A new VP Internal Audit and Enterprise Risk was appointed in March, bringing a fresh perspective and improvement in quality to the work of the Internal Audit and Enterprise Risk functions. At the July meeting, the Committee was provided with an overview of proposed improvements to audit and ERM approaches, an understanding of stakeholders’ expectations of the two functions, proposed execution improvements and the functions’ strategic priorities.

Throughout the year, the Committee monitored and reviewed the Group’s risk management activities and processes, including the bottom-up and top-down process utilised to identify risks, the movement of the principal risks, emerging risks, a refreshed risk heatmap, the development and implementation of mitigation controls and revisions to the Board-approved risk appetite. The improvements to the risk framework and processes have led to a better alignment to and focus on the Group’s strategic priorities, consideration of risk being inherent in Management’s decision-making and a better allocation of resources and time to ensure the effectiveness of the Group’s current and future risk mitigations.

At the Committee’s request, management demonstrated that the Group’s principal risks benchmarked well against a peer group of other relevant healthcare and pharmaceutical sector companies. In addition, the Committee undertook deep-dive reviews with Management in respect of cyber security and data privacy risks. The Committee also requested a deep dive into the supply chain risk that, given its criticality to the Group’s operations, was reviewed by the Board, rather than the Committee. These deep dives provided the Committee (and Board) with a more detailed understanding of Management’s approach to risk mitigations and proposed enhancements in respect of understanding of the relevant risks. In addition, the cyber security deep dive demonstrated the proposed further enhancements to the ERM framework, which will enable an improved definition of the principal risk drivers and risk appetite, including key risk indicators to monitor performance against appetite, and enhanced identification of mitigating controls, with the effectiveness of the controls monitored through a well-defined lines of defence model.

The Committee was pleased to note the significant progress in developing and embedding the risk framework, policies, risk identification and mitigation controls across the Group’s operations and concluded that the risk management processes had been effectively applied throughout the year, but recognised the Company is on a journey in respect of rolling out the enhancements across all of the Group. The Committee’s ERM effectiveness review highlighted that ERM is increasingly acknowledged by management as an integral element of driving the Group’s strategy, supporting the changing operating model and is gradually being adopted as a valuable tool used by management across the Group in their day-to-day activities.

Case study – cyber security and data privacy risks

At the request of the Committee, independent external experts assessed the Group’s cyber and privacy maturity against external benchmarks. This has resulted in the strategic approach to improving the Group’s cyber security risk mitigations being modified for best practice. This included accountability for privacy being driven deeper into the organisation, heightened risk visibility across the Group, new security testing capability for the Group’s strategic focus on Digital and Software as a Medical Device and role-specific training with higher impact.

The Committee also requested a review of cyber readiness of the Group’s main suppliers (including raw materials) that may materially impact the Group’s business. There is evidence that cyber maturity is growing across the Group’s key supplier base, with the majority either being already certified to security standards or recognising the risk and currently taking action to address it. This review resulted in management adopting risk-based supplier supervision for the highest-risk suppliers, including defining a minimum standard of security capability the Group expects from its suppliers, engaging with relevant suppliers to ensure standards are met and developing contingency measures. An oversight survey is to be conducted during 2022 as part of the cyber security strategy adoption of the National Institute of Standards and Technology (“NIST”) Privacy Framework.

Internal controls over financial reporting

During the year the Committee received regular updates on the global financial control framework including:

- Quarterly analysis of management's self-attestation of compliance with the Group's control framework, including details of control failures and their remediation, with independent reviews by the Corporate Control function. The Committee noted there were no control failures during 2021 that could have a material impact on the Group's financial statements and mitigating actions were taken until the control failures were remediated.
- The improvements in the entity level controls and global financial controls implemented during 2021
- Internal audit reviews of financial controls in several countries and businesses, with agreed remediation plans in place for weaknesses identified. Again, no issues were identified that could, individually or collectively, have a material impact on the Group's financial position and remediation is being implemented to address the weaknesses identified (although certain plans span more than the current year)
- Reports from the external auditor on control weaknesses identified during their audit. Deloitte did not raise any material weaknesses in respect of the design and implementation of controls regarding significant audit risks with Management or the Committee and mitigating or remedial action has been taken to address those non-material weaknesses identified by Deloitte

In addition, the Committee received reports from the IT governance risk and compliance team in relation to the operation of IT general controls across the Group. The IT general controls continued to operate effectively throughout the year with no material control failures noted, despite remote and hybrid working models. The Committee also reviewed Management's report on the 'Annual Review of the control environment', which included a summary of the global financial controls programme, IT general controls and operation and entity level controls. The Committee noted that the Finance Transformation and completion of the Group's move to a category-led management structure impacted certain controls, with the focus on business categories rather than legal entities. The Committee requested Jonny Mason, the new CFO, undertakes a thorough review of the status and approach to the Finance Transformation, adapting the programme as necessary to ensure that the existing controls remain intact or are adapted to reflect the new structure, with the number of reported control failures expected to decrease during 2022. Management has already identified areas of focus for 2022 to address many of the existing control issues and, among other audits focused on controls, an internal audit of the control environment in the GBS in Lisbon will be undertaken.

Compliance, including whistleblowing and fraud

Throughout 2021, on behalf of the Board, the Committee has continued to review the Group's compliance policies, procedures, global monitoring activities, business risk assessment plans and results, including the operation of the independent third-party (Navex Ethicspoint) managed whistle-blower hotline (referred to as the 'Compliance Helpline' within ConvaTec) and weblink to enable employees and third parties to report suspected breaches of our Code of Conduct or any other matter of concern and obtain guidance on any ethics concerns.

In addition to receiving the annual ethics and compliance educational briefing, the Committee received regular reports from the Deputy General Counsel and Global Chief Compliance Officer in relation to the Group's compliance programme. This included an overview of any enhancements to the Group's policies or other standards of conduct and any updates to corporate education in response to regulatory requirements or reports of third-party enforcement activities in the industry. The Committee also received detailed reports on any significant issues raised directly to the Office of Ethics & Compliance or via the Compliance Helpline, an assessment of any identified trends in complaints, the nature of any noteworthy allegations, the corrective measures implemented to address substantiated complaints, the process applied to triage and correctly investigate complaints and the promotion to and education of the Group's entire workforce on the availability of the Compliance Helpline. The Board also received this report. The Committee oversees the investigation and outcome of all significant issues reported via the Compliance Helpline, web link and any other whistleblowing source. During 2021 the Committee received reports on ongoing and concluded investigations from both the ConvaTec ethics and compliance team, internal audit and external advisers, Kirkland and Ellis. The Committee also considered the actions taken by Management as a result of the investigations' conclusions and recommended additional actions where appropriate. Further information about our ethics and compliance programme and our Code of Conduct is included on page 50.

Case study – Fraud prevention, detection and investigation

In 2020 the Committee asked management to undertake a review of the Group's approach to managing the fraud risk environment. A cross-functional fraud controls working group has since been established to design and implement a fraud risk framework and enhance the fraud governance structures and policy across the Group. This working group, chaired by the Global Chief Compliance Officer, includes the Corporate Controller, VP Internal Audit and Enterprise Risk and other senior representatives from IT, HR and Legal, reports regularly to the Committee.

Having identified the key fraud risk areas that exist across the Group, a deep dive is to be undertaken for each fraud risk to assess: the specific nature of potential fraud; completeness and effectiveness of existing mitigating controls; and potential control mitigation gaps. The deep dives are being prioritised for those fraud risks that present the greatest inherent risk to the Group, starting with those that could materially impact the Group's financial statements. A pilot fraud risk review, of payroll and HR records, is currently in progress to 'road test' the methodology being applied in the assessment of the risk, which includes current process maturity. The output of the review should be a set of aligned payroll fraud controls which will be rolled out across the Group and allow monitoring of the effective operating of the controls.

The Committee is aware of the complexities involved in ensuring a consistent control baseline exists across the entire Group, including entities not currently operating on SAP and certain entities within GEM, but this is a necessity to provide the Board and Management with the assurance required in respect of the effectiveness and completeness of the Group's fraud prevention, detection and investigation processes. The fraud risk framework, governance structures and policy being developed by the working group and monitored by the Committee will continue throughout 2022 and probably into 2023.

| | |
|---|--|
| Regulatory compliance – ESG and TCFD | <p>The Group's progress in meeting the increasing stakeholder and regulatory reporting requirements and disclosures relating to the Group's focus on sustainability, particularly in relation to its employee and community activities and climate change initiatives, including TCFD reporting, is a key area of focus for the Committee. The Committee received updates from the ESG Steering Committee chair and others on progress during the year, including:</p> <ul style="list-style-type: none"> – the development of an ESG framework with a mission and strategic pillars – achievement of milestones set in 2020 – embedding of ESG, including climate-related risks, in the annual strategic planning process – commissioning DNV to undertake a gap analysis and stakeholder materiality refresh plus provide limited assurance over certain ESG related data and performance against targets, including those related to Scope 1 and Scope 2 GHG – hiring of dedicated ESG resource <p>The Committee considered the proposed TCFD disclosures in the four primary pillars of governance, strategy, risk management and metrics and targets, and challenged management's initial draft disclosure on TCFD, which led to improvements in the reporting. The Committee also encouraged management to, during 2022, make further improvements in the Group's plans to realise its environmental targets, particularly in relation to the roadmap required to deliver against the climate change targets and further climate scenario modelling. The Committee also discussed the conclusions of DNV's gap analysis and assurance opinion. Whilst the Committee concluded that the disclosures in the 2021 ARA are aligned with the existing regulatory requirements, with appropriate explanations provided for those aspects where the Group is not yet fully compliant, including an indication of plans to achieve compliance by December 2022, the Committee strongly recommended to the Board that ESG priorities, including environmental, be included in the CELT's and Board's regular agendas and actions and developments regularly monitored by the Committee and Board, with additional external assurance to be provided on the Group's scientific based targets and data and improved external reporting and disclosures. The Board has identified Environment and Communities as a new principal risk, recognising the growing importance of this agenda to our stakeholders and the Group's increased business focus on this matter. The Committee concurred with Management's conclusion that the Group's overall exposure to climate-related risk is relatively low over the next five years.</p> |
| Internal audit | <p>The internal audit function is a critical component of the Group's corporate governance framework, affording essential support and assurance to the Board, Committee and Management in the execution and delivery of the Group's strategy and transformation and the effectiveness of its internal controls and processes. It also delivers important insight on issues of culture and employee values across the diverse geographies in which the Group operates. The function utilises co-sourcing partners where there is a requirement for specialist skills or additional resource. The Committee routinely met, without management present, with the VP Internal Audit and Enterprise Risk to discuss the results of the audits performed and any additional insights obtained on the risk management and control environment plus culture across the organisation.</p> <p>During 2021, audits of key transformational programmes, financial and IT general controls, areas relating to responsible behaviour and culture, and non-financial risk were completed. The Internal Audit team also partnered with the Ethics and Compliance function (including external legal advisers) to undertake compliance reviews. At three Committee meetings during the year, an update on Internal Audit activity was provided covering an overview of the work undertaken in the period, actions arising from audits conducted, the tracking of management's remedial actions, and progress against the Internal Audit plan.</p> <p>The Committee also reviewed and approved the proposed 2022 internal audit plan (including budget and resource requirements), which was compiled adopting a risk-based approach using the Group's principal and emerging risks as the base and aligning with the Group's control environment (particularly areas of controls remediation and improvement) and assurance arrangements. The Committee will continue to monitor the delivery of the 2022 plan and adapt it as appropriate to reflect changes in risk profiles or new initiatives.</p> <p>In December the Committee undertook an assessment of the effectiveness of the internal audit function, including obtaining feedback from CELT members and other relevant Management to understand if they are comfortable that they are receiving the assurance they need on the risks that matter to them and to ConvaTec. Both Management and the Committee concluded that Internal Audit within ConvaTec is effective, with greatly improved quality, stature and impact than in 2020. The Committee also noted the function remained independent, whilst also gaining 'pull' from Management for increased support and audits. The Committee will remain focused on ensuring the continuing evolution, strengthening and embedding of the Group's internal audit function, processes and frameworks and its support in improving the internal control environment across the Group.</p> |
| Regulatory developments | <p>During the year the Committee closely monitored regulatory developments relating to ESG, TCFD, climate change, audit and corporate governance and FRC and FCA reporting requirements.</p> <p>The Committee was briefed on BEIS's proposal regarding "Restoring trust in audit and corporate governance" by the external auditor and the Corporate Controller. This included an assessment of those aspects of the proposals that potentially would impact ConvaTec and proposed next steps. Given the status of the proposals, with many currently being concepts as opposed to clearly articulated requirements, and uncertainty as to the aspects of the proposals that will be introduced by legislation and/or regulation, the Committee agreed with Management's proposal to continue with the improvement programmes on fraud and internal controls that commenced in 2020 and 2021 (as 'no regrets actions') and to maintain a watching brief over the market's adoption of other proposals (such as the resilience statement and audit and assurance policy) prior to the final reform requirements being announced or introduced. The Committee led the development of a full response to the proposals that was submitted to BEIS on 25 June 2021.</p> |

External audit

Audit process

The Committee is responsible for overseeing the relationship with the external auditor, the audit process and, most importantly, the effectiveness, quality and robustness of the audit. The following table summarises the steps taken by the Committee in overseeing the 2021 audit and its quality.

| Significant matters for review | Decisions and actions taken by the Committee |
|--|--|
| The annual audit plan and strategy including the scope of the audit, changes in approach and methodology, emerging industry and Group-specific risks and change in the audit leadership team | Reviewed and challenged, particularly in respect of the significant revenue audit risk, leading to an agreed plan (see page 120). |
| Materiality level for audit including Group materiality and component materiality | Reviewed methodology and agreed a higher level of materiality for 2021. In reaching this initial conclusion the Committee agreed with the auditor that the same methodology as that applied in 2020 remained appropriate and should be adopted. The Committee considered the adjusting items within the methodology and agreed that they were relevant. |
| Audit fee and terms of engagement | Approved the audit fee and terms of engagement, ensuring no impact on scope of audit or quality of resource engaged due to the agreed fee level. |
| Audit scope and risk assessment | <p>As a result of the Committee's challenge in 2020, and the further development of the Group strategy, all 12 of the Group's focus markets were in audit scope – nine were subject to full scope audit procedures and three to local statutory audits by Deloitte, with desktop reviews undertaken by the central audit team.</p> <p>Deloitte undertook a thorough risk assessment process to identify the six areas of significant audit risk and other areas of audit focus. The Committee sought an explanation for the change in emphasis and focus of the revenue recognition risk and agreed with Deloitte's decision. The Committee did not identify additional risks that could materially impact the consolidated financial statements.</p> <p>Having considered the proposed audit scope, risk assessment and materiality level, the Committee approved the 2021 audit plan and subsequent changes to certain aspects of the plan to reflect the Group's performance.</p> |
| Audit findings, significant issues and other accounting judgements | Discussed with Deloitte and management |
| Deloitte's independence, objectivity and quality control procedures | Independence and objectivity confirmed and quality control procedures reviewed (see page 120). |

Audit quality and effectiveness

Audit quality and effectiveness was reviewed throughout the year. The Committee sought to ensure the objectivity and quality of the external audit throughout the year by:

- Focusing on the assignment and rotation of key personnel, including their experience and quality.
- Meeting regularly throughout the year with the audit partners involved in the audit (with and without Management present).
- Monitoring relationships and interactions with Management and the Committee.
- Considering the quality and clarity of the auditor's communication with Management, the Committee and the Board, both orally and written
- Considering the FRC's July 2021 summary report on the results of its audit quality inspections as it related to audits by Deloitte and the completeness of Deloitte's actions to address the findings, particularly in areas that impact the ConvaTec audit
- Considering the FRC's publication "What makes a good audit?"

In addition, the Committee conducted a robust review of the effectiveness and quality of the external audit process, the findings of which were considered at its meeting in January 2022. The review concluded that the Company benefited from a capable and knowledgeable senior audit team, that provided the Committee with strong opinions, views and insights, with clear evidence of robust challenge of Management and exercise of appropriate scepticism in relation to key audit judgements and estimates (for example, in respect of US Deferred Tax Assets, which caused management to correct its forecasts of future US taxable profits), reliable interpretation of evidence provided by Management and use of external sources to support their conclusions when appropriate. The lead audit partner, new to the Group's audit in 2021, had transitioned into the role extremely well and had brought a fresh perspective and additional challenge, which the Committee appreciated. Overall, the results of the external audit quality and effectiveness review and the evidence gathered by the Committee during the year confirm that Deloitte's audit process and procedures were appropriate and effective, focused on the areas of greatest risk and that the audit team provided an effective, robust and objective challenge to Group Management. Based on the Committee's conclusions, we recommended to the Board that Deloitte be proposed for reappointment by shareholders at the AGM to be held on 12 May 2022.

Audit independence

The Committee has concluded that Deloitte remained appropriately independent in the role of external auditor. All non-audit engagements performed by the external auditor are approved by the Committee in strict accordance with the Group's policy, which is compliant with the Revised Ethical Standard ('2019 ES'). Permissible services are subject to a fee cap of 10% of average audit fees billed to the Company by the auditor in the past three financial years. The Group was compliant with the policy in 2021, when non-audit fees principally related to the interim review of the Group's half-year unaudited financial statements and the requirements of the senior unsecured bond issue, in compliance with RegS/144A of SEC, New York. A summary of fees paid to the external auditor is set out in Note 3 to the Financial Statements.

In addition, the Committee's review of the independence of the external auditor included:

- Confirmation to the Directors from Deloitte that they remained independent and objective within the context of applicable professional standards.
- Monitoring the tenure and rotation of audit partners and staff.
- Observing the relationship and tone of communication between management and the auditor.
- Deloitte re-considering and re-confirming their audit independence under 2019 ES given Margaret Ewing's situation as both a former partner of Deloitte LLP and chair of this Committee. Deloitte and the Committee (excluding Margaret) concluded that this relationship does not affect the external auditor's independence.

External auditor appointment and engagement tender

At the AGM on 7 May 2021 shareholders approved the reappointment of Deloitte as the Group's external auditor. Deloitte has been the Group's external auditor since the Company's Listing in October 2016 and prior to this was the Company's external auditor for the period 2008 to 2016, whilst the Company was in private equity ownership. For the purposes of complying with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Responsibilities) Order 2014 ('2014 Order'), Deloitte's 'qualifying' tenure as the Group's external auditor commenced in October 2016. The Committee recommended to the Board the proposal to reappointment Deloitte as external auditor at the 2022 AGM.

In compliance with the 2014 Order, the Company will undertake an audit tender (not mandatory rotation) during 2024, effective for the 2026 audit. However, the Committee will review this matter annually, taking into consideration the ongoing provision of a high quality and effective audit, changing regulations and market practice. The audit tender process will be designed to adopt market and best practice and it is anticipated that challenger or second-tier audit firms will be invited to participate along with major audit firms.

Committee conclusions and confirmations

Taking into consideration all areas of focus of the Committee during the year and in reviewing the 2021 ARA, including reviewing the supporting detailed topic papers, presentations and reports from management, the Committee is satisfied that:

- The Financial Statements for the year ended 31 December 2021 have been prepared applying appropriate accounting policies and address the critical accounting judgements and key sources of estimation uncertainty, both in respect of the amounts reported and the disclosures made.
- The significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised and challenged and are sufficiently robust.
- The Group's internal controls and risk management processes were monitored throughout the year, with management continuing to implement further improvements in 2022.
- The conclusions in relation to critical accounting judgements, significant assumptions and estimates and key valuation assumptions are in line with those drawn by management. There are no critical accounting judgements and key estimates, having discussed them with the auditor during the audit planning process and at the finalisation of the year-end audit and following robust challenge of both the auditor and Management.

Consequently, the Committee has confirmed to the Board, in its advisory capacity, that:

- The key accounting estimates, judgements and disclosures within the Financial Statements are appropriate and serve to provide a true and fair view.
- The 2021 ARA, overall, are fair, balanced and understandable. The Board's statement in relation to this confirmation is included on page 87.
- It is reasonable for the Directors to make the Viability statement and the Going Concern statement on page 76 and page 155 respectively.
- The Group's whistleblowing and fraud risk processes have operated effectively during the year, with further improvements to be implemented during 2022.
- The Board is able to provide the statement regarding the oversight and continual enhancement of the Group's internal controls and risk management processes in the 2021 ARA.

Margaret Ewing

Chair of the Audit and Risk Committee

7 March 2022

Directors' Remuneration report



"The Committee continues to monitor our remuneration policy and practices, to ensure these continue to reinforce our culture and strategic ambitions, and demonstrate alignment of executive interests with those of key stakeholder groups (including our employees and shareholders)."

Brian May
Chair of the Remuneration Committee

Committee membership, meetings and attendance in 2021

The table below shows the number of meetings attended out of the number of meetings members were eligible to attend during 2021. Since the year end, Constantin Coussios was appointed as a member of the Committee on 27 January 2022, Kimberly Lody was appointed to the Committee on 1 February 2022 and Sharon O'Keefe was appointed to the Committee on 1 March 2022.

| Director | Member since | Attended |
|---|----------------|----------|
| Brian May (Chair since 1 September 2020) | March 2020 | 5/5 |
| Rick Anderson | September 2020 | 5/5 |
| Regina Benjamin | June 2019 | 5/5 |

The Deputy Company Secretary attends meetings as the Secretary to the Committee. The Chairman, CEO, CFO, EVP Chief Human Resources Officer and VP Global Head of Total Rewards & Recognition attend meetings of the Committee by invitation, as does the Committee's appointed adviser. Executives are absent when their own remuneration is under consideration.

Key numbers

5

Meetings held

100%

Attendance

Activity highlights

- Ensured the remuneration arrangements for the Executive Directors and CELT members in 2021 continue to support ConvaTec's culture and strategic ambition.
- Kept under review remuneration arrangements and outcomes to ensure continued alignment of executive interests with those of other stakeholder groups.
- Completed an annual review of the Committee's terms of reference versus best practice guidance.
- Approved the remuneration terms for the departing CFO and the package for the new CFO.

2022 priorities

- Continue to implement our 2020 Remuneration Policy to deliver competitive and motivational remuneration that reinforces the successful delivery of our stated strategic ambition and alignment with long-term shareholder interests.
- In keeping with good practice, conduct a periodic review of its adviser (in conjunction with the review of Policy ahead of the 2023 AGM).
- Conduct an in-depth review of our Policy (ahead of being required to put this to a binding shareholder resolution at the 2023 AGM) to ensure that it remains fit for purpose, aligned with our strategy, reinforces our remuneration principles and reflects good practice.
- Continue to actively engage key stakeholders on remuneration matters, as appropriate.

Key areas of responsibility

- Sets the Company's Remuneration Policy.
- Implements the Remuneration Policy and sets the packages for the Executive Directors and the CELT, and sets the fee for the Non-Executive Chairman.
- Ensures appropriate alignment of executive remuneration with the remuneration approach across the wider organisation.

In this section you will find

Letter from the Chair of the Remuneration Committee



Pages 123 and 124

Our remuneration at a glance



Pages 125 and 126

Our Annual Report on Remuneration

– how we implemented our Remuneration Policy during 2021 and how we intend to apply it in 2022.



Pages 127 to 135

Our Remuneration Policy



Pages 136 to 145

Letter from the Chair of the Remuneration Committee

Dear Shareholder

On behalf of the Board, I am pleased to present the report of the Remuneration Committee for the year ended 31 December 2021.

Following another year in which the COVID-19 pandemic presented ongoing challenges to our patients, customers and staff, I would again like to start this letter by thanking all our colleagues for sustaining their levels of commitment and contribution throughout 2021. Despite these ongoing and unprecedented challenges across the globe, ConvaTec remains resilient. In 2021, the Group delivered good performance (as summarised on page 1), as our FISBE strategy embeds further in the organisation and is delivering against our transformation goals. In delivering this good performance, the Group continued not to furlough any employees, or take advantage of any other governmental COVID-19 support programmes available to it. We also continued to meet our stated dividend policy without interruption.

The Committee has been keeping under review executive remuneration in this context, to ensure that arrangements remain fit for purpose, continue to reinforce the delivery of our strategic ambition, and demonstrate alignment with the experience of other stakeholders. The Committee is satisfied that the Policy continued to operate as intended in 2021. Consistent principles were also applied throughout the year in relation to remuneration decisions for the wider workforce.

Committee focus and activities in 2021

| Focus areas | Activities |
|------------------------------------|--|
| Remuneration packages | <ul style="list-style-type: none">– Approved Executive Director and CELT salaries for 2021.– Approved 2020 bonus outcomes for Executive Directors and CELT.– Approved 2021 LTIP award levels for Executive Directors and CELT.– Approved the remuneration terms on departure for Frank Schulkes, Chief Financial Officer (“CFO”).– Set the remuneration package on appointment for Jonny Mason, CFO Designate. |
| Setting performance targets | <ul style="list-style-type: none">– Reviewed and set financial targets for the 2021 annual bonus and 2021 LTIP, in the context of multiple internal and external reference points for performance over the relevant performance period. |
| Equity incentives | <ul style="list-style-type: none">– Confirmed the outcome of the 2018 LTIP award cycle.– Received updates on performance under in-flight incentive cycles.– Considered the impact of the change in strategic direction in late 2019 on the 2019 LTIP cycle.– Completed a detailed review of current practice versus local and international Med-Tech sector practices for the senior global leadership population. |
| Workforce remuneration | <ul style="list-style-type: none">– Received updates on workforce remuneration policies and practices, and how these align with the Group's strategy and culture.– Reviewed the gender pay gap and associated reporting. |
| Effectiveness | <ul style="list-style-type: none">– Considered external trends and possible implications for senior executive remuneration at ConvaTec.– Kept under review developments in the UK executive remuneration landscape.– Reviewed the Committee's terms of reference and updated the same to reflect evolving best practice.– Conducted an evaluation of its effectiveness which took the form of detailed questionnaires facilitated by an external provider, Lintstock. |

Performance in the year ended 31 December 2021 and implications for remuneration

The Board is pleased with the continued strategic progress of the Group and its good performance in 2021. The Group delivered 5.8% constant currency revenue growth (2020: 4.0%). The adjusted operating profit for the year was \$361.7 million, higher than the outturn for 2020 of \$350.2 million. Further details are set out in the *Financial review* on pages 77 to 85.

Based on performance, the Committee approved payouts under the 2021 annual bonus of 79.8% and 76.8% of maximum for the CEO and CFO respectively, as performance was between the on-target and maximum performance goals set at the start of the year, for financial measures and personal strategic objectives. The Committee reviewed the formulaic bonus outcome in the context of the underlying performance of the Group more generally, as well as the experience of our stakeholders, and concluded that this was appropriate without the need to make any discretionary adjustment.

The Committee also assessed performance over the three-year period to 31 December 2021 against the performance ranges set for the 2019 LTIP measures of EPS, ROIC and Relative TSR. In determining the vesting outcome of these awards, the Committee was mindful that the Group underwent significant changes to its strategy for 2020 and 2021, following Karim Bitar's appointment as CEO in late 2019. These strategic changes resulted in a series of significant investments to enable the FISBE strategy and pivot towards sustainable and profitable growth. This was achieved through increasing investment in R&D to strengthen innovation capabilities, improve the new product pipeline, and strengthen commercial execution.

The Board remains of the view that this shift in strategic emphasis is in shareholders' long-term interests, and will drive higher growth and greater returns in the medium-term. However, the Committee identified that the investment profile of the new strategy (which was approved by the Board shortly before being communicated to shareholders in early 2020, i.e. after the 2019 LTIP targets had been set) unfairly penalised LTIP participants (c.50 key executives across the Group) and thereby risked a misalignment of executive and shareholder interests in driving forward the strategy. The Committee reviewed this impact and concluded, in line with the discretions available to it under our approved Policy, that it would be appropriate on this occasion to exclude from the calculation of EPS and ROIC the impact of the additional significant investment in late 2019, 2020 and 2021 resulting from the change in strategy approved by the Board and implemented under the leadership of the new CEO.

By neutralising this impact on performance, cumulative Adjusted EPS increased from 36.8 cents to 41.2 cents, and average ROIC increased from 7.0% to 7.7%, over the three-year performance period. Overall, this raised the vesting level of 2019 LTIP awards (i.e. also taking into account the outcome of the Relative TSR element) from 13.5% to 44.2% of maximum. The Committee concluded that this outcome was fair, proportionate, and consistent with its remuneration principles of: incentivising sustained strong financial performance; aligning rewards with delivery of the Group's strategy; and ensuring employee alignment with the interests of shareholders. The Committee was also satisfied that the adjusted vesting outcome under both the EPS and ROIC elements (as 41.5% and 50.5% of maximum respectively) was commensurate with that achieved under the Relative TSR performance condition at 40.6% over the same period.

As a result, 2019 LTIP awards (including those held by Karim Bitar and Frank Schulkes) and the Conditional Share award made to Karim Bitar (as part of the buyout arrangement agreed on this appointment) have vested, or will vest, as to 44.2% of maximum following the end of the year.

Remuneration in 2022 and beyond

No material changes to the implementation of our Policy are proposed for 2022, and a summary of our approach is set out in "Our remuneration at a glance" section that follows this letter. The annual bonus will continue to operate along the same lines as for 2021, based 60% on adjusted EBIT, 20% on adjusted free cash flow and 20% on personal strategic objectives. LTIP awards are expected to be made in March 2022, vesting subject to adjusted PBT growth (weighted 75%) and TSR versus the FTSE 350 excluding Investment Trusts (25%) over the three financial years to 31 December 2024. Further details are set out in the Annual Report on Remuneration, on pages 127 to 135 of this report.

The Committee also decided to increase the salary of the CEO by 2.63% from 1 April 2022, in line with the increases for the general employee population in the UK, and the fee for the Chairman by 2.5% from the same date. The Committee considered these increases to be appropriate in the context of the continued strong performance of the Group. Following the announcement on 9 December 2021 that the Board has mutually agreed with Frank Schulkes that he will step down as Chief Financial Officer and as a Director of the Company on 11 March 2022, his salary will remain at its 2021 level until he leaves the Group. Further details on the arrangements for Frank are set out on page 134 of this report, and reflect the treatment provided in our shareholder-approved policy for 'good leaver' scenarios. The remuneration package for Jonny Mason (CFO Designate) – which is consistent with our remuneration policy – is summarised on page 141, with further details provided in the *Implementation of Executive Director Remuneration Policy for 2022* section on page 133. In keeping with its stated commitment, the Committee set the pension allowance for Jonny Mason to align with the wider workforce (currently at 8.5% of salary) from appointment.

The Committee will also be reviewing the Remuneration Policy during 2022 which, in line with the Regulations, is required to be submitted to a new binding shareholder vote at the 2023 AGM. As part of this review, we shall consider whether the Policy remains fit-for-purpose, reinforces the Group's strategy, and continues to align appropriately the interests of the Executive Directors with those of our shareholders and other stakeholder groups. We will also honour the commitments made last year to reflect, in the forward-looking Policy, prevailing trends and investor expectations as they relate to remuneration governance. The Committee will consult shareholders on its proposals including our commitments made previously on the topics of post-employment shareholding requirements for both Executive Directors and pension alignment for the CEO, and I look forward to the engagement process over the course of the coming year.

Concluding remarks

On behalf of the Committee, I would like to thank Rick Anderson for his valuable contribution to the Committee, and also welcome Constantin Coussios, Kimberly Lody and Sharon O'Keefe. In addition I would like to thank you for your support and trust you will find the Directors' Remuneration report useful and informative. I hope that we can count on your support for the advisory vote on the Annual Report on Remuneration being put to shareholders at the 2022 AGM, where I will be available to respond to your questions. I also remain available to meet with shareholders and discuss our remuneration arrangements outside of the AGM.

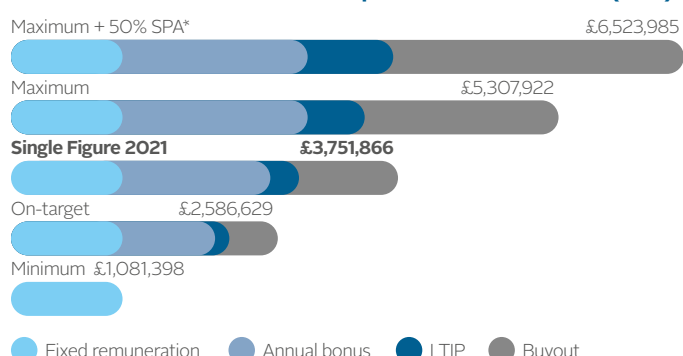
On behalf of the Remuneration Committee

Brian May
Chair of the Remuneration Committee
7 March 2022

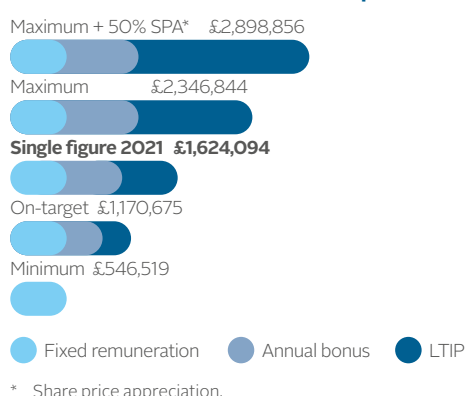
Our remuneration at a glance

This section provides a summary of outcomes relating to 2021 and our proposed approach to remuneration in 2022.

2021 remuneration: outcomes vs performance scenarios (CEO)



2021 remuneration: outcomes vs performance scenarios (CFO)



2021 annual bonus outcomes at a glance

The charts below show how actual performance contributed to the bonus payouts for the Executive Directors for 2021:

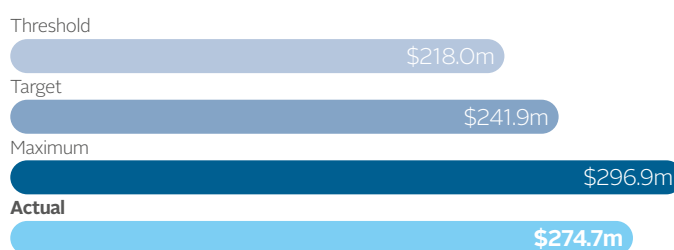
Adjusted EBIT¹ (60% weighting)



Outcome warranted by performance: 74.8% of maximum for this element.

1. Adjusted EBIT is calculated on a constant currency basis and presented using a budget rate

Adjusted free cash flow (20% weighting)



Outcome warranted by performance: 79.8% of maximum for this element.

Personal strategic objectives (20% weighting)

Personal strategic objectives were set for each Executive Director in relation to the following areas of strategic focus for 2021:

- Customer
- People
- Product/service improvement
- Business performance

The outcome warranted by performance by Karim Bitar (CEO) was 95% of maximum for this element.

The outcome warranted by performance by Frank Schulkes (CFO) was 80% of maximum for this element.

Details of the objectives set for the CEO and CFO, and performance against these, are on page 128.




2021 Annual bonus outcome

CEO – Karim Bitar

159.7% of 2021 salary (£1,432,649)
79.8% of maximum bonus opportunity.

CFO – Frank Schulkes

115.3% of 2021 salary (£535,037)
76.8% of maximum bonus opportunity.

| Our approach to implementing our Remuneration Policy in 2022 | | Link to strategy |
|--|---|--|
| Base salary Reviewed annually | <p>Policy: Benchmarked periodically against comparable roles at international MedTech peers, as well as UK-listed companies of similar size and complexity. In deciding base salary levels, the Committee considers personal performance including the individual's contribution to the achievement of the Group's strategic objectives. The Committee will also consider employment conditions and salary levels across the Group, and prevailing market conditions in the geographies in which the Group competes for talent. Base salaries are reviewed annually with any increases normally aligned with those of the wider workforce, and effective from 1 April.</p> <p>Implementation in 2022: CEO: £920,800 (2.63% increase), in line with the wider workforce); Frank Schulkes: £464,200 (0% increase); Jonny Mason: £500,000 (from appointment, first eligible for review in 2023).</p> |  Innovate  Build |
| Pension and benefits | <p>Policy: Executives may receive a contribution to a personal pension plan, a cash allowance in lieu or a combination thereof. Other benefits normally include car allowance, medical insurance and life insurance, and are set at a level considered appropriate taking into account market practice and consistent with the wider workforce.</p> <p>Implementation in 2022: No change. Karim Bitar and Frank Schulkes receive a pension benefit of 15% of salary, and benefits including car allowance, private medical insurance, life insurance and permanent health insurance. The pension benefit for Karim Bitar reflects the shareholder-approved Policy in force at the time of his appointment, but will be aligned to the wider UK workforce by 1 January 2023 and, for Jonny Mason, will be set at the UK workforce level (currently 8.5% of salary) from appointment.</p> | |
| Annual bonus | <p>Policy: Maximum opportunity: 200% of salary (target: 50% of maximum). Performance measures, targets and weightings are set at the start of each year. Financial performance will normally be weighted 80% of the overall opportunity, with the remainder (up to 20%) linked to the achievement of personal strategic objectives. One-third of any bonus earned is deferred into shares for three years. Malus and clawback provisions apply.</p> <p>Implementation in 2022: Maximum opportunity of 200% of salary for Karim Bitar. The annual bonus opportunities for Frank Schulkes (150% of salary) and Jonny Mason (200% of salary) will be pro-rated for the period served in 2022. The annual bonus will continue to be based on: adjusted EBIT¹ (weighted 60%), adjusted free cash flow (20%), and personal strategic objectives (20%).</p> |  Focus  Build  Innovate  Execute  Simplify |
| Long-Term Incentive Plan | <p>Policy: Maximum opportunity: 250% of salary. The performance conditions and targets are agreed and set to ensure they remain appropriately stretching and aligned to the Group's strategy. Twenty-five percent of an award will vest at threshold, with 100% vesting at maximum. The minimum performance and vesting period is three years. A two-year post-vesting holding period will apply. Malus and clawback provisions apply under certain circumstances.</p> <p>Implementation in 2022: Award opportunity of 250% of salary for Karim Bitar and Jonny Mason (Frank Schulkes will not be eligible to receive a PSP award in 2022). Awards will vest subject to adjusted PBT growth (weighted 75%) and TSR versus the FTSE 350 excluding Investment Trusts (25%) over the three financial years to 31 December 2024.</p> |  Focus  Execute  Simplify |
| Shareholding requirement | <p>Policy: Executives are required to build up shareholdings of 400% of salary for the CEO and 300% of salary for the CFO. These must be retained whilst the Executive Directors remain on the Board. fifty percent of any net vested share awards (after sales to meet tax liabilities) must be retained until the minimum shareholding requirements are met.</p> <p>At the end of 2021 Karim Bitar held shares worth 405% of his 2021 salary and Frank Schulkes held shares worth 125% of his 2021 salary.</p> |  Focus |

1. Adjusted EBIT is calculated on a constant currency basis, presented using a budget rate.

Our Annual Report on Remuneration

This section of the Remuneration report provides details of how our Remuneration Policy was implemented during the financial year ended 31 December 2021, and how it will be implemented during the year ending 31 December 2022. It has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). It also meets the requirements of the UKLA's Listing Rules.

In accordance with the Regulations, the following sections of the Remuneration report are subject to audit: the single total figure of remuneration for Executive Directors and Non-Executive Directors, and accompanying notes (pages 27 and 130), scheme interests awarded during the financial year (page 129), exit payments made in the year (page 132), payments to past Directors (page 132) and the statement of Directors' shareholdings (page 135). The remaining sections of the report are not subject to audit.

Committee membership in 2021

Details of the membership of the Committee, the number of times it met during 2021 and attendance at its meetings are set out on page 122.

Committee responsibilities

The Committee's key areas of responsibility are also set out on page 122.

Committee performance evaluation

A performance evaluation of the Remuneration Committee was carried out in 2021, facilitated by an external consultant, Lintstock, by way of a detailed questionnaire. The key priority identified for 2022 was to ensure that over the course of the year, Committee members are provided with continuing education on governance and remuneration regulations, as well as deeper insight into investor expectations.

Advisers

As set out in last year's Remuneration report, the Committee appointed Ellason LLP as its independent adviser from 1 January 2021 to retain the services of the Committee's lead adviser who had been appointed by the Committee at its first meeting following Listing. In 2021, Ellason provided support to the Committee and the Group on remuneration-related matters, and reports to the Chair of the Committee. Ellason has no other connection with the Group (remuneration-related or otherwise) and is considered to be independent by the Committee. Fees paid to Ellason are determined on a time and materials basis, and totalled £65,743 (excluding expenses and VAT) for the 2021 financial year in its capacity as adviser to the Committee. Ellason is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK (www.remunerationconsultantsgroup.com).

Summary of shareholder voting

The following table shows the results at the 2021 AGM of the advisory vote on the 2020 Annual Report on Remuneration and the binding vote at the 2020 AGM on the 2020 Remuneration Policy.

| Resolution | Vote 'for' | Vote 'against' | Votes withheld ¹ |
|--|------------|----------------|-----------------------------|
| Approve the Directors' Remuneration Policy (2020 AGM) | 87.54% | 12.46% | 906,684 |
| To approve the Directors' Remuneration report (2021 AGM) | 97.23% | 2.77% | 322,400 |

1. Votes 'withheld' are not votes in law and, therefore, have not been included in the calculation of the proportion of votes 'for' or 'against' each resolution.

Single total figure of remuneration for Executive Directors (audited)

The following table sets out a single figure for the total remuneration received by each Executive Director for the 2021 financial year, and compares this with the equivalent figure for the 2020 financial year.

| Director | | Base salary '000 | Taxable benefits ¹ '000 | Annual bonus ² '000 | LTIP ³ '000 | Pension benefit ⁴ '000 | Other ⁵ '000 | Total Fixed ⁶ '000 | Total Variable ⁷ '000 | Total '000 |
|----------------|------|------------------|------------------------------------|--------------------------------|------------------------|-----------------------------------|-------------------------|-------------------------------|----------------------------------|------------|
| Karim Bitar | 2021 | £892 | £56 | £1,433 | £278 | £134 | £960 | £1,081 | £2,671 | £3,752 |
| | 2020 | £875 | £56 | £1,724 | n/a | £131 | n/a | £1,062 | £1,724 | £2,786 |
| Frank Schulkes | 2021 | £461 | £16 | £535 | £543 | £69 | n/a | £547 | £1,078 | £1,625 |
| | 2020 | £450 | £17 | £652 | £0 | £67 | n/a | £534 | £652 | £1,186 |






1. For Karim Bitar and Frank Schulkes, benefits consist primarily of car allowance, private medical insurance, life assurance and permanent health insurance. For Karim Bitar, taxable benefits include a healthcare allowance of £30,000 payable per annum.
2. Reflects the total bonus awarded for performance in the relevant financial year. One-third of the bonus earned by Karim Bitar and Frank Schulkes is deferred into shares for three years (the vesting of which is not subject to any further performance conditions). See page 130 for further details.
3. 2021 figures represent the estimated value of LTIP awards made to Karim Bitar in September 2019 and Frank Schulkes in August 2019. These awards shall vest on the third anniversary of grant as to 44.2% of maximum based on performance over the three-year performance period ending 31 December 2021 (further details of which are set out on page 129). The estimated values shown in the table above use the three-month average share price for the period ended 31 December 2021 (202.46p), and will be trued up in next year's report to reflect their value (including any accrued distribution which were reinvested into shares) on the vesting date. The value of vested shares has increased by £33,581 for Karim Bitar and £54,559 for Frank Schulkes since the respective award dates as a result of share price appreciation.
4. Pension benefits in the year, equivalent to 15% of base salary.
5. The 2021 figure in the 'Other' column represents the estimated vesting value of the Conditional Shares awarded to Karim Bitar as part of the buyout award made on his appointment. As disclosed in the 2019 Annual Report, the vesting of this award was linked to the same performance conditions as the 2019 LTIP which will vest at 44.2% of maximum. The estimated values shown in the table above use the three-month average share price for the period ended 31 December 2021 (202.46p) and will be trued up in next year's report to reflect their value (including any accrued distribution which were reinvested into shares) on the vesting date. The value of vested shares has increased by £129,240 since the award date as a result of share price appreciation.
6. Total of base salary, taxable benefits and pension benefit.
7. Total of annual bonus, LTIP and other payments.

Incentive outcomes for the year ended 31 December 2021 (audited)

Annual bonus in respect of performance in the 2021 financial year

For 2021, Karim Bitar had a maximum bonus opportunity of 200% of his 2021 base salary and Frank Schulkes had a maximum opportunity of 150% of his 2021 base salary. Any payments under the annual bonus are normally payable two-thirds in cash and one-third in shares, deferred for three years. The on-target opportunity was 50% of maximum. The annual bonus for 2021 was based on a combination of adjusted EBIT¹ for bonus purposes (weighted 60%), adjusted free cash flow (20%) and personal strategic objectives (20%).

The table below summarises the structure of the 2021 annual bonus, the targets set, our performance over the financial year and the resulting annual bonus payout.

| Financial measure | Performance targets | | | Actual performance |
|---|--|------------------------|----------------------|------------------------|
| | Link to corporate strategy | Threshold 0% payout | Target 50% payout | Maximum 100% payout |
| Adjusted EBIT ¹ for bonus purposes |  Focus  Innovate  Simplify | \$357.2m | \$361.5m | \$377.6m |
| Adjusted free cash flow |  Simplify  Execute | \$218.0m | \$241.9m | \$296.9m |

| Objectives and actual performance | |
|---|--|
| Karim Bitar Personal strategic objectives | <ul style="list-style-type: none"> – Sustained the successful execution of the FISBE strategy which resulted in robust growth and strengthening of the Group's competitive position. – Continued the Group's inorganic and organic growth strategy with the successful acquisition and integration of Cure Medical and Patient Care Medical, and continued to make strong progress with the new product pipeline. – Delivered significant improvements to the overall quality and operations areas of business including an 11% reduction in complaints per million and a further reduction in Scope 1 and Scope 2 GHG emissions of over 9%. – Continued to embed the sales force centre of excellence with the successful roll out and adoption of the new customer relationship management system across North America and Europe and further progress embedding our Marketing and Quality centres of excellence. – Strengthened the senior leadership team's capability with several key appointments in Finance, HR, Quality and Marketing as well as successfully implemented improvements in performance management and the succession planning process as part of the wider people plan rollout. |
| Frank Schulkes Personal strategic objectives | <ul style="list-style-type: none"> – Successfully completed the debut US dollar bond issue which was significantly oversubscribed. – Delivered the implementation of the major customer facing IT and digital roadmap which was designed to support the next phase of the FISBE strategy. – Completed an extensive review of the tax impact of the transformation changes on the Group and obtained a corresponding tax agreement relating to the impact of Swiss tax reform. – Successfully implemented significant enhancements to the Group's business intelligence and data capabilities across the business to support improved commercial execution, decision making and support function efficiency. |

| Director | Measure | Weighting | Maximum opportunity (% of salary) | Earned bonus | |
|----------------|---|-----------|--------------------------------------|---------------|--------|
| | | | | (% of salary) | ('000) |
| Karim Bitar | Adjusted EBIT for bonus purposes ¹ | 60% | 120% | 89.8% | £806 |
| | Adjusted free cash flow | 20% | 40% | 31.9% | £286 |
| | Personal strategic objectives | 20% | 40% | 38.0% | £341 |
| | Total | 100% | 200% | 159.7% | £1,433 |
| Frank Schulkes | Adjusted EBIT for bonus purposes ¹ | 60% | 90% | 67.3% | £313 |
| | Adjusted free cash flow | 20% | 30% | 24.0% | £111 |
| | Personal strategic objectives | 20% | 30% | 24.0% | £111 |
| | Total | 100% | 150% | 115.3% | £535 |

1. Adjusted EBIT for bonus purposes is calculated on a constant currency basis and presented using a budget rate.

One-third of the bonus earned by Karim Bitar and Frank Schulkes will be deferred into shares for three years. Details of this element of the bonus award will be disclosed in next year's Annual Report.

Scheme interests vesting in 2021

In 2019, Karim Bitar and Frank Schulkes were granted conditional share awards under the LTIP (that for Karim Bitar being pro-rated to reflect the period of employment during the 2019 financial year). These LTIP awards were subject to performance over the three-year period ended 31 December 2021. The performance conditions of this award were disclosed in the 2019 Annual Report, with targets set at the time of grant for three equally-weighted measures: Relative TSR, adjusted EPS and ROIC. The table below sets out details of the targets, and performance against these:

| Measure | Weighting | Performance range | Actual performance | Vesting outcome ¹ |
|---|-----------|---------------------------------------|--------------------|------------------------------|
| 3-year Relative TSR vs selected comparators | 1/3 | Median to 90 th percentile | 59th percentile | 13.5% |
| 3-year cumulative EPS (i.e. FY19 EPS + FY20 EPS + FY21 EPS) | 1/3 | 39 cents to 49 cents | 41.2 cents | 13.8% |
| 3-year average Return on Invested Capital | 1/3 | 7.0% to 9.0% | 7.7% | 16.8% |
| Total % vesting | | | | 44.2% |

1. Shown to one decimal place, the sum of the vesting percentages for individual elements of the LTIP (shown above) does not equal the published total due to rounding.

As set out on page 124, in determining the vesting outcome of these awards, the Committee was mindful that the Group underwent significant changes to its strategy for 2020 and 2021, following Karim Bitar's appointment as CEO in late 2019. These strategic changes resulted in a series of investments to enable the Group to simplify and strengthen its operating model by emphasising customer centricity, agility and accountability, and also a shift in focus to sustainable and profitable growth through increasing investment in R&D to strengthen innovation capabilities and improve the new product pipeline while strengthening commercial execution.

The Board remains of the view that this shift in strategic emphasis is in shareholders' long-term interests, and will drive higher growth and greater returns in the medium-term. However, the Committee identified that the investment profile of the new strategy (which was approved by the Board shortly before being communicated to shareholders in early 2020, i.e. after the 2019 LTIP targets had been set) unfairly penalised LTIP participants (c.50 key executives across the Group) and thereby risked a misalignment of executive and shareholder interests in driving forward the strategy. The Committee reviewed this impact and concluded, in line with the discretions available to it under our approved Policy, that it would be appropriate on this occasion to exclude from the calculation of EPS and ROIC the impact of: the additional significant investment in late-2019, 2020 and 2021 resulting from the change in strategy approved by the Board and implemented under the leadership of the new CEO.

By neutralising this impact on performance, cumulative Adjusted EPS increased from 36.8 cents to 41.2 cents, and average ROIC increased from 7.0% to 7.7%, over the three-year performance period. Overall, this raised the vesting level of 2019 LTIP awards (i.e. also taking into account the outcome of the relative TSR element) from 13.5% to 44.2% of maximum. The Committee concluded that this outcome was fair, proportionate, and consistent with its remuneration principles of: incentivising sustained strong financial performance; aligning rewards with delivery of the Group's strategy; and ensuring employee alignment with the interests of shareholders. The Committee was also satisfied that the adjusted vesting outcome under both the EPS and ROIC elements (at 41.2% and 50.5% of maximum respectively) was commensurate with that achieved under the relative TSR performance condition (at 40.6% of maximum) over the same period.

As a result, 2019 LTIP awards (including those held by Karim Bitar and Frank Schulkes) and the Conditional Share award (made to Karim Bitar as part of the buyout arrangement agreed on this appointment, and for which the performance conditions were aligned to the 2019 LTIP) have vested, or will vest as to 44.2% of maximum following the end of the year.

Accordingly, Executive Directors' 2019 LTIP awards will vest on the third anniversary of grant as set out below:

| Director | Date of grant | Number awarded | % vesting | Number vesting |
|----------------|-------------------|----------------|-----------|----------------|
| Karim Bitar | 30 September 2019 | 310,609 | 44.2% | 137,289 |
| Frank Schulkes | 8 August 2019 | 606,274 | 44.2% | 267,973 |

As disclosed in the 2019 Annual Report, Karim Bitar was made a Conditional Share award (of 1,072,626 shares) on his appointment in September 2019, as part of the arrangements to replace awards that he forfeited on his joining ConvaTec. This award was subject to a continued service condition until 30 September 2021, and the same performance conditions as the 2019 LTIP (see above). As a result, this award will vest in March 2022 as set out below:

| Director | Date of grant | Number awarded | % vesting | Number vesting |
|--|-------------------|----------------|-----------|----------------|
| Karim Bitar – Conditional Share (buyout) award | 30 September 2019 | 1,072,626 | 44.2% | 474,100 |

The estimated vesting value of this award is included in the "Other" column for 2021 in the Single total figure of remuneration for Executive Directors table on page 127.

Scheme interests awarded in 2021 (audited)

2021 LTIP awards

During the year ended 31 December 2021, the Executive Directors were awarded conditional share awards under the LTIP, details of which are summarised in the table below.

| Director | Date of grant | Number awarded | Award price ¹ | Face value | | Vesting date |
|----------------|---------------|----------------|--------------------------|------------|------------------------|---------------|
| | | | | Value | % of annualised salary | |
| Karim Bitar | 10 March 2021 | 1,147,691 | 190.60p | £2,187,499 | 250% | 10 March 2024 |
| Frank Schulkes | 10 March 2021 | 593,759 | 190.60p | £1,131,704 | 250% | 10 March 2024 |

1. The LTIP face values are determined as a percentage of each Executive Director's annualised salary on the date of grant, and converted into numbers of conditional shares using the average of the three-day closing price preceding the date of grant.

The performance conditions attached to these 2021 LTIP awards are set out in the table below.

| Measure | Weighting | Performance period | Vesting schedule | |
|--|-----------|------------------------------------|--|------------------------|
| | | | £ | % of annualised salary |
| Three-year Relative TSR against the constituents of the FTSE 350 excluding investment trusts | 25% | 1 January 2021 to 31 December 2023 | < Median | 0% |
| | | | Median | 25% |
| | | | 75 th percentile | 90% |
| | | | ≥ 90 th percentile | 100% |
| | | | Straight-line sliding scale vesting between these points | |
| Three-year compound annualised growth in adjusted PBT | 75% | 1 January 2021 to 31 December 2023 | < 8.0% p.a. | 0% |
| | | | 8.0% p.a. | 25% |
| | | | ≥ 15.0% p.a. | 100% |
| | | | Straight-line sliding scale vesting between these points | |

To the extent the 2021 LTIP awards vest, vested shares will be required to be held for a further two-year post-vesting holding period.

2020 Deferred Bonus

One-third of the 2020 bonus earned by Karim Bitar and Frank Schulkes was deferred into shares for three years under the DBP, details of which are summarised in the table below.

| Director | Date of grant | Number awarded | Award price ¹ | Value | | Vesting date |
|----------------|---------------|----------------|--------------------------|----------|-----------------|---------------|
| | | | | £ | % of 2020 bonus | |
| Karim Bitar | 10 March 2021 | 301,460 | 190.60p | £574,583 | One-third | 10 March 2024 |
| Frank Schulkes | 10 March 2021 | 114,001 | 190.60p | £217,286 | One-third | 10 March 2024 |

1. The award values are determined as one third of each Executive Director's 2020 bonus and converted into numbers of conditional shares using the average of the three-day share price preceding the date of grant.

Fees retained for external non-executive directorships

Executive Directors may hold one external appointment and retain the fees paid for such role. During the year, Karim Bitar served as a Non-Executive Director of Spectris plc and received fees of £57,250 which he retained. Karim Bitar stood down as a Non-Executive Director of Spectris plc on 31 December 2021. Neither Karim Bitar nor Frank Schulkes have taken on a new external appointment during the year.

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

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the 2021 and 2020 financial years.

| Non-Executive Director | Fee | | Total ¹ | |
|----------------------------------|--------------|--------------|--------------------|--------------|
| | 2021 '000 | 2020 '000 | 2021 '000 | 2020 '000 |
| John McAdam | £320 | £320 | £320 | £320 |
| Rick Anderson | £75 | £67 | £76 | £68 |
| Regina Benjamin | £85 | £93 | £85 | £93 |
| Margaret Ewing | £117 | £124 | £117 | £124 |
| Sten Scheibye | £75 | £65 | £76 | £65 |
| Brian May ² | £95 | £74 | £95 | £74 |
| Heather Mason ³ | £75 | £35 | £76 | £35 |
| Constantin Coussios ⁴ | £75 | £25 | £75 | £25 |

1. In addition to the fees payable to each of the Directors, the Group reimburses reasonable expenses.

2. Joined the Board on 2 March 2020.

3. Joined the Board on 1 July 2020.

4. Joined the Board on 1 September 2020.

Percentage change in Director remuneration

The table below shows the percentage change in Director remuneration (from 2020 to 2021, and from 2019 to 2020) compared to the average percentage change in remuneration for other employees over the same period. As required under The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, this analysis will continue to be expanded to build up a five-year history.

ConvaTec Group Plc does not have any other employees. For the comparator group, we have used the population of UK-based employees whose remuneration is based on overall Group business performance rather than that of a particular Business Unit. In determining the annual change in average employee remuneration we have looked at average annual pay increase excluding promotions and actual bonus payments. We have only included employees who were in the Group in both years of the comparison to ensure consistency.

| | Annualised percentage change from 2020 to 2021 | | | Annualised percentage change from 2019 to 2020 | | |
|--|--|-----------------------|---------|--|----------|-------|
| | Salary or fees ¹ | Benefits ² | Bonus | Salary or fees | Benefits | Bonus |
| Executive Directors | | | | | | |
| Karim Bitar | 1.9% | 0% | (16.9)% | 0% | 0% | 40% |
| Frank Schulkes | 1.9% | (5.9)% | (17.9)% | 2.5% | 0.5% | 42% |
| Non-Executive Directors | | | | | | |
| John McAdam | 0% | n/a | n/a | 0% | (100)% | n/a |
| Rick Anderson | 11.9% | (4.6)% | n/a | (6.9)% | 100% | n/a |
| Regina Benjamin ³ | (8.6)% | (100)% | n/a | (1.2)% | (92.1)% | n/a |
| Margaret Ewing ⁴ | (5.4)% | n/a | n/a | 0.9% | (100)% | n/a |
| Sten Scheibye ⁵ | 15.4% | n/a | n/a | 8.3% | (100)% | n/a |
| Brian May ⁶ | 8.4% | n/a | n/a | n/a | n/a | n/a |
| Heather Mason ⁵ | 15.4% | n/a | n/a | n/a | n/a | n/a |
| Constantin Coussios ⁵ | 15.4% | n/a | n/a | n/a | n/a | n/a |
| Increase in total Non-Executive fees paid | 4.4% | | | | | |
| Average per employee | 2.7% | (16.5)% | (39.2)% | 2.7% | 2.7% | 16% |

Former Directors (who did not serve on the Board during the financial year under review) have been removed from the table. Relevant prior data and commentary can be found in last year's annual report.

1. Salary/fee figures have been annualised for this analysis to permit a meaningful comparison over time. Effective 1 September 2020, the Non-Executive Director fee structure was changed: the base fee was increased and committee membership fees were discontinued.

2. The year-on-year increase in benefits reflects the Group's best estimate for the change in the average value of benefits for other employees. Although there was no change to the benefits provision in 2021 compared to 2020, some benefits decreased in cost. Non-Executive Directors' benefits relate to taxable expenses (largely travel to attend meetings, and due to COVID-19 restrictions very limited travel took place in 2021).

3. Regina Benjamin's fees reduced following the change to the Non-Executive Director fee structure. Fees for Remuneration and Audit and Risk Committees memberships ceased on 31 August 2020. Regina Benjamin continues to receive fees for Board Level Employee Representation.

4. Margaret Ewing's fees reduced following the change to the Non-Executive Director fee structure. Fees for Remuneration Committee membership ceased on 31 August 2020. Margaret also ceased membership of the Remuneration Committee on that date.

5. The year-on-year change in fees from 2020 to 2021 for Sten Scheibye, Heather Mason and Constantin Coussios reflect the change in NED fee structure that became effective on 1 September 2020. There has been no change in the NED fee levels (on an annualised basis) since that date.

6. The year-on-year change in fees for Brian May reflects his appointment as Chair of the Remuneration Committee from 1 September 2020.

Relative importance of spend on pay

The table below shows shareholder distributions (i.e. dividends) and total employee pay expenditure for the financial years ended 31 December 2020 and 31 December 2021, and the percentage change year-on-year.

| | 2021 \$m | 2020 \$m | Year-on-year change |
|---|-------------|-------------|------------------------|
| Total employee pay expenditure ¹ | 650 | 580 | 12% |
| Shareholder distributions ² | 114 | 110 | 4% |

1. Increase in total employee pay expenditure predominantly relates to foreign exchange differences and increases in headcount.

2. The increase in dividend is due to the difference in the exchange rate year-on-year. Overall dividend per share paid in 2021 (in cents) remained consistent with 2020.

Exit payments made in the year (audited)

There were no exit payments made in the year.

Payments to past Directors (audited)

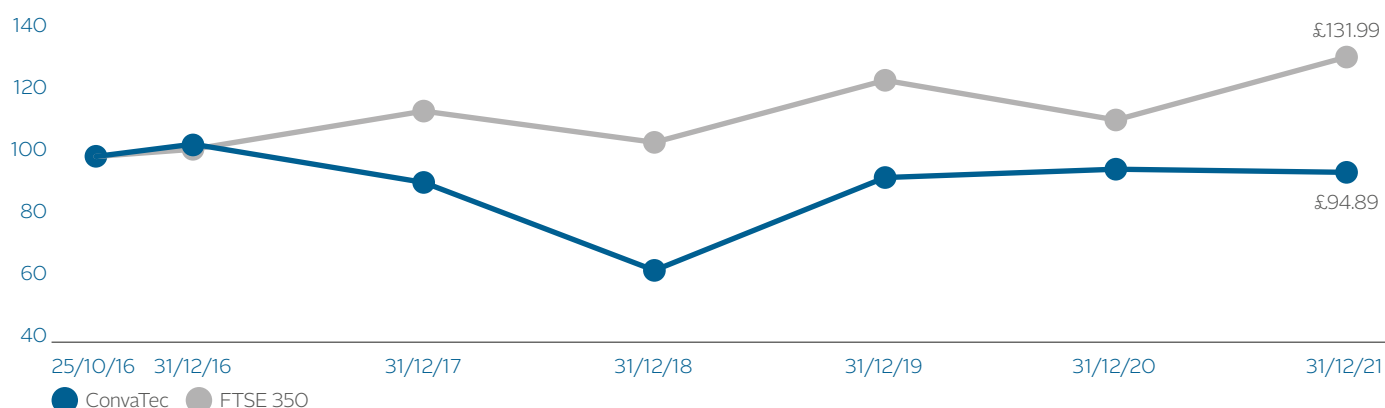
There were no payments made to past Directors in the year.

Review of past performance

This graph shows the Group's TSR compared to the FTSE 350 Index, an index of which the Group is a constituent. Performance, as required by legislation, is measured by TSR over the period from commencement of conditional dealing (26 October 2016) to 31 December 2021.

TSR chart – ConvaTec vs the FTSE 350 Index

Value of £100 invested on 25 October 2016 in ConvaTec and the FTSE 350 Index (£)



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

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|--------|------|------|---------------------|--------|---------------------|
| Karim Bitar (from 30 September 2019) | | | | | | |
| CEO single figure ('000) | | | | £6,878 ¹ | £2,786 | £3,752 ² |
| Annual bonus (% max.) | | | | 70.2% | 98.5% | 79.8% |
| LTIP vesting (% max.) | | | | n/a | n/a | 44.2% ³ |
| Rick Anderson (15 October 2018 to 29 September 2019) | | | | | | |
| CEO single figure ('000) | | | £264 | £1,118 | | |
| Annual bonus (% max.) | | | n/a | n/a | | |
| LTIP vesting (% max.) | | | n/a | n/a | | |
| Paul Moraviec (to 14 October 2018) | | | | | | |
| CEO single figure ('000) | £1,413 | £917 | £631 | | | |
| Annual bonus (% max.) | 40% | 9% | n/a | | | |
| LTIP vesting (% max.) | n/a | n/a | n/a | | | |

1. 2019 remuneration includes the face value of the restricted share awards made to Karim Bitar as part of his buyout.

2. Includes the estimated vesting value of Karim Bitar's Conditional Share award that formed part of his buyout arrangement on appointment of £960k.

3. Represents the vesting outcome of the 2019 LTIP (as a % of maximum).

CEO pay ratio

The table below discloses the ratio of CEO pay for 2021, comparing the single total figure of remuneration for Karim Bitar to the full-time equivalent total reward of those colleagues whose pay is ranked at the 25th, 50th and 75th percentiles in our total UK workforce.

We chose Methodology Option A to calculate the ratio, as we believe it provides the best comparison of colleague pay with that of our CEO by using a consistent methodology to value remuneration and identify our colleagues ranked at the 25th, 50th and 75th percentiles. Colleague pay was calculated based on actual pay and benefits for the 12 monthly payrolls in respect of the full financial year to 31 December 2021. We are confident that the three colleagues identified are a true reflection of our UK workforce; none of these individuals received any additional or exceptional pay during 2021. We can also confirm that no adjustments were made to the calculation of the total remuneration for these employees from the methodology set out for the CEO's single total figure remuneration. Our pay ratios are set out below:

| Year | Method | 25 th percentile | 50 th percentile | 75 th percentile |
|------|----------|-----------------------------|-----------------------------|-----------------------------|
| 2021 | Option A | 115:1 | 89:1 | 52:1 |
| 2020 | Option A | 83:1 | 65:1 | 40:1 |
| 2019 | Option A | 163:1 | 123:1 | 76:1 |

During 2019 there was a change in CEO, which resulted in inclusion in the single figure for that year of the restricted share element of the CEO's "buyout" awards. The Committee recognises that the 2021 pay ratio reflects an increase on 2020 as a result of the inclusion in this year's CEO single figure of the vesting of the performance share element of his buyout awards. Whilst this calculation is in line with the reporting regulations, the Committee considers the 50th percentile pay ratio of 67:1 (which excludes the value of this buyout) to be more representative of the likely relativity of pay going forwards. The Committee also expects the pay ratio to normalise further in 2022 and beyond, and from which the Committee expects to be able to draw more meaningful conclusions about the longer-term trend in the ratio.

The table below provides information on the salary and total pay and benefits paid to our colleagues ranked at the 25th, 50th and 75th percentiles.

| Year | Method | 25 th percentile | 50 th percentile | 75 th percentile |
|------|------------------------|-----------------------------|-----------------------------|-----------------------------|
| 2021 | Salary | £27,638 | £34,521 | £58,739 |
| | Total pay and benefits | £32,663 | £41,964 | £71,619 |
| 2020 | Salary | £26,660 | £34,487 | £52,415 |
| | Total pay and benefits | £33,425 | £42,641 | £69,668 |
| 2019 | Salary | £23,500 | £32,798 | £39,542 |
| | Total pay and benefits | £30,652 | £40,601 | £65,922 |

Implementation of Executive Director Remuneration Policy for 2022

Base salary

Following a review of Karim Bitar's salary, the Committee decided to award an increase of 2.63% effective 1 April 2022, in line with the increases for the general employee population in the UK. The Committee considered this increase to be appropriate in the context of Karim Bitar's ongoing valued contribution to delivering our strategy and his continued strong performance.

Following the announcement on 9 December 2021 that the Board has mutually agreed with Frank Schulkes that he will step down as Chief Financial Officer and as a Director of the Company on 11 March 2022, his salary will remain at its 2021 level until he leaves the Group.

Jonny Mason's salary has been set at £500,000 on appointment. The Committee considers this salary, which is within our stated policy to set salaries at no higher than the upper quartile for the relevant market, to appropriately reflect Jonny's extensive track record in publicly listed and international businesses. He is a seasoned CFO, with strong experience in strategic enterprise transformation and a customer orientation that will be valuable in helping the Group to deliver its strategy and bring its vision to life. In line with our Policy, Jonny Mason's salary will be eligible for annual review; the first such review being due in 2023.

| Director | Role | From 1 April 2022 | From 1 April 2021 |
|-----------------------------|----------------|---------------------------|-------------------|
| Karim Bitar | CEO | £920,800 | £897,200 |
| Frank Schulkes ¹ | CFO | n/a | £464,200 |
| Jonny Mason ² | CFO (incoming) | £500,000 (on appointment) | n/a |

1. Frank Schulkes will step down as Chief Financial Officer and as a Director of the Company on 11 March 2022.

2. Jonny Mason was appointed as CFO Designate on 31 January 2022 and will join the Board as CFO on 12 March 2022.








Pension

Karim Bitar and Frank Schulkes will continue to receive a pension benefit of 15% of base salary. Karim Bitar receives his pension benefit as a combination of a contribution to pension and the balance as a cash allowance. Frank Schulkes receives his as a cash allowance. In line with our Policy, Jonny Mason will receive a pension benefit aligned with that available to the wider UK workforce, of 8.5% of salary, from appointment. As set out earlier in this report, the pension benefit for Karim Bitar will be aligned with that available to the wider UK workforce by 1 January 2023.

Annual bonus

For 2022, Karim Bitar will continue to have a maximum bonus opportunity of 200% of salary. Frank Schulkes will be eligible for a maximum bonus opportunity of 150% of salary in 2022, pro-rated for the period served (1 January to 11 March 2022). Jonny Mason will be eligible for a maximum bonus opportunity of 200% of salary, pro-rated for the period of the financial year served. The on-target bonus opportunity remains 50% of maximum. Two-thirds of any bonus earned will be paid in cash, with the remainder deferred into ConvaTec Group Plc shares for a further three-year period.

The annual bonus for 2022 will continue to be based on the following measures and weightings:

| Measure | Link to corporate strategy | | | Weighting |
|---|---|--|---|-----------|
| Adjusted EBIT ¹ for bonus purposes |  Focus |  Innovate |  Simplify | 60% |
| Adjusted free cash flow |  Simplify |  Execute | | 20% |
| Personal strategic objectives |  Focus |  Build | | 20% |

1. Adjusted EBIT is calculated on a constant currency basis and presented using a budget rate.

The Committee believes the balance of financial measures for 2022 (as set out above) remains appropriate in the context of the emphasis in our strategy on sustainable and profitable growth. The weighting on adjusted EBIT ensures that the primary levers of the strategy (revenue – being volume, price and mix – and costs) are all captured in the assessment of short-term performance. Revenue performance is additionally emphasised in a number of the personal strategic objectives that have been set for 2022 (and which will be disclosed retrospectively next year).

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

In line with our Policy, bonuses for the 2022 financial year will be subject to the Group's policy on deferral, and its malus and clawback provisions (see page 138 for further details).

Long-Term Incentive Plan ("LTIP")

Karim Bitar and Jonny Mason will be eligible to receive conditional awards of shares under the ConvaTec LTIP in respect of 2022, with face values of 250% of salary.

The 2022 LTIP will vest after three years, subject to the following performance targets assessed over the three years ending 31 December 2024:

| Measure | Weighting | Threshold (25% vesting) | Stretch (90% vesting) | Maximum (100% vesting) |
|---|-----------|-------------------------|-----------------------------|-----------------------------|
| Three-year Relative TSR rank vs constituents of FTSE 350 excluding investment trusts (calculated in GBP and using three-month average opening and closing values) | 25% | Median | 75 th percentile | 90 th percentile |
| Three-year compound annualised growth in adjusted PBT | 75% | 8% p.a. | | 15% p.a. |

To the extent an award vests, it will be subject to a further two-year holding period.

Remuneration terms on departure for Frank Schulkes

As announced on 9 December 2021, the Board has mutually agreed with Frank Schulkes that he will step down as Chief Financial Officer and as a Director of the Company on 11 March 2022. He will remain an employee of the Group until 8 December 2022 (or such earlier date as may be mutually agreed by him and the Company). In accordance with the terms of his service agreement, Frank will continue to receive his salary, pension contribution and benefits over the period until he leaves the Group, and subject to mitigation. In line with our Policy, the Committee agreed to pay outplacement fees of up to £20,000 (excluding VAT) and make a contribution of up to £10,000 (excluding VAT) towards legal fees incurred in connection with the arrangements relating to his departure.

It was agreed that Frank would be entitled to a pro-rata bonus opportunity for the 2022 financial year, the value of which will be disclosed in the single total figure of remuneration for Executive Directors in next year's Directors' Remuneration report (along with further details of the remuneration received by Frank in respect of his employment from 1 January to 11 March 2022, and during the remainder of his notice period). One-third of any payment earned by Frank in relation to this opportunity will be deferred into shares for three years, in line with our Policy.

The Committee also agreed to apply the good leaver provisions set out in the Remuneration Policy to Frank's outstanding DBP and LTIP awards. DBP awards will vest on their normal vesting date; and LTIP awards will be pro-rated for time to his date of leaving the Group, vesting subject to performance over the three-year performance period.

Implementation of Non-Executive Director Remuneration Policy for 2022

The fees for the Non-Executive Directors, other than the Chairman, are reviewed and set by the Non-Executive Director Fee Committee comprised of the Chairman, CEO and CFO.

Non-Executive Director fees were reviewed in early 2022 by the Non-Executive Director Fee Committee, which determined that fees would remain at their 2021 level for 2022. The Chairman's fee was set at the time of John McAdam's appointment in 2019. Effective 1 April 2022, the Committee approved an increase to the Chairman's fee of 2.5% (broadly in line with the average increase awarded to the wider UK employee population). The fees payable to the Non-Executive Directors are set out below.

| Role | Fee structure in 2022 | Fee structure for 2021 |
|---|-----------------------|------------------------|
| Chairman | £328,000 ¹ | £320,000 |
| Non-Executive Director basic fee | £75,000 | £75,000 |
| Additional fees: | | |
| Senior Independent Director | £20,000 | £20,000 |
| Chair of the Audit Committee | £22,000 | £22,000 |
| Chair of the Remuneration Committee | £20,000 | £20,000 |
| Fee for acting as a Board Level Employee Representative | £10,000 | £10,000 |

1. Effective 1 April 2022.

Directors' shareholdings (audited)

The table below sets out details of the current shareholdings of each Director (and any relevant connected persons) as at 31 December 2021. For Executive Directors, the current shareholding is compared to their shareholding guideline.

| Director | Shares | | | | Options | | Current shareholding ¹ (% salary) | Shareholding guideline (% salary) |
|---------------------|--------------------------|------------------|--|--|--------------------------|--|--|-----------------------------------|
| | Owned outright or vested | | Unvested and not subject to performance conditions | Unvested and subject to performance conditions | Vested but not exercised | Unvested and not subject to performance conditions | | |
| | 31 December 2020 | 31 December 2021 | | | | | | |
| Current directors | | | | | | | | |
| Karim Bitar | 1,606,064 | 1,606,064 | 356,808 | 3,592,458 | | | 405% | 400% |
| Frank Schulkes | 165,000 | 169,180 | 223,444 | 1,735,785 | | 10,230 | 125% | 300% |
| John McAdam | 23,181 | 23,181 | | | | | | – |
| Rick Anderson | 209,137 | 210,706 | | | | | | – |
| Regina Benjamin | 10,000 | 10,000 | | | | | | – |
| Margaret Ewing | 10,000 | 10,000 | | | | | | – |
| Sten Scheibye | 25,000 | 25,000 | | | | | | – |
| Brian May | 25,000 | 25,000 | | | | | | – |
| Heather Mason | 10,000 | 10,000 | | | | | | – |
| Constantin Coussios | 0 | 8,440 | | | | | | – |

1. Executive Director shareholdings calculated based on the number of shares that are owned outright or vested plus an estimated number of unvested shares that are not subject to performance conditions, on a net of tax basis. These shares are valued using a share price of 202.46p, being the average share price during the last three months of the 2021 financial year.

No further shares were acquired by the Directors between 31 December 2021 and 7 March 2022, being the latest practicable date prior to publication of this Annual Report.

Share scheme dilution limits

The Company complies with the guidelines laid down by the Investment Association. These restrict the issue of new shares under all the Company's share schemes in any ten-year period to 10% of the issued ordinary share capital and under the Company's discretionary schemes to 5% in any ten-year period. As at 31 December 2021, the headroom available under these limits was 8.3% and 3.5% respectively.

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

Brian May

Chair of the Remuneration Committee

7 March 2022

Our Remuneration Policy

This section of the Directors' Remuneration report has been prepared in accordance with the Remuneration Reporting Regulations, and sets out details of the 2020 Policy that was approved by shareholders at the 2020 AGM and is effective for a period of up to three years from that date. Minor amendments have been made to the drafting of this Policy Report from the version approved by shareholders in 2020 (which can be found in the 2019 Annual Report) including: (i) the data used in the pay-for-performance scenarios; (ii) references to "pension cash allowance or pension contribution" have been replaced with "pension benefit" to aid clarity, (iii) page references; and (iv) the section on Non-Executive Director letters of appointment, to reflect changes in Board composition since 2019.

We also describe below how our Policy reflects the principles of Provision 40 of the 2018 UK Corporate Governance Code:

- **Clarity:** we are committed to transparent disclosure of our remuneration structures and decisions, including clear rationale and context for these.
- **Simplicity:** our Policy and approach to its implementation is simple and well-understood internally and externally.
- **Risk:** remuneration arrangements are designed not to encourage or reward excessive risk taking, with targets set to be stretching and achievable, and retaining Committee discretion to adjust formulaic bonus and LTIP outcomes to align with underlying performance.
- **Predictability:** there are defined threshold and maximum pay scenarios, which we have disclosed on page 141.
- **Proportionality:** there is a clear and direct link between performance and reward. No variable remuneration is payable for performance below defined thresholds.
- **Alignment to culture:** the Committee has designed the Policy to align with the Group's culture, driving behaviours that promote the long-term and sustainable success of the Group for the benefit of all stakeholders.

Details of how the Company implemented the 2020 Policy for the year ended 31 December 2021, and will implement for the year ending 31 December 2022, are provided in the Annual Report on Remuneration starting on page 127.

Remuneration principles

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

2020 Remuneration Policy for the Executive Directors

| Purpose and link to strategy | Operation | Opportunity | Performance measures |
|---|--|--|----------------------|
| Base salary | | | |
| To attract and retain talented Executive Directors to deliver the Group's strategy, by ensuring base salaries and the implied total package are competitive in relevant talent markets, while not overpaying. | <p>Base salaries will be reviewed by the Committee annually, and benchmarked periodically against comparable roles at international MedTech peers, as well as UK-listed companies of similar size and complexity. Any resulting changes are normally effective from 1 April, in line with the effective date for salary increases for the broader workforce.</p> <p>In deciding base salary levels, the Committee considers personal performance including the individual's contribution to the achievement of the Group's strategic objectives. The Committee will also consider employment conditions and salary levels across the Group, and prevailing market conditions in the geographies in which the Group competes for talent.</p> <p>Base salary increases for the Executive Directors will normally be aligned with those of the wider workforce, but may be made above this level in exceptional circumstances such as a material change in responsibilities, size or complexity of the role, or if a Director was intentionally appointed on a below-market salary.</p> | <p>The maximum salary payable to Executive Directors will be capped at the upper quartile of the benchmarking comparator group for the role under review. Salaries will be set on a case-by-case basis to reflect the role and the experience and qualifications of the individual.</p> <p>Base salaries for the year under review and the following year, as well as the rationale for any increases, will be disclosed in the relevant year's Annual Report on Remuneration.</p> | n/a |

| Purpose and link to strategy | Operation | Opportunity | Performance measures |
|--|---|--|----------------------|
| Pension | | | |
| To provide an appropriate level of post-retirement benefit for Executive Directors in a cost-efficient manner, taking account of the provisions for the wider workforce. | <p>Executive Directors may receive a contribution to a personal pension plan, a cash allowance in lieu, or a combination thereof.</p> <p>Salary is the only element of remuneration that is pensionable.</p> | <p>Karim Bitar and Frank Schulkes receive a pension benefit from the Group of 15% of salary.</p> <p>Executive Director appointments from 1 January 2020 will receive a pension benefit in line with that available for the wider workforce in the relevant market (as has been the case with the appointment of Jonny Mason).</p> <p>Details of the pension contributions made to Executive Directors during the year are disclosed in the Annual Report on Remuneration.</p> | n/a |
| Other benefits | | | |
| To provide non-cash benefits which are competitive in the market in which the Executive Director is employed. | The Group may provide benefits in kind including, but not limited to, a company car or car allowance, private medical insurance (or allowance in lieu), permanent health insurance, and life insurance. Executive Directors may also be provided certain other benefits to take account of individual circumstances such as, but not limited to, payment of financial, and/or legal adviser fees, expatriate allowance, relocation expenses, housing allowance and tax equalisation (including associated interest, penalties or fees plus, in certain circumstances or where the Committee consider it appropriate, any tax incurred on such benefits). Executive Directors may also be offered any other future benefits made available either to all senior employees globally or in the region in which the Executive Director is employed. | <p>Benefits for Executive Directors are set at a level which the Committee considers appropriate compared to wider employee benefits, as well as competitive practices in relevant markets.</p> <p>The value of annual benefits will normally not exceed 10% of salary, and it is not anticipated that the costs of benefits provided will increase significantly in the financial years over which this Policy will apply, although the Committee retains discretion to approve non-material increases in cost. In addition, the Committee retains discretion to approve a higher cost in exceptional circumstances (e.g. to facilitate recruitment, relocation, expatriation, etc.) or in circumstances where factors outside the Group's control have changed (e.g. market increases in insurance costs).</p> <p>Benefits in respect of the year under review are disclosed in the Annual Report on Remuneration.</p> | n/a |

| Purpose and link to strategy | Operation | Opportunity | Performance measures |
|--|--|---|--|
| Annual bonus | | | |
| <p>To incentivise Executive Directors to deliver strong financial performance on an annual basis and reward the delivery of the Group's strategic aims that will underpin the longer-term health and growth of the business.</p> <p>Deferral into shares enhances alignment with shareholders.</p> | <p>Performance measures, targets and weightings are set by the Committee at the start of the year. After the end of the financial year, the Committee determines the level of bonus to be paid, taking into account the extent to which these targets have been achieved.</p> <p>To the extent that the performance criteria have been met, one-third of the annual bonus earned will normally be compulsorily deferred into shares for a period of three years under the Deferred Bonus Plan. The remainder of the bonus will be paid in cash.</p> <p>Dividends may accrue on deferred bonus shares over the deferral period and, if so, will be paid on deferred shares at the time deferred shares are released to the Executive Director.</p> <p>Malus and clawback provisions apply to the annual bonus in certain circumstances (as set out in the Notes to the Policy Table).</p> | <p>The maximum annual bonus opportunity is 200% of base salary.</p> <p>The payout for on-target performance is 50% of maximum; threshold performance results in a payout of no more than 25% of maximum.</p> <p>The current maximum bonus opportunities for each of the Executive Directors are disclosed in the Annual Report on Remuneration.</p> | <p>Bonuses are based on a combination of stretching annual financial and non-financial/strategic performance measures, selected to reflect the Group's short-term KPIs, financial goals and strategic drivers.</p> <p>The financial element of the annual bonus will normally be weighted 80% of the overall bonus opportunity, with the remainder of the bonus linked to the achievement of personal strategic objectives (and which shall not have a weighting of more than 20% of the overall bonus opportunity).</p> <p>The Committee may adjust the formulaic annual bonus outcomes (including to zero) to avoid unintended outcomes, align pay outcomes with underlying Group performance and ensure fairness to shareholders and participants.</p> <p>Further details will be disclosed in the relevant Annual Report on Remuneration. Performance targets set for each year will be disclosed retrospectively, usually in the Annual Report on Remuneration in respect of the year to which such performance targets relate.</p> |

| Purpose and link to strategy | Operation | Opportunity | Performance measures |
|---|---|--|--|
| Long-Term Incentive Plan (“LTIP”) | | | |
| To align the interests of Executive Directors and shareholders in growing the value of the Group over the long term. | <p>Executive Directors are eligible to receive annual awards over ConvaTec Group Plc shares under the LTIP either in the form of conditional share awards or nil cost options.</p> <p>Prior to awards being granted each year, the performance conditions and targets are agreed and set to ensure they remain appropriately stretching and aligned to the Group’s strategy.</p> <p>Awards granted under the LTIP to Executive Directors will have a performance period of three years and a minimum vesting period of three years. If no entitlement has been earned at the end of the relevant performance period, awards will not vest. Shares received as a result of an award vesting will normally be subject to an additional two-year holding period.</p> <p>Dividends may accrue on LTIP awards over the vesting period and, if so, will be delivered in shares that vest at the end of the vesting period.</p> <p>LTIP awards granted to Executive Directors will be subject to malus and clawback provisions, as set out in the Notes to the Policy Table.</p> | <p>The maximum annual LTIP opportunity is 250% of base salary.</p> <p>25% of an award will vest if performance against each performance condition is at threshold and 100% if it is at maximum, with straight-line vesting in between.</p> <p>Further details of the LTIP awards granted to each of the Executive Directors will be disclosed in the relevant Annual Report on Remuneration.</p> | <p>Vesting of the LTIP is subject to continued employment during the performance period and the achievement of performance conditions aligned with the Group’s strategic plan and shareholder value creation. Measures and their weightings will be determined by the Committee prior to making an award.</p> <p>The Committee may adjust the formulaic LTIP outcome to ensure it takes account of any major changes to the Group (e.g. as a result of M&A activity) and is a fair reflection of the underlying financial performance of the Group over the performance period.</p> <p>Further details, including the performance targets attached to the LTIP in respect of each year, will be disclosed in the relevant Annual Report on Remuneration.</p> |
| Save-As-You-Earn (“SAYE”) or equivalent scheme | | | |
| To align the interests of employees and shareholders by encouraging all employees to buy and own ConvaTec Group Plc shares. | Executive Directors are entitled to participate in the Group’s all-employee share plan applicable to the jurisdiction in which they are based on identical terms as other eligible employees. A UK or Europe-based Executive Director may make monthly savings over a period of three or five years or other period set by any relevant tax authority linked to the grant of an option over Group shares. The option price will be set at a discount of up to 15% of the market value of the shares at grant (to align with similar all-employee arrangements in the US). | Employees are limited to saving a maximum in line with the maximum monthly savings limit imposed by the Committee (which will not exceed any limits imposed by legislation) at the time they are invited to participate. | n/a |

Notes to the Policy Table

Malus and clawback policy

Malus and clawback may be applied to the annual bonus and LTIP awards in certain circumstances including:

- cases of fraud, negligence or gross misconduct by the Executive Director;
- material financial misstatement in the audited financial results of the Group;
- error in calculation; or
- other exceptional circumstances at the Committee's discretion.

Cash bonuses will be subject to clawback, with deferred shares being subject to malus, over the deferral period. LTIP awards will be subject to malus over the vesting period and clawback from the vesting date to the second anniversary of the relevant vesting date.

Share ownership guidelines

The Committee recognises the importance of aligning Executive Directors' and shareholders' interests through significant shareholdings in the Group. The Group's policy is to require Executive Directors to build up shareholdings worth 400% of base salary for the CEO, and 300% of base salary for other Executive Directors, and to retain these shares whilst an Executive remains on the Board of Directors. Fifty percent of any net vested share awards (after sales to meet tax liabilities) must be retained until the minimum shareholding requirements are met. Shareholdings will be valued at the higher of the acquisition price of the shares and the average share price over the last three months of the financial year.

Pension arrangements

The Committee considered the feedback from the 2020 AGM and evolving investor sentiment on pension benefit alignment with the wider workforce and, as disclosed in last year's Remuneration Report, is committed to aligning Executive Director pension benefit to the wider UK workforce by 1 January 2023.

Post-exit shareholding requirement

The Committee further recognises the expectation of shareholders that a requirement is placed on Executive Directors to maintain a meaningful shareholding for a period of time after they leave the Company. The Committee believes that the current structure of the Deferred Bonus Plan and LTIP sufficiently supports this principle already: the release of unvested Deferred Bonus shares and vested-but-held LTIP awards is normally not accelerated for leavers ahead of the normal release/vesting date. For a good leaver, the pre-tax value of outstanding awards at cessation of employment could be up to 12x base salary. Where an Executive Director resigns (i.e. is a bad leaver), the pre-tax value of outstanding awards at that point could be up to 5x base salary. The Committee believes that the structure of our incentives adheres to the provisions of the Code that remuneration provides significant alignment with shareholder interests for a period after an Executive Director ceases to be employed by the Company. The Committee considered the feedback from the 2020 AGM and evolving investor sentiment on post-employment shareholding requirements and, as disclosed in last year's Remuneration Report, is committed to developing a post-employment shareholding requirement and this will form a part of any proposals for a new policy which is due for renewal at the 2023 AGM.

Details of the Executive Directors' current personal shareholdings, and progress towards meeting the share ownership guidelines, are provided in the Annual Report on Remuneration.

Use of discretion

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

Payments from outstanding awards

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

Minor changes to Policy

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

LTIP awards

The Committee may exercise its discretion as provided for in the LTIP rules approved by shareholders. The Committee may also adjust the number of shares comprising an LTIP award (or the exercise price if the award comprises options) in the event of a variation of share capital, demerger, special dividend, distribution or any other corporate event which may affect the current or future value of an award. It is intended that any adjustment will be made on a neutral basis, i.e. to not be to the benefit or detriment of participants. Any use of discretion by the Committee during a financial year will be detailed in the relevant Annual Report on Remuneration and may be the subject of consultation with the Group's major shareholders, as appropriate.

Remuneration Policy for the wider workforce

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

Some employees below executive level are eligible to participate in annual bonus schemes. Opportunities and performance measures vary by organisational level, geographical location and an individual's role. Employee ownership of ConvaTec Group Plc shares is promoted across the Group. Senior executives are eligible for LTIP awards on similar terms as the Executive Directors, although award opportunities are lower and vary by organisational level. Other executives are eligible for restricted share awards on a discretionary basis. ConvaTec also offers an opportunity for broader-based participation in a share purchase plan, as approved by shareholders at the 2017 AGM.

Approach to target setting and performance measure selection

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

Annual bonus measures are selected to reflect the Group's Financial KPIs (see pages 18 and 19). Adjusted EBIT is calculated on a constant currency basis and presented using a budget rate. Measures may change from year-to-year (subject to the Remuneration Policy), and the rationale for any changes to the bonus measures selected will therefore be disclosed in the relevant Annual Report on Remuneration.

LTIP performance measures are selected to ensure they align with the Group's strategy and long-term shareholder value creation. LTIP awards to be granted in 2022 will be based on a blend of adjusted PBT performance and relative TSR over a three-year period. The Committee considers these measures to align executive and shareholder interests through a good balance between external and internal measures of performance, and between growth and returns in the context of the Group's strategy.

For 2022 LTIP awards, as for 2020 and 2021 awards, TSR performance will be measured relative to the FTSE 350 (excluding investment trusts).

Targets are set to be stretching but achievable over the three-year performance period, taking account of multiple relevant reference points, for example, internal forecasts, external expectations for future performance at both the Group and its closest sector peers, and typical performance ranges at other FTSE companies of comparable size and complexity. The Committee also retains discretion in exceptional circumstances to vary, substitute or waive the performance conditions attaching to incentive awards (within the relevant limits set out in the Policy table) if there is a significant and material event which causes the Committee to believe the original conditions are no longer appropriate, and the new performance conditions are deemed reasonable and not materially less difficult to satisfy than the original conditions.

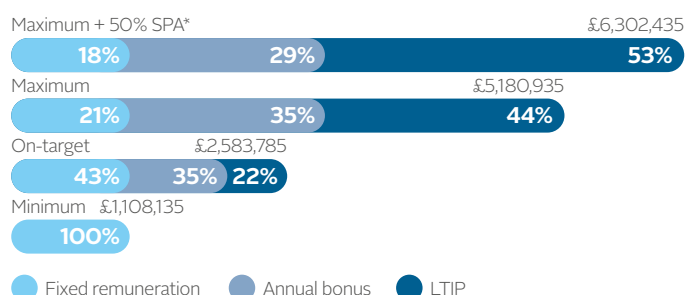
Pay-for-performance: scenario analysis

The charts on the right provide an estimate of the potential future reward opportunities for Karim Bitar and Jonny Mason, and the potential split between the different elements of remuneration under four different performance scenarios: "Maximum + 50% share price growth", "Maximum", "On target" and "Minimum".

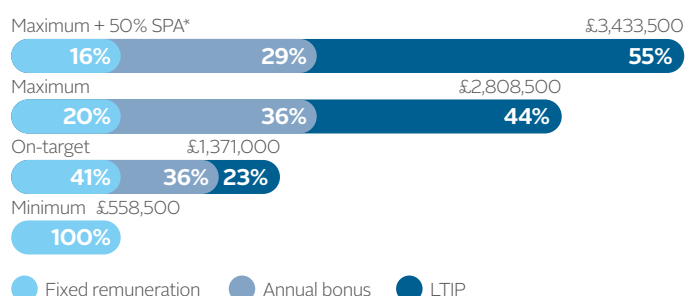
Potential reward opportunities are based on the forward-looking policy, applied to 2022 base salaries and incentive opportunities. LTIP awards granted in a year will not normally vest until the third anniversary of the date of grant, and the projected value of the "Maximum", "On target" and "Minimum" scenarios excludes the impact of share price movement.

Pay scenarios

CEO – Karim Bitar



CFO Designate – Jonny Mason (annualised package)



* Share price appreciation.

The above charts are based on the following assumptions:
"Maximum + 50% SPA": fixed remuneration (salary, pension, other benefits), plus maximum bonus (200% of salary) and full vesting of the 2022 LTIP awards (250% of salary, and reflecting 50% share price growth over the vesting period).
"Maximum": fixed remuneration (as above), plus maximum bonus (200% of salary) and full vesting of the 2022 LTIP awards (250% of salary) assuming no share price growth.
"On-target": fixed remuneration (as above), plus target bonus (50% of maximum or 100% of salary) and threshold LTIP vesting (25% of maximum or 62.5% of salary) assuming no share price growth.
"Minimum": fixed remuneration only, being the only element of Executive Directors' remuneration not linked to performance.

Executive Director service contracts

In accordance with general market practice, each of the Executive Directors has a rolling service contract. Karim Bitar and Frank Schulkes have service contracts with the Company (copies of which are available to view at the Company's registered office) that are terminable on 12 months' notice from the Group and six months' notice from the Executive Director. This practice will also apply for any new Executive Directors. The following table shows the date of the service contract for each Executive Director that served during the year:

| Executive Director | Position | Date of appointment | Date of service agreement |
|--------------------|----------|---------------------|---------------------------|
| Karim Bitar | CEO | 30 September 2019 | 24 March 2019 |
| Frank Schulkes | CFO | 1 November 2017 | 2 August 2017 |

Jonny Mason was appointed as CFO Designate on 31 January 2022. The terms of his service contract are in alignment with the above policy for Executive Directors.

Exit payments policy

The Group's policy on termination payments is to consider the circumstances on a case-by-case basis, taking into account the relevant contractual terms in the executive's service contract and the circumstances of termination. Executive Directors' contracts provide for the payment of a pre-determined sum in the event of termination of employment in certain circumstances (but excluding circumstances where the Group is entitled to dismiss without compensation), comprising base salary, pension benefit and benefits in respect of the unexpired portion of the notice period. Termination payments may take the form of payments in lieu of notice. Payments would normally be made on a phased basis and subject to mitigation. If the employment is terminated by the Group, the Committee retains the discretion to settle any other amount the Committee considers reasonable to the Executive Director including in settlement of claims, in respect of legal fees incurred in connection with the termination and fees for outplacement services and relocation costs.

In addition to contractual provisions, the following table summarises how awards under each discretionary incentive plan are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion as provided under the rules of the plan. In the event of termination, any outstanding options granted under the SAYE, or equivalent, scheme will be treated in accordance with the rules of the scheme, which do not include discretion. Disclosure in relation to any departing Executive Director, including details of any remuneration payment made to him after he ceases to be a Director, will be made on the Company's website in accordance with Section 430(2B) of the Companies Act 2006.

Treatment of awards on cessation of employment

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

Approach to remuneration on recruitment

External appointments

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

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

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

Internal promotion

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

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

External appointments held by Executive Directors

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

Consideration of conditions elsewhere in the Group

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

Consideration of shareholder views

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

Remuneration Policy for the Non-Executive Directors

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

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

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

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

Non-Executive Director letters of appointment

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

| Director | Role | Date of appointment | Date of letter of appointment | Date of election/re-election |
|---------------------|------------------------------------|---------------------|-------------------------------|------------------------------|
| John McAdam | Non-Executive Chairman | 30 September 2019 | 18 August 2019 | 7 May 2021 |
| Margaret Ewing | Senior Independent Director | 11 August 2017 | 17 August 2017 | 7 May 2021 |
| Regina Benjamin | Independent Non-Executive Director | 11 August 2017 | 15 August 2017 | 7 May 2021 |
| Rick Anderson | Independent Non-Executive Director | 31 October 2016 | 12 October 2016 | 7 May 2021 |
| Sten Scheibye | Non-Executive Director | 3 July 2018 | 3 July 2018 | 7 May 2021 |
| Brian May | Independent Non-Executive Director | 2 March 2020 | 26 February 2020 | 7 May 2021 |
| Heather Mason | Independent Non-Executive Director | 1 July 2020 | 8 May 2020 | 7 May 2021 |
| Constantin Coussios | Independent Non-Executive Director | 1 September 2020 | 29 June 2020 | 7 May 2021 |

Kimberly Lody and Sharon O'Keefe were appointed to the Board on 1 February 2022 and 1 March 2022, respectively. They will stand for election at the 2022 AGM. Further details of their letters of appointment will be included in next year's Directors' Remuneration report. Rick Anderson stepped down from the Board on 3 March 2022.

Directors' report

The Directors present their Annual Report on the affairs of the Group, together with the Financial Statements and auditor's report, for the year ended 31 December 2021.

Taken together, the Strategic report on pages 12 to 17 and this Directors' report fulfil the requirements of the Disclosure and Transparency Rules to provide a management report.

Information incorporated by reference

The following information is provided in other sections of this Annual Report and is incorporated by reference.

| Information | Section where provided | Page |
|--|--|------------|
| Corporate governance | Corporate governance statements | 87 |
| | Nomination, Audit and Risk Committee reports | 107 to 121 |
| Post-balance sheet events | Financial Statements – Note 26 | 197 |
| Likely future developments and research and development activities | Strategic report | 4 to 63 |
| Preparation and disclosure of Financial Statements and Annual Report | Directors' responsibilities statement | 149 |
| Use of financial instruments | Financial Statements – Note 21 | 192 to 193 |
| Shares held by the Company's Employee Benefit Trust | Financial Statements – Note 15 | 184 to 185 |
| Board membership and biographical details | Corporate governance report | 94 and 95 |
| Related party transactions | Financial Statements – Note 25 | 197 |
| Employee engagement | Strategic report | 22 |
| Greenhouse gas emissions | Strategic report | 53 to 63 |
| Relationships with capital providers and other stakeholders | Governance section | 36 to 37 |

Disclosure of information to the auditor

Each of the Directors, as at the date of this Annual Report, confirms that:

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

This confirmation is given and should be interpreted in accordance with the provision of Section 418 of the Companies Act 2006. Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the 2022 AGM.

Branches of the Company

The Group, through various subsidiary and related undertakings, has branches in a number of different jurisdictions in which the business operates. Further details are included in subsidiary undertakings on pages 200 to 203.

Dividends

We continue to target a payout ratio of between 35% and 45% of adjusted net profit. Our intention is to pay an interim and a final dividend in respect of each financial year in the approximate proportions of one-third and two-thirds, respectively, of the annual total dividend. We may periodically reassess this policy to reflect, among other things, our growth prospects, capital efficiency, investment plans and the profitability of the Group, whilst also maintaining appropriate levels of dividend cover. Any decision to declare and pay dividends will be made at the discretion of the Directors and will depend on, among other things, applicable law, regulation, restrictions, strategic objectives, capital management, the Group's various stakeholders (for further information see the section 172 statement on page 22), review of our comparator peer group, available and forecast distributable reserves of the Company and the forecast cashflows and liquidity of the Group, and other factors the Directors deem significant.

During the year, the Directors resolved to pay an interim dividend of 1.717 cents per share on 14 October 2021. A scrip dividend alternative was offered in respect of the interim dividend allowing shareholders to elect by 21 September 2021 to receive their dividend in the form of new ordinary shares. On 14 October 2021, 750,265 ordinary shares of 10p each were allotted to shareholders who had elected to take the scrip dividend alternative.

The Directors recommend a final dividend for the year of 4.154 cents per share (2020: 3.983 cents) which, together with the interim dividend, makes a total for the year of 5.871 cents per share (2020: 5.700 cents). The final dividend, if approved by the shareholders, will be paid on 19 May 2022 to shareholders on the register at the close of business on 1 April 2022; a scrip dividend alternative will also be available to shareholders. The Directors note that in the near term the dividend payout ratio may be slightly above the target ratio as investment is made in the ongoing transformation of the Group.

Capital structure

Share capital

As at 31 December 2021, the Company's issued share capital consisted of 2,014,572,935 ordinary shares of 10p each. Further details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in Note 15 to the Financial Statements. As at 31 December 2021, the Company had only one class of share consisting of ordinary shares of 10p each.

Acquisition of Company's own shares

At the Company's AGM on 7 May 2021 the Directors' authority was renewed under shareholders' resolution to purchase through the market up to 10% of the Company's ordinary shares at a maximum price per share at the higher of: (i) an amount equal to 105% of middle market quotations of the price of shares for the five business days prior to the date of purchase; and (ii) an amount equal to the higher of the last independent trade and the highest current independent bid at the time of purchase. This authority expires at the Company's 2022 AGM and the Company will seek its renewal at the AGM. It is confirmed that no acquisition of the Company's own shares has been made under such authority. During the year the Company applied to the Financial Conduct Authority and the London Stock Exchange for a block listing totalling 20,000,000 ordinary shares of 10 pence each for the purpose of funding the Company's Employee Benefit Trust.

Shareholders' rights

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

Restrictions on voting

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

Restrictions on the transfer of ordinary shares

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

Directors' appointment, replacement and powers

The appointment and replacement of Directors of the Company is governed by its Articles, the Code, the Companies Act and related legislation. The Articles themselves may be amended by special resolution and subject to shareholder approval. Details of the powers of the Board and its Committees are described in the Corporate governance report on page 98. The powers of the Board are set out in the Articles and the Terms of Reference of each of the Board's committees set out their respective duties and responsibilities. The aforementioned documents can be found at www.convatecgroup.com/investors/corporate-governance.

Significant agreements

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

In the event of a change of control of the Company, the Group's main funding agreements allow the lenders to give notice of repayment for all outstanding amounts under the relevant facilities.

Directors' indemnities

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

Company Secretary

The Company Secretary provides ongoing support to the Board in relation to corporate governance issues and compliance with the Listing Rules. She is responsible for establishing, implementing and monitoring the corporate governance framework, attending (directly or through a designate) all Board and committee meetings, advising on effective Board processes, advising on Directors' statutory duties, disclosure obligations and requirements under the Listing Rules, and working in conjunction with the investor relations team regarding dialogue with investors.

Political donations

No political donations, including to non-UK political parties, were made during the period. Information about the Group's lobbying activities is included on page 37.

Substantial shareholdings

At 31 December 2021, the Company had been notified in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company.

| Shareholder | No. of ordinary shares | Percentage of voting rights | Nature of holding |
|---|------------------------|-----------------------------|--|
| Novo Holdings A/S | 395,318,793 | 20.25% | Direct holding |
| The Capital Group Companies, Inc. | 97,418,767 | 4.9911% | Indirect holding |
| Artisan Partners Limited Partnership | 97,980,658 | 4.98% | Indirect holding |
| Pelham Capital LTD. | 93,526,729 | 4.71% | Direct holding/ Financial instruments |
| BlackRock, Inc. | | Below 5% | Indirect holding/ Financial instruments |
| Black Creek Investment Management, Inc. | 80,048,681 | 4% | Direct holding/ Indirect holding |
| GIC Private Limited | | Below 3% | Direct holding |

During the period between 31 December 2021 and 7 March 2022, being the latest practicable date prior to publication of this Annual Report, the Company received the following notification under Chapter 5 of the Disclosure and Transparency Rules.

| Shareholder | No. of ordinary shares | Percentage of voting rights | Nature of holding |
|----------------------------|------------------------|-----------------------------|-------------------|
| Standard Life Aberdeen Plc | 102,381,222 | 5.08% | Indirect holding |

Relationship agreement with controlling shareholders

Novo Holdings A/S ("Novo") became a significant shareholder on 31 March 2017 and the Company entered a relationship agreement with Novo on such date as required by Listing Rule 9.2.2A R(2)(a). Given its significant investment in the Company, Novo is entitled to appoint one Non-Executive Director to the Board for so long as they and their associates are entitled to exercise, or control the exercise of, 10% or more of the votes able to be cast on all or substantially all matters at general meetings of the Company. In the financial period to 31 December 2021 (and also from 31 December 2021 to 7 March 2022, being the latest practicable date prior to publication of this Annual Report), the Company has complied with the independence provisions of the relationship agreement, and so far as the Company is aware, Novo and their associates also complied with the independence provisions.

Diversity and inclusion

We are committed to creating a values-led, performance-driven culture which starts with our employees, and we aim to bring together a rich diversity of backgrounds, experiences, preferences and capabilities which unite together to improve people's lives through their work at ConvaTec. The Board considers a diverse workforce as critical to its success. Information about the Group's initiatives to achieve diversity across the business, including specific objectives, are contained on page 45.

Employment of disabled people

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

Employee share schemes

In addition to the discretionary share schemes operated as part of the Group's long-term incentives, detailed in the Remuneration Policy on page 136, the Group operates a global all-employee share scheme. The Directors believe that this scheme aligns the interests of employees and shareholders by encouraging all employees to buy and own shares in the Company, thus enabling them to benefit directly from the anticipated growth and success of the Group in the future.

Executive Directors may also participate in the UK all-employee share scheme, which is an HMRC approved savings-related share option plan, on the same basis as other eligible employees. All participants may invest up to the limits set in line with HMRC guidance and as operated by the Group.

Shares acquired through the Group's share plans rank *pari passu* with existing ordinary shares in issue and have no special rights with regards to voting, rights to dividend, control of the Company or otherwise.

All of the Group's employee share plans contain provisions relating to a change of control. On a change of control, options and awards granted to employees under the Group's share plans may vest and become exercisable, subject to the satisfaction of any applicable performance conditions at that time.

Listing Rules – compliance with LR 9.8.4R

The information required to be disclosed by LR 9.8.4R can be found in the following locations. There are no other disclosures required under this LR.

| Section | Applicable sub-paragraph within LR 9.8.4R | Location |
|---------|---|---|
| 1 | Interest capitalised | Group Financial Statements, note 23, page 196 |
| 4 | Details of long-term incentive schemes | Directors' Remuneration report, page 139 |
| 14 | Confirmation of relationship agreement | Directors' report, page 148 |

Annual General Meeting

The Annual General Meeting will be held on 12 May 2022 at 2pm and will take place at 3 Forbury Place, 23 Forbury Road, Reading, RG1 3JH, in the form of a hybrid meeting. Notice of the meeting, containing details of the resolutions to be put to the meeting, will be available at www.convatecgroup.com/investors/reports/.

By order of the Board:

Evelyn Douglas
Company Secretary
7 March 2022

ConvaTec Group Plc is registered in England No. 10361298

Directors' responsibilities statement

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

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

In preparing the parent company's financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

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



Karim Bitar
Chief Executive Officer



Frank Schulkes
Chief Financial Officer

Consolidated Income Statement

For the year ended 31 December 2021

| | Notes | 2021 \$m | 2020 \$m |
|--|-------|----------------|----------------|
| Revenue | 2 | 2,038.3 | 1,894.3 |
| Cost of sales | | (915.2) | (875.5) |
| Gross profit | | 1,123.1 | 1,018.8 |
| Selling and distribution expenses | | (539.7) | (463.3) |
| General and administrative expenses | | (285.3) | (262.1) |
| Research and development expenses | | (94.5) | (82.4) |
| Operating profit | 3 | 203.6 | 211.0 |
| Finance income | 23 | 0.8 | 1.9 |
| Finance expense | 23 | (44.3) | (50.3) |
| Non-operating (expense)/income, net | 4 | (8.8) | 12.1 |
| Profit before income taxes | | 151.3 | 174.7 |
| Income tax expense | 5 | (33.7) | (62.2) |
| Net profit | | 117.6 | 112.5 |
| Earnings per share | | | |
| Basic earnings per share (cents per share) | 6 | 5.9¢ | 5.7¢ |
| Diluted earnings per share (cents per share) | 6 | 5.8¢ | 5.6¢ |

The accounting policies and notes on pages 155 to 197 form an integral part of the Consolidated Financial Statements. All amounts are attributable to shareholders of the Group and wholly derived from continuing operations.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

| | Notes | 2021 \$m | 2020 \$m |
|--|-------|---------------|-------------|
| Net profit | | 117.6 | 112.5 |
| Other comprehensive income | | | |
| Items that will not be reclassified subsequently to the Consolidated Income Statement | | | |
| Remeasurement of defined benefit pension plans | 13 | 3.2 | (0.4) |
| Change in pension asset restriction | 13 | 1.3 | 5.0 |
| Income tax in respect of items that will not be reclassified | 13 | 0.1 | 0.2 |
| Items that may be reclassified subsequently to the Consolidated Income Statement | | | |
| Exchange differences on translation of foreign operations | | (29.6) | 53.0 |
| Effective portion of changes in fair value of cash flow hedges | 21 | (5.1) | (6.7) |
| Changes in fair value of cash flow hedges reclassified to the Consolidated Income Statement | 21 | 5.7 | (0.2) |
| Costs of hedging | 21 | (0.4) | (0.1) |
| Income tax in respect of items that may be reclassified | | (0.9) | 1.7 |
| Other comprehensive (expense)/income | | (25.7) | 52.5 |
| Total comprehensive income | | 91.9 | 165.0 |

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

Consolidated Statement of Financial Position

As at 31 December 2021

| | Notes | 2021 \$m | 2020 \$m |
|-------------------------------------|-------|----------------|-------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 7 | 366.7 | 352.2 |
| Right-of-use assets | 22 | 83.6 | 85.8 |
| Intangible assets and goodwill | 8 | 2,058.5 | 2,089.6 |
| Deferred tax assets | 5 | 28.9 | 41.4 |
| Restricted cash | 10 | 13.6 | 5.7 |
| Other non-current receivables | 10 | 11.9 | 13.3 |
| | | 2,563.2 | 2,588.0 |
| Current assets | | | |
| Inventories | 9 | 308.8 | 297.1 |
| Trade and other receivables | 10 | 323.5 | 307.9 |
| Derivative financial assets | 21 | 15.1 | 8.1 |
| Cash and cash equivalents | 20 | 463.4 | 565.4 |
| | | 1,110.8 | 1,178.5 |
| Total assets | | 3,674.0 | 3,766.5 |
| Equity and liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 11 | 342.5 | 334.1 |
| Borrowings | 19 | 144.8 | 86.6 |
| Lease liabilities | 22 | 19.7 | 19.8 |
| Current tax payable | | 45.5 | 55.6 |
| Derivative financial liabilities | 21 | 11.7 | 7.7 |
| Provisions | 12 | 5.0 | 9.4 |
| | | 569.2 | 513.2 |
| Non-current liabilities | | | |
| Borrowings | 19 | 1,199.8 | 1,369.8 |
| Lease liabilities | 22 | 70.8 | 72.3 |
| Deferred tax liabilities | 5 | 87.2 | 101.4 |
| Provisions | 12 | 1.7 | 1.5 |
| Derivative financial liabilities | 21 | 2.9 | 7.7 |
| Other non-current liabilities | 11 | 47.6 | 29.9 |
| | | 1,410.0 | 1,582.6 |
| Total liabilities | | 1,979.2 | 2,095.8 |
| Net assets | | 1,694.8 | 1,670.7 |
| Equity | | | |
| Share capital | 15 | 247.0 | 245.5 |
| Share premium | 15 | 142.3 | 115.3 |
| Own shares | 15 | (2.2) | (6.7) |
| Retained deficit | | (842.0) | (845.3) |
| Merger reserve | | 2,098.9 | 2,098.9 |
| Cumulative translation reserve | | (75.7) | (46.1) |
| Other reserves | 15 | 126.5 | 109.1 |
| Total equity | | 1,694.8 | 1,670.7 |
| Total equity and liabilities | | 3,674.0 | 3,766.5 |

The Consolidated Financial Statements of ConvaTec Group Plc, company number 10361298, were approved by the Board of Directors and authorised for issue on 7 March 2022 and signed on its behalf by:



Frank Schulkes
Chief Financial Officer



Karim Bitar
Chief Executive Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

| | Notes | Share capital \$m | Share premium \$m | Own shares \$m | Retained deficit \$m | Merger reserve \$m | Cumulative translation reserve \$m | Other reserves \$m | Total \$m |
|--|--------|----------------------|----------------------|-------------------|-------------------------|-----------------------|---------------------------------------|-----------------------|--------------|
| At 1 January 2020 | | 242.9 | 70.7 | (10.8) | (847.7) | 2,098.9 | (99.1) | 106.1 | 1,561.0 |
| Net profit | | – | – | – | 112.5 | – | – | – | 112.5 |
| Other comprehensive income: | | | | | | | | | |
| Foreign currency translation adjustment, net of tax | | – | – | – | – | – | 53.0 | – | 53.0 |
| Remeasurement of defined benefit pension plans, net of tax | 13 | – | – | – | – | – | – | (0.2) | (0.2) |
| Change in pension asset restriction | 13 | – | – | – | – | – | – | 5.0 | 5.0 |
| Changes in fair value of cash flow hedges, net of tax | | – | – | – | – | – | – | (5.3) | (5.3) |
| Other comprehensive income | | – | – | – | – | – | 53.0 | (0.5) | 52.5 |
| Total comprehensive income | | – | – | – | 112.5 | – | 53.0 | (0.5) | 165.0 |
| Dividends paid | 16 | – | – | – | (62.9) | – | – | – | (62.9) |
| Scrip dividend | 15, 16 | 2.6 | 44.6 | – | (47.2) | – | – | – | – |
| Share-based payments | 17 | – | – | – | – | – | – | 12.4 | 12.4 |
| Share awards vested | | – | – | 9.7 | – | – | – | (9.7) | – |
| Excess deferred tax benefit from share-based payments | | – | – | – | – | – | – | 0.8 | 0.8 |
| Purchase of own shares | 15 | – | – | (5.6) | – | – | – | – | (5.6) |
| At 31 December 2020 | | 245.5 | 115.3 | (6.7) | (845.3) | 2,098.9 | (46.1) | 109.1 | 1,670.7 |
| Net profit | | – | – | – | 117.6 | – | – | – | 117.6 |
| Other comprehensive (expense)/income: | | | | | | | | | |
| Foreign currency translation adjustment, net of tax | | – | – | – | – | – | (29.6) | – | (29.6) |
| Remeasurement of defined benefit pension plans, net of tax | 13 | – | – | – | – | – | – | 3.3 | 3.3 |
| Change in pension asset restriction | 13 | – | – | – | – | – | – | 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 | 16 | – | – | – | (85.8) | – | – | – | (85.8) |
| Scrip dividend | 15, 16 | 1.5 | 27.0 | – | (28.5) | – | – | – | – |
| Share-based payments | 17 | – | – | – | – | – | – | 16.4 | 16.4 |
| Share awards vested | | – | – | 4.5 | – | – | – | (3.5) | 1.0 |
| Excess deferred tax benefit from share-based payments | | – | – | – | – | – | – | 0.6 | 0.6 |
| At 31 December 2021 | | 247.0 | 142.3 | (2.2) | (842.0) | 2,098.9 | (75.7) | 126.5 | 1,694.8 |

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

| | Notes | 2021 \$m | 2020 \$m |
|--|-------|-------------|-------------|
| Cash flows from operating activities | | | |
| Net profit | | 117.6 | 112.5 |
| Adjustments for | | | |
| Depreciation of property, plant and equipment | 7 | 40.6 | 38.5 |
| Depreciation of right-of-use assets | 22 | 22.8 | 22.4 |
| Amortisation of intangibles | 8 | 147.2 | 136.8 |
| Income tax | 5 | 33.7 | 62.2 |
| Non-operating expense, net | | 4.5 | 9.8 |
| Finance costs, net | 23 | 43.5 | 48.4 |
| Share-based payments | 17 | 16.4 | 12.4 |
| Impairment/write-off of intangible assets | 3 | 2.9 | 1.8 |
| Impairment/write-off of property, plant and equipment | 3 | 3.0 | 9.9 |
| Change in assets and liabilities: | | | |
| Inventories | | (19.6) | (5.3) |
| Trade and other receivables | | (29.4) | 6.5 |
| Other non-current receivables | | 1.1 | (4.1) |
| Restricted cash | | (8.4) | (2.1) |
| Trade and other payables | | 10.7 | 47.5 |
| Other non-current payables | | 14.0 | 5.3 |
| Net cash generated from operations | | 400.6 | 502.5 |
| Interest received | | 0.8 | 1.9 |
| Interest paid | | (36.3) | (50.4) |
| Income taxes paid | | (59.2) | (54.5) |
| Net cash generated from operating activities | | 305.9 | 399.5 |
| Cash flows from investing activities | | | |
| Acquisition of property, plant and equipment and intangible assets | | (94.1) | (86.2) |
| Proceeds from sale of property, plant and equipment and other assets | | – | 0.1 |
| Acquisitions, net of cash acquired | 8.4 | (113.8) | – |
| Proceeds from divestiture | 8.3 | 1.4 | 29.8 |
| Net cash used in investing activities | | (206.5) | (56.3) |
| Cash flows from financing activities | | | |
| Repayment of borrowings | 19 | (583.9) | (73.0) |
| Proceeds from borrowings | 19 | 491.8 | – |
| Payment of lease liabilities | 22 | (22.0) | (20.6) |
| Purchase of own shares | 15 | – | (5.6) |
| Dividends paid | 16 | (85.8) | (62.9) |
| Net cash used in financing activities | | (199.9) | (162.1) |
| Net change in cash and cash equivalents | | (100.5) | 181.1 |
| Cash and cash equivalents at beginning of the year | 20 | 565.4 | 385.8 |
| Effect of exchange rate changes on cash and cash equivalents | | (1.5) | (1.5) |
| Cash and cash equivalents at end of the year | 20 | 463.4 | 565.4 |

Notes to the Consolidated Financial Statements

1. Basis of preparation

This section describes the Group's significant accounting policies that relate to the Consolidated Financial Statements and explains critical accounting judgements and estimates that management has identified as having a potentially material impact to the Group. Specific accounting policies relating to the Notes to the Consolidated Financial Statements are described within that note.

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 with its registered office situated in England and Wales. The Company's registered office is 3 Forbury Place, 23 Forbury Road, Reading, RG1 3JH, United Kingdom.

The Consolidated Financial Statements have been prepared in accordance with United Kingdom adopted international accounting standards.

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

Pages 2 and 3 in the Strategic report provide further detail of the Group's principal activities and nature of its operations.

1.2 Significant accounting policies

The following significant accounting policies apply to the Consolidated Financial Statements as a whole:

Basis of accounting and presentation

The consolidated financial information has been prepared on a historical cost basis, except for certain financial instruments where fair value has been applied. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

As at 31 December 2020, derivative current assets (\$8.1 million) and derivative current liabilities (\$7.7 million) have been separately disclosed on the face of the Consolidated Statement of Financial Position to align to current year presentation. These amounts were previously disclosed in 'trade and other receivables' and 'trade and other payables' respectively.

Basis of consolidation

The Consolidated Financial Statements include the results of the Company and all its subsidiary undertakings. Subsidiaries are entities controlled by the Group. Control exists when the Group: (i) has power over the investee; (ii) is exposed, or has rights, to variable returns from its involvement in the investee; and (iii) has the ability to use its power to affect its returns. The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The consolidated financial information of the Company's subsidiaries is included within the Group's Consolidated Financial Statements from the date that control commences until the date that control ceases and is prepared for the same year-end date using consistent accounting policies.

Going concern

As discussed in the Financial review on pages 77 to 85, the overall financial performance of the business remains strong with a robust liquidity position. During the year, the Group invested in the transformation programme of the business and completed two acquisitions for a consideration of \$113.8 million (Note 8.4 – Acquisitions). In addition, the Group diversified its funding sources after securing \$500 million from a debut issuance of senior notes, the proceeds from which were used to prepay a portion of its existing debt facilities. As at 31 December 2021, the Group held cash and cash equivalents of \$463.4 million, and borrowings of \$1,344.6 million. The borrowings comprised senior notes of \$500 million and multicurrency term loans of \$857.9 million less unamortised financing fees of \$13.3 million. The senior notes are repayable in 2029 and the multicurrency term loans are amortising with a capital repayment of \$148.8 million within the next 12 months and \$709.1 million repayable in full by October 2024. The Group also has access to a \$200 million multicurrency revolving credit facility, which remains undrawn and expires in October 2024.

In preparing their assessment of going concern, the Directors have considered available cash resources, financial performance and forecast performance, together with the Group's financial covenant compliance requirements and principal risks and uncertainties. The availability assessment includes the funding requirements in relation to the recently announced agreement to acquire Triad Life Sciences Inc for an initial consideration of \$125.0 million and contingent consideration of \$325.0 million dependent on short-term milestones and performance over the two years post completion.

In assessing going concern, and in accordance with FRC guidance, management used the Board approved 2022 budget and longer-term strategic plan as foundations with the application of severe but plausible downside scenarios linked to the Group's principal and emerging risks, including supply chain disruption, cyber security disruption, delivery of transformation initiatives, regulatory breaches and geopolitical events (including recurrent and/or new pandemic). Further details of the specific scenarios are provided in the Viability statement on pages 74 to 76. Under each scenario the Group retained significant liquidity and covenant headroom throughout the going concern period. A reverse stress test, before mitigation, was also considered as part of the Viability statement but the conditions of the reverse stress test were considered implausible. There are no key sources of estimation uncertainty in arriving at the going concern conclusion and no significant judgements have been required.

1. Basis of preparation (continued)

Accordingly, at the time of approving these Consolidated Financial Statements, the Directors have a reasonable expectation that the Group and the Company will have adequate liquid resources to meet their respective liabilities as they become due and will be able to sustain its business model, strategy and operations and remain solvent for a period of at least 12 months from 7 March 2022.

Foreign currency translation and transactions

Assets and liabilities of subsidiaries whose functional currency is not US dollars are translated into US dollars at the rate of exchange at the period end. Income and expenses are translated into US dollars at the average rates of exchange prevailing during the year. Foreign currency gains and losses resulting from the translation of subsidiaries into US dollars are recognised in the Consolidated Statement of Comprehensive Income. Exchange differences arising from the translation of the net investment in foreign operations are taken to the cumulative translation reserve within equity. They are recycled and recognised in the Consolidated Income Statement upon disposal of the operation.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Any gain or loss arising from subsequent exchange rate movements is included as an exchange gain or loss in the Consolidated Income Statement.

Hyperinflation accounting

Argentina has been considered as a hyperinflationary economy since 2018, with hyperinflation accounting being required for foreign operations with a functional currency of the Argentine peso to meet the conditions of IAS 29, *Financial Reporting in Hyperinflationary Economies* ("IAS 29"). ConvaTec Argentina SRL is a subsidiary that has a functional currency of Argentine peso. The impact of adopting hyperinflation accounting is deemed immaterial to the Group and adjustments related to IAS 29 have not been recognised in either the current or prior financial year.

1.3 Critical accounting judgements and key sources of estimation uncertainty

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

Considerations for the identification of critical accounting judgements and key estimates

A detailed assessment was performed by management of the potential impact on each balance sheet caption and associated accounting estimates and judgements at each reporting date during the year. In preparing the Consolidated Financial Statements, no critical accounting judgements or key sources of estimation uncertainty have been identified from this assessment.

As detailed further in the Group's Audit and Risk Committee report on pages 110 to 121, the Committee has reviewed, discussed, and challenged management on the determination of its critical accounting judgements and key estimates.

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

The Group had unused US tax losses at 31 December 2021 (refer to Note 5.5). IAS 12 *Income taxes*, states that when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses can be utilised by the entity. Given the history of US tax losses, management assessed the future profitability of its US operations over the next three years, taking into account known significant contracts, organic and inorganic strategic growth initiatives, and any cost reduction transformation programmes, and concluded that there is insufficient evidence that there will be short term future taxable profit in the US against which these losses can be utilised. Accordingly, the unused US tax losses have not been recognised as a deferred tax asset at 31 December 2021 except to the extent that there are suitable offsetting taxable temporary differences. Based on the strategic plan for the US, management also concluded that the recognition of a further deferred tax asset on unused US tax losses is unlikely to be subject to a material adjustment in the next 12 months. In the interim results for the six months ended 30 June 2021, the recognition of deferred tax assets in relation to unused US tax losses was identified as a key source of estimation uncertainty but following further information and clarification in respect of the impact of the Group's transformation programme on the US taxable profits, management concluded that this is no longer a key source of estimation uncertainty.

1. Basis of preparation (continued)

1.4 Accounting standards

New standards and interpretations applied for the first time

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

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

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

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

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 and interpretations not yet applied

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

Other interpretations and amendments

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

Results of operations

This section includes disclosures explaining the Group's performance for the year, including segmental information, operating costs, other expenses, taxation and earnings per share.

2. Revenue and segmental information

2.1 Revenue recognition

The Group sells a broad range of products to a wide range of customers, including healthcare providers, patients and manufacturers. This note provides further information about how the Group generates revenue and when it is recognised in the Consolidated Income Statement.

Accounting policy

Revenue recognition

The Group measures revenue for goods sold based on the consideration specified in a contract with a customer, net of discounts, chargeback allowances and sales-related taxes. Revenue is recognised when control over a product or service is transferred to a customer, distributor or wholesaler, which is generally when goods have been delivered, as most products are insured to delivery. Due to the short-term nature of the receivables from sale of goods, the Group measures them at the original transaction price without discounting. The transaction price is the amount the Group expects to receive at that date.

Nature of goods and services

Advanced Wound Care, Ostomy Care, Continence Care and Critical Care products are sold to pharmacies, hospitals and other acute and post-acute healthcare service providers directly or through distributors and wholesalers. Products are also sold directly to end customers (patients) through the Group's home services entities and a small number of clinical and retail outlets. Infusion Care primarily serves business-to-business customers, consisting of the leading insulin pump manufacturers. A small proportion of its revenue is derived from business-to-business urology product sales.

In 2021 and 2020, no single customer generated more than 10% of the Group's revenue.

Nature, timing of satisfaction of performance obligations

Principally the Group's contracts with customers contain a single performance obligation, that is the delivery of products to customers. Revenue is typically recognised when the customer receives the product but is subject to the shipping terms in each individual contract. Where non-standard shipping arrangements exist, revenue is recognised when the goods have transferred control. Allowances for returns, where the contract specifies these terms, are made at the point of sale.

For sales to distributors, revenue is recognised when title is transferred to the distributor and the distributor has assumed control, the timing of which depends on the contractual terms with each distributor. Chargeback allowances or contractual deductions relating to end customer agreements, which may differ from distributor contracts, are made at the point of title transfer to the distributor. In certain European countries, rebates are provided to governments. These rebates are often mandated by laws or government regulations. These rebates are estimated based on government regulations and unbudgeted spending, laws and terms of individual rebate agreements, and are recorded as a deduction from revenue at the time the related revenue is recorded. The estimates are adjusted periodically to reflect actual experience.

When distributors buy products from the Group at a contract price and sell these products to end customers at a price agreed with the Group that is lower than the distributors' list price, a chargeback may arise and a claim may be submitted to the Group by the distributor. The provision for chargebacks is based on expected sell-through levels by the Group's distributors to contracted customers, as well as estimated distributor inventory levels. Retrospective claims are reviewed against estimations to ensure provisions are regularly updated.

Volume discounts

The Group offers certain prospective volume discounts to customers who achieve a specified volume amount or value of purchases in any given year. Volume discounts that meet the definition of a material right are recognised as a separate performance obligation. Material rights are the option to purchase additional products at a discount which would not have been given had the contract not been entered into and are incremental to the range of discounts typically given for those goods to that class of customer.

The stand-alone selling price of these volume discounts is based on the discount that the customer would obtain when exercising the option, adjusted for any discount the customer could receive without exercising the option and the likelihood that the option will be exercised. The revenue allocated to volume discounts is short-term in nature and recognised proportionally to the pattern of options exercised by the customer or when the option expires.

2. Revenue and segmental information (continued)

Contract costs

Incremental costs in respect of obtaining a contract with a customer principally relate to commissions paid by the Group to its sales representatives. Such costs are capitalised as an asset to the extent that they directly relate to a specific contract, are used to generate or enhance resources used in satisfying performance obligations and are expected to be recovered.

The amortisation period for commissions can differ according to the contract term. Renewals of milestones in the contract are taken into account when determining the amortisation period. For each contract that has sales commissions paid, the Group has determined an appropriate amortisation period that is consistent with the transfer of control to the customer. These capitalised costs amounted to \$5.6 million (2020: \$4.7 million) at 31 December 2021 and the amount of related amortisation expense for the year ended 31 December 2021 was \$3.6 million (2020: \$3.7 million). There was no impairment loss in respect of the costs capitalised.

Contract balances

The Group recognises contract liabilities that are primarily in respect of advance consideration received from customers prior to transfer of the related products and material rights offered to customers for options to purchase additional goods. The contract liability balance at 31 December 2021 was \$4.9 million (2020: \$5.1 million).

2.2 Segment information

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

Pages 23 to 31 of the Strategic report provide further detail of category revenue.

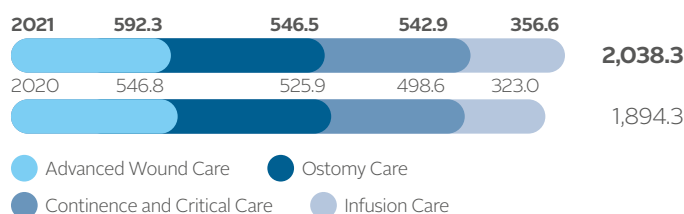
The Group's CEO, who is the Group's Chief Operating Decision Maker, evaluates the Group's global product portfolios on a revenue basis and evaluates profitability and associated investment on an enterprise-wide basis due to shared infrastructures and support functions between the categories. Financial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

Revenue by category

The Group generates revenue across four major product categories.

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

Revenue by category (\$m)

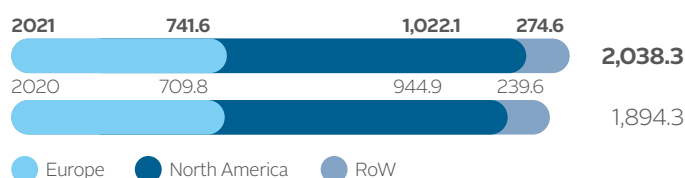


Geographic information

Geographic markets

The following chart sets out the Group's revenue by regional geographic market in which third party customers are located:

Revenue by geography (\$m)^(a)



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

Geographic regions

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

| | 2021 \$m | 2020 \$m |
|---------------------------|----------------|----------------|
| Geographic regions | | |
| US | 704.1 | 666.1 |
| UK | 147.2 | 149.4 |
| Denmark | 346.8 | 316.1 |
| Other ^(a) | 840.2 | 762.7 |
| | 2,038.3 | 1,894.3 |

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

2. Revenue and segmental information (continued)

The following table sets out the Group's long-lived assets by country in which the legal entity resides:

| | 2021 \$m | 2020 \$m |
|--|----------------|----------------|
| Long-lived assets^(a) | | |
| US | 1,141.9 | 1,093.0 |
| UK | 777.8 | 818.7 |
| Denmark | 272.6 | 293.0 |
| Other ^(b) | 316.5 | 322.9 |
| Total long-lived assets | 2,508.8 | 2,527.6 |

(a) Long-lived assets consist of property, plant and equipment, right-of-use assets, intangible assets and goodwill.

(b) Other consists primarily of other countries in Europe and Latin America.

3. Operating costs

The Group incurs operating costs associated with the day-to-day operation of the business. These operating costs are deducted from revenue to calculate operating profit.

3.1 Operating profit

Operating profit is stated after deducting from revenue:

| | Notes | 2021 \$m | 2020 \$m |
|---|-------|--------------|--------------|
| Depreciation: | | | |
| Property, plant and equipment | 7 | 40.6 | 38.5 |
| Right-of-use assets | 22 | 22.8 | 22.4 |
| Amortisation of intangibles | 8 | 147.2 | 136.8 |
| Impairment/write-off of property, plant and equipment | 7 | 3.0 | 9.9 |
| Impairment/write-off of intangible assets | 8 | 2.9 | 1.8 |
| Gain on disposal of property, plant and equipment | | – | (0.1) |
| Loss on terminated leases | 22 | – | 0.1 |
| Amounts in respect of inventories included in cost of sales | | 766.7 | 732.6 |
| Write-down of inventories ^(a) | | 6.4 | 19.5 |
| Lease expenses ^(b) | 22 | 2.8 | 3.9 |
| Staff costs: | | | |
| Wages and salaries | | 533.4 | 478.1 |
| Share-based payment expense | 17 | 16.4 | 12.4 |
| Social security costs | | 64.2 | 59.1 |
| Defined contribution plans post-employment costs | | 21.0 | 18.0 |
| Defined benefit plans pension costs | 13 | 3.6 | 2.9 |
| Recruitment and other employment-related fees | | 11.5 | 9.2 |
| Total staff costs | | 650.1 | 579.7 |

(a) Write down of inventories to their realisable value are included in cost of sales.

(b) Lease expenses comprises the costs in respect of low-value leases and short-term leases. Refer to accounting policy in Note 22 – Leases.

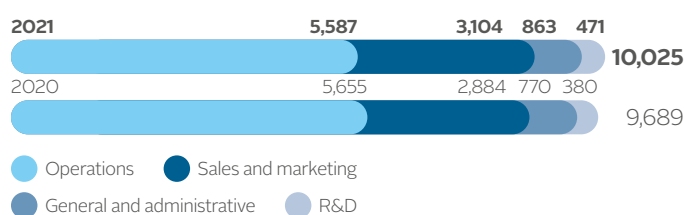
The remuneration of the Executive Directors, which is set out on pages 127 to 135, has been audited and is included within staff costs and forms part of these Consolidated Financial Statements.

3. Operating costs (continued)

3.2 Employee numbers

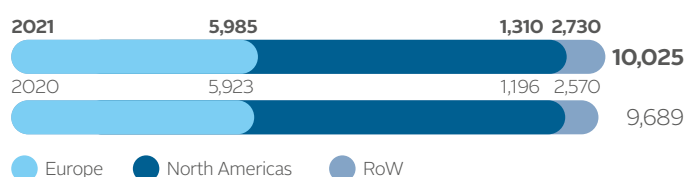
The average number of the Group's employees by function:

Employees by function



The average number of the Group's employees by location:

Employees by location^(a)



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

3.3 Auditor's remuneration

The total remuneration of the Group's auditor, Deloitte LLP, for services provided to the Group during the year ended 31 December is analysed below:

| | 2021 \$m | 2020 \$m |
|--------------------------------------|-------------|-------------|
| Fees for audit services | | |
| Group | 1.2 | 1.1 |
| Subsidiaries | 3.2 | 3.1 |
| Total fees for audit services | 4.4 | 4.2 |
| Fees for non-audit services | | |
| Audit-related assurance services | 0.2 | 0.2 |
| Other assurance services | 0.2 | – |
| Total auditor remuneration | 4.8 | 4.4 |

A description of the work performed by the Audit and Risk Committee to safeguard auditor independence when non-audit services are provided is set out in the Audit and Risk Committee report on pages 110 to 121.

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

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

| | Notes | 2021 \$m | 2020 \$m |
|---|-------|--------------|-------------|
| Foreign exchange gain/(loss) ^(a) | | 4.3 | (26.3) |
| (Loss)/gain on foreign exchange forward contracts | 21 | (9.7) | 21.7 |
| (Loss)/gain on foreign exchange cash flow hedges | 21 | (3.9) | 0.2 |
| Gain on divestiture | 8 | 0.5 | 16.5 |
| Non-operating (expense)/income, net | | (8.8) | 12.1 |

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

5. 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. The deferred tax section of the note also provides information on expected future tax charges or benefits and sets out the deferred tax assets and liabilities held across the Group.

Accounting Policy

The tax expense represents the sum of current and deferred tax.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of prior years. Taxable profit differs from profit before income taxes because taxable profit excludes items that are either never taxable or tax deductible or items that are taxable or tax deductible in a different period.

Deferred tax

Deferred tax is recognised using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences:

- on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- arising on the initial recognition of goodwill;
- on investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to temporary differences when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Current tax and deferred tax for the year

Current tax and deferred tax are recognised in the Consolidated Income Statement, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current tax and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Tax provisions

The Group is subject to income taxes in numerous tax jurisdictions. Judgement is sometimes required in determining the worldwide provision for income taxes. There may be transactions for which the ultimate tax determination is uncertain and may be challenged by the tax authorities. The Group recognises liabilities for anticipated or actual tax audit issues based on estimates of whether additional taxes will be due. Where an outflow of funds to a tax authority is considered probable and the Group can make a reliable estimate of the outcome of the issue, management calculates the provision for the best estimate of the liability. In assessing its uncertain tax provisions, management takes into account the specific facts of each issue, the likelihood of settlement and the input of professional advice where required. The Group assumes that where a tax authority has a right to examine amounts reported to it, they will do so and will have full knowledge of all relevant information. Where the ultimate liability as a result of an issue varies from the amounts provided, such differences could impact the current and deferred tax assets and liabilities in the period in which the dispute is concluded.

5. Income taxes (continued)

5.1 Taxation

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

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

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

The change in tax rates mainly relates to the revaluation of the net deferred tax liability in the UK following the enactment of Finance Act 2021 on 10 June 2021, which increases the UK corporation tax rate from 19.0% to 25.0% from 1 April 2023. This resulted in a tax expense of \$4.8 million. In 2020 the change in tax rates mainly relates to the revaluation of the net deferred tax liability in the UK from 17.0% to 19.0% following the reversal of the change in corporation tax rate originally due to come into effect from 1 April 2020.

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

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

5.2 Reconciliation of effective tax rate

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

Tax reconciliation to UK statutory rate

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

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

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

(b) Includes tax on amortisation of indefinite-lived intangibles and taxes on unremitted earnings.

The Group's income tax expense includes a \$6.8 million tax benefit due to the recognition of deferred tax assets following the acquisition of Cure Medical in respect of previously unrecognised tax losses in the US (in 'Movement in unrecognised losses and other assets') and \$3.0 million tax expense due to the derecognition of deferred tax asset for pre-2017 losses in the UK where its utilisation is not probable in the foreseeable future. Refer to Note 8.4 for the acquisition accounting of Cure Medical.

5. Income taxes (continued)

The Group has worldwide operations and therefore is subject to several factors that may affect future tax charges, principally the levels and mix of profitability in different tax jurisdictions, transfer pricing regulations, tax rates imposed and tax regime reforms. The calculation of the Group's tax expense involves a degree of estimation and judgements in respect of certain items for which the tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority, specifically in relation to open tax and transfer pricing matters. Due to the high volume of intercompany transactions, the Group's evolving business model and the increasing complexity in interaction between multiple tax laws and regulations, transfer pricing is an area of significant risk, requiring significant judgement in determining the appropriate allocation of profits between jurisdictions. The Group assessed the impact of ongoing changes to the Group's operating model, the supporting documentation for the tax and transfer pricing positions, existing tax authority challenges, and the likelihood of new challenges by tax authorities. In line with the requirements of IFRIC 23, *Uncertainty over Income Tax Treatments*, the Group has provided for uncertain tax positions in respect of transfer pricing positions and withholding tax liabilities. The net decrease in provisions during 2021 was driven by the reassessment of estimates and, settlement and expiry of open tax issues in various jurisdictions. Where open issues exist, the ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of discussions with the relevant tax authorities or, where applicable, appeal proceedings. Accordingly, settlement and expiry of open tax issues could have a significant impact on future tax charges.

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

5.3 Deferred tax

The components of deferred tax assets and liabilities at 31 December are as follows:

| | 2021 \$m | 2020 \$m |
|--------------------------|-------------|-------------|
| Deferred tax assets | 28.9 | 41.4 |
| Deferred tax liabilities | (87.2) | (101.4) |
| | (58.3) | (60.0) |

The movement in deferred tax assets is principally due to the decrease relating to intra-group profits eliminated on intercompany inventory and other temporary differences.

The movement in deferred tax liabilities is principally due to a decrease of \$21.5 million relating to amortisation of intangibles, deferred tax benefit of additional UK tax reliefs claimed in respect of a number of years and other temporary differences, partially offset by an increase in net deferred tax liabilities of \$7.3 million as a result of the acquisition of Cure Medical and the revaluation of net deferred tax liabilities due to increase in UK corporation tax rate (2020: decrease of \$6.4 million).

The future potential recognition of deferred tax assets on unutilised tax losses in the US is not expected to materially impact the Group's tax charge and the Statement of Financial Position in the next 12 months. Refer to Note 1.3 for further details.

5.4 Movement in deferred tax assets and liabilities

Deferred tax is measured on the basis of the tax rates enacted or substantively enacted at the reporting date. The UK deferred tax rate is increasing (from 19.0% to 25.0% from 1 April 2023). The movements in the deferred tax assets and liabilities were as follows:

| | Inventory \$m | Tax losses \$m | PP&E \$m | Intangibles \$m | Interest \$m | Other \$m | Total \$m |
|--|------------------|-------------------|---------------|--------------------|-----------------|--------------|---------------|
| At 1 January 2020 | 13.9 | 47.5 | (4.0) | (143.0) | 20.1 | 12.7 | (52.8) |
| Recognised in Income Statement | 0.8 | 7.8 | 5.5 | (30.4) | (0.5) | 9.3 | (7.5) |
| Recognised in other comprehensive income | – | – | – | – | 1.7 | 0.2 | 1.9 |
| Other | – | – | – | – | – | 1.0 | 1.0 |
| Foreign exchange | (0.5) | – | (0.3) | (1.9) | 0.1 | – | (2.6) |
| At 31 December 2020 | 14.2 | 55.3 | 1.2 | (175.3) | 21.4 | 23.2 | (60.0) |
| Recognised in Income Statement | (5.8) | 34.4 | (12.5) | 1.1 | (4.0) | (3.6) | 9.6 |
| Recognised in other comprehensive income | – | – | – | – | (0.9) | 0.1 | (0.8) |
| Acquisitions ^(a) | (0.2) | – | (0.1) | (9.1) | – | – | (9.4) |
| Other | – | – | – | – | – | 0.5 | 0.5 |
| Foreign exchange | 0.2 | (0.2) | 0.4 | 0.9 | – | 0.5 | 1.8 |
| At 31 December 2021 | 8.4 | 89.5 | (11.0) | (182.4) | 16.5 | 20.7 | (58.3) |

(a) Refer to Note 8.4 – Acquisitions.

5. Income taxes (continued)

Net deferred tax liabilities provided in relation to intangible assets are predominantly in respect of temporary differences arising on assets and liabilities acquired as part of historic business combinations and a deferred tax asset that arose on the Swiss tax reform. The net movement in deferred tax liability in respect of intangible assets in 2021 mainly relates to the amortisation in the year, reclassification of deferred tax between intangibles and PP&E and the revaluation of the deferred tax liability arising due to the increase in UK corporation tax rate from 19% to 25% from 1 April 2023. Following a formal agreement with the Swiss Tax Authorities in 2021, the basis for valuing the final assessment of, and associated deferred tax asset on, the deductible amortisation relating to intangible asset for tax purposes in relation to the Swiss tax reform remained unchanged as the Discounted Cash Flow method is permitted under Swiss tax law. In respect of the deferred tax asset arising on Swiss tax reform, an amount relating to temporary differences of \$15.9 million that are not expected to reverse against taxable income in the future (2020: \$18.4 million) is not recognised.

In 2020, the Group's transformation changes, including the change in the future anticipated profitability of the Group's Swiss-based operations, led to a revised method of valuation used from the Swiss Practitioners' method in 2019 to the Discounted Cash Flow method in 2020, which is also permitted under Swiss tax law.

The Group has a history of US tax losses and has recognised a deferred tax asset on US tax losses at 31 December 2021 only to the extent that there are suitable offsetting taxable temporary differences. In 2021, there has been an increase in suitable offsetting taxable temporary differences in the US resulting in an additional amount of tax losses in the US being recognised as a deferred tax asset. In particular, upon acquisition of Cure Medical, a deferred tax liability of \$9.4 million was recognised in relation to the acquisition of intangible assets – refer to Note 8.4 for further details. Some of this can be offset by the Group's US tax losses and, therefore, the deferred tax recognition criteria were met, resulting in a tax benefit of \$6.8 million being recognised.

Deferred tax on inventory predominantly relates to a deferred tax asset recognised on intra-group profits arising on intercompany inventory that are eliminated in the Consolidated Financial Statements. As intra-group profits are not eliminated from the individual entities' tax returns, a temporary difference arises that will reverse when the inventory is sold externally.

Other net temporary differences include accrued expenses, employee costs and pensions, for which a tax deduction is only available on a paid basis, unremitted earnings and share-based payments.

To the extent that dividends remitted from overseas subsidiaries and branches are expected to result in additional taxes, appropriate amounts have been provided for. Deferred tax is not provided on temporary differences of \$369.1 million in the year to 31 December 2021 (2020: \$379.1 million) arising on unremitted earnings as management has the ability to control any future reversal and does not consider such a reversal in the foreseeable future to be probable.

5.5 Tax losses carried forward

The following table shows the total recognised and unrecognised tax losses carried forward, including anticipated period of expiration:

| Country | 2021 | | | 2020 | | |
|----------------|-------------------|--|----------------|-------------------|--|----------------|
| | Indefinite \$m | 1 to 20 years ^(a) \$m | Total \$m | Indefinite \$m | 1 to 20 years ^(a) \$m | Total \$m |
| UK | 38.0 | – | 38.0 | 48.0 | – | 48.0 |
| Luxembourg | 638.3 | 0.1 | 638.4 | 687.4 | – | 687.4 |
| US State Taxes | 19.6 | 208.4 | 228.0 | 29.4 | 209.4 | 238.8 |
| US Federal Tax | 171.9 | 263.8 | 435.7 | 127.1 | 263.7 | 390.8 |
| Other overseas | 8.0 | 6.4 | 14.4 | 2.5 | 53.2 | 55.7 |
| Total | 875.8 | 478.7 | 1,354.5 | 894.4 | 526.3 | 1,420.7 |
| Recognised | | | 514.3 | | | 381.9 |
| Unrecognised | | | 840.2 | | | 1,038.8 |
| Total | | | 1,354.5 | | | 1,420.7 |

(a) There are no losses which are due to expire in more than 20 years.

Deferred tax assets are only recognised where it is probable that future taxable profits will be available to utilise the tax losses.

The tax losses of \$1,354.5 million includes judgements and estimates considered in the provision for uncertain tax positions, in line with the requirements of IFRIC 23, *Uncertainty over Income Tax Treatments*. The Luxembourg tax losses are not recognised and the movement is mainly attributable to foreign exchange differences. In 2020, the movement was driven by the utilisation of the tax losses against the taxable profit on intragroup transfer of entities. The recognition of deferred tax assets on unutilised tax losses in the US is not expected to materially impact the Group's tax charge and the Consolidated Statement of Financial Position in the next 12 months. Refer to Note 1.3 for further details.

6. Earnings per share

Basic earnings per share is calculated based on the Group's net profit for the year attributable to shareholders divided by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares is net of shares purchased by the Group and held as own shares.

Diluted earnings per share take into account the dilutive effect of all outstanding share options priced below the market price in arriving at the number of shares used in its calculation.

| | 2021 | 2020 |
|--|----------------|----------------|
| Net profit attributable to the shareholders of the Group (\$m) | 117.6 | 112.5 |
| Basic weighted average ordinary shares in issue (number) | 2,008,923,797 | 1,991,596,105 |
| Dilutive impact of share awards (number) | 17,416,548 | 14,994,358 |
| Diluted weighted average ordinary shares in issue (number) | 2,026,340,345 | 2,006,590,463 |
| Basic earnings per share (cents per share) | 5.9¢ per share | 5.7¢ per share |
| Diluted earnings per share (cents per share) | 5.8¢ per share | 5.6¢ per share |

The calculation of diluted earnings per share excludes 1,878,714 (2020: 936,534) share options that were non-dilutive for the year because the exercise price exceeded the average market price of the Group's ordinary shares during the year.

Operating assets and liabilities

This section set outs the assets and liabilities that the Group holds in order to operate the business on a day-to-day basis, including long-term assets which generate future revenues and profits for the Group.

Liabilities relating to the Group's financing activities are addressed in "Capital structure and financial costs".

7. Property, plant and equipment

The Group invests in buildings, equipment and manufacturing machinery to operate the business and to generate revenue and profits. Assets are depreciated over their estimated useful economic life reflecting the reduction in value of the asset due, in particular, to wear and tear.

Accounting policy

Property, plant and equipment ("PP&E") are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of an asset including subsequent additions and improvements when it is probable that future economic benefit associated with the item will flow to the Group and the cost can be reliably measured.

Depreciation is provided on a straight-line basis from the point an asset becomes available for use. Depreciation is calculated to reduce the asset's cost to its residual value over the asset's estimated useful economic life. Assets are depreciated as follows:

| Asset category | Useful life |
|-----------------------------------|--|
| Land | not depreciated |
| Land improvements | 15 to 40 years |
| Leasehold improvements | shorter of useful life or lease tenure |
| Buildings | 15 to 50 years |
| Machinery, equipment and fixtures | 3 to 20 years |

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds, less any selling expenses, and the carrying amount of the asset. This difference is recognised in the Consolidated Income Statement.

Assets under construction reflects the cost of construction or improvement of items of PP&E that are not yet available for use. Finance costs incurred in the construction of assets that take more than one year to complete are capitalised using the Group's weighted average borrowing cost during the period in which the asset is under construction. Capitalisation of finance costs ceases when the asset becomes available for use.

Consideration of useful economic lives

The assets' residual values, depreciation methods and useful economic lives are reviewed annually and adjusted if appropriate.

Impairment of assets

The carrying values of PP&E are reviewed for indicators of impairment annually or when events or changes in circumstances indicate the carrying value may be impaired. If any such indication exists, the recoverable amount of the asset is estimated, being the higher of an asset's fair value less costs to sell and the net present value of its expected pre-tax future cash flows ("value in use").

When an asset's recoverable amount falls below its carrying value, an impairment is charged to the Consolidated Income Statement.

7. Property, plant and equipment (continued)

The movement in the carrying value of each major category of PP&E is as follows:

| | Land & land improvements \$m | Building, building equipment and leasehold improvements \$m | Machinery, equipment and fixtures \$m | Assets under construction \$m | Total \$m |
|---------------------------------|------------------------------------|--|--|-------------------------------------|--------------|
| Cost | | | | | |
| 1 January 2020 | 15.0 | 121.4 | 436.8 | 54.8 | 628.0 |
| Additions | – | 2.9 | 4.1 | 57.5 | 64.5 |
| Disposals ^(a) | – | (3.6) | (11.6) | (1.3) | (16.5) |
| Transfers | – | 5.5 | 32.0 | (37.5) | – |
| Foreign exchange | 0.8 | 3.2 | 22.1 | 3.7 | 29.8 |
| 31 December 2020 | 15.8 | 129.4 | 483.4 | 77.2 | 705.8 |
| Additions | – | 1.5 | 3.6 | 65.7 | 70.8 |
| Disposals ^(a) | – | (4.0) | (12.0) | (0.3) | (16.3) |
| Transfers | – | 6.0 | 34.3 | (40.3) | – |
| Foreign exchange | (0.5) | (3.0) | (18.6) | (3.8) | (25.9) |
| 31 December 2021 | 15.3 | 129.9 | 490.7 | 98.5 | 734.4 |
| Accumulated depreciation | | | | | |
| 1 January 2020 | 0.8 | 46.0 | 259.6 | – | 306.4 |
| Depreciation | 0.1 | 6.0 | 32.4 | – | 38.5 |
| Disposals ^(a) | – | (3.1) | (10.7) | – | (13.8) |
| Impairment ^(b) | – | – | 7.2 | – | 7.2 |
| Foreign exchange | – | 1.6 | 13.7 | – | 15.3 |
| 31 December 2020 | 0.9 | 50.5 | 302.2 | – | 353.6 |
| Depreciation | 0.1 | 6.1 | 34.4 | – | 40.6 |
| Disposals ^(a) | – | (3.3) | (11.0) | – | (14.3) |
| Impairment ^(b) | – | 1.0 | – | – | 1.0 |
| Foreign exchange | – | (1.2) | (12.0) | – | (13.2) |
| 31 December 2021 | 1.0 | 53.1 | 313.6 | – | 367.7 |
| Net carrying amount | | | | | |
| 31 December 2020 | 14.9 | 78.9 | 181.2 | 77.2 | 352.2 |
| 31 December 2021 | 14.3 | 76.8 | 177.1 | 98.5 | 366.7 |

(a) Included within disposals (cost and accumulated depreciation) were asset write-offs of \$2.0 million (2020: \$2.7 million).

(b) During the year ended 31 December 2021, \$1.0 million of leasehold improvements (2020: \$7.2 million, in respect of plant and machinery) was impaired.

8. Intangible assets and goodwill

The split of intangible assets and goodwill is as follows:

| | Notes | 2021 \$m | 2020 \$m |
|---------------------------------------|-------|----------------|----------------|
| Intangible assets | 8.1 | 902.2 | 992.4 |
| Goodwill | 8.2 | 1,156.3 | 1,097.2 |
| Intangible assets and goodwill | | 2,058.5 | 2,089.6 |

8.1 Intangible assets

The Group's intangible assets are those that have been recognised at fair value as part of business combinations, investment in product development and software purchased to support business operations. These are assets that are not physical in nature but can be sold separately or arise from legal rights.

Accounting policy

Recognition

Measurement on initial recognition of intangible assets is determined at cost for assets acquired by the Group and at fair value at the date of acquisition if acquired in business combinations. Following initial recognition of the intangible asset, the asset is carried at cost less any subsequent accumulated amortisation and accumulated impairment losses.

Purchased computer software and certain costs of information technology are capitalised as intangible assets. Software that is integral to purchased computer hardware is capitalised as PP&E.

R&D

R&D expenses are comprised of all activities involving investigative, technical and regulatory processes related to obtaining appropriate approvals to market our products. It also includes new product development aimed at developing more sustainable product portfolios for the longer term, as mentioned within the Responsible Business review section (refer to pages 32 to 59). Costs include payroll, clinical manufacturing and pre-launch clinical trial costs, manufacturing development and scale-up costs, product development, regulatory costs including costs incurred to comply with legislative changes, contract services and other external contractors costs, research licence fees, depreciation and amortisation of laboratory facilities, and laboratory supplies.

Research costs are expensed as incurred. Development costs are capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and use or sell the asset. Subsequent to initial recognition, development costs are measured at cost less accumulated amortisation and any accumulated impairment losses. Upgrades and enhancements are capitalised to the extent they will result in added functionality and probable future economic benefits.

Amortisation

Intangible assets with an indefinite life are not amortised. Amortisation of finite-lived intangible assets is calculated using the straight-line method based on the following estimated useful lives:

| Asset category | Useful life |
|---|---------------|
| Product-related | 3 to 20 years |
| Capitalised software | 3 to 10 years |
| Customer relationships and non-compete agreements | 2 to 20 years |
| Trade names – finite | 2 to 10 years |
| Trade names – indefinite | indefinite |
| Development costs | 5 years |

Assets under construction reflects the cost of development or improvement of intangible assets that are not yet available for use.

Impairment of assets

Finite-lived intangible assets are reviewed for indicators of impairment at each reporting period or when events or changes in circumstances indicate the carrying value may be impaired. If any such indication exists, the recoverable amount of the asset is estimated, being the higher of an asset's fair value less costs to sell and the net present value of its expected pre-tax future cash flows ("value in use").

When an asset's recoverable amount falls below its carrying value, an impairment is charged to the Consolidated Income Statement.

Refer to Note 8.5 – CGU impairment review for consideration of impairment of indefinite-lived intangible assets.

8. Intangible assets and goodwill (continued)

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

| | Product-related \$m | Capitalised software ^(a) \$m | Customer relationships and non-compete agreements \$m | Trade names \$m | Development cost \$m | Assets under construction \$m | Total \$m |
|---------------------------------|------------------------|--|--|--------------------|-------------------------|----------------------------------|----------------|
| Cost | | | | | | | |
| 1 January 2020 | 2,117.9 | 107.6 | 296.7 | 258.8 | 11.4 | 10.4 | 2,802.8 |
| Additions | 5.3 | 4.7 | – | – | – | 15.1 | 25.1 |
| Divestiture ^(b) | (50.0) | – | – | – | – | – | (50.0) |
| Disposals | – | (1.9) | – | – | – | – | (1.9) |
| Transfers | – | 17.8 | – | – | – | (17.8) | – |
| Foreign exchange | 28.0 | 0.4 | 8.8 | 1.4 | 1.1 | 0.5 | 40.2 |
| 31 December 2020 | 2,101.2 | 128.6 | 305.5 | 260.2 | 12.5 | 8.2 | 2,816.2 |
| Additions | – | 2.2 | – | – | – | 20.6 | 22.8 |
| Acquisitions ^(c) | 4.9 | – | 33.2 | 4.6 | – | – | 42.7 |
| Write-offs | (7.1) | (21.6) | (0.7) | – | – | (0.4) | (29.8) |
| Transfers | – | 13.3 | – | – | – | (13.3) | – |
| Foreign exchange | (12.9) | (0.3) | (7.0) | (1.1) | (0.9) | (0.3) | (22.5) |
| 31 December 2021 | 2,086.1 | 122.2 | 331.0 | 263.7 | 11.6 | 14.8 | 2,829.4 |
| Accumulated amortisation | | | | | | | |
| 1 January 2020 | 1,450.5 | 83.8 | 154.2 | 6.0 | 7.0 | – | 1,701.5 |
| Amortisation | 102.9 | 8.2 | 22.7 | 1.7 | 1.3 | – | 136.8 |
| Divestiture ^(b) | (43.5) | – | – | – | – | – | (43.5) |
| Disposals | – | (1.8) | – | – | – | – | (1.8) |
| Impairment | – | – | 1.7 | – | – | – | 1.7 |
| Foreign exchange | 21.0 | 0.2 | 7.2 | – | 0.7 | – | 29.1 |
| 31 December 2020 | 1,530.9 | 90.4 | 185.8 | 7.7 | 9.0 | – | 1,823.8 |
| Amortisation | 107.1 | 12.3 | 24.5 | 1.9 | 1.4 | – | 147.2 |
| Write-offs | (7.1) | (21.6) | (0.7) | – | – | – | (29.4) |
| Impairment | – | 2.5 | – | – | – | – | 2.5 |
| Foreign exchange | (10.1) | (0.1) | (6.1) | 0.1 | (0.7) | – | (16.9) |
| 31 December 2021 | 1,620.8 | 83.5 | 203.5 | 9.7 | 9.7 | – | 1,927.2 |
| Net carrying amount | | | | | | | |
| 31 December 2020 | 570.3 | 38.2 | 119.7 | 252.5 | 3.5 | 8.2 | 992.4 |
| 31 December 2021 | 465.3 | 38.7 | 127.5 | 254.0 | 1.9 | 14.8 | 902.2 |

(a) Capitalised software is in respect of purchased and internally generated software. Costs in relation to the IFRIC clarification on accounting for SaaS arrangements are expensed when incurred.

(b) Intangible assets sold as part of the US Skincare product line divestiture in the year ended 31 December 2020.

(c) Acquisitions comprise Cure Medical and Patient Care Medical. See Note 8.4 – Acquisitions.

Amortisation expenses in respect of finite-lived intangible assets for the year ended 31 December were as follows:

| | 2021 \$m | 2020 \$m |
|-------------------------------------|--------------|--------------|
| Cost of sales | 110.7 | 106.8 |
| Selling and distribution expenses | 2.0 | 0.5 |
| General and administrative expenses | 32.5 | 28.0 |
| Research and development expenses | 2.0 | 1.5 |
| Total amortisation expense | 147.2 | 136.8 |

The carrying amount of indefinite-lived trade names at 31 December 2021 was \$249.8 million (2020: \$251.0 million). Each of these remaining trade names is considered to have an indefinite life, given the strength and durability of the current trade name and the level of marketing support. The trade names are in relatively similar stable and profitable market sectors, with similar risk profiles, and their size, diversification and market shares mean that the risk of market-related factors causing a reduction in the lives of the trade names is considered to be relatively low. The Group is not aware of any material legal, regulatory, contractual, competitive, economic or other factor which could limit their useful lives.

8. Intangible assets and goodwill (continued)

Individual intangible assets with a carrying amount in excess of 10% of the total intangible asset carrying amount were as follows:

| | 2021 \$m | 2020 \$m | Remaining life |
|--------------------------------|-------------|-------------|----------------|
| Trade names | | | |
| ConvaTec trade name | 234.6 | 234.6 | Indefinite |
| Product-related | | | |
| Aquacel® including Hydrofibre® | 172.2 | 211.9 | 4.6 years |
| Stoma care | 145.2 | 176.9 | 4.6 years |

8.2 Goodwill

The Group recognises goodwill resulting from business combinations where there are future economic benefits from assets which cannot be individually separated and recognised. Goodwill represents the amount paid in excess of the fair value of the net assets of the acquired business.

Accounting policy

Refer to Note 1 – Basis of preparation for the Group accounting policy in relation to the initial valuation and recognition of goodwill arising from acquisitions.

Goodwill is not subject to amortisation but is tested for impairment annually or when events or changes in circumstances indicate the carrying value may be impaired. Refer to Note 8.5 – CGU impairment review for consideration of impairment of goodwill.

Goodwill is denominated in the functional currency of the acquired entity and revalued to the closing exchange rate at each reporting period date.

The changes in the carrying value of goodwill as at 31 December were as follows:

| | Total \$m |
|-------------------------|----------------|
| 1 January 2020 | 1,065.6 |
| Foreign exchange | 31.6 |
| 31 December 2020 | 1,097.2 |
| Divestitures (Note 8.3) | (0.9) |
| Acquisitions (Note 8.4) | 79.0 |
| Foreign exchange | (19.0) |
| 31 December 2021 | 1,156.3 |

8.3 Divestitures

During the year ended 31 December 2021, the Group completed the divestiture of an incontinence patient list in the US.

Accounting policy

A divestiture or disposal occurs when the Group ceases to control a subsidiary, business or trade and assets of a product line. Consideration received in respect of a divestiture is measured at fair value, and all associated assets and liabilities are derecognised at the date control is transferred. The difference between the carrying value of the net assets divested and the fair value of consideration received is recorded as a gain or loss on divestiture in the Consolidated Income Statement.

Foreign exchange translation gains or losses relating to subsidiaries that the Group has divested, and that have previously been recorded in other comprehensive income or expense, are also recognised as part of the gain or loss on divestiture.

The operating results of the divested subsidiary, business or product line cease to be included in the Group's Consolidated Financial Statements from the date of divestiture.

On 16 August 2021, the Group disposed of an incontinence patient list in the US for \$1.4 million; a gain on sale of \$0.5 million was recognised in non-operating income.

8. Intangible assets and goodwill (continued)

8.4 Acquisitions

During the year, the Group completed the acquisitions of

- (i) 100% of the share capital of Cure Medical LLC ("Cure Medical"), a manufacturer and distributor of intermittent catheters based in California.
- (ii) the business of Respiratory Solutions, LLC, which trades under the name "Patient Care Medical", a US distributor and service company focused on disposable, intermittent catheters in the US market.

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

Accounting policy

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method of accounting. Consideration transferred in respect of an acquisition is measured at the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed on the date of the acquisition. Identified assets acquired and liabilities assumed are measured at their respective acquisition-date fair values.

The excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired is recorded as goodwill. If the fair value of the identifiable net assets acquired is greater than the fair value of the consideration given, the excess is recognised immediately in the Consolidated Income Statement as a bargain purchase gain. Acquisition-related costs are expensed as incurred.

The operating results of the acquired business are reflected in the Group's Consolidated Financial Statements from the date of acquisition.

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

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

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

8. Intangible assets and goodwill (continued)

Assets acquired and liabilities assumed

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

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

Analysis of cash outflow reflected in the Statement of Cash Flows

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

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

8. Intangible assets and goodwill (continued)

The fair values of the assets acquired and liabilities assumed are provisional at 31 December 2021. 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.

The goodwill recorded represents the cost savings, operating synergies and future growth opportunities expected to result from combining the operations of the acquisitions with those of the Group, as well as intangible assets that do not qualify for separate recognition. The goodwill is deductible for tax purposes for Patient Care Medical as it was an asset acquisition, but not for Cure Medical which was a business acquisition.

The Cure Medical and Patient Care Medical acquisitions are both included in the Continence and Critical Care CGU group.

Acquisition-related costs

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

Revenue and profit

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

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

8.5 Cash generating unit ("CGU") impairment review

An impairment assessment is required to be performed annually for goodwill and indefinite-lived intangibles or when events or changes in circumstances indicate the carrying value may be impaired. An impairment is a reduction in the recoverable amount of an asset compared to the carrying value of the asset. Recoverable amount is the higher of value in use and fair value less costs to sell.

This note provides details of the annual impairment assessment that has been performed.

Accounting policy

For impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Additionally, goodwill arising from a business combination is allocated to a CGU or groups of CGUs that are expected to benefit from the synergies of the combination. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The recoverable amounts of the CGUs are determined based on value in use calculations, which reflect the estimated future cash flows of each CGU discounted by an estimated weighted average cost of capital that represents the rate of return an outside investor would expect to earn. This discount rate is based on the weighted average cost of capital for comparable public companies and is adjusted for risks specific to the CGU including differences in risk due to its size, geographic concentration and trading history.

Future cash flows are determined using the latest available Board approved forecasts and strategic plans. These forecasts and strategic plans are based on specific assumptions for each CGU during the five-year planning period with respect to revenue, results of operations, working capital, capital investments and other general assumptions for the projected period. The forecast assumptions that derive the future cash flows are based on the historical results of each CGU combined with external market information and defined strategic initiatives.

If identified, impairment losses are recognised in the Consolidated Income Statement. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the remaining assets in the CGU, on a pro-rated basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The Group has not recognised any impairment reversals in 2021 or 2020.

8. Intangible assets and goodwill (continued)

The Group has reviewed the ongoing transformation programme and further embedding of the new operating model during the year and has determined that there is a trigger for a change in CGUs in accordance with IAS 36, Impairment of assets. Previously the CGU groups were driven by the geographic management structure of the former operating model, with the CGU groups determined as (i) Americas, (ii) EMEA, (iii) Home Services Group, (iv) Infusion Care and (v) Industrial Sales. Although there has been no change in the reporting to the CODM during the year ended 31 December 2021, with profitability continuing to be assessed on a consolidated basis, management's focus has evolved into predominantly a category and key market focus rather than the previous geographies. Management information and systems were updated during the year to reflect the changes. Goodwill is deemed to be monitored on a category basis, therefore the Group has identified new CGU groups, being (i) Advanced Wound Care, (ii) Ostomy Care, (iii) Continence and Critical Care and (iv) Infusion Care. Where the goodwill could be directly associated to one of these CGU groups it was directly allocated, the remainder of the Group's goodwill was allocated using adjusted EBIT^(a) as a measure of relative value. The measure of relative value is a judgement as it is not prescribed under IAS 36. Alternative measures were considered, such as EBITDA^(a), which would have resulted in a c.\$30 million movement in the goodwill allocated between Advanced Wound Care and Ostomy Care. However, there was headroom in the goodwill impairment testing whichever method was utilised to allocate the goodwill.

(a) Adjusted EBIT and EBITDA are alternative performance measures ("APM") and have been reconciled to the most directly comparable measure prepared in accordance with IFRS on pages 207 to 210.

Goodwill and indefinite-lived intangible assets (trade names) are allocated to the Group's CGU groups as at 31 December 2021 as follows:

| | Goodwill 2021 \$m | Indefinite-lived intangible assets 2021 \$m |
|------------------------------|-------------------------|---|
| CGU groups | | |
| Advanced Wound Care | 386.9 | 104.8 |
| Ostomy Care | 121.7 | 91.2 |
| Continence and Critical Care | 558.0 | 41.4 |
| Infusion Care | 89.7 | 12.4 |
| Total^(a) | 1,156.3 | 249.8 |

(a) Comparatives for 31 December 2020 have not been disclosed as the prior year impairment review was performed based on geographical CGU groups.

Determining the estimated recoverable amount of a CGU group is judgemental in nature. The key input used in the estimation of value in use at the annual impairment review performed as of 30 September 2021 is the Group's five-year Board approved strategic plan, with key assumptions including terminal value growth rate and discount rates. Revenue growth rates reflect macroeconomic activity, sector market growth forecasts and competitor activity.

The terminal value growth rate and discount rates used were as follows:

| | 2021 % |
|---|------------|
| Discount rate (pre-tax)^(b) | |
| CGU groups | |
| Advanced Wound Care | 10.5 |
| Ostomy Care | 10.0 |
| Continence and Critical Care | 9.5 |
| Infusion Care | 9.5 |
| Terminal value growth rate^{(a),(c)} | 2.0 |

(a) The estimated terminal value growth rate for the CGU groups is based on expectations concerning the growth trends of the CGU groups taking into account global gross domestic product growth, general long-term inflation and population expectations.

(b) The discount rate is based on the weighted average cost of capital for comparable public companies and is adjusted for risks specific to the CGU group including differences in risk due to its size, geographic concentration and trading history.

(c) Comparatives for 31 December 2020 have not been disclosed as the prior year impairment review was performed based on geographical CGU groups.

No impairments have been recognised in respect of the Group's current CGU groups for the year ended 31 December 2021. The impairment testing was also performed under the Group's previous geographic-based CGU groups. No further impairments were identified on this basis.

Taking into consideration the Board approved 2022 budget and longer-term strategic plan as foundations, sensitivity analysis was performed considering changes in key assumptions including discount rates and terminal value growth rate and consideration of risk-based severe but plausible downside scenarios consistent with those identified as part of the Viability assessment (refer to pages 74 to 76 for full details of scenarios).

IAS 1, *Presentation of Financial Statements*, requires disclosure of major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment in the next financial year. The Directors concluded that there are no reasonable possible scenarios that would result in a material adjustment in the next financial year.

9. Inventories

Inventories are the products manufactured or purchased to be sold by the Group in the ordinary course of business. Inventories include finished goods, goods which are in the process of being manufactured (work in progress) and raw and packaging materials awaiting use in production.

Accounting policy

Inventories are valued at the lower of cost or net realisable value with the cost determined using an average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and indirect production overheads. Production overheads comprises indirect material and labour costs, maintenance and depreciation of the machinery and production buildings used in the manufacturing process, as well as costs of production administration and management.

Net realisable value is defined as anticipated selling price or anticipated revenue less cost to completion. Estimates of net realisable value are based on the average selling prices at the end of the reporting period, net of applicable direct selling expenses. Subsequent events related to the fluctuation of prices and costs are also considered, if relevant. If net realisable values are below inventory costs, a provision corresponding to this difference is recognised.

Provisions are also made for obsolescence of inventories that (i) do not meet the Group's specifications, (ii) have exceeded their expiration date, or (iii) are considered slow-moving. The Group evaluates the carrying value of inventories on a regular basis, taking into account such factors as historical and anticipated future sales compared with quantities on hand, the price the Group expects to obtain for products in their respective markets compared with historical cost and the remaining shelf life of goods on hand.

The components of inventories at 31 December were as follows:

| | 2021 \$m | 2020 \$m |
|-----------------------------|--------------|-------------|
| Raw and packaging materials | 71.9 | 68.6 |
| Work in progress | 37.9 | 36.4 |
| Finished goods | 199.0 | 192.1 |
| Inventories | 308.8 | 297.1 |

Inventories are stated net of a provision of \$21.3 million (2020: \$27.8 million). Adjustments to write-down inventory to its net realisable value are provided in Note 3 – Operating profit.

10. Trade and other receivables

Trade receivables consist of amounts billed and currently due from customers. Gross trade receivables are presented before allowances for expected credit losses, sales discounts and chargeback allowances. Credit risk with respect to trade receivables is generally diversified due to the large dispersion and type of customers across many different geographies.

Other receivables include amounts due from third parties not related to revenue, restricted cash and prepaid expenses.

Accounting policy

Credit is extended to customers based on the evaluation of the customer's financial condition. Creditworthiness of customers is evaluated on a regular basis. Exposure to credit risk is managed through credit approvals, credit limits and monitoring procedures. The Group considers a default event to be one where the customer does not have sufficient funds to make their required payments and/or is in the process of being liquidated.

An allowance for expected credit losses is maintained for expected lifetime credit losses that result from the failure or inability of customers to make required payments. It is not necessary for a credit event to have occurred before credit losses are recognised. Instead, the Group accounts for expected lifetime credit losses and changes in those expected lifetime credit losses. In determining the allowance, consideration includes the probability of recoverability based on past experience and general economic factors, incorporating forward-looking information and adjustments for customers who represent a lower risk of default, which includes public or private medical insurance customers and customers guaranteed by local government. The amount of expected credit losses, if any, are required to be updated at each reporting date.

Certain trade and other receivables may be fully reserved when specific collection issues are known to exist, such as pending bankruptcy. The Group writes off uncollectable receivables at the time it is determined the receivable is no longer collectable.

Trade and other receivables are not collateralised or factored and the Group does not charge interest on past due amounts. Refer to Note 2.1 – Revenue recognition for details on the accounting policy in respect of chargeback allowances.

Restricted cash

In certain instances, there are requirements to set aside cash to support payment guarantees and obligations, including the payment of value-added taxes, custom duties on imports, tender programmes and lease arrangements. Such amounts are classified by the Group as restricted cash, which do not form part of cash and cash equivalents. Amounts with a maturity of less than one year are disclosed in other receivables within current assets. Amounts with a maturity of more than one year are disclosed separately as restricted cash in non-current assets.

Trade and other receivables at 31 December were as follows:

| | 2021 \$m | 2020 \$m |
|---|--------------|--------------|
| Included within current assets: | | |
| Trade receivables | 296.9 | 287.0 |
| Less: allowances for expected credit losses | (14.6) | (12.6) |
| Less: sales discounts and chargebacks | (31.7) | (29.2) |
| Other receivables | 50.9 | 44.3 |
| Prepayments | 22.0 | 18.4 |
| Trade and other receivables | 323.5 | 307.9 |

The aged analysis of trade receivables at 31 December was as follows:

| | 2021 \$m | 2020 \$m |
|--------------------------------|--------------|--------------|
| Current | 235.2 | 221.0 |
| Past due 1 to 30 days | 15.5 | 19.9 |
| Past due 31 to 90 days | 17.3 | 16.3 |
| Past due 91 to 180 days | 0.7 | 2.6 |
| Past due by more than 180 days | 28.2 | 27.2 |
| | 296.9 | 287.0 |

10. Trade and other receivables (continued)

The unimpaired amounts at 31 December that are past due were aged as follows:

| | 2021 \$m | 2020 \$m |
|--------------------------------|-------------|-------------|
| Past due 1 to 30 days | 14.2 | 19.0 |
| Past due 31 to 90 days | 16.5 | 16.0 |
| Past due 91 to 180 days | – | 2.1 |
| Past due by more than 180 days | 16.4 | 16.3 |
| | 47.1 | 53.4 |

The Group believes that the unimpaired amounts that are past due are still collectible in full, based on historic payment behaviour and extensive analysis of customer credit risk.

Movements in the allowance for expected credit losses for the years ended 31 December were as follows:

| | 2021 \$m | 2020 \$m |
|--------------------------|---------------|---------------|
| At 1 January | (12.6) | (11.6) |
| Charges | (8.2) | (6.5) |
| Utilisation of provision | 5.6 | 5.7 |
| Foreign exchange | 0.6 | (0.2) |
| At 31 December | (14.6) | (12.6) |

Other non-current receivables

Other non-current receivables of \$11.9 million (2020: \$13.3 million) are principally in respect of deposits held with lessors, prepaid expenses and other receivables.

Restricted cash

At 31 December 2021, the Group had restricted cash of \$13.6 million (2020: \$5.7 million) with a maturity of more than one year, as presented within non-current assets, which included \$9.7 million cash held in escrow in respect of the Cure Medical and Patient Care Medical acquisitions. \$0.4 million (2020: \$nil) of cash held in escrow as part of the Cure Medical acquisition (see Note 8.4 – Acquisitions) was recognised within current assets.

11. Trade and other payables

Trade payables consist of amounts owed to third-party suppliers and represent a contractual obligation to deliver cash in the future.

Other payables include taxes and social security, accruals and liabilities for other employee-related benefits.

Accounting policy

Trade payables are recognised at the value of the invoice received from the supplier and are not interest bearing. The carrying amount of trade and other payables is considered to approximate fair value, due to their short-term maturities.

The components of trade and other payables at 31 December were as follows:

| | 2021 \$m | 2020 \$m |
|---|--------------|--------------|
| Included within current liabilities: | | |
| Trade payables | 116.7 | 98.2 |
| Taxes and social security | 29.0 | 32.1 |
| Other employee-related liabilities | 92.3 | 99.1 |
| Accruals and other payables | 104.5 | 104.7 |
| Trade and other payables | 342.5 | 334.1 |

| | 2021 \$m | 2020 \$m |
|---|-------------|-------------|
| Included within non-current liabilities: | | |
| Defined benefit obligations (Note 13) | 19.7 | 23.1 |
| Other employee-related liabilities | 7.4 | 6.2 |
| Accruals and other payables | 20.5 | 0.6 |
| Other non-current liabilities | 47.6 | 29.9 |

12. 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 and legal liabilities.

Accounting policy

A provision is recognised when there is a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle the obligation and that obligation can be measured reliably. Restructuring provisions are only recognised when a constructive obligation exists, which requires both a detailed formal plan and a valid expectation being raised in those affected by starting to implement that plan or announcing the main features. Provisions are measured at the best estimate of the expenditure required to settle the obligation and are discounted to present value if the effect is material. Provisions are reviewed on a regular basis and adjusted to reflect management's best current estimates. Due to the judgemental nature of these items, future settlements may differ from amounts recognised.

When the timing of a settlement is uncertain or expected to be more than 12 months from the reporting date, amounts are classified as non-current.

The movements in provisions are as follows:

| | Decommissioning and dilapidations \$m | Restructuring \$m | Legal \$m | Total \$m |
|-------------------------|---|----------------------|--------------|--------------|
| 1 January 2020 | 1.7 | 4.2 | – | 5.9 |
| Charges | 0.4 | 12.9 | – | 13.3 |
| Utilisation | (0.6) | (7.3) | – | (7.9) |
| Changes in estimate | – | (0.7) | – | (0.7) |
| Foreign exchange | – | 0.3 | – | 0.3 |
| 31 December 2020 | 1.5 | 9.4 | – | 10.9 |
| Charges | 0.1 | 4.0 | 6.1 | 10.2 |
| Utilisation | (0.2) | (8.4) | (5.6) | (14.2) |
| Changes in estimate | (0.2) | 0.3 | – | 0.1 |
| Foreign exchange | – | (0.3) | – | (0.3) |
| 31 December 2021 | 1.2 | 5.0 | 0.5 | 6.7 |

Provisions have been analysed between current and non-current as follows:

| | 2021 | | 2020 | |
|-----------------------------------|------------|----------------------------|------------|----------------------------|
| | Current | Non-current ^(a) | Current | Non-current ^(a) |
| Restructuring | 5.0 | – | 9.4 | – |
| Decommissioning and dilapidations | – | 1.2 | – | 1.5 |
| Legal | – | 0.5 | – | – |
| Total | 5.0 | 1.7 | 9.4 | 1.5 |

(a) The timing for non-current provisions is undefined.

Restructuring provisions

Restructuring provisions are in respect of employee termination benefits for involuntary workforce reduction in respect of the major change programmes and the Group's Transformation Initiative. The Transformation Initiative is a global multi-year transformation programme that commenced in 2019. 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.

Decommissioning and dilapidation provisions

Decommissioning provisions are recognised when an item is purchased to 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 legal obligations, on the expiry of a lease, to return leased properties in the condition which is specified in the individual leases.

Legal provision

Provisions recognised in the year principally relate to dispute settlement.

13. Post-employment benefits

The Group has over 10,000 employees globally and operates a number of defined benefit and defined contribution pension plans for its employees. Each individual plan is subject to the applicable laws and regulations of the country in which the plan operates.

Defined contribution arrangements are where the Group pays fixed payments as they fall due into a separate fund on behalf of employees participating in the plan and has no further legal or constructive obligations. The cost of Group contributions to defined contribution arrangements during the year is provided in Note 3 – Operating costs.

A defined benefit plan is a pension or other post-employment benefit plan under which the Group has an obligation to provide agreed benefits to current and former employees. The Group bears the risk that its obligation may increase or that the value of the assets in the pension fund may decline. The benefit payable in the future by the Group is discounted to the present value and the fair value of plan assets is deducted to measure the defined benefit pension position.

The Group has defined benefit plans in a number of European countries. The most significant plans are: Switzerland, a state mandated plan that remains open to all Swiss employees; and Germany, with one unfunded plan, that remains open to German employees but closed to new entrants, and a funded plan put in place from April 2019. The value of the new plan in Germany is not material to the Group. The Group's other defined benefit plans are located in Austria, France and Italy (referred to as "Other" in the tables below). The defined benefit plan in the UK was bought out by Aviva, a third party, in December 2021.

For plans in Switzerland, Germany and Austria, asset funds for each country are being accumulated to meet the accruing liabilities. The assets of each of these funds are either held under trusts or managed by insurance companies and are entirely separate from the Group's assets. The value of plan assets in Germany at 31 December 2021 is negligible.

Accounting policy

Defined contribution pension plans

Payments to defined contribution pension plans are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit plans are treated as payments to defined contribution pension plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution pension plan.

Defined benefit pension plans

The Group records an asset or liability related to its defined benefit pension plans as the difference between the fair value of the plan assets and the present value of the plan liabilities. The obligations of the plans are calculated using the Projected Unit Credit Method, with actuarial valuations being performed by an independent actuary at the end of each reporting period. The valuation requires estimates and judgements to be made to calculate the Group's liabilities, and results in actuarial gains and losses being recorded.

Actuarial gains and losses, movements in the return on plan assets (excluding interest) and the impact of the asset ceiling (if applicable) are recognised immediately in the Consolidated Statement of Financial Position with a charge or credit to the Consolidated Statement of Comprehensive Income. Remeasurements recorded in the Consolidated Statement of Comprehensive Income are not subsequently reclassified to the Consolidated Income Statement.

Past service cost is recognised in the Consolidated Income Statement in the period of plan amendment, where relevant. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset.

The assets of the plans are held at fair value, which is equal to market value, and are held in separate trustee-administered funds or similar structures in the countries concerned. Surplus assets within the plan are only recognised to the extent that they are recoverable in accordance with IFRIC Interpretation 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* ("IFRIC 14").

Risks

The defined benefit plans typically expose the Group to risks. The most significant risks impacting the Group as a result of these plans are as follows:

| | |
|-----------------|--|
| Investment risk | The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high-quality corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. Currently the Group's plans invest primarily in debt instruments. |
| Interest risk | A decrease in the interest rate will increase the plan liability, but this will be partially offset by an increase in the return on the plan's fixed rate debt instruments. |
| Longevity risk | The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability. |
| Salary risk | The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability. |

13. Post-employment benefits (continued)

Buy-in and buy-out of UK plan

On 24 March 2020, the Trustee of the UK plan completed a buy-in transaction whereby the assets of the plan were invested in a bulk purchase annuity policy with the insurer Aviva Life & Pensions UK Limited ("Aviva"), under which the benefits payable to defined benefit members were fully insured. The Scheme paid \$12.6 million to Aviva on 30 March 2020 to fund the buy-in premium.

On 12 November 2021, the UK defined benefit pension scheme was bought out by Aviva, with all the risks in relation to the scheme passing to Aviva as of the buy-out date. The pension scheme was ultimately terminated on 16 December 2021. Following this transaction, all members of the UK plan have had their benefits secured with Aviva, discharging the Group's legal and constructive obligations for the scheme. As a result, the UK pension asset has been derecognised from the Statement of Financial Position with a loss on settlement of \$1.2 million recognised in the Consolidated Income Statement.

An actuarial valuation for the UK plan has been prepared by an independent actuary as of the buy-out date. Details of the valuation and movements in the UK plan's assets and liabilities are provided within the tables below.

Amounts recorded in the Consolidated Financial Statements

Consolidated Income Statement

The aggregate expense for all post-employment defined benefit plans recognised in the Consolidated Income Statement for the year ended 31 December was as follows:

| | 2021 \$m | 2020 \$m |
|---|-------------|-------------|
| Defined benefit plans: | | |
| Current service cost | 2.2 | 2.4 |
| Interest income on plan assets | – | (0.3) |
| Interest expense on defined benefit obligations | 0.2 | 0.4 |
| Expenses related to UK buy-out/buy-in | – | 0.4 |
| UK pension settlement cost | 1.2 | – |
| Total expense (Note 3) | 3.6 | 2.9 |

Consolidated Statement of Comprehensive Income

Aggregate actuarial gains and losses for all defined benefit plans recognised in the Consolidated Statement of Comprehensive Income for the year ended 31 December were as follows:

| | 2021 \$m | 2020 \$m |
|---|-------------|--------------|
| <i>Remeasurement effect recognised in other comprehensive income:</i> | | |
| Actuarial gain on liabilities due to experience | 1.6 | 1.8 |
| Actuarial loss arising from changes in financial assumptions | (0.8) | (1.5) |
| Actuarial gain arising from changes in demographic assumptions | 0.8 | 0.6 |
| Actuarial gain/(loss) on plan assets | 1.6 | (1.3) |
| Remeasurement gain/(loss) recognised in other comprehensive income | 3.2 | (0.4) |
| Deferred tax on remeasurement loss recognised in other comprehensive income | 0.1 | 0.2 |
| Change in pension asset restriction | 1.3 | 5.0 |
| Total amount recognised in other comprehensive income | 4.6 | 4.8 |

Consolidated Statement of Financial Position

The amount recognised for each defined benefit arrangement in the Consolidated Statement of Financial Position at 31 December was as follows:

| | UK | | Germany | | Switzerland | | Other | | Total | |
|---|-------------|-------------|---------------|---------------|--------------|--------------|--------------|--------------|---------------|---------------|
| | 2021 \$m | 2020 \$m | 2021 \$m | 2020 \$m | 2021 \$m | 2020 \$m | 2021 \$m | 2020 \$m | 2021 \$m | 2020 \$m |
| Fair value of schemes' assets | – | 15.7 | – | – | 13.3 | 13.8 | 0.8 | 0.8 | 14.1 | 30.3 |
| Present value of funded schemes' liabilities | – | (12.1) | – | – | (17.2) | (20.4) | (1.4) | (1.4) | (18.6) | (33.9) |
| Surplus/(deficit) in the funded schemes | – | 3.6 | – | – | (3.9) | (6.6) | (0.6) | (0.6) | (4.5) | (3.6) |
| Present value of unfunded schemes' liabilities | – | – | (12.6) | (12.8) | – | – | (2.6) | (3.1) | (15.2) | (15.9) |
| Restrict recognition of asset | – | (1.3) | – | – | – | – | – | – | – | (1.3) |
| Net pension asset/(liability) | – | 2.3 | (12.6) | (12.8) | (3.9) | (6.6) | (3.2) | (3.7) | (19.7) | (20.8) |
| Recognised within Consolidated Statement of Financial Position: | | | | | | | | | | |
| Defined benefit asset (Note 10) | | | | | | | | | – | 2.3 |
| Defined benefit obligations (Note 11) | | | | | | | | | (19.7) | (23.1) |

The weighted average duration of the Group's defined benefit obligations at the end of the year is 21 years (2020: 20 years).

13. Post-employment benefits (continued)

Fair value of assets and present value of the liabilities of the plan

The amount included in the Consolidated Statement of Financial Position arising from its obligations in respect of its defined benefit plans was as follows:

| | Assets \$m | Liabilities \$m | Total \$m |
|--|---------------|--------------------|---------------|
| At 1 January 2020 | 30.4 | (45.5) | (15.1) |
| Current service cost | – | (2.4) | (2.4) |
| Interest income/(expense) | 0.3 | (0.4) | (0.1) |
| Remeasurement loss | (1.3) | (0.9) | (2.2) |
| Contributions by employer | 0.8 | – | 0.8 |
| Contributions by members | 0.7 | (0.7) | – |
| Benefits paid | (1.8) | 2.1 | 0.3 |
| Experience gain | – | 1.8 | 1.8 |
| Expenses paid related to UK buy-in | (0.4) | – | (0.4) |
| Foreign exchange | 1.6 | (3.8) | (2.2) |
| At 31 December 2020^(a) | 30.3 | (49.8) | (19.5) |
| Current service cost | – | (2.1) | (2.1) |
| Interest income/(expense) | 0.1 | (0.3) | (0.2) |
| Remeasurement gain | 0.1 | 1.2 | 1.3 |
| Contributions by employer | 0.7 | – | 0.7 |
| Contributions by members | 0.6 | (0.6) | – |
| Benefits paid | (2.7) | 3.0 | 0.3 |
| Experience gain | – | 1.9 | 1.9 |
| Pension settlement | (14.4) | 11.0 | (3.4) |
| Foreign exchange | (0.6) | 1.9 | 1.3 |
| At 31 December 2021^(a) | 14.1 | (33.8) | (19.7) |

(a) Excludes surplus restriction of \$nil (2020: \$1.3 million) in respect of the UK plan.

Plan assets

The fair value of defined benefit plan assets at 31 December, which has been determined in accordance with IFRS 13, *Fair Value Measurements*, is analysed below. All assets have a quoted market price and are categorised as a Level 1 measurement in the fair value hierarchy.

| | UK | | Germany | | Switzerland | | Other | | Total | |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2021 \$m | 2020 \$m | 2021 \$m | 2020 \$m | 2021 \$m | 2020 \$m | 2021 \$m | 2020 \$m | 2021 \$m | 2020 \$m |
| Equity instruments | – | – | – | – | 4.0 | 3.7 | – | – | 4.0 | 3.7 |
| Debt instruments | – | 3.9 | – | – | 4.8 | 5.2 | – | – | 4.8 | 9.1 |
| Property | – | – | – | – | 2.0 | 1.8 | – | – | 2.0 | 1.8 |
| Qualifying insurance policies | – | 11.8 | – | – | – | – | 0.8 | 0.8 | 0.8 | 12.6 |
| Other | – | – | – | – | 2.5 | 3.1 | – | – | 2.5 | 3.1 |
| Plan assets | – | 15.7 | – | – | 13.3 | 13.8 | 0.8 | 0.8 | 14.1 | 30.3 |

13. Post-employment benefits (continued)

Actuarial assumptions

The Group makes certain key assumptions in order to value the plan obligations, and the approach to how these are set was as follows:

| | Approach taken |
|-------------------------|---|
| Discount rate | Calculated by reference to the yields on high-quality corporate bonds which match expected cash flows in each territory in which a defined benefit plan is present. |
| Inflation | Calculated using the difference on yields between fixed and index-linked government bonds. |
| Future salary increases | Based on historical expectations and known future increases, including expected inflation rates. |
| Mortality | Based on mortality tables derived from assessments performed by national governments and based upon recommendations by plan actuaries. |

The principal actuarial assumptions for each defined benefit arrangement used at 31 December were as follows:

| | UK | | Germany | | Switzerland | | Other | |
|------------------------------|------|-------|---------|-------|-------------|-------|----------------|------------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Discount rate ^(a) | N/A | 1.32% | 1.03% | 1.26% | 0.30% | 0.20% | 0.29% to 1.22% | (0.05)% to 1.15% |
| Rate of price inflation | N/A | 2.50% | N/A | N/A | 0.50% | 0.50% | 1.20% to 2.00% | 1.00% to 2.00% |
| Future salary increases | N/A | N/A | 2.00% | 2.00% | 1.75% | 1.75% | 0.00% to 3.00% | 0.00% to 3.00% |

(a) The discount rate in Italy at 31 December 2020 of (0.05)% is based on Eurozone AA bonds with a duration of 7 to 10 years consistent with the expected duration of the obligation.

The current mortality assumptions underlying the values of the obligations in the defined benefit plans were as follows:

| | UK | | Germany | | Switzerland | | Other | |
|---|------|------------|------------|------------|-------------|------------|------------|------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Life expectancy at age 65 | | | | | | | | |
| Male | N/A | 22.8 years | 17.5 years | 16.7 years | 22.7 years | 21.8 years | 20.5 years | 20.4 years |
| Female | N/A | 23.9 years | 20.9 years | 20.7 years | 24.5 years | 24.9 years | 24.0 years | 24.0 years |
| Life expectancy at age 65 in 20 years' time | | | | | | | | |
| Male | N/A | 24.2 years | 20.2 years | 19.3 years | 25.0 years | 23.5 years | 21.7 years | 21.6 years |
| Female | N/A | 25.5 years | 23.1 years | 23.2 years | 26.5 years | 26.4 years | 25.1 years | 25.1 years |

Sensitivity analysis

The effect of movements in the key actuarial assumptions in respect of the Germany and Switzerland plans at 31 December 2021 would be an (increase)/decrease to the defined benefit asset/liabilities as follows:

| | Germany | | Switzerland | |
|-------------------------|--------------------|--------------------|--------------------|--------------------|
| | Increase 0.5% | Decrease 0.5% | Increase 0.5% | Decrease 0.5% |
| Discount rate | 1.4 | (1.7) | 1.6 | (1.7) |
| Inflation | N/A | N/A | (0.6) | 0.6 |
| Future salary increases | N/A | N/A | (0.4) | 0.4 |
| | 1 year increase | 1 year decrease | 1 year increase | 1 year decrease |
| Life expectancy | (0.5) | 0.5 | (0.3) | 0.3 |

Future funding

Payments expected to be made by the Group to its defined benefit pension plans in the year ended 31 December 2022 are as follows:

| | UK \$m | Germany \$m | Switzerland \$m | Other \$m | Total \$m |
|-------------------|-----------|----------------|--------------------|--------------|--------------|
| Expected payments | – | 0.1 | 0.9 | – | 1.0 |

Capital structure and financial costs

The Group ensures that all entities within the Group have sufficient funding to deliver the Group's strategy while maximising the return to shareholders through the debt and equity balance. The capital structure of the Group consists of net debt (which includes borrowings less cash and cash equivalents and excluding lease liabilities) and equity of the Group, comprising issued capital, reserves and earnings as disclosed in the Consolidated Statement of Changes in Equity.

14. Capital structure and net debt

The capital structure of the Group at 31 December was as follows:

| | 2021 \$m | 2020 \$m |
|---|----------------|-------------|
| Borrowings (Note 19) | 1,344.6 | 1,456.4 |
| Less: Cash and cash equivalents (Note 20) | 463.4 | 565.4 |
| Net debt | 881.2 | 891.0 |
| Equity | 1,694.8 | 1,670.7 |
| Total capital | 2,576.0 | 2,561.7 |

The Group's capital structure is managed to provide ongoing returns to shareholders and service debt obligations whilst maintaining maximum operational flexibility. Refer to pages 77 to 85 in the Financial review for discussion of the Group's sources and uses of cash.

15. Share capital and reserves

Share capital

Called up share capital is the total number of shares in issue at their par value. The rights attaching to the ordinary shares are uniform in all respects. They form a single class for all purposes, including with respect to voting and for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Group. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction from the proceeds, net of tax.

Repurchased shares are classified as own shares and are disclosed in the own shares reserve.

Share premium

The share premium represents amounts received in excess of the nominal value of the ordinary shares.

Own shares

Own shares are ordinary shares in the Group purchased and held by an Employee Benefit Trust to satisfy obligations under the Group's employee share ownership programmes.

When any Group company purchases the Company's equity share capital (own shares), the consideration paid, including any directly attributable incremental costs (net of tax), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable costs and the related tax effects, is recognised in equity and the resulting surplus or deficit on the transaction is presented within share premium.

Merger reserve

In 2016, the Consolidated Financial Statements were prepared under merger accounting principles. Under these principles, no acquirer was required to be identified and all entities were included at their pre-combination carrying amounts. This accounting treatment led to differences on consolidation between issued share capital and the book value of the underlying net assets. This difference is included within equity as a merger reserve.

Cumulative translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Other reserves

Other reserves comprises of the cumulative changes in the effective portion of cash flow hedges, remeasurement of defined benefit plans and the share-based payment reserve.

15. Share capital and reserves (continued)

Share capital

Shares were allotted during the year in respect of the Group's scrip dividend offering. The movements in ordinary shares of 10 pence each were as follows:

| Issued and fully paid or credited as fully paid | Ordinary shares number | Share capital \$m | Share premium \$m |
|--|------------------------|-------------------|-------------------|
| 1 January 2020 | 1,983,513,851 | 242.9 | 70.7 |
| Issue of new shares for Scrip Scheme – 2019 final dividend | 16,991,621 | 2.1 | 35.7 |
| Issue of new shares for Scrip Scheme – 2020 interim dividend | 3,841,666 | 0.5 | 8.9 |
| | 20,833,287 | 2.6 | 44.6 |
| 31 December 2020 | 2,004,347,138 | 245.5 | 115.3 |
| Issue of new shares for Scrip Scheme – 2020 final dividend | 9,475,532 | 1.3 | 24.8 |
| Issue of new shares for Scrip Scheme – 2021 interim dividend | 750,265 | 0.2 | 2.2 |
| | 10,225,797 | 1.5 | 27.0 |
| 31 December 2021 | 2,014,572,935 | 247.0 | 142.3 |

At 31 December 2021, 742,756 shares (2020: 2,401,898 shares) were held in the Employee Benefit Trust. The market value of own shares at 31 December 2021 was \$1.9 million (2020: \$6.5 million).

Other reserves include the share-based payment reserve of \$135.3 million (2020: \$121.8 million), partially offset by the remeasurement of defined benefit obligations of \$3.6 million (2020: \$8.2 million) and the effective portion of cash flow hedges of \$5.2 million (2020: \$4.5 million). A reconciliation of movements in all reserves is provided in the Consolidated Statement of Changes in Equity.

Distributable reserves

Retained and realised distributable reserves equates to the retained surplus of ConvaTec Group Plc as set out in the Company Financial Statements on page 198. At 31 December 2021, the retained surplus of the Company was \$1,590.3 million (2020: \$1,653.1 million). The capacity of the Company to make dividend payments is primarily determined by the availability of these retained and realised distributable reserves and the Group's cash resources.

16. Dividends

The Group ensures that adequate realised distributable reserves are available in the Company in order to meet proposed shareholder dividends, and the purchase of shares for employee share scheme incentives. The Company principally derives distributable reserves from dividends received from subsidiary companies.

In determining the level of dividend for the year, the Board considers the following factors and risks that may influence the proposed dividend:

- Availability of realised distributable reserves;
- Available cash resources and commitments;
- Strategic opportunities and investments, in line with the Group's strategic plan; and
- Principal risks of the Group (as disclosed on pages 68 to 73).

The Board paid the 2020 final dividend in May 2021 and the interim dividend in October 2021. The Board has taken into consideration balancing the return to shareholders and the additional investment in transformation in the period. The decision to increase the dividend for 2021 reflects the Board's confidence in the future performance of the Group and the underlying financial strength, distributable reserves position and cash generation of the Group when assessing cash flow forecasts for the next two years from the date of the dividend payment. Further details of the Group's considerations and rationale for its policy in respect of the dividend distribution are given in the Directors' report on page 146.

Accounting policy

Dividends paid are included in the Group Consolidated Financial Statements at the earlier of payment of the dividends or, in respect of the Company's final dividend for the year, on approval by shareholders.

The Company operates a scrip dividend scheme allowing shareholders to elect to receive their dividend 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.

16. Dividends (continued)

Dividends paid and proposed were as follows:

| | pence per share | cents per share | Total \$m | Settled in cash \$m | Settled via scrip \$m | No of scrip shares issued |
|------------------------------|-----------------|-----------------|--------------|---------------------|-----------------------|---------------------------|
| Final dividend 2019 | 3.095 | 3.983 | 75.8 | 38.0 | 37.8 | 16,991,621 |
| Interim dividend 2020 | 1.306 | 1.717 | 34.3 | 24.9 | 9.4 | 3,841,666 |
| Paid in 2020 | 4.401 | 5.700 | 110.1 | 62.9 | 47.2 | 20,833,287 |
| Final dividend 2020 | 2.845 | 3.983 | 79.7 | 53.6 | 26.1 | 9,475,532 |
| Interim dividend 2021 | 1.229 | 1.717 | 34.6 | 32.2 | 2.4 | 750,265 |
| Paid in 2021 | 4.074 | 5.700 | 114.3 | 85.8 | 28.5 | 10,225,797 |
| Final dividend 2021 proposed | 3.161 | 4.154 | 83.7 | | | |

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

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

17. Share-based payments

The Group operates a number of plans used to award shares to Executive Directors and other senior employees as part of their remuneration package. A charge is recognised over the vesting period in the Consolidated Income Statement to record the cost of these, based on the fair value of the award at the grant date.

The Group's share-based payment schemes in place are as follows:

Long Term Incentive Plan ("LTIP")

Provides Performance Share Plan ("PSP") awards subject to Group performance and market conditions and Restricted Stock Units ("RSU") subject only to remaining employed up to the vesting date. Details on share-based payments in relation to Executive Directors is set out on pages 129 to 130.

Deferred Bonus Plan ("DBP")

Provides for the grant of share awards to defer a portion of the participant's bonus as determined by the Remuneration Committee. The awards vest subject only to remaining employed up to the vesting date.

Share Plan/Matching Share Plan ("SP/MSP")

Provides for the grant of discretionary share awards. Awards granted in 2021 will vest to employees still employed on the vesting date. The awards granted in 2020 are subject to the completion of the Group's Transformation Initiative.

Employee Plans

The Group also operates Employee Plans which provide eligible employees the opportunity to save up to £500 per month (or local currency equivalent) with an option to acquire shares using these savings at a 15% discount to the market price at date of grant.

The Employee Plans are available to employees under the following schemes:

- *Save-As-You-Earn ("SAYE")* – Available to all employees in the UK employed by participating Group companies.
- *Employee Stock Purchase Plan ("ESPP")* – Available to all employees in the US.
- *International Share Save Plan* – Available to all employees in the rest of the world.

Accounting policy

Equity-settled share-based payment awards are measured at the fair value of the award on the grant date, excluding the effect of non-market-based vesting conditions. The fair value of the awards at the date of the grant is expensed to general and administrative expenses in the Consolidated Income Statement over the vesting period on a straight-line basis.

Appropriate adjustments are made to reflect expected and actual forfeitures during the vesting period due to uncertainties in satisfying service conditions or non-market performance conditions. The corresponding credit is to other reserves in the Consolidated Statement of Financial Position.

17. Share-based payments (continued)

All share-based payment expenses were equity-settled and recognised in the Consolidated Income Statement as follows:

| | 2021 \$m | 2020 \$m |
|----------------|-------------|-------------|
| LTIP | 11.6 | 9.2 |
| SP/MSP | 2.1 | 1.4 |
| DBP | 1.4 | 0.6 |
| Employee Plans | 1.3 | 1.2 |
| | 16.4 | 12.4 |

Awards outstanding

The movements in the number of share and share option awards and the weighted average exercise price of share options are detailed below:

| | 2021 | | 2020 | |
|--|--|---|--|---|
| | Number of shares/ options 000's | Weighted average exercise price of options £ per share | Number of shares/ options 000's | Weighted average exercise price £ per share |
| Outstanding at 1 January | 30,472 | 0.51 | 29,503 | 0.57 |
| Granted | 13,190 | 0.33 | 11,513 | 0.26 |
| Forfeited | (8,265) | 0.53 | (6,250) | 0.67 |
| Exercised | (1,690) | 0.46 | (4,294) | 0.03 |
| Outstanding at 31 December | 33,707 | 0.43 | 30,472 | 0.51 |
| Exercisable at 31 December | 826 | 1.80 | 937 | 2.49 |
| Weighted average fair value of awards granted (£ per share) | – | 1.18 | – | 1.19 |

The average share price during 2021 was £2.15 (2020: £1.96). The share price of the Company at 31 December 2021 was £1.93.

The range of exercise prices and the weighted average remaining contractual life of options outstanding at 31 December were as follows:

| | 2021 Number of shares/ options 000's | 2020 Number of shares/ options 000's |
|--|--|--|
| Range of prices | | |
| Nil | 24,198 | 20,637 |
| 1.21 | 5,338 | 5,993 |
| 1.76 | 1,344 | 1,635 |
| 1.84 | 755 | 1,270 |
| 2.08 | 2,072 | – |
| 2.49 | – | 937 |
| | 33,707 | 30,472 |
| Weighted average remaining contractual life of options outstanding | 1.9 years | 2.0 years |

Valuation assumptions

All share awards granted are valued directly by reference to the share price at date of grant except:

- PSP shares awarded under the LTIP and MSP plans are subject both market based measures and non-market based measures. Vesting under the market-based element are based on relative Total Shareholder Return ("TSR") performance conditions and are valued using a Monte Carlo simulation.
- Options granted under the Employee Plans are valued using the Black-Scholes model.

The principal assumptions used in these valuations were:

| | 2021 | | | 2020 | | | |
|------------------------------------|--------------------------------------|-----------|-----------|------------|-----------|--------------------------------------|-----------|
| | SAYE & International Share Save Plan | | | LTIP | | SAYE & International Share Save Plan | |
| | LTIP | | ESPP | March 2020 | May 2020 | | ESPP |
| Share price at date of grant | £1.92 | £2.44 | £2.44 | £1.85 | £2.07 | £1.89 | £2.07 |
| Exercise price | nil | £2.08 | £2.08 | nil | nil | £1.76 | £1.76 |
| Expected life | 3.0 years | 3.6 years | 2.0 years | 3.0 years | 3.0 years | 3.6 years | 2.0 years |
| Expected volatility ^(a) | 40.6% | 40.6% | 40.6% | 43.9% | 46.1% | 46.1% | 46.1% |
| Risk free rate | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| Dividend yield | 2.1% | 2.1% | 2.1% | 2.4% | 2.2% | 2.2% | 2.2% |
| Fair value | £1.00 | £0.54 | £0.48 | £1.13 | £1.51 | £0.28 | £0.30 |

(a) The expected volatility was determined by calculating the observed historical volatility of share prices of peer group companies (including the Company) over the expected life of the share award.

18. Financial risk management

The Group's treasury policy seeks to minimise the Group's principal financial risks. No trading or speculative transactions in financial instruments are undertaken. This note presents information about the Group's exposure to financial risks and the Group's objectives, policies and processes for measuring and managing risks.

Financial risk management objectives

Based on the global operations of the Group, management consider the key financial risks to be liquidity, foreign exchange, interest rate and counterparty credit. The management of counterparty credit risk is discussed in Note 10 – Trade and other receivables.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group manages and minimises liquidity risk by using global cash management solutions and actively monitoring both actual and projected cash outflows to ensure that it will have sufficient liquidity to meet its liabilities when due and have headroom to provide against unforeseen obligations. As at 31 December 2021, the Group held cash and cash equivalents of \$463.4 million (2020: \$565.4 million), of which 87% was held centrally, and had access to a \$200.0 million multicurrency revolving credit facility, available until October 2024, which has remained undrawn.

Medium and long-term borrowing requirements are met through committed bank facilities and capital market funding as detailed in Note 19 – Borrowings. Short-term borrowing requirements, if necessary, may be met from drawings under the multicurrency revolving credit facility.

Cash collections have remained strong throughout 2021 and the Group has not taken advantage of any governmental COVID-19 support programmes available or needed to utilise its revolving credit facility to manage short-term liquidity requirements. Longer term, the Group has assessed its liquidity forecast as part of the viability assessment and its ability to continue trading as a going concern. For further detail on the Group's assessment of liquidity risk, refer to the Viability statement on pages 74 to 76.

Foreign exchange risk

As a result of the global nature of operations, the Group is exposed to market risk arising from changes in foreign currency exchange rates.

Where possible, the Group manages foreign exchange risk by matching same currency revenues and expenses. It will also denominate debt in certain currencies and use foreign exchange forward contracts and swap contracts to further minimise both translation and transactional foreign exchange risk, with certain currency contracts designated as cash flow hedges; refer to Note 21 – Financial instruments for details. As a result, the impact of the fluctuations in the market values of assets and liabilities and the settlement of foreign currency transactions are reduced.

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

| Currency | Average rate/ Closing rate | 2021 | 2020 |
|----------|-------------------------------|------|------|
| USD/EUR | Average | 1.18 | 1.14 |
| | Closing | 1.14 | 1.22 |
| USD/GBP | Average | 1.38 | 1.28 |
| | Closing | 1.35 | 1.37 |
| USD/DKK | Average | 0.16 | 0.15 |
| | Closing | 0.15 | 0.16 |

Sensitivity analysis on foreign exchange risk

The sensitivity analysis below assumes a 10% strengthening of the US dollar against the principal currencies to highlight the sensitivity of profit before income taxes and total equity to foreign exchange risk as at 31 December, with all other variables held constant.

| Currency | Sensitivity | 2021 \$m | 2020 \$m |
|--|-------------|-------------|-------------|
| <i>Increase/(decrease) in profit before income taxes</i> | | | |
| USD/GBP | +10% | 0.1 | 1.7 |
| USD/EUR | +10% | (40.6) | (31.6) |
| USD/DKK | +10% | (20.5) | (10.0) |
| <i>Decrease/(increase) in total equity</i> | | | |
| USD/GBP | +10% | (93.0) | (92.6) |
| USD/EUR | +10% | 6.5 | 3.8 |
| USD/DKK | +10% | (31.4) | (34.6) |

18. Financial risk management (continued)

Interest rate risk

The Group's principal exposure to interest rate risk is in relation to interest expense on borrowings made under the Group's credit facilities which attract interest at floating rates plus a fixed margin. Floating rate borrowings expose the Group to interest rate cash flow and expense risk. The Group manages this exposure on a net basis within Board approved policy parameters, including the use of interest rate swaps designated as cash flow hedges to maintain an appropriate mix between fixed and floating rate borrowings.

As at 31 December 2021, the Group's borrowings are denominated in USD and EUR. The credit facilities expose the Group to floating USD LIBOR and EURIBOR. Refer to Note 19 – Borrowings for further details of the Group's credit facilities agreement. The Group maintains USD interest rate swaps of \$275.0 million, with exposure to USD LIBOR as a reference rate; refer to Note 21 – Financial instruments for details.

Sensitivity analysis on interest rate risk

Based on the composition and the terms of the Group's borrowings as at 31 December 2021, and including the 0% interest rate floor and before the effect of the interest rate swaps, if interest rates were to increase or decrease by 100 basis points, the interest expense on borrowings would increase by \$7.6 million (2020: \$12.4 million) or decrease by \$1.4 million (2020: \$2.1 million) assuming that all other variables remain constant and excluding any effect of tax.

IBOR Reform

The transition away from LIBOR and other IBORs (together "IBOR Reform") removed certain IBOR as an interest rate benchmark for financial instruments. In May 2021, the Group amended its credit facilities, removing GBP as an optional currency for drawings and removing 1-week and 2-month draw periods for USD. This change did not result in any impact on the Group's financial statements for the year ended 31 December 2021. Given that the Group is not forecasting a material requirement for GBP, the changes do not affect the Group's ability to draw under the facility in the required principal currencies.

19. Borrowings

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

In October 2021, the Group issued unsecured senior notes of \$500 million in accordance with Rule 144A and Regulations S (under the Securities Act) and used the proceeds to prepay a portion of the drawings against the credit facilities.

Accounting policy

Borrowings are recognised at fair value less directly attributable costs on the date that they are entered into and subsequently measured at amortised cost using the effective interest rate method. Borrowing costs directly attributable to the facility are capitalised and amortised over the period of the loan.

The effective interest rate method is a method of calculating the amortised cost of a financial liability and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Borrowings are classified as non-current when the repayment date is more than 12 months from the period-end date or where they are drawn on a facility with more than 12 months to expiry.

The Group derecognises borrowings when its contractual obligations are discharged, terminated or expired.

Fair value measurement

Borrowings are classified as Level 1 or Level 2 in the fair value hierarchy in accordance with IFRS 13, *Fair Value Measurements*, based upon the degree to which the fair value movements are observable.

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

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

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

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

19. Borrowings (continued)

Senior notes

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

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

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. Provided by a group of financial institutions and maturing in October 2024, it consisted originally of two 5-year multicurrency term loans totalling \$1.5 billion and a \$200 million multicurrency revolving credit facility, allowing drawings to be made in different currencies. During the year ended 31 December 2021, \$88.4 million (2020: \$45.0 million) was repaid in accordance with the repayment schedule and \$495.5 million was prepaid using proceeds from the senior notes issued on 7 October 2021. Of the remaining balance, \$461.2 million is amortising in accordance with the repayment schedule, and \$396.7 million is repayable in full at maturity. The multicurrency revolving credit facility has an option to increase its amount by up to 50% (\$100.0 million) subject to certain conditions. The multicurrency revolving credit facility remained undrawn as at 31 December 2021.

The principal financial covenants are based on a permitted net debt to adjusted EBITDA 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 2021, the permitted net debt to adjusted EBITDA 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, net debt to adjusted EBITDA ratio can increase to a maximum 4.00 times for permitted acquisitions or investments.

Financial covenants

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

Excluding the impact of interest rate swaps, the weighted average interest rate on borrowings for the year ended 31 December 2021 was 2.0% (2020: 2.6%).

Borrowings not measured at fair value

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

Maturity of financial liabilities

The contractual undiscounted future cash flows, including contractual interest payments, related to the Group's financial liabilities were as follows:

| | Contractual cash flows | | | | | | Total \$m | Carrying amount \$m |
|---|---|------------------------|------------------------|------------------------|------------------------|-----------------------------|--------------|---------------------------|
| | Within 1 year or on demand \$m | 1 to 2 years \$m | 2 to 3 years \$m | 3 to 4 years \$m | 4 to 5 years \$m | More than 5 years \$m | | |
| At 31 December 2021 | | | | | | | | |
| Borrowings | 184.7 | 182.0 | 591.2 | 19.4 | 19.4 | 558.1 | 1,554.8 | 1,344.6 |
| Lease liabilities ^(a) | 22.6 | 19.4 | 14.7 | 10.9 | 8.3 | 28.4 | 104.3 | 90.5 |
| Trade and other payables | 342.5 | – | – | – | – | – | 342.5 | 342.5 |
| <i>Derivative financial instruments</i> | | | | | | | | |
| Derivative financial instruments payable | 1,723.4 | 2.9 | – | – | – | – | 1,726.3 | 14.6 |
| Derivative financial instruments receivable | (1,726.3) | – | – | – | – | – | (1,726.3) | (15.1) |
| At 31 December 2020 | | | | | | | | |
| Borrowings | 122.8 | 181.6 | 178.8 | 1,099.3 | – | – | 1,582.5 | 1,456.4 |
| Lease liabilities ^(a) | 23.3 | 18.6 | 15.3 | 11.3 | 8.1 | 32.4 | 109.0 | 92.1 |
| Trade and other payables | 334.1 | – | – | – | – | – | 334.1 | 334.1 |
| <i>Derivative financial instruments</i> | | | | | | | | |
| Derivative financial instruments payable | 971.1 | 3.7 | 0.9 | – | – | – | 975.7 | 15.4 |
| Derivative financial instruments receivable | (967.6) | – | – | – | – | – | (967.6) | (8.1) |

(a) The lease liabilities disclosed in this table are on an undiscounted basis. The lease liabilities on a discounted basis at 31 December 2021 are \$90.5 million (2020: \$92.1 million).

19. Borrowings (continued)

Reconciliation of movement in borrowings

| | 2021 \$m | 2020 \$m |
|--|----------------|-------------|
| Borrowings at 1 January | 1,456.4 | 1,486.1 |
| Repayment of borrowings ^(a) | (583.9) | (73.0) |
| Proceeds of new borrowings, net of financing fees ^(b) | 491.8 | – |
| Foreign exchange | (26.5) | 39.0 |
| Non-cash movements ^(c) | 6.8 | 4.3 |
| Borrowings at 31 December | 1,344.6 | 1,456.4 |

- (a) In the year ended 31 December 2021, repayment of borrowings includes the scheduled repayment instalment on Term Loan Facility A of \$88.4 million (2020: \$45.0 million). In the year ended 31 December 2020, there was an additional payment of \$28.0 million on Euro denominated borrowings triggered by the movement in the Euro to USD exchange rate exceeding 5%.
- (b) On 7 October 2021, 180 Medical, Inc. a wholly owned subsidiary of the Group, issued 8-year, non-call for 3 years unsecured senior notes of \$500 million in accordance with Rule 144A and Regulation S (under the Securities Act). Transaction costs in respect of the issuance were \$8.2 million.
- (c) Non-cash movements are in respect of the amortisation of deferred financing fees associated with the borrowings less financing fees charged to finance expense following the repayment of a portion of the loan facilities.

20. Cash and cash equivalents

Cash held at bank is used for the Group's day-to-day operations. The Group utilises bank deposits or money market funds which have a maturity of three months or less as liquid investments that enable short-term liquidity requirements to be met.

Accounting policy

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions. All liquid investments, including term deposits and money market funds, have original maturities of three months or less, are subject to insignificant risk of changes in value and are repayable within one business day with no significant loss of interest, resulting in classification as cash equivalents.

Cash at bank earns interest at rates based on daily bank deposit rates. Term deposits and money market funds earn interest at the respective short-term deposit rate.

Cash and cash equivalents at 31 December 2021 included \$37.5 million (2020: \$42.2 million) of cash held in territories where there are restrictions related to timely repatriation. The amounts meet the definition of cash and cash equivalents but are not deemed to be readily available for general use by the wider Group.

Consolidated Statement of Cash Flows

Under certain circumstances, the Group utilises bank overdrafts to manage temporary fluctuations in cash positions. The bank overdrafts are repayable on demand, used as part of the Group's overall cash management strategy and form part of cash and cash equivalents for the purpose of the Consolidated Statement of Cash Flows. The Group had no bank overdrafts as at 31 December 2021 or 31 December 2020.

The Group reports cash flows from operating activities using the indirect method in accordance with IAS 7, *Statement of Cash Flows*. The Group has elected to classify net interest paid (including interest on lease liabilities) as cash flows from operating activities. Short-term lease payments and payments for leases of low-value assets are included in cash flows from operating activities.

Changes in working capital assets and liabilities as reported in cash flows from operating activities reflect the changes in the Consolidated Statement of Financial Position between the current and previous financial year end, including adjustments for amounts relating to acquisitions and disposals (when necessary), as well as currency translation adjustments.

Cash payments for the principal portion of lease liabilities is included within cash flows from financing activities.

Acquisition of property, plant and equipment, and intangible assets reflects additions to the related assets, including adjustments for changes in capital accruals. Acquisition of intangible assets relates to capitalised software, development and product-related licences. Refer to Note 8 – Intangible assets and goodwill for further details.

The adjustment for non-operating expense, net in the Consolidated Statement of Cash Flows excludes the gains and losses realised on cash-settled derivative financial instruments. Refer to Note 4 – Non operating income/expense, net.

| | 2021 \$m | 2020 \$m |
|--------------------------------------|--------------|-------------|
| Cash at bank and in hand | 69.5 | 105.0 |
| Money market funds and bank deposits | 393.9 | 460.4 |
| Cash and cash equivalents | 463.4 | 565.4 |

21. Financial instruments

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

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

Accounting policy

Derivative financial instruments are initially recognised at fair value on the derivative contract date and are remeasured at their fair value at subsequent reporting dates. Derivative financial instruments are classified at fair value through profit or loss ("FVTPL") unless they are designated and qualify as an effective cash flow hedge. The fair value of forward foreign exchange contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate from third parties at the reporting date.

Hedge accounting

The Group has elected to apply the IFRS 9, *Financial Instruments* hedge accounting requirements. Changes in the fair values of derivatives designated as cash flow hedges are recognised in other comprehensive income to the extent the hedges are effective. The fair value is the estimated amount that the Group would receive or pay to terminate the forward or swap at the reporting date, taking into account current market rates, the Group's current creditworthiness, as well as that of the financial instrument counterparties.

The cumulative gain or loss is then reclassified to the Consolidated Income Statement in the same period when the relevant hedged transaction is realised. Any ineffectiveness on hedging instruments is recognised in the Consolidated Income Statement as they arise. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

The Group maintains USD interest rate swaps of \$275.0 million, with exposure to USD LIBOR as a reference rate (as detailed below). In assessing hedge effectiveness on a prospective basis for this relationship, the Group has assumed that the USD LIBOR-related interest cash flows on the swap are not altered by IBOR reform and the hedge continues to be highly effective. Furthermore, hedge accounting did not need to be discontinued during the period of IBOR-related uncertainty as the Group has taken the relief available in Phase 1 to separately identify the risk component at the initial hedge designation and not on an ongoing basis.

Right to offset

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Fair value measurement

Financial instruments are classified as Level 1 or Level 2 in the fair value hierarchy in accordance with IFRS 13, *Fair Value Measurements*, based upon the degree to which the fair value movements are observable. The only instrument classified as Level 1 are the senior notes, given the availability of quoted market price. Level 2 fair value measurements are defined as those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (prices from third parties) or indirectly (derived from third-party prices).

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

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

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

21. Financial instruments (continued)

Cash flow hedges

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

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

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

Foreign exchange forward contracts

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

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

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

Impact of hedging on other comprehensive income

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

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

22. Leases

The Group principally leases real estate and vehicles. Leases are recognised as a right-of-use asset with a corresponding liability recorded at the date at which the leased asset is available for use by the Group.

Accounting policy

The lease liability is measured at the present value of future lease payments discounted using the rate implicit in the lease. If this rate is not readily determinable, the Group uses its incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Options such as lease extensions or terminations on lease contracts are considered on a case-by-case basis by regular management assessment.

Each lease payment is allocated between amounts paid for principal and interest. The interest cost is charged to the Consolidated Income Statement over the lease term to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated on a straight-line basis over the lease term.

Payments associated with short-term leases and low-value leases are recognised on a straight-line basis as an expense in the Consolidated Income Statement. Short-term leases are leases with a lease term of 12 months or less and low-value leases comprise of leases with an underlying asset value of less than \$5,000. Expenses recognised for these short-term and low-value leases for the year ended 31 December 2021 were \$2.8 million (2020: \$3.9 million).

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

| | Real estate and other \$m | Vehicles \$m | Total \$m |
|-------------------------------------|---------------------------------|-----------------|--------------|
| As at 1 January 2020 | 68.6 | 15.9 | 84.5 |
| Lease additions | 14.5 | 8.4 | 22.9 |
| Leases terminated | (1.1) | (0.9) | (2.0) |
| Depreciation of right-of-use assets | (14.1) | (8.3) | (22.4) |
| Foreign exchange | 2.4 | 0.4 | 2.8 |
| As at 31 December 2020 | 70.3 | 15.5 | 85.8 |
| Lease additions | 17.1 | 7.8 | 24.9 |
| Acquisitions | 0.7 | – | 0.7 |
| Leases terminated | (0.4) | (1.1) | (1.5) |
| Depreciation of right-of-use assets | (14.5) | (8.3) | (22.8) |
| Foreign exchange | (2.9) | (0.6) | (3.5) |
| As at 31 December 2021 | 70.3 | 13.3 | 83.6 |

Movements in lease liabilities were as follows:

| | 2021 \$m | 2020 \$m |
|---|-------------|-------------|
| Lease liabilities as at 1 January | 92.1 | 88.5 |
| Lease additions | 24.9 | 22.9 |
| Acquisitions | 0.7 | – |
| Payment of lease liabilities | (22.0) | (20.6) |
| Leases terminated | (1.5) | (1.9) |
| Interest expense on lease liabilities (Note 23) | 3.8 | 3.8 |
| Interest paid on lease liabilities | (3.8) | (3.8) |
| Foreign exchange | (3.7) | 3.2 |
| Lease liabilities as at 31 December | 90.5 | 92.1 |

22. Leases (continued)

Total cash outflow of lease liabilities including interest for the year ended 31 December 2021 was \$25.8 million (2020: \$24.4 million).

Lease liabilities by category at 31 December were as follows:

| | 2021 | | | 2020 | | |
|--------------|---------------------------|--------------|-------------|---------------------------|--------------|-----------|
| | Real estate and other \$m | Vehicles \$m | Total \$m | Real estate and other \$m | Vehicles \$m | Total \$m |
| Current | 13.2 | 6.5 | 19.7 | 12.4 | 7.4 | 19.8 |
| Non-current | 64.0 | 6.8 | 70.8 | 64.1 | 8.2 | 72.3 |
| Total | 77.2 | 13.3 | 90.5 | 76.5 | 15.6 | 92.1 |

The maturity of lease liabilities at 31 December was as follows:

| | 2021 | | | 2020 | | |
|--------------------|---------------------------|--------------|-------------|---------------------------|--------------|-----------|
| | Real estate and other \$m | Vehicles \$m | Total \$m | Real estate and other \$m | Vehicles \$m | Total \$m |
| Within 1 year | 13.2 | 6.5 | 19.7 | 12.5 | 7.3 | 19.8 |
| 1 to 2 years | 12.7 | 4.1 | 16.8 | 10.8 | 4.9 | 15.7 |
| 2 to 3 years | 10.7 | 2.0 | 12.7 | 10.4 | 2.5 | 12.9 |
| 3 to 4 years | 8.5 | 0.6 | 9.1 | 8.7 | 0.7 | 9.4 |
| 4 to 5 years | 6.8 | 0.1 | 6.9 | 6.3 | 0.2 | 6.5 |
| 5 to 10 years | 24.2 | – | 24.2 | 22.9 | – | 22.9 |
| More than 10 years | 1.1 | – | 1.1 | 4.9 | – | 4.9 |
| Total | 77.2 | 13.3 | 90.5 | 76.5 | 15.6 | 92.1 |
| Of which: | | | | | | |
| Principal | 63.5 | 12.8 | 76.3 | 60.1 | 14.9 | 75.0 |
| Interest | 13.7 | 0.5 | 14.2 | 16.4 | 0.7 | 17.1 |

23. Finance income and expense

Finance expenses arise from interest on the Group's borrowings and lease liabilities. Finance income arises from interest earned on investment of surplus cash.

Accounting policy

Finance expenses, including the transaction costs for borrowings and any discount or premium on issue, are recognised in the Consolidated Income Statement using the effective interest rate method.

When existing debt is derecognised in the financial statements any transaction costs not amortised are recognised immediately in the Consolidated Income Statement.

Upon derecognition of financial liabilities, any unamortised financing fees are recognised immediately in the Consolidated Income Statement.

Interest related to qualifying assets under construction included within PP&E is capitalised (refer to Note 7 – Property, plant and equipment).

Refer to Note 22 – Leases for accounting policy on interest expense on lease liabilities.

Interest arising from interest rate swaps is recorded as either interest income or expense over the term of the agreement. When a hedging instrument expires, is sold or terminated or no longer meets the requirements for hedge accounting, the cumulative gain or loss of hedging that was reported in equity is immediately reclassified to the Consolidated Income Statement.

23. Finance income and expense (continued)

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

| | 2021 \$m | 2020 \$m |
|---|---------------|---------------|
| Finance income | | |
| Interest income on cash and cash equivalents | 0.8 | 1.9 |
| Total finance income | 0.8 | 1.9 |
| Finance expense | | |
| Interest expense on borrowings ^(a) | (29.2) | (39.2) |
| Other financing-related fees ^(b) | (8.1) | (5.9) |
| Interest expense on interest rate derivatives | (3.8) | (1.8) |
| Interest expense on lease liabilities | (3.8) | (3.8) |
| Capitalised interest ^(c) | 0.6 | 0.7 |
| Other finance costs | – | (0.3) |
| Total finance expense | (44.3) | (50.3) |
| Finance costs, net | (43.5) | (48.4) |

(a) Interest expense is in respect of amounts payable on the Group's borrowings of which, in the year ended 31 December 2021, \$4.6 million is in respect of the senior notes.

Refer to Note 19 – Borrowings for further details.

(b) Other financing-related fees include amortisation of deferred financing fees and fees associated with the multicurrency revolving credit facility.

(c) Capitalised interest was calculated using the Group's weighted average interest rate over the year of 2.0% (2020: 2.6%).

24. Commitments and contingencies

Commitments represent the Group's future capital expenditure which is not recognised as a liability in the Consolidated Financial Statements but represents a non-cancellable commitment.

A contingent liability is a possible liability that is not sufficiently certain to qualify for recognition as a provision because the amount cannot be measured reliably or because settlement is not considered probable.

Capital commitments

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

Contingent liabilities

Following a mutually amicable settlement (Note 12 – Provisions), ConvaTec Inc and Scapa Tapes North America LLC and Scapa Group plc dismissed their claims against each other in relation to the previous pending litigation between the companies.

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

25. Related party transactions

The Directors have not identified any related parties to the Group, other than the key management personnel. The Group considers key management personnel as defined in IAS 24, *Related Party Disclosures* to be the members of the CELT as set out on page 97 and the Non-Executive Directors as set out on pages 94 to 95.

Key management personnel compensation

Key management personnel compensation for the year ended 31 December was as follows:

| | 2021 \$m | 2020 \$m |
|------------------------------|-------------|-------------|
| Short-term employee benefits | 14.4 | 15.9 |
| Share-based payment expense | 9.0 | 6.8 |
| Post-employment benefits | 0.7 | 0.5 |
| Termination benefits | – | 1.8 |
| Total | 24.1 | 25.0 |

Further details of short-term employee benefits, share-based payment expense and post-employment benefits for the Executive Directors are shown on page 127. Details of the Non-Executive Directors' fees, included in the table above, are provided on page 130.

The Group has not been a party to any other material transaction, or proposed transactions, in which any member of the key management personnel had or was to have a direct or indirect material interest.

26. Subsequent events

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

Details of the proposed final dividend are disclosed in Note 16 – Dividends.

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

Company Statement of Financial Position

As at 31 December 2021

| | Notes | 2021 \$m | 2020 \$m |
|-------------------------------------|-------|-------------|-------------|
| Assets | | | |
| Non-current assets | | | |
| Investment in subsidiaries | 3 | 4,271.5 | 4,305.9 |
| Deferred tax assets | 4 | 2.1 | 2.7 |
| | | 4,273.6 | 4,308.6 |
| Current assets | | | |
| Other receivables | 5 | 10.2 | 27.3 |
| | | 10.2 | 27.3 |
| Total assets | | 4,283.8 | 4,335.9 |
| Equity and liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 6 | 8.3 | 4.7 |
| | | 8.3 | 4.7 |
| Total liabilities | | 8.3 | 4.7 |
| Net assets | | 4,275.5 | 4,331.2 |
| Equity | | | |
| Share capital | 7 | 247.0 | 245.5 |
| Share premium | 7 | 142.3 | 115.3 |
| Own shares | 7 | (2.2) | (6.7) |
| Retained surplus | | 1,590.3 | 1,653.1 |
| Merger reserve | | 1,765.6 | 1,765.6 |
| Cumulative translation reserve | | 460.8 | 499.8 |
| Other reserves | | 71.7 | 58.6 |
| Total equity | | 4,275.5 | 4,331.2 |
| Total equity and liabilities | | 4,283.8 | 4,335.9 |

The Company reported a net profit for the year ended 31 December 2021 of \$51.5 million (2020: \$234.7 million).

The Financial Statements of ConvaTec Group Plc (registered number 10361298) were approved by the Board of Directors and authorised for issue on 7 March 2022. They were signed on its behalf by:



Frank Schulkes
Chief Financial Officer



Karim Bitar
Chief Executive Officer

Company Statement of Changes in Equity

For the year ended 31 December 2021

| | Share capital \$m | Share premium \$m | Own shares \$m | Retained surplus \$m | Merger reserve \$m | Cumulative translation reserve \$m | Other reserves \$m | Total equity \$m |
|---|----------------------|----------------------|-------------------|-------------------------|-----------------------|---------------------------------------|-----------------------|---------------------|
| At 1 January 2020 | 242.9 | 70.7 | (10.8) | 1,528.5 | 1,765.6 | 376.3 | 55.4 | 4,028.6 |
| Net profit | – | – | – | 234.7 | – | – | – | 234.7 |
| Foreign currency translation adjustment | – | – | – | – | – | 123.5 | – | 123.5 |
| Total comprehensive income | – | – | – | 234.7 | – | 123.5 | – | 358.2 |
| Dividends paid | – | – | – | (62.9) | – | – | – | (62.9) |
| Scrip dividend | 2.6 | 44.6 | – | (47.2) | – | – | – | – |
| Share-based payments | – | – | – | – | – | – | 12.4 | 12.4 |
| Share awards vested | – | – | 9.7 | – | – | – | (9.7) | – |
| Excess deferred tax benefit from share-based payments | – | – | – | – | – | – | 0.5 | 0.5 |
| Purchase of own shares | – | – | (5.6) | – | – | – | – | (5.6) |
| At 31 December 2020 | 245.5 | 115.3 | (6.7) | 1,653.1 | 1,765.6 | 499.8 | 58.6 | 4,331.2 |
| Net profit | – | – | – | 51.5 | – | – | – | 51.5 |
| Foreign currency translation adjustment | – | – | – | – | – | (39.0) | – | (39.0) |
| Total comprehensive income | – | – | – | 51.5 | – | (39.0) | – | 12.5 |
| Dividends paid | – | – | – | (85.8) | – | – | – | (85.8) |
| Scrip dividend | 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 | – | – | – | – | – | – | 0.2 | 0.2 |
| At 31 December 2021 | 247.0 | 142.3 | (2.2) | 1,590.3 | 1,765.6 | 460.8 | 71.7 | 4,275.5 |

For further information on share-based payments, refer to Note 17 – Share-based payments, and for dividends refer to Note 16 – Dividends to the Consolidated Financial Statements.

Notes to the Company Financial Statements

1. Basis of preparation

This section describes the Company's significant accounting policies in respect of the Company Financial Statements and explains critical accounting judgements and estimates that management has identified as having a potentially material impact to the Company. Specific accounting policies relating to the Notes to the Company Financial Statements are described within that note.

1.1 General information

The separate Financial Statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 ("FRS 100") issued by the Financial Reporting Council ("FRC"). Accordingly, the Financial Statements have been prepared in accordance with Financial Reporting Standard 101 ("FRS 101") Reduced Disclosure Framework as issued by the FRC.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in respect of share-based payments, financial instruments, capital management, comparative information, presentation of a cash flow statement, new but not yet effective IFRSs and certain related party transactions.

As permitted by s408 of the Companies Act 2006 the Company has elected not to present its own Income Statement for the current or prior year. The profit attributable to the Company is disclosed in the footnote to the Company's Statement of Financial Position.

Where required, equivalent disclosures are given in the Consolidated Financial Statements.

The auditor's remuneration for audit and other services is disclosed in Note 3.3 – Auditor's remuneration to the Consolidated Financial Statements.

1.2 Significant accounting policies

Basis of accounting

The Financial Statements have been prepared on the historical cost basis, except for certain financial instruments where fair value has been applied. The principal accounting policies adopted are the same as those set out in the Consolidated Financial Statements except as noted below.

Foreign currencies

The functional currency of the Company is Sterling, being the currency of the primary economic environment in which it operates.

The Company has adopted US dollars as the presentation currency for its Financial Statements, in line with the presentation currency for the Consolidated Financial Statements. For the purpose of presenting individual company financial statements, assets and liabilities of the Company are translated into US dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity, the cumulative translation reserve, in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Share-based payments

The Company has implemented the generally accepted accounting principle for accounting for share-based payments with subsidiary undertakings under FRS 101, whereby the Company has granted rights to issue its shares to employees of its subsidiary undertakings under an equity-settled arrangement and the subsidiaries have not reimbursed the Company for these rights. Under this arrangement, the Company treats the share-based payment recognised in the subsidiary's financial statements as an increase in the cost of investment in the subsidiary and credits equity with an equal amount.

1.3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Company's Financial Statements in accordance with FRS 101 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. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Management has concluded that there are no critical accounting judgements and key sources of estimation uncertainty that could result in a material adjustment in the next 12 months. Furthermore, no areas of critical accounting judgement or key sources of estimation uncertainty have been identified.

2. Staff costs

The Executive Directors of the ConvaTec Plc Group are the only employees of the Company. The remuneration of the Executive Directors is set out on pages 127 to 135 within the Remuneration Committee report.

Their aggregate remuneration comprised:

| | 2021 \$m | 2020 \$m |
|-----------------------------|-------------|-------------|
| Wages and salaries | 3.6 | 3.3 |
| Share-based payment expense | 3.5 | 2.8 |
| Social security costs | 0.5 | 0.8 |
| Pension-related costs | 0.3 | 0.3 |
| Total | 7.9 | 7.2 |

Average monthly number of employees (including Executive Directors) was 2 (2020: 2).

3. Investments in subsidiaries

Investments in subsidiaries represent the cost of the Company's investment in its subsidiary undertakings, net of any impairment charges. Refer to pages 204 to 206 for details of all the Company's direct and indirect holdings.

Accounting policy

Investments in Group undertakings are stated at cost less any provision for impairment. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of the recoverable amount. If the recoverable amount of the investment is less than the carrying amount of the investment, the investment is considered to be impaired and is written down to its recoverable amount.

Any impairment loss is offset against the merger reserve in the first instance. If the merger reserve is not sufficient to cover an impairment loss the excess impairment is recognised immediately in the Income Statement.

| | Cost \$m | Impairment \$m | Net book value \$m |
|---|----------------|-------------------|--------------------------|
| At 1 January 2020 | 5,726.9 | (1,680.0) | 4,046.9 |
| Additions | 127.5 | – | 127.5 |
| Capital contributions in respect of share-based payments to employees of subsidiaries | 8.7 | – | 8.7 |
| Reduction due to reimbursement upon exercised awards | (5.9) | – | (5.9) |
| Foreign exchange | 181.0 | (52.3) | 128.7 |
| At 31 December 2020 | 6,038.2 | (1,732.3) | 4,305.9 |
| Additions | – | – | – |
| Capital contributions in respect of share-based payments to employees of subsidiaries | 12.1 | – | 12.1 |
| Reduction due to reimbursement upon exercised awards | (3.0) | – | (3.0) |
| Foreign exchange | (61.0) | 17.5 | (43.5) |
| At 31 December 2021 | 5,986.3 | (1,714.8) | 4,271.5 |

In the year ended 31 December 2020, a contribution of \$127.5 million was made to ConvaTec Finance Holdings Limited in the form of a capital contribution.

An impairment assessment was performed on the investments in subsidiaries at 31 December 2021 and 31 December 2020 with no impairment identified. The share price of ConvaTec Group plc at 31 December 2021 was £1.93 (2020: £1.99).

The following UK subsidiaries are exempt from the requirement to file audited accounts by virtue of Section 479A of the Companies Act 2006:

| | Company registration number |
|-------------------------------------|-----------------------------------|
| ConvaTec Group Holdings Limited | 12698069 |
| ConvaTec International U.K. Limited | 06622355 |

4. Deferred tax assets

Deferred tax assets mainly arise in relation to timing differences on the exercise of share-based awards, and taxable losses arising in the normal course of business.

| | \$m |
|--|--------------|
| At 1 January 2020 | 2.0 |
| Movement in income statement | 0.1 |
| Movement in other comprehensive income | 0.5 |
| Foreign exchange | 0.1 |
| At 31 December 2020 | 2.7 |
| Movement in income statement | (0.8) |
| Movement in other comprehensive income | 0.2 |
| At 31 December 2021 | 2.1 |

The deferred tax asset consists of deferred tax on the following items:

| | 2021 \$m | 2020 \$m |
|-----------------------|---------------------|-------------|
| Share-based payments | 2.1 | 1.0 |
| Tax losses | – | 1.7 |
| At 31 December | 2.1 | 2.7 |

Deferred tax assets are only recognized where it is probable that future profit will be available to utilize the tax losses.

5. Other receivables

Other receivables consist of amounts due from Group undertakings, other receivables and prepaid insurance.

| | 2021 \$m | 2020 \$m |
|---|---------------------|-------------|
| Amounts falling due within one year: | | |
| Amounts owed by Group undertakings | 7.1 | 26.4 |
| Other receivables | 2.9 | 0.2 |
| Prepayments | 0.2 | 0.7 |
| | 10.2 | 27.3 |

Included in the amounts owed by Group undertakings at 31 December 2021 are intercompany loans of \$1.5 million (2020: \$17.4 million) with a variable interest rate of one-year LIBOR plus 1.64%. The loans are unsecured and are repayable on demand.

6. Trade and other payables

Trade payables consist of amounts payable to third parties related predominantly to the Company being listed on the London Stock Exchange.

Other payables represent amounts owed to Group undertakings, accruals and other taxation and social security.

| | 2021 \$m | 2020 \$m |
|---|---------------------|-------------|
| Amounts falling due within one year: | | |
| Trade payables | 2.9 | 0.6 |
| Other taxation and social security | 1.0 | 2.6 |
| Accruals | 4.4 | 1.5 |
| | 8.3 | 4.7 |

7. Reserves

All reserve balances included in this note are components of Equity and are non-distributable.

Share capital, share premium and own shares

Details of the Company's share capital, share premium and own shares are detailed in Note 15 – Share capital and reserves to the Consolidated Financial Statements.

Merger reserve

The merger reserve represents the fair value in excess of the par value of shares issued as part of a share exchange upon incorporation of the Company.

Currency translation reserve

The currency translation reserve comprise the exchange differences arising on the translation of the assets and liabilities of the Company into US dollars at the prevailing balance sheet rate and income and expense items being translated at the average exchange rates for the period.

Other reserves

Other reserves are in respect of movements on equity-settled share-based payments.

8. Distributable reserves

As the Company is a holding company with no direct operations the capacity of the Company to make dividend payments is primarily derived from dividends received from subsidiary companies.

The retained surplus \$1,590.3 million (2020: \$1,653.1 million) of the Company equates to the distributable reserves. Details of the considerations and rationale for the distribution of dividends are given in the Directors' report on page 146.

9. Financial guarantees

The company has guaranteed certain external borrowings of subsidiaries which at 31 December 2021 amounted to \$1,357.9 million (2020: \$1,468.3 million).

10. Subsequent events

On 2 March 2022, the Board proposed the final dividend in respect of 2021 subject to shareholder approval at the Annual General Meeting on 12 May 2022, to be distributed on 19 May 2022. See Note 16 – Dividends to the Consolidated Financial Statements for further details.

Subsidiary and related undertakings

Details of the Company's subsidiaries and associated undertakings at 31 December 2021 are as follows:

| Name | Place of business and registered office | Portion of ownership interest % | Portion of voting power held % |
|---|---|---------------------------------|--------------------------------|
| Akers & Dickinson Limited ¹ | United Kingdom | 100% | 100% |
| Allied Medical (UK) Services Limited ¹ | United Kingdom | 100% | 100% |
| Alpha-Med (Medical & Surgical) Limited ¹ | United Kingdom | 100% | 100% |
| Amcare Limited ¹ | United Kingdom | 100% | 100% |
| Arthur Wood Limited ¹ | United Kingdom | 100% | 100% |
| B.C.A. Direct Limited ¹ | United Kingdom | 100% | 100% |
| Bradgate-Unitech Limited ¹ | United Kingdom | 100% | 100% |
| ConvaTec Accessories Limited ¹ | United Kingdom | 100% | 100% |
| ConvaTec Holdings U.K. Limited ¹ | United Kingdom | 100% | 100% |
| ConvaTec Speciality Fibres Limited ¹ | United Kingdom | 100% | 100% |
| ConvaTec International U.K. Limited ¹ | United Kingdom | 100% | 100% |
| ConvaTec Limited ¹ | United Kingdom | 100% | 100% |
| Farnhurst Medical Limited ¹ | United Kingdom | 100% | 100% |
| Lance Blades Limited ¹ | United Kingdom | 100% | 100% |
| M.S.B. Limited ¹ | United Kingdom | 100% | 100% |
| Needle Industries (Sheffield) Limited ¹ | United Kingdom | 100% | 100% |
| Nottingham Medical Equipment Limited ¹ | United Kingdom | 100% | 100% |
| Novacare UK Limited ¹ | United Kingdom | 100% | 100% |
| Pharma-Plast Limited ¹ | United Kingdom | 100% | 100% |
| Resus Positive Limited ¹ | United Kingdom | 100% | 100% |
| Rotax Razor Company Limited ¹ | United Kingdom | 100% | 100% |
| Shrimpton & Fletcher Limited ¹ | United Kingdom | 100% | 100% |
| Steriseal Limited ¹ | United Kingdom | 100% | 100% |
| SureCalm Healthcare Holdings Limited ¹ | United Kingdom | 100% | 100% |
| SureCalm Healthcare Ltd ¹ | United Kingdom | 100% | 100% |
| SureCalm Pharmacy Limited ¹ | United Kingdom | 100% | 100% |
| Unomedical Developments Limited ¹ | United Kingdom | 100% | 100% |
| Unomedical Holdings Limited ¹ | United Kingdom | 100% | 100% |
| Unomedical Limited ¹ | United Kingdom | 100% | 100% |
| Unoplast (U.K.) Limited ¹ | United Kingdom | 100% | 100% |
| ConvaTec Finance Holdings Limited* ² | United Kingdom | 100% | 100% |
| ConvaTec Management Holdings Limited* ² | United Kingdom | 100% | 100% |
| ConvaTec Group Holdings Limited* ² | United Kingdom | 100% | 100% |
| ConvaTec Services Limited ² | United Kingdom | 100% | 100% |
| Cidron Healthcare Limited* ³ | Jersey | 100% | 100% |
| ConvaTec Healthcare Ireland Limited ⁴ | Ireland | 100% | 100% |
| ConvaTec France Holdings SAS ⁵ | France | 100% | 100% |
| Laboratoires ConvaTec SAS ⁵ | France | 100% | 100% |
| ConvaTec Healthcare D S.à.r.l. ⁶ | Luxembourg | 100% | 100% |
| ConvaTec Spain Holdings, S.L. ⁷ | Spain | 100% | 100% |
| ConvaTec Spain S.L. ⁷ | Spain | 100% | 100% |
| CVT Business Services, Unipessoal Lda. ⁸ | Portugal | 100% | 100% |
| KVTech Portugal – Produtos Medicos Unipessoal Ltda ⁹ | Portugal | 100% | 100% |
| ConvaTec OY ¹⁰ | Finland | 100% | 100% |
| ConvaTec (Switzerland) GmbH ¹¹ | Switzerland | 100% | 100% |
| ConvaTec International Services GmbH ¹² | Switzerland | 100% | 100% |
| ConvaTec (Austria) GmbH ¹³ | Austria | 100% | 100% |
| ConvaTec Italia S.r.l. ¹⁴ | Italy | 100% | 100% |
| ConvaTec Hellas Medical Products S.A. ¹⁵ | Greece | 100% | 100% |
| ConvaTec Polska Sp. Z.o.o. ¹⁶ | Poland | 100% | 100% |
| ConvaTec Ceska Republika s.r.o. ¹⁷ | Czech Republic | 100% | 100% |
| ConvaTec (Australia) PTY Limited ¹⁸ | Australia | 100% | 100% |
| ConvaTec (New Zealand) Limited ¹⁹ | New Zealand | 100% | 100% |
| FE Unomedical Limited ²⁰ | Belarus | 99% | 99% |
| ConvaTec Sağlık Ürünleri Limited Şirketi ²¹ | Turkey | 100% | 100% |

| Name | Place of business and registered office | Portion of ownership interest % | Portion of voting power held % |
|---|---|---------------------------------|--------------------------------|
| ConvaTec (Sweden) AB ²² | Sweden | 100% | 100% |
| ConvaTec Norway AS ²³ | Norway | 100% | 100% |
| ConvaTec (Germany) GmbH ²⁴ | Germany | 100% | 100% |
| EuroTec GmbH ²⁵ | Germany | 100% | 100% |
| Unomedical s.r.o. ²⁶ | Slovakia | 100% | 100% |
| EuroTec B.V. ²⁷ | Netherlands | 100% | 100% |
| EuroTec Beheer B.V. ²⁷ | Netherlands | 100% | 100% |
| ConvaTec Nederland B.V. ²⁸ | Netherlands | 100% | 100% |
| ConvaTec Belgium BVBA ²⁹ | Belgium | 100% | 100% |
| EuroTec BV – Belgium Branch ³⁰ | Belgium | 100% | NA |
| Papyro-Tex A/S ³¹ | Denmark | 100% | 100% |
| ConvaTec Denmark A/S ³² | Denmark | 100% | 100% |
| Unomedical A/S ³³ | Denmark | 100% | 100% |
| ConvaTec South Africa (PTY) Limited ³⁴ | South Africa | 100% | 100% |
| ConvaCare Medical South Africa (PTY) Ltd ³⁴ | South Africa | 100% | 100% |
| ConvaTec Middle East & Africa LLC ³⁵ | Egypt | 100% | 100% |
| ConvaTec Middle East FZ-LLC ³⁶ | United Arab Emirates | 100% | 100% |
| ConvaTec (Singapore) PTE Limited ³⁷ | Singapore | 100% | 100% |
| ConvaCare Medical Singapore Pte Ltd ³⁷ | Singapore | 100% | 100% |
| ConvaTec Malaysia Sdn Bhd ³⁸ | Malaysia | 100% | 100% |
| Convatec China Limited (Beijing Branch) ³⁹ | China | 100% | NA |
| Convatec China Limited (Guang Zhou Branch) ⁴⁰ | China | 100% | NA |
| ConvaTec China Limited ⁴¹ | China | 100% | 100% |
| ConvaTec Dominican Republic Inc. ⁴² | Dominican Republic | 100% | 100% |
| Boston Medical Device Dominicana S.R.L. ⁴³ | Dominican Republic | 100% | 100% |
| ConvaTec Hong Kong Limited ⁴⁴ | Hong Kong | 100% | 100% |
| ConvaTec Japan KK ⁴⁵ | Japan | 100% | 100% |
| ConvaTec (Singapore) PTE Limited (Taiwan Branch) ⁴⁶ | Taiwan | 100% | NA |
| ZAO ConvaTec ⁴⁷ | Russia | 100% | 100% |
| ConvaTec (Thailand) Co. Limited ⁴⁸ | Thailand | 100% | 100% |
| ConvaTec Korea, Ltd ⁴⁹ | Korea | 100% | 100% |
| ConvaTec Argentina SRL ⁵⁰ | Argentina | 100% | 100% |
| ConvaTec Canada Limited ⁵¹ | Canada | 100% | 100% |
| Unomedical S.A de C.V. ⁵² | Mexico | 100% | 100% |
| Boston Medical Care, S. de R.L. de C.V. ⁵³ | Mexico | 100% | 100% |
| Boston Medical Device de México, S. de R.L. de C.V. ⁵³ | Mexico | 100% | 100% |
| Unomedical Devices S.A. de C.V. ⁵⁴ | Mexico | 100% | 100% |
| ConvaTec Peru S.A.C. ⁵⁵ | Peru | 100% | 100% |
| BMD Comercio de Productos Medicos Ltda. ⁵⁶ | Brazil | 100% | 100% |
| ConvaTec Medical Care Assistencia a Paciente Ltda ⁵⁶ | Brazil | 100% | 100% |
| Boston Medical Devices Colombia Ltda. ⁵⁷ | Colombia | 100% | 100% |
| Boston Medical Care S.A.S IPS ⁵⁸ | Colombia | 100% | 100% |
| ConvaTec Medical Care SpA ⁵⁹ | Chile | 100% | 100% |
| Convatec Chile S.A. ⁵⁹ | Chile | 100% | 100% |
| Boston Medical Device Ecuador S.A. ⁶⁰ | Ecuador | 100% | 100% |
| Boston Medical Device de Venezuela, C.A. ⁶¹ | Venezuela | 100% | 100% |
| ConvaTec India Private Limited ⁶² | India | 100% | 100% |
| ConvaCare Medical India Private Limited ⁶³ | India | 100% | 100% |
| 180 Medical Acquisition Inc. ⁶⁴ | US | 100% | 100% |
| 180 Medical Holdings Inc. ⁶⁴ | US | 100% | 100% |
| 180 Medical Inc. ⁶⁴ | US | 100% | 100% |
| AbViser Medical, LLC ⁶⁵ | US | 100% | 100% |
| Boston Medical Device, Inc. ⁶⁵ | US | 100% | 100% |
| ConvaTec Inc. ⁶⁵ | US | 100% | 100% |

Subsidiary and related undertakings

continued

| Name | Place of business and registered office | Portion of ownership interest % | Portion of voting power held % |
|--|---|---------------------------------|--------------------------------|
| Boston Medical Device International, LLC ⁶⁶ | US | 100% | 100% |
| Cidron Healthcare GP, Inc. ⁶⁷ | US | 100% | 100% |
| ConvaTec Technologies Inc. ⁶⁸ | US | 100% | 100% |
| Personally Delivered, Inc. ⁶⁹ | US | 100% | 100% |
| Woodbury Holdings, Inc. ⁶⁹ | US | 100% | 100% |
| WPI Acquisition Corporation ⁶⁹ | US | 100% | 100% |
| WPI Holdings Corporation ⁶⁹ | US | 100% | 100% |
| Wilmington Medical Supply, Inc. ⁷⁰ | US | 100% | 100% |
| PRN Medical Services, LLC ⁷¹ | US | 100% | 100% |
| PRNMS Investments LLC ⁷¹ | US | 100% | 100% |
| Symbius Medical Inc. ⁷¹ | US | 100% | 100% |
| South Shore Medical Supply, Inc. ⁷² | US | 100% | 100% |
| Unomedical America, Inc. ⁷³ | US | 100% | 100% |
| Unomedical, Inc. ⁷³ | US | 100% | 100% |
| J&R Medical, LLC ⁷⁴ | US | 100% | 100% |
| Cure Medical LLC ⁷⁵ | US | 100% | 100% |

- 1 GDC First Avenue, Deeside Industrial Park, Deeside, Flintshire CH5 2NU, UK
- 2 3 Forbury Place, 23 Forbury Road, Reading, RG1 3JH, UK
- 3 44 Esplanade, St. Helier, Jersey, JE4 9WG Channel Islands
- 4 10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland
- 5 90, Boulevard National, La Garenne Colombes, F-92250, Paris, France
- 6 12C, rue Guillaume Kroll, L-1882 Luxembourg
- 7 Constitucion 1, 3ª Planta, 08960 Sant Just Desvern, Barcelona, Spain
- 8 Avenida da Liberdade, 249-1, 1250-143 Lisbon, Portugal
- 9 Av. da Liberdade, 144, 7º-Dtº., 1250-146 Lisboa, distrito de Lisboa, concelho de Lisboa, freguesia de Santo António, Portugal
- 10 Life Science Center, Keilaranta 16 B, 02150 Espoo, Finland
- 11 Mühlerentalstrasse 38, 8200 Schaffhausen, Switzerland
- 12 Mühlerentalstrasse 36/38, 8200 Schaffhausen, Switzerland
- 13 Schuberting 6, 1010 Wien, Austria
- 14 Via della Sierra Nevada, 60-00144 Rome, Italy
- 15 392A Mesogeion Avenue, Ag. Paraskevi, 15341, Athens, Greece
- 16 Al. Armii Ludowej 26, 00-609 Warszawa, Poland
- 17 Olivova 2096/4, Prague 1, 110 00, Praha 1, Czech Republic
- 18 Level 2 Building 5, Brandon Office Park, 530-540 Springvale Road, Glen Waverley VIC 3150, Australia
- 19 Crowe Horwath, Level 29, 188 Quay Street, Auckland 1010, New Zealand
- 20 Zavadskaya Street., 50, 222750, Fanipol, Dzerzhinsk region., Minsk district, Republic of Belarus
- 21 Şehit İlknur Keles Sokak, Hüseyin Bağdatlioğlu Plaza 7/3, Kozyatagi, Istanbul Turkey 34742
- 22 Gårdsfogdevägen 18B, 168 67 Bromma, Sweden
- 23 Nils Hansen vei 2, 0667 Oslo, Norway
- 24 Gisela-Stein-Strasse 6, 81671 Munich
- 25 Solinger Strasse 93 40764 Langenfeld, Germany
- 26 Priemyselný Park 3, 071 01 Michalovce, Slovakia
- 27 Schotsbossenstraat 8, 4705AG Roosendaal Nederland
- 28 Houttuinlaan 5F, 3447 GM Woerden, Netherlands
- 29 Parc d'Alliance, Boulevard de France 9, B-1420 Braine l'Alleud, Belgium
- 30 Stationsstraat 35, 2950 Kapellen, Belgium
- 31 c/o ConvaTec Harlev Skinderskovvej 32-36, 2730 Herlev
- 32 Lautruphøj 1 DK-2750 Ballerup, Denmark
- 33 Åholmvej 1-3, 4320 Lejre, Denmark
- 34 Workshop 17 Office 1-4, 16 Baker Street, Rosebank, Johannesburg, Gauteng 2196
- 35 22 Kamal El Din Hussein St, 3rd Floor, Heliopolis Sheraton, Post Code 11977, Cairo, Egypt
- 36 Customer Services Counter, Building N. 02, First Floor, Dubai Studio City
- 37 456 Alexandra Road, Fragrance Empire Building #18-01/02, Singapore 119962
- 38 10th floor, Menara Hap Seng, No. 1 & 3, Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia
- 39 Unit 805, 8F Jinbao Tower, No.89 Jinbao Street Dongcheng District, Beijing 100005, P.R.C.

- 40 Unit 808, Level 8, Fortune Plaza, No.116 Ti Yu Dong Road, Tianhe District, Guangzhou City, Guangdong Province, 510620, P.R.C.
- 41 Unit 1105-1106, Crystal Plaza Office Tower 1, No.1359 Yaolong Road, Pudong District, Shanghai 200124, P.R.C
- 42 Carretera Sanchez km 18 ½, Parque Industrial Itabo, Haina, San Cristóbal, Dominican Republic
- 43 Avenida Wiston Churchill ES1. 27 de Febrero, Apto Plaza Central, Tercer Nivel, del Sector PIANINI de la Ciudad de Santo Domingo de Guzman, República Dominicana Suite A-368
- 44 Unit 1901 Yue Xiu Bldg 160-174, Lockhart Road, Wan Chai, Hong Kong
- 45 1-1-7 Choraku, Bunkyo-ku, Tokyo 112-0004, Japan
- 46 5F-4, No. 57, Fuxing N. Rd, Songshan Dist., Taipei City, Taiwan (Post code :10595)
- 47 Kosmodamianskaya nab. 52, building 1, 9th floor, 115054, Moscow Russia
- 48 No. 87, 9th Floor M Thai Tower All Seasons Place, Wireless Road, Lumpini, Phatumwan, Bangkok Thailand
- 49 4F, American Standard B/D, Yeongdongdaero 112gil 66, Gangnam-Gu, Seoul, Republic of Korea 06083
- 50 CERRITO 1070 Piso:3 Dpto:71, 1010-CIUDAD AUTONOMA BUENOS AIRES
- 51 900-1959 Upper Water Street, Halifax, Nova Scotia B3J 2N2
- 52 Avenida Industrial Falcón, L7, Parque Industrial del Norte, Reynosa Tamps, Mexico C.P. 88736
- 53 Avenida Insurgentes sur 619, 3º Piso, CIUDAD DE MEXICO, Nápoles, 03810, Mexico
- 54 Av. Fomento Industrial L9 M3, Parque Industrial del Norte, Reynosa Tamps, Mexico C.P. 88736
- 55 Av. La Encalada 1010 of. 806, Santiago de Surco, Lima 15023, Perú
- 56 Rua Alexandre Dumas, 2100,15º. Andar, Ed Corporate Plaza, Conj 151 e 152, – Chácara Stº Antonio – São Paulo, Brazil Cep: 04717-913
- 57 Torre los Nogales, Calle 76 # 11-17, Fifth and Second Floor, Bogota, Colombia
- 58 Calle 82 # 18-31, Bogotá Colombia
- 59 Av Suecia 0181, Providencia, Santiago, Chile
- 60 Robles E4-136 y Av. Amazonas, Edificio Proinco Calisto, piso 12, Quito, Ecuador EC170526
- 61 Av. Sorocaima, Libertador con Venezuela, Edif Atrium. Piso 3, Oficina 3G, Urb El Rosal, Municipio Chacao, Edo, Miranda, Venezuela
- 62 Next Logistics, No. 217, Soukya Road (Next to Scania warehouse) Korallur Village, Hoskote Taluk, Bangalore KA 560067
- 63 10th floor 1002 B, Mangnum Tower-1, Golf Course Extension Road, Sector 58, GURUGRAM, Gurgaon, Haryana, India, 122011 (Company in liquidation)
- 64 8516 Northwest Expressway, Oklahoma City, OK 73162, US
- 65 1160 Route 22 East, Suite 304, Bridgewater, NJ 08807, US
- 66 2315 NW 107th Avenue Suite A30, Doral, Florida 33172 US
- 67 The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, Delaware 19801
- 68 3993 Howard Hughes Parkway Suite 250, Las Vegas, Nevada 89169-6754, US
- 69 725 Primera Blvd, Suite 230, Lake Mary, FL 32746-2127 US
- 70 1206 N. 23rd Street, Wilmington, NC 28405-1810
- 71 20333 N. 19th Avenue, Suite 101, Phoenix, AZ 85027-3627
- 72 58 Norfolk Avenue, Unit 2, South Easton, MA 02375-1907
- 73 5701-1 S Ware RD, McAllen, TX 78504, US
- 74 4635 Southwest Freeway, Suite 800, Houston TX 77027-7105, US
- 75 3471 Via Lido Ste. 211, Newport Beach, CA 92663.

* Directly held investments by ConvaTec Group Plc

Non-IFRS financial information

Non-IFRS financial information or alternative performance measures (“APMs”) are those measures used by management on a day-to-day basis in their assessment of profit and performance and comparison between periods. The adjustments applied to IFRS measures reflect the effect of certain cash and non-cash items that the Board believes distort the understanding of the quality of earnings and cashflows as, by their size or nature, they are not considered part of the core operations of the business. Adjusted measures also form the basis for performance measures for remuneration, e.g. adjusted EBIT. For further information see pages 208 and 210.

The APMs used include adjusted gross profit, adjusted research and development expenses, adjusted operating profit (“adjusted EBIT”), EBITDA, adjusted EBITDA, adjusted net profit, adjusted earnings per share, adjusted working capital, adjusted cash conversion, adjusted free cash flow and net debt. Reconciliation for these adjusted measures determined under IFRS are shown on pages 208 to 210. The definitions of adjusted measures are as calculated within the reconciliation tables.

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

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

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

Adjustments to derive adjusted EBIT (also referred to as adjusted operating profit), excluding the impact of tax, for the years ended 31 December 2021 and 2020 include the following costs or credits:

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

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

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

Amortisation of acquisition-related intangible assets

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

Acquisitions and divestitures

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

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

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

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

Impairment of assets

Impairments, write-offs and gains and losses from the disposal of fixed assets are adjusted when management consider the circumstances surrounding the event are not reflective of the core business or when the transactions are in respect of acquisition-related intangible assets, in line with the eligibility criteria referred above.

Termination benefits and related costs

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

Litigation expenses

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

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

| Year ended 31 December 2021 | Revenue \$m | Gross profit \$m | Operating costs \$m | Operating profit \$m | Finance expense, net \$m | Non- operating expense, net \$m | PBT \$m | Income tax \$m | Net profit \$m |
|---|----------------|------------------------|---------------------------|----------------------------|-----------------------------------|---|--------------|----------------------|-------------------|
| As reported | 2,038.3 | 1,123.1 | (919.5) | 203.6 | (43.5) | (8.8) | 151.3 | (33.7) | 117.6 |
| Amortisation of acquired intangibles | – | 109.5 | 20.9 | 130.4 | – | – | 130.4 | (10.8) | 119.6 |
| Acquisitions and divestitures | – | – | 17.8 | 17.8 | – | – | 17.8 | – | 17.8 |
| Termination benefits and related costs | – | 0.7 | 3.6 | 4.3 | – | – | 4.3 | (0.7) | 3.6 |
| Litigation expenses | – | – | 5.6 | 5.6 | – | – | 5.6 | – | 5.6 |
| Total adjustments 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 | | | | | |

| Year ended 31 December 2020 | 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 | 1,894.3 | 1,018.8 | (807.8) | 211.0 | (48.4) | 12.1 | 174.7 | (62.2) | 112.5 |
| Amortisation of pre-2018 acquisition intangibles | – | 106.7 | 18.6 | 125.3 | – | – | 125.3 | (10.2) | 115.1 |
| Divestitures | – | – | – | – | – | (16.5) | (16.5) | – | (16.5) |
| Impairment of assets | – | – | 1.7 | 1.7 | – | – | 1.7 | – | 1.7 |
| Termination benefits and other related costs | – | 1.3 | 10.9 | 12.2 | – | – | 12.2 | (2.1) | 10.1 |
| Total adjustments including tax effect | – | 108.0 | 31.2 | 139.2 | – | (16.5) | 122.7 | (12.3) | 110.4 |
| Other discrete tax items | – | – | – | – | – | – | – | 17.6 | 17.6 |
| Adjusted | 1,894.3 | 1,126.8 | (776.6) | 350.2 | (48.4) | (4.4) | 297.4 | (56.9) | 240.5 |
| Software and R&D amortisation | | | | 9.4 | | | | | |
| Amortisation of immaterial acquisition intangibles | | | | 2.1 | | | | | |
| Depreciation | | | | 60.9 | | | | | |
| Impairment/write-off of assets | | | | 10.0 | | | | | |
| Share-based payments | | | | 12.4 | | | | | |
| Adjusted EBITDA | | | | 445.0 | | | | | |

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

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

Litigation expenses relate to a one-off claim settled in the period with an adjusted net cash impact in relation to this settlement of \$5.6 million. Further details are provided in Note 12 – Provisions.

Other discrete tax items in 2021 relate to the tax benefit of \$6.8 million resulting from the recognition of deferred tax following the acquisition of Cure Medical, partially offset by a tax expense of \$5.6 million relating to the revaluation of deferred tax liabilities related to UK acquisition intangibles as a result of the increase in the UK corporation tax rate from 1 April 2023. In 2020, other discrete tax items arose following a reassessment of the estimate of the deferred tax asset recognised in the prior year related to the Swiss tax reform. For further details on deferred taxation see Note 5 – Income Taxes to the Consolidated Financial Statements.

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

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

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

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

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

Reconciliation of income tax expense to adjusted income tax expense

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

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

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

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

(a) See Note 6 – Earnings per share to the Consolidated Financial Statements.

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

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

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

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

Reconciliation of Adjusted working capital

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

(a) Working capital movement is the change in assets and liabilities total within the Consolidated Statement of Cash Flows on page 154.

(b) These are the cash flow impacts to the adjusted items shown in the reconciliation of earnings to adjusted earnings table on page 208.

Net debt

Net debt is calculated as the carrying value of current and non-current borrowings (Note 19 – Borrowings), net of cash and cash equivalents (Note 20 – Cash and cash equivalents) and excluding lease liabilities.

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

Independent auditor's report

to the members of ConvaTec Group Plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of ConvaTec Group Plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Company Statements of Financial Position;
- the Consolidated and Company Statements of Changes in Equity;
- the Consolidated Statement of Cash Flows; and
- the related notes 1 to 26 of the Consolidated Financial statements and Notes 1 to 10 of the Company Financial Statements

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

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

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent company for the year are disclosed in note 3.3 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the parent company.

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

3. Summary of our audit approach

| | |
|-------------------------------------|--|
| Key audit matters | <p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none">– Change in cash-generating unit ("CGU") groups and reallocation of goodwill– Acquisition accounting of Cure Medical LLC – focusing on the intangible asset valuation– Taxation – focusing on the uncertain tax positions in connection with transfer pricing– Identification and valuation of adjusting items reported within Alternative Performance Measures ("APMs") |
| | <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none">📌 Newly identified⬆️ Increased level of risk➡️ Similar level of risk⬇️ Decreased level of risk |
| Materiality | <p>The materiality that we used for the Group financial statements was \$8.4m which was determined on the basis of 4.7% of pre-tax profit, adjusted for certain non-recurring items. This equates to 5.6% of the statutory profit before tax.</p> |
| Scoping | <p>We performed full scope audit procedures on thirteen components, as well as the parent company, covering a total of eight countries. In addition, we have performed specified audit procedures in eight components across eight countries. Together, these accounted for 80% of revenue, 87% of profit before tax and 83% of net assets.</p> |
| Significant changes in our approach | <p>We no longer consider occurrence in relation to revenue recognition in certain US and UK components as a key audit matter. Given recent performance history and our cumulative experience from prior year audits, which has indicated a low number of corrected and uncorrected misstatements identified, we have no longer identified this as a key audit matter.</p> <p>In addition, we no longer consider the recognition of US deferred tax assets ("US DTAs") to be a key audit matter in 2021 given the history of US tax losses and management's updated assessment of whether there is convincing evidence of future taxable profits.</p> <p>In the current year, we have identified three new key audit matters. These are the change in CGU groups and reallocation of goodwill, the acquisition accounting of Cure Medical LLC focusing on intangible asset valuation and the identification and valuation of adjusting items reported within Alternative Performance Measures ("APMs") as newly identified key audit matters. Further explanation of the reasons these have been assessed as key audit matters is explained in Section 5.</p> |

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the Group's existing access to sources of financing, including undrawn committed bank facilities;
- Comparing forecasted sales to recent historical financial information to assess forecasting accuracy;
- Testing the underlying data generated to prepare the forecast scenarios and determining whether there was adequate support for the assumptions underlying the forecast;
- Recalculation and assessment of the amount of cash and covenant headroom in the forecasts; and
- Evaluating the Group's disclosures on going concern against the requirements of IAS 1.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Change in cash-generating unit ("CGU") groups and reallocation of goodwill

| | |
|---|--|
| Key audit matter description | <p>At 31 December, the Group held goodwill of \$1,156.3m (2020: \$1,097.2m) and indefinite-lived intangible assets of \$249.8m (2020: \$251.0m).</p> <p>In 2021, management identified a trigger for a change in CGU groups due to the evolution of the Group's global operating model, specifically the change in the internal monitoring of the business from a geographical to a category basis. Goodwill is now monitored on a category basis, therefore the Group has identified new CGU groups, being Advanced Wound Care, Ostomy Care, Continence and Critical Care and Infusion Care.</p> <p>In accordance with IAS 36, <i>Impairment of assets</i>, management has allocated goodwill and indefinite-lived intangible assets to the four CGU groups using a relative value approach, which is the case of goodwill was based on Earnings Before Interest and Tax ("EBIT"). The assessment of CGU groups and the metrics used in the allocation methodology require the application of judgment.</p> <p>The associated disclosure is included within Note 8.5. The Audit and Risk Committee has included their assessment of this risk on page 113. For specific detail on the Group's accounting policy, please see Note 8.5.</p> |
| How the scope of our audit responded to the key audit matter | <p>We obtained an understanding of the relevant controls over the impairment review, and in particular, the assessment of the identification of the new CGU groups.</p> <p>We challenged the appropriateness of management's change in CGU groups by considering contradictory evidence and the level at which operations are managed and goodwill is monitored for internal reporting purposes.</p> <p>We evaluated the appropriateness of the EBIT metrics used to allocate goodwill and intangible assets to assess the reflected relative value.</p> <p>We assessed the mechanical accuracy of the models including the allocation of goodwill and indefinite-lived intangibles to the new CGU groups.</p> <p>We reviewed the disclosures in the financial statements (note 8.5 <i>Cash Generating Unit Impairment Review</i>) for compliance with IAS 36, including the requirement to disclose the change in CGU groups and the judgement in the metric used to allocate the goodwill to the new CGU groups.</p> |
| Key observations | <p>We concur that the change in reported CGU groups of Advanced Wound Care, Ostomy Care, Continence and Critical Care and Infusion Care is appropriate and that the method of allocation of goodwill and indefinite-lived intangible assets are reasonable. We considered the disclosures included in note 8.5 to be appropriate.</p> |

5.2. Acquisition accounting of Cure Medical LLC – focusing on the intangible asset valuation

| | |
|---|---|
| Key audit matter description | <p>On 15 March 2021, the Group completed the acquisition of Cure Medical LLC for a total purchase consideration of \$88.5m resulting in recognising goodwill of \$55m and intangibles assets of \$38m. The acquisition is significantly larger in size relative to other acquisitions over recent years and therefore there is greater management focus on the assessment of fair value of the intangible assets acquired.</p> <p>Management assessed the fair value of the assets acquired, including the valuation of intangibles and the resulting goodwill.</p> <p>Key management judgment was in respect of the useful economic life (UEL) and the attrition rates in relation to the customer relationships. Management utilised an expert to assist in determining the valuations of the fair value of assets and liabilities acquired including intangibles.</p> <p>The associated disclosure is included within Note 8.4. The Audit and Risk Committee has included their assessment of this risk on page 113. For specific detail on the Group's accounting policy, please see Note 8.4.</p> |
| How the scope of our audit responded to the key audit matter | <p>We obtained an understanding of the relevant controls over the valuation of intangible assets, in particular the relevant controls over management's valuation of intangibles arising on acquisition including the useful economic life (UEL) and the attrition rates in relation to the customer relationships.</p> <p>We reviewed the significant terms of the acquisition within the sale and purchase agreement.</p> <p>We assessed management's proposed accounting of the acquisition in line with IFRS 3, <i>Business Combinations</i>.</p> <p>We assessed the competence, capability, and objectivity of management's expert.</p> <p>With the assistance of our valuation specialists, we assessed the appropriateness and application of the valuation methodology as well as the customer attrition rates and the UEL.</p> <p>We assessed performance and budgeting accuracy since acquisition to confirm that the forecast that underpin the valuation of intangibles arising on acquisition were appropriate.</p> <p>We assessed the disclosures in the annual report for appropriateness based on the IFRS 3 disclosure requirements.</p> |
| Key observations | <p>We concur with management's assessment of the carrying value of the goodwill and indefinite lived assets. We are satisfied that assumptions used in the valuation are within an acceptable range. We consider the disclosures in relation to the acquisition to be appropriate.</p> |

5.3. Taxation – uncertain tax positions (UTPs) in connection with transfer pricing arrangements

| | |
|---|---|
| Key audit matter description | <p>At 31 December 2021, there were provisions for UTPs held related to transfer pricing arrangements. There are a number of tax judgements inherent in the calculation of the tax charge which result in the existence of UTPs.</p> <p>Transfer pricing is the primary area of taxation uncertainty, driven largely by the global nature of the Group and the historical business model. The operating model is pivoting to focus more on business performance at the category level, rather than on geographical markets. Changes to the business model increase management judgement, and hence risk, in relation to the impact on transfer pricing and related UTPs.</p> <p>The associated disclosure is included within Note 5. The Audit and Risk Committee has included their assessment of this risk on page 114. For specific detail on the Group's accounting policy, please see Note 5.</p> |
| How the scope of our audit responded to the key audit matter | <p>We obtained an understanding of the relevant controls that are involved in assessing whether management is appropriately identifying and quantifying UTPs.</p> <p>We held discussions with management and their external advisers to understand the status of interactions with tax authorities in relation to transfer pricing matters.</p> <p>With involvement of our internal tax audit specialists, including internal transfer pricing specialists, we have challenged management's judgements regarding the identification and quantification of uncertain tax treatments in relation to transfer pricing, including the judgements as to whether they will lead to a probable economic outflow.</p> <p>We obtained management's technical support for the source of the estimation uncertainty in order to challenge their assessment of the probability that the tax positions will ultimately be accepted by the tax authorities. The support included management's analysis, supported by external professional advice, of the evolution in locations of the creation of value across the Group including the location of key strategic management roles and where taxable profits arise, which is a key judgement in assessing transfer pricing risk.</p> <p>We challenged management's approach to determine whether the methodology for assessing provisions is consistent with IFRIC 23, <i>Uncertainty over Income Tax Treatments</i> including identification, where applicable, of any significant changes in facts and circumstances as required by IFRIC 23.</p> <p>We assessed the appropriateness of the related Financial Statement disclosures.</p> |
| Key observations | <p>Based on the work we have performed, we are satisfied that management has appropriately considered the risk of a transfer pricing challenge and that the level of UTPs is reasonable.</p> |

5.4. Identification and valuation of adjusting items reported within Alternative Performance Measures ("APMs")

| | |
|---|--|
| Key audit matter description | <p>The Group has presented adjusted profit before tax of \$309.4m as a key APM (2020: \$297.4m), which is derived from statutory profit before tax of \$151.3m (2020: \$174.7m) adjusted for a number of items (totalling \$158.1m (2020: \$122.7m)) which management consider meet its definition of an 'adjusting item'.</p> <p>In line with the Group's APMs policy, included within their APMs in 2021 are termination benefits in respect of transformation activity of \$4.3m (2020: \$12.2m), amortisation of acquired intangibles of \$130.4m (2020: \$125.3m), costs related to acquisition and divestment activity of \$17.8m (2020: gain of \$16.5m) and a dispute settlement of \$5.6m.</p> <p>Judgment is exercised by management in determining the identification and valuation of such items and accordingly we consider there to be a key audit matter relating to the reporting of adjusting items. There is also guidance published by the European Securities and Markets Authority (ESMA) and the Financial Reporting Council (FRC) in relation to the disclosure of APMs.</p> <p>The associated disclosure is included within the Non-IFRS financial information section of the Annual Report. The Audit and Risk Committee has included their assessment of this risk on page 114. For specific detail on the Group's accounting policy, please see Non-IFRS financial information section.</p> |
| How the scope of our audit responded to the key audit matter | <p>We obtained an understanding of relevant controls, relating to the identification and disclosure of adjusting items within APMs.</p> <p>We made enquiries of management to understand the rationale applied in identifying items as adjusting and completed an independent assessment as to the selection and presentation of adjusting items based on their nature by comparing the adjusted items to the Group's accounting policy.</p> <p>We assessed the identification and consistency of items reported as adjusting period on period in accordance with ESMA and FRC guidance.</p> <p>We performed tests over a representative sample of adjusting items through agreement to supporting evidence.</p> <p>We assessed the completeness and accuracy of disclosures within the financial statements in accordance with IFRSs.</p> |
| Key observations | <p>We are satisfied that the items included in adjusting items within the APMs are in line with the Group's policy and that they are appropriately disclosed.</p> |

6. Our application of materiality

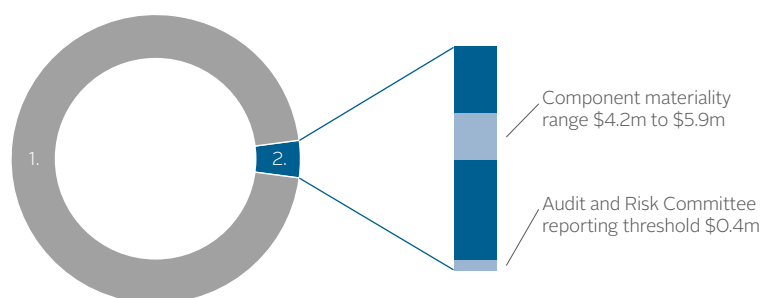
6.1. Materiality

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

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

| | Group Financial Statements | Parent Company Financial Statements |
|--|--|--|
| Materiality | \$8.4m (2020: \$6.7m) | \$5.0 (2020: \$4.7m) |
| Basis for determining materiality | 4.7% (2020: 4.2%) of pre-tax profit, adjusted for acquisition and divestitures costs, termination benefits and related costs and litigation expenses. This equates to 5.6% of the statutory profit before tax. | Parent Company materiality equates to 0.1% (2020: 0.3%) of net assets, which is capped at 60% (2020: 70%) of Group materiality. |
| Rationale for the benchmark applied | In determining our materiality benchmark, we considered the focus of the users of the Financial Statements. Pre-tax profit is the base from which key performance measures are calculated as well as key metrics used in providing trading updates. We have adjusted pre-tax profit for certain non-recurring items as summarised above. | In determining our materiality, based on professional judgement, we have considered net assets as the appropriate benchmark given the Parent Company is primarily a holding company for the Group. We then capped materiality at 60% of Group materiality. |

1. PBT adjusted for certain items: \$179.0m
2. Group materiality: \$8.4m



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

| | Group Financial Statements | Parent Company Financial Statements |
|--|--|---|
| Performance materiality | 70% (2020: 70%) of Group materiality | 70% (2020: 70%) of parent company materiality |
| Basis and rationale for determining performance materiality | In determining performance materiality, we considered the following factors: <ul style="list-style-type: none"> – our risk assessment, including our understanding of the entity and its overall control environment; – the disaggregated nature of the Group which reduces the likelihood of an individually material error; and – our cumulative experience from prior year audits, which has indicated a low number of corrected and uncorrected misstatements identified. | |

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of \$0.4m (2020: \$0.3m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our Group audit was scoped on an entity level basis, assessing components against the risk of material misstatement at the Group level. We have also considered the quantum of Financial Statement balances and individual financial transactions of a significant nature. In performing our assessment, we have considered the geographical spread of the Group and any risks presented within each region.

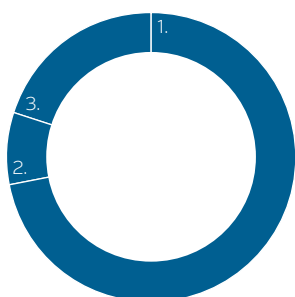
Based on this assessment, we focused our work on thirteen (2020: fourteen) components covering eight (2020: nine) countries, 72% (2020: 73%) of revenue, 83% (2020: 87%) of profit before tax and 77% (2020: 81%) of net assets. All thirteen (2020: fourteen) components were subject to a full scope audit. The thirteen (2020: fourteen) components are located in: the United States of America, the United Kingdom, Switzerland, Denmark, Germany, Italy, France, and Australia, which include the principal operating units of the Group.

In addition, we have performed specified audit procedures in eight (2020: nine) components covering eight (2020: eight) countries, 8% (2020: 9%) of revenue, 4% (2020: 4%) of profit before tax, and 6% (2020: 4%) of net assets. The eight (2020: nine) components are located in: the United States of America, Denmark, Spain, Canada, Brazil, the Dominican Republic, Japan and Slovakia.

We also performed testing at a Group level. This included testing the consolidation process and carrying out analytical review procedures on the aggregated financial information of the remaining components not subject to audit, specified audit procedures or individual desk top reviews. Any movements in account balances, which did not corroborate our initial risk assessment, were investigated further. This testing confirmed our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full scope audit or specified procedures.

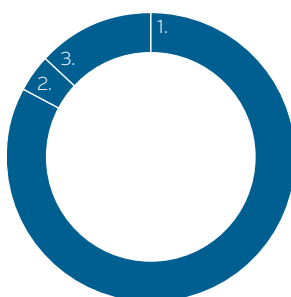
Revenue %

1. Full audit scope: 72%
2. Specified audit procedures: 8%
3. Review at Group level: 20%



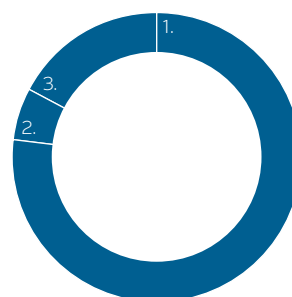
Profit before tax %

1. Full audit scope: 83%
2. Specified audit procedures: 4%
3. Review at Group level: 13%



Net assets %

1. Full audit scope: 77%
2. Specified audit procedures: 6%
3. Review at Group level: 17%



7.2. Our consideration of the control environment

The Group operates a number of IT systems which underpin the financial reporting process. For certain components we identified relevant IT systems for the purpose of our audit work. We obtained an understanding of relevant IT controls and tested the general IT controls for some operating companies using our IT specialists.

We continue to adopt a largely substantive audit approach. Where control improvements are identified they are reported to management and the Audit and Risk Committee as appropriate. Management continues to develop their roadmap to further enhance and standardise the control environment in line with the expected requirements from the white paper relating to "Restoring trust in audit and corporate governance". As management develops and completes this programme of work in future years, we expect our audit approach to evolve alongside the developments in the internal control environment.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements. The Group has assessed the risk and opportunities relevant to climate change and has elevated the Environment & Communities risk to a principal risk across the Group. This risk has also been considered and embedded into the businesses as explained in the Strategic Report.

As a part of our audit procedures, we have obtained management's environment related risk assessment and held discussions with the Audit and Risk Committee to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements. While management has acknowledged that the transition and physical risks posed by climate change have the potential to impact the medium to long term success of the business, they have assessed that there is no material impact arising from climate change on the judgements and estimates made in the financial statements as at 31 December 2021 as explained in note 1.3 on page 156.

We performed our own qualitative risk assessment of the potential impact of climate change on the Group's account balances and classes of transaction and did not identify any additional risks of material misstatement. Our procedures include reading disclosures included in the Strategic Report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

7.4. Working with other auditors

As part of our oversight of the component teams, planning meetings were held with all component audit teams. The purpose of these planning meetings was to determine whether the component teams had sufficient understanding of the Group's businesses, its core strategy and significant risks.

We sent our component teams detailed instructions, included them in our team briefings and discussed their risk assessment. We also provided direction in response to enquiries made by the component auditors. All the findings observed were discussed with the component auditors in detail and instructions to perform further procedures were issued where relevant.

In response to the Covid-19 pandemic, which limited our ability to make component visits, more frequent calls were held between the Group and component teams and remote access to relevant documents was provided. Given the pandemic, the majority of our year-end audit was performed in a remote working environment. Throughout this time, we increased the frequency of interactions with management. We were able to perform our procedures without needing to make substantial changes to our planned approach.

8. Other information

The other information comprises the information included in the annual report the overview, strategic report and governance sections, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditors-responsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the Board;
- results of our enquiries of management, Internal Audit and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including component audit teams and relevant internal specialists, including tax, valuations and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: manual adjustments to revenue, change in CGU groups and reallocation of goodwill, the acquisition accounting of Cure Medical LLC focusing on the intangible asset valuation and the identification and valuation of adjusting items reported within APMs. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Food and Drug Administration ("FDA") and the Medical Devices Regulation ("MDR").

11.2. Audit response to risks identified

As a result of performing the above, we identified manual adjustments to revenue, change in CGU groups and reallocation of goodwill, the acquisition accounting of Cure Medical LLC focusing on the intangible asset valuation and the identification and valuation of adjusting items reported within APMs as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- obtained an understanding of the relevant controls around manual adjustments to revenue and used data analytic sampling tools to identify manual adjustments presenting the highest risk. Those identified were then subjected to substantive and analytical procedures;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and all component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 149;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 74;
- the directors' statement on fair, balanced and understandable set out on page 149;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 87;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 64 and
- the section describing the work of the Audit and Risk Committee set out on page 110.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit and Risk Committee, we were appointed by the directors to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 31 December 2016 to 31 December 2021.

15.2. Consistency of the audit report with the additional report to the Audit and Risk Committee

Our audit opinion is consistent with the additional report to the Audit and Risk Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Claire Faulkner, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

7 March 2022

ESG Target definitions

1. Quality:

Align existing quality metrics to industry standards and our continued focus in product safety by Q4 2022 (end of December 2022) to ensure metrics cover both product quality and safety aspects

2. Product vitality:

Improve Vitality Index to 30% by Q4 2025 (end of December 2025). Vitality index is defined as the percentage of revenues that are generated from new or significantly upgraded products and services launched by ConvaTec in the preceding 5-year period

3. Product development:

Implement ConvaTec Group's Green Design Guidelines (which assess products in five environmentally related areas) as part of our internal product development processes (new product development and material change processes) for all new products. Expand the user base of our new GDG digital tool to at least 50 users by Q4 2022 (end of December 2022). Users are defined by licenses to the software, will come from research and Development (R&D) and Sustaining Engineering Group (SEG), and will be trained on using the tool

4. Health & Safety:

- 4.1 Increase our Operations Hazard Observation Rate to above 200 per 200,000 hours worked by Q4 2022 (end of December 2022). Operations comprises our 9 manufacturing locations, with the rate normalised per 200,000 hours worked, during calendar year 2022. The metric includes contractor/ agency staff working at our sites, as well as permanent staff. Hazard Observation Rate is defined based on OSHA definitions
- 4.2 Reduce Operations Lost Time Injury Rate (LTIR) to below 0.22 by Q4 2025 (end of December 2025). Operations comprises our 9 manufacturing locations, with the rate normalised per 200,000 hours worked, during calendar year 2022. LTIR is defined as per OSHA definitions

5. Diversity, Equity & Inclusion and Wellbeing:

- 5.1 Reach at least 40% females among senior management and CELT roles combined by Q4 2024 (end of December 2024). Senior management roles include direct reports of CELT members, excluding executive assistants. Calculated on employees as at December 2024
- 5.2 Reduce voluntary turnover to less than 10% by Q4 2023. Voluntary turnover includes retirement and excludes redundancies, terminations, apprentices, interns, working students, temporary workers, fixed term and contingent workers. It is calculated as total employees leaving for the year/average monthly headcount

6. Human rights:

Complete the (internal) review, update and publication of our human rights-related policies, our Human Rights and Labour Standards Policy and Supplier Code of Conduct, by Q4 2022 (end of December 2022)

7. Code of Conduct:

Have at least 95% of employees trained on an annual basis by Q4 2023 and in subsequent years. Training is conducted digitally and includes part-time and full-time employees, excluding contractors, agency workers and employees on long-term absence. Percentage is calculated as number of employees trained and employed on 31 December divided by total number of employees as at 31 December

8. Procurement and supply chain:

By 31 December 2023, ensure that 80% of ConvaTec's spend (from all Business Units globally) is supported by suppliers who we have requested to participate in our EcoVadis platform. 'Suppliers' include direct material and external manufacturers and exclude indirect service/materials providers. Participation is considered when a supplier is either: assessed by EcoVadis on all four themes covered in the platform, or when an invitation to participate has been extended and the supplier has declined to participate, and ConvaTec has a documented audit trail of the dialogue between parties

9. Emission reduction:

- 9.1 Achieve Net Zero Carbon (in line with our SBTi Target) by 2045. This includes reducing all value chain carbon emissions (Scope 1, 2 & 3) in line with SBTi 1.5°C targets by 2036, with defined 5-year milestone targets developed by Q4 2022 aligned to SBTi. All value chain emissions will be reduced to zero by beginning of Q1 2045
- 9.2 Complete the Scope 3 Materiality Assessment and develop the measurement strategy by Q4 2022, with the intention of publishing our Scope 3 GHG inventory by Q4 2023. Analyse existing data available for all 15 categories of Scope 3 emissions and determine a measurement strategy to determine a full GHG inventory for material Scope 3 emissions in 2023. Scope 3 inventory to be published by Q4 2023.
- 9.3 Reduce our combined Scope 1 and 2 greenhouse gas emissions by 5%, against a 2021 baseline by Q4 2022

10. Science Based Target commitment:

- 10.1 Set quantitative Science Based Targets for Scope 1 and 2 emissions, against a 2021 baseline, by Q4 2022 (end of December 2022). Set aligned Science based targets for Scope 1 and 2, utilising the SBTi (1.5 oC) calculation tool, to predict expected verified SBTi's at the end of 2022
- 10.2 Set quantitative targets for Scope 3 GHG emissions, against a 2021 baseline, aligned with the Science Based Targets criteria by Q4 2023. Set aligned Science Based Targets for Scope 3, utilising the SBTi (1.5°C) calculation tool, to predict expected verified SBTi's at the end of 2023
- 10.3 Achieve validated Science Based Targets for Scope 1, 2 & 3 emissions by Q4 2023. Gain fully validated SBTi's, certified by the Science Based Target Initiative, covering Scope 1, 2 & 3 emissions, using the 2021 baseline

11. Community contributions:

- 11.1 Establish new NGO partnership(s) and funding commitments by Q4 2022 (end of December 2022). Partnerships are formalised via Letters of Agreement and may involve product or monetary donations, in-kind support, volunteering, or other means of cooperation.
- 11.2 Contribute responsibly to a range of healthcare professionals (HCP) and patient education programmes by Q4 2022 (end of December 2022). Set specific targets for 2023-25 on reach and impact. Contributions may include monetary and in-kind donations or other types of partnerships

Climate-related emissions reporting principles

We aim to follow the methodologies set out in The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition) (the "Protocol"). The main elements, and any departures from the methodology, are highlighted below. In relation to reporting we have adopted a scope determined by our financial control of subsidiary businesses, and have followed guidance laid out in the Protocol. We have also developed criteria to provide clarity on when a target is considered to have been completed and these criteria have been shared with our assurance providers.

In 2021 we undertook a strategic review of our carbon emissions, baseline data and targets, developing an improved approach to reporting carbon emissions. As such, 2021 will be our base year for the setting of future reduction/efficiency targets, as this data represents a thorough GHG inventory for scope 1 & 2 emissions. 2021 will therefore be the baseline year for our Science Based Targets, which we aim to have validated by end 2023. Emissions and energy intensity are calculated using revenue as the denominator (\$m). Calculation of CO₂ equivalent included the gases CO₂, CH₄ and N₂O (Scope 1 and 2). In 2021, we again participated in the Carbon Disclosure Project Climate Change questionnaire, and based on data reported at the end of 2020, we were ranked at a level of 'B' for our disclosure (2020: 'B').

Boundaries

In Greenhouse Gas Protocol terms, the boundary we are using for our Scope 1 and Scope 2 reporting is "Financial Control", i.e. we report 100% of the emissions from operations over which we have control. The scope of our GHG reporting has been updated in 2021, to cover every physical location. We report emissions from our manufacturing plants (highest levels of emissions), our R&D centres, our distribution centres, Group and regional head-quarter offices, and other offices.

For smaller sales offices where energy is generally invoiced as part of the rental, we have made an estimation based on the gross internal area, extrapolated from actual data at similar buildings.

Scope 1

Our main Scope 1 fuels are diesel (burned in generators to create electricity), natural gas (for heat and generation), refrigerant leakage data (for cooling and refrigeration) and fuel burned in company vehicles. Conversion factors for these fuels are sourced from UK Department for Business, Energy and Industrial Strategy ("BEIS") – 2021 version 1.1 (GWP AR4 applied). For the conversion of diesel fuel into electrical power we have assumed generator efficiency of 10%.

In 2018, we procured green gas certificates for our UK operations. The certificates were sourced from a provider registered with the Green Gas Certification Scheme and relate to grid-injected biomethane. Approximately 24% of the certificates were applied against 2018 gas GHG emissions, leaving 76% (8.5 GWh) for application during 2019. The UK Government GHG Conversion Factor Guidance states that "within the Scope 1 conversion factors for biofuels, the CO₂ emissions value is set as net '0' to account for the CO₂ absorbed by fast-growing bioenergy sources during their growth." However, the guidance also requires a reporting business to account for the global warming impact of the other gases released during combustion as "outside of scopes". For biomethane, the guidance quotes a conversion factor of 55.28 kgCO₂ for every gigajoule of biomethane combusted.

Due to the cost prohibitive nature of Green Gas Certificate procurement in 2020, we have purchased UN Carbon Emissions Reduction units ("CERs") to offset the carbon emissions of our gas consumption in the UK. By purchasing CERs, which are generated from the Clean Development Mechanism ("CDM") projects and verified by the UN Climate Change Secretariat, we have been able to ensure that we maintain carbon neutrality in the UK. The CERs have been procured by a provider who purchases and cancels CERs through their registry, assigns the amount of tCO₂e offset to a certain approved project and blocks them for further use. A total of 1,989 CERs have been purchased to ensure that all natural gas emissions in the UK have been offset through CDM projects.

During 2021, a further 2,009 tCO₂e was offset via carbon offset certificates, to offset the carbon emissions of gas consumption in the UK. This was offset from a total of 1,437 CERs, purchased through CDM projects (Covering the period Q1 –3) and from a total of 572 tCO₂e through Verified Carbon Standard (VCS) reduction projects, with additional UK based tree planting for every tonne of carbon offset (Covering the Q4 period).

In 2021, we have again reported Scope 1 emissions arising from our vehicle fleet, included in the 2021 baseline carbon dataset. This is provided by our fleet management partners.

Scope 2

This year, we are again reporting our Scope 2 emissions on both a "location basis" and a "market basis". Our location-based disclosure reflects the electricity grid conversion factors published by the International Energy Agency ("IEA") during 2021 (v1.1). These reflect average grid electricity fuel sources for the respective markets for 2019.

Our market-based disclosure uses the following hierarchy in relation to selection of conversion factors:

- Specific contractual instruments, such as renewable energy certificates
- Direct contracts (e.g. for low carbon generation)
- Supplier-specific emission rates.
- Market-based residual mix factors
- Location-based conversion factors.

In 2021, our electricity was procured under Renewable Energy Guarantees of Origin certificates in the UK and Guarantee of Origin certificates in the Netherlands, Slovakia and Denmark (12 months at our Herlev plant and 9 months at our Osted plant).

Our energy provider in Portugal was able to provide a supplier specific emission rate.

Our market-based residual mix factors are reported based on;

- In Europe – the Reliable Disclosure (RE-DISS) and AIB European Residual Mixes 2020 V1.01 (GWP Applied)
- In the US – Green-e 2021 (2019 data)

All of our other markets are reported on the basis of IEA conversion factors.

Scope 3

We are committed to expanding our reporting of Scope 3 emissions. We estimate that the carbon footprint of our products placed on the market is between 40,000 and 60,000 tCO₂e. This estimate resulted from a study undertaken in 2019 based on 2018 sales data and an analysis of high-volume representative products that was extrapolated to provide estimates for product categories based on sales volumes. This necessarily means that there is significant scope for error and the final estimated data disclosed should be treated as indicative only.

Shareholder information

Our corporate website – www.convatecgroup.com

Information about our Stock Exchange announcements, key dates in our financial calendar, our share price information and background information is available on our corporate website by clicking www.convatecgroup.com/investors.

The date for the release of our interim results for the six months ended 30 June 2022 will be posted in due course on our website.

Shareholders may also receive information by email by signing up to the news alert service available at www.convatecgroup.com/investors/sign-up-for-more-information.

Share price information

Our closing share price as at 31 December 2021 was 193.2p.

Managing your shareholding

You can manage your shareholding online by registering to use Investor Centre, a free and secure website. Investor Centre is available 24 hours a day, 365 days a year. To find out more about Investor Centre visit www.investorcentre.co.uk. Registration is a straightforward process and all you will need is your shareholder reference number (the “SRN”) and registered address details.

Shareholders who prefer not to manage their shareholding online can contact our Registrars, Computershare Investor Services PLC, who manage our share register. The shareholder helpline number is +44 (0) 370 703 6219 and further information about Computershare Investor Services PLC is set out below.

Internet share dealing

Please note that, if you wish to purchase shares in the Company, you may do so through a bank or stockbroker. Alternatively, please go to www.computershare.com/dealing/uk for a range of Dealing services made available by Computershare; this service is only available to shareholders in the UK. This service provides shareholders with a convenient way to buy or sell the Company's ordinary shares on the London Stock Exchange. The commission is 1.4%, subject to a minimum charge of £40. In addition, stamp duty, currently 0.5%, is payable on purchases. Real-time dealing is available during market hours. In addition, there is a convenient facility to place your order outside of market hours.

Up to 90-day limit orders are available for sales. Before you can trade you will need to register for the service. To access the service log on to www.computershare.com/dealing/uk.

Shareholders should have their SRN available. The SRN appears on share certificates as it will be required as part of the registration process. A bank debit card will be required for purchases.

Telephone share dealing

Please note this service is, at present, only available to shareholders resident in the UK. The commission is 1.4% plus a charge of £40. In addition, stamp duty, currently 0.5%, is payable on purchases. The service is available from 8.00am to 4.30pm Monday to Friday, excluding bank holidays, on telephone number +44 (0) 370 703 0084. Before you trade you will need to register for this service. This can be done by going online at www.computershare.com/dealing/uk. Shareholders should have their SRN ready when making the call. The SRN appears on share certificates. A bank debit card will be required for purchases. Detailed terms and conditions are available on request by telephoning +44 (0) 370 703 0084.

Please note that due to the regulations in the UK, Computershare are required to check that you have read and accepted their Terms and Conditions before being able to trade, which could delay your first telephone trade. If you wish to trade quickly, we suggest visiting their website and registering online first.

Share fraud

We would like to warn all of our shareholders to be very wary of any unsolicited telephone calls or letters which offer investment advice, offer to buy your shares at a discounted price, or sell them at an inflated price or offers free company reports. This type of call should be treated as an investment scam. Further information about investment scams and how they should be reported is available at www.convatecgroup.com/investors/shareholder-services/.

Company Secretary and registered office

Evelyn Douglas
3 Forbury Place
23 Forbury Road
Reading RG1 3JH

Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
Telephone +44 (0) 370 703 6219
Email www.investorcentre.co.uk/contactus

Auditor

Deloitte LLP

Brokers

Goldman Sachs International
UBS Limited

Solicitors

Freshfields Bruckhaus Deringer LLP

Glossary

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| Adjusted free cash flow | Adjusted cash generated from operations, net of PP&E and tax paid. |
| Adjusted or alternative performance measures (APMs) | Certain financial measures in this Annual Report and Accounts not prepared in accordance with IFRS and used as a meaningful supplement to reported measures. |
| Advanced Wound Care (AWC) | Advanced wound dressings and skin care products for the management of acute and chronic wounds resulting from ongoing conditions such as diabetes and acute conditions resulting from traumatic injury and burns. |
| AGM | Annual General Meeting of the Company. |
| APAC | Countries located in Asia-Pacific. |
| ARA | Annual Report and Accounts |
| ARC | Audit and Risk Committee. |
| Articles | The Articles of Association of the Company for the time being in force. |
| Base erosion and profit shifting (BEPS) initiative | OECD initiative which seeks to close gaps in international taxation for companies that allegedly avoid tax or reduce tax burden in their home country by engaging in tax inversions. |
| Basic earnings per share | Net profit available for ConvaTec shareholders divided by the weighted average number of ordinary shares in issue during the year. |
| Basis points (bps) | One hundredth of a percentage point. Used, for example, in quoting movements in margin percentages. |
| BEIS | Business, Energy & Industrial Strategy. |
| Board | The Board of Directors of ConvaTec Group Plc. |
| Brexit | The UK's withdrawal from the European Union. |
| Compound annual growth rate (CAGR) | CAGR shows the rate of return of an investment or growth in revenue and profit over a certain period of time, expressed in annual percentage terms. |
| Capital expenditure (capex) | Purchases of property, plant and equipment and intangible assets. |
| Cash conversion | Cash generated from operations, net of PP&E divided by EBITDA. |
| Cash-generating units (CGUs) | The smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. |
| CE mark | Certification mark that indicates conformity with health, safety and environmental protection standards for products sold within the European Economic Area. |
| Code | UK Corporate Governance Code 2018 in effect from 1 January 2019, issued by the FRC. |
| Code of Conduct | Our code of conduct which covers business conduct and compliance issues, including bribery and corruption. |
| Companies Act | Companies Act 2006, as amended, of England and Wales. |
| Company or parent company | ConvaTec Group Plc. |
| Constant exchange rates (CER) growth | CER growth is calculated by applying the applicable prior period average exchange rates to the Group's actual performance in the respective period. |
| Continence & Critical Care (CCC) | Products and services for people with urinary continence issues related to spinal cord injuries, multiple sclerosis, spina bifida and other causes, and devices and products used in intensive care units and hospital settings. |
| COVID-19 | Coronavirus disease 2019. |
| CELT | ConvaTec Executive Leadership Team |
| CR | Corporate responsibility. |
| DE&I | Diversity, equity and inclusion. |
| Derivatives | Financial instruments used to reduce risk, the price of which is derived from an underlying asset, index or rate. |
| Diluted earnings per share | The calculation of diluted earnings per share includes the dilutive impact of share awards where the average market price of the Group's ordinary shares exceeds the exercise price. |
| Director | A member of the Board of Directors of ConvaTec Group Plc. |
| Disclosure guidance and transparency rules (DTRs) | FCA disclosure guidance and transparency rules with which the Group must comply. |
| Dividend cover | Adjusted cash generated from operations, net of PP&E (see page 67) divided by dividend paid (dividend payable), excluding the effect of a scrip option. |
| EBIT or operating profit | Earnings before interest and tax, also defined as operating profit. |
| EBIT margin | EBIT divided by revenue. |
| EBITDA | Earnings before interest, tax, depreciation and amortisation. |
| Effective tax rate | The tax charge in the income statement as a percentage of profit before tax. |
| EMEA | Countries located in Europe, Middle East and Africa. |
| ESG | Environmental, Social and Governance. |
| ESMA | European Securities and Markets Authority. |
| EU | The European Union. |
| FCA | Financial Conduct Authority. |

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| FDA | US Food and Drug Administration. |
| FRC | Financial Reporting Council. |
| FX | Foreign exchange. |
| GDGs | Green Design Guidelines. |
| GDPR | General Data Protection Regulation. |
| GHG emissions | Greenhouse gas emissions. |
| Group | The Company and its subsidiaries. |
| GPO | Group purchasing organisations. |
| H&S | Health and safety. |
| Home Services Group (HSG) | The Group's US home services business unit for catheter and incontinence products. Formerly Home Distribution Group. |
| IASB | International Accounting Standards Board – the independent standard setting body of the IFRS Foundation. |
| IFRS | International Financial Reporting Standards as adopted by the EU and as issued by the IASB. |
| IFRIC | International Financial Reporting Interpretations as adopted by the EU and as issued by the IASB. |
| Infusion Care (IC) | Disposable infusion sets for diabetes insulin pumps, similar pumps used in continuous infusion treatments for conditions such as Parkinson's disease and a range of products for hospital and home healthcare markets. |
| IP | Intellectual property. |
| IPO | Initial public offering. |
| IR | Investor relations. |
| KPI – Key Performance Indicator | Financial and non-financial measures that the Group uses to assess performance and strategic progress. |
| LIBOR | London Inter-bank Offered Rate. |
| LEAN manufacturing | Methodology employed by the Group in the manufacturing process to improve operational efficiency by maximising productivity and minimising waste. |
| Leverage ratio | Net debt divided by adjusted EBITDA. |
| LTIP | Long-term incentive plan. |
| M&A | Mergers and acquisitions. |
| MAR | Market abuse regulation. |
| MDR | Medical Device Regulations introduced in the EU with required transition by May 2021. MDR imposes rigorous requirements in relation to a number of areas including clinical data and post-market surveillance. |
| Medium term | The period covering two to three years. |
| Medium to long term | The period covering three to five years. |
| MedTech | Medical technology. |
| MIP | Margin Improvement Programme. |

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| Net debt | Borrowings less cash and cash equivalents and excluding lease liabilities. |
| NHS | The UK National Health Service. |
| OECD | Organisation for Economic Co-operation and Development. |
| Opex | Operating expenses, being the total of selling and distribution expenses, general administrative expenses and research and development, and other operating expenses. |
| Organisational Health Index (OHI) | An index tracking the organisational elements that drive performance. |
| Ostomy Care (OC) | Devices, accessories and services for people with a stoma (surgically-created opening where bodily waste is discharged), commonly resulting from causes such as colorectal cancer, inflammatory bowel disease and bladder cancer. |
| PBT | Profit before income taxes. |
| PP&E | Property, plant and equipment. |
| Product Categories | The Group has four product groups, being Advanced Wound Care, Ostomy Care, Continence & Critical Care and Infusion Care. |
| R&D | The research and development of safe and reliable products and technologies. |
| ROIC | Return on invested capital. |
| SBTi | Science Based Target initiative. |
| SBTs | Science Based Targets. |
| SID | Senior Independent Director. |
| SKU | Stock keeping unit. |
| SNC | Special nomination committee. |
| Sterling, £, pence or p | The pound sterling, the currency of the UK. |
| Subsidiary | A company over which the Group exercises control. |
| TCFD | Task Force on Climate-related Financial Disclosures. |
| Transformation Initiative | Initiatives and associated investment focused on transforming the business to deliver sustainable and profitable growth. |
| TSR | Total shareholder return. |
| UKLA | The UK's Listing Authority. |
| US dollar, \$, cent or ¢ | The currency of the United States of America. |
| Viability Period | The three-year period from January 2021 to December 2023. |

Important information for readers of this Annual Report

Cautionary statement regarding forward-looking statements

The purpose of this Annual Report is to provide information to the members of the Company. The Group and its Directors, employees, agents and advisers do not accept or assume responsibility to any other person to whom this Annual Report is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. In order, among other things, to utilise the “safe harbour” provisions of the US Private Securities Litigation Reform Act 1995 and the UK Companies Act 2006, we are providing the following cautionary statement: This Annual Report contains statements that are, or may be deemed to be, “forward-looking” statements with respect to the operations, performance and financial condition of the Group, including among other things, statements about expected revenues, margins, earnings per share or other financial or other measures. Forward-looking statements are statements relating to the future which are based on information available at the time such statements are made, including information relating to risks and uncertainties. Although we believe that the forward-looking statements in this Annual Report are based on reasonable assumptions, the matters discussed in the forward-looking statements may be influenced by factors that could cause actual outcomes and results to be materially different from those expressed or implied by these statements, many of which are beyond the Group's control. The forward-looking statements reflect knowledge and information available at the date of the preparation of this Annual Report and the Group undertakes no obligation to update these forward-looking statements. We identify the forward-looking statements by using the words “anticipates”, “believes”, “expects”, “intends” and similar expressions in such statements. Important factors that could cause actual results to differ materially from those contained in forward-looking statements, certain of which are beyond our control include, among other things, those factors identified in the Principal Risks section which begins on page 76. Forward-looking statements are not guarantees of future performance and the actual results of operations, financial condition and liquidity, and the development of the industry in which the Group operates, may differ materially from those made or suggested by the forward-looking statements set out in this Annual Report. Past performance of the Group cannot be relied on as a guide to future performance. Nothing in this Annual Report should be construed as a profit forecast.

Third-party data

To the extent available, the industry and market data contained in this Annual Report has come from third-party sources. Third-party industry publications, studies and surveys generally state that the data contained therein has been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. In addition, certain industry and market data in this Annual Report came from the Group's own internal research and estimates based on the knowledge and experience of the Group's management in the market in which the Group operates. While the Group believes that such research and estimates are reasonable and reliable, they, and their underlying methodology and assumptions, have not been verified by any independent source for accuracy or completeness and are subject to change without notice. Accordingly, undue reliance should not be placed on any of the industry or market data in this Annual Report.

ConvaTec website

Information on or accessible through our website www.convatecgroup.com and other websites mentioned in this Annual Report, does not form part of and is not incorporated into this Annual Report.

Figures

Figures in parentheses in tables and in the Financial Statements are used to represent negative numbers.



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Some of the photographs in this Annual Report and Accounts show our employees and facilities.

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