ConvaTec

30 July 2021

ConvaTec Group Plc
Interim Results for the six months ended 30 June 2021
Strong growth & continued strategic progress

	Statutory results			Adjusted[1] results		
	H1 2021	H1 2020	Change	H1 2021	H1 2020	Change
Revenue	$1,008m	$908m	11.0%	$1,008m	$908m	7.0%[2]
Operating profit/EBIT[3]	$136m	$113m	19.9%	$204m	$182m	17.0%[2]
Operating margin/EBIT margin	*13.4%*	*12.4%*	+100 *bps*	*20.3%*	*20.0%*	*+30 bps*
Diluted earnings per share	4.2 cents	3.0 cents	40.0%	7.2 cents	6.1 cents	18.0%
Interim dividend per share	1.717 cents	1.717 cents	-			

(1) All adjusted measures are reconciled to the most directly comparable measure prepared in accordance with IFRS (see Non-IFRS financial information section).

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

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

(4) Organic growth presents period over period growth at constant currency, excluding acquisitions and disposals.

(5) Items referred to as reported measures are equivalent to statutory measures.

H1 2021 key highlights:

- Strong revenue growth ahead of our expectations: +7.4% organic[4] growth, +7.0% on a constant currency[2] and +11.0% on a reported basis
    - H1 2021 performance was driven by particularly strong growth in Advanced Wound Care, against the weak COVID-depressed comparative, coupled with good growth in Infusion Care and solid performances in Continence & Critical Care and Ostomy Care
- Continued progress with our transformation by executing on our FISBE (Focus, Innovate, Simplify, Build, Execute) strategy:
    - Strengthened Continence Care with acquisition of Cure Medical
    - Launched innovative and differentiated extended wear infusion set
    - Establishing Marketing and Quality Centres of Excellence
- Reported operating profit of $136m, 19.9% higher year on year, with adjusted EBIT of $204m, 17.0% higher on a constant currency basis, reflecting the strong revenue growth together with gross margin improvement and beneficial opex phasing.
- Reported Free Cash Flow ('FCF') of $106m (H1 2020: $145m) with adjusted FCF[1] of $114m (H1 2020: $148m). Adjusted cash conversion[1] of 56.6% (H1 2020: 72.9%) primarily reflecting working capital movements during the period and increased capital investment.
- Strong balance sheet: leverage of 2.0x Net Debt/Adjusted EBITDA[1] (H1 2020: 2.2x; FY 2020: 2.0x).
- Interim dividend of 1.717 cents declared, in line with prior year.
- 2021 full year outlook is updated: organic[4] revenue growth of between 3.5-5% (previously: 3-4.5%) and a constant currency adjusted EBIT margin of 18-19% (previously: 18-19.5%). Based on current FX this would equate to guidance of between 17.1-18.1% for the published adjusted EBIT margin.

Karim Bitar, Chief Executive Officer, commented:

"I am pleased with our continued strategic progress, on delivering another semester of good growth and on the underlying performance of the Group, notwithstanding that the financial performance was helped by the COVID impacted Q2 comparative. Our ongoing strategic transformation remains on track, and we have made progress during the period.

"Whilst we are mindful of relatively tougher comparatives in the second half and the continuing COVID uncertainty, particularly in Asia Pacific and Latin America, we are updating our full year organic revenue growth expectations. Our constant currency margin guidance has been tightened against a backdrop of higher than anticipated cost inflation and a planned increase in transformation investments, primarily in R&D and sales and marketing, given our confidence in our strategy.

"We will continue to strengthen our foundations as we pivot to sustainable and profitable growth, and I am confident in the inherent attractiveness of the markets we serve and in ConvaTec's growth prospects."

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Forward Looking Statements

This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Group's control. "Forward-looking statements" are sometimes identified by the use of forward-looking terminology, including the terms "believes", "estimates", "aims", "anticipates", "expects", "intends", "plans", "predicts", "may", "will", "could", "shall", "risk", "targets", "forecasts", "should", "guidance", "continues", "assumes" or "positioned" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, amongst other things, results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy of the Group and the industry in which it operates.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. These statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies. As such, no assurance can be given that such future results, including guidance provided by the Group, will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed, or implied in such forward-looking statements. Forward-looking statements are not guarantees of future performance and the actual results of operations, financial condition and liquidity, and the development of the industry in which the Group operates, may differ materially from those made in or suggested by the forward-looking statements set out in this document. Past performance of the Group cannot be relied on as a guide to future performance. Forward-looking statements speak only as at the date of this document and the Group and its directors, officers, employees, agents, affiliates and advisers expressly disclaim any obligations or undertaking to release any update of, or revisions to, any forward-looking statements in this document.

Investor and analyst presentation

A pre-recorded webcast of the results presentation will be available on the website from 7.05am or can be found here. We shall host a separate Q&A session at 11am. Please find below the dial-in details to participate in the Q&A United Kingdom: +44 (0)330 336 9434

United States: +1 929 477 0324

Access code: 6926530

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

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Financial Calendar

Ex-dividend date	2 September 2021
Dividend record date	3 September 2021
Scrip dividend election date	21 September 2021
Dividend payment date	14 October 2021
Q3 trading update	29 October 2021

About ConvaTec

ConvaTec is a global medical products and technologies company focused on therapies for the management of chronic conditions, with leading market positions in advanced wound care, ostomy care, continence and critical care, and infusion care. Our products provide a range of clinical and economic benefits including infection prevention, protection of at-risk skin, improved patient outcomes and reduced total cost of care. To learn more about ConvaTec, please visit www.convatecgroup.com

Operating Review for the six months ended 30 June 2021

Revenue

Total Group revenue increased by 11.0% on a reported basis to $1,008m. This was helped by an FX tailwind and on a constant currency basis revenue rose 7.0%. Adjusting for the disposal of US Skincare products in September 2020 and the acquisition of Cure Medical in March 2021, Group revenue rose 7.4% on an organic basis. The primary driver of this performance was the rebound in Advanced Wound Care compared with H1 2020 when the arrival of the pandemic had significantly reduced elective procedures and restricted access to healthcare settings, supported by good growth in Infusion Care and solid performances in the other categories.

	Six months ended 30 June					
	H1 2021 $m	H1 2020 $m	Reported growth / (decline)	Foreign Exchange impact	Constant Currency[2] growth / (decline)	Organic[4] growth / (decline)
Revenue by Category						
Advanced Wound Care	294	251	17.1%	6.4%	10.7%	16.3%
Ostomy Care	273	252	8.6%	4.9%	3.7%	3.7%
Continence and Critical Care	266	244	8.9%	2.1%	6.8%	3.0%
Infusion Care	175	161	8.6%	2.1%	6.5%	6.5%
Total	**1,008**	**908**	**11.0%**	**4.0%**	**7.0%**	**7.4%**

Advanced Wound Care revenue of $294m increased 17.1% on a reported basis. The business experienced a currency tailwind and on a constant currency basis revenue rose 10.7%. Adjusting for the disposal of the US Skincare products, which had contributed $12m of revenue in H1 2020, organic growth was 16.3% reflecting good growth against a COVID-depressed prior year comparative coupled with further improvement in commercial execution.

In the second quarter, when comparatives were at their weakest, the AWC business delivered growth of 23.8% on an organic basis. We saw strong growth throughout the period in Latin America and Asia Pacific supported by high levels of government spending. In Europe the performance rebounded well following slightly softer comparatives throughout H1 last year. In North America the notable step up to growth occurred in the second quarter given relatively stronger Q1 prior year comparatives, and as elective procedures gradually returned to pre-COVID levels and access began to normalise.

Ostomy Care revenue of $273m increased 8.6% on a reported basis and 3.7% on constant currency and organic bases. During the period we achieved continued strong growth in Latin America and Asia Pacific, supported by elevated government healthcare spending, with growth in North America gradually improving during the period as the comparatives eased. These positive performances were partially offset by declines in certain markets in Europe coupled with the impact of the planned strategic rationalisation programme.

Continence & Critical Care revenue of $266m increased 8.9% on a reported basis and 6.8% in constant currency. This performance was enhanced by the Cure Medical acquisition, which contributed $10m of incremental revenue during the period. Adjusting for Cure Medical, revenue rose 3.0% on an organic basis.

Continence Care grew 3.3% on an organic basis during the period, showing a small improvement as the period progressed and New Patient Starts normalised. The Critical Care business moved from strong growth at the beginning of the year into decline from April onwards, as anticipated. Key geographies, such as North America and Europe, made progress with their vaccine programmes and consequently ICU rates and demand for our Critical Care products began to reduce against very strong comparatives.

Infusion Care revenue of $175m increased 8.6% on a reported basis or 6.5% on constant currency and organic bases. This was primarily driven by continued strong demand from diabetes customers for our innovative infusion sets supported by growth in non-diabetes applications, albeit off a small base.

Following a very strong Q1 performance, coupled with already well stocked customers, in the second quarter organic growth slowed significantly to bring the H1 performance in line with the broader market.

Pivoting to sustainable and profitable growth

The execution of our FISBE (Focus, Innovate, Simplify, Build, Execute) strategy is progressing well.

Consistent with the Focus pillar of our strategy, in March we strengthened our Continence Care business through the acquisition of Cure Medical for an initial consideration of $85m. Based in California the business develops, manufactures and distributes intermittent catheters. Bringing together Cure Medical and ConvaTec's Continence Care business enables us to better serve continence customers. We are pleased with how the integration is progressing as we strengthen our position in the US, which accounts for the largest demand for such products in the world.

In June we enhanced our Advance Wound Care product portfolio by signing a collaboration with RLS Global to commercialize ChloraSolv®. The debrider product is a complementary offering and will be marketed as part of ConvaTec's Wound Hygiene™ Protocol for the care of hard-to-heal wounds. Initially the focus will be on Europe while RLS seeks approval in key markets such as the US.

The Innovate pillar of our strategy is crucial for delivering sustainable long term growth. We have increased our spend on R&D by 14.9% to $41m (H1 2020: $36m) or 4.1% of revenue. Our focus during the period has been to embed our new leadership and further strengthen our capabilities. During the period we launched the extended wear infusion sets, in two countries in Europe, and recently received approval for the US. We are focused on scaling up production.

Under our Simplify pillar, during the period we have continued to embed our new operating model and to transition selected finance and IT activities to our Global Business Services ('GBS') centre in Lisbon. At the GBS we have started to build our capabilities in financial planning to deepen our support of the business, while further streamlining our finance processes and enabling more automation.

We have also made further progress with simplifying our Ostomy Care portfolio and the rationalisation of more SKUs during 2021 is on track.

We are Building core capabilities across the value chain. During the period we have focused on embedding the new leadership teams in quality, regulatory, marketing, medical and product development. Our Salesforce Centre of Excellence ('CoE') has expanded the single CRM platform roll out to the US, Canada, Poland and Italy during the first half and is now providing enhanced tools to improve insight for the sales teams and enhance their productivity.

Our newly established Quality CoE has clarified responsibilities within the Group and re-orientated the programme around patient centricity, including combining complaint handling and post market surveillance across the Group.

Our Transformation Execution Office is well established and is ensuring that deliverables are on track and having a strong impact.

During the period we invested $75m in our strategic transformation, comprising of:

- $23m of non-recurring operational investment (H1 2020: $25m)
- $33m of recurring operational investment (H1 2020: $16m)
- An additional $2m of costs to be excluded from adjusted EBIT (H1 2020: $6m)
- $17m of capex (H1 20: $12m)

As well as delivering cost savings and productivity improvements, previously highlighted at our 2020 full year results, our strategic initiatives are beginning to yield commercial benefits as we succeed in capturing more of the growth available in the markets we serve.

Adjusted EBIT[3]

Adjusted gross profit rose 12.0% to $611m (H1 2020: $545m). Adjusted gross profit margin of 60.6% was 60bps higher than the prior year with pricing/mix benefits and delivery of productivity projects more than offsetting COGS inflation and higher depreciation.

Operational expenditure increased $43m, or 11.8% year on year, of which $21m related to adverse foreign exchange rate movements. Operational expenditure increased $22m on a constant currency basis driven by the additional transformation investment into R&D and selling and distribution, coupled with some increases as access in developed markets begins to normalise.

As a consequence, total adjusted EBIT rose 12.4% to $204m (H1 2020: $182m). The adjusted EBIT margin was 20.3% in the first half, an increase of 30 bps versus prior year and 188bps on a constant currency basis.

Dividend

The Board is declaring an interim dividend of 1.717 cents per share, in line with the 2020 interim dividend. The Board maintains its stated policy of 35% to 45% of adjusted net profit for full year dividends.

Cash flow and leverage

Adjusted free cash flow was $114m (H1 20: $148m) during the first half. An adjusted EBITDA increase of $30m was more than offset by an increase in working capital during the period, investment in capital programmes and a step up in cash tax paid in the six months to 30 June 2021.

The Group ended the period with total interest-bearing liabilities, including IFRS 16 lease liabilities, of $1,532m (31 December 2020: $1,549m). Offsetting cash of $501m (31 December 2020: $565m) and excluding lease liabilities, net debt was $944m (31 December 2020: $891m), equivalent to 2.0x adjusted EBITDA (31 December 2020: 2.0x adjusted EBITDA).

The Group has a $200m revolving credit facility which was unutilised throughout the six months to 30 June 2021 and was undrawn as at 30 June 2021, which, with cash of $501.1m, provided the Group with total liquidity of $701.1m at that date.

Group 2021 outlook

Following the H1 performance, which was ahead of our expectations, we are updating our guidance. We are pleased with the growth we have already achieved in 2021 but are mindful of the relatively tougher comparatives in the second half, particularly in Infusion Care and Advanced Wound Care, and of the declining trends in Critical Care. We are also aware of the continuing COVID uncertainty particularly in Asia Pacific and Latin America. We now expect full year organic revenue growth of between 3.5-5.0%. Given the second half comparatives, expected phasing and identified headwinds, growth in the second half is expected to be back-end weighted.

We achieved a strong H1 margin performance; however during the second half we expect notably higher raw material prices and freight costs coupled with increases in operational expenditures given planned transformation investments into R&D and selling and distribution. Constant currency adjusted EBIT margin in 2021 is now expected to be between 18% and 19%. The currency headwind on the margin is currently c.90 bps which therefore equates to guidance of 17.1-18.1% for the published margin.

We are excited about the opportunities available to the Group and remain committed to our transformation to pivot to sustainable and profitable growth.

Quarterly revenue data

$m	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
Advanced Wound Care	132	119	149	147	143	151
Ostomy Care	127	125	132	142	136	137
Continence and Critical Care	119	125	124	130	128	138
Infusion Care	82	79	88	74	93	82
Group	**460**	**448**	**493**	**493**	**500**	**508**

Organic[4] growth/(decline) %	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
Advanced Wound Care	4.5	(13.2)	(0.6)	(1.1)	9.4	23.8
Ostomy Care	9.5	(2.7)	0.1	(1.1)	3.0	4.4
Continence and Critical Care	10.0	11.2	6.4	7.4	4.5	1.5
Infusion Care	12.6	12.6	26.7	15.3	11.7	1.2
Group	**8.7**	**(0.2)**	**5.4**	**3.3**	**6.7**	**8.0**

Principal risks

The Board reviews and agrees our principal risks on a bi-annual basis taking account of our risk appetite together with our evolving strategy, current business environment and any emerging risks that could impact the business. Details of our enterprise risk management framework are set out in the Group's 2020 Annual Report and Accounts on pages 72 to 79. Our system of risk management and internal control continues to develop and updates to the principal risks and mitigation plans are made as required in response to changes in our risk landscape.

The Board has reviewed the principal risks as at 30 June 2021, taking into consideration the risks that existed during the first six months of 2021 and those that it believes will have an impact on the business over the remaining six months of the current financial year. The principal risks set out below, including the impact of COVID-19 on the Group's risk profile, remain largely unchanged as at 30 June 2021 in terms of their potential impact on our ability to successfully deliver our strategy:

- Global Operations and Supply Chain;
- Information Security;
- People;
- Pricing and Reimbursement;
- Legal and Compliance;
- Tax and Treasury;
- Geopolitical; and
- Forecasting and Market Conditions.

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

- Product Innovation and Intellectual Property – the risk has been elevated reflecting the Group's focus on delivering the short-term development portfolio and mid to long-term refresh of the core portfolio;
- Quality and Regulatory – the overall risk exposure remains unchanged, but the risk has been elevated higher in the list to reflect the continued focus on finalising MDR compliance activity; and
- Change and Transformation Execution – has reduced in exposure as a result of delivering the expected strategic transformation plan in 2020 and the gradual shift from strategic transformation to continual business transformation execution initiatives.

The Board has considered the continued presence of COVID-19 on the business environment and any continued or additional impact on the Group's business and principal risks, the controls and mitigations in place to address these challenges and believes that the risk profile has not increased since the 2020 Annual Report and Accounts.

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

Financial Review for six months ended 30 June 2021

The following table sets forth the Group's revenue and expense items for the six months ended 30 June 2021 and 2020:

	Six months ended 30 June			
	Reported 2021 $m	Reported 2020 $m	**Adjusted 2021 $m**	Adjusted 2020 $m
Revenue	**1,008.0**	908.0	**1,008.0**	908.0
Cost of sales	**(452.7)**	(416.4)	**(397.5)**	(363.1)
Gross profit	**555.3**	491.6	**610.5**	544.9
Gross margin %	**55.1%**	54.1%	**60.6%**	60.0%
Selling and distribution expenses	**(252.9)**	(218.2)	**(252.9)**	(218.2)
General and administrative expenses	**(126.0)**	(124.8)	**(112.3)**	(109.3)
Research and development expenses	**(40.9)**	(35.6)	**(40.9)**	(35.6)
Operating profit	**135.5**	113.0	**204.4**	181.8
Operating margin %	**13.4%**	12.4%	**20.3%**	20.0%
Finance income	**0.5**	1.5	**0.5**	1.5
Finance expense	**(20.3)**	(27.8)	**(20.3)**	(27.8)
Non-operating expense, net	**(3.6)**	(5.2)	**(3.6)**	(5.2)
Profit before income taxes	**112.1**	81.5	**181.0**	150.3
Income tax expense	**(26.3)**	(22.4)	**(35.8)**	(28.5)
Effective tax rate %	**23.5%**	27.5%	**19.8%**	19.0%
Profit for the period (net profit)	**85.8**	59.1	**145.2**	121.8
Net profit %	**8.5%**	6.5%	**14.4%**	13.4%
Basic earnings per share (cents per share)	**4.3c**	3.0¢	**7.2c**	6.1¢
Diluted earnings per share (cents per share)	**4.2c**	3.0c	**7.2c**	6.1c
Dividend per share (cents)	**1.717**	1.717		

Reported and Adjusted results

The commentary in this review includes discussion of reported and alternative performance measures ('APMs'). Management uses APMs as a meaningful supplement to reported measures. These measures are disclosed in accordance with the ESMA guidelines and are explained and reconciled to the most directly comparable measure prepared in accordance with IFRS in the Non-IFRS financial information section. Further detail on the Group's reported financial performance, measured in accordance with IAS 34, Interim Financial Reporting as adopted by the United Kingdom, is set out in the Condensed Consolidated Financial Statements and Notes thereto.

The commentary includes discussion on revenue on a constant currency basis. Constant currency removes the effect of fluctuations in exchange rates to focus on underlying revenue performance. Constant currency information is calculated by applying the applicable prior period average exchange rates to the Group's revenue performance in the respective period. Revenue growth on a constant currency basis is a non-IFRS financial measure and should not be viewed as a replacement of IFRS reported revenue.

The commentary includes discussion of net profit, which is equivalent to profit for the period as defined in the Condensed Consolidated Income Statement, and reported measures, which are the equivalent to statutory measures.

Revenue

Group reported revenue for the six months ended 30 June 2021 of $1,008.0m (H1 2020: $908.0m) increased 11.0% year-on-year or 7.0% on a constant currency basis. Adjusting for the prior year disposal of US Skincare products (which had contributed $12.0m in the six months ended 30 June 2020) and the acquisition of Cure Medical in March 2021 (which contributed $9.5m in the six months ended 30 June 2021) the Group revenue rose 7.4% on an organic basis. The primary driver of this performance was the rebound in Advanced Wound Care compared to H1 2020 when the arrival of the pandemic had significantly reduced elective procedures and restricted access to healthcare settings. For more detail about the category performance, refer to the Operating Review.

	Six months ended 30 June					
	2021 **$m**	2020 $m	Reported growth %	Foreign exchange impact %	Constant currency growth %	Organic growth %
Americas	**539.5**	493.5	9.3%	0.1%	9.2%	8.4%
EMEA	**385.8**	346.8	11.2%	8.8%	2.4%	2.4%
APAC	**82.7**	67.7	22.2%	7.8%	14.4%	14.4%
Total	**1,008.0**	908.0	11.0%	4.0%	7.0%	7.4%

Americas revenue grew by 9.3% on a reported basis and 9.2% on a constant currency basis. This reflected the strong revenue performance in Infusion Care, as well as growth in all categories, and includes both the acquisition of Cure Medical and the impact of the prior year disposal of the US Skincare product line.

Europe, Middle East and Africa ("EMEA") revenue grew by 11.2% on a reported basis and 2.4% on a constant currency basis, reflecting the strong revenue performance in AWC.

Asia Pacific ("APAC") reported revenue grew by 22.2% and 14.4% on a constant currency basis, driven by growth in AWC and OC.

Reported net profit

Reported operating profit was $135.5m, an increase of $22.5m reflecting 11.0% growth in revenue (of which 4.0% was a foreign exchange tailwind), 100bps increase in gross margin, partially offset by an increase of $34.7m in selling and distribution due to sales force investment and increased research and development expenses of $5.3m driven by the Group's continued focus on increasing our technology and innovation capabilities.

Reported net finance expenses and non-operating expenses were $23.4m in the six months to 30 June 2021 (H1 2020: $31.5m). Finance expenses reduced by $7.5m to $20.3m, reflecting lower interest rates and a reduction in principal balances on the Group's borrowings following scheduled repayments in 2020.

After the income tax expense for the six months to 30 June 2021 of $26.3m (H1 2020: $22.4m), reported net profit increase to $85.8m (H1 2020: $59.1m) generating basic reported earnings per share of 4.3 cents (H1 2020: 3.0 cents).

Adjusted net profit

Group adjusted gross profit was $610.5m (H1 2020: $544.9m) and the gross margin was 60.6%, resulting from pricing/mix benefits and productivity gains partially offset by cost of sales inflation and FX headwind.

The Group delivered adjusted operating profit of $204.4m, an increase of $22.6m on the prior year (H1 2020: $181.8m) with an adjusted operating margin of 20.3% (H1 2020: 20.0%). The 11.0% growth in revenue (of which 4.0% was a foreign exchange tailwind) and the 60 bps increase in gross margin was partially offset by increases of $34.7m and $5.3m in selling and distribution and research and development expenses respectively.

Adjusted net profit rose 19.2% to $145.2m (H1 2020: $121.8m), driven by the increase in adjusted operating profit, $7.5m reduction in net finance expense and $7.3m increase in adjusted income tax expense. The adjusted effective tax rate ("ETR") rose from 19.0% to 19.8% due to the profit mix between jurisdictions with different tax rates.

Basic and diluted adjusted EPS at 30 June 2021 was 7.2 cents (H1 2020: 6.1 cents).

IBOR Reform

The transition away from LIBOR, and other IBORs (together "IBOR Reform") will remove certain IBOR as an interest rate benchmark for financial instruments. In preparation for this change and after consultation with our banking group and legal counsel, in May 2021, the Group amended its Credit Facility, removing GBP as an optional currency for drawings and removing 1 week and 2 month draw periods for USD. This change has not resulted in any impact on the Group's financial statements for the six months ended 30 June 2021. Given that the Group is not forecasting a material requirement for GBP, the agreed changes do not affect the Group's ability to draw under the facility in our required principal currencies

Taxation

	Six months ended 30 June	
	2021	2020
	$m	$m
Reported income tax expense	**(26.3)**	(22.4)
Tax effect of adjustments	**(7.5)**	(6.1)
Other discrete tax items	**(2.0)**	-
Adjusted income tax expense	**(35.8)**	(28.5)

The Group's reported income tax expense for the six months ended 30 June 2021 was $26.3m (H1 2020: $22.4m) and the Group's reported effective tax rate of 23.5% for the period was lower than the prior year (H1 2020: 27.5%) due to recognition of deferred tax following the acquisition of Cure Medical in respect of previously unrecognised tax losses in the US, partially offset by an increase in deferred tax liabilities arising from an increase in the UK corporation tax rate from 19% to 25% from 1 April 2023.

After adjusting for certain financial measures that the Group believes are useful supplemental indicators of future operating performance, the adjusted effective tax rate on continuing operations was 19.8% for the six months ended 30 June 2021 (H1 2020: 19.0%). The increase in adjusted effective tax rate is principally driven by the profit mix between jurisdictions with different tax rates.

Acquisition

Cure Medical LLC ("Cure Medical"), a California-based manufacturer and distributer of catheter-related supplies, was acquired on 15 March 2021 for initial consideration of $85.1m. The sellers may earn an additional consideration of up to $10.0m 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. Refer to Note 6 in the Condensed Consolidated Financial Statements for further details.

Dividends

The capacity of the Group to make dividend payments is derived from distributable reserves of the parent company ("the Company"), primarily arising from dividends received from subsidiary companies. The distributable reserves of the Company at 30 June 2021 were $1,552.9m (31 December 2020: $1,653.1m). Dividends are distributed based on the realised distributable reserves (within retained earnings) of ConvaTec Group Plc (the Company) and not based on the Group's retained earnings.

We are maintaining our interim 2021 dividend at 1.717 cents per share, in line with the interim dividend for 2020. This is consistent with our stated policy of 35% to 45% of adjusted net profit. The decision to maintain the dividend reflects the distributable reserves position, as well as the underlying financial strength and cash generation of the Group such that the dividend will not impact the solvency of the Group in the next two years.

Sources and uses of cash

Sources of cash

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

Net cash generated from operations

	Six months ended 30 June	
	Reported 2021 $m	Reported 2020 $m
EBITDA[a]	**242.4**	209.8
Net cash generated from operations	**178.8**	196.6
Net interest paid	**(18.8)**	(27.0)
Tax paid	**(29.0)**	(14.5)
Net cash generated from operating activities	**131.0**	155.1

(a) EBITDA is explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS in the cash conversion table in the Non-IFRS financial information section.

Net cash generated from operating activities was $131.0m (H1 2020: $155.1m). The decrease of $24.1m primarily reflects a decrease in net cash generated from operations of $17.8m. The increase in EBITDA of $32.6m was offset by an increase in working capital in the six months to 30 June 2021, which includes growth in revenue and the associated increase in the receivables position, payments in relation to year-end capital expenditure and strategic project accruals and payments under the Group's employee incentive plan. Net interest paid decreased by $8.2m to $18.8m, reflecting lower interest costs on the Group's borrowings, which was offset by an increase in tax paid of $14.5m due to the timing of payments on account and an increase in tax payments in the US.

Uses of cash

Cash and cash equivalents have decreased by $62.2 million to $501.1 million at 30 June 2021 (31 December 2020: $565.4 million). The $131.0m of net cash generated from operations was used to acquire Cure Medical for $85.1m, invest $43.6m of capital expenditure in our manufacturing lines and digital technologies, pay $10.9m in lease payments and $53.6m in dividends to shareholders. The year-on-year increase of $15.6m in the cash dividend payment reflects the uptake of the scrip alternative as compared to the prior year.

Cash conversion

Cash conversion is a measure used by the Group to ensure we derive value from our operations and supports our decision making for potential future investments.

Our reported cash conversion was 55.8% (H1 2020: 76.2%) and adjusted cash conversion was 56.6% (H1 2020: 72.9%).

	Six months ended 30 June			
	Reported 2021 $m	Reported 2020 $m	**Adjusted[(a)] 2021 $m**	Adjusted[(a)] 2020 $m
EBITDA	**242.4**	209.8	**252.9**	223.4
Add: non-cash items	**7.1**	7.2	**-**	-
Working capital	**(69.8)**	(20.4)	**(66.2)**	(23.8)
Loss on foreign exchange derivatives	**(0.9)**	-	**-**	-
Capital expenditure	**(43.6)**	(36.7)	**(43.6)**	(36.7)
Net cash generated from operations, net of capital expenditure	**135.2**	159.9	**143.1**	162.9
Cash conversion	**55.8%**	76.2%	**56.6%**	72.9%
Tax paid	**(29.0)**	(14.5)	**(29.0)**	(14.5)
Free cash flow	**106.2**	145.4	**114.1**	148.4

(a) Adjusted EBITDA, adjusted working capital and adjusted non-cash items are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS in the cash conversion table in the Non-IFRS financial information section.

Adjusted free cash flow is one of the four key performance indicators we use to monitor the delivery of our strategy. Adjusted free cash flow was $114.1m (H1 2020: $148.4m), with the decrease of $34.3m principally reflecting the increase in working capital, increase in investment in capital programmes and tax paid in the six months to 30 June 2021.

Liquidity and net debt

Borrowings and net debt

As at 30 June 2021, the Group's cash and cash equivalents were $501.1m (31 December 2020: $565.4m) and the debt outstanding on our borrowings was $1,445.3m (31 December 2020: $1,456.4m). Borrowings reflect two five-year multi-currency committed loan facilities which expire in October 2024, including a $900m non-amortising debt facility and a $600m amortising debt facility. The Group has a $200m revolving credit facility which was unutilised throughout the six months to 30 June 2021 and was undrawn as at 30 June 2021, which, with cash of $501.1m, provided the Group with total liquidity of $701.1m at that date. This includes $43.8m which is in held in territories where there are restrictions related to repatriation (31 December 2020: $42.2m). From time to time we review our balance sheet structure including debt maturity profile, cost of capital and liquidity needs, and to the extent we deem appropriate may consider various financing alternatives, including opportunistically accessing the loan and debt capital markets.

At 30 June 2021, the Group was in compliance with all financial and non-financial covenants associated with the Group's outstanding debt.

The Group ended the period with total interest-bearing liabilities, including IFRS 16 lease liabilities, of $1,532.2m (31 December 2020: $1,548.5m). Offsetting cash of $501.1m (31 December 2020: $565.4m) and excluding lease liabilities, net debt was $944.2m (31 December 2020: $891.0m), equivalent to 2.0x adjusted EBITDA (31 December 2020: 2.0x adjusted EBITDA).

	2021		
	Borrowings	Cash and cash equivalents	Net debt
	$m	$m	$m
At 1 January	**(1,456.4)**	**565.4**	**(891.0)**
Net cash outflow	-	**(62.2)**	**(62.2)**
Foreign exchange	**13.2**	**(2.1)**	**11.1**
Non-cash movement	**(2.1)**	-	**(2.1)**
At 30 June	**(1,445.3)**	**501.1**	**(944.2)**
Lease liabilities			**(86.9)**
At 30 June			**(1,031.1)**
Net debt/adjusted EBITDA[a]			**2.0x**

(a) Based on net debt, excluding lease liabilities, and the last 12 months adjusted EBITDA

2021 Condensed Consolidated Interim Financial Statements

Condensed Consolidated Income Statement

	Notes	Six months ended 30 June 2021 $m	2020 $m
		(unaudited)	*(unaudited)*
Revenue	2	**1,008.0**	908.0
Cost of sales		**(452.7)**	(416.4)
Gross profit		**555.3**	491.6
Selling and distribution expenses		**(252.9)**	(218.2)
General and administrative expenses		**(126.0)**	(124.8)
Research and development expenses		**(40.9)**	(35.6)
Operating profit		**135.5**	113.0
Finance income		**0.5**	1.5
Finance expense		**(20.3)**	(27.8)
Non-operating expense, net	3	**(3.6)**	(5.2)
Profit before income taxes		**112.1**	81.5
Income tax expense	4	**(26.3)**	(22.4)
Profit for the period		**85.8**	59.1
Earnings per share			
Basic earnings per share (cents per share)		**4.3¢**	3.0¢
Diluted earnings per share (cents per share)		**4.2¢**	3.0¢

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

Condensed Consolidated Statement of Comprehensive Income

	Notes	Six months ended 30 June 2021 $m	2020 $m
		(unaudited)	*(unaudited)*
Profit for the period		**85.8**	59.1
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to the Consolidated Income Statement			
Remeasurement of defined benefit pension plans		**(0.1)**	(2.1)
Change in pension asset restriction		**0.1**	4.7
Items that may be reclassified subsequently to the Consolidated Income Statement			
Exchange differences on translation of foreign operations		**3.4**	(58.5)
Effective portion of changes in fair value of cash flow hedges		**(2.0)**	(10.4)
Costs of hedging		**(0.2)**	–
Changes in fair value of cash flow hedges reclassified to the Consolidated Income Statement		**0.7**	–
Income tax relating to items that may be reclassified		**(0.5)**	2.0
Other comprehensive income/(loss)		**1.4**	(64.3)
Total comprehensive income/(loss)		**87.2**	(5.2)

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

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2021 $m (unaudited)	31 December 2020 $m (audited)
Assets			
Non-current assets			
Property, plant and equipment		**351.6**	352.2
Right-of-use assets		**80.1**	85.8
Intangible assets and goodwill		**2,118.4**	2,089.6
Deferred tax assets		**41.2**	41.4
Restricted cash		**7.9**	5.7
Other non-current receivables		**15.0**	13.3
		2,614.2	2,588.0
Current assets			
Inventories		**293.0**	297.1
Trade and other receivables		**332.1**	307.9
Derivative financial assets	8	**2.6**	8.1
Cash and cash equivalents		**501.1**	565.4
		1,128.8	1,178.5
Total assets		**3,743.0**	3,766.5
Equity and liabilities			
Current liabilities			
Trade and other payables		**274.9**	334.1
Borrowings	7	**85.8**	86.6
Lease liabilities		**18.6**	19.8
Current tax payable		**59.5**	55.6
Derivative financial liabilities	8	**11.4**	7.7
Provisions		**5.3**	9.4
		455.5	513.2
Non-current liabilities			
Borrowings	7	**1,359.5**	1,369.8
Lease liabilities		**68.3**	72.3
Deferred tax liabilities		**104.3**	101.4
Provisions		**1.2**	1.5
Derivative financial liabilities	8	**5.7**	7.7
Other non-current payables		**37.2**	29.9
		1,576.2	1,582.6
Total liabilities		**2,031.7**	2,095.8
Net assets		**1,711.3**	1,670.7
Equity			
Share capital		**246.8**	245.5
Share premium		**140.1**	115.3
Own shares		**(5.0)**	(6.7)
Retained deficit		**(839.2)**	(845.3)
Merger reserve		**2,098.9**	2,098.9
Cumulative translation reserve		**(42.7)**	(46.1)
Other reserves		**112.4**	109.1
Total equity		**1,711.3**	1,670.7
Total equity and liabilities		**3,743.0**	3,766.5

Condensed Consolidated Statement of Changes in Equity

	Notes	Share capital $m	Share premium $m	Own shares $m	Retained deficit $m	Merger reserve $m	Cumulative translation reserve $m	Other reserves $m	Total $m
At 1 January 2021 *(audited)*		**245.5**	**115.3**	**(6.7)**	**(845.3)**	**2,098.9**	**(46.1)**	**109.1**	**1,670.7**
Profit for the period		**–**	**–**	**–**	**85.8**	**–**	**–**	**–**	**85.8**
Other comprehensive income:									
Foreign currency translation adjustment, net of tax		**–**	**–**	**–**	**–**	**–**	**3.4**	**–**	**3.4**
Remeasurement of defined benefit pension plans, net of tax		**–**	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Change in pension asset restriction		**–**	**–**	**–**	**–**	**–**	**–**	**0.1**	**0.1**
Effective portion of changes in fair value of cash flow hedges, net of tax		**–**	**–**	**–**	**–**	**–**	**–**	**(2.0)**	**(2.0)**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**3.4**	**(2.0)**	**1.4**
Total comprehensive income		**–**	**–**	**–**	**85.8**	**–**	**3.4**	**(2.0)**	**87.2**
Dividends paid	5	**–**	**–**	**–**	**(53.6)**	**–**	**–**	**–**	**(53.6)**
Scrip dividend	5	**1.3**	**24.8**	**–**	**(26.1)**	**–**	**–**	**–**	**–**
Share-based payments		**–**	**–**	**–**	**–**	**–**	**–**	**7.0**	**7.0**
Share awards vested		**–**	**–**	**1.7**	**–**	**–**	**–**	**(1.7)**	**–**
At 30 June 2021 *(unaudited)*		**246.8**	**140.1**	**(5.0)**	**(839.2)**	**2,098.9**	**(42.7)**	**112.4**	**1,711.3**

	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 *(audited)*		242.9	70.7	(10.8)	(847.7)	2,098.9	(99.1)	106.1	1,561.0
Profit for the period		–	–	–	59.1	–	–	–	59.1
Other comprehensive loss:									
Foreign currency translation adjustment, net of tax		–	–	–	–	–	(58.5)	–	(58.5)
Remeasurement of defined benefit pension plans, net of tax		–	–	–	–	–	–	(2.1)	(2.1)
Change in pension asset restriction		–	–	–	–	–	–	4.7	4.7
Effective portion of changes in fair value of cash flow hedges, net of tax		–	–	–	–	–	–	(8.4)	(8.4)
Other comprehensive loss		–	–	–	–	–	(58.5)	(5.8)	(64.3)
Total comprehensive loss		–	–	–	59.1	–	(58.5)	(5.8)	(5.2)
Dividends paid	5	–	–	–	(38.0)	–	–	–	(38.0)
Scrip dividend	5	2.1	35.7	–	(37.8)	–	–	–	–
Share-based payments		–	–	–	–	–	–	7.2	7.2
Share awards vested		–	–	2.4	–	–	–	(2.4)	–
At 30 June 2020 (unaudited)		245.0	106.4	(8.4)	(864.4)	2,098.9	(157.6)	105.1	1,525.0

Condensed Consolidated Statement of Cash Flows

	Notes	Six months ended 30 June **2021** **$m**	 2020 $m
Cash flows from operating activities		***(unaudited)***	*(unaudited)*
Profit for the period		**85.8**	59.1
Adjustments for			
Depreciation of property, plant and equipment		**19.8**	18.3
Depreciation of right-of-use assets		**11.7**	10.9
Amortisation		**73.7**	67.3
Income tax expense	4	**26.3**	22.4
Non-operating expense, net		**2.7**	5.2
Finance costs, net		**19.8**	26.3
Share-based payments		**7.1**	7.2
Impairment/write-off of property, plant and equipment		**1.7**	0.3
Change in assets and liabilities:			
Inventories		**6.9**	(14.4)
Trade and other receivables		**(21.8)**	(6.1)
Other non-current receivables		**(1.7)**	(3.6)
Restricted cash		**(2.3)**	(0.8)
Trade and other payables		**(51.4)**	0.4
Other non-current payables		**0.5**	4.1
Net cash generated from operations		**178.8**	196.6
Interest received		**0.5**	1.5
Interest paid		**(19.3)**	(28.5)
Income taxes paid		**(29.0)**	(14.5)
Net cash generated from operating activities		**131.0**	155.1
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		**(43.6)**	(36.7)
Acquisitions, net of cash acquired	6	**(85.1)**	–
Net cash used in investing activities		**(128.7)**	(36.7)
Cash flows from financing activities			
Payment of lease liabilities		**(10.9)**	(10.3)
Dividend paid	5	**(53.6)**	(38.0)
Net cash used in financing activities		**(64.5)**	(48.3)
Net change in cash and cash equivalents		**(62.2)**	70.1
Cash and cash equivalents at beginning of the period		**565.4**	385.8
Effect of exchange rate changes on cash and cash equivalents		**(2.1)**	(4.6)
Cash and cash equivalents at end of the period		**501.1**	451.3

1. Basis of preparation and accounting standards

ConvaTec Group Plc (the "Company") is a company incorporated in the United Kingdom. The accompanying unaudited Condensed Consolidated Interim Financial Statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2021 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, *Interim Financial Reporting* as adopted by the United Kingdom.

The Condensed Consolidated Interim Financial Statements should be read in conjunction with the 2020 ConvaTec Group Plc Annual Report and Accounts, which were prepared in accordance with IFRS as adopted by the European Union. The accounting policies adopted by the Group in preparation of these Condensed Consolidated Interim Financial Statements are consistent with those set out in the 2020 Annual Report and Accounts, except for those described below as new standards and interpretations applied for the first time.

These Condensed Consolidated Interim Financial Statements and the comparatives are unaudited, except where otherwise indicated, and do not constitute statutory financial statements. The statutory financial statements for the Group in respect of the year ended 31 December 2020 have been reported on by the Group's auditor and delivered to the Registrar of Companies. The audit report on those accounts was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The auditors have carried out a review of the financial information in accordance with the guidance contained in ISRE (UK and Ireland) 2410 'Review of Interim Financial Information Performance by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom.

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

The Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2021 were approved by the Board on 29 July 2021.

New standards and interpretations applied for the first time

On 1 January 2021, the Group adopted *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)* as issued by the IASB. The adoption has not had a material impact on the Condensed Consolidated Interim Financial Statements. Apart from this change, the accounting policies set out in the 2020 Annual Report and Accounts have been applied consistently to both periods presented in these Condensed Consolidated Financial Statements.

New standards and interpretations not yet applied

There were no new or revised IFRSs, amendments or interpretations in issue but not yet effective that are potentially material for the Group and which have not yet been applied.

Going concern

In preparing their assessment of going concern, the Directors have considered available cash resources, financial performance and forecast performance, including continued implementation of the strategy and transformation, together with the Group's financial covenant compliance requirements (as embedded in the term loans) and principal risks and uncertainties.

The overall financial performance of the business remains robust with a strong liquidity position maintained throughout the year. As at 30 June 2021, the Group held cash and cash equivalents of $501.1 million (31 December 2020: $565.4 million) and two multicurrency term loans totalling $1.5 billion, of which $900.0 million is available until October 2024 and the remainder is amortising and requires a capital repayment of $90.0 million within the next 12 months. The Group also has access to a $200.0 million multicurrency revolving credit facility, which remains undrawn and is available until October 2024.

In assessing going concern, management used cash flow forecasts derived from actual performance year to date, the Board approved 2021 budget and longer-term strategic plan as foundations, which also reflect the expected impact of the ongoing COVID-19 pandemic on the business.

In addition, as part of the 2020 Annual Report and Accounts and in accordance with FRC guidance, management applied severe but plausible downside scenarios linked to the Group's principal and emerging risks, including supply chain disruption (incorporating the effect of climate change), COVID-19, delivery of transformation initiatives, pricing and reimbursement and foreign exchange sensitivity. Further details of the specific scenarios are provided on pages 80 and 81 of the 2020 Annual Report and Accounts. The Board has reviewed these scenarios in the preparation of the interim results and as part of the going concern review and has concluded that these scenarios remain in line with the Group's principal emerging risks and continue to reflect the financial risk of downside events and circumstances, with the exception of delivery of transformation initiatives which has reduced in exposure as a result of delivering the expected strategic transformation plan in 2020 and the gradual shift from strategic transformation to continual business transformation execution initiatives. Under each scenario the Group retains significant liquidity and covenant headroom throughout the going concern period. A reverse stress test, before mitigation, was also considered 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.

Accordingly, at the time of approving these Condensed Consolidated Interim 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 29 July 2021.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Condensed Consolidated Interim 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 Condensed Consolidated Interim 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. As part of this assessment, the financial reporting impact of risks associated with our identified principal risks, including actual and proposed mitigations, are considered, which includes the effects of COVID-19 and climate change.

In preparing the Condensed Consolidated Interim Financial Statements, no critical judgements have been identified, which is consistent with the Consolidated Financial Statements for the year ended 31 December 2020. A key estimate has been identified in relation to recognition of deferred tax assets in relation to unutilised US tax losses.

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. The Group had unutilised US tax losses at 30 June 2021 which were not recognised as deferred tax assets. Given the history of US tax losses, management assessed that there is not convincing other evidence that there will be probable future taxable profit in the US against which these losses can be utilised. Therefore, the related deferred tax assets have only been recognised at 30 June 2021 to the extent that there are suitable offsetting temporary differences.

Management has identified that there is uncertainty in respect to the probability of the timing and extent of future taxable profits in the US given the continuing transformative changes in the Group. It is reasonably possible that the deferred tax recognition criteria may be met within the next 12 months, which could result in a deferred tax asset of up to ca. $31 million. Therefore, the recognition of deferred tax assets in relation to unutilised US tax losses has been identified as a key source of estimation uncertainty. Management will continue to assess the recoverability of the deferred tax assets as the transformation progresses and the financial impact on the US is further determined.

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.

The Group's CEO, who is the Group's Chief Operating Decision Maker, evaluates the Group's global product portfolios on a revenue basis and evaluates profitability and associated investment on an enterprise-wide basis due to shared geographic infrastructures and support functions between the categories. Financial information relating to revenues provided to the CEO for decision-making purposes is made on both a category and regional basis, however, profitability measures are presented and resources allocated on a Group-wide basis.

Revenue by category

The following table sets out the Group's revenue by category:

	Six months ended 30 June	
	2021	2020
	$m	$m
Advanced Wound Care	**293.8**	250.9
Ostomy Care	**273.4**	251.8
Continence and Critical Care	**266.0**	244.3
Infusion Care	**174.8**	161.0
Total	**1,008.0**	908.0

Geographic information

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

	Six months ended 30 June	
	2021	2020
	$m	$m
EMEA	**385.8**	346.8
Americas	**539.5**	493.5
APAC	**82.7**	67.7
Total	**1,008.0**	908.0

Details on revenue performance are discussed in the Financial Review.

3. Non-operating expense, net

Non-operating expense, net was as follows:

	Six months ended 30 June	
	2021	2020
	$m	$m
Net foreign exchange losses[(a)]	**(2.0)**	(8.2)
(Loss)/gain on foreign exchange forward contracts[(a)]	**(0.9)**	3.1
Loss on foreign exchange cash flow hedges	**(0.7)**	–
Other expense	**–**	(0.1)
Non-operating expense, net	**(3.6)**	(5.2)

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

4. Income taxes

The Group's income tax expense is accrued using the tax rate that would be applicable to expected annual total earnings (i.e. the estimated average annual effective income tax rate applied to the profit before tax).

The tax charge for the six months ended 30 June 2021 has been calculated by applying the effective rate of tax which is expected to apply to the Group for the year ended 31 December 2021 using rates substantively enacted as at 30 June 2021.

For the six months ended 30 June 2021, the Group recorded an income tax expense of $26.3 million (2020: $22.4 million). The Group's reported effective tax rate of 23.5% is lower than the prior year (2020: 27.5%), as the current period's tax expense included a net tax benefit as a result of a deferred tax asset recognition in the US which is offset by the tax expense on the revaluation of the net deferred tax liability (see below for further details). The prior year expense included a tax expense for the revaluation of the net deferred tax liability in the UK from 17% to 19% corporation tax rate.

For the six months ended 30 June 2021, the following items have impacted the Group's income tax expense:

- A tax benefit of $9.3 million has been recognised is in respect of previously unrecognised tax losses in the US, where recognition of the deferred tax asset relating to US tax losses on the Group's Statement of Financial Position is restricted to the extent of there being probable future taxable profit to be available to utilise the tax losses. Upon acquisition of Cure Medical, a deferred tax liability of $9.3 million was recognised in relation to acquisition intangible assets – refer to Note 6 for further details. 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 being recognised in respect of the US tax losses. The effective tax rate includes the impact of accumulated taxable losses in prior years in the US on which a deferred tax asset is not recognised.
- The Group's net deferred tax liabilities in the UK have been revalued in 2021 following the enactment on 10 June 2021 of Finance Act 2021, which increases the UK corporation tax rate from 19% to 25% as from 1 April 2023. This has resulted in a tax expense of $8.3 million, primarily relating to revaluation of deferred tax liabilities for acquisition intangibles.
- A tax expense of $0.4 million due to revaluation of the deferred tax asset related to the Swiss tax reform which was substantively enacted on 4 October 2019 and was effective on 31 December 2019. The final

assessment of the deferred tax asset valuation was made in 2021 following formal agreement with the Swiss Tax Authorities.

The recognition of deferred tax assets on unutilised tax losses in the US is a key source of estimation uncertainty which could materially impact the Group's tax charge and the Statement of Financial Position in the next 12 months. Refer to Note 1 for further details.

5. 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 paid by subsidiary companies.

In determining the level of dividend in 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 including the risks associated with the COVID-19 pandemic (

The Board paid the 2020 final dividend in May 2021 and proposes an interim dividend to be paid in October 2021. In determining the dividend, the Board has reviewed the financial strength the Group, the Group's dividend policy together with s172 considerations and has reviewed the distributable reserves position of the Company and the forecast cash generation of the Group for the next two years from the date of the dividend payment.

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
Paid in 2021 to date	**2.845**	**3.983**	**79.7**	**53.6**	**26.1**	**9,475,532**
Interim dividend 2021 proposed	**1.229**	**1.717**	**34.6**			

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.

The proposed interim dividend for 2021, to be distributed on 14 October 2021 to shareholders registered at the close of business on 3 September 2021, is based upon the issued and fully paid share capital as at 30 June 2021. The dividend will be declared in US dollars and will be paid in Sterling at the chosen exchange rate of $1.397/£1.00 determined on 29 July 2021. A scrip dividend alternative will be offered allowing shareholders to elect by 21

September 2021 to receive their dividend in the form of new ordinary shares.

Distributable reserves

Distributable reserves equate to the retained surplus of the Company, ConvaTec Group Plc. The capacity of the Company to make dividend payments is primarily determined by the availability of these distributable reserves (which are fully realised) and cash resources. The Company principally derives distributable reserves from dividends paid by subsidiary companies, with the dividends being paid out of the realised distributable reserves of the subsidiary companies.

At 30 June 2021, the retained surplus of ConvaTec Group Plc (the Company) was $1,552.9 million (31 December 2020: $1,653.1 million). The movements in distributable reserves were as follows:

	$m
At 1 January 2021	**1,653.1**
Total comprehensive loss for the period	**(20.5)**
Dividends paid	**(53.6)**
Scrip dividend	**(26.1)**
Retained surplus at 30 June 2021	**1,552.9**

6. Acquisition

Cure Medical LLC ("Cure Medical")

Description of the transaction

On 15 March 2021, the Group acquired 100% of the share capital of Cure Medical for initial cash of $85.1 million (net of cash acquired), which included $4.9 million of deferred consideration paid into escrow. Cure Medical, based in California, manufactures and distributes intermittent catheters, and operates within 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.

Assets acquired and liabilities assumed

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

	$m *Provisional*
Non-current assets	
Intangible assets - customer relationships and non-compete agreements	**28.9**
Intangible assets - trade names	**4.2**
Intangible assets - product-related	**4.9**
Current assets	
Trade and other receivables	**2.1**
Inventories	**8.0**
Cash and cash equivalents	**0.7**
Total assets acquired	**48.8**
Non-current liabilities	
Deferred tax liabilities	**(9.3)**
Current liabilities	
Trade and other payables	**(5.6)**
Total liabilities assumed	**(14.9)**
Net assets acquired	**33.9**
Goodwill	**54.6**
Total	**88.5**
Initial cash consideration	**80.9**
Working capital adjustment[(b)]	**(0.4)**
Deferred purchase consideration paid into escrow[(a)]	**4.9**
Contingent consideration	**3.1**
Total consideration	**88.5**

Analysis of cash outflow in the Condensed Consolidated Cash Flow Statement	**$m**
Initial cash consideration	**80.9**
Deferred purchase consideration paid into escrow[(a)]	**4.9**
Cash and cash equivalents acquired	**(0.7)**
Net cash outflow from acquisitions, net of cash acquired	**85.1**

(a) $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, of which (i) $0.8 million has been 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.

(b) The working capital adjustment forms part of the initial consideration and was settled on 13 July 2021.

The fair values of the assets acquired and liabilities assumed remain provisional due to the proximity of the acquisition to the date of approval of the Condensed Consolidated Interim Financial Statements. 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, which is not deductible for tax purposes, represents the cost savings, operating synergies and future growth opportunities expected to result from combining the operations of Cure Medical with those of the Group, as well as intangible assets that do not qualify for separate recognition.

The carrying value of the Group's goodwill increased to $1,151.4 million at 30 June 2021 (31 December 2020: $1,097.2 million) as a result of the acquisition of Cure Medical ($54.6 million) and foreign exchange movements ($0.4 million).

Acquisition-related costs

The Group incurred $1.7 million of acquisition-related costs directly related to the Cure Medical acquisition in the period to 30 June 2021, primarily related to legal and due diligence expenses. These acquisition-related costs have been recognised in general and administrative expenses in the Condensed Consolidated Income Statement.

Revenue and profit

The revenue of Cure Medical for the period from the acquisition date to 30 June 2021 was $9.5 million and profit for the period was $1.2 million, after recognising acquisition-related intangible asset amortisation of $1.2 million. If the acquisition had been completed at 1 January 2021, reported Group revenue would have been $6.7 million higher and profit for the period would have been $0.6 million higher for the six months to 30 June 2021.

7. Borrowings

The Group's sources of borrowing for funding and liquidity purposes derive from a credit agreement comprising two bank term loans together with a committed revolving credit facility. The Group's credit agreement matures in October 2024.

The Group's consolidated borrowings were as follows:

	Currency	Year of maturity	**30 June 2021 Face value $m**	31 December 2020 Face value $m
Revolving Credit Facilities	Multicurrency	2024	**–**	–
Term Loan Facility A[(a)]	USD/Euro	2024	**555.0**	560.1
Term Loan Facility B[(b)]	USD/Euro	2024	**900.0**	908.2
Total interest-bearing borrowings			**1,455.0**	1,468.3
Financing fees			**(9.7)**	(11.9)
Total carrying value of borrowings from credit facilities			**1,445.3**	1,456.4
Less: current portion of borrowings			**85.8**	86.6
Total non-current borrowings			**1,359.5**	1,369.8

(a) Included within Term Loan Facility A is €140.4 million ($166.5 million) and €140.4 million ($171.6 million) at 30 June 2021 and 31 December 2020 respectively, denominated in Euros. This represents 30% (2020: 31%) denominated in Euros and 70% (2020: 69%) denominated in US dollars.

(b) Included within Term Loan Facility B is €227.8 million ($270.0 million) and €227.8 million ($278.2 million) at 30 June 2021 and 31 December 2020 respectively, denominated in Euros. This represents 30% (2020: 31%) denominated in Euros and 70% (2020: 69%) denominated in US dollars.

The principal financial covenants are based on a permitted net debt to adjusted EBITDA ratio and interest cover test as defined in the credit agreement. Testing is required on a semi-annual basis, at June and December, based on the last 12 months' financial performance. At 30 June 2021, the permitted net debt to adjusted EBITDA ratio was a maximum of 3.75 times (reducing to 3.50 times for testing periods from 31 December 2021 inclusive) and the interest cover a minimum of 3.50 times (no change in 2021), terms as defined by the credit agreement. The Group was in compliance with all financial and non-financial covenants in the credit agreement at 30 June 2021 and 31 December 2020, with significant available headroom on the financial covenants ($877.5 million debt headroom on the net debt to adjusted EBITDA ratio (48%) as at 30 June 2021).

Borrowings not measured at fair value

At 30 June 2021, the estimated fair value of the Group's borrowings is $1,450.8 million (31 December 2020: $1,473.7 million). The fair value of the Group's borrowings is based on discounted cash flows using a current borrowing rate and are categorised as a Level 2 measurement in the fair value hierarchy under IFRS 13, *Fair Value Measurements*.

8. Financial instruments

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

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

The Group designates certain foreign currency pairings of forecast third-party transactions as cash flow hedges in accordance with its risk management policy.

Financial instruments are classified as Level 2 in the fair value hierarchy in accordance with IFRS 13, *Fair Value Measurements*, based upon the degree to which the fair value movements are observable. Level 2 fair value measurements are defined as those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (prices from third parties) or indirectly (derived from third-party prices).

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

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

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

The fair values are based on market values of equivalent instruments. The following table presents the Group's outstanding interest rate swaps, which are designated as cash flow hedges, at 30 June 2021 and 31 December 2020 respectively:

	Effective date	Maturity date	**30 June 2021** Notional amount $m	**30 June 2021** Fair value[(a)] assets / (liabilities) $m	31 December 2020 Notional amount $m	31 December 2020 Fair value[(a)] assets / (liabilities) $m
3 Month LIBOR Float to Fixed Interest Rate Swap	24 Jan 2020	24 Jan 2023	**275.0**	**(5.7)**	275.0	(7.7)

(a) The fair values of the interest rate swaps are shown in non-current derivative financial liabilities in the Condensed Consolidated Statement of Financial Position. Finance expenses in the Condensed Consolidated Income Statement includes the negligible ineffective impact of the interest rate swaps.

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, which form part of current derivative financial assets and current derivative financial liabilities:

	Term	**30 June 2021** Notional amount $m	**30 June 2021** Fair value assets / (liabilities) $m	31 December 2020 Notional amount $m	31 December 2020 Fair value assets / (liabilities) $m
Foreign exchange contracts designated as FVTPL	28 days	**196.6**	**2.4**	512.5	6.4
Foreign currency forward exchange contracts designated as cash flow hedges	12 months	**22.1**	**0.2**	98.3	1.7
Derivative financial assets		**218.7**	**2.6**	610.8	8.1
Foreign exchange contracts designated as FVTPL	28 days	**352.7**	**(8.7)**	355.3	(7.7)
Foreign currency forward exchange contracts designated as cash flow hedges	12 months	**117.5**	**(2.7)**	–	–
Derivative financial liabilities		**470.2**	**(11.4)**	355.3	(7.7)

9. 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	**Six months ended 30 June** **2021**	**Six months ended 30 June** 2020	Year ended 31 December 2020
EUR/USD	Average	**1.21**	1.10	1.14
	Closing	**1.19**	1.12	1.22
GBP/USD	Average	**1.39**	1.26	1.28
	Closing	**1.38**	1.24	1.37
DKK/USD	Average	**0.16**	0.15	0.15
	Closing	**0.16**	0.15	0.16

10. Commitments and contingencies

Capital commitments

At 30 June 2021, the Group had non-cancellable commitments for the purchase of property, plant and equipment, capitalised software and development of $34.9 million (31 December 2020: $29.6 million).

Contingent liabilities

Liability claims

On 31 May 2019, ConvaTec Inc. filed a lawsuit against Scapa Group plc (trading as Scapa Tapes North America LLC) and Webtec Converting LLC seeking a declaration that the company was within its rights to terminate a contract between the parties. On 10 July 2019, the defendants filed a motion seeking dismissal of the declaratory judgement action, and Scapa Tapes North America LLC filed a separate complaint seeking damages of $83.8 million against ConvaTec Inc. in relation to the contract cancellation. ConvaTec Inc., in turn, has asserted two separate claims for damages against Scapa Tapes North America LLC and Scapa Group plc. All claims are being litigated before the Connecticut state court in the United States, discovery in the case is progressing, and the trial is presently scheduled for July 2022. The Group's Board, in conjunction with its legal advisors, do not believe the claim has merit and no provision is recognised as at 30 June 2021.

11. Subsequent events

The Group has evaluated subsequent events through to 29 July 2021, the date the Condensed Consolidated Interim Financial Statements were approved by the Board of Directors.

On 29 July 2021, the Board declared the interim dividend to be distributed on 14 October 2021. Refer to Note 5 - Dividends for further details.

Non-IFRS financial information

Non-IFRS financial information or alternative performance measures ("APMs") are used as supplemental measures in monitoring the performance of our business. The adjustments applied to IFRS measures reflect the effect of certain cash and non-cash items that Group management believe are not related to the underlying performance of the Group and provide a meaningful supplement to the reported numbers to provide meaningful insight on how the business is managed and measured on a day-to-day basis. Reconciliations for these adjusted measures determined under IFRS are shown on herein. The definitions of adjusted measures are provided within the reconciliation tables.

These items are excluded from the adjusted measures to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis. They are typically gains or losses/costs arising from events that are not considered part of the core operations of the business or are considered to be significant in nature. The items include adjustments for the tax effect and may cross several accounting periods. The APMs are consistent with those disclosed in the 2020 Annual Report and Accounts, with no adjustments being made to the Group's reported results in relation to COVID-19.

Adjusted profit items, excluding the impact of tax, for the six months ended 30 June 2021 and 2020 comprise the following credits or costs that are reflected in the reported measures:

- Amortisation of intangible assets relating to acquisitions (ongoing) ($65.5 million and $62.4 million respectively).
- Deal and integration costs relating to acquisitions ($1.7 million and $nil respectively).
- Termination benefits in relation to major change programmes ($1.7 million and $6.4 million respectively).

Acquisition-related amortisation of 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. As a result, the Group has treated the amortisation of intangible assets in relation to acquisitions which took place after 1 January 2021 as an adjusted measure, together with associated acquisition-related expenses (refer to section below). The treatment of these costs as adjusted measures reflects the underlying performance of the business and aids year-on-year comparability. In addition, acquisition intangible assets from pre-2018 are included as adjusted measures, principally relating to assets recognised as a result of the BMS spin-out in 2008. Between 2018 and 2021, the Group made two small acquisitions, each for a consideration of less than $15 million, for which the amortisation charge on acquisition intangibles is immaterial and continues to be treated as a non-adjusted measure.

Acquisition-related costs

Acquisition-related costs relate to deal costs, integration costs and earn-out adjustments which are incurred directly as a result of the Group undertaking 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 transaction. Integration costs are wholly attributable to the integration of the target and based on integration plans presented at the point of acquisition, including retention of key people where in excess of normal compensation, redundancy of target staff and early lease termination payments. The treatment of these costs as adjusted measures reflects the underlying performance of the business and aids year-on-year comparability.

Termination benefits and related costs

Termination benefits and related costs arise from major Group-wide initiatives to reduce the ongoing cost base and improve efficiency in the business. The Board considers each project individually to determine whether its size and nature warrants separate disclosure. Qualifying items are limited to termination benefits (including retention) without condition of continuing employment in respect of major Group-wide change programmes. Where discrete qualifying items are identified these costs are highlighted and excluded from the calculation of our adjusted measures. Restructuring-related costs not related to termination benefits are reported in the normal course of business. No termination benefits or related costs have arisen related to COVID-19.

Other discrete tax items

Other discrete tax items in the six months ended 30 June 2021 are in respect of:

- Tax benefit of $9.3 million relating to recognition of deferred tax following the acquisition of Cure Medical in respect of previously unrecognised tax losses in the US. Recognition of the deferred tax asset relating to US tax losses on the Group’s Statement of Financial Position is restricted to the extent of there being probable future taxable profit to be available to utilise the tax losses. Upon acquisition of Cure Medical, a deferred tax liability of $9.3 million was recognised in relation to acquisition intangible assets which can be offset by the Group’s US tax losses and therefore the deferred tax recognition criteria was met and a tax benefit has been recognised in respect of the US tax losses.
- Tax expense of $6.9 million relating to revaluation of deferred tax liabilities for acquisition intangibles in the UK following the enactment of the Finance Act 2021 on 10 June 2021 which increases the rate of UK corporation tax from 19% to 25% from 1 April 2023.
- Tax expense of $0.4 million. Following formal agreement with the Swiss Tax Authorities of the effect of the Swiss tax reform, which was substantively enacted on 4 October 2019, a final assessment of the associated deferred tax asset has resulted in an income tax expense of $0.4 million.

The deferred tax associated with the Cure Medical acquisition, revaluation of acquisition intangibles in the UK and Swiss tax reform have been classified as adjusted as they relate to significant tax items which do not reflect the underlying performance of the business.

Reconciliation of reported earnings to adjusted earnings for the six months ended 30 June 2021 and 2020

Six months ended 30 June 2021	Revenue $m	Gross profit $m	Operating costs $m	**Operating profit $m**	Finance expense, net $m	Non-operating expense, net $m	**PBT $m**	Taxation $m	**Profit for the period $m**
Reported	1,008.0	555.3	(419.8)	**135.5**	(19.8)	(3.6)	**112.1**	(26.3)	**85.8**
Amortisation of acquisition intangibles	–	55.0	10.5	**65.5**	–	–	**65.5**	(7.1)	**58.4**
Acquisition-related costs	–	–	1.7	**1.7**	–	–	**1.7**	–	**1.7**
Termination benefits and other related costs	–	0.2	1.5	**1.7**	–	–	**1.7**	(0.4)	**1.3**
Total adjustments and their tax effect	**–**	**55.2**	**13.7**	**68.9**	**–**	**–**	**68.9**	**(7.5)**	**61.4**
Other discrete tax items	–	–	–	**–**	–	–	**–**	(2.0)	**(2.0)**
Adjusted	**1,008.0**	**610.5**	**(406.1)**	**204.4**	**(19.8)**	**(3.6)**	**181.0**	**(35.8)**	**145.2**

	$m
Software, R&D and other amortisation	**8.2**
Depreciation	**31.5**
Impairment/write-off of assets	**1.7**
Share-based payments	**7.1**
Adjusted EBITDA	**252.9**

Acquisition-related costs are deal and integration costs incurred in relation to the acquisition of Cure Medical on 15 March 2021 – refer to Note 6 of the interim Condensed Consolidated Financial Statements for further information. The costs are primarily related to legal and due diligence expenses which were incurred as a result of the transaction. We expect to incur c.$3-4 million of deal and integration costs in relation to Cure Medical during 2021 and 2022.

Termination benefits and other related costs relate to the Transformation Initiative and amounted to $1.7 million, pre-tax, in the six months ended 30 June 2021. The Transformation Initiative is a global multi-year transformation programme which commenced in 2019 and will simplify the way in which the business operates. We expect to incur c$5-10 million of severance and associated retention costs during 2021. No termination benefits or related costs recognised by the Group are related to COVID-19.

Other discrete tax items relate to the tax benefit of $9.3 million resulting from recognition of deferred tax following the acquisition of Cure Medical, partially offset by a $6.9 million tax expense relating to revaluation of deferred tax liabilities for acquisition intangibles in the UK following the enactment of Finance Act 2021 on 10 June 2021 and $0.4 million tax expense which arose as a result of adjustment to the Swiss deferred tax asset following formal agreement with the Swiss Tax Authorities in 2021.

Six months ended 30 June 2020	Revenue $m	Gross profit $m	Operating costs $m	Operating profit $m	Finance expense, net $m	Non-operating expense, net $m	PBT $m	Taxation $m	Profit for the period $m
Reported	908.0	491.6	(378.6)	113.0	(26.3)	(5.2)	81.5	(22.4)	59.1
Amortisation of acquisition intangibles	–	53.3	9.1	62.4	–	–	62.4	(4.9)	57.5
Termination benefits and other related costs	–	–	6.4	6.4	–	–	6.4	(1.2)	5.2
Total adjustments and their tax effect	–	53.3	15.5	68.8	–	–	68.8	(6.1)	62.7
Adjusted	908.0	544.9	(363.1)	181.8	(26.3)	(5.2)	150.3	(28.5)	121.8

Software, R&D and other amortisation	4.9
Depreciation	29.2
Impairment/write-off of assets	0.3
Share-based payments	7.2
Adjusted EBITDA	223.4

Termination benefits and other related costs were $6.4 million, pre-tax, in the six months ended 30 June 2020 and relate to the Transformation Initiative as described above.

Reconciliation of reported and adjusted operating costs for the six months ended 30 June 2021 and 2020

	Six months ended 30 June							
	2021				2020			
	S&D[(a)]	**G&A[(b)]**	**R&D[(c)]**	**Operating costs**	S&D[(a)]	G&A[(b)]	R&D[(c)]	Operating costs
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Reported	**(252.9)**	**(126.0)**	**(40.9)**	**(419.8)**	(218.2)	(124.8)	(35.6)	(378.6)
Amortisation of acquisition intangibles	**–**	**10.5**	**–**	**10.5**	–	9.1	–	9.1
Acquisition-related costs	**–**	**1.7**	**–**	**1.7**	–	–	–	–
Termination benefits and other related costs	**–**	**1.5**	**–**	**1.5**	–	6.4	–	6.4
Adjusted	**(252.9)**	**(112.3)**	**(40.9)**	**(406.1)**	(218.2)	(109.3)	(35.6)	(363.1)

(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 basic and diluted reported earnings per share to adjusted earnings per share for the six months ended 30 June 2021 and 2020

	Six months ended 30 June			
	Reported 2021	**Adjusted 2021**	Reported 2020	Adjusted 2020
	$m	**$m**	$m	$m
Profit for the period attributable to the shareholders of the Group	**85.8**	**145.2**	59.1	121.8
		Number		Number
Basic weighted average ordinary shares in issue		**2,004,985,601**		1,983,903,773
Diluted weighted average ordinary shares in issue		**2,024,506,676**		1,997,251,095
	cents per share	**cents per share**	cents per share	cents per share
Basic earnings per share	**4.3**	**7.2**	3.0	6.1
Diluted earnings per share	**4.2**	**7.2**	3.0	6.1

Cash conversion for the six months ended 30 June 2021 and 30 June 2020

	Six months ended 30 June	
	2021	2020
	$m	$m
Reported Operating profit/EBIT	**135.5**	113.0
Depreciation of property, plant and equipment	**19.8**	18.3
Depreciation of right-of-use assets	**11.7**	10.9
Amortisation	**73.7**	67.3
Impairment/write-off of property, plant and equipment	**1.7**	0.3
Reported EBITDA	**242.4**	209.8
Non-cash items in EBITDA		
Share-based payment expense	**7.1**	7.2
	7.1	7.2
Working capital movement	**(69.8)**	(20.4)
Loss on foreign exchange derivatives	**(0.9)**	–
Capital expenditure	**(43.6)**	(36.7)
Reported net cash for cash conversion	**135.2**	159.9
Less: tax paid	**(29.0)**	(14.5)
Reported free cash flow	**106.2**	145.4

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

	Six months ended 30 June	
	2021	2020
	$m	$m
Reported EBITDA	**242.4**	209.8
Share-based payment expense	**7.1**	7.2
Acquisition-related activities	**1.7**	–
Termination benefits and other related costs	**1.7**	6.4
Total adjustments (a)	**10.5**	13.6
Adjusted EBITDA	**252.9**	223.4
Reported non-cash items	**7.1**	7.2
Share-based payment expense	**(7.1)**	(7.2)
Total adjustments (b)	**(7.1)**	(7.2)
Adjusted non-cash items	**–**	–
Reported working capital movement	**(69.8)**	(20.4)
Decrease/(increase) in severance provision	**4.0**	(3.4)
Increase in accruals for acquisition-related activities	**(0.4)**	–
Total adjustments (c)	**3.6**	(3.4)
Adjusted working capital movement	**(66.2)**	(23.8)
Reported net cash for cash conversion	**135.2**	159.9
Non-operating loss on foreign exchange forward contracts	**0.9**	–
Total adjustments above (a), (b), (c)	**7.0**	3.0
Adjusted net cash for cash conversion	**143.1**	162.9
Less: tax paid	**(29.0)**	(14.5)
Adjusted free cash flow	**114.1**	148.4
Reported cash conversion	**55.8%**	76.2%
Adjusted cash conversion	**56.6%**	72.9%

Net debt

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

	30 June 2021	31 December 2020
	$m	$m
Borrowings	**1,445.3**	1,456.4
Lease liabilities	**86.9**	92.1
Total interest-bearing borrowings	**1,532.2**	1,548.5
Cash and cash equivalents	**(501.1)**	(565.4)
Net debt (including lease liabilities)	**1,031.1**	983.1
Net debt	**944.2**	891.0
Net debt/adjusted EBITDA[a]	**2.0**	2.0

(a) Adjusted EBITDA represents the last 12 months adjusted EBITDA.

Directors' Responsibilities Statement

The Directors confirm that to the best of their knowledge:

- The Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 as adopted by the United Kingdom; and
- The interim management report includes a fair review of the information required by:

  a. DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the Condensed Consolidated Financial Statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  b. DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The Board of Directors of ConvaTec Group Plc on 29 July 2021 are the same as those listed in the 2020 Annual Report.

By order of the Board:

Karim Bitar	Chief Executive Officer	29 July 2021
Frank Schulkes	Chief Financial Officer	29 July 2021

INDEPENDENT REVIEW REPORT TO CONVATEC GROUP PLC

We have been engaged by the Group to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Cash Flows and related Notes 1 to 11. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in Note 1, the annual financial statements of the Group will be prepared in accordance with United Kingdom adopted International Financial Reporting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Our responsibility

Our responsibility is to express to the Group a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the Group in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Group those matters we are required to state to it in an independent review 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 Group, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom
29 July 2021