ConvaTec

2016 Second Quarter Report

We exist to improve the lives of the people we touch

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Risk Factors

Investing in our Company involves risk. You should carefully consider the discussion of risk factors beginning on page 19 of our Annual Report for the year ended December 31, 2015, which is available on our website. Except as set forth below in connection with the recent vote by the United Kingdom ("U.K.") to leave the European Union ("E.U."), there have been no material changes since December 31, 2015 to the risk factors included in our Annual Report.

The vote by the U.K. to leave the E.U. could adversely affect the Company.

The U.K. held a referendum on June 23, 2016 on its membership in the E.U. A majority of U.K. voters voted to exit the E.U. (commonly referred to as "Brexit"), and while it is unclear if or when the U.K. will formally serve notice to the Council of the E.U. of its desire to withdraw, negotiations are expected to commence to determine the future terms of the U.K.'s relationship with the E.U., including the terms of trade between the U.K. and the E.U., and potentially other countries. The effects of Brexit will depend on any agreements the U.K. makes to retain access to E.U. markets. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace or replicate. Brexit could continue to adversely affect economic or market conditions in the U.K., Europe or globally and could contribute to instability in global financial markets, in particular until there is more certainty as to the outcome of the aforementioned decisions and negotiations.

In addition to sales within the U.K., the Company's U.K. subsidiaries sell products globally, including to other member states in the E.U. and the United States ("U.S.") and to the Company's central distributor in Switzerland. While the U.K. is expected to seek to negotiate its own trade agreements with the E.U., the U.S., Switzerland and elsewhere, there can be no guarantee it will be successful in doing so. Accordingly, exports from the U.K. may incur increased duties and tariffs following the U.K.'s exit from the E.U., or the Company may determine to reorganize its manufacturing and distribution channels to avoid such duties and tariffs, which could result in significant costs.

The Company's regulatory compliance costs may increase as a result of Brexit. In order to market its products in the E.U., the Company must receive a European regulatory marking, known as a "CE Mark", to signify compliance with applicable regulatory standards. The Company currently receives its CE Marks from the British Standards Institution ("BSI"), which the E.U. may cease to recognize as a certified body for the purposes of E.U. directives on product standards. Further, on exit from the E.U., the U.K. may decide to cease compliance with the E.U.'s new Medical Device Regulations that are expected to take effect in late 2016 and become applicable three years thereafter and which are the regulations governing the affixing of CE Marks on medical devices. Other regulatory regimes that may be affected by Brexit include rules regarding hazardous waste disposal, the transfer of patient data outside of the E.U. and certain employment regulations. Any changes to the aforementioned or other regulatory regimes could require the Company to comply with separate regimes in the U.K. and the E.U., or to develop new policies and procedures or reorganize its operations, any of which could increase the Company's compliance costs.

Many of the Company's patents are registered with the European Patent Office. Following the U.K.'s exit from the E.U., the Company may be required to register patents separately with the United Kingdom Intellectual Property Office, which could require significant additional expense.

The Company currently relies on certain E.U. withholding tax exemptions for intra-Company dividends. Going forward, the Company may not be able to benefit from these exemptions, including for intra-Company dividends paid to the Company. There are existing U.K. tax treaties that may require withholding taxes in some cases, and there can be no guarantee that these will be renegotiated by the U.K. following the U.K.'s exit from the E.U.

Brexit has led to a decrease in the value of sterling against the U.S. dollar, as well as general volatility in the currency exchange market. The relative strength of the U.S. dollar, if continued, could materially adversely affect the Company's results of operations as the Company prepares its financial statements in U.S. dollars but derives revenue in more than 100 countries, including from member countries of the E.U., as well as the U.K. Increased volatility in the currency exchange market as a result of Brexit could also materially adversely affect the Company's results of operations as the Company may be unable to implement adequate strategies to protect against currency exchange risk.

Any of the aforementioned possible effects of Brexit, and others that the Company cannot anticipate, could materially adversely affect the Company's business, prospects, financial condition or results of operations.

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 ("U.S. GAAP") for the interim period ended June 30, 2016 (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, 2015 (the "2015 Annual Report"). The 2015 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 19 of the 2015 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 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 & 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 June 2016, ConvaTec announced the appointment of Erik Zimmer as global head of our Ostomy Care franchise. In this global role, Mr. Zimmer succeeds Christian Hoengaard, who has been appointed Vice President and General Manager, U.S. Ostomy Care.

Erik Zimmer

Erik Zimmer is Vice President and General Manager of ConvaTec's Ostomy Care franchise. Mr. Zimmer joined the company in 2016 from Sebia, where he was Chief Operating Officer. His extensive international experience includes the U.S., Asia Pacific and Europe in executive positions of increasing responsibility with Abbott Laboratories, Abbott Diabetes Care, ConvaTec, and BioMérieux, prior to Sebia. He holds a Masters of Business Administration from the J.L. Kellogg School of Graduate Management at Northwestern University.

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, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net sales[(1)]	**$ 425.2**	**$ 408.1**	**$ 828.9**	**$ 802.5**
Cost of goods sold	211.3	196.1	430.3	386.1
Gross profit	**213.9**	**212.0**	**398.6**	**416.4**
Selling and marketing expenses	90.6	87.8	178.1	175.0
General and administrative expenses	80.4	50.6	128.1	98.2
Research and development expenses	9.9	11.4	20.2	20.5
Operating income	**33.0**	**62.2**	**72.2**	**122.7**
Interest expense, net	101.2	100.3	201.0	201.9
Foreign exchange	4.4	4.1	(27.1)	34.5
Other (income) expense, net	(0.2)	0.2	(1.3)	0.6
Loss on extinguishment of debt	—	26.9	—	26.9
Loss before income taxes	(72.4)	(69.3)	(100.4)	(141.2)
Provision for income taxes	10.7	7.6	23.0	10.1
Net loss	**$ (83.1)**	**$ (76.9)**	**$ (123.4)**	**$ (151.3)**

(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 costs 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, 2016 increased 5.3% on a constant exchange rate basis and 4.2% on a reported basis compared with the prior year period. Net sales for the six months ended June 30, 2016 increased 5.2% on a constant exchange rate basis and 3.3% on a reported basis compared with the prior year period. The primary exchange rate movement that impacted net sales for the three and six months ended June 30, 2016 was the movement of the British Pound Sterling compared to the U.S. Dollar. The average British Pound Sterling exchange rate was $1.435 for the three months ended June 30, 2016 (six months $1.434), compared to $1.533 for the three months ended June 30, 2015 (six months $1.524). 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, 2016 and 2015 and the percentage change on a reported and constant exchange rate basis:

($ in millions)	Three Months Ended June 30, 2016	2015	Change[2]	At constant	Six Months Ended June 30, 2016	2015	Change[2]	At constant
Net sales by franchise[1]								
Wound Therapeutics	$ 137.7	$ 129.7	6.2 %	7.5%	$ 269.0	$ 254.1	5.9 %	8.2%
Ostomy Care	128.7	129.1	(0.3)%	1.1%	249.8	252.1	(0.9)%	1.7%
Continence & Critical Care	92.1	85.4	7.8 %	8.9%	178.6	171.7	4.0 %	5.4%
Infusion Devices	66.7	63.9	4.4 %	4.3%	131.5	124.6	5.5 %	5.6%
Total net sales	**$ 425.2**	**$ 408.1**	**4.2 %**	5.3%	**$ 828.9**	**$ 802.5**	**3.3 %**	5.2%

(1) Net sales by franchise for the three and six months ended June 30, 2015 contain reclassifications between franchises to conform to the current year presentation.

(2) Represents the percentage change as reported.

Wound Therapeutics

At a constant exchange rate, Wound Therapeutics net sales increased 7.5% for the three months ended June 30, 2016, primarily due to growth across our AQUACEL® product family. On a reported basis, net sales in our Wound Therapeutics franchise for the three months ended June 30, 2016 were $137.7 million, an increase of $8.0 million, or approximately 6.2%, from $129.7 million for the three months ended June 30, 2015.

At a constant exchange rate, Wound Therapeutics net sales increased 8.2% for the six months ended June 30, 2016, primarily due to growth across our AQUACEL® product family. On a reported basis, net sales in our Wound Therapeutics franchise for the six months ended June 30, 2016 were $269.0 million, an increase of $14.9 million, or approximately 5.9%, from $254.1 million for the six months ended June 30, 2015.

Ostomy Care

At a constant exchange rate, Ostomy Care net sales increased 1.1% for the three months ended June 30, 2016, primarily due to demand. On a reported basis, net sales in our Ostomy Care franchise for the three months ended June 30, 2016 were $128.7 million, a decrease of $0.4 million, or approximately 0.3%, from $129.1 million for the three months ended June 30, 2015.

At a constant exchange rate, Ostomy Care net sales increased 1.7% for the six months ended June 30, 2016, primarily due to demand. On a reported basis, net sales in our Ostomy Care franchise for the six months ended June 30, 2016 were $249.8 million, a decrease of $2.3 million, or approximately 0.9%, from $252.1 million for the six months ended June 30, 2015.

Continence & Critical Care

At a constant exchange rate, CCC net sales increased 8.9% for the three months ended June 30, 2016, primarily due to the organic growth from our 180 Medical business. On a reported basis, net sales in our CCC franchise for the three months ended June 30, 2016 were $92.1 million, an increase of $6.7 million, or approximately 7.8%, from $85.4 million for the three months ended June 30, 2015.

At a constant exchange rate, CCC net sales increased 5.4% for the six months ended June 30, 2016, primarily due to the organic growth from our 180 Medical business. On a reported basis, net sales in our CCC franchise for the six months ended June 30, 2016 were $178.6 million, an increase of $6.9 million, or approximately 4.0%, from $171.7 million for the six months ended June 30, 2015.

Infusion Devices

At a constant exchange rate, Infusion Devices net sales increased 4.3% for the three months ended June 30, 2016, primarily driven by volume growth. On a reported basis, net sales in our Infusion Devices franchise for the three months ended June 30, 2016 were $66.7 million, an increase of $2.8 million, or approximately 4.4%, from $63.9 million for the three months ended June 30, 2015.

At a constant exchange rate, Infusion Devices net sales increased 5.6% for the six months ended June 30, 2016, primarily driven by volume growth. On a reported basis, net sales in our Infusion Devices franchise for the six months ended June 30, 2016 were $131.5 million, an increase of $6.9 million, or approximately 5.5%, from $124.6 million for the six months ended June 30, 2015.

Costs and expenses

The following is a summary of costs and expenses for the three and six months ended month ended June 30, 2016 and 2015 and the percentage of each category compared with total net sales in the respective period:

	Three Months Ended June 30,				Six Months Ended June 30,			
($ in millions)	**2016**	**2015**	**2016[1]**	**2015[1]**	**2016**	**2015**	**2016[1]**	**2015[1]**
Operating costs and expenses:								
Cost of goods sold	$ 211.3	$ 196.1	49.7%	48.1%	$ 430.3	$ 386.1	51.9%	48.1%
Selling and marketing	90.6	87.8	21.3%	21.5%	178.1	175.0	21.5%	21.8%
General and administrative	80.4	50.6	18.9%	12.4%	128.1	98.2	15.5%	12.2%
Research and development	9.9	11.4	2.3%	2.8%	20.2	20.5	2.4%	2.6%
Total operating costs and expenses	**$ 392.2**	**$ 345.9**	**92.2%**	**84.8%**	**$ 756.7**	**$ 679.8**	**91.3%**	**84.7%**

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in millions)	**2016**	**2015**	**2016**	**2015**
Other costs and net expenses:				
Interest expense, net	$ 101.2	$ 100.3	$ 201.0	$ 201.9
Foreign exchange	4.4	4.1	(27.1)	34.5
Other (income) expense, net	(0.2)	0.2	(1.3)	0.6
Loss on extinguishment of debt	—	26.9	—	26.9
Provision for income taxes	10.7	7.6	23.0	10.1

(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, 2016 was $211.3 million, an increase of $15.2 million from $196.1 million for the three months ended June 30, 2015, primarily due to restructuring and other related costs of $5.8 million, along with increased volumes. As a percentage of net sales, cost of goods sold increased to 49.7% for the three months ended June 30, 2016 from 48.1% for the three months ended June 30, 2015. Gross profit (net sales less cost of goods sold) increased $1.9 million, or 0.9%, and gross profit margin (gross profit as a percentage of net sales) was 50.3% and 51.9% for the three months ended June 30, 2016 and 2015, respectively. Gross profit margin excluding impacts from amortization of certain intangible assets and certain non-recurring costs for the three months ended June 30, 2016 was 59.4%, as compared with 59.9% for the three months ended June 30, 2015.

Cost of goods sold for the six months ended June 30, 2016 was $430.3 million, an increase of $44.2 million from $386.1 million for the six months ended June 30, 2015, primarily due to restructuring and other related costs of $25.0 million, along with increased volumes. For additional information on the restructuring and other related costs, please refer to Note 4 titled "Restructuring and Other Costs". As a percentage of net sales, cost of goods sold increased to 51.9% for the six months ended June 30, 2016 from 48.1% for the six months ended June 30, 2015. Gross profit (net sales less cost of goods sold) decreased $17.8 million, or 4.3%, and gross profit margin (gross profit as a percentage of net sales) was 48.1% and 51.9% for the six months ended June 30, 2016 and 2015, respectively. Gross profit margin excluding impacts from amortization of certain intangible assets and certain non-recurring costs for the six months ended June 30, 2016 was 58.8%, as compared with 59.9% for the six months ended June 30, 2015.

Selling and marketing expenses

Selling and marketing expenses for the three months ended June 30, 2016 were $90.6 million, an increase of $2.8 million, or approximately 3.2%, from $87.8 million for the three months ended June 30, 2015. As a percentage of net sales, selling and marketing expenses were 21.3% and 21.5% for the three months ended June 30, 2016 and 2015, respectively. At a constant exchange rate, selling and marketing expenses increased $3.8 million (4.3%), primarily due to an increase in compensation costs.

Selling and marketing expenses for the six months ended June 30, 2016 were $178.1 million, an increase of $3.1 million, or approximately 1.8%, from $175.0 million for the six months ended June 30, 2015. As a percentage of net sales, selling and marketing expenses were 21.5% and 21.8% for the six months ended June 30, 2016 and 2015, respectively. At a constant exchange rate, selling and marketing expenses increased $7.2 million (4.1%), primarily due to an increase in distribution and compensation costs and spending on marketing support programs.

General and administrative expenses

General and administrative expenses for the three months ended June 30, 2016 were $80.4 million, an increase of $29.8 million, or approximately 58.9%, from $50.6 million for the three months ended June 30, 2015. As a percentage of net sales, general and administrative expenses were 18.9% and 12.4% for the three months ended June 30, 2016 and 2015, respectively. At a constant exchange rate, general and administrative expenses increased $30.3 million (59.9%), primarily due to (i) higher share-based compensation expenses, (ii) an increase in professional service fees mainly related to corporate development activities, (iii) impairment charges related to our former corporate facility located in Skillman, New Jersey, and (iv) incremental compensation and benefit costs. These increases were partially offset by lower professional service fees primarily related to a number of remediation activities that were undertaken in the prior year period to enhance our compliance function and strengthen our control environment within finance. Excluding impairment charges, restructuring, remediation, share-based compensation and certain other non-recurring costs, general and administrative expenses increased by $3.3 million (8.7%) at a constant exchange rate.

General and administrative expenses for the six months ended June 30, 2016 were $128.1 million, an increase of $29.9 million, or approximately 30.4%, from $98.2 million for the six months ended June 30, 2015. As a percentage of net sales, general and administrative expenses were 15.5% and 12.2% for the six months ended June 30, 2016 and 2015, respectively. At a constant exchange rate, general and administrative expenses increased $31.5 million (32.1%), primarily due to (i) higher share-based compensation expenses, (ii) an increase in professional service fees mainly related to corporate development activities, (iii) impairment charges related to our former corporate facility located in Skillman, New Jersey, and (iv) incremental compensation and benefit costs. These increases were partially offset by lower professional service fees primarily related to a number of remediation activities that were undertaken in the prior year period to enhance our compliance function and strengthen our control environment within finance. Excluding impairment charges, restructuring, remediation, share-based compensation and certain other non-recurring costs, general and administrative expenses increased by $5.0 million (6.6%) at a constant exchange rate.

Research and development expenses

Research and development ("R&D") expenses for the three months ended June 30, 2016 were $9.9 million, a decrease of $1.5 million, or approximately 13.2%, from $11.4 million for the three months ended June 30, 2015. As a percentage of net sales, R&D expenses were 2.3% and 2.8% for the three months ended June 30, 2016 and 2015, respectively. At a constant exchange rate, R&D expenses decreased $1.2 million (10.7%). The decrease in R&D expense is primarily driven by lower regulatory compliance and Food and Drug Administration ("FDA") remediation costs. Excluding FDA remediation costs, R&D expenses decreased by $1.0 million (9.6%) at a constant exchange rate.

R&D expenses for the six months ended June 30, 2016 were $20.2 million, a decrease of $0.3 million, or approximately 1.5%, from $20.5 million for the six months ended June 30, 2015. As a percentage of net sales, R&D expenses were 2.4% and 2.6% for the six months ended June 30, 2016 and 2015, respectively. At a constant exchange rate, R&D expenses increased $0.3 million (1.6%). The increase in R&D expense is primarily driven by regulatory compliance costs and spending on certain development programs, partially offset by lower FDA remediation costs. Excluding FDA remediation costs, R&D expenses increased by $1.2 million (6.4%) at a constant exchange rate.

Other costs and net expenses

Interest expense, net

Interest expense, net for the three months ended June 30, 2016 was $101.2 million, an increase of $0.9 million from $100.3 million for the three months ended June 30, 2015, primarily reflecting the following: (i) an increase in interest expense driven by incremental borrowings under our credit facilities as a result of the June 2015 refinancing and (ii) the compounding effect of accrued preferred equity certificates (“PEC” or “PECs”). These increases were partially offset by a decrease in interest expense driven by early redemption of the 7.375% senior secured notes due 2017 (the "Secured Notes") in June 2015 and a decrease in non-cash amortization of debt discounts and deferred financing fees.

Interest expense, net for the six months ended June 30, 2016 was $201.0 million, a decrease of $0.9 million from $201.9 million for the six months ended June 30, 2015, primarily reflecting the following: (i) early redemption of the Secured Notes in June 2015 and (ii) a decrease in non-cash amortization of debt discounts and deferred financing fees. These decreases were partially offset by an increase in interest expense driven by incremental borrowings under our credit facilities as a result of the June 2015 refinancing and the compounding effect of accrued PECs.

Foreign exchange

Foreign exchange loss was $4.4 million and $4.1 million for the three months ended June 30, 2016 and 2015, respectively, reflecting an increase of $0.3 million primarily due to (i) a foreign exchange net loss driven by foreign currency impact on re-measurement of our long-term debt denominated in non-functional currency, partially offset by (ii) a foreign currency net gain on intercompany transactions, including loans transacted in non-functional currencies.

Foreign exchange gain was $27.1 million for the six months ended June 30, 2016, compared with a loss of $34.5 million, during the six months ended June 30, 2015, reflecting a change of $61.6 million primarily driven by a foreign exchange net gain related to (i) intercompany transactions, including loans transacted in non-functional currencies and (ii) foreign currency impact on re-measurement of our long-term debt denominated in non-functional currency.

Loss on extinguishment of debt

For the three and six months ended June 30, 2015, we recognized a loss on extinguishment of debt of $26.9 million related to (i) the redemption of the Secured Notes in June 2015 and (ii) the refinancing of our credit facilities in June 2015.

Provision for income taxes

For the three months ended June 30, 2016, we recorded a provision for income taxes of $10.7 million on a pre-tax loss of $72.4 million and 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. The increase in the provision for income taxes for the three months ended June 30, 2016 as compared to three months ended June 30, 2015 was due to an increase in pre-tax income on includible entities (i.e., entities that do not have a valuation allowance), as well as the change in profit mix among jurisdictions with different tax rates.

For the six months ended June 30, 2016, we recorded a provision for income taxes of $23.0 million on a pre-tax loss of $100.4 million and 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. The increase in the provision for income taxes for the six months ended June 30, 2016 as compared to six months ended June 30, 2015 was due to an increase in pre-tax income on includible entities (i.e., entities that do not have a valuation allowance), as well as the change in profit mix among jurisdictions with different tax rates.

Net loss

As a result of the above, net loss increased $6.2 million to a net loss of $83.1 million for the three months ended June 30, 2016, compared to a net loss of $76.9 million for the three months ended June 30, 2015.

As a result of the above, net loss decreased $27.9 million to a net loss of $123.4 million for the six months ended June 30, 2016, compared to a net loss of $151.3 million for the six months ended June 30, 2015.

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 (income) expense, net, foreign exchange, interest expense, net, and depreciation and amortization. Adjusted EBITDA represents EBITDA as adjusted to exclude costs or gains that are excluded by management in assessing the operating performance of the business, such as restructuring and other related costs, remediation expenses, and other non-cash items, including non-cash share-based compensation. 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, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in millions)	**2016**	**2015**	**2016**	**2015**
Net loss	$ (83.1)	$ (76.9)	$ (123.4)	$ (151.3)
Provision for income taxes	10.7	7.6	23.0	10.1
Loss on extinguishment of debt	—	26.9	—	26.9
Other (income) expense, net	(0.2)	0.2	(1.3)	0.6
Foreign exchange	4.4	4.1	(27.1)	34.5
Interest expense, net	101.2	100.3	201.0	201.9
Depreciation and amortization[(a)]	47.3	44.9	93.1	89.7
EBITDA	**80.3**	**107.1**	**165.3**	**212.4**
Adjustments[(b)]:				
Impairment of long lived assets[(c)]	4.3	—	4.3	—
Restructuring and other related costs[(d)]	3.0	3.4	19.6	3.3
Remediation costs[(e)]	3.3	3.7	5.4	8.3
Share-based compensation	19.8	0.5	20.8	0.9
Other[(f)]	8.1	0.5	10.2	1.4
Total Adjustments	38.5	8.1	60.3	13.9
Adjusted EBITDA	**$ 118.8**	**$ 115.2**	**$ 225.6**	**$ 226.3**

(a) For the three and six months ended June 30, 2016, we recorded $3.0 million and $5.8 million of accelerated depreciation in Cost of goods sold in the unaudited Condensed Consolidated Statements of Operations related to the closure of our manufacturing facilities as further described in Note 4 titled "Restructuring and Other Costs".

(b) 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.

(c) For the three months ended June 30, 2016, we recorded impairment charges on property, plant and equipment related to our former corporate facility located in Skillman, New Jersey in General and administrative expenses in the unaudited Condensed Consolidated Statements of Operations.

(d) The following is a summary of restructuring (excluding accelerated depreciation described above under (a)) and other related costs as recorded in the unaudited Condensed Consolidated Statements of Operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in millions)	2016	2015	2016	2015
Cost of goods sold	$ 2.8	$ —	$ 19.2	$ —
General and administrative expenses	(0.2)	3.4	—	3.3
Research and development expenses	0.4	—	0.4	—
Total restructuring and other related costs	**$ 3.0**	**$ 3.4**	**$ 19.6**	**$ 3.3**

(e) For the three and six months ended June 30, 2016, remediation costs were recorded in General and administrative expenses in the unaudited Condensed Consolidated Statements of Operations. 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 R&D expenses in the unaudited Condensed Consolidated Statements of Operations. Remediation costs include regulatory compliance costs related to FDA activities, IT enhancement costs, and professional service fees associated with activities that were undertaken to enhance our compliance function and strengthen our control environment within finance.

(f) For the three and six months ended June 30, 2016, we recorded $8.1 million and $10.2 million in other costs, respectively, of which $7.2 million and $9.0 million, respectively, was recorded in General and administrative expenses, $0.2 million and $0.3 million, respectively, was recorded in Cost of goods sold, and $0.7 million and $0.9 million, respectively, was recorded in Selling and marketing expenses in the unaudited Condensed Consolidated Statement of Operations. These costs were mainly related to corporate development activities. The Company is in the early stages of considering options for potentially raising equity, including in the public markets.

Liquidity and capital resources

As of June 30, 2016 and December 31, 2015, our cash and cash equivalents were $271.2 million and $269.6 million, respectively. Additionally, as of June 30, 2016, we had $198.6 million of availability under our revolving credit facility. Restricted cash was $6.1 million as of June 30, 2016.

Pursuant to the Fourth Amendment to the Credit Agreement dated June 15, 2015 (the "Amended Credit Facility Agreement"), and pursuant to Section 4.06 of the indenture dated December 22, 2010 (the “Indenture”) 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, 2016, we had the capacity to make such restricted payments up to an amount of $343.9 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 $52.5 million of cash from operating activities during the six months ended June 30, 2016. Significant cash uses during the six months ended June 30, 2016 included $128.1 million of interest payments, $30.2 million for capital expenditures and $13.9 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 the 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 our 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, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in millions)	2016	2015	2016	2015
Net cash provided by operating activities	$ 33.7	$ 6.3	$ 52.5	$ 25.3
Net cash used in investing activities	(14.9)	(11.0)	(27.2)	(14.2)
Net cash provided by (used in) financing activities	—	4.3	(21.5)	4.3
Effect of exchange rate changes on cash and cash equivalents	(6.7)	8.5	(2.2)	(8.3)
Net increase in cash and cash equivalents	12.1	8.1	1.6	7.1
Cash and cash equivalents at beginning of the period	259.1	233.0	269.6	234.0
Cash and cash equivalents at end of the period	$ 271.2	$ 241.1	$ 271.2	$ 241.1
Supplemental cash flow information				
Income taxes paid	$ 3.3	$ 4.6	$ 13.9	$ 11.5
Interest paid	$ 72.6	$ 77.6	$ 128.1	$ 128.0

Cash flows from operating activities

Net cash provided by operating activities was $33.7 million and $6.3 million for the three months ended June 30, 2016 and 2015, respectively. Net cash provided by operating activities was $52.5 million and $25.3 million for the six months ended June 30, 2016 and 2015, respectively. The following table sets forth the components of net cash provided by operating activities for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in millions)	2016	2015	2016	2015
Adjusted EBITDA	**$ 118.8**	**$ 115.2**	**$ 225.6**	**$ 226.3**
Cash interest payments	(72.6)	(77.6)	(128.1)	(128.0)
Cash tax payments	(3.3)	(4.6)	(13.9)	(11.5)
Other payments	(12.5)	(4.2)	(17.4)	(16.3)
Working capital decrease (increase)	3.3	(22.5)	(13.7)	(45.2)
Net cash provided by operating activities	**$ 33.7**	**$ 6.3**	**$ 52.5**	**$ 25.3**

For the three months ended June 30, 2016, net cash interest paid was $72.6 million, a decrease of $5.0 million, from $77.6 million for the three months ended June 30, 2015, primarily due to the redemption of the Secured Notes in June 2015, partially offset by incremental borrowings under our credit facilities as a result of the June 2015 refinancing.

For the six months ended June 30, 2016, net cash interest paid was $128.1 million, an increase of $0.1 million, from $128.0 million for the six months ended June 30, 2015, primarily due to incremental borrowings under our credit facilities as a result of the June 2015 refinancing, partially offset by the redemption of the Secured Notes in June 2015.

For the three months ended June 30, 2016, the other payments were $12.5 million, an increase of $8.3 million, from $4.2 million for the three months ended June 30, 2015, primarily driven by an increase in payments related to (i) incremental professional service fees mainly associated with corporate development activities and (ii) restructuring charges.

For the six months ended June 30, 2016, the other payments were $17.4 million, an increase of $1.1 million, from $16.3 million for the six months ended June 30, 2015, primarily driven by an increase in payments related to (i) incremental professional service fees mainly associated with corporate development activities and (ii) restructuring charges. These payments were partially offset by a decrease in payments related to the Management Equity Plan awards and remediation and compliance costs.

The working capital decrease of $3.3 million and working capital increase of $22.5 million for the three months ended June 30, 2016 and 2015, respectively, as well as working capital increase of $13.7 million and $45.2 million for the six months ended

June 30, 2016 and 2015, respectively, was primarily related to timing of receipts and payments in the ordinary course of business.

Cash flows from investing activities

For the three and six months ended June 30, 2016, net cash used in investing activities was $14.9 million and $27.2 million, respectively, reflecting an increase of $3.9 million and $13.0 million, respectively, from $11.0 million and $14.2 million, for the three and six months ended June 30, 2015, respectively. The increase in capital expenditures for both periods was primarily related to new manufacturing lines to support the Ostomy Care product portfolio.

Cash flows from financing activities

For the three months ended June 30, 2015, net cash provided by financing activities was $4.3 million, primarily reflecting the following: (i) net borrowings of $409.4 million under our credit facilities 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, (iii) the May 2015 mandatory prepayment of $43.6 million for excess cash retained in the business, and (iv) $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 the refinancing in June 2015. There were no cash flows from financing activities for the three months ended June 30, 2016.

For the six months ended June 30, 2016, net cash used in financing activities was $21.5 million, compared with net cash provided by financing activities of $4.3 million for the six months ended June 30, 2015, reflecting a change of $25.8 million, primarily due to (i) net borrowings of $409.4 million under our credit facilities as a result of the refinancing in June 2015 and (ii) the March 2016 scheduled amortization payment of $4.1 million. These decreases were partially offset by (i) $338.5 million paid on the redemption of the Secured Notes in June 2015, (ii) a decrease of $26.2 million in mandatory prepayments for excess cash retained in the business, 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 the refinancing in June 2015.

Debt

Our long-term debt consists of Senior Notes and 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, 2016, we had total debt outstanding, excluding capital leases, and other obligations, of $2,611.8 million, net of $1.6 million of unamortized original issue discount and $18.0 million of unamortized deferred financing fees. We were in compliance with all of our covenants related to our outstanding debt as of June 30, 2016. See Note 9 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 as of June 30, 2016:

	Payments Due by Period				
($ in millions)	**Total**	**2016**	**2017 and 2018**	**2019 and 2020**	**Thereafter**
Long-term debt obligations, including interest[(1)]	$ 3,173.5	$ 89.2	$ 1,404.5	$ 1,679.8	$ —
Purchase obligations[(2)]	253.0	25.2	95.3	92.2	40.3
Total	**$ 3,426.5**	**$ 114.4**	**$ 1,499.8**	**$ 1,772.0**	**$ 40.3**

(1) Expected interest payments assume repayment of the principal amount of the debt obligations at maturity.

(2) Purchase obligations consist of agreements to purchase goods and services that are enforceable and legally binding and include (i) minimum inventory purchases and (ii) obligations for services with HP Enterprise Services, LLC.

Other than as set forth above, 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 2015 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 litigation 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 12 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 and estimates" in the annual MD&A contained in the 2015 Annual Report. There have been no significant changes to our critical accounting policies since December 31, 2015.

New accounting standards

Information regarding the recently issued new accounting guidance (adopted and not adopted as of June 30, 2016) is contained in Note 2 titled "Significant Accounting Policies" in this Quarterly Report.

Quantitative and qualitative disclosure about market risk

There have been no material changes to our exposures to market risks as disclosed under the heading "Quantitative and qualitative disclosure about market risk" in the annual MD&A contained in the 2015 Annual Report.

Interest rate risk

As of June 30, 2016, we had $745.0 million and €250.0 million ($277.7 million) principal amount of issued fixed rate debt and $785.5 million and €741.3 million ($823.2 million) principal amount of variable rate debt. A change in interest rates on variable rate debt impacts our pre-tax earnings, whereas a change in interest rates on fixed rate debt impacts the fair value of debt.

We are subject to interest rate risk on our variable rate debt as changes in interest rates could adversely affect earnings and cash flows. A 100 basis-points increase in interest rates would have an annualized pre-tax effect of approximately $16.1 million in our unaudited Condensed Consolidated Statements of Operations and Cash Flows, based on current outstanding borrowings and effective interest rates on our variable rate debt. Our credit facility term loans are subject to a LIBOR or EURIBOR floor, therefore an increase in interest rates would only impact interest expense on those term loans to the extent LIBOR or EURIBOR exceeds the floor.

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 the Amended Credit Facilities Agreement and the Indenture governing the Senior Notes. During the six months ended June 30, 2016, 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. On July 13, 2016, the Company made an additional payment of $37.1 million for 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, 2016, 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 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 and the amount of accrued interest on this loan. 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, 2016, total assets and total liabilities combined with stockholder's deficit differed by $103.7 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, 2016		
($ in millions)	**Parent**	**CHB**	**Differences**
Assets:			
Cash and cash equivalents	$ 271.3	$ 271.2	$ 0.1
Receivables, net of allowances	244.7	244.5	0.2
Other assets[(1)]	169.2	65.8	103.4
Total Assets Difference			**$ 103.7**
Liabilities and Stockholder's Deficit:			
Accounts payable, accrued expenses and other current liabilities	$ 286.4	$ 284.5	$ 1.9
Long-term debt	3,487.4	2,599.1	888.3
Mandatorily redeemable preferred equity certificates	2,127.5	2,813.8	(686.3)
Retained deficit	(2,933.8)	(2,989.5)	55.7
Accumulated other comprehensive income (net of tax)	328.7	484.6	(155.9)
Total Liabilities and Stockholder's Deficit Difference			**$ 103.7**

(1) Primarily relates to the asset recognized as a result of the hedging agreement between the Parent and Cidron Healthcare Limited ("Cidron") (a related party, which is not included in the consolidated financial statements of the Parent) entered to eliminate exposure to Euro/U.S. Dollar fluctuation associated with the re-measurement of an intercompany loan between the Parent and CFI.

Consolidated Statements of Operations (Unaudited)

For the three and six months ended June 30, 2016, the total net loss for the Parent was $65.6 million and $135.2 million, as compared to a total net loss for CHB of $83.1 million and $123.4 million, respectively. The total differences for the three and six months ended June 30, 2016 were primarily related an incremental amount of interest expense and fees paid to the sponsors, partially offset by the foreign exchange adjustment due to the hedging agreement (as described above) and the foreign exchange impact on the 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, 2016, total cash and cash equivalents on the Parent's unaudited Condensed Consolidated Balance Sheet was $271.3 million, as compared to total cash and cash equivalents on CHB's unaudited Condensed Consolidated Balance Sheet of $271.2 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, 2016.

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, and 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	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
(All dollar amounts expressed in millions of U.S. dollars, except share and per share data)
(Unaudited)

	As of June 30, 2016	As of December 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	$ 271.2	$ 269.6
Receivables, net of allowances of $42.1 in 2016 and $44.4 in 2015	244.5	231.9
Inventories	241.8	229.0
Prepaid expenses and other current assets	52.8	53.5
Total Current Assets	810.3	784.0
Property, plant and equipment, net	242.4	255.1
Goodwill	919.9	838.1
Intangible assets, net	1,587.3	1,697.2
Other assets	65.8	67.7
Total Assets	**$ 3,625.7**	**$ 3,642.1**
Liabilities and Stockholder's Deficit		
Current Liabilities:		
Accounts payable	$ 101.6	$ 95.7
Short-term portion of long-term debt	12.8	21.5
Accrued expenses and other current liabilities	182.9	171.8
Total Current Liabilities	297.3	289.0
Long-term debt	2,599.1	2,585.0
Mandatorily redeemable preferred equity certificates	1,432.3	1,400.8
Accrued preferred equity certificates interest	1,381.5	1,281.4
Deferred income taxes	205.6	210.7
Other liabilities	74.1	54.0
Total Liabilities	5,989.9	5,820.9
Commitments and contingencies (Note 12)		
Stockholder's Deficit:		
Preferred stock- €1 ($1.25) par value as of June 30, 2016 and December 31, 2015; 20,000 shares issued and outstanding at June 30, 2016 and December 31, 2015	—	—
Common stock- €1 ($1.25) par value as of June 30, 2016 and December 31, 2015; 112,157,883 shares issued and outstanding at June 30, 2016 and December 31, 2015	140.7	140.7
Retained deficit	(2,989.5)	(2,866.1)
Accumulated other comprehensive income (net of tax)	484.6	546.6
Total Stockholder's Deficit	(2,364.2)	(2,178.8)
Total Liabilities and Stockholder's Deficit	**$ 3,625.7**	**$ 3,642.1**

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
(All dollar amounts expressed in millions of U.S. dollars)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales	**$ 425.2**	**$ 408.1**	**$ 828.9**	**$ 802.5**
Cost of goods sold	211.3	196.1	430.3	386.1
Gross profit	**213.9**	**212.0**	**398.6**	**416.4**
Selling and marketing expenses	90.6	87.8	178.1	175.0
General and administrative expenses	80.4	50.6	128.1	98.2
Research and development expenses	9.9	11.4	20.2	20.5
Operating income	**33.0**	**62.2**	**72.2**	**122.7**
Interest expense, net	101.2	100.3	201.0	201.9
Foreign exchange	4.4	4.1	(27.1)	34.5
Other (income) expense, net	(0.2)	0.2	(1.3)	0.6
Loss on extinguishment of debt	—	26.9	—	26.9
Loss before income taxes	(72.4)	(69.3)	(100.4)	(141.2)
Provision for income taxes	10.7	7.6	23.0	10.1
Net loss	**$ (83.1)**	**$ (76.9)**	**$ (123.4)**	**$ (151.3)**

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
(All dollar amounts expressed in millions of U.S. dollars)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Net loss	$ (83.1)	$ (76.9)	$ (123.4)	$ (151.3)
Foreign currency translation, including a tax expense of $4.0 and a tax benefit of $12.8 for the three months ended June 30, 2016 and 2015, respectively, and a tax benefit of $3.5 and a tax expense of $13.6 for the six months ended June 30, 2016 and 2015, respectively.	55.1	(53.4)	(62.5)	178.3
Other	0.7	(0.1)	0.5	0.4
Total Comprehensive (Loss) Income	**$ (27.3)**	**$ (130.4)**	**$ (185.4)**	**$ 27.4**

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
(All dollar amounts expressed in millions of U.S. dollars)
(Unaudited)

	Six Months Ended June 30,	
	2016	**2015**
Cash flows from operating activities:		
Net loss	$ (123.4)	$ (151.3)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	93.1	89.7
Income taxes	3.3	5.0
Foreign exchange (gain) loss	(27.1)	36.5
Non-cash interest expense	72.5	67.1
Amortization and write-off of deferred financing fees and original issue discount	3.5	5.7
Loss on extinguishment of debt	—	26.9
Share-based compensation	20.8	0.9
Impairment and write-off of assets	8.9	0.3
Other	(0.4)	—
Change in operating assets and liabilities:		
Receivables, net	(9.0)	(22.9)
Inventories	(8.9)	(4.5)
Prepaid expenses and other assets	(1.1)	(5.9)
Accounts payable and accrued expenses	17.6	(8.5)
Other liabilities	—	1.7
U.S. and foreign income taxes	5.8	(6.6)
Other	(3.1)	(8.8)
Net cash provided by operating activities	**52.5**	**25.3**
Cash flows from investing activities:		
Purchases of property, plant and equipment and capitalized software	(30.2)	(12.8)
Proceeds from sale of assets	0.5	—
Other	2.5	(1.4)
Net cash used in investing activities	**(27.2)**	**(14.2)**
Cash flows from financing activities:		
Issuance of long-term debt, net of discount	—	1,649.9
Repayments of long-term debt	(21.5)	(1,622.7)
Payments of deferred financing fees	—	(22.9)
Net cash (used in) provided by financing activities	**(21.5)**	**4.3**
Effect of exchange rate changes on cash and cash equivalents	**(2.2)**	**(8.3)**
Net increase in cash and cash equivalents	**1.6**	**7.1**
Cash and cash equivalents at beginning of the period	**269.6**	**234.0**
Cash and cash equivalents at end of the period	**$ 271.2**	**$ 241.1**
Supplemental cash flow information:		
Income taxes paid	$ 13.9	$ 11.5
Interest paid	$ 128.1	$ 128.0
Non-cash investing activities:		
Accrued capital expenditures included in accounts payable and accrued expenses	$ 6.7	$ 6.2

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 AQUACEL®, Natura®, SUR-FIT®, Esteem®, 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 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, 2015 (the "2015 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, 2015.

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, financial position and cash flows could be materially impacted.

Recently Issued Accounting Standards, Not Adopted as of June 30, 2016

In June 2016, the Financial Accounting Standards Board ("FASB") issued guidance titled, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* intended to improve financial reporting by requiring timelier recording of credit losses on most financial assets and certain other financial instruments. The guidance requires (i) measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current market conditions, and reasonable and supportable forecasts using forward-looking information to better inform the credit loss estimates and (ii) enhanced disclosures, both qualitative and quantitative to help financial statements users better understand significant estimates and judgments used in estimating credit losses. The guidance is effective for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. Early

application is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Adoption of this guidance is not expected to have a material impact on the Company's unaudited Condensed Consolidated Financial Statements.

In March 2016, the FASB issued guidance titled, *Compensation–Stock Compensation (Topic 718)* to simplify the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance also contains two practical expedients under which nonpublic entities can use a simplified method to estimate the expected term of an award and make a one-time election to switch from fair value measurement to intrinsic value measurement for liability-classified awards. The guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual reporting periods beginning after December 15, 2018, with early application permitted. The manner in which the guidance must be applied varies with each provision of the pronouncement. The Company is evaluating the impact of adoption of this guidance on its unaudited Condensed Consolidated Financial Statements.

In February 2016, the FASB issued guidance titled, *Leases (Topic 842)* to increase transparency and comparability among companies by requiring recognition of lease assets and liabilities on the balance sheet and disclosure of key information about leasing arrangements. The guidance is effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted. The guidance is required to be adopted at the earliest period presented using a modified retrospective approach. The Company is evaluating the impact of adoption of this guidance on its unaudited Condensed Consolidated Financial Statements.

In January 2016, the FASB issued guidance titled, *Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* which amends the guidance on the classification and measurement of financial instruments. Although it retains many current requirements, it significantly revises an entity's accounting related to (i) the classification and measurement of investments in equity securities and (ii) the presentation of certain fair value changes for financial liabilities measured at fair value. The guidance is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early application is permitted for annual periods beginning after December 15, 2017. Adoption of this guidance is not expected to have a material impact on the Company's unaudited Condensed Consolidated Financial Statements.

In November 2015, the FASB issued guidance titled, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* which requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position, thereby simplifying the current guidance under which an entity must separate deferred taxes into current and noncurrent amounts. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early application is permitted as of the beginning of an interim or annual reporting period. The guidance may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. As this guidance relates to presentation only, the adoption of this guidance will not have a material impact on the Company's unaudited Condensed Consolidated Financial Statements.

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 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.

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 International Financial Reporting Standards. 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.

3. Related Parties

ConvaTec Healthcare A S.à r.l. (the "Parent") maintains an agreement with the 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, 2016 and 2015, 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 $0.3 million and $0.6 million in other fees, respectively. The unaudited Condensed Consolidated Balance Sheets include a receivable from the Parent recorded in Other assets in the amount of $34.9 million and $32.7 million as of June 30, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, the total outstanding loan amount of $17.6 million and $16.9 million, respectively, is recorded as equal and offsetting amounts within Stockholder's Deficit. See Note 11 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 ("PEC" or "PECs") for an aggregate amount of €1,289.7 million. See Note 10 titled "Mandatorily Redeemable Preferred Equity Certificates" for further discussion.

The Company's net sales included $1.6 million and $2.1 million for the three months ended June 30, 2016 and 2015, respectively, of net sales to a related party. The Company's net sales included $3.4 million and $3.5 million for the six months ended June 30, 2016 and 2015, respectively, of net sales to a related party.

4. Restructuring and Other Costs

Restructuring Initiatives

2016 Initiatives

In 2016, the Company approved the plan for business restructuring activities, primarily related to severance benefits for involuntary workforce reductions associated with the closure of the Company's (i) Hospital Care ("HC") manufacturing facility in Sungai-Petani (Malaysia) by the end of the third quarter of 2016 and (ii) manufacturing operations in Greensboro, U.S. by early 2017. The Company plans to expand its capabilities at the other ConvaTec facilities, including Deeside, U.K., Haina, Dominican Republic, Michalovce, Slovakia, Rhymney, U.K., and Herlev, Denmark to optimize its supply chain for the Wound, Ostomy, and CCC franchises. The Company estimates that it will incur total costs of approximately $37 million, of which $22.7 million have been incurred through June 30, 2016.

(All tabular dollar amounts expressed in millions of U.S. dollars, except per share data)

2015 Initiatives

In 2015, the Company approved the plan for business restructuring activities, primarily related to severance benefits for involuntary workforce reductions associated with the closure of the Company's HC manufacturing facility in Reynosa, Mexico. The Company's Infusion Devices franchise, which has a separate existing facility in Reynosa, Mexico, plans to expand and repurpose the HC plant to support its manufacturing operations and its customers.

2014 Initiatives

In 2014, the Company incurred restructuring charges for business restructuring activities, primarily related to termination benefits for involuntary workforce reductions associated with closure of the 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.

Charges and changes in estimate recorded in the six months ended June 30, 2016 related to the above initiatives were as follows:

	Employee Termination Costs	Asset Write-offs	Accelerated Depreciation	Total
2016 Initiatives	$ 14.1	$ 3.9	$ 4.7	$ 22.7
2015 Initiatives	0.1	—	1.1	1.2
2014 Initiatives	(0.2)	—	—	(0.2)
Total	$ 14.0	$ 3.9	$ 5.8	$ 23.7
Classified in the unaudited Condensed Consolidated Statements of Operations:				
Cost of goods sold	$ 14.0	$ 3.9	$ 5.8	$ 23.7

The roll forward of the restructuring reserves, included in Accrued expenses and other current liabilities in the unaudited Condensed Consolidated Balance Sheets, is as follows:

	Employee Termination Costs			
	2016 Initiatives	2015 Initiatives	2014 Initiatives	Total
Balance at January 1, 2015	$ —	$ —	$ 4.7	$ 4.7
Charges	—	2.1	—	2.1
Spending[(1)]	—	—	(3.2)	(3.2)
Changes in estimate[(1)]	—	—	(0.2)	(0.2)
Balance at December 31, 2015	—	2.1	1.3	3.4
Charges	13.4	0.3	—	13.7
Spending	(0.8)	(2.2)	(1.0)	(4.0)
Changes in estimate	0.7	(0.2)	(0.2)	0.3
Changes in foreign exchange rates	0.2	—	—	0.2
Balance at June 30, 2016	$ 13.5	$ —	$ 0.1	$ 13.6

(1) The Company recorded a reduction in estimate of $0.1 million in General and administrative expenses in the unaudited Condensed Consolidated Statements of Operations and made payments of $2.0 million, in the six months ended June 30, 2015 with respect to the 2014 initiatives, described above.

Other Costs

In connection with the restructuring initiatives associated with the plant closures described above, the Company incurred additional costs, including, among others, costs related to relocation of the equipment.

The following is a summary of these charges recorded in the three and six months ended June 30, 2016 and 2015 in the unaudited Condensed Consolidated Statements of Operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in millions)	2016	2015	2016	2015
Cost of goods sold	$ 1.3	$ —	$ 1.3	$ —
General and administrative expenses	—	3.4	—	3.4
Research and development expenses	0.4	—	0.4	—
Total other costs	**$ 1.7**	**$ 3.4**	**$ 1.7**	**$ 3.4**

5. Income Taxes

For the three months ended June 30, 2016, the Company recorded a provision for income taxes of $10.7 million on a pre-tax loss of $72.4 million and 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. During the six months ended June 30, 2016, the Company recorded a provision for income taxes of $23.0 million on a pre-tax loss of $100.4 million, and for 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. The increase in the provision for income taxes in 2016 as compared to 2015 is due to an increase in pre-tax income on includible entities (i.e., entities that do not have a valuation allowance), as well as the 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 pre-tax 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.

6. Inventories

The major components of inventories as of June 30, 2016 and December 31, 2015 were as follows:

(All tabular dollar amounts expressed in millions of U.S. dollars, except per share data)

	As of June 30, 2016	As of December 31, 2015
Finished goods	$ 162.4	$ 151.2
Work in process	25.6	25.1
Raw and packaging materials	53.8	52.7
Inventories	**$ 241.8**	**$ 229.0**

7. Goodwill

The changes in the carrying value of goodwill for the six months ended June 30, 2016 were as follows:

	Total
Balance as of January 1, 2016	$ 838.1
Changes in foreign exchange rates	81.8
Balance as of June 30, 2016	**$ 919.9**

8. Intangible Assets, Net

The major components of intangible assets, net as of June 30, 2016 and December 31, 2015 were as follows:

	As of June 30, 2016			As of December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:						
Patents, trademarks, and licenses	$ 1,894.2	$ (832.0)	$ 1,062.2	$ 1,954.0	$ (803.7)	$ 1,150.3
Technology	212.4	(96.9)	115.5	224.3	(95.0)	129.3
Capitalized software	84.9	(60.6)	24.3	83.0	(58.0)	25.0
Contracts and customer relationships	244.2	(85.5)	158.7	247.4	(81.5)	165.9
Non-compete agreements	5.6	(3.9)	1.7	5.7	(3.5)	2.2
Trade names	4.8	(1.7)	3.1	4.8	(1.6)	3.2
Indefinite-lived intangible assets:						
Trade names	221.8	—	221.8	221.3	—	221.3
Total intangible assets, net	**$ 2,667.9**	**$ (1,080.6)**	**$ 1,587.3**	**$ 2,740.5**	**$ (1,043.3)**	**$ 1,697.2**

The decrease in intangible assets was principally due to foreign currency translation, primarily related to intangible assets denominated in British Pound Sterling.

Amortization expense related to intangible assets was recorded as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Cost of goods sold	$ 31.5	$ 32.1	$ 62.8	$ 64.1
General and administrative expenses	4.6	5.1	9.3	10.4
Total amortization expense	**$ 36.1**	**$ 37.2**	**$ 72.1**	**$ 74.5**

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

(All tabular dollar amounts expressed in millions of U.S. dollars, except per share data)

	2016[1]	2017	2018	2019	2020
Amortization expense	$ 72.6	$ 145.0	$ 144.4	$ 143.6	$ 138.9

(1) Represents the expected aggregate amortization expense for the second half of 2016.

9. Long – Term Debt

A summary of the Company's consolidated long-term debt as of June 30, 2016 and December 31, 2015, respectively, is outlined in the table below:

	Maturity Date	As of June 30, 2016	As of December 31, 2015
Credit Facilities Agreement[1]:			
Revolving Credit Facility	June 2020[2]	$ —	$ —
U.S. Dollar Term Loans	June 2020[2]	780.2	790.0
Euro Term Loans	June 2020[2]	819.2	811.6
Credit Facilities		1,599.4	1,601.6
Senior Notes:			
10.5% U.S. Dollar Senior Notes	December 2018	737.6	736.4
10.875% Euro Senior Notes	December 2018	274.8	268.3
Capital Lease Obligations		0.1	0.2
		2,611.9	2,606.5
Less: current portion		12.8	21.5
Total Long-Term Debt		**$ 2,599.1**	**$ 2,585.0**

(1) The Credit Facilities Agreement, as amended, consists of (i) U.S. Dollar and Euro term loans (the "Term Loan Facilities"), (ii) a $200.0 million revolving credit facility (the "Revolving Credit Facility"), and (iii) incremental unfunded term facilities (collectively, the “Credit Facilities”).

(2) 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 indenture related to its Senior Notes (as defined below) 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 indenture related to its Senior Notes also contain certain customary affirmative covenants and specified events of default.

As of June 30, 2016, the Company was in compliance with all financial covenants associated with the Company's outstanding debt.

The total fair value of the Company's long-term debt, excluding capital leases, with carrying values of $2,611.8 million and $2,606.3 million at June 30, 2016 and December 31, 2015, was $2,654.3 million and $2,624.0 million, respectively. The fair

(All tabular dollar amounts expressed in millions of U.S. dollars, except per share data)

value of the Company's long-term debt, excluding capital leases is estimated using the quoted market prices and current interest rates offered for similar debt issuances.

The aggregate maturities of debt obligations as of June 30, 2016 for each of the five succeeding years ending December 31 and thereafter are as follows:

2016	$	—
2017		12.8
2018		1,022.7
2019		—
2020		1,596.0
Thereafter		—
Total gross maturities		2,631.5
Unamortized discounts and deferred financing fees		(19.6)
Total long-term debt	**$**	**2,611.9**

Credit Facilities

The outstanding principal under the Term Loan Facilities denominated in U.S. Dollars and Euros was $785.5 million and €741.3 million ($823.2 million) at June 30, 2016 and $796.0 million and €751.2 million ($816.0 million) at December 31, 2015. As of June 30, 2016 and December 31, 2015, unamortized deferred financing fees (treated as a reduction to Long-term debt) for the Term Loan Facilities were as follows: (i) U.S. Dollars term loans - $3.7 million and $4.2 million, respectively, and (ii) Euros term loans - $4.0 million and $4.4 million, respectively. In addition, as of June 30, 2016 and December 31, 2015, unamortized discounts for the U.S. Dollar term loans were $1.6 million and $1.8 million, respectively.

There were no borrowings outstanding under the Revolving Credit Facility as of June 30, 2016 or December 31, 2015. Availability under the Revolving Credit Facility, after deducting the outstanding letters of credit of $1.4 million and $2.6 million, totaled $198.6 million and $197.4 million as of June 30, 2016 and December 31, 2015, respectively. As of June 30, 2016 and December 31, 2015, deferred financing fees for the Revolving Credit Facility were $4.3 million and $4.9 million, respectively, and have been included in Other assets in the unaudited Condensed Consolidated Balance Sheets.

During the six months ended June 30, 2016, the Company made payments of $21.5 million, in the aggregate, related to the Credit Facilities as follows: (i) mandatory prepayment of $17.4 million for excess cash retained in the business and (ii) scheduled March 2016 amortization payment of $4.1 million. At June 30, 2016, the Company estimated that it will make a mandatory prepayment of approximately $12.7 million in the first quarter of 2017, 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 2017 mandatory prepayment will be applied against the remaining quarterly installments due under the Term Loan Facilities, in accordance with the terms outlined in the Credit Facilities Agreement, as amended.

Borrowings under the Credit Facilities are secured by substantially all of the Company's assets. Pursuant to the Credit Facilities Agreement, as amended, the Company pledged certain properties as collateral with an aggregate carrying amounts of $33.2 million and $45.8 million as of June 30, 2016 and December 31, 2015, respectively. 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 ($277.7 million at June 30, 2016 and $271.6 million at December 31, 2015) 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. As of June 30, 2016 and December 31, 2015, unamortized deferred financing fees (treated as a reduction to Long-term debt) for the Senior Notes were as follows: (i) the U.S. Dollar Senior Notes - $7.4 million and $8.6 million, respectively, and (ii) the Euro Senior Notes - $2.9 million and $3.3 million, respectively.

(All tabular dollar amounts expressed in millions of U.S. dollars, except per share data)

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.

Interest Related Information

Accrued interest related to the Company's outstanding debt obligations was $5.0 million and $5.4 million as of June 30, 2016 and December 31, 2015, respectively, and is recorded in Accrued expenses and other current liabilities. Interest expense for the three months ended June 30, 2016 and 2015, associated with the Credit Facilities, 7.375% senior secured notes redeemed in June 2015 and the Senior Notes, was $45.0 million and $46.3 million, respectively. Interest expense for the six months ended June 30, 2016 and 2015, associated with the Credit Facilities, 7.375% senior secured notes redeemed in June 2015 and the Senior Notes, was $89.9 million and $93.4 million, respectively. The weighted average interest rate for borrowings under the Company's outstanding debt obligations was 6.8% and 7.1% for six months ended June 30, 2016 and 2015, respectively.

10. 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.

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 $2,848.0 million (€2,564.4 million) and $2,716.4 million (€2,500.9 million) at June 30, 2016 and December 31, 2015, 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, 2016 and December 31, 2015:

	As of June 30, 2016		As of December 31, 2015	
Current[(a)]	$ 34.2	€ 30.8	$ 34.2	€ 31.5
Non-current[(b)]	1,381.5	1,243.9	1,281.4	1,179.7
Total accrued PEC interest	**$ 1,415.7**	**€ 1,274.7**	**$ 1,315.6**	**€ 1,211.2**

(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 expense during the three months ended June 30, 2016 and 2015 was $55.1 million (€48.8 million) and $51.6 million (€46.6 million), respectively, and during the six months ended June 30, 2016 and 2015 was $109.1 million (€97.7 million) and $103.6 million (€92.7 million), respectively, which was classified as Interest expense, net in the 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 each of the six months ended June 30, 2016 and 2015, the Company made a payment of $37.1 million 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 January 15 and July 15. On July 13, 2016, the Company made an additional payment of $37.1 million for 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 the 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.

11. Employee Stock Benefit Plans

The Company's Parent grants share-based compensation to employees under the Annual Equity Program ("AEP"), the MEP and the Management Incentive Plan ("MIP").

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, 2016 and 2015, 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 MIP, 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, 2016 and 2015, respectively.

During the six months ended June 30, 2016 there were 65,000 AEP Units, 40,000 MEP Units and zero MIP Units granted. The Company recognized total share-based compensation expense of $19.8 million and $0.5 million for the three months ended June 30, 2016 and 2015, respectively, and $20.8 million and $0.9 million for the six months ended June 30, 2016 and 2015, respectively. The increase in share-based compensation expense for the three and six months ended June 30, 2016 was driven by an increase in the fair value of the MEP Units.

12. 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 litigation 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 unaudited 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.

FDA Regulations

The Company is subject to regulation by the Food and Drug Administration ("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 the 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 that the Agency was satisfied with the Company's responses to the inspectional observations and that no further regulatory action was justified.

On June 24, 2014, the FDA issued a Warning Letter to Unomedical s.r.o., 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 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 which observations the Company subsequently corrected. In July 2015, the Company received a letter from the FDA indicating the FDA was satisfied with the Company's responses to the inspectional observations and that no further regulatory action was justified. 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 new global quality, regulatory, and clinical affairs headquarters in Greensboro for complaint handling and at the Deeside Design Center in the U.K. for its R&D activities. The Company continues to review and improve its quality system to increase efficiency and ensure regulatory compliance. 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. In September 2015, the FDA visited the Company's Greensboro facility to conduct a follow-up inspection as a result of the May 24, 2013 Warning Letter. The inspection resulted in zero 483 observations. On January 5, 2016, the Company received an informal communication from the FDA that they intend to close out the May 24, 2013 Warning Letter, and the formal close-out letter dated February 10, 2016 has been published on the FDA's website.

Other Country/ Region Regulations

In addition to the requirements of the FDA in the U.S., the Company markets its products globally in many regions and countries and, as such, is also subject to those region and country regulations. The number of differing authorities include most notably the European Union ("E.U."), Japan, China and Australia.

As such, the Company's quality management system and supporting pre- and post- market processes are designed to meet the global requirements in the countries in which it markets its products.

For instance in the E.U. the Company's products are required to meet the requirements of the Medical Device Directive ("MDD" 93/42/EEC) and other associated Directives such as the Waste Electrical and Electronic Equipment Directive ("WEEE 2012/19/EU") before they can be commercialized. In order to demonstrate compliance with the essential requirements and obtain the right to affix a CE Mark, the Company must undergo a conformity assessment procedure, which varies according to the type of medical device and its classification. Part of marketing the Company's devices in Europe requires that it is subject to both unannounced and announced audits of any of its facilities by a recognized notified body. These audits include surveillance of the Company's ISO13485-Medical Devices and quality management systems to assess compliance with requirements for regulatory purposes. These audits also include regular reviews of the Class 2b and Class 3 medical devices product technical files. These files hold the relevant objective evidence that forms the basis of our pre-market product clearances in Europe. The Company has contracts with British Standards Institute ("BSI") that act as its Notified Body to carry out these services. Periodically the Company is also subject to audits from the European Union Country Competent authorities such as the Medicine and Healthcare Regulation Agency ("MHRA") in the U.K., with respect to certain of its facilities in relation to their manufacturing and distribution activities.

In September 2012, the European Commission published proposals for the revision of the E.U. regulatory framework for medical devices. The proposal would replace the Medical Device Directive and the Active Implantable Medical Devices Directive with a new regulation (the "Medical Devices Regulation"). Unlike the Directives that must be implemented into national laws, the Medical Devices Regulation would be directly applicable in all European Economic Area Member States and so is intended to eliminate current national differences in regulation of medical devices. If adopted, the Medical Devices Regulation is expected to enter into force in 2016 and become applicable three years thereafter. In its current form it would, among other things, also impose additional reporting requirements on manufacturers of high risk medical devices, impose an obligation on manufacturers to appoint a "qualified person" responsible for regulatory compliance, and provide for more strict clinical evidence requirements.

Failure to maintain adequate systems and records in these areas could result in non-conformities, such as a warning letter, being raised against the Company which in severe cases would cause an interruption in supply of products to patients or prevent new product launches.

Other countries and regions typically have similar requirements to the U.S. or E.U. regulations but are often different in their requirements. The Company's quality management system is designed to support these requirements as well. In support of what is a continuingly evolving landscape of global regulations the Company has established processes and procedures to monitor changes to the standards and regulations that could affect its business so it can react accordingly.

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 May 2015, the Company initiated a voluntary recall of certain batches of its Steel cannula infusion set devices, including the Sure-T, Sure-T Paradigm, contact detach, contact, Sub Q, neria, neria detach, neria multi and thalaset models, due to an increase in reported needle breakage. The recall is currently limited to affected devices in Germany and certain other European countries, and in some other countries, such as the U.S., a Field Safety notification has been issued. The Company 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, the Company 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.

The Company also initiated a voluntary recall of its Suction Catheter devices in June 2015 after an increase in reported complaints of splitting of the connector portion. The recall has been initiated in Australia and the Czech Republic and is a precaution to ensure that distributed products are of the highest quality. The Company has completed destruction of the affected devices that have been returned and the recall has been closed.

In January 2016, the Company initiated a recall of a range of nebulizer products in Europe, the U.S., Canada, and China due to an increase in complaints related to the products' failure to generate an atomized spray as intended. Following an investigation, the Company determined that the issue was due to variability in a molding process during manufacturing. The FDA classified this recall as a Class II recall, reflecting a determination that exposure to the device may cause temporary or

reversible adverse health consequences or that the probability of serious health consequences is remote. The Company is in the process of completing destruction of the affected devices that have been returned and anticipates closing out this recall shortly.

In April 2016, post-market reports identified a limited issue with the Instructions for Use ("IFU") on the Company's Italian models for the Flexiseal Catheter system where the local language requirements were missing. As a precautionary measure, shipments were held for a short period of time to update the IFU and the Company supplied Italian language instructions to the customers. The device is now back in production.

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 the Company 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 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 the Company does not make or sell) are defective. To the best of the Company's knowledge, as of this report date, approximately 20 product liability lawsuits had been filed. The ConvaTec entities have been voluntarily dismissed without prejudice from eight of these lawsuits. 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.

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, 2016, 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 expected to be material to its results of operations and cash flows, or its financial condition and liquidity.

13. Subsequent Events

The Company has evaluated subsequent events through August 4, 2016.