Second Quarter 2015 Report

Making a Difference in People's Lives

ConvaTec

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Risk Factors

Investing in our Company involves risk. You should carefully consider the discussion of risk factors beginning on page 22 of our Annual Report for the year ended December 31, 2014, which is available on our website. There have been no material changes to these risk factors since December 31, 2014. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results.

Management's Discussion and Analysis of Financial Condition and Results of Operations

As used herein, the "Company", "we", "us", "our", or "ConvaTec" means ConvaTec Healthcare B S.à.r.l. ("CHB") and its subsidiaries, except as expressly indicated or unless the context otherwise requires. The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our unaudited condensed consolidated financial statements and notes thereto, prepared in accordance with United States ("U.S.") generally accepted accounting principles in the United States of America ("GAAP") for the interim period ended June 30, 2015 (the "unaudited Condensed Consolidated Financial Statements"). This MD&A should also be read in conjunction with the annual MD&A and the audited consolidated financial statements and notes thereto prepared in accordance with U.S. GAAP that are contained in our Annual Report for the year ended December 31, 2014 (the "2014 Annual Report"). The 2014 Annual Report is available on our website.

Forward-looking statements

This MD&A and other sections of this report contain "forward-looking statements" as defined by the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. These statements include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of financial resources. These forward-looking statements may include, without limitation, statements regarding: the impact of global and local operating economic conditions on our financial results; the anticipated effect of new tax statutes; the impact of healthcare reform and new regulations on our business and our ability to offset any related pricing pressures; anticipated seasonal fluctuations in our results of operations; the effect of pending and future lawsuits, claims, proceedings and investigations, including those relating to environmental regulations, on our results of operations, cash flows, financial condition or liquidity; expectations regarding the adequacy of our cash and cash equivalents and other sources of liquidity for ongoing operations; expectations regarding investment plans and capital expenditures; projections, predictions, expectations, estimates or forecasts as to our business, financial and operational results and future economic performance; management's goals and objectives; and other similar matters that are not historical facts. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and management's good faith belief as of that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Please consider the disclosure of risk factors beginning on page 22 of the 2014 Annual report along with page 2 of this Quarterly Report for a discussion of some of these risks and uncertainties.

Presentation of financial information

CHB is a wholly owned subsidiary of ConvaTec Healthcare A S.à.r.l. (the "Parent"). We are presenting the unaudited Condensed Consolidated Financial Statements of CHB in this report. The Parent has no significant business operations other than investments in CHB. On August 12, 2013, the Parent completed a $900.0 million Senior Payment-in-kind Notes ("PIK Notes") offering. As a result of the PIK Notes offering, we are required to present a summary of the primary financial statement reconciliation differences between CHB and the Parent. Please refer to "Reconciliation to the Parent's Financial Statements" within this Quarterly Report for further details.

Overview

We are a global medical products and technologies company, with leading market positions in wound therapeutics, ostomy care, continence and critical care, and infusion devices. Our products, which are marketed directly or indirectly in over 100 countries, provide a range of clinical and economic benefits, including infection prevention, protection of vulnerable skin, improved patient outcomes and reduced total cost of care.

We operate in attractive, growing markets where underlying trends are expected to create increased demand globally. A majority of our business is derived from medical consumables tied to the management of chronic conditions, generating consistent recurring revenues. We report sales in four major franchises: Wound Therapeutics, Ostomy Care, Continence & Critical Care ("CCC") and Infusion Devices.

Wound Therapeutics. Our Wound Therapeutics franchise includes advanced wound dressings and skin care products. These dressings and products are used for the management of acute and chronic wounds, such as those resulting from traumatic injury, burns, invasive surgery, diabetes, venous disease, immobility and other factors.

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

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

Infusion Devices. Our Infusion Devices franchise, previously referred to as Infusion Devices/Industrial Sales, provides disposable infusion sets to manufacturers of insulin pumps for diabetes and similar pumps used in continuous infusion treatments for other conditions. In addition, the franchise supplies a range of products to hospitals and the home healthcare sector.

Recent developments

Change in Management

In April 2015, Paul Moraviec was appointed Chief Executive Officer ("CEO") of the Company. From December 2014, Paul Moraviec served as Interim CEO of the Company. Paul Moraviec joined the Company in 2009 as President, Europe, Middle East and Africa ("EMEA"), which is our largest geographic region. In May 2015, Paul Moraviec was succeeded as President of EMEA by Antonio La Regina, formerly Vice President and General Manager for western and southern EMEA.

In May 2015, Todd Brown retired as CEO of 180 Medical Holdings, Inc. ("180 Medical") and was succeeded as CEO by Ron Howell, formerly Chief Operating Officer of 180 Medical. Todd Brown will remain as a consultant to the business. In July 2015, George Poole was appointed as President, Asia-Pacific ("APAC"), replacing John Magnus Lindskog, who continues in the role of President, Infusion Devices.

In June 2015, Dr. Raj Shah and Thomas Vetander of Nordic Capital and Kunal Pandit of Avista Capital Partners were appointed to the Board of Directors, and Kristoffer Melinder of Nordic Capital left the Board of Directors.

Leadership Team

Antonio La Regina

Antonio La Regina is the President of EMEA. Mr. La Regina joined ConvaTec in 2006 as Managing Director for Italy. In 2011, he was appointed Vice President and General Manager of United Kingdom/Ireland and Italy/Greece. Most recently, he served as Vice President and General Manager for western and southern EMEA. Prior to joining ConvaTec, Mr. La Regina worked for Zambon Group and Bristol-Myers Squibb in both Italy and France in a variety of commercial and functional roles. Mr. La Regina holds a degree in Biology, a Ph.D in Pharmacology and completed the General Management Program at CEDEP-INSEAD Business School in Fontainebleau in France.

Ron Howell

Ron Howell is the CEO of ConvaTec affiliate 180 Medical, a leader in the home delivery of disposable, intermittent catheters and urologic medical supplies in the U.S. Mr. Howell joined 180 Medical in 2005. He was appointed CEO in 2015 after serving in various roles within the organization, most recently as Chief Operating Officer. Mr. Howell holds a Bachelor's degree in Organizational Leadership from Southern Nazarene University.

George Poole

George Poole is the President of the APAC region. Mr. Poole joined ConvaTec in 2015 from Medtronic, where he spent 14 years in leadership roles in commercial, marketing, operations and general management. For the last five years, he was a key member of Medtronic's Asia Pacific management team, most recently serving as Vice President/Managing Director ASEAN. Prior to Medtronic, he served in sales positions with Welch Allyn and Olympus America. Mr. Poole holds a Bachelor of Science degree in Economics from the State University of New York at Cortland.

Board of Directors

Raj Shah

Raj Shah is a Partner at NC Advisory LLP, advisor to the Nordic Capital funds. Dr. Shah joined Nordic Capital in 2015 from Goldman Sachs International, where he served since 2004 and most recently as Co-Head of EMEA Healthcare Investment Banking. Prior to that, Dr. Shah originally trained as a cardiac surgeon and is a Fellow of the Royal College of Surgeons.

Thomas Vetander

Thomas Vetander is a Principal at NC Advisory AB, advisor to the Nordic Capital funds. Mr. Vetander joined Nordic Capital in June 2006 from McKinsey & Company in Stockholm, where he worked as a Management Consultant from 2004 to 2006. Mr. Vetander holds an MSc in Engineering Physics from the Royal Institute of Technology in Stockholm and a BSc in Business Administration and Economics from the Stockholm University School of Business.

Kunal Pandit

Kunal Pandit is a Principal at Avista Capital Partners. Mr. Pandit joined Avista Capital Partners in 2010. Prior to joining Avista, Mr. Pandit was at DLJ Merchant Banking Partners in London. Prior to that, he was a member of the leveraged finance group and the investment banking department at Lehman Brothers in London. Mr. Pandit received an M.A. and B.A. with honors from Cambridge University and an M.B.A. with honors from the Wharton School at the University of Pennsylvania.

Results of Operations

The following table sets forth our net sales and expense items for each of the periods indicated.

($ in millions)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net sales[1]	**$ 408.1**	**$ 445.0**	**$ 802.5**	**$ 874.3**
Cost of goods sold	196.1	204.4	386.1	416.5
Gross profit	**212.0**	**240.6**	**416.4**	**457.8**
Selling and marketing expenses	87.8	103.6	175.0	202.8
General and administrative expenses	50.6	47.2	98.2	102.1
Research and development expenses	11.4	8.8	20.5	16.5
Operating income	**62.2**	**81.0**	**122.7**	**136.4**
Interest expense, net	100.3	115.0	201.9	230.1
Foreign exchange loss	4.1	10.4	34.5	11.9
Other expense, net	0.2	0.1	0.6	0.2
Loss on extinguishment of debt	26.9	—	26.9	—
Loss before income taxes	(69.3)	(44.5)	(141.2)	(105.8)
Provision for income taxes	7.6	8.1	10.1	17.4
Net loss	**$ (76.9)**	**$ (52.6)**	**$ (151.3)**	**$ (123.2)**

(1) Net sales is comprised of sales of our products net of rebates and discounts.

The discussion below mentions net sales and certain costs and expenses on a constant exchange rate basis. Net sales and cost and expenses on a constant exchange rate basis are a non-GAAP financial measure and should not be viewed as a replacement of GAAP results. Such a measure is presented because we believe it enables us to focus on the actual performance related changes in the results of operations from period to period without the effects of exchange rates.

Net sales

Net sales for the three months ended June 30, 2015 decreased 8.3% and increased 1.9% on a reported and constant exchange rate basis, respectively, compared with the prior year period. Net sales for the six months ended June 30, 2015 decreased 8.2% and increased 1.4% on a reported and constant exchange rate basis, respectively, compared with the prior year period. The primary exchange rate movement that impacted net sales for the three and six months ended June 30, 2015 was the movement of the Euro compared to the U.S. Dollar. The changes in our net sales are further described below under "Net sales by franchise".

Net sales by franchise

The following table sets forth our net sales by franchise for the three and six months ended June 30, 2015 and 2014 and the percentage change on a reported and constant exchange rate basis.

($ in millions)	Three Months Ended June 30, 2015	2014	Change[1]	At constant	Six Months Ended June 30, 2015	2014	Change[1]	At constant
Net sales by franchise								
Wound Therapeutics	$ 129.7	$ 136.7	(5.1)%	7.2 %	$ 254.1	$ 276.8	(8.2)%	2.9 %
Ostomy Care	130.1	148.7	(12.5)%	(0.4)%	254.2	296.8	(14.4)%	(3.3)%
Continence & Critical Care	84.4	87.3	(3.3)%	4.0 %	169.6	178.3	(4.9)%	2.0 %
Infusion Devices	63.9	72.3	(11.6)%	(6.0)%	124.6	122.4	1.8 %	8.8 %
Total net sales	**$ 408.1**	**$ 445.0**	**(8.3)%**	**1.9 %**	**$ 802.5**	**$ 874.3**	**(8.2)%**	**1.4 %**

(1) Represents the percentage change as reported.

Wound Therapeutics

Net sales in our Wound Therapeutics franchise for the three months ended June 30, 2015 were $129.7 million, a decrease of $7.0 million, or approximately 5.1%, from $136.7 million for the three months ended June 30, 2014. At a constant exchange rate, Wound Therapeutics net sales increased 7.2%, primarily due to growth across our AQUACEL® product family.

Net sales in our Wound Therapeutics franchise for the six months ended June 30, 2015 were $254.1 million, a decrease of $22.7 million, or approximately 8.2%, from $276.8 million for the six months ended June 30, 2014. At a constant exchange rate, Wound Therapeutics net sales increased 2.9% due to growth across our AQUACEL® product family, partially offset by a decrease in net sales in the U.S. primarily driven by distributor buying patterns in the first quarter of 2015.

Ostomy Care

Net sales in our Ostomy Care franchise for the three months ended June 30, 2015 were $130.1 million, a decrease of $18.6 million, or approximately 12.5%, from $148.7 million for the three months ended June 30, 2014. At a constant exchange rate, Ostomy Care net sales remained consistent with the prior year period. This reflects increased net sales in EMEA and APAC regions, offset by a decrease in net sales in the U.S. primarily driven by distributor buying patterns.

Net sales in our Ostomy Care franchise for the six months ended June 30, 2015 were $254.2 million, a decrease of $42.6 million, or approximately 14.4%, from $296.8 million for the six months ended June 30, 2014. At a constant exchange rate, Ostomy Care net sales decreased 3.3% due to a decrease in net sales in the U.S. primarily driven by distributor buying patterns, partially offset by an increase in net sales in EMEA and APAC regions.

Continence & Critical Care

Net sales in our CCC franchise for the three months ended June 30, 2015 were $84.4 million, a decrease of $2.9 million, or approximately 3.3%, from $87.3 million for the three months ended June 30, 2014. At a constant exchange rate, CCC net sales increased 4.0%, primarily due to the organic growth from our 180 Medical business, partially offset by a decline in net sales for our U.S. business.

Net sales in our CCC franchise for the six months ended June 30, 2015 were $169.6 million, a decrease of $8.7 million, or approximately 4.9%, from $178.3 million for the six months ended June 30, 2014. At a constant exchange rate, CCC net sales increased 2.0%, primarily due to the organic growth from our 180 Medical business, partially offset by a Class I recall of our Flexi-Seal® CONTROL Fecal Management System in the prior year period. For further discussion regarding the recall, see Note 14 titled “Commitments and Contingencies”.

Infusion Devices

Net sales in our Infusion Devices franchise for the three months ended June 30, 2015 were $63.9 million, a decrease of $8.4 million, or approximately 11.6%, from $72.3 million for the three months ended June 30, 2014. At a constant exchange rate, Infusion Devices net sales decreased 6.0% due to the prior year quarter benefiting from increased inventory holdings by one major customer. Excluding this inventory movement, constant currency net sales were approximately flat, with increased volumes in infusion devices offset by volume decreases in industrial sales.

Net sales in our Infusion Devices franchise for the six months ended June 30, 2015 were $124.6 million, an increase of $2.2 million, or approximately 1.8%, from $122.4 million for the six months ended June 30, 2014. At a constant exchange rate, Infusion Devices net sales increased 8.8%, primarily driven by reduced inventory holdings by a principal customer in the prior year period and volume growth.

Costs and expenses

The following is a summary of costs and expenses for the three and six months ended June 30, 2015 and 2014:

($ in millions)	Three Months Ended June 30, 2015	2014	2015[1]	2014[1]	Six Months Ended June 30, 2015	2014	2015[1]	2014[1]
Operating costs and expenses:								
Cost of goods sold	$ 196.1	$ 204.4	48.1%	45.9%	$ 386.1	$ 416.5	48.1%	47.6%
Selling and marketing	87.8	103.6	21.5%	23.3%	175.0	202.8	21.8%	23.2%
General and administrative	50.6	47.2	12.4%	10.6%	98.2	102.1	12.2%	11.7%
Research and development	11.4	8.8	2.8%	2.0%	20.5	16.5	2.6%	1.9%
Total operating costs and expenses	**$ 345.9**	**$ 364.0**	**84.8%**	**81.8%**	**$ 679.8**	**$ 737.9**	**84.7%**	**84.4%**

($ in millions)	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Other costs and net expenses:				
Interest expense, net	$ 100.3	$ 115.0	$ 201.9	$ 230.1
Foreign exchange loss	4.1	10.4	34.5	11.9
Other expense, net	0.2	0.1	0.6	0.2
Loss on extinguishment of debt	26.9	—	26.9	—
Provision for income taxes	7.6	8.1	10.1	17.4

(1) Represents the percentage of net sales.

Operating costs and expenses

Cost of goods sold

Cost of goods sold for the three months ended June 30, 2015 was $196.1 million, a decrease of $8.3 million from $204.4 million for the three months ended June 30, 2014. As a percentage of net sales, cost of goods sold increased to 48.1% for the three months ended June 30, 2015 from 45.9% for the three months ended June 30, 2014. At a constant exchange rate, cost of goods sold decreased $6.3 million, primarily due to manufacturing productivity resulting from benefits realized from executed cost saving initiatives and optimization efforts, partially offset by higher volume.

Gross profit (net sales less cost of goods sold) decreased $28.6 million, or 11.9%, and gross profit margin (gross profit as a percentage of net sales) was 51.9% for the three months ended June 30, 2015 as compared with 54.1% for the three months ended June 30, 2014. Gross profit margin excluding impacts from amortization of certain intangible assets and certain non-recurring costs for the three months ended June 30, 2015 was 59.9%, as compared with 61.8% for the three months ended June 30, 2014. The decrease in gross profit margin is primarily driven by a negative foreign currency exchange impact as a result of the strengthening of the U.S. Dollar against certain currencies, including the Euro, partially offset by manufacturing productivity initiatives.

Cost of goods sold for the six months ended June 30, 2015 was $386.1 million, a decrease of $30.4 million from $416.5 million for the six months ended June 30, 2014. As a percentage of net sales, cost of goods sold increased to 48.1% for the six months ended June 30, 2015 from 47.6% for the six months ended June 30, 2014. At a constant exchange rate, cost of goods sold decreased $22.2 million, primarily due to (i) manufacturing productivity resulting from benefits realized from executed cost saving initiatives and optimization efforts, (ii) inventory revaluation, and (iii) a Class I recall related to our Flexi-Seal® CONTROL Fecal Management System in the prior year period, partially offset by (iv) higher volume.

Gross profit (net sales less cost of goods sold) decreased $41.4 million, or 9.0%, and gross profit margin (gross profit as a percentage of net sales) was 51.9% for the six months ended June 30, 2015 as compared with 52.4% for the six months ended June 30, 2014. Gross profit margin excluding impacts from amortization of certain intangible assets and certain non-recurring costs for the six months ended June 30, 2015 was 59.9%, as compared with 60.2% for the six months ended June 30, 2014. The decrease in gross profit margin is primarily driven by (i) a negative foreign currency exchange impact as a result of the strengthening of the U.S. Dollar against certain currencies, including the Euro and (ii) pricing actions, partially offset by (iii) manufacturing productivity initiatives, (iv) inventory revaluation, and (v) a Class I recall related to our Flexi-Seal® CONTROL Fecal Management System in the prior year period.

Selling and marketing expenses

Selling and marketing expenses for the three months ended June 30, 2015 were $87.8 million, a decrease of $15.8 million, or approximately 15.3%, from $103.6 million for the three months ended June 30, 2014. As a percentage of net sales, selling and marketing expenses were 21.5% for the three months ended June 30, 2015, compared to 23.3% for the three months ended June 30, 2014. At a constant exchange rate, selling and marketing expenses decreased $4.0 million. The decrease was primarily due to a reduction in compensation costs mainly in the U.S.

Selling and marketing expenses for the six months ended June 30, 2015 were $175.0 million, a decrease of $27.8 million, or approximately 13.7%, from $202.8 million for the six months ended June 30, 2014. As a percentage of net sales, selling and marketing expenses were 21.8% for the six months ended June 30, 2015, compared to 23.2% for the six months ended June 30, 2014. At a constant exchange rate, selling and marketing expenses decreased $5.9 million. The decrease was primarily due to a reduction in compensation costs mainly in the U.S.

General and administrative expenses

General and administrative expenses for the three months ended June 30, 2015 were $50.6 million, an increase of $3.4 million, or approximately 7.2%, from $47.2 million for the three months ended June 30, 2014. As a percentage of net sales, general and administrative expenses were 12.4% for the three months ended June 30, 2015, compared to 10.6% for the three months ended June 30, 2014. At a constant exchange rate, general and administrative expenses increased $6.6 million, primarily due to (i) incremental compensation costs, (ii) an increase in consulting fees, and (iii) an increase in professional service fees associated with a number of remediation activities that we are undertaking to address material weaknesses and significant deficiencies in our internal controls over financial reporting. These increases were partially offset by a decrease in severance costs associated with the closure of our operational headquarters in Skillman, New Jersey in the three months ended June 30, 2014 and a decrease in legal fees.

General and administrative expenses for the six months ended June 30, 2015 were $98.2 million, a decrease of $3.9 million, or approximately 3.8%, from $102.1 million for the six months ended June 30, 2014. As a percentage of net sales, general and administrative expenses were 12.2% for the six months ended June 30, 2015, compared to 11.7% for the six months ended June 30, 2014. At a constant exchange rate, general and administrative expenses increased $1.5 million, primarily due to (i) an increase in professional service fees associated with a number of remediation activities that we are undertaking to address material weaknesses and significant deficiencies in our internal controls over financial reporting, (ii) incremental compensation costs, and (iii) an increase in consulting fees. These increases were partially offset by a decrease in severance costs associated with the closure of our operational headquarters in Skillman, New Jersey in the six months ended June 30, 2014 and a decrease in legal fees.

We anticipate that our general and administrative expenses will increase in the future with continued remediation costs related to our material weaknesses and significant deficiencies and expanded legal and compliance obligations. These increases will likely include costs related to the hiring of additional personnel, payments to outside consultants, costs for lawyers and accountants, and higher insurance costs, among other expenses. Additionally, we anticipate an increase in payroll expense as a result of enhancing our compliance function as it relates to the sales and marketing of our products.

Research and development expenses

Research and development ("R&D") expenses for the three months ended June 30, 2015 were $11.4 million, an increase of $2.6 million, or approximately 29.5%, from $8.8 million for the three months ended June 30, 2014. As a percentage of net sales, R&D expenses were 2.8% for the three months ended June 30, 2015, compared to 2.0% for the three months ended June 30, 2014. At a constant exchange rate, R&D expenses increased $3.5 million. The increase in R&D expense is primarily driven by regulatory compliance costs and spending on certain development programs.

R&D expenses for the six months ended June 30, 2015 were $20.5 million, an increase of $4.0 million, or approximately 24.2%, from $16.5 million for the six months ended June 30, 2014. As a percentage of net sales, R&D expenses were 2.6% for the six months ended June 30, 2015, compared to 1.9% for the six months ended June 30, 2014. At a constant exchange rate, R&D expenses increased $5.5 million. The increase in R&D expense is primarily driven by regulatory compliance costs and spending on certain development programs.

Other costs and net expenses

Interest expense, net

Interest expense, net for the three months ended June 30, 2015 was $100.3 million, a decrease of $14.7 million from $115.0 million for the three months ended June 30, 2014. The decrease is primarily due to (i) foreign currency impact on preferred equity certificates ("PEC" or "PECs") interest denominated in Euro and (ii) lower debt balances as a result of higher mandatory prepayment made in the three months ended June 30, 2014 under our credit facilities.

Interest expense, net for the six months ended June 30, 2015 was $201.9 million, a decrease of $28.2 million from $230.1 million for the six months ended June 30, 2014. The decrease is primarily due to (i) foreign currency impact on PEC interest denominated in Euro and (ii) lower debt balances as a result of higher mandatory prepayment made in the three months ended June 30, 2014 under our credit facilities.

Foreign exchange loss

Foreign exchange loss for the three months ended June 30, 2015 was $4.1 million, a decrease of $6.3 million from $10.4 million during the three months ended June 30, 2014. The decrease was primarily due to (i) a foreign exchange net gain driven primarily by foreign currency impact on re-measurement of our long-term debt denominated in non-functional currency, partially offset by (ii) a foreign exchange net loss driven by intercompany transactions, including loans transacted in non-functional currencies.

Foreign exchange loss for the six months ended June 30, 2015 was $34.5 million, an increase of $22.6 million from $11.9 million during the six months ended June 30, 2014. The increase was primarily due to (i) a foreign exchange net loss driven primarily by foreign currency impact on re-measurement of our long-term debt denominated in non-functional currency and (ii) a foreign exchange net loss driven by intercompany transactions, including loans transacted in non-functional currencies.

Loss on extinguishment of debt

For the three and six months ended June 30, 2015, we recognized loss on extinguishment of debt of $26.9 million related to (i) the redemption of the 7.375% senior secured notes (the "Secured Notes") in June 2015 and (ii) the refinancing of our credit facilities in June 2015. See Note 10 titled "Long-Term Debt" for further details.

Provision for income taxes

For the three months ended June 30, 2015, we recorded a provision for income taxes of $7.6 million on a pre-tax loss of $69.3 million, and for the three months ended June 30, 2014, we recorded a provision for income taxes of $8.1 million on a pre-tax loss of $44.5 million. The decrease in the provision for income taxes in 2015 as compared to 2014 is primarily the result of change in profit mix among jurisdictions with different tax rates.

For the six months ended June 30, 2015, we recorded a provision for income taxes of $10.1 million on a pre-tax loss of $141.2 million, and for the six months ended June 30, 2014, we recorded a provision for income taxes of $17.4 million on a pre-tax loss of $105.8 million. The decrease in the provision for income taxes in 2015 as compared to 2014 is primarily the result of change in profit mix among jurisdictions with different tax rates.

Net loss

As a result of the above, net loss increased $24.3 million to a net loss of $76.9 million for the three months ended June 30, 2015, compared to a net loss of $52.6 million for the three months ended June 30, 2014.

As a result of the above, net loss increased $28.1 million to a net loss of $151.3 million for the six months ended June 30, 2015, compared to a net loss of $123.2 million for the six months ended June 30, 2014.

EBITDA and Adjusted EBITDA

We believe that EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) and Adjusted EBITDA (EBITDA adjusted to exclude other income and expense items that are excluded by management in assessing the operating performance of the business) are useful indicators of our ability to incur and service our indebtedness and can assist investors and other parties to evaluate us. It should be noted that our definition of EBITDA and Adjusted EBITDA may not be comparable to similar measures disclosed by other companies. We believe that Adjusted EBITDA as a supplementary non-GAAP financial

measure may be used to meaningfully evaluate a company's future operating performance and cash flow. In addition, Management also uses EBITDA and Adjusted EBITDA to assess and measure our operating performance. Accordingly, this information has been disclosed to permit a more complete and comprehensive analysis of our operating performance, consistent with how our business performance is evaluated by Management.

We define EBITDA as the net loss for the respective period before provision for income taxes, loss on extinguishment of debt, other expense, net, foreign exchange loss, interest expense, net, and depreciation and amortization. Adjusted EBITDA represents EBITDA as adjusted (i) to include realized foreign exchange gains or losses and (ii) to exclude costs or gains that are excluded by management in assessing the operating performance of the business, such as restructuring and remediation expenses, and other non-cash items. EBITDA and Adjusted EBITDA are not measurements of financial performance under GAAP, are not audited and should not replace measures of liquidity or operating profit that are derived in accordance with GAAP. The following table reconciles net loss to EBITDA and provides a further reconciliation of EBITDA to Adjusted EBITDA for the three and six months ended June 30, 2015 and 2014.

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in millions)	**2015**	**2014**	**2015**	**2014**
Net loss	$ (76.9)	$ (52.6)	$ (151.3)	$ (123.2)
Provision for income taxes	7.6	8.1	10.1	17.4
Loss on extinguishment of debt	26.9	—	26.9	—
Other expense, net	0.2	0.1	0.6	0.2
Foreign exchange loss	4.1	10.4	34.5	11.9
Interest expense, net	100.3	115.0	201.9	230.1
Depreciation and amortization	44.9	48.3	89.7	96.6
EBITDA	**107.1**	**129.3**	**212.4**	**233.0**
Adjustments [(a)]:				
Restructuring costs[(b)]	—	2.9	(0.1)	8.9
Remediation costs[(c)]	3.7	1.9	8.3	3.3
Other	4.4	2.1	5.7	4.7
Total Adjustments	8.1	6.9	13.9	16.9
Adjusted EBITDA, excluding realized foreign exchange gain (loss)	**115.2**	**136.2**	**226.3**	**249.9**
Realized foreign exchange gain (loss)	11.8	(3.3)	4.4	(3.9)
Adjusted EBITDA	**$ 127.0**	**$ 132.9**	**$ 230.7**	**$ 246.0**

(a) Represent transactions/items that are excluded by management in assessing the operating performance of the business. Such activity is excluded from EBITDA to derive Adjusted EBITDA, which is our profit measure.

(b) Restructuring costs were recorded in General and administrative expenses in the unaudited Condensed Consolidated Statements of Operations. See Note 5 titled "Restructuring" for further details.

(c) For the three and six months ended June 30, 2015, we recorded $3.7 million and $8.3 million of remediation costs, respectively, of which $3.1 million and $7.0 million, respectively, was recorded in General and administrative expenses and $0.6 million and $1.3 million, respectively, was recorded in Research and development expenses in the unaudited Condensed Consolidated Statements of Operations. For the three and six months ended June 30, 2014, the remediation costs of $1.9 million and $3.3 million, respectively, was recorded in Research and development expenses in the unaudited Condensed Consolidated Statements of Operations. Remediation costs include regulatory compliance costs related to the Food and Drug Administration ("FDA") activities and professional service fees associated with activities that were undertaken to address material weaknesses and significant deficiencies in our internal controls.

Liquidity and capital resources

As of June 30, 2015 and December 31, 2014, our cash and cash equivalents were $241.1 million and $234.0 million, respectively. Additionally, as of June 30, 2015, we had $198.5 million of availability under our revolving credit facility. Restricted cash was $9.2 million as of June 30, 2015.

Pursuant to the Fourth Amendment to the Credit Agreement dated June 15, 2015, and pursuant to Section 4.06 of each of the indentures dated December 22, 2010 (collectively, the "Indentures") governing the senior notes (the "U.S. Dollar Senior Notes" and the "Euro Senior Notes") (collectively the "Senior Notes"), we are permitted in certain circumstances to make certain payments that would otherwise be restricted. As of June 30, 2015, we had the capacity to make such restricted payments up to an amount of $280.3 million.

Our primary source of liquidity is cash flow generated from operations. Historically, the non-elective nature of our product offerings has resulted in significant recurring cash inflows. We generated $25.3 million of cash from operating activities from continuing operations during the six months ended June 30, 2015. Significant cash uses during the six months ended June 30, 2015 included $128.0 million of interest payments, $12.8 million for capital expenditures and $11.5 million of income taxes paid.

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

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

Cash flows

The following table sets forth cash flow information for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in millions)	2015	2014	2015	2014
Net cash provided by (used in) operating activities	$ 6.3	$ (17.4)	$ 25.3	$ 8.1
Net cash used in investing activities	(11.0)	(7.1)	(14.2)	(66.3)
Net cash provided by (used in) financing activities	4.3	(73.8)	4.3	(73.8)
Effect of exchange rate changes on cash and cash equivalents	8.5	(0.3)	(8.3)	0.2
Net increase (decrease) in cash and cash equivalents	8.1	(98.6)	7.1	(131.8)
Cash and cash equivalents at beginning of the period	233.0	238.2	234.0	271.4
Cash and cash equivalents at end of the period	$ 241.1	$ 139.6	$ 241.1	$ 139.6
Supplemental cash flow information				
Income taxes paid	$ 4.6	$ 8.0	$ 11.5	$ 16.5
Interest paid	$ 77.6	$ 88.3	$ 128.0	$ 135.6

Cash flows from operating activities

Net cash provided by operating activities was $6.3 million for the three months ended June 30, 2015 and net cash used in operating activities was $17.4 million for the three months ended June 30, 2014. Net cash provided by operating activities was $25.3 million and $8.1 million for the six months ended June 30, 2015 and 2014, respectively.

The following table sets forth the components of net cash provided by (used in) operating activities for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in millions)	2015	2014	2015	2014
Adjusted EBITDA, excluding realized foreign exchange gain (loss)	**$ 115.2**	**$ 136.2**	**$ 226.3**	**$ 249.9**
Realized foreign exchange gain (loss)	11.8	(3.3)	4.4	(3.9)
Cash interest payments	(77.6)	(88.3)	(128.0)	(135.6)
Cash tax payments	(4.6)	(8.0)	(11.5)	(16.5)
Other payments	(4.2)	(14.4)	(16.3)	(17.9)
Working capital increase	(34.3)	(39.6)	(49.6)	(67.9)
Net cash provided by (used in) operating activities	**$ 6.3**	**$ (17.4)**	**$ 25.3**	**$ 8.1**

For the three months ended June 30, 2015, net cash interest paid was $77.6 million, a decrease of $10.7 million, from $88.3 million for the three months ended June 30, 2014, primary due to lower debt balances as a result of higher mandatory prepayment made in the three months ended June 30, 2014 under our credit facilities.

For the six months ended June 30, 2015, net cash interest paid was $128.0 million, a decrease of $7.6 million, from $135.6 million for the six months ended June 30, 2014, primary due to lower debt balances as a result of higher mandatory prepayment made in the three months ended June 30, 2014 under our credit facilities, partially offset by the higher interest payment made on the PECs in the six months ended June 30, 2015.

For the three months ended June 30, 2015, the other payments were $4.2 million, a decrease of $10.2 million, from $14.4 million for the three months ended June 30, 2014, primarily driven by (i) a decrease in payments made towards the settlement of the Medtronic related liabilities of $7.8 million and (ii) a decrease of $4.0 million in payments related to restructuring charges, partially offset by an increase in payments related to remediation and compliance costs.

For the six months ended June 30, 2015, the other payments were $16.3 million, a decrease of $1.6 million, from $17.9 million for the six months ended June 30, 2014, primarily driven by (i) a decrease in payments made towards the settlement of the Medtronic related liabilities of $7.8 million and (ii) a decrease of $5.3 million in payments related to restructuring charges, partially offset by (iii) payments related to the Management Equity Plan ("MEP") awards of $8.4 million in the six months ended June 30, 2015 and (iv) an increase in payments of $3.1 million, in the aggregate, related to remediation and compliance costs.

The working capital increase of $34.3 million and $39.6 million for the three months ended June 30, 2015 and 2014, respectively, and increase of $49.6 million and $67.9 million for the six months ended June 30, 2015 and 2014, respectively, was primarily related to timing of receipts and payments in the ordinary course of business.

Cash flows from investing activities

For the three months ended June 30, 2015, net cash used in investing activities was $11.0 million, an increase of $3.9 million from $7.1 million for the three months ended June 30, 2014, primarily driven by an increase in restricted cash.

For the six months ended June 30, 2015, net cash used in investing activities was $14.2 million, a decrease of $52.1 million from $66.3 million for the six months ended June 30, 2014. The decrease in net cash used in investing activities was primarily related to (i) a decrease of $42.5 million related to the Symbius acquisition in January 2014 and (ii) a decrease of $10.7 million in capital expenditures primarily as a result of our investment in 180 Medical operations in the six months ended June 30, 2014.

Cash flows from financing activities

For the three and six months ended June 30, 2015, net cash provided by financing activities was $4.3 million, compared with net cash used in financing activities of $73.8 million in the three and six months ended June 30, 2014, reflecting a change of $78.1 million, primarily due to (i) an increase of $439.5 million of net borrowings under our credit facilities, primarily as a result of the refinancing in June 2015, partially offset by (ii) $338.5 million paid on the redemption of the Secured Notes in

June 2015, and (iii) $22.9 million of deferred financing fees paid (including call premium of $12.5 million paid on the redemption of the Secured Notes in June 2015) in connection with refinancing of our credit facilities in June 2015. See Note 10 titled "Long-Term Debt" for further details.

Debt

Our long-term debt consists of Senior Notes and the Credit Facilities. Our current corporate credit rating is B2 and B+ from Moody's and Standard and Poor's, respectively. A downgrade may increase our cost of borrowing and may negatively impact our ability to raise additional debt capital.

As of June 30, 2015, we had total debt outstanding, excluding capital leases, and other obligations, of $2,663.3 million, net of $2.0 million of unamortized original issue discount. We were in compliance with all of our covenants related to our outstanding debt as of June 30, 2015. See Note 10 titled "Long-Term Debt" for detailed information regarding our long-term debt.

Contractual Obligations

Our contractual obligations consist mainly of payments related to long-term debt and related interest, operating leases and unconditional purchase obligations. The following table summarizes our contractual obligations related to our long-term debt as of June 30, 2015:

	Payments Due by Period				
($ in millions)	**Total**	**2015**	**2016 and 2017**	**2018 and 2019**	**Thereafter**
Long-term debt	$ 2,665.5	$ 8.2	$ 47.6	$ 1,023.7	$ 1,586.0

There have been no other significant changes outside the normal course of business to the items specified in the contractual obligations table and related disclosures under the heading "Contractual obligations" in the annual MD&A contained in the 2014 Annual Report.

Contingent liabilities

In the ordinary course of business, we are subject to various legal proceedings and claims, including, for example, product liability matters, environmental matters, employment disputes, disputes on agreements and other commercial disputes. In addition, we operate in an industry susceptible to significant patent legal claims. At any given time in the ordinary course of business, we are involved as either a plaintiff or defendant in a number of patent infringement actions. See Note 14 titled "Commitments and Contingencies".

Critical accounting policies

Our unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Critical accounting policies are those that require application of management's most subjective and/or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Such policies are summarized under the heading "Critical accounting policies" in the annual MD&A contained in the 2014 Annual Report. There have been no significant changes to our critical accounting policies since December 31, 2014.

New accounting standards

Information regarding the recently issued new accounting guidance (adopted and not adopted as of June 30, 2015) is contained in Note 2 titled "Significant Accounting Policies" in this Quarterly Report.

Quantitative and qualitative disclosure about market risk

We are, in the normal course of business, exposed to a variety of market risks, including foreign exchange rate risk and interest rate risk. Our risk management strategy aims to minimize the adverse effects of these risks on our financial performance. We have not entered into any transactions in derivative financial instruments for trading purposes. The quantitative and qualitative disclosures about market risk are discussed under the heading "Quantitative and qualitative disclosures about market risk" in the annual MD&A contained in the 2014 Annual Report. There have been no significant changes in the information reported since the year ended December 31, 2014.

Reconciliation to the Parent's Financial Statements

On August 12, 2013, ConvaTec Finance International S.A. ("CFI"), a subsidiary of the Parent and sister entity to CHB, successfully completed a $900.0 million PIK Notes offering, at an offering price of 99.0%. The net proceeds from the offering were used to repay PECs of the Parent in the amount of $873.1 million and to pay additional related fees and expenses. The PIK Notes mature on January 15, 2019 and are subject to cash interest payments of 8.25% every January 15 and July 15, commencing on January 15, 2014. PIK interest, if cash interest is not elected to be paid, will accrue at 9.00% per annum. All interest owed will be paid by CFI directly to the holders of the PIK Notes. The PIK Notes are recorded on the balance sheet of CFI, whose financial information is ultimately consolidated by the Parent. The PIK Notes are non-recourse to CHB and thus exclusively the obligation of CFI and the Parent.

In order to fund CFI's interest expense on the PIK Notes, it is anticipated that CHB will distribute certain accrued PEC interest to the Parent. The PECs allow for distribution of interest to the extent permitted by our restricted payment capacity, a specified leverage ratio and other provisions outlined in our Credit Facilities Agreement and the Indentures governing the Senior Notes. During the six months ended June 30, 2015, we made a payment of $37.1 million of accrued PEC interest to the Parent. We anticipate that we will have the necessary restricted payment capacity to fund semi-annual cash interest payments to the Parent going forward. The cash interest payments are incremental to the interest due on our long-term debt and will reduce our operating cash flows going forward. The timing of our cash interest payments to the Parent will be on or around January 15 and July 15 going forward. On July 13, 2015, we made an additional payment of $37.1 million of accrued PEC interest to the Parent. As approved by the Board of Directors, the amount of the cash interest paid by CHB will reduce the equivalent amount of accrued PEC interest on CHB's Consolidated Balance Sheet. As of June 30, 2015, the current portion of accrued PEC interest on CHB's unaudited Condensed Consolidated Balance Sheet which approximated the amount of accrued interest on the PIK Notes on the unaudited Condensed Consolidated Balance Sheet of the Parent and was $34.2 million.

In connection with the PIK Notes offering discussed above, we are required to present a summary of the primary financial statement reconciliation differences between CHB and the Parent. Please refer to the "Presentation of financial information" in the beginning of the MD&A for information regarding our financial presentation requirements. We believe that the unaudited Condensed Consolidated Financial Statements of CHB, prepared in accordance with U.S. GAAP, fairly represent the operating activities of the Parent, with the exception of the differences discussed below.

Prior to the PIK Notes offering, the primary differences between the unaudited Condensed Consolidated Financial Statements of CHB and the Parent for each period were related to the management fees paid to our Sponsors, the accumulated value of the loan between CHB and the Parent resulting from the management fees paid, the amount of accrued interest on this loan, as well as minor foreign currency and tax related differences. The management fee, including other related fees, results in $3.0 to $4.0 million of incremental general and administrative expenses per year on the Parent's Consolidated Statement of Operations. Further differences resulting directly from the PIK Notes offering include incremental long-term debt on the Parent's Consolidated Balance Sheet along with an incremental amount of capitalized deferred financing fees associated with the issuance of the PIK Notes, an incremental amount of mandatorily redeemable PECs liability on the balance sheet of CHB, differences in related interest expense and foreign currency remeasurement gains and losses generated from an on-lending arrangement of a long-term-investment nature. This on-lending arrangement was created between CFI and the Parent in the amount of $900.0 million, specifically as a result of the PIK Notes offering. Further details regarding the differences noted on each of the respective financial statements are as follows:

Consolidated Balance Sheets (Unaudited)

As of June 30, 2015, total assets and total liabilities combined with stockholder's deficit differed by $115.8 million on the Parent's unaudited Condensed Consolidated Balance Sheet, as compared to the balance sheet of CHB. The differences are confined to the following line items:

	As of June 30, 2015		
($ in millions)	**Parent**	**CHB**	**Differences**
Assets:			
Cash and cash equivalents	$ 241.4	$ 241.1	$ 0.3
Other assets	208.5	93.0	115.5
Total Assets Difference			**$ 115.8**
Liabilities and Stockholder's Deficit:			
Accounts payable, accrued expenses and other current liabilities	$ 286.0	$ 284.6	$ 1.4
Long-term debt	3,502.5	2,607.7	894.8
Mandatorily redeemable preferred equity certificates	1,977.8	2,687.0	(709.2)
Retained deficit	(2,727.0)	(2,808.4)	81.4
Accumulated other comprehensive income (net of tax)	367.9	520.5	(152.6)
Total Liabilities and Stockholder's Deficit Difference			**$ 115.8**

Consolidated Statements of Operations (Unaudited)

For the three and six months ended June 30, 2015, the total net loss for the Parent was $107.3 million and $85.2 million, as compared to a total net loss for CHB of $76.9 million and $151.3 million, reflecting a decrease of $30.4 million and an increase of $66.1 million, respectively. The total difference for the six month period is primarily related to the foreign exchange adjustment due to the hedging agreement between the Parent and Cidron Healthcare Limited (a related party, which is not included in the unaudited Condensed Consolidated Financial Statements of the Parent), which was partially offset by an incremental amount of interest expense, sponsor fees, and the foreign exchange impact on PIK interest expense payment recorded in the Parent's unaudited Condensed Consolidated Statement of Operations. The Parent's increased interest expense as compared to that of CHB is driven by an incremental amount of interest-bearing debt and a higher interest rate on a portion of that debt.

Consolidated Statements of Cash Flows (Unaudited)

As of June 30, 2015, total cash and cash equivalents on the Parent's unaudited Condensed Consolidated Balance Sheet was $241.4 million, as compared to total cash and cash equivalents on CHB of $241.1 million. There were no significant differences in total net cash provided by or used in operating, financing or investing activities for the six months ended June 30, 2015.

Glossary

acute fecal incontinence or AFI	Also known as encopresis or soiling, and refers to the temporary involuntary passage of stool in adults or children, which occurs in the critical care setting and is most prevalent in ICUs, burn units, hospices and long-term care facilities
acute wound	Typically a surgical incision or traumatic wound whose causation is acute
Adhesive Coupling Technology™	ConvaTec brand of proprietary adhesive fastening technology to connect the pouch to the skin barrier in a low profile design without a raised "snap on" ring; utilized by the ESTEEM synergy Two-Piece Ostomy System
advanced wound care	Includes dressings, pastes, gels as well as off-loading, compression and negative pressure therapy devices that promote wound healing by a variety of methods (depending on the product) including effectively managing wound exudate, keeping the wound moist in an occlusive or semi-occlusive environment, protecting the wound, managing infection, improving circulation and so forth
AQUACEL®	ConvaTec advanced wound dressing, utilizing Hydrofiber Technology
AQUACEL® Ag	ConvaTec silver-based antimicrobial advanced wound dressing, utilizing Hydrofiber Technology
CE mark	European regulatory marking to signify compliance with applicable regulatory standards
chronic wound	Complex wounds that are caused by repeated insults which do not heal rapidly in the absence of interventional therapies, and which include pressure, venous, arterial, and diabetic foot ulcers
closed-end pouches	Pouches collecting fecal output typically used as one-time disposable pouches for patients with formed to semi-formed stool
ConvaTec Moldable Technology™	ConvaTec brand for proprietary technology allowing for the skin barrier opening to be "molded" by hand (rather than cut with scissors) to customize the shape of the barrier for a patient's unique stoma characteristics
colorectal cancer	Also known as colon/rectal cancer or bowel cancer, the surgery for which may result in the creation of a stoma
colostomy	The ostomy procedure in which the colon or the rectum is brought through the abdominal wall to allow for the passage of feces
conventional wound care	Generally involves products that provide "dry" healing if used as a primary dressing, or are supplementary to a primary moist wound healing product (serving as a secondary dressing to hold the primary dressing in place and/or absorb excess exudate). Examples include dressings such as gauze and bandages, and fixation products such as adhesive strips and tapes
drainable pouches	Ostomy pouches possessing an opening at the bottom of the pouch for more frequent draining of liquid stool or urine; closed with either a clip or a Velcro-like integrated closure called InvisiClose
DuoDERM®	ConvaTec brand of hydrocolloid dressing that provides a moist wound healing environment and self-adheres to the skin through ConvaTec's proprietary Durahesive Technology
Durahesive®	ConvaTec brand for proprietary skin adhesion technology with optimized properties to allow for longer-term adhesion (5-7 days)
effluent	Effluent generally refers to the feces or urine coming out of the body through an artificial opening such as a stoma
ESTEEM®	ConvaTec brand for a One-Piece Ostomy System, closed-end or drainable pouch, with upgraded features similar to those found on two-piece systems
ESTEEM synergy®	ConvaTec brand for a Two-Piece Ostomy System employing the patented Adhesive Coupling Technology that allows for a low profile and flexibility typical of a one-piece system. This system also offers closed-end, drainable and urostomy pouches

exudate	Fluid, cells or cellular debris that has filtered from the circulatory system into a lesion or area of inflammation and deposited in tissues or on tissue surfaces and leaking out of the wound
Flexi‑Seal® fecal management system or FMS	ConvaTec brand of fecal containment device designed to safely and effectively contain and divert liquid fecal matter to protect patients' wounds from fecal contamination and reduce risk of skin breakdown and the spread of infection
Foam	Typically, polyurethane‑based dressing with foam‑like feel used for exuding wounds and for skin protection
hydrocolloid	Dressing containing a polymeric hydrocolloid material which dissolves, gels, swells (or exhibits some combination of these actions) upon interaction with exudate to provide a moist wound healing environment. Hydrocolloid dressings are typically used for wounds with light to moderate exudate
Hydrofiber® Technology	ConvaTec proprietary technology based on the unique gelling properties of Hydrofiber materials; serves as the basis of the AQUACEL®, AQUACEL® Ag, and AQUACEL® Foam products
InvisiClose™	ConvaTec proprietary integrated closure system utilized in drainable ostomy pouches
key opinion leader	A medical industry term that refers to physicians who influence their peers' medical practice
One‑Piece Ostomy System	A system that combines as a single, integrated unit the skin barrier surrounding the stoma and the pouch collecting the effluent
ostomy	A surgical procedure in which an opening for the passage of feces or urine is created through the abdominal wall in patients with decreased small intestine, colon, rectum or bladder function
pre‑market approval or PMA	Regulatory clearance to market a medical device; usually reserved for higher‑risk, Class III devices. The FDA will approve a PMA application if the application is found to have reasonable assurance that the device is safe and effective for its intended purpose
pre‑market clearance/510(k)	Regulatory process requiring the device be deemed as safe and effective as, or substantially equivalent to, a legally marketed device that is not subject to pre‑market approval (i.e. the "predicate" device)
skin barrier (wafer)	The adhesive‑backed barrier connecting to the ostomy pouch in either an integrated unit (one‑piece ostomy system) or as a separate piece (two‑piece ostomy system), which serves to secure the pouch to the body and surround the stoma opening, protecting the skin around the stoma from toxic effluent
Sponsors or equity sponsors	Refers to Nordic Capital and Avista Capital Partners
stoma	The end of a shortened intestine that is surgically brought to and protrudes slightly from the abdominal surface in an ostomy procedure; the stoma lacks both sensation and sphincter control, hence preventing the patient from controlling the intestinal effluent
Stomahesive ®	ConvaTec brand of proprietary skin adhesion technology for shorter‑term adhesion properties (i.e. 2‑ 4 days)
SUR‑FIT Natura® pouch system	ConvaTec's high‑performance two‑piece ostomy system that attaches via a plastic coupling mechanism that is snapped together, providing an audible click to let the user know it is secure. Compatible with ConvaTec Moldable Technology skin barriers, this system also offers closed‑end, drainable and urostomy pouches
Two‑Piece Ostomy System	Ostomy system which separate adhesive bodyside wafers and connecting pouches; includes both closed‑end, drainable and urostomy pouches
urostomy	A surgically created opening in the abdominal wall to divert urine to the exterior. This can be done by either diverting, using a part of the urinary tract or via a loop of the ileum
urostomy pouches	Ostomy pouches collecting urine only, and which possess a special valve or spout which adapts to either a leg bag or night drain tube for overnight urine collection

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Condensed Consolidated Financial Statements of ConvaTec Healthcare B S.à.r.l. and Subsidiaries (the "Company") (Unaudited)

ConvaTec Healthcare B S.à.r.l. and Subsidiaries
Condensed Consolidated Balance Sheets
(in Millions, except share and per share data)
(Unaudited)

	As of June 30, 2015	As of December 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	$ 241.1	$ 234.0
Receivables, net of allowances of $46.9 in 2015 and $47.0 in 2014	253.1	241.9
Inventories	241.1	250.1
Prepaid expenses and other current assets	53.5	43.4
Total Current Assets	788.8	769.4
Property, plant and equipment, net	259.0	263.7
Goodwill	842.2	973.2
Intangible assets, net	1,814.2	1,893.2
Other assets	93.0	95.2
Total Assets	**$ 3,797.2**	**$ 3,994.7**
Liabilities and Stockholder's Deficit		
Current Liabilities:		
Accounts payable	$ 89.9	$ 80.3
Short-term portion of long-term debt	55.8	43.7
Accrued expenses and other current liabilities	194.7	220.9
Total Current Liabilities	340.4	344.9
Long-term debt	2,607.7	2,685.8
Mandatorily redeemable preferred equity certificates	1,437.6	1,560.2
Accrued preferred equity certificates interest	1,249.4	1,284.7
Deferred income taxes	260.9	244.6
Other liabilities	48.4	49.1
Total Liabilities	5,944.4	6,169.3
Commitments and contingencies (Note 14)		
Stockholder's Deficit:		
Preferred stock- €1 ($1.25) par value as of June 30, 2015 and December 31, 2014; 20,000 shares issued and outstanding at June 30, 2015 and December 31, 2014	—	—
Common stock- €1 ($1.25) par value as of June 30, 2015 and December 31, 2014; 112,157,883 shares issued and outstanding at June 30, 2015 and December 31, 2014	140.7	140.7
Retained deficit	(2,808.4)	(2,657.1)
Accumulated other comprehensive income (net of tax)	520.5	341.8
Total Stockholder's Deficit	(2,147.2)	(2,174.6)
Total Liabilities and Stockholder's Deficit	**$ 3,797.2**	**$ 3,994.7**

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

ConvaTec Healthcare B S.à.r.l. and Subsidiaries
Condensed Consolidated Statements of Operations
(in Millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Net sales	**$ 408.1**	**$ 445.0**	**$ 802.5**	**$ 874.3**
Cost of goods sold	196.1	204.4	386.1	416.5
Gross profit	**212.0**	**240.6**	**416.4**	**457.8**
Selling and marketing expenses	87.8	103.6	175.0	202.8
General and administrative expenses	50.6	47.2	98.2	102.1
Research and development expenses	11.4	8.8	20.5	16.5
Operating income	**62.2**	**81.0**	**122.7**	**136.4**
Interest expense, net	100.3	115.0	201.9	230.1
Foreign exchange loss	4.1	10.4	34.5	11.9
Other expense, net	0.2	0.1	0.6	0.2
Loss on extinguishment of debt	26.9	—	26.9	—
Loss before income taxes	(69.3)	(44.5)	(141.2)	(105.8)
Provision for income taxes	7.6	8.1	10.1	17.4
Net loss	**$ (76.9)**	**$ (52.6)**	**$ (151.3)**	**$ (123.2)**

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

ConvaTec Healthcare B S.à.r.l. and Subsidiaries
Condensed Consolidated Statements of Comprehensive (Loss) Income
(in Millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Net loss	$ (76.9)	$ (52.6)	$ (151.3)	$ (123.2)
Foreign currency translation, including a tax benefit of $12.8 and a tax expense of $0.9 for the three months ended June 30, 2015 and 2014, respectively, and a tax expense of $13.6 and $0.6 for the six months ended June 30, 2015 and 2014, respectively.	(53.4)	25.3	178.3	23.9
Other	(0.1)	0.1	0.4	0.1
Total Comprehensive (Loss) Income	**$ (130.4)**	**$ (27.2)**	**$ 27.4**	**$ (99.2)**

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

ConvaTec Healthcare B S.à.r.l. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in Millions)
(Unaudited)

	Six Months Ended June 30,	
	2015	**2014**
Cash flows from operating activities:		
Net loss	$ (151.3)	$ (123.2)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	89.7	96.6
Income taxes	5.0	8.3
Foreign exchange net losses on financing activities	36.5	11.1
Non-cash interest expense	67.1	86.6
Amortization and write-off of deferred financing fees and original issue discount	5.7	5.9
Loss on extinguishment of debt	26.9	—
Share-based compensation	0.9	3.9
Other	0.3	0.7
Change in operating assets and liabilities:		
Receivables, net	(22.9)	3.4
Inventories	(4.5)	(15.9)
Prepaid expenses and other assets	(5.9)	(1.6)
Accounts payable and accrued expenses	(8.5)	(38.7)
Other liabilities	1.7	(0.2)
U.S. and foreign income taxes	(6.6)	(7.9)
Other, net	(8.8)	(20.9)
Net cash provided by operating activities	**25.3**	**8.1**
Cash flows from investing activities:		
Acquisitions, net of cash acquired	—	(42.5)
Purchases of property, plant and equipment and capitalized software	(12.8)	(23.5)
Other, net	(1.4)	(0.3)
Net cash used in investing activities	**(14.2)**	**(66.3)**
Cash flows from financing activities:		
Issuance of long-term debt, net of discount	1,649.9	—
Repayments of long-term debt	(1,622.7)	(73.8)
Payments of deferred financing fees	(22.9)	—
Net cash provided by (used in) financing activities	**4.3**	**(73.8)**
Effect of exchange rate changes on cash and cash equivalents	**(8.3)**	**0.2**
Net increase (decrease) in cash and cash equivalents	**7.1**	**(131.8)**
Cash and cash equivalents at beginning of the period	**234.0**	**271.4**
Cash and cash equivalents at end of the period	**$ 241.1**	**$ 139.6**
Supplemental cash flow information		
Income taxes paid	$ 11.5	$ 16.5
Interest paid	$ 128.0	$ 135.6
Non-cash investing activities:		
Accrued capital expenditures included in accounts payable	$ 6.2	$ 1.4

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

1. Business Description

The Company develops, manufactures and markets innovative medical technologies, in particular products for ostomy management, advanced chronic and acute wound care, continence care, sterile single-use medical devices for hospitals, and infusion sets used in diabetes treatment infusion devices. Principal brands include Natura®, SUR-FIT®, Esteem®, AQUACEL®, DuoDERM®, Flexi-Seal®, and Unomedical. These products are marketed worldwide, primarily to hospitals, medical professionals, and medical suppliers. The Company relies on an internal sales force, and sales are made through various distributors around the world. The Company manufactures these products in the United States ("U.S."), the United Kingdom ("U.K."), the Dominican Republic, Denmark, Slovakia, Mexico, Belarus, and Malaysia. The Company, through its wholly owned subsidiary, 180 Medical Holdings, Inc. ("180 Medical"), also distributes disposable, intermittent urological catheters to customers in the U.S.

2. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements (the "unaudited Condensed Consolidated Financial Statements") have been prepared by the Company in U.S. dollars and in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim reporting, which do not conform in all respects to the requirements of U.S. GAAP for annual financial statements. Accordingly, these condensed notes to the unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements and notes thereto prepared in accordance with U.S. GAAP that are contained in the Company's Annual Report for the year ended December 31, 2014 (the "2014 Annual Report"). The unaudited Condensed Consolidated Financial Statements have been prepared using accounting policies that are consistent with the policies used in preparing the Company's audited consolidated financial statements for the year ended December 31, 2014. There have been no changes to the Company's significant accounting policies since December 31, 2014, except as described below under "Adoption of New Accounting Standards".

Basis of Consolidation

The unaudited Condensed Consolidated Financial Statements include all subsidiaries controlled by the Company. All intercompany balances, intra-division balances and transactions within the Company have been eliminated.

Use of Estimates

Preparing financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the unaudited Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results expected for full year.

On an ongoing basis, management reviews its estimates to ensure that these estimates appropriately reflect changes in the Company's business and new information as it becomes available. If historical experience and other factors used by management to make these estimates do not reasonably reflect future activity, the Company's results of operations and financial position could be materially impacted.

Adoption of New Accounting Standards

In July 2013, the Financial Accounting Standards Board ("FASB") issued new accounting guidance titled, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The provisions of the rule require an unrecognized tax benefit to be presented as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. Exceptions to this rule exist when the carryforward, or tax loss, is not available at the reporting date under the tax laws of the applicable jurisdiction to settle any additional income taxes or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purposes. When those circumstances are present, the unrecognized tax benefit should be presented

in the financial statements as a liability and should not be combined with deferred tax assets. The new financial statement presentation provisions relating to this update are prospective and effective for interim and annual periods beginning after December 15, 2014, with early adoption permitted. As this standard impacts presentation requirements only, the adoption of this guidance did not have a material impact on the Company's unaudited Condensed Consolidated Financial Statements.

In March 2013, the FASB issued updated guidance titled, *Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*. Under the new guidance, an entity must recognize cumulative translation adjustments in earnings when it ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets resided. However, when an entity sells either a part or all of its investment in a consolidated foreign entity, an entity is to recognize cumulative translation adjustments in earnings only if the parent no longer has a controlling financial interest in the foreign entity as a result of the sale. In the case of sales of an equity method investment that is a foreign entity, a pro rata portion of cumulative translation adjustments attributable to the equity method investment are to be recognized in earnings upon sale of the equity method investment. In addition, cumulative translation adjustments are to be recognized in earnings upon a business combination achieved in stages such as a step acquisition. The amendments are effective prospectively for reporting periods beginning after December 15, 2014. The adoption of this guidance did not have a material impact on the Company's unaudited Condensed Consolidated Financial Statements.

Recently Issued Accounting Standards, Not Adopted as of June 30, 2015

In May 2014, the FASB issued new guidance titled, *Revenue from Contracts with Customers (Topic 606)* and the International Standards Board ("IASB") has issued IFRS 15, *Revenue from Contracts with Customers*. The issuance of these documents completes the joint effort by the FASB and the IASB to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and IFRS. The new guidance affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This guidance will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The FASB recently voted to defer this standard's effective date for one year. For nonpublic entities, the amendments are now effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Early adoption is permitted as of the following: (i) annual reporting periods beginning after December 15, 2016, including interim periods or (ii) annual reporting periods beginning after December 15, 2016, and interim periods within annual reporting periods beginning one year after the annual reporting period of initial application of the new standard. The Company continues to assess the new standard, as well as amendments to the standard that have been proposed by FASB, and has not yet determined the adoption date or the impact to the Company's unaudited Condensed Consolidated Financial Statements.

In February 2013, the FASB issued guidance titled, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*. The new standard provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements, for which the total amount of the obligation is fixed at the reporting date. Examples of obligations within the scope of this guidance include debt arrangements, settled litigation and judicial rulings and other contractual obligations. The standard is effective for fiscal years ending after December 15, 2014 and interim and annual periods thereafter. The guidance should be applied retrospectively to all prior periods presented, for those obligations that exist at the beginning of the fiscal year of adoption. The Company does not expect the adoption of this new guidance to have a material impact on the Company's unaudited Condensed Consolidated Financial Statements.

In April 2015, the FASB issued guidance titled, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt, consistent with the presentation of a debt discount. The guidance is effective for fiscal years beginning after December 15, 2015, and interim periods beginning after December 15, 2016. Early application is permitted. The adoption of this guidance, which will be applied retrospectively, will not have a material impact on the Company's unaudited Condensed Consolidated Financial Statements, as it will impact balance sheet presentation only.

In July 2015, the FASB issued guidance titled, *Inventory (Topic 330): Simplifying the Measurement of Inventory* which requires inventory to be measured at the lower of cost and net realizable value, thereby simplifying the current guidance under which

(in Millions, except share data)

an entity must measure inventory at the lower of cost or market. The guidance defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early application is permitted and the guidance should be applied prospectively as of the beginning of an interim or annual reporting period. The Company is evaluating the impact of adoption of this guidance on its unaudited Condensed Consolidated Financial Statements.

3. Acquisitions

In accordance with the Company's business strategy to selectively pursue strategic and complementary acquisitions, the Company has acquired the business, as described below. The acquisition is included in the unaudited Condensed Consolidated Financial Statements from the acquisition date.

On January 1, 2014, the Company through its subsidiary, 180 Medical, acquired all of the voting interest in Symbius Medical, LLC ("Symbius"), a national home medical supply company for a total consideration of $44.0 million. Of the consideration paid, $3.5 million was initially funded into escrow, primarily to satisfy potential future indemnity obligations. Since the acquisition date, $1.5 million was released from escrow, reducing the escrow balance to $2.0 million as of June 30, 2015. The escrow balance is included in Prepaid expenses and other current assets with a corresponding liability in Accrued expenses and other current liabilities in the Company's unaudited Condensed Consolidated Balance Sheets. Symbius provides urological and other medical supplies nationally, as well as durable medical equipment on a regional basis. The addition of Symbius extended the Company's ability to serve customers directly.

The transaction has been accounted for in accordance with the acquisition method of accounting. The purchase price allocation of the acquisition resulted in the following:

	Amounts Recognized
Cash and cash equivalents	$ 1.3
Receivables, net[(a)]	4.7
Inventories, net	1.5
Prepaid expenses and other current assets	0.5
Property, plant and equipment, net	1.1
Intangible assets[(b)]	17.7
Goodwill[(c)]	21.3
Total assets acquired	48.1
Current liabilities	(4.1)
Total liabilities assumed	(4.1)
Net assets acquired	$ 44.0

(a) The fair value of trade receivables acquired was $4.7 million, with the gross contractual amount being $6.8 million, of which $2.1 million is expected to be uncollectible.

(b) The following table summarizes the fair values and associated useful lives assigned to intangible assets:

(in Millions, except share data)

	Weighted Average Useful Life	Amounts Recognized
Amortized Intangible Assets:		
Patents, Trademarks, and Licenses	3 years	$ 0.4
Contracts and Customer Relationships	4 years	13.0
Non-compete Agreements	5 years	2.7
		16.1
Unamortized Intangible Assets:		
Trade Names	Indefinite lived	1.6
Total Intangible Assets		**$ 17.7**

(c) The goodwill from the acquisition consists of $1.3 million arising from assembled workforce and the remaining $20.0 million from synergies and economies of scale which are expected from the combined operations of 180 Medical and Symbius. Goodwill of $16.7 million is deductible for tax purposes.

4. Related Parties

The Parent maintains an agreement with its equity sponsors (the "Management Agreement"), whereby the equity sponsors provide certain management advisory services. For services rendered by the equity sponsors, an annual fee of $3.0 million is payable in equal quarterly installments. The Company also pays other specified fees on behalf of the Parent, in accordance with the Management Agreement. During the six months ended June 30, 2015 and 2014, the Company paid (i) $1.5 million in contractual fees to the equity sponsors on behalf of the Parent for services rendered in both periods and (ii) an additional $0.6 million and $0.7 million for other fees, respectively. The accompanying unaudited Condensed Consolidated Balance Sheets include a receivable from the Parent recorded in Other assets in the amount of $28.9 million and $26.1 million as of June 30, 2015 and December 31, 2014, respectively. The receivable is inclusive of accrued interest on the outstanding balance.

Additionally, the Company loans money to Cidron Healthcare Limited ("Cidron") in connection with the repurchase of Management Equity Plan ("MEP") units. Interest on the loan accrues at 7.0% per annum. The outstanding loan and interest shall be due and payable at the option of Cidron. As of June 30, 2015 and December 31, 2014, the total outstanding loan amount of $16.4 million and $7.5 million, respectively, is recorded as equal and offsetting amounts within Stockholder's equity. See Note 12 titled "Employee Stock Benefit Plans" for further discussion regarding the MEP.

In connection with the Company's initial capitalization, the Company issued preferred equity certificates ("PECs") for an aggregate amount of €1,289.7 million. See Note 11 titled "Mandatorily Redeemable Preferred Equity Certificates" for further discussion.

5. Restructuring

In 2014, the Company incurred restructuring charges for business restructuring activities, primarily related to termination benefits for involuntary workforce reductions associated with closure of Company's operational headquarters in Skillman, New Jersey and the termination of certain executive management team members. All business activities performed at the facility in Skillman, New Jersey were transferred to other ConvaTec sites around the world. During the three and six months ended June 30, 2014, the Company recorded pre-tax charges of $2.9 million and $8.9 million, respectively, associated with these activities. These costs were recorded in General and administrative expenses in the unaudited Condensed Consolidated Statements of Operations.

(in Millions, except share data)

Restructuring charges and spending against liabilities associated with the activities described above were as follows:

	Employee Termination Liability	
	Six Months Ended June 30,	
	2015	2014
Balance at January 1	$ 4.7	2.3
Charges	—	8.9
Spending	(2.0)	(7.3)
Changes in estimate	(0.1)	—
Balance at June 30	$ 2.6	$ 3.9

Liabilities above are included in Accrued expenses and other current liabilities in the accompanying unaudited Condensed Consolidated Balance Sheets.

6. Income Taxes

For the three months ended June 30, 2015, the Company recorded a provision for income taxes of $7.6 million on a pre-tax loss of $69.3 million, and for the three months ended June 30, 2014, the Company recorded a provision for income taxes of $8.1 million on a pre-tax loss of $44.5 million. During the six months ended June 30, 2015, the Company recorded a provision for income taxes of $10.1 million on a pre-tax loss of $141.2 million, and for the six months ended June 30, 2014, the Company recorded a provision for income taxes of $17.4 million on a pre-tax loss of $105.8 million. The decrease in the provision for income taxes in 2015 as compared to 2014 is primarily the result of change in profit mix among jurisdictions with different tax rates. The Company's income tax benefit or expense is based on an annual effective tax rate forecast, including estimates and assumptions that could change during the year. The application of the requirements for accounting for income taxes in interim periods, after consideration of the valuation allowance, causes a significant variation in the typical relationship between income tax expense and pretax accounting income.

The Company conducts business in various countries throughout the world and is subject to tax in numerous jurisdictions. As a result of its business activities, the Company files a significant number of tax returns that are subject to examination by various Federal, state and foreign tax authorities. Tax examinations are often complex, as tax authorities may disagree with the treatment of items reported by the Company and may require several years to resolve. For federal income tax purposes, the statute of limitations is open for 2012 and onwards.

The Company applies the principles of the income tax accounting guidance that addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements as well as the determination of whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. In accordance with the aforementioned guidance, the Company evaluates all tax positions using a more-likely-than-not threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Differences between tax positions taken in a tax return and amounts recognized in the financial statements are recorded as adjustments to income taxes payable or receivable, or adjustments to deferred taxes, or both. The Company does not believe any of its uncertain tax positions will have a material adverse effect on the unaudited Condensed Consolidated Financial Statements, although an adverse resolution of one or more of these uncertain tax positions in any period could have a material impact on the results of operations for that period.

7. Inventories

The major categories of inventories as of June 30, 2015 and December 31, 2014 were as follows:

(in Millions, except share data)

	As of June 30, 2015	As of December 31, 2014
Finished goods	$ 157.6	$ 162.2
Work in process	28.5	27.3
Raw and packaging materials	55.0	60.6
Inventories	**$ 241.1**	**$ 250.1**

8. Goodwill

The change in the carrying value of goodwill in the six month period ended June 30, 2015 was as follows:

	Total
Balance as of January 1, 2015	$ 973.2
Changes in foreign exchange rates	(131.0)
Balance as of June 30, 2015	**$ 842.2**

There were no events or changes in circumstances in the first six months of 2015 leading to an impairment test.

9. Intangible Assets, Net

The major components of intangible assets, net as of June 30, 2015 and December 31, 2014 were as follows:

	As of June 30, 2015			As of December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized Intangible Assets:						
Patents, trademarks, and licenses	$ 2,007.3	$ (768.2)	$ 1,239.1	$ 2,001.6	$ (710.1)	$ 1,291.5
Technology	234.9	(92.3)	142.6	238.8	(86.9)	151.9
Capitalized software	80.3	(55.4)	24.9	79.8	(52.6)	27.2
Contracts and customer relationships	238.3	(70.8)	167.5	246.4	(65.9)	180.5
Non-compete agreements	5.7	(3.0)	2.7	5.7	(2.5)	3.2
Trade names	4.8	(1.3)	3.5	4.8	(1.1)	3.7
Unamortized Intangible Assets:						
Trade names	233.9	—	233.9	235.2	—	235.2
Total intangible assets, net	**$ 2,805.2**	**$ (991.0)**	**$ 1,814.2**	**$ 2,812.3**	**$ (919.1)**	**$ 1,893.2**

Amortization expense related to intangible assets was recorded as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Cost of goods sold	$ 32.1	$ 33.7	$ 64.1	$ 67.2
General and administrative expenses	5.1	5.6	10.4	11.2
Total amortization expense	**$ 37.2**	**$ 39.3**	**$ 74.5**	**$ 78.4**

(in Millions, except share data)

Expected aggregate amortization expense for each of the five succeeding years ending December 31 is as follows:

	2015	2016	2017	2018	2019
Amortization expense	$ 75.1	$ 150.0	$ 149.6	$ 146.7	$ 145.6

10. Long – Term Debt

A summary of the Company's consolidated long-term debt as of June 30, 2015 and December 31, 2014, respectively, is outlined in the table below:

	Maturity Date	As of June 30, 2015	As of December 31, 2014
Credit Facilities Agreement[1]:			
Revolving Credit Facility	June 2020[3]	$ —	$ —
U.S. Dollar Term Loans	June 2020[3]	800.0	770.5
Euro Term Loans	June 2020[3]	841.6	550.7
Original Issue Discount ("OID")		(2.0)	(2.3)
Credit Facilities, net of discount		1,639.6	1,318.9
Secured Notes and Senior Notes:			
7.375% Secured Notes[2]		—	362.9
10.5% U.S. Dollar Senior Notes	December 2018	745.0	745.0
10.875% Euro Senior Notes	December 2018	278.7	302.5
Capital Lease Obligations		0.2	0.2
		2,663.5	2,729.5
Less: current portion		55.8	43.7
Total Long-Term Debt		**$ 2,607.7**	**$ 2,685.8**

(1) As further described below, the Credit Facilities Agreement, as amended, consists of (i) U.S. Dollar and Euro term loans, (ii) a revolving credit facility, and (iii) incremental unfunded term facilities (collectively, the "Credit Facilities").

(2) On June 15, 2015, the Company redeemed all of its outstanding €300.0 million ($338.5 million) aggregate principal amount of 7.375% senior secured notes due December 15, 2017 (the "Secured Notes") for €322.1 million ($363.4 million), including a call premium of €11.1 million ($12.5 million), plus accrued and unpaid interest, and satisfied and discharged the Secured Notes indenture. In the three months ended June 30, 2015, the Company recognized a loss on extinguishment of debt of $26.9 million, in the aggregate, of which $16.6 million was recognized in connection with the redemption of the Secured Notes.

(3) The Credit Facilities will mature on June 15, 2020, provided that such date will be accelerated to (i) September 15, 2018 if more than 10% of the principal amount of the Senior Notes (as defined below) remain outstanding on such date or (ii) October 15, 2018 if more than 10% of the Senior Payment-in-kind Notes ("PIK Notes") remain outstanding on such date. Refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations —Presentation of Financial Information and Reconciliation to the Parent's Financial Statements" within this Quarterly Report for further information related to the PIK Notes.

The Company's Credit Facilities and indentures related to its Senior Notes contain customary covenants, including, among other things, covenants that restrict the Company's and its subsidiaries abilities to: (i) incur or guarantee additional indebtedness and issue certain preferred stock; (ii) create or incur liens; (iii) make certain payments, including dividends or other distributions, prepay or redeem subordinated debt or equity; (iv) make certain investments; (v) create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to, and on the transfer of assets; (vi) sell, lease or transfer certain assets, including stock of restricted subsidiaries; (vii) engage in certain transactions with affiliates; and (viii) consolidate or merge with other entities.

The Company's Credit Facilities also contain a financial covenant, various customary affirmative covenants and specified events of default. The Company's indentures related to its Senior Notes also contain certain customary affirmative covenants and specified events of default.

As of June 30, 2015, the Company was in compliance with all financial covenants associated with the Company's outstanding debt.

Credit Facilities

On June 15, 2015, the Company entered into Amendment No.4 to the Credit Agreement (the "Amended Credit Facility Agreement") to refinance the Company's previous U.S. Dollar and Euro term loans and the revolving credit facility (the "Refinancing"). The Amended Credit Facility Agreement provides for (i) U.S. Dollar and Euro term loans of $800.0 million (issued at an offering price of 99.75%, after adjustment for a discount of $2.0 million) and €755.0 million, respectively, (the "Term Loan Facilities"), (ii) a $200.0 million revolving credit facility (the "Revolving Credit Facility"), and (iii) incremental unfunded term facilities (the "Incremental Term Facilities"). The Term Loan Facilities amortize quarterly commencing September 30, 2015 at an annual rate of 1%. The Revolving Credit Facility does not amortize. The outstanding borrowings under the Term Loan Facilities are subject to a 1% prepayment premium of the aggregate principal amount, if any voluntary repayments or prepayments are made prior to December 15, 2015 to refinance, replace or substitute all or a portion of the term loans with indebtedness having a lower effective yield.

The net proceeds from the Refinancing were used to (i) repay amounts outstanding prior to the Refinancing under the U.S. Dollar term loans of $744.1 million and the Euro term loans of €436.4 million ($492.4 million), (ii) redeem all of the outstanding Secured Notes, as described above, and (iii) for general corporate purposes. In the three months ended June 30, 2015, in connection with the Refinancing, the Company recognized a loss on extinguishment of debt of $26.9 million, in the aggregate, of which $10.3 million was recognized with respect to the Credit Facilities and comprised of $9.1 million of unamortized deferred financing fees and $1.2 million of unamortized OID. In addition, the Company incurred fees of approximately $14.9 million, which were deferred and capitalized over the term of the Credit Facilities.

The borrowing outstanding under the Term Loan Facilities denominated in U.S. Dollars and Euros were $800.0 million and €755.0 million ($841.6 million) at June 30, 2015 and $770.5 million and €455.2 million ($550.7 million) at December 31, 2014.

The Revolving Credit Facility of $200.0 million is available through its termination date in certain currencies at the borrower's option and is used to provide for ongoing working capital requirements, letters of credit, and general corporate purposes of the Company. The Revolving Credit Facility allows for up to $40.0 million of letter of credit issuances as well as $25.0 million for borrowings on same-day notice, referred to as the swingline loans. There were no borrowings outstanding under the Revolving Credit Facility as of June 30, 2015 or December 31, 2014. Letters of credit outstanding under the Revolving Credit Facility totaled $1.5 million and $1.3 million as of June 30, 2015 and December 31, 2014, respectively. Availability under the Revolving Credit Facility, after deducting the outstanding letters of credit totaled $198.5 million and $248.7 million as of June 30, 2015 and December 31, 2014, respectively.

The Incremental Term Facilities, as amended, may be available in one or more additional tranches of term loans or an increase to one or more tranches of existing term loans denominated in either U.S. Dollars and/or Euros or an increase to the commitments under the Revolving Credit Facility provided that a certain leverage ratio is not exceeded and the Company satisfies certain requirements, including: no default or event of default, minimum borrowing amounts of $15.0 million and a maturity date and weighted average life-to-maturity of each individual loan within the Incremental Term Facilities that is greater than the weighted average maturity date of the Term Loan Facilities. Additionally, should the yield on the Incremental Term Facilities exceed the yield on the Term Loan Facilities by more than 0.5%, then the yield on the Term Loan Facilities will automatically increase such that the yield on the Term Loan Facilities shall be 0.5% below the yield on the Incremental Term Facilities.

Borrowings and commitments under the Credit Facilities, including the Term Loan Facilities, are subject to full or partial mandatory prepayments from the proceeds of asset sales above a specified threshold, the issuance or incurrence of debt and from excess cash flow retained in the business. The amount and timing of the mandatory prepayments are subject to certain criteria. Prior to the Refinancing, during the second quarters of 2015 and 2014, the Company made mandatory prepayments of $43.6 million and $73.5 million, respectively, for excess cash retained in the business. In addition, in May 2015, the Company

also made principal payment of $4.1 million related to the Credit Facilities. At June 30, 2015, the Company estimated that it will make a mandatory prepayment of approximately $43.3 million in the second quarter of 2016, based on current projections, which is included in the Short-term portion of long-term debt on the unaudited Condensed Consolidated Balance Sheet. The estimated 2016 mandatory prepayment will be applied against the remaining quarterly installments due under the Term Loan Facilities, in accordance with the terms outlined in the Amended Credit facilities Agreement.

Borrowings under the Credit Facilities bear interest at either a Euro (EURIBOR) or U.S. Dollar (LIBOR) base rate, or an ABR. EURIBOR interest is associated with Term Loan borrowings denominated in Euros while Term Loan borrowings denominated in Dollars may, at the Company's option, be subject to LIBOR interest or ABR. Borrowings under the Revolving Credit Facility denominated in Euros may bear interest at either ABR or EURIBOR and borrowings denominated in any currencies other than Euros (including U.S. Dollars) may bear interest at either ABR or LIBOR. ABR, as defined in the Amended Credit Facilities Agreement, is the greater of (a) the Prime Rate, (b) the Federal Funds Effective Rate plus 0.50% and (c) the Eurodollar Rate for a one-month interest period plus 1.0%. The applicable margins for borrowing under the Term Loan Facilities are 3.25% with respect to both EURIBOR and LIBOR borrowings, and 2.25% with respect to ABR borrowings. The applicable margins for revolving borrowings are 3.75% with respect to EURIBOR and LIBOR borrowings and 2.75% with respect to ABR borrowings. LIBOR and EURIBOR are each subject to a 1.0% floor and ABR margin is subject to a floor of 2.0%. Each margin will step down by 25 basis points upon decreasing the Company's consolidated total net leverage ratio to 3.50 to 1.00 or less.

Borrowings under the Credit Facilities Agreement are secured by substantially all of the Company's assets. Any loan advances made under the Incremental Term Facilities will rank *pari passu* with the Term Loan Facilities and the Revolving Credit Facility.

Senior Notes

The Senior Notes consist of $745.0 million senior notes (the "U.S. Dollar Senior Notes") and €250.0 million ($278.7 million at June 30, 2015 and $302.5 million at December 31, 2014) senior notes (the "Euro Senior Notes") each due December 15, 2018 (collectively the "Senior Notes"). The U.S. Dollar Senior Notes and the Euro Senior Notes bear interest at the rate of 10.5% and 10.875% per annum, respectively, payable semi-annually on June 15 and December 15 of each year.

The Senior Notes may be prepaid and are subject to a premium if payment is made prior to December 15, 2016. Mandatory redemption of the Senior Notes is not required prior to their stated maturity dates. The Senior Notes are unsecured obligations of the Company and are guaranteed on a senior basis by the Company. They rank pari passu in right of payment with all of the Company's existing and future obligations that are not subordinated in right of payment to the Senior Notes.

The total capitalized deferred financing fees, net of accumulated amortization, were $28.9 million as of June 30, 2015. Deferred financing fees are included in Other assets in the accompanying unaudited Condensed Consolidated Balance Sheets and are being amortized to interest expense over the terms of the underlying borrowings. Total amortization expense related to deferred financing fees amounted to $2.2 million and $2.6 million for the three months ended June 30, 2015 and 2014, respectively. Total amortization expense related to deferred financing fees amounted to $4.8 million and $5.2 million for the six months ended June 30, 2015 and 2014, respectively.

Accrued interest related to the Company's outstanding debt obligations was $8.0 million and $6.3 million as of June 30, 2015 and December 31, 2014, respectively, and is recorded in Accrued expenses and other current liabilities. Interest expense for the three months ended June 30, 2015 and 2014, associated with the Credit Facilities, Secured Notes and Senior Notes, was $46.3 million and $51.7 million, respectively. Interest expense for the six months ended June 30, 2015 and 2014, associated with the Credit Facilities, Secured Notes and Senior Notes, was $93.4 million and $103.7 million, respectively. The weighted average interest rate for borrowings under the Company's outstanding debt obligations was 7.1% and 7.0% for the six months ended June 30, 2015 and 2014, respectively.

The aggregate maturities of debt obligations as of June 30, 2015 for each of the five succeeding years ending December 31 and thereafter are as follows:

(in Millions, except share data)

2015	$ 8.2
2016	47.6
2017	—
2018	1,023.7
2019	—
Thereafter	1,586.0
Total long-term debt	**$ 2,665.5**

11. Mandatorily Redeemable Preferred Equity Certificates

In connection with the Company's initial capitalization, the Company issued Series 1, 2 and 3 PECs for an aggregate amount of €1,289.7 million. The PECs are mandatorily redeemable by the Company in 2047 or upon liquidation (which entails voluntary or involuntary liquidation, insolvency, dissolution, or winding up of the affairs of the Company), or the Company has the option to voluntarily redeem any or all of the PECs into cash, equity shares, new PECs or property that have an aggregate fair market value equal to the face value plus accrued unpaid dividends. The Company shall also redeem part or all of the PECs, if prior to the maturity date, part or all of the amounts that the Company lent to a subsidiary from the proceeds of these PECs are paid back by the subsidiary. If only part of the intercompany obligation is paid back by the subsidiary, then the PECs will be redeemed at an amount equal to lesser of (a) the pro rata portion of nominal principal and yield used to finance that portion of the subsidiary's obligation, or, (b) the maximum portion of these PECs that may be prepaid from the net proceeds from the subsidiary. The PECs can only be redeemed to the extent the Company will not become insolvent after making such payment. The PECs have been classified as debt as the PEC holders control a majority of the board of directors and, therefore, control the redemption rights. Further, under Luxembourg law, the PECs are considered debt instruments.

PECs have priority over the common and preferred stock in the distribution of dividends. PECs are entitled to interest equivalent ranging from approximately 7% to 9% of the par value per annum on a cumulative basis. PEC interest accrues monthly and compounds on an annual basis. The PECs, which include current and non-current accrued interest, were $2,721.2 million (€2,441.2 million) and $2,879.1 million (€2,379.9 million) at June 30, 2015 and December 31, 2014, respectively.

The following table presents the current and non-current portion of accrued PECs interest recorded in both U.S. Dollar and Euro as of June 30, 2015 and December 31, 2014:

	As of June 30, 2015		As of December 31, 2014	
Current[(a)]	$ 34.2	€ 30.7	$ 34.2	€ 28.3
Non-current[(b)]	1,249.4	1,120.8	1,284.7	1,061.9
Total accrued PEC interest	**$ 1,283.6**	**€ 1,151.5**	**$ 1,318.9**	**€ 1,090.2**

(a) Included in Accrued expenses and other current liabilities in the unaudited Condensed Consolidated Balance Sheets.

(b) Included in Accrued preferred equity certificates interest in the unaudited Condensed Consolidated Balance Sheets.

Total interest expensed during the three months ended June 30, 2015 and 2014 was $51.6 million (€46.6 million) and $60.6 million (€44.2 million), respectively, and during the six months ended June 30, 2015 and 2014 was $103.6 million (€92.7 million) and $120.7 million (€88.1 million), respectively, which was classified as Interest expense in the accompanying unaudited Condensed Consolidated Statements of Operations.

The PECs allow for distribution of interest to the extent permitted by the Company's restricted payment capacity, a specified leverage ratio and other provisions outlined in its debt agreements. During the six months ended June 30, 2015 and 2014, the Company made a payment of $37.1 million and $31.5 million, respectively, of accrued PEC interest to the Parent. The Company anticipates that it will fund semi-annual cash interest payments to the Parent going forward. The cash interest payments are incremental to the interest due on the Company's long-term debt and will reduce its operating cash flows going forward. The timing of the Company's cash interest payments to the Parent will be on or around January 15 and July 15, and commenced

on January 15, 2014. On July 13, 2015, the Company made an additional payment of $37.1 million of accrued PEC interest to the Parent. The variance between the cumulative balances of accrued interest and cumulative interest expensed is due to fluctuations in the foreign currency exchange rates. PECs are subordinate to borrowings under the Credit Facilities and Senior Notes, as well as present and future obligations of the Company whether secured or unsecured. The holders of the PECs do not have voting rights in respect to the Company by reason of ownership of the PECs. The Series 3 PECs cannot be transferred without prior consent of the Company or pursuant to the Company's third party debt agreements.

12. Employee Stock Benefit Plans

The Company's Parent grants stock-based compensation to employees under the Annual Equity Program ("AEP"), the MEP and the Management Incentive Plan ("MIP"). The fair value of each award is estimated on the date of grant using the Black-Scholes pricing model. Expected volatilities are based on historical volatilities of comparable companies. The risk-free interest rate is based on the weighted average of U.S. Treasury strip rates over the contractual term of the awards. The expected term of the awards granted represents the period of time that awards are expected to be outstanding.

Annual Equity Program

The AEP allows for the issuance of units ("AEP Units") to employees for shares of common stock. The Company's Parent is authorized to grant up to 1.0 million AEP Units to purchase common stock under the AEP, representing 2.0% of the common stock in the Company's Parent. AEP Units are granted at the allocable fair market value of a share of stock on the date of grant and vest upon a liquidity event, as such no share-based compensation has been recognized for the AEP units during the three and six months ended June 30, 2015 and 2014, respectively.

Management Executive Plan

The MEP allows for the issuance of units ("MEP Units") by the Company's Parent to employees for shares of common stock in the Parent. The Company's Parent is authorized to grant up to 1.0 million MEP Units to purchase common stock under the MEP, representing 8.0% of the common stock in the Company's Parent. MEP Units are granted at the allocable fair market value of a share of stock on the date of grant and vest over five years or upon a liquidity event.

Management Incentive Plan

The MIP allows for the issuance of units ("MIP Units") to employees for common stock and PECs of the Company's Parent. The Company's Parent is authorized to grant up to 3.0 million MIP Units under the Plan, representing 0.3% of the common stock and 0.4% of the PECs in the Company's Parent. MIP Units are granted at the allocable fair market value of a share of stock or PECs on the date of grant and vest upon a liquidity event, as such no share-based compensation has been recognized for the MIP Units during the three and six months ended June 30, 2015 and 2014, respectively.

During the six months ended June 30, 2015 there were 70,500 AEP units, 68,700 MEP and zero MIP units granted. The Company recognized total share-based compensation expense of $0.5 million and $1.2 million for the three months ended June 30, 2015 and 2014, respectively, and $0.9 million and $3.9 million for the six months ended June 30, 2015 and 2014, respectively. The decrease in share-based compensation expense for both periods, the three and six months ended June 30, 2015 was driven by the decline in the fair value of the MEP units and the impact of vesting in 2014 related to certain MEP units.

13. Fair Value Measurements

The Company applies the guidance related to fair value measurements for its financial assets and liabilities reported or disclosed at fair value. In addition, the Company applies certain provisions of the standard relating to its non-financial assets and liabilities recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

Fair value measurements are estimated based on valuation techniques and inputs categorized as follows:

- Level 1 — Quoted market prices in active markets for identical assets or liabilities;

(in Millions, except share data)

- Level 2 — Significant other observable inputs (e.g., quoted prices for similar items in active markets, quoted prices for identical or similar items in markets that are not active, inputs other than quoted prices that are observable such as interest rate and yield curves, and market-corroborated inputs); and
- Level 3 — Unobservable inputs in which there is a little or no market data and that are financial instruments whose values are determined using discounted cash flow methodologies, pricing models, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following fair value hierarchy table presents the components and classification of the Company's financial assets and liabilities measured at fair value as of June 30, 2015 and December 31, 2014:

	As of June 30, 2015				As of December 31, 2014			
	Carrying Value	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3
Assets:								
Marketable securities	$ 0.3	$ 0.3	$ —	$ —	$ 0.9	$ 0.9	$ —	$ —

There were no transfers between Level 1 and Level 2 during the six months ended June 30, 2015.

Liabilities not Measured at Fair Value

The carrying value of long-term debt is recorded at amortized cost. At June 30, 2015, the estimated fair value of the Company's Senior Notes approximated $1,083.1 million, in the aggregate. At December 31, 2014, the estimated fair value of the Company's Secured Notes and Senior Notes approximated $1,485.4 million, in the aggregate. The Company's long-term debt under the Credit Facilities Agreement approximated fair value. The fair values were estimated using the quoted market prices and current interest rates offered for similar debt issuances. Long-term debt is categorized as Level 2 under the fair value hierarchy. See Note 10 titled “Long - Term Debt” for the carrying values of the individual components of the Company’s long-term debt.

14. Commitments and Contingencies

Legal Proceedings

In the ordinary course of business, the Company and certain of its subsidiaries are subject to various legal proceedings and claims, including, for example, product liability matters, environmental matters, employment disputes, disputes on agreements and other commercial disputes. In addition, the Company operates in an industry susceptible to patent infringement claims. At any given time, in the ordinary course of business, the Company has been in the past and may continue to be involved as either a plaintiff or defendant in patent infringement actions. If a third party’s patent infringement claim were to be determined against the Company, the Company might be required to make significant royalty or other payments or might be subject to an injunction or other limitation on its ability to manufacture or distribute one or more products. If a patent owned by or licensed to the Company were to be determined to be invalid or unenforceable, the Company might be required to reduce the value of the patent on the Company’s Condensed Consolidated Balance Sheets and to record a corresponding charge, which could be significant in amount. There are various lawsuits, claims, proceedings and investigations which are currently pending involving the Company.

In accordance with the accounting guidance related to contingencies, the Company records accruals for loss contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. Legal costs related to litigation matters are expensed as incurred.

The Company believes that it has adequately accrued for all legal matters or, for matters not requiring accrual, believes that it will not have a material adverse impact on the results of operations, financial position or cash flows based on information currently available. However, litigation is inherently unpredictable and, although the Company believes that its accruals are

adequate and/or that it has valid defenses in these matters, unfavorable resolutions could occur, which could materially and adversely impact the Company's results of operations or cash flows in a particular reporting period. In addition, based on the information available currently, the Company does not believe that any of these proceedings and claims would have a material adverse effect on its business, results of operations, financial condition and/or liquidity.

FDA Regulations

The Company is subject to regulation by the FDA under the Federal Food, Drug and Cosmetic Act ("FDCA") and other laws. The FDCA requires that medical devices introduced to the U.S. market, unless otherwise exempted, be the subject of either a premarket notification, known as a 510(k) clearance, or approval of premarket approval, known as a PMA application. Some of the Company's products may require approval of a PMA to be marketed in the U.S., while others may require a 510(k) clearance. Other products may be exempt from regulatory clearance or approval, but will still subject to regulation by FDA.

As a medical device manufacturer, the Company is required to register its facilities and list its products with the FDA. In addition, the Company is required to comply with the FDA's current good manufacturing practices for medical devices, known as the Quality System Regulation, ("QSR"), which requires that its devices be manufactured and records be maintained in a prescribed manner with respect to design and development, manufacturing, testing and control activities. The Company's manufacturing facilities are subject to periodic and occasional inspections by the FDA for compliance with the QSR which sometimes are unannounced. Further, the Company is required to comply with FDA requirements for labeling and promotion. For example, the FDA prohibits cleared or approved devices from being promoted for uncleared or unapproved uses, otherwise known as "off-label" promotion. There also are restrictions on the concurrent marketing of components that can be used to develop an assay.

Under the FDA medical device reporting regulations, the Company is required to report to the FDA information that a device has or may have caused or contributed to a death or serious injury or has malfunctioned in a way that would likely cause or contribute to death or serious injury if the malfunction of the device or one of a similar devices were to recur. If the Company fails to report these events to the FDA within the required timeframes, or at all, the FDA could take enforcement action against the Company. Any such adverse event involving the Company's products also could result in future voluntary corrective actions, such as recalls or customer notifications, or agency action, such as inspection or enforcement action. Any corrective action, whether voluntary or involuntary, as well as defending itself in a lawsuit, will require the dedication of the Company's time and capital, distract management from operating the business, and may harm the Company's reputation and financial results.

If the FDA believes the Company is not in compliance with applicable laws or regulations, the agency can institute a wide variety of enforcement actions, ranging from issuance of warning letters or untitled letters; fines and civil penalties; unanticipated expenditures to address or defend such actions; delays in clearing or approving, or refusal to clear or approve, products; withdrawal or suspension of approval of products or those of third-party suppliers by the FDA or other regulatory bodies; product recall or seizure; orders for physician notification or device repair, replacement or refund; interruption of production; operating restrictions; injunctions; and criminal prosecution. The Company has been subject to FDA enforcement actions in the past, as discussed below.

FDA Inspections and Warning Letters

On October 30, 2014 the FDA issued a Form FDA-483 at the conclusion of an inspection of the Osted, Denmark facility of Unomedical A/S, a ConvaTec company. A Form 483 is a list of inspectional observations issued by the FDA. The Form 483 identified three inspectional observations covering issues related to design validation and the facility's corrective and preventive action processes. Unomedical carefully reviewed the Form FDA-483 observations and submitted a written response to the FDA which identified the actions being taken to address the FDA's observations. In March 2015 the Company received a letter from the FDA indicating they were satisfied with its responses to the inspectional observations and that no further regulatory action was justified. They also stated they would follow up at their next scheduled inspection to ensure these were corrected and verified.

On June 24, 2014, the FDA issued a Warning Letter to Unomedical, a ConvaTec company, resulting from an inspection of the Michalovce, Slovakia manufacturing plant in February 2014. The Warning Letter identified certain violations of FDA regulations relating to manufacturing processes and controls at the facility. Following the February 2014 inspection, the

Company took prompt action to correct the violations the FDA had identified, and provided updates, including documented evidence of corrective actions, to the FDA in April and June 2014. The Company held a follow-up meeting with the Foreign Inspections office of the FDA in September 2014 during which the Foreign Inspections office confirmed that it had no further questions. The Company is still in the process of refining and further improving its corrective actions. The Company hosted a follow-up inspection from the FDA in January 2015, which resulted in a two-observation Form 483, to which the Company responded and subsequently corrected. In July 2015, the Company received a letter from the FDA indicating the Agency was satisfied with the Company's responses to the inspectional observations and that no further regulatory action was justified. The FDA also stated that it would follow up at the next scheduled inspection to ensure that the observations had been corrected and verified. The letter also formally closed out the Warning Letter from June 24, 2014.

The Company previously received a Warning Letter from the FDA dated May 24, 2013 resulting from a routine inspection at its Skillman, New Jersey facility. The Warning Letter identified certain violations of FDA regulations relating to complaint handling and other quality management system elements at this facility. While the Skillman facility has since been closed as part of office space consolidation, the Company has added resources and updated its quality system to address the FDA's concerns. For example, the Company has employed resources at its Greensboro site for complaint handling and at the Deeside Design Center in the U.K. for its R&D activities. Due to this expansion, the Company has opened an additional office facility in Greensboro to serve as a new Global Quality, Regulatory and Clinical headquarters. The Company continues to engage third-party consultants to assist in the implementation of remediation plans to effectively implement its corrective actions, and continues to work closely and cooperatively with the FDA. The Company agreed with the FDA to conduct a certification audit by the end of 2014, and such consultant-led certification audits were completed in December 2014 and submitted to the FDA. The Company believes these audits demonstrated significant progress in its remediation efforts. In June 2015, in a routine update to the FDA, the Company confirmed that it has completed remediation of the affected processes from the May 24, 2013 Warning Letter and considered the associated Form 483 observations closed. The Company has not yet received confirmation of the close-out of this Warning Letter and the inspectional observations from the FDA.

While the Company is working with the FDA to address its concerns and remedy the violations identified in both Warning Letters and the Osted Form 483, it cannot guarantee that the FDA will agree that the corrective actions adequately address the FDA's concerns or that the FDA or other governmental authorities will not take further action in the future.

Corrections and Removals

The design, development, manufacture and sale of the Company's products involve an inherent risk of product liability or other claims by consumers and other third parties. The FDA and similar foreign governmental authorities have the authority to require the recall of commercialized products in certain instances. In the case of the FDA, the authority to require a recall must be based on an FDA finding that there is a reasonable probability that the device would cause serious injury or death. In addition, manufacturers may, under their own initiative, recall a product, including in situations in which a material deficiency in a device is found. A government-mandated or voluntary recall by the Company could occur as a result of component failures, manufacturing errors, design or labeling defects or other deficiencies and issues. Recalls of any of the Company's products would divert managerial and financial resources and have an adverse effect on the Company's financial condition and results of operations. The FDA requires that certain classifications of recalls be reported to the FDA within 10 working days after the recall is initiated. Companies are required to maintain certain records of recalls, even if they are not reportable to the FDA.

The Company has been in the past, and continues to be, subject to various product liability lawsuits, product recalls and requirements to issue field corrections related to its products due to manufacturing deficiencies, labeling errors or other safety or regulatory reasons. In July 2014, the Company announced the initiation of a voluntary global recall of its Flexi-Seal® CONTROL Fecal Management System as a result of the potential risk of harm associated with inconsistent performance of the product and certain related regulatory issues. The FDA classified this recall as a Class I recall, reflecting a determination that exposure to the device carries a reasonable probability of serious adverse health consequences, including death. The Company is working to finalize completion of all actions committed to the FDA in connection with the recall and have requested that the FDA formally close the recall. The Company is awaiting a response from the FDA. In 2014, the Company recorded expenses associated with this recall of $6.0 million in cost of goods sold in the Consolidated Statements of Operations. In October 2014, the Company became aware of an issue with its NicoFix Securement device and decided to carry out a voluntary recall of affected lots which is currently underway. The Company does not expect the costs associated with this recall to be significant.

The circumstances that lead to recalls and other field actions, as well as similar occurrences in the future, may be the subject of product liability claims due to allegations that use of the Company's products resulted in adverse health consequences. For example, in June 2013, Medtronic MiniMed, Inc. ("Medtronic"), issued a recall of certain infusion sets, including the Quick-Set® and Silhouette® infusion sets, which include P-Cap connectors designed by Medtronic and manufactured for Medtronic by Unomedical A/S for use with Medtronic insulin infusion pumps in diabetes care. Medtronic issued this recall due to a potential safety issue that can occur if insulin or other fluids come in contact with the inside of the tubing/P-Cap connector. This recall has resulted in new pending or threatened litigation against various Unomedical and ConvaTec entities (the latter of which had no involvement in the manufacture or sale of infusion sets). These lawsuits allege that the infusion sets are defective and have caused injuries or death to various plaintiffs. All of these cases also include claims against Medtronic, and allegations that their insulin pumps (which Unomedical does not make or sell) are defective. To the best of the Company's knowledge, as of this report date, approximately 16 product liability lawsuits had been filed. ConvaTec has sent a demand to Medtronic seeking indemnification for these lawsuits consistent with the terms of the agreements between them. To date, Medtronic has rejected this demand. The Company also carries product liability insurance, subject to a self-insured retention, and has notified the insurance carrier about these lawsuits. The lawsuits are all in their early stages, and at this point the Company is unable to predict the likelihood of an unfavorable outcome or estimate any potential loss.

The Company has initiated a voluntary recall of certain batches of its Steel cannula infusion set devices, including the Sure-T, Sure-T Paradigm, contact detach, contact, Sub Q, neria, neria detach, neria multi and thalaset models, due to an increase in reported needle breakage. The recall is currently limited to affected devices in Germany and certain other European countries, and in some other countries, such as the U.S., a Field Safety notification has been issued. Unomedical A/S has initiated the recall based on a determination that, in rare cases, the steel needle can break during use, thereby potentially interrupting the delivery of insulin or medication. While the reported failure rate was low, Unomedical A/S commenced the recall following discussions with regulatory authorities in Germany and in other affected countries. The Company views this recall as a precautionary measure and has not received any reports of death or serious injury resulting from a breakage of the needle and/or interruption of therapy.

Unomedical has also initiated a voluntary recall of its Suction Catheter devices after an increase in reported complaints of splitting of the connector portion. The recall has been initiated in Australia and the Czech Republic and is a precaution to ensure that distributed products are of the highest quality.

U.S. Department of Justice ("DOJ") Subpoena

ConvaTec, as a manufacturer, and one of its subsidiaries (180 Medical, Inc.), as a supplier, each received a subpoena from the United States Attorney's Office in Massachusetts ("USAO") in March 2014. The Company understands that the subpoenas are part of a broad industry investigation into the marketing and business practices of manufacturers and suppliers in the ostomy care, wound care, and continence/urology care markets. Both companies are cooperating fully with the government.

180 Medical, along with multiple manufacturers and suppliers in the ostomy care, wound care, and continence/urology care markets, also informally received a copy of an unsealed, first amended qui tam False Claims Act Complaint filed in U.S. District Court for the District of Massachusetts on November 20, 2014.

The amended complaint originates with a qui tam action filed by current and former Coloplast employees. The amended complaint generally alleges improper marketing and business practices of manufacturers and suppliers in the ostomy care, wound care, and continence/urology care markets, and seeks to recover treble damages sustained by, and civil penalties and restitution owed to, the U.S. as a result of allegedly illegal kickback schemes, illegal telephone solicitation campaigns, and deceptive sales campaigns designed to defraud Medicare to pay for medically unnecessary products and fraudulent billing schemes. There also are claims against four defendants, but not 180 Medical, for similar conduct related to the State of California's Medicaid program and, with respect to one defendant, the Minnesota whistleblower law.

The complaint was further amended on May 6, 2015. On May 22, 2015, at the request of all parties, the U.S. District Court stayed the case until July 19, 2015. The Court simultaneously granted the qui tam relators' (i.e., plaintiffs) request to file a second amended complaint, which the relators served upon all defendants on May 28, 2015. The second amended complaint did not add any new allegations against 180 Medical; two additional conspiracy counts were added, however, relating to all supplier-defendants' alleged submission of false claims. ConvaTec was not a named party in the second amended complaint. On July 20, 2015, all parties requested a further 60-day stay; the court approved this request, staying the case through September

21, 2015. On July 29, 2015, the government officially declined to intervene against 180 Medical in the matter, and the relators voluntarily dismissed 180 Medical. 180 Medical will therefore no longer be a defendant once the federal district court judge issues an order dismissing 180 Medical.

The Company is unable to predict what action, if any, might be taken in the future by the USAO against either the Company, its subsidiary, or its employees as a result of the matters that are the subject of the investigation. However, the government's decision not to intervene in the *qui tam* litigation against 180 Medical may indicate that no further action will be taken. In the event the Company's operations are nevertheless found to be violative of an applicable civil or criminal statute, the Company may be subject to civil and/or criminal fines and penalties, including possible exclusion from federal healthcare programs, and/or be required to enter into a corporate integrity or other settlement agreement with the government, any of which could have a material effect on its business. Because the USAO investigation is ongoing and in the early stages, the Company cannot reasonably estimate a range of possible losses.

Theft of Patient Data Litigation / HIPAA Matters

On or about September 24, 2014, a ConvaTec subsidiary, Symbius, received a request for information and documentation from the Department of Health and Human Services Office of Civil Rights ("OCR") in connection with a breach notice filed by the Company under the Health Insurance Portability and Accountability Act ("HIPAA") in July 2014. The letter noted potential violations of various HIPAA Privacy and Security Rule and Breach Notification Rule provisions. The breach involved the alleged February 2014 theft of protected health information of approximately 13,000 patients by five former Symbius employees, who left to work for a competitor (the "Competitor"). The Company became aware of the alleged theft in May 2014. Separately, Symbius sued the employees ("Employee Defendants"), and their employer in Arizona Superior Court for Maricopa County, Case No. CV-2014-006931. The case was subsequently removed to the United States District Court for the District of Arizona, Case No. 2:14-cv-01047-GMS. A preliminary injunction was entered prohibiting further use or disclosure of the patient data. Discovery is ongoing in that action. The Company posted notice on its website and sent individual notices to the affected individuals listed on the documents known to be in the possession of the Employee Defendants after the date of their separation from Symbius in July 2014. Information and documents responsive to the OCR letter were timely produced by the Company on November 10, 2014.

In March 2015, the Employee Defendants turned over information and documents during the course of discovery in the pending lawsuit, which for the first time disclosed a related breach circumstance of which the Company was previously unaware. The documents evidence that in May 2014, a then-current Symbius employee violated law and Company policies by emailing a spreadsheet containing 14,121 rows of patient data to the Employee Defendants, after they were hired by the Competitor. Upon becoming aware of this new related breach circumstance, the Company investigated and identified 800 uniquely affected individuals (who were not affected by the original February 2014 theft), and sent notifications to these individuals as required by law. The Company formally notified OCR about this related breach on April 21, 2015. In a letter dated July 7, 2015, OCR notified the Company that it has closed the case without further action.

Environmental Proceedings

The Company is a party to proceedings and other matters under various national, state, and local environmental laws, and from time to time incurs the costs of investigating and/or remediating contamination resulting from past industrial activity at current or former company sites, or at waste disposal or reprocessing facilities operated by third parties.

With respect to environmental matters for which the Company is responsible under various national, state, and local laws, the Company typically estimates potential costs based on information obtained from the U.S. Environmental Protection Agency, or counterpart state agencies, other national environmental agencies and/or studies prepared by independent consultants, including total estimated costs for the site and the expected cost-sharing, if any, with other "potentially responsible parties", and the Company accrues liabilities when they are probable and reasonably estimable. As of June 30, 2015, the Company does not expect to incur, and there have been no material costs for investigation and remediation for any sites for which it may be responsible, including liabilities under the U.S. Comprehensive Environmental Response, Compensation and Liability Act and for other remedial obligations.

The Company has been involved in certain lawsuits, claims, proceedings and investigations that are currently pending or have been concluded in the last three years. In accordance with the accounting guidance related to contingencies, the Company

records accruals for such contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. These matters involve intellectual property, commercial, or environmental, health and safety matters.

There can be no assurance that there will not be an increase in the scope of the pending matter or that any future lawsuits, claims, proceedings, or investigations will not be material. The Company continues to believe that during the next few years, the aggregate impact, beyond current reserves, of these other legal matters affecting it is not likely to be material to its results of operations and cash flows, or its financial condition and liquidity.

15. Subsequent Events

The Company has evaluated subsequent events through August 11, 2015.