2014 Annual Report

Making a Difference in People's Lives

ConvaTec

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Our Business

Overview

ConvaTec Healthcare B S.à.r.l. and Subsidiaries ("we" or "us" or "ConvaTec") is 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 our customers - including doctors, nurses and patients - with a range of clinical and economic benefits, including infection prevention, protection of at‑risk skin, improved outcomes and reduced total cost of care.

ConvaTec was founded in 1978 as a division of E.R. Squibb & Sons, Inc. Our first product, Stomahesive® skin barrier, revolutionized ostomy care and established our reputation as an innovator of skin adhesives. Our product portfolio grew to include a complete ostomy care line and advanced wound care line, including AQUACEL® Hydrofiber® and DuoDERM® dressings. In 2008, Nordic Capital and Avista Capital Partners acquired the ConvaTec business from Bristol Myers Squibb. ConvaTec subsequently acquired Unomedical in September 2008, expanding our product offerings in continence and critical care and into infusion devices. Today, we have almost 9,000 employees, with 11 manufacturing sites in eight countries, and conduct business in more than 100 countries.

Our Strategy

We drive sustained revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") growth through our core strategies:

- *Extending market leadership in our franchises*
- *Launching differentiated new products*
- *Leveraging direct-to-consumer capability in ostomy and continence care*
- *Continuously improving productivity and efficiencies in manufacturing*
- *Strengthening our presence in emerging markets*
- *Selectively pursuing acquisitions*

Financial Highlights

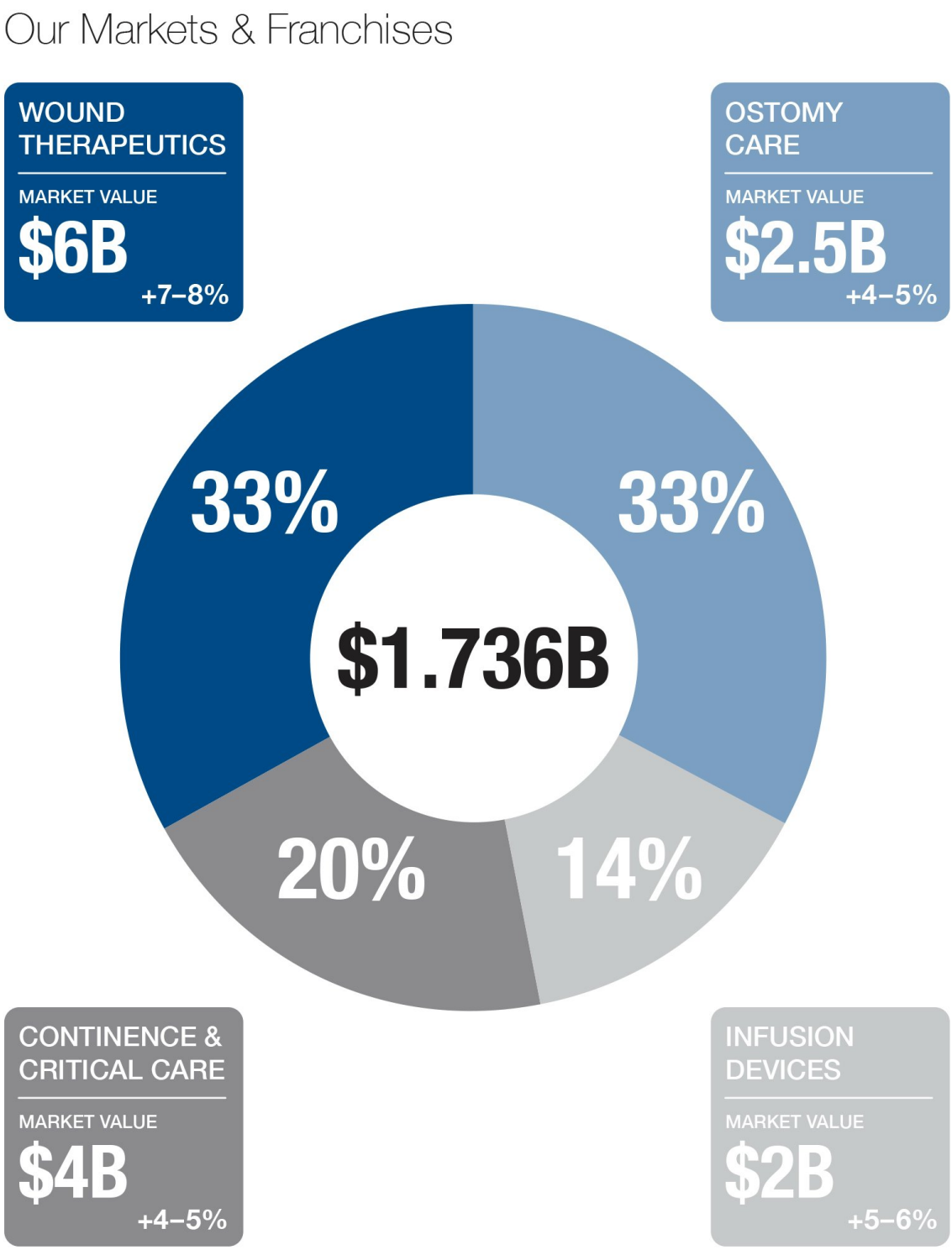
For the year ended December 31, 2014, we had net sales of $1,735.5 million, an increase of $34.8 million, or approximately 2.0%, from $1,700.7 million for the year ended December 31, 2013. On a constant exchange basis, net sales increased 2.8%. For the years ended December 31, 2014 and 2013, we had adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA” excluding realized foreign exchange loss), of $499.9 million and $552.8 million, respectively. Adjusted EBITDA excluding realized foreign exchange loss is a non-GAAP measure. Refer to "Management's Discussion and Analysis" for a reconciliation of EBITDA to Adjusted EBITDA excluding realized foreign exchange loss.

Net sales in our Wound Therapeutics franchise for the year ended December 31, 2014 were $566.2 million, an increase of $40.5 million, or approximately 7.7%, from $525.7 million for the year ended December 31, 2013. At a constant exchange rate, Wound Therapeutics net sales increased 8.5%.

Net sales in our Ostomy Care franchise for the year ended December 31, 2014 were $573.1 million, a decrease of $40.4 million, or approximately 6.6%, from $613.5 million for the year ended December 31, 2013. At a constant exchange rate, Ostomy Care net sales decreased 5.7%.

Net sales in our Continence and Critical Care ("CCC") franchise for the year ended December 31, 2014 were $346.8 million, an increase of $25.7 million, or approximately 8.0%, from $321.1 million for the year ended December 31, 2013. At a constant exchange rate, CCC net sales increased 9.0%.

Net sales in our Infusion Devices franchise for the year ended December 31, 2014 were $249.4 million, an increase of $9.0 million, or approximately 3.7%, from $240.4 million for the year ended December 31, 2013. At a constant exchange rate, Infusion Devices net sales increased 3.8%.



The market values and estimated five year per annum growth rate percentages shown in the boxes above are based on third-party data.

Franchises

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 and Infusion Devices. For the year ended December 31, 2014, our Wound Therapeutics, Ostomy Care, Continence & Critical Care, and Infusion Devices franchises generated 33%, 33%, 20%, and 14% of total net sales, respectively.

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.

ConvaTec markets a comprehensive portfolio of advanced wound dressings, including antimicrobial and foam dressings. Our advanced dressings have long been products of choice by healthcare professionals treating chronic wounds associated with aging populations, such as pressure ulcers, venous leg ulcers and diabetic foot ulcers. We have successfully expanded our offerings in the acute wound area, with advanced dressings for partial-thickness burns and surgical-site incisions, where the potential for infection is a clinical and institutional concern.

Key products include our AQUACEL® line of advanced dressings, which features ConvaTec's proprietary Hydrofiber® Technology. These dressings provide a wound contact layer that transforms into a gel on contact with wound fluid, absorbing and retaining excess exudate to help create an optimal healing environment. The gel contours to the wound bed to help minimize dead space where bacteria can grow. In addition to the base AQUACEL® formulation, we offer AQUACEL® Ag, which contains bacteria-killing silver.

In 2014, we launched AQUACEL® Ag+ Extra dressing featuring a breakthrough technology designed to disrupt biofilm, which can be a barrier to wound healing. Biofilms, often present in chronic wounds, are formed when colonies of surface-attached bacteria secrete a slime to protect themselves. AQUACEL® Ag+ Extra dressings received CE mark approval (a European regulatory marking to signify compliance with applicable regulatory standards) in 2013 and are available in select countries in the European Union ("EU"), as well as Canada, Hong Kong and Malaysia. In the U.S., AQUACEL® Ag+ Extra dressings have not yet received the U.S. Food and Drug Administration ("FDA") clearance and were not available for commercial sale in 2014.

We continue to invest in the commercialization of AQUACEL® Foam, the only foam dressing with the comfort and simplicity of foam plus the benefits of a Hydrofiber® interface. Launched in 2012, AQUACEL® Foam continues to be one of the fastest growing products in the nearly $1 billion market for foam dressings. A recent product addition is AQUACEL® Ag Foam, adding a silver foam dressing to our market-leading antimicrobial line. Rounding out the AQUACEL® line are AQUACEL®/ AQUACEL® Ag EXTRA™, which offers greater strength and absorbency, and AQUACEL®/AQUACEL® Ag Burn and AQUACEL®/AQUACEL® Ag Surgical in the acute market.

AQUACEL®/ AQUACEL® Ag Surgical was also a significant contributor to revenue growth in 2014. In addition, supportive clinical evidence continues to build. For example, a retrospective clinical study published in *The Journal of Arthroplasty* found that the use of AQUACEL® Ag Surgical reduced periprosthetic joint infection ("PJI") following hip and knee replacement surgery (total joint arthroplasty or "TJA") by 76%. Estimating that "the annual costs to manage PJI in the United States likely exceeds $500 million", the article suggests that use of AQUACEL® Ag Surgical "would be an effective measure to prevent the occurrence of acute PJI following TJA and thus diminish the significant healthcare costs and patient morbidity of PJI."

Additional products include our DuoDERM® family of hydrocolloid dressings and our Aloe Vesta® and Sensi-Care® skin care products.

The global Wound Therapeutics market is approximately $6 billion and is expected to grow 7-8% per annum over the next five years, driven by an increase in the number of addressable wounds and a shift from traditional products to more advanced therapies.

ConvaTec is a market leader in advanced wound dressings, competing globally with Mölnlycke, Smith & Nephew, Coloplast and Systagenix (an Acelity company). We also compete with other local medical products companies offering wound care products, such as Medline (in the United States or "U.S.") and Urgo in France. In skin care, a predominantly U.S.-based business, our competitors include Coloplast, Medline and 3M.

Our Ostomy Care franchise includes devices, accessories and services for our customers. Our customers are 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.

ConvaTec markets and provides a full range of services to help customers live their lives to the fullest after their surgery. These services are tailored to the needs of each market and include for example, customer interaction centers, on-line specialist nurse support, specialist clinics, specialist training, in-community shops and ecommerce for cash purchase. ConvaTec constantly strives to find new ways to support customers undergoing this surgery and leading their lives after surgery.

ConvaTec markets a comprehensive product portfolio of one- and two-piece ostomy systems and accessories to address a full range of customer needs and preferences. One-piece systems consist of an integrated skin barrier and pouch, while two-piece systems consist of a skin barrier separate from the pouch, allowing users to change the pouch without having to remove the skin barrier. Skin barriers (or wafers) adhere the system to the skin around the stoma, also serving to protect the skin from harmful bodily waste. Our systems are available with a variety of closure and drainage options, deodorizing filters and pouch materials. A line of accessory products complements our pouch systems and offers the opportunity to increase per-customer revenue. Our accessories include pastes, powders, strips, seals, adhesive removers and a special line of clothing.

Approximately 50% of people with an ostomy develop peristomal skin complications, commonly stemming from bodily waste leaking in between the stoma and the skin barrier. This cycle of leakage and skin breakdown can negatively impact quality of life, physically and emotionally. Therefore, the security of the fit of the pouching system to the body is paramount to enabling our customers to live their lives normally.

Addressing this fundamental customer need, all of our core products, including our advanced pouch ranges of Natura+® (two piece) and Esteem+® (one piece), feature our skin-friendly and clinically-proven adhesives (Stomahesive®, Durahesive® and ConvaTec Moldable Technology™). Key accessory products include Stomahesive® paste and powder, Sensi-Care® sting free skin care, Diamonds™ gelling sachets and the Ostomysecrets® clothing line.

In 2014, we expanded our range of products with ConvaTec Moldable Technology™ to further meet customer needs for enhanced security and ease of use. Traditional skin barriers are cut to fit the stoma opening; Moldable Technology requires no cutting, and instead creates an elastic-like seal that “rebounds” to fit any stoma size and shape.

New products launched in 2014 include the first one-piece ostomy system (Esteem®+) with ConvaTec Moldable Technology™. This new system offers the skin and leak protection of Moldable Technology™ to users who prefer the convenience of a one-piece pouch, which is a growing product line in ostomy care.

Within our two-piece ostomy product offerings, we launched the Natura® Accordion flange. The flange is designed with an accordion-like fold so that users can lift the coupling ring away from the body and click the pouch into place onto the ring without the level of pain that can be associated with applying direct pressure on tender abdomens. Users can then gently lower the pouch back into place against the body for a low profile that is also flexible and conforms to body contours.

The global Ostomy Care market is approximately $2.5 billion and is expected to grow 4-5% per annum over the next five years, driven by favorable demographics.

ConvaTec is one of three global market leaders in ostomy care, competing with Coloplast and Hollister Incorporated (including Dansac, part of the Hollister group). In addition, we compete with smaller regional providers of ostomy and ostomy-related products, including B. Braun in France and Germany, Salts, Eakin-Pelican and Welland in the United Kingdom ("U.K."), and Alcare in Japan.

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.

In Continence Care, ConvaTec offers a portfolio of intermittent urinary catheters, which are predominantly used by people who self-catheterize in order to drain urine from the bladder.

Key products include our GentleCath™ line of intermittent urinary catheters. The 2013 launch of the GentleCath™ line marked the entry of ConvaTec, one of the world's largest producers of catheters, into the estimated $1.6 billion market for intermittent self-catherization. Designed for maximum comfort, safety and ease of use, the GentleCath™ line includes a variety of catheter styles to meet a wide range of customer needs.

In 2014, we launched the GentleCath™ hydrophilic intermittent catheter, a coated catheter that features a no-touch handling strip that allows the catheter to be prepared, used and discarded without the need for direct hand contact with the catheter.

We continue to invest in 180 Medical, our subsidiary that is a leading U.S. distributor of disposable, intermittent urological catheters. In January 2014, 180 Medical acquired Symbius Medical, LLC ("Symbius"), a national home medical supply company which provides urological and other medical supplies across the U.S., as well as durable medical equipment on a regional basis. The acquisition of Symbius extends 180 Medical's ability to serve more U.S. customers directly.

ConvaTec's Critical Care portfolio includes advanced systems for managing acute fecal incontinence, monitoring urine production output (hourly diuresis) and monitoring intra-abdominal pressure ("IAP"). Acute fecal incontinence is a serious healthcare problem for patients in critical care and can lead to skin breakdown, the development of pressure ulcers and the spread of *C. difficile* infection. Hourly diuresis and IAP monitoring provide clinicians with important indicators of a patient's condition. Monitoring IAP is vital for the early detection of intra-abdominal hypertension ("IAH"), estimated to affect up to half of all critical care patients, and enables timely intervention against potential consequences, including abdominal compartment syndrome, multiple organ failure and death.

Key products in this range include Flexi-Seal® fecal management systems, UnoMeter™ hourly diuresis management systems and AbViser® and Abdo-Pressure™ intra-abdominal pressure measurement devices.

In July 2014, we announced the initiation of a voluntary global recall of our Flexi-Seal® CONTROL Fecal Management System as a result of the potential risk of harm associated with inconsistent performance of the product and certain related regulatory issues. The FDA classified this recall as a Class I recall, reflecting a determination that exposure to the device carries a reasonable probability of serious adverse health consequences, including death. We are working to finalize completion of all actions committed to the FDA in connection with the recall and have requested that the FDA formally close the recall. We are awaiting a response from the FDA.

Our Hospital Care portfolio provides a wide range of high-quality disposable medical devices for use in high-volume procedures in urology, intensive care, operating rooms and other hospital departments - helping care teams complete necessary everyday procedures safely and efficiently.

Key products include wound drainage systems; urine collection bags and catheters; airway management and oxygen/aerosol therapy devices; suction handles and tubes; gastroenterology tubes; and securement devices.

In 2014, we continued to upgrade our CCC portfolio by replacing DEHP (Di-(2-ethylhexyl) phthalate) with DEHT (Di-(2-ethylhexyl) terephthalate, an alternative plasticizer which has a safer toxicological profile. Our DEHP-free products for Hospital Care and Critical Care now include UnoMeter™ Safeti Plus urine meter, Flexi-Seal® fecal management system and AbViser® AutoValve IAP monitoring device in addition to urine drainage bags.

The global CCC market is approximately $4 billion and is expected to grow 4-5% per annum over the next five years, driven by increases in general, non-elective care consumption and reimbursement coverage.

ConvaTec holds market-leading positions in fecal management (globally) and in urine monitoring (in Europe). Our primary competitors in Critical Care and Hospital Care include C.R. Bard, Covidien, Hollister and Teleflex. In Continence Care, our competitors include Coloplast, Wellspect and C.R. Bard.

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.

An insulin pump is an external computer-controlled device allowing diabetes patients to get continuous delivery of insulin to the body. Infusion sets are the disposable parts connected to the pump via tubing and injected into the patient's body, allowing the insulin to be delivered subcutaneously (under the skin). Insulin pumps are a well-established and recognized technology for treatment of many type 1 and severe type 2 diabetes patients. In addition to insulin pump therapy for diabetes, we also work with pharmaceutical companies and other partners on infusion sets for continuous subcutaneous drug delivery for other diseases, including apomorphine for Parkinson's disease, immunoglobulins for primary immunodeficiencies, and Thalassaemia and morphine for palliative pain management.

Key products for insulin pump therapy include Quick-set™, mio™, Sure-T™, Silhouette™ (which are trademarks of Medtronic MiniMed, Inc.), Comfort™ and the InSet™ range of products, each of which is tailored for specific patient needs. Outside of diabetes care, we use the product name neria™.

The franchise's portfolio also includes a broad variety of products for hospital and home healthcare that we sell directly to large customers. We use our global manufacturing capabilities and supply chain economies of scale to provide our customers with high-volume, high-quality products, including DEHP-, phthalate- and PVC-free materials and newly developed multi-layer polyolefin materials.

The global Infusion Devices market is approximately $2 billion and is expected to grow 5-6% per annum over the next five years, driven by the increasing prevalence of diabetes and expanded reimbursement coverage for insulin pump therapy.

We are the leading provider of disposable infusion sets used for insulin pump therapy. Our primary competitors include original equipment manufacturers ("OEM") manufacturing infusion sets themselves as well as a variety of specialized manufacturers.

Geographic Information

We market our products in more than 100 countries through direct sales and local distributors. In 2014, approximately 42.5% of our revenues were generated from customers in Europe, Middle East and Africa ("EMEA"), our largest commercial region and Europe being our principal international market. The U.S., our single largest individual market, generated 28.6% of our revenues.

For the year ended December 31, 2014, sales in emerging markets represented 11.5% of our revenues. We continue to strengthen our presence in emerging markets, adding sales staff in key markets in China, India and Brazil. We also tailor our products and business models as appropriate around the world to better serve local needs. Innovative new models include a first-of-its-kind wound clinic in India, mobile clinics in Latin America and storefronts in Eastern Europe.

Due to the global nature of our business, our revenue and expenses are influenced by foreign exchange movements. Increases or decreases in the value of the U.S. Dollar compared to other currencies will affect our reported results as we translate those currencies into U.S. Dollars.

Customers

Our products are marketed and distributed to a wide range of customers, including healthcare providers, patients and manufacturers. In the U.S., the majority of products in our Wound Therapeutics, Ostomy Care and CCC franchises are sold through distributors, wholesalers and other channel partners, such as hospital buying companies and group purchasing organizations ("GPO"). In Europe, products in these three franchises are also sold through bandagists (specialized medical stores) as well as directly to hospitals, home care companies and other healthcare providers. Our Ostomy and CCC customers include end users who receive products from retailers, distributors or directly from public healthcare providers. We also sell Ostomy and Continence Care products directly to consumers through our subsidiary home delivery companies, Amcare in the U.K. and 180 Medical in the U.S. For the year ended December 31, 2014, no single customer represented more than 10% of our net sales.

To service our customers, we operate a network of distribution centers with regional hubs strategically located to support our key markets.

Each of our major markets has a professional sales force, the composition and focus of which varies according to local market and customer dynamics. Generally speaking, our full time representatives call on specialist nurses and physicians involved in the management of wound, ostomy and continence care. We target acute- and post-acute care settings with a sales focus on wound care clinics, intensive care units, operating rooms and other departments within hospitals, home care nurses, and long-term care settings, as well as the purchasers/payers who oversee wound care, intensive care and related departmental budgets.

Our Infusion Devices franchise has a concentrated business-to-business customer base, primarily consisting of the leading insulin pump manufacturers, global urology/continence players and respiratory/airway management players. The contractual relationships we hold with a number of these manufacturers are strategic partnerships involving joint product development and specialized manufacturing capabilities.

Seasonality

The end-use of our products is generally not seasonal in nature because ostomy and continence products, wound dressings, hospital-related products and infusion sets are non-elective chronic-related use products that are used on a routine basis by end users. However, in any given year our sales may be weighted toward a higher percentage in the second half of the year. We believe this trend may be impacted by the following factors: (i) distributor buy-in prior to the winter holiday season; (ii) increased purchases from certain U.S. customers and GPOs to achieve certain contractual volume rebates or to use their allowable allotments under U.S. healthcare programs; (iii) annual discretionary price increases in the U.S. that have typically been made effective during the fourth quarter of the year, thereby resulting in increased purchases prior to the effective dates of such increases; and (iv) reimbursement practices impacting purchasing trends such as in Ostomy Care, in which customers in the U.S. can purchase up to three months of ostomy supplies in one month and customers in Japan are given vouchers twice a year for the purchase of Ostomy Care products.

Competition

We operate in highly competitive markets. Our Wound Therapeutics franchise and the Hospital Care sub-group of our CCC franchise compete with both large and small companies, including several large, diversified companies and numerous smaller niche companies. In Ostomy Care, Infusion Devices, and the Continence and Critical Care sub-groups of our CCC franchise, we generally compete with a small number of large competitors in the market.

Our competitors include C.R. Bard, Coloplast, Covidien, Hollister (including Dansac), Molnlycke, Smith & Nephew and Teleflex, among others.

The success of our business depends on our ability to develop innovative products that address unmet customer needs and differentiate ourselves from our competitors. Strong patent protection, reliable product quality and dependable service are also important to our market position.

Many healthcare industry companies, including medical device companies, are consolidating to create larger companies. As the healthcare industry consolidates, competition to provide products and services to industry participants may become more intense. In addition, many of our distribution channels and purchasing entities are consolidating, and industry participants may try to use their purchasing power to negotiate price concessions or reductions for the products that we manufacture and market. Consolidation may have an impact on price or may enable a competitor to offer a more complete portfolio of products to customers. If we are forced to reduce our prices or suffer other competitive disadvantages because of consolidation in the healthcare industry, our revenues could decrease, and our business, financial condition and results of operations could be adversely affected.

Research & Development

Our Research & Development ("R&D") department works to develop and deliver innovative technologies that meet the most important needs of patients and to help clinicians advance their medical practice in caring for patients. We are continually focused upon improving our existing portfolio of products and upon developing the next generation of technologies for each of our business areas.

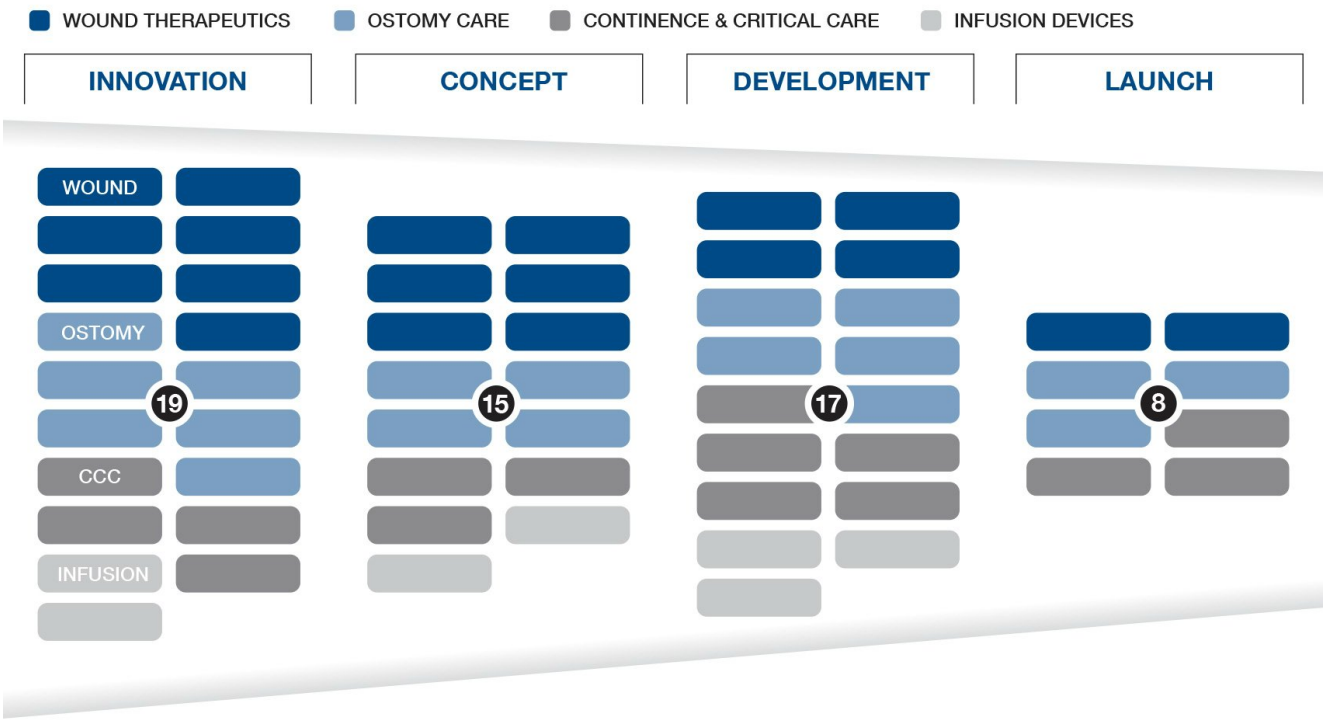
Most of our product development is conducted internally at our R&D centers in Deeside, U.K. and Osted, Denmark. These centers have developed a strong reputation among key opinion leaders and are considered among the leading research institutes within their respective fields, especially in the infection prevention and control area. Core R&D competencies include microbiology, infection detection, anti-infective therapies, biofilm science, adhesive science, polymer science, fluid handling technologies, tissue physiology, injection molding, product design engineering and materials chemistry.

Looking forward, we may supplement our internal development efforts with targeted scouting initiatives for innovative late-stage or developed products in relevant areas of our business where we see opportunities for accelerating commercial growth. Our investment expense in R&D during the years ended December 31, 2014 and 2013 was $37.2 million and $32.0 million, or 2.1% and 1.9% of sales, respectively.

In 2014, we delivered a number of new products and product line extensions. These included a breakthrough new technology we developed to address the issue of biofilm in delayed wound healing, our AQUACEL® Ag+ range of dressings; innovative new one-piece and two-piece ostomy systems that leverage the proven skin protection of our ConvaTec Moldable Technology™ adhesives; and the expansion of our recently launched GentleCath™ line of intermittent urinary catheters to include coated, hydrophilic variants.

Our future developments in Wound Therapeutics will focus upon expanding our Hydrofiber® Technology and Ag+ Technology ranges, together with introducing novel technologies to further advance infection prevention in wound management. In Ostomy Care, our focus will be on further expanding the range of products with our Moldable Technology™ and on the development of innovative technologies to create new products which provide discretion, comfort, ease of use, and the best possible skin protection and confidence that leaks will not occur. Future developments in CCC will focus upon further expanding our GentleCath™ range through the incorporation of new material technologies and innovative design features, together with new technology innovations in the field of continence care. In Infusion Devices, we will continue to focus on needle-safe systems and systems with additional user benefits in relation to ease of use, wear-time and infection prevention.

Our new product development pipeline of proprietary technologies and products spans all business areas and comprises projects at all stages of development from innovation to launch:



Intellectual Property

We hold an extensive portfolio of patents and trademarks across our key franchises and geographies. We actively establish and maintain our rights and assess our risks with respect to our intellectual property. We file and maintain patents and patent applications in those countries in which we have, or desire to have, a strong business presence.

The majority of our patents are related to key technologies, compositions, processes or product features, and many of our key products have patent protection. We also have licenses to issued patents and patent applications that cover certain of our products and technologies. For additional information relating to our patents and trademarks, please refer to "Risk Factors - Risks Related to Our Business".

Government Regulations

Our business is highly regulated. We are subject to various government regulations, reimbursement policies and healthcare cost-containment programs in the countries in which we operate.

FDA

The major regulatory agencies for our products include the FDA, the U.K. Medicines and Healthcare Products Regulatory Agency, the Japanese Ministry of Health, Labour and Welfare, the China Food and Drug Administration and the Australian Therapeutic Goods Administration. The general trend is towards higher regulatory standards and increased enforcement by government authorities.

In the U.S., the FDA regulates the design, manufacture and marketing of medical devices, which includes most of our products. Some of our new products fall into FDA device classifications that require the submission of 510(k) notifications for agency review in order to obtain clearance for marketing in the U.S. Certain products also require pre-market clinical testing for safety and efficacy.

Our research, development, manufacturing and marketing operations are subject to extensive regulation in the U.S. and other countries. Most notably, all of our products sold in the U.S. are subject to the Federal Food, Drug and Cosmetic Act ("FDCA") as implemented and enforced by the FDA. The FDA governs the following activities that we perform or that are performed on our behalf to ensure that medical products distributed domestically or exported internationally are safe and effective for their intended uses:

- product design, development and manufacture;
- product safety, testing, labeling and storage;
- record keeping procedures;
- product marketing, sales, advertising, promotion and distribution; and
- post-marketing surveillance or post market studies, complaint handling, medical device reporting, reporting of deaths, serious injuries or device malfunctions and repair or recall of products.

We and our products are subject to numerous FDA regulatory requirements including:

- product listing and establishment registration, which helps facilitate FDA inspections and other regulatory action;
- Quality System Regulation ("QSR") which requires manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation and other quality assurance procedures during all aspects of the manufacturing process;
- labeling regulations and FDA prohibitions against the promotion of products for uncleared, unapproved or off-label use or indication;
- clearance or approval of new products or certain product modifications;
- medical device reporting regulations, which require that manufacturers comply with FDA requirements to report if their device may have caused or contributed to a death or serious injury, or has malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction of the device or a similar device were to recur;
- post-approval restrictions or conditions, including post-approval study commitments;
- post-market surveillance regulations, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device; and
- notices of correction or removal and recall regulations.

The FDA has broad regulatory enforcement powers. We are subject to unannounced inspections by the FDA to determine our compliance with the QSR and other regulatory requirements, and these inspections may include the manufacturing facilities of some of our subcontractors. Failure by us or our subcontractors to comply with applicable regulatory requirements can

result in enforcement action by the FDA or other regulatory authorities, which may result in sanctions including, but not limited to:

- untitled letters, warning letters, fines, injunctions, consent decrees and civil penalties;
- unanticipated expenditures to address or defend such actions;
- customer notifications for repair, replacement, refunds;
- recall, detention or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing or delaying our requests for 510(k) clearance or pre-market approval ("PMA") of new products or modified products;
- withdrawing 510(k) clearances or PMA approvals that have already been granted;
- refusal to grant export approval for our products; or
- criminal prosecution.

For further information regarding the potential impact of compliance with FDA's regulations, please refer to "Risk Factors."

To market our products in the EU, we apply for CE Marking in accordance with the EU's Medical Device Directive. The Directive regulates the manufacture and distribution of medical devices in EU member states, ensuring they meet quality standards and requirements.

Coverage and Reimbursement

Our product portfolios are subject to hospital payment levels, community reimbursement policies and fees of third-party payors in each country in which our products are sold. Coverage and reimbursement in international markets vary significantly by country and include both government-sponsored healthcare and private insurance.

Increasing per capita healthcare consumption in developed markets as a result of increased longevity, increased incidence of chronic illnesses, defensive medicine and other factors have driven healthcare reforms in many countries where we sell our products. Combined with government austerity programs following the global recession, these reforms have generally been accelerated in an effort to reduce overall healthcare spending. As a result, global healthcare systems have sought ways to limit cost increases, placing downward pressure on the prices of many of our products while putting increased emphasis on differentiated products that can provide more cost-effective benefits to patients.

In the U.S., reforms mandated by the Affordable Care Act ("ACA") have, among other things, placed increased downward pressure on hospital profitability as a result of increased regulation and risk of payment penalties for poor patient outcomes. This pressure, in turn, could reduce consumption of our products, require us to provide higher evidence of the benefits of new technologies and create increased GPO pricing pressures. Some of these impacts, like GPO pricing, are spread over several years due to multi-year contracts.

The ACA also expanded the Durable Medical Equipment, Prosthetics, Orthotics and Supplies ("DMEPOS") Competitive Bidding Program for medical devices sold in retail settings outside of the hospital. None of the products manufactured by ConvaTec are in categories currently included in the Competitive Bidding Program however, retail supplier consolidation as a result of the program may place downward pressure on our prices as larger retailers qualify for discounted volume pricing.

The ACA also imposed a 2.3% excise tax on medical device manufacturers' U.S. sales, beginning January 1, 2013. We believe that many of ConvaTec's products meet the requirements of the "retail exemption" Safe Harbor or the Facts and Circumstances Tests, as outlined in the final rule issued by the Internal Revenue Service ("IRS") and are, thus, exempt from the tax. Further, the final rule also defines a "Safe Harbor" for certain classes of devices categorized as prosthetic devices under the U.S. Social Security Act. We believe that most of our ostomy products are included in the proposed IRS Safe Harbor regulations and are thereby also excluded from the tax. For the year ended December 31, 2014, our medical excise tax for the rest of our products was $1.6 million.

In the U.K., decentralization of large portions of the National Health Service ("NHS") is encouraging new business and contracting models involving economic decision makers. Reforms creating internal and external market forces on healthcare delivery, shifting care "closer to home" to less expensive settings and increasing focus on prevention and management of chronic disease are changing the landscape in which we sell. While the increased focus on quality and efficiency provides selling opportunities for our products with strong value messages for care providers and prescribers, this focus has yet to fully filter through to procurement bodies which still largely base decisions solely on price.

Healthcare reforms in certain European countries are triggering government payers to implement cost-cutting measures that result in reduced recognition of brand differences for medical technologies in reimbursement schemes, reduced consumption, slower uptake of innovations and higher clinical and health economic evidence requirements. Also, governmental procurement processes in certain countries are shifting away from regional tenders to national tenders. This shift increases pressure for obtaining contracts and on pricing.

We continue to monitor the continued impact of global economic conditions as well as government healthcare reform and the related impact on pricing discounts, creditworthiness of our customers and our ability to collect outstanding receivables from our customers. Currently, we believe the general economic environment will not have a material impact on our liquidity, cash flow or financial flexibility. Further, we believe our development of enhanced and innovative product offerings provides customers with strategic business solutions to help improve quality of care, patient outcomes and total cost of care. We believe that our product offerings are aligned with the current direction of healthcare policies and, as such, will be viewed positively by healthcare providers.

Other Healthcare Laws

We are also subject to healthcare regulation and enforcement by the federal government and the states and foreign governments in which we conduct our business. These laws include, without limitation, state and federal anti-kickback, fraud and abuse, false claims, physician sunshine and privacy and security laws and regulations.

The federal Anti-Kickback Statute prohibits, among other things, any person from knowingly and willfully offering, soliciting, receiving or providing remuneration, directly or indirectly, to induce either the referral of an individual, for an item or service or the purchasing or ordering of a good or service, for which payment may be made under federal healthcare programs such as the Medicare and Medicaid programs. The Anti-Kickback Statute is subject to evolving interpretations. In the past, the government has enforced the Anti-Kickback Statute to reach large settlements with healthcare companies based on sham consulting and other financial arrangements with physicians. A person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation. In addition, the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the federal False Claims Act. The majority of states also have anti-kickback laws which establish similar prohibitions and in some cases may apply to items or services reimbursed by any third-party payor, including commercial insurers.

Additionally, the civil False Claims Act prohibits knowingly presenting or causing the presentation of a false, fictitious or fraudulent claim for payment to the United States government. Actions under the False Claims Act may be brought by the Attorney General or as a qui tam action by a private individual in the name of the government. Violations of the False Claims Act can result in very significant monetary penalties and treble damages. The federal government is using the False Claims Act, and the accompanying threat of significant liability, in its investigation and prosecution of device and biotechnology companies throughout the country, for example, in connection with the promotion of products for unapproved uses and other sales and marketing practices. The government has obtained multi-million and multi-billion dollar settlements under the False Claims Act in addition to individual criminal convictions under applicable criminal statutes. Given the significant size of actual and potential settlements, it is expected that the government will continue to devote substantial resources to investigating healthcare providers' and manufacturers' compliance with applicable fraud and abuse laws.

To the extent we directly bill government healthcare programs for the provision of our products, our financial relationships with referring physicians may be subject to the Stark Law, which prohibits, among other things, physicians who have a financial relationship, including an investment, ownership or compensation relationship with an entity, from referring Medicare and

Medicaid patients to that entity for designated health services, which include the provision of DMEPOS, unless an exception applies. Similarly, entities may not bill Medicare, Medicaid or any other party for services furnished pursuant to a prohibited referral. Unlike the federal Anti-Kickback Statute, the Stark Law is a strict liability statute, meaning that all of the requirements of a Stark Law exception must be met in order for referrals to an entity by a physician with a financial relationship with the entity to be compliant with the law. Penalties for violating the Stark Law include denial of payment, civil monetary penalties of up to $15,000 per claim submitted, and exclusion from federal health care programs, as well as a penalty of up to $100,000 for attempts to circumvent the law.

The federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), also created new federal criminal statutes that prohibit among other actions, knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program, including private third-party payors, knowingly and willfully embezzling or stealing from a healthcare benefit program, willfully obstructing a criminal investigation of a healthcare offense, and knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services. Similar to the federal Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation.

There has also been a recent trend of increased federal and state regulation of payments made to physicians and other healthcare providers. The ACA, among other things, imposed new reporting requirements on device manufacturers for payments made by them to physicians and teaching hospitals, as well as ownership and investment interests held by physicians and their immediate family members. Failure to submit required information may result in civil monetary penalties of up to an aggregate of $150,000 per year (or up to an aggregate of $1 million per year for "knowing failures"), for all payments, transfers of value or ownership or investment interests that are not timely, accurately and completely reported in an annual submission. Device manufacturers were required to begin collecting data on August 1, 2013 and submit reports to the government by March 31, 2014 and June 30, 2014, and the 90th day of each subsequent calendar year. Certain states also mandate implementation of compliance programs, impose restrictions on device manufacturer marketing practices and/or require the tracking and reporting of gifts, compensation and other remuneration to physicians.

We may also be subject to data privacy and security regulation by both the federal government and the states in which we conduct our business. HIPAA, as amended by the Health Information Technology and Clinical Health Act of 2009 ("HITECH"), and their respective implementing regulations, including the final omnibus rule published on January 25, 2013, imposes specified requirements relating to the privacy, security and transmission of individually identifiable health information. Among other things, HITECH makes HIPAA's privacy and security standards directly applicable to "business associates," defined as independent contractors or agents of covered entities that create, receive, maintain or transmit protected health information in connection with providing a service for or on behalf of a covered entity. HITECH also increased the civil and criminal penalties that may be imposed against covered entities, business associates and possibly other persons, and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorney's fees and costs associated with pursuing federal civil actions. In addition, state laws govern the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways, thus complicating compliance efforts. See also "Legal Proceedings - Theft of Patient Data Litigation/HIPAA Matters."

Manufacturing and Raw Materials

We have an efficient and strategically located manufacturing network, with 11 sites in eight countries, many of which are in relatively low cost labor markets. This gives us significant operational flexibility and the ability to drive continuous improvements in productivity and overall profitability. Our broad distribution network complements our manufacturing capabilities, enabling us to serve our global customer base efficiently.

We rely on various suppliers for the components and raw materials required for the production of our products. These costs are included as part of our cost of goods sold. Wherever possible, we attempt to source materials from multiple suppliers. We have not been impacted by major supply disruptions.

We operate manufacturing and warehouse facilities located in Deeside (U.K.), Rhymney (U.K.), Greensboro (U.S.), Haina (Dominican Republic), Minsk (Belarus), Michalovce (Slovakia), Herlev (Denmark), Sungai Petani (Malaysia), Osted (Denmark) and Reynosa (Mexico). This core manufacturing capability is supported by third-party contract manufacturers and linked to a reliable supply chain and broad distribution network. The overall supply chain configuration enables us to meet the production expectations of our customers while maintaining a high level of product quality, preserving operational flexibility and improving productivity and overall profitability.

Environment

Our operations are subject to national, state and local environmental laws, regulations and other requirements, including regulations governing the generation, use, manufacture, handling, transport, storage, treatment and disposal of, or exposure to, hazardous materials, discharges to air and water, the cleanup of contamination and occupational health and safety matters. For example, our research and development and manufacturing processes involve the use of hazardous and other materials subject to environmental regulation. We believe we are in material compliance with applicable environmental requirements at December 31, 2014.

Employees

As of December 31, 2014, we had almost 9,000 full time equivalent employees, of whom approximately 1,600 work in sales across 37 countries. About 6,000 of our employees work in operations, which includes manufacturing and supply chain activities. The majority of our employees are located in the U.S., the U.K., the Dominican Republic, Slovakia, Malaysia and Mexico, where we operate our largest manufacturing facilities.

We believe we have satisfactory working relationships with our employees and have not experienced any significant labor disputes or work stoppages in the last ten years. All U.S. employees are non‑unionized. Some of our employees in Europe, Mexico and in the Asia‑Pacific jurisdictions are covered by collective bargaining agreements that are customary for the industry or are members of labor unions.

Properties

We operate in approximately 2.0 million square feet of office, warehouse and manufacturing real estate globally and incur total annual rental expense, across all regions, of approximately $25.0 million.

The following table lists our manufacturing facilities as well as our primary office and warehouse spaces as of December 31, 2014:

Location	Area (sq ft)	Type	Leased/Owned
Haina (Dominican Republic)	191,578	Manufacturing Facility	Leased
Greensboro (U.S.)	144,000	Manufacturing Facility	Owned
Deeside (Wales, U.K.)	249,801	Manufacturing Facility	Leased/Owned
Rhymney (Wales, U.K.)	60,000	Manufacturing Facility	Leased[(1)]
Osted (Denmark)	65,000	Manufacturing Facility	Owned
Reynosa ID (Mexico)	163,799	Manufacturing Facility	Owned
Sungai Petani (Malaysia)	138,842	Manufacturing Facility	Leased
Minsk (Belarus)	46,000	Manufacturing Facility	Owned
Michalovce (Slovakia)	263,716	Manufacturing Facility	Leased
Reynosa HC (Mexico)	96,926	Manufacturing Facility	Leased/Owned
Herlev (Denmark)	138,481	Manufacturing Facility	Owned
Minato-ku (Japan)	9,769	Office	Leased
Munich (Germany)	16,381	Office	Leased
Schauffhausen (Switzerland)	9,709	Office	Leased
Deeside (Wales, U.K.)	43,798	Office/Laboratory	Owned
Montreal (Canada)	11,075	Office	Leased
Skillman (U.S.)	160,000	Office	Owned[(2)]
Bridgewater (U.S.)	16,078	Office	Leased
Sunderland (England, U.K.)	25,068	Warehouse	Leased
Pallion (England, U.K.)	36,662	Warehouse	Leased
Reynosa ID (Mexico)	20,000	Warehouse	Owned
180 Medical (U.S.)	20,000	Warehouse	Leased
180 Medical (U.S.)	60,000	Office	Owned

(1) We hold a long-term leasehold on this property with a term of 99 years from August 23, 2000.
(2) We exited the premises in May 2014 and have listed this office for sale.

Legal Proceedings

We have been involved in certain lawsuits, claims, proceedings and investigations that are currently pending. In accordance with the accounting guidance related to contingencies, we record 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 matters or that any future lawsuits, claims, proceedings, or investigations will not be material.

FDA Regulations

We are subject to regulation by the FDA under the 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 our products may require approval of a PMA to be marketed in the U.S., while others may require a 510(k) clearance. Other products may be exempt from regulatory clearance or approval but will still subject to regulation by FDA.

As a medical device manufacturer, we are required to register our facilities and list our products with the FDA. In addition, we are required to comply with the FDA's current good manufacturing practices for medical devices known as the QSR, which requires that our devices be manufactured and records be maintained in a prescribed manner with respect to design and development, manufacturing, testing and control activities. Our manufacturing facilities are subject to periodic and occasional unannounced inspections by the FDA for compliance with the QSR. Further, we are 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, we are 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 our similar devices were to recur. If we fail to report these events to the FDA within the required timeframes, or at all, the FDA could take enforcement action against us. Any such adverse event involving our 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 ourselves in a lawsuit, will require the dedication of our time and capital, distract management from operating our business, and may harm our reputation and financial results.

If the FDA believes we are 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 our 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. We have 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 Unomedical A/S's, a ConvaTec company, Osted, Denmark facility. 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 and we were able to close and verify one observation at the closing meeting. 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 we received a letter from the FDA indicating they were satisfied with our responses to the inspectional observations and that no further regulatory action was justified. They also stated they would follow up at their next scheduled inspection to ensure these were corrected and verified.

On June 24, 2014, the FDA issued a Warning Letter to Unomedical, a ConvaTec company, resulting from an inspection of our 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, we took prompt action to correct the violations the FDA had identified, and we provided updates, including documented evidence of corrective actions, to the FDA in April and June 2014. We 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. We are

still in the process of refining and further improving our corrective actions. We hosted a follow up inspection from the FDA in January 2015.

We previously received a Warning Letter from the FDA dated May 24, 2013 resulting from a routine inspection at our 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 we have since closed our Skillman facility as part of office space consolidation, we have added resources and updated our quality system to address the FDA's concerns. For example, we have employed resources at our Greensboro, North Carolina site for complaint handling and at our Deeside Design Center in the U.K. for our R&D activities. We continue to engage third-party consultants to assist in the implementation of our remediation plans to effectively implement our corrective actions, and we continue to work closely and cooperatively with the FDA. As agreed with the FDA, consultant led certification audits were completed in December 2014 and submitted to the FDA. We were able to demonstrate significant progress in our remediation efforts.

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

Recalls

The design, development, manufacture and sale of our 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 us could occur as a result of component failures, manufacturing errors, design or labeling defects or other deficiencies and issues. Recalls of any of our products would divert managerial and financial resources and have an adverse effect on our 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.

We have been in the past, and continue to be, subject to various product liability lawsuits, product recalls and requirements to issue field corrections related to our products due to manufacturing deficiencies, labeling errors or other safety or regulatory reasons. In July 2014, we announced the initiation of a voluntary global recall of our Flexi-Seal® CONTROL Fecal Management System as a result of the potential risk of harm associated with inconsistent performance of the product and certain related regulatory issues. The FDA classified this recall as a Class I recall, reflecting a determination that exposure to the device carries a reasonable probability of serious adverse health consequences, including death. We are working to finalize completion of all actions committed to the FDA in connection with the recall and have requested that the FDA formally close the recall. We are awaiting a response from the FDA. In October 2014, we became aware of an issue with our NicoFix Securement device and decided to carry out a voluntary recall of affected lots which is currently underway.

The circumstances that lead to recalls, as well as similar occurrences in the future, may be the subject of product liability claims due to allegations that use of our products resulted in adverse health consequences. For example, in June 2013, Medtronic MiniMed, Inc. ("Medtronic"), issued a recall of certain infusion sets, including the Quick-Set® and Silhouette® infusion sets, which include P-Cap connectors designed by Medtronic and manufactured for Medtronic by Unomedical A/S for use with Medtronic insulin infusion pumps in diabetes care. Medtronic issued this recall due to a potential safety issue that can occur if insulin or other fluids come in contact with the inside of the tubing/P-Cap connector. This recall has resulted in new pending or threatened litigation against various Unomedical and ConvaTec entities (the latter of which had no involvement in the manufacture or sale of infusion sets). These lawsuits allege that the infusion sets are defective and have caused injuries or death to various plaintiffs. All of these cases also include claims against Medtronic, and allegations that their insulin pumps (which Unomedical does not make or sell) are defective. To the best of our knowledge, as of April 27, 2015, approximately 11 product liability lawsuits had been filed. We sent a demand to Medtronic seeking indemnification for these lawsuits consistent with the terms of the agreements between us. To date, Medtronic has rejected this demand. We also carry product liability insurance, subject to a self-insured retention, and have notified the insurance carrier about these lawsuits. The lawsuits

are all in their infancy, and at this stage we are unable to predict the likelihood of an unfavorable outcome or estimate any potential loss.

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

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

180 Medical, along with multiple manufacturers and suppliers in the ostomy care, wound care and continence/urology care markets, also informally received a copy of an unsealed, amended qui tam False Claims Act Complaint filed in U.S. District Court for the District of Massachusetts on November 20, 2014. The amended complaint originates with a qui tam action filed by current and former Coloplast employees. The amended complaint generally alleges improper marketing and business practices of manufacturers and suppliers in the ostomy care, wound care and continence/urology care markets, and seeks to recover treble damages sustained by, and civil penalties and restitution owed to, the U.S. as a result of allegedly illegal kickback schemes, illegal telephone solicitation campaigns, and deceptive sales campaigns designed to defraud Medicare to pay for medically unnecessary products and fraudulent billing schemes. There also are claims against four defendants, but not 180 Medical, for similar conduct related to the State of California's Medicaid program.

While 180 Medical is a named defendant in the amended complaint, ConvaTec is not a named party. All parties in the amended complaint have agreed, and the Court has ordered, that service of the amended complaint is stayed until May 19, 2015, to allow the government and qui tam relators' counsel an opportunity to conduct additional investigation and have discussions with the various defendants.

We are unable to predict what action, if any, might be taken in the future by the USAO against either ConvaTec, our subsidiary, or our employees as a result of the matters that are the subject of the investigation or the outcome of the qui tam action filed in the U.S. District Court of Massachusetts. In the event our operations are found to be violative of an applicable civil or criminal statute, we may be subject to civil and/or criminal fines and penalties, including possible exclusion from federal healthcare programs, and/or be required to enter into a corporate integrity or other settlement agreement with the government, any of which could have a material adverse effect on our business.

Theft of Patient Data Litigation / HIPAA Matters

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

In March 2015, the Employee Defendants turned over information and documents during the course of discovery in the pending lawsuit, which for the first time disclosed a related breach circumstance of which we were previously unaware. The documents evidence that in May 2014, a current employee violated law and ConvaTec policies by emailing a spreadsheet containing 14,121 rows of patient data to the Employee Defendants, after they were hired by the competitor. We are analyzing the additional data set in order to identify the uniquely affected individuals, and expects to timely update OCR about these recent developments, and to send additional notifications to individuals as required by law.

We understand that in other data breach situations, OCR has imposed fines and penalties and/or corrective action plans, following OCR post-breach investigations and compliance reviews. Because the OCR investigation is ongoing and in the early stages, we cannot reasonably estimate a range of possible losses or state whether the investigation will result in a finding that Symbius failed to comply with applicable provisions of the Privacy and Security Rule, and/or the Breach Notification Rule, and/or a formal enforcement action that results in the imposition of civil monetary penalties.

During the fourth quarter of 2014, we reviewed for impairment our indefinite-lived trade names and specific definite-lived intangible assets recorded in connection with the Symbius acquisition due to the loss of patients as a result of alleged violation of non-compete clauses by certain former employees. An additional $4.3 million impairment was recognized in relation to Symbius' contracts and customer relationships, non-compete and trade name as a result of the alleged violation of non-compete clauses by certain former employees. Refer to Note 17 - Commitments and Contingencies for additional discussion.

Environmental Proceedings

We are also a party to proceedings and other matters under various national, state and local environmental laws, and from time to time we incur 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 we are responsible under various national, state and local laws, we typically estimate potential costs based on information obtained from the U.S. Environmental Protection Agency ("EPA") 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 we accrue liabilities when they are probable and reasonably estimable. As of December 31, 2014, we do not expect to incur, and there have been no material costs for investigation and remediation for any sites for which we may be responsible, including liabilities under the U.S. Comprehensive Environmental Response, Compensation and Liability Act and for other remedial obligations.

We have 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, we record 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 matters or that any future lawsuits, claims, proceedings or investigations will not be material. Management continues to believe that during the next few years, the aggregate impact, beyond current reserves, of these and other legal matters affecting us is not likely to be material to our results of operations and cash flows or our financial condition and liquidity. See also "Risk Factors" for further discussion.

Insurance

We maintain insurance policies to cover risks including those related to physical damage to, and loss of, our equipment and properties, as well as product liability coverage against claims and general liabilities which may arise through the course of our normal business operations. We renew most of our insurance policies annually, and most insurance premiums are denominated in U.S. Dollars.

We also maintain various other insurance policies to cover a number of other risks related to our business, such as director and officer cover, employment practices and fiduciary liability coverage. In addition, we maintain insurance policies to cover various other risks such as automobile liability and physical damage, workers' compensation and employer's liability and marine cargo transit. We believe that the types and amounts of insurance coverage we currently maintain are in line with customary practice in the medical device industry and are adequate for the conduct of our business. We cannot assure you, however, that our insurance coverage will adequately protect us from all risks that may arise or in amounts sufficient to prevent any material loss. See "Risk Factors—Risks Related to Our Business—Our business may be harmed as a result of litigation, particularly if the number of product liability claims increases significantly and/or our insurance proves inadequate."

Risk Factors

You should carefully consider these risk factors in evaluating our business. In addition to the following risks, there may also be risks that we do not yet know of or that we currently think are immaterial that may also affect our business. If any of the following risks occur, our business, results of operations, cash flows or financial condition could be adversely affected.

Risks Related to Our Financial Statements

We have identified material weaknesses in our internal control over financial reporting.

In preparing our Consolidated Financial Statements as of and for the year ended December 31, 2014, we identified control deficiencies in the design and operation of our internal control over financial reporting that together constituted material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis. The material weakness identified related to the corporate governance and oversight of the financial reporting process and revenue recognition. These material weaknesses were first identified during the preparation of our Consolidated Financial Statements as of and for the year ended December 31, 2013, and have not yet been fully remediated. As such, our controls over financial reporting were not designed or operating effectively. We have taken steps to remediate these material weaknesses and expect to continue to take additional actions in connection with the remediation process. However, we can give no assurances that the measures we take will remediate the material weaknesses identified or that any additional material weaknesses will not arise in the future due to our failure to implement and maintain adequate internal control over financial reporting.

Risks Related to Our Regulatory Environment

We are not subject to the Sarbanes‐Oxley Act of 2002.

We are not subject to the U.S. Sarbanes‐Oxley Act of 2002, which requires public companies to have and maintain effective disclosure controls and procedures to ensure timely disclosure of material information, and have management review the effectiveness of those controls on a quarterly basis. We are also not subject to the U.S. Securities Act of 1933 (the "Securities Act"). The Securities Act also requires public companies to have and maintain effective internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements, and have management review the effectiveness of those controls on an annual basis (and have the independent auditor attest to the effectiveness of such internal controls). We will not be required to comply with these requirements and therefore we might not have procedures comparable to public companies.

We and our customers are subject to substantial national and local government regulation that could have a material adverse effect on our results of operations, including:

(i) Exposing us to liabilities in numerous areas of our business.

The medical device products we design, develop, test, manufacture, label, distribute, market and export/import are subject to rigorous regulation by governmental authorities such as the FDA in the U.S., the EU National Competent Authorities (the “NCAs”) of the Member States of the European Economic Area (“EEA”), and numerous other national and/or state governmental authorities in the countries in which we manufacture and sell our products. These regulations govern, among other things: the research, testing, manufacturing, safety, clinical efficacy, effectiveness and performance, product standards, packaging requirements, labeling requirements, import/export restrictions, storage, recordkeeping, promotion, distribution, production, tariffs, duties and tax requirements. Our products and operations are also often subject to the norms of industrial standards bodies, such as the International Standards Organization or the rules of associations of healthcare professionals. In the U.S., our products are subject to regulation by the FDA pursuant to its authority under the federal FDCA and its implementing regulations. In the U.S., before we can market a new medical device, or a new use of, or claim for, or significant modification to, an existing product, we must first receive either premarket clearance under Section 510(k) of the FDCA, or approval of a

PMA from the FDA, unless an exemption applies. In the 510(k) marketing clearance process, the FDA must determine that a proposed device is "substantially equivalent" to a legally marketed device, known as a "predicate" device, with respect to intended use, technology and safety and effectiveness, in order to clear the proposed device for marketing. Bench tests, pre-clinical and/or clinical data are sometimes required to support substantial equivalence. The PMA approval pathway requires an applicant to demonstrate the safety and effectiveness of the device based, in part, on data obtained in clinical trials. Both of these processes can be expensive and lengthy and entail significant fees, unless exempt. The FDA's 510(k) marketing clearance process usually takes from three to 12 months, but it can last longer. The process of obtaining PMA approval is much more costly and uncertain than the 510(k) marketing clearance process. It generally takes from one to three years, or even longer, from the time the PMA application is submitted to the FDA, until an approval is obtained. There is no assurance that we will be able to obtain FDA clearance or approval for any of our new products on a timely basis, or at all. In the U.S., our currently commercialized products have received pre-market clearance under Section 510(k) of the FDCA. If the FDA requires us to go through the lengthier more rigorous examination for future products or modifications to existing products than we had expected, our product introductions or modifications could be delayed or canceled, which could cause our sales to decline. In addition, the FDA may determine that future products will require the more costly, lengthy and uncertain PMA process. Although we do not currently market any devices under PMA, the FDA may demand that we obtain a PMA prior to marketing certain of our future products.

Many of the laws and regulations applicable to our products in other countries, such as the Council Directive 93/42/EEC of 14 June 1993 concerning medical devices, as amended (the "EU Medical Devices Directive") (as transposed into the respective national laws and regulations of the EEA Member States), are generally comparable to those of the FDCA in their aim to ensure safety and effectiveness of medical devices, but the applicable standards and proceedings are not globally harmonized. Such regulations are subject to continuous revision, which may entail increased requirements, and, more generally, there appears to be a trend toward more stringent regulatory oversight throughout the world. We do not anticipate this trend to diminish in the near future. Due to the movement towards harmonization of standards in the EU and the expansion of the EU, we expect a changing regulatory environment in Europe characterized by a shift from a country-by-country regulatory system to a EU-wide single regulatory system. The timing of this harmonization and its effect on us cannot currently be predicted. Likewise, EU medical devices legislative framework is currently under review (the "Recast" or "Revision" of the Medical Device Directive) and this may result in more stringent regulation of, at least, some medical devices, the details and impact of which cannot yet be fully predicted.

In addition, the FDA may change its clearance and approval policies, adopt additional regulations or revise existing regulations, or take other actions which may prevent or delay approval or clearance of our products under development or impact our ability to modify our currently cleared products on a timely basis. For example, in response to industry and healthcare provider concerns regarding the predictability, consistency and rigor of the 510(k) regulatory pathway, the FDA initiated an evaluation of the program, and in January 2011, announced several proposed actions intended to reform the review process governing the clearance of medical devices, which governs a significant proportion of our currently marketed devices. The FDA intends these reform actions to improve the efficiency and transparency of the clearance process, as well as bolster patient safety. In addition, as part of the Food and Drug Administration Safety and Innovation Act ("FDASIA"), Congress reauthorized the Medical Device User Fee Amendments with various FDA performance goal commitments and enacted several "Medical Device Regulatory Improvements" and miscellaneous reforms which are further intended to clarify and improve medical device regulation both pre- and post-clearance or approval. The changing regulatory environment, as partially evidenced by the former examples, may have a material impact on existing device marketing authorizations as well as future device registration applications, requirements and timings, which may, in turn, have material impacts upon our ability to continue or begin to market existing and new devices.

We are also subject to antitrust, anti-competition, anti-fraud and anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act (the "FCPA") and similar laws in other countries, any violation of which could create a substantial liability for us and also cause a loss of reputation or business opportunity in the market. The FCPA prohibits U.S. companies and issuers, along with their officers, directors, employees, shareholders and agents acting on their behalf from offering, promising, authorizing or making improper payments to foreign officials for the purpose of obtaining or retaining business abroad or otherwise obtaining favorable treatment. U.S. issuers must also maintain records that fairly and accurately reflect transactions and maintain internal accounting controls. We regularly interact with foreign officials in obtaining and retaining regulatory approvals and in many countries, hospitals and clinics are government owned and healthcare professionals employed by such

hospitals and clinics, with whom we regularly interact, may meet the definition of a foreign official for purposes of the FCPA. We have business in countries and regions which are less developed and are generally recognized as business environments with heightened corruption risk. Our activities in these countries create the risk of unauthorized payments or offers of payments by one of our employees or agents that could be in violation of various anti-corruption laws including the FCPA. We have implemented safeguards and policies to discourage these practices by our employees and agents, and we conduct internal investigations from time to time when allegations of improper conduct are made. However, as for similar businesses, there is a risk our existing safeguards and any future improvements may not be effective to fully mitigate these corruption risks. If employees or agents violate our policies or fail to maintain adequate record-keeping and internal accounting practices to accurately record transactions related to our business, we may be subject to regulatory sanctions. If we are found to have violated the FCPA or other similar laws, we may face sanctions including significant fines and criminal penalties, disgorgement of profits and suspension or debarment of our ability to contract with government agencies or receive export licenses, as well as reputational harm.

(ii) Causing us to expend material time and money in bringing new products to market and in making them eligible for government reimbursement.

In addition, in many countries the national health or social security organizations require our products to be qualified before they can be marketed with the benefit of reimbursement eligibility. In emerging markets, new regulations and product registration requirements continue to evolve. Failure to receive or delays in the receipt of, relevant national or state qualifications could have a material adverse effect on our business, results of operations and financial condition.

We are required to expend significant time, effort and expense in bringing new products to market and to adhering to post-market requirements. Even after we have obtained the proper regulatory clearance or approval to market a product, we have ongoing responsibilities under FDA's and foreign government authorities' regulations. Among other things, we are required to implement and maintain stringent reporting, labeling and record keeping procedures and must make available our manufacturing facilities and records for periodic inspections by governmental agencies, including the FDA in the U.S., state authorities, Notified Bodies and comparable agencies in other countries to assess compliance with current good manufacturing practice ("cGMP") requirements in the applicable jurisdiction. For example, in the U.S., we and our third party manufacturers and suppliers are required to comply with the FDA's Quality System Regulation, which covers the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, sterilization, storage and shipping of our products. Regulatory agencies are increasingly applying requirements to the post-market phase both in terms of surveillance and vigilance as well as in terms of reporting requirements and post market clinical follow-up. This trend is likely to continue and could result in the need for more frequent post-market clinical studies or registry studies, increasing the costs involved in maintaining product registrations and keeping our products on the market. The failure to comply with applicable regulations could jeopardize our ability to sell our products and result in enforcement actions such as untitled letter or warning letters, fines, injunctions, civil penalties, termination of distribution, recalls or seizures of products, delays in the introduction of products into the market, total or partial suspension of production, refusal to grant future clearances or approvals, withdrawals or suspensions of current clearances or approvals, and criminal penalties. Any of these sanctions could result in higher than anticipated costs or lower than anticipated sales and have a material adverse effect on our reputation, business, results of operations and financial condition.

(iii) Subjecting our business to increasingly complex and changing laws and third-party audits.

The medical device industry also is subject to an immense number of complex laws governing healthcare reimbursement and healthcare fraud and abuse laws, with these laws and regulations being subject to interpretation. Recent legislative and regulatory changes have been or are in the process of being implemented. In addition, in many instances, the industry does not have the benefit of significant regulatory or judicial interpretation of these laws and regulations.

For instance, 180 Medical, a fully consolidated subsidiary, is required to have a Medicare supplier number in order to bill Medicare for services provided to Medicare patients. In order to maintain billing privileges in the Medicare program, durable medical equipment ("DME") suppliers, including 180 Medical, must satisfy certain supplier standards, one of which is to comply with applicable state licensure and regulatory laws. Such laws vary from state to state and are subject to change, and 180 Medical must ensure that it maintains each of its state licenses and is continually in compliance with the laws of the

states in which 180 Medical operates. In the event that 180 Medical fails to comply with any such state's laws regulating DME suppliers, 180 Medical will be unable to operate as a DME supplier in such state until it regains compliance. In addition, 180 Medical may lose its Medicare supplier number, which could jeopardize its Medicare as well as certain Medicaid contracts and, as a result, 180 Medical would experience a decrease in its revenues. Commercial insurers may also cancel their agreement with 180 Medical by giving notice per their agreements, resulting in a further loss of revenue to 180 Medical. 180 Medical may also be subject to certain fines and/or penalties, including criminal penalties.

As a Medicare supplier, 180 Medical is also subject to periodic audits by the Medicare and Medicaid programs, and the oversight agencies for these programs have authority to assert remedies against it if they determine that 180 Medical has overcharged the programs or failed to comply with program requirements. These agencies could seek to require 180 Medical to repay any overcharges or amounts billed in violation of program requirements, or could make deductions from future amounts otherwise due to 180 Medical from these programs. Further, the recently enacted Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (collectively, the "ACA") now requires that overpayments be reported and returned within 60 days of identification of the overpayment. Any overpayment retained after this deadline will now be considered an "obligation" for purposes of the False Claims Act and subject to fines and penalties.

(iv) Exposing us to regulatory inspections and potential penalties and fines.

Various national and state agencies have become increasingly vigilant in recent years in their investigation of various business practices. If we fail to pass an inspection or to comply with applicable regulatory requirements, we could be subject to enforcement action or could otherwise be required to take corrective action and, in severe cases, we could suffer a disruption of our operations and manufacturing delays or shutdowns. We cannot assure you that the FDA, the NCAs or other governmental authorities would agree with our interpretation of applicable regulatory requirements or that we have in all instances fully complied with all applicable requirements. Any failure to comply with applicable requirements could adversely affect our product sales and profitability. For example, as a result of a routine inspection, we received a warning letter from the FDA dated May 24, 2013. The warning relates to complaints handling and other quality management systems at our Skillman, New Jersey, facility. We cannot assure you that the FDA or other governmental authorities will not take further action with respect to this matter, or that we will not receive any future warnings letters or be subject to any other enforcement action in the future. Governmental and regulatory actions against us can result in various actions that could adversely impact our operations, including:

- the recall or seizure of products;
- the issuance of warning letters or untitled letters;
- operating restrictions or the suspension or revocation of the authority necessary for the production or sale of a product;
- the suspension of shipments from particular manufacturing facilities;
- the delay in approvals of products by governmental authorities outside of the U.S.;
- the imposition of fines and penalties;
- the delay of our ability to introduce new products into the market;
- the exclusion of our products from being reimbursed by national healthcare programs;
- the issuance of an alert blocking the export of our products from or the import of our products into a particular jurisdiction; and
- other civil or criminal sanctions against us.

Any actions, in combination or alone, or even a public announcement that we are being investigated for possible violations of these laws, could have a material adverse effect on our business, results of operations and financial condition.

As government authorities and courts interpreting the relevant laws and regulations throughout the world have become increasingly stringent, we may be subject to more rigorous regulation in the future. If we fail to adequately address any of these regulations, our business may be harmed.

We are subject, directly or indirectly, to U.S. federal and state healthcare fraud and abuse, false claims and physician payment transparency laws and regulations and could face substantial penalties if we are unable to fully comply with such laws.

We are subject to healthcare fraud and abuse regulation and enforcement by both the national governments and the states in which we conduct our business. These healthcare laws and regulations include, for example:

- the U.S. Anti‑Kickback Statute, which prohibits, among other things, persons or entities from soliciting, receiving, offering or providing remuneration, directly or indirectly, in return for or to induce either the referral of an individual for, or the purchase order or recommendation of, any item or services for which payment may be made under a U.S. federal healthcare program such as the Medicare and Medicaid programs. A person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation. In addition, the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the False Claims Act;
- the Stark Law, which prohibits a physician from referring Medicare or Medicaid patients to an entity providing "designated health services," including a company that furnishes DME, in which the physician has an ownership or investment interest or with which the physician has entered into a compensation arrangement;
- federal false claims laws which, prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third‑party payers that are false or fraudulent;
- the federal Civil Monetary Penalties law, which prohibits, among other things, offering or transferring remuneration to a federal healthcare beneficiary that a person knows or should know is likely to influence the beneficiary's decision to order or receive items or services reimbursable by the government from a particular provider or supplier;
- HIPAA, which established new federal crimes for knowingly and willfully executing a scheme to defraud any healthcare benefit program or making false statements in connection with the delivery of or payment for healthcare benefits, items or services. Similar to the Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation;
- the federal Physician Payment Sunshine Act, which requires manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children's Health Insurance Program (with certain exceptions) to report annually to the Centers for Medicare & Medicaid Services ("CMS") information related to payments or other "transfers of value" made to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, and applicable manufacturers and group purchasing organizations to report annually to CMS ownership and investment interests held by physicians (as defined above) and their immediate family members and payments or other "transfers of value" to such physician owners. Manufacturers are required to submit reports to CMS by the 90th day of each calendar year; and
- state law equivalents of each of the above federal laws, such as anti‑kickback and false claims laws, which may apply to items or services reimbursed by any third‑party payer, including commercial insurers; state laws that require device companies to comply with the industry's voluntary compliance guidelines and the applicable compliance guidance promulgated by the federal government, or otherwise restrict payments that may be made to healthcare providers and other potential referral sources; and state laws that require device manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures.

The risk of our being found in violation of these laws is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Because of the breadth of these laws and the narrowness of the statutory exceptions and safe harbors available under such laws, it is possible that some of our business activities, including our relationships with physicians and other healthcare providers, some of whom recommend, purchase and/or prescribe our products, could be subject to challenge under one or more of such laws. The shifting compliance environment and the need to implement systems to comply with multiple jurisdictions with different compliance and/or reporting requirements increases the possibility that a healthcare company may violate one or more of the requirements. If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from the Medicare and Medicaid programs, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our financial results. Any action against us for violation of these laws, even if

we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business.

Our activities are subject to national and state privacy and security laws and regulations, which could have an impact on our operations.

In the EU, we are subject to laws relating to our collection, control, processing and other use of personal data (for example, employee and patient data) which impact our operations. The data privacy regime in the EU is harmonized by Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data and by the E‑Privacy Directive 2002/58/EC (as amended by Directive 2009/136/EC). Although this legislation has been implemented at a European level, it is for each of the EU member states to enact legislation to incorporate these Directives into its national data privacy regime. The laws applicable in each member state therefore differ from jurisdiction to jurisdiction. We must therefore ensure compliance with the rules in each jurisdiction in which we use personal data. In particular, to the extent that we process, control or otherwise use sensitive data relating to living individuals (which includes the health or medical information relating to an individual who order our products directly), more stringent rules will apply and will limit the circumstances and the manner in which we are legally permitted to process and transfer that data outside of the EU. Local laws are amended from time to time and guidance is issued reasonably frequently by regulators and the Article 29 Working Party (a body formed of the European regulators). Any changes in law and new guidance may impact, and require changes to, our current operations. In addition, the EU Commission is undertaking a review of the entire European regime over the next two years. The outcome of this could further impact our operations. Whilst we have taken steps to ensure compliance with the current regime in all material respects, given its nature and our geographical diversity, there could be areas where we are non‑compliant. Should we not be in compliance with this legislation or any changes thereto, we may be subject to sanctions which could include giving undertakings to regulatory authorities to change our operations, adverse publicity, substantial financial penalties and/or criminal proceedings.

In the U.S., we may be subject to the HIPAA, as amended by HITECH, and their respective implementing regulations, including the final omnibus rule published on January 25, 2013. HIPAA established uniform standards for certain "covered entities" (healthcare providers, health plans and healthcare clearinghouses) governing the conduct of certain electronic healthcare transactions and protecting the security and privacy of protected health information, and requires the adoption of administrative, physical and technical safeguards to protect such information. The American Recovery and Reinvestment Act of 2009, commonly referred to as the economic stimulus package, included sweeping expansion of HIPAA's privacy and security standards. The legislation included HITECH, which became effective on February 17, 2010. Among other things, HITECH makes HIPAA's privacy and security standards directly applicable to "business associates" - independent contractors or agents of covered entities that receive or obtain protected health information in connection with providing a service on behalf of a covered entity. HITECH also increased the civil and criminal penalties that may be imposed against covered entities, business associates and possibly other persons and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorney fees and costs associated with pursuing federal civil actions. Failure to comply with these laws, where applicable, can result in the imposition of significant civil and criminal penalties and could adversely affect our profitability.

In addition to U.S. federal regulations issued under HIPAA and HITECH, some U.S. states have enacted privacy and security statutes or regulations that, in some cases, are more stringent than those issued under HIPAA. In those cases, it may be necessary to modify our planned operations and procedures to comply with the more stringent state laws. If we fail to comply with applicable U.S. state laws and regulations, we could be subject to additional sanctions.

We are subject to medical device reporting regulations for certain adverse events or malfunctions associated with our products, which could result in corrective actions or agency enforcement actions.

Under the FDA Medical Device Reporting ("MDR") regulations, we are required to report to the FDA any incident in which our product may have caused or contributed to a death or serious injury or in which our product malfunctioned and, if the malfunction were to recur, would likely cause or contribute to death or serious injury. In addition, all manufacturers placing medical devices in EU markets are legally bound to report any serious or potentially serious incidents involving devices they produce or sell to the relevant authority in whose jurisdiction the incident occurred. We anticipate that in the future it is

likely that we may experience events that would require reporting to the FDA pursuant to the MDR regulations. Any adverse event involving our products could result in future voluntary corrective actions, such as product actions or customer notifications, or agency actions, such as inspection, mandatory recall or other enforcement action. Any corrective action, whether voluntary or involuntary, as well as defending ourselves in a lawsuit, will require the dedication of our time and capital, distract management from operating our business, and may harm our reputation and financial results.

In addition, we may experience an increase in the number of incidents that could lead to MDR reports which we might need to file. The decision to file an MDR involves a judgment by us as the manufacturer. We have made decisions that certain types of events are not reportable under the MDR regulations; however, there can be no assurance that the FDA will agree with our decisions. If we fail to report MDRs to the FDA within the required timeframes, or at all, or if the FDA disagrees with any of our determinations regarding the reportability of certain events, the FDA could take enforcement actions against us, which could have an adverse impact on our reputation and financial results.

Our products may in the future be subject to product actions that could harm our reputation, business operation and financial results.

Manufacturers may, on their own initiative, initiate actions, including a non-reportable market withdrawal or a reportable product recall, for the purpose of correcting a material deficiency, improving device performance, or other reasons.

In April 2014, we voluntarily recalled our Flexi-Seal CONTROL Fecal Management System product, which later became classified as a Class I recall by the FDA. In October 2014, we became aware of an issue with our NicoFix securement device and have undertaken a voluntary recall of the lots affected.

Additionally, the FDA and similar foreign health or governmental authorities have the authority to require an involuntary recall of commercialized products in the event of material deficiencies or defects in design, manufacturing or labeling or in the event that a product poses an unacceptable risk to health. 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 a device intended for human use would cause serious, adverse health consequences or death. In addition, foreign governmental bodies have the authority to require the recall of our products in the event of material deficiencies or defects in design or manufacture. Product actions involving any of our products would divert managerial and financial resources and have an adverse effect on our financial condition and results of operations.

Companies are required to maintain certain records of actions, even if they determine such actions are not reportable to the FDA. If we determine that certain actions do not require notification of the FDA, the FDA may disagree with our determinations and require us to report those actions as recalls. A future recall announcement could harm our reputation with customers and negatively affect our sales. In addition, the FDA could take enforcement action for failing to report the recalls when they were conducted or failing to timely report or initiate a reportable product action.

Depending on the corrective action we take to redress a product's deficiencies or defects, the FDA may require, or we may decide, that we will need to obtain new approvals or clearances for the device before we may market or distribute the corrected device. Seeking such approvals or clearances may delay our ability to replace the recalled devices in a timely manner. Moreover, if we do not adequately address problems associated with our devices, we may face additional regulatory enforcement action, including, for example, FDA warning letters, product seizure, injunctions, administrative penalties, or civil or criminal fines.

If a regulatory agency determines that we have promoted off-label use of our products in violation of applicable regulations, we may be subject to various penalties, including civil or criminal penalties, and the off-label use of our products may result in injuries that lead to product liability suits, which could be costly to our business.

In the U.S., the HHS, the Office of Inspector General ("OIG"), the FDA, the DOJ and other regulatory agencies actively enforce regulations prohibiting the promotion of a product for a use that has not been cleared or approved by the FDA. Use of a product outside its cleared or approved indications is known as "off-label" use. Physicians may use our products for off-label uses, as the FDA does not restrict or regulate a physician's choice of treatment within the practice of medicine.

However, if the OIG, the FDA or another regulatory agency determines that our promotional materials, training or activities constitute improper promotion of an off-label use, it could request that we modify our promotional materials, training or activities, or subject us to regulatory enforcement actions, including, among other things, the issuance of an untitled letter or warning letter, injunction, seizure, civil fine and criminal penalties. Although our policy is to refrain from statements and activities that could be considered off-label promotion of our products, the FDA, the DOJ or another regulatory agency could disagree and conclude that we have engaged in off-label promotion and, potentially, aided and abetted in the submission of false claims. In addition, the off-label use of our products may increase the risk of injury to patients, and, in turn, the risk of product liability claims. Product liability claims are expensive to defend and could divert our management's attention and result in substantial damage awards against us.

We may fail to receive positive clinical results for our products in development that require clinical trials, and even if we receive positive clinical results, we may still fail to receive the necessary clearance or approvals to market our products.

In the development of new products or new indications for, or modifications to, existing products, we may be required to conduct or sponsor clinical trials. Clinical trials are expensive and require significant investment of time and resources and may not generate the data we need to support a submission to the FDA, Notified Bodies, ministries of health and other similar regulatory bodies. Delay in or failure to receive necessary clearance or approvals to market our products may have an adverse effect on our financial condition and results of operations. Failure to comply with relevant regulations and directives in the country where a clinical trial is being conducted, including, but not limited to, failure to obtain adequate informed consent of subjects, failure to adequately disclose financial conflicts or failure to report data or adverse events accurately, could result in, among other things, fines, penalties, suspension of trials and the inability to use the data to support the marketing authorization process (whether it be 510(k), CE mark, or otherwise) and subsequent reimbursement filings.

If we are unable to continue to develop and market new products and technologies in a timely manner, the demand for our products may decrease or our products could become obsolete, and our revenue and profitability may decline.

The markets for many of our products are highly competitive and dominated by a small number of large companies. We are continually engaged in product development, research and improvement efforts to sustain our history of innovation. New products and line extensions of existing products represent a significant component of our growth rate. Our ability to continue to grow sales effectively depends on our capacity to keep up with existing or new products and technologies in the wound care, ostomy, continence, and infusion devices products markets. The process of obtaining regulatory clearances and approvals to market a new medical device, or a significant modification to an existing device, can be costly and time consuming and approvals and clearances might not be granted for future products on a timely basis, if at all. The FDA can delay, limit or deny clearance or approval of a device for many reasons, including:

- we may not be able to demonstrate to the FDA's satisfaction that our products are safe and effective for their intended users;
- the data from our pre-clinical studies and clinical trials may be insufficient to support clearance or approval, where required; and
- the manufacturing process or facilities we use may not meet applicable requirements.

Further, any modification we make to a 510(k) cleared device that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, technology, materials, packaging and certain manufacturing processes, may require us to submit a new 510(k) or, possibly, a PMA. The FDA requires every manufacturer to make the determination regarding the need for a new 510(k) or PMA in the first instance, but the FDA may review the manufacturer's decision and, if it disagrees, require the manufacturer to submit a new 510(k) or PMA for the modified device. FDA also has the authority to require a manufacturer to cease marketing and recall the modified device until the new 510(k) or PMA is obtained. We have made modifications to our devices in the past and may make additional modifications in the future that we believe do not or will not require additional clearances or approvals. Our currently commercialized devices are either 510(k) exempt or have received pre-market clearance under Section 510(k) of the FDCA. However, no assurance can be given that the FDA would agree with any of our future decisions not to seek 510(k) clearance or a PMA. If the FDA disagrees with our determination and requires us to submit new 510(k) notifications or PMAs for modifications to our previously cleared products for which we have concluded that new clearances or approvals are unnecessary, or any future decisions not to seek a new 510

(k) for changes or modifications to existing devices and requires new approvals or clearances, we may be required to cease marketing or to recall the modified product until we obtain clearance or approval, which could require us to redesign our products or conduct clinical trials to support any modifications, and we may be subject to significant regulatory fines or penalties. In addition, the FDA may not approve or clear our products for the indications that are necessary or desirable for successful commercialization or could require clinical trials to support any modifications. Any delay or failure in obtaining required clearances or approvals would adversely affect our ability to introduce new or enhanced products in a timely manner, which in turn would harm our future growth. Any of these actions would harm our operating results. Moreover, clearances and approvals are subject to continual review, and the later discovery of previously unknown problems can result in product labeling restrictions or withdrawal of the product from the market. The loss of previously received approvals or clearances or the failure to comply with existing or future regulatory requirements could reduce our sales, profitability and future growth prospects.

Changes in FDA clearance or approval policies or the adoption of new regulations may also impact our ability to obtain timely clearances and approvals for our products. For example, in response to industry and healthcare provider concerns regarding the predictability, consistency and rigor of the 510(k) regulatory pathway, the FDA initiated an evaluation of the 510(k) program, and in January 2011, announced several proposed actions intended to reform the review process governing the clearance of medical devices, which could make the 510(k) process more costly and burdensome. More recently, on July 9, 2012, FDASIA was signed into law, which, among other requirements, obligated the FDA to prepare a report for Congress on the FDA's approach for determining when a new 510(k) will be required for modifications or changes to a previously cleared device. The FDA submitted this report to Congress and concluded that, although FDA's 1997 Guidance on this topic includes certain areas that should be updated or revised, the 1997 Guidance is a solid foundation and should remain mostly unchanged. The FDA intends to issue revised guidance for making a determination as to whether or not a new 510(k) is required for a change or modification to a device. Until then, manufacturers may continue to adhere to the FDA's 1997 guidance on this topic when making a determination as to whether or not a new 510(k) is required for a change or modification to a device, but the practical impact of the FDA's continuing scrutiny of these issues remains unclear.

In the EEA, our devices are required to comply with the essential requirements of the EU Medical Devices Directive before they can be commercialized. Compliance with these requirements entitles us to affix the CE conformity mark to our medical devices. In order to demonstrate compliance with the essential requirements and obtain the right to affix the CE conformity mark, we must undergo a conformity assessment procedure, which varies according to the type of medical device and its classification. Except for some low-risk medical devices (Class I non-sterile, non-measuring devices), where the manufacturer can issue an EC Declaration of Conformity based on a self-assessment of the conformity of its products with the essential requirements of the EU Medical Devices Directive, a conformity assessment procedure requires the intervention of an organization accredited by a Member State of the EEA to conduct conformity assessments (a "Notified Body"). 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 Devices 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 EEA Member States and so is intended to eliminate current national differences in regulation of medical devices. In October 2013, the European Parliament approved a package of reforms to the European Commission's proposals. Under the revised proposals, only designated "special notified bodies" would be entitled to conduct conformity assessments of high-risk devices. These special notified bodies will need to notify the European Commission when they receive an application for a conformity assessment for a new high-risk device. The European Commission will then forward the notification and the accompanying documents on the device to the Medical Devices Coordination Group ("MDCG"), (a new, yet to be created, body chaired by the European Commission, and representatives of Member States) for an opinion. These new procedures may result in increased regulatory oversight of certain devices (most likely higher risk devices, which could include some ConvaTec products) and this may, in turn, increase the costs, time and requirements that need to meet in order to maintain or place such devices on the EEA market.

If adopted, the Medical Devices Regulation is expected to enter into force in 2015 and become applicable three years thereafter. The adoption of the Medical Devices Regulation may, however, be materially delayed. 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. Delays in receipt of, or failure to obtain, approvals and clearances for future products, or

failure to comply with the regulations applicable to our current products, could result in delayed realization of product revenues or in substantial additional costs which could have a material adverse effect on our business or results of operations. Clearance or approval by the FDA does not ensure marketing authorization by regulatory authorities in other countries or jurisdictions, and marketing authorization by one foreign regulatory authority does not ensure marketing authorization by regulatory authorities in other foreign countries or by the FDA. In addition, if our competitors' new products and technologies reach the market before our products, they may gain a competitive advantage or render our products obsolete. See "Our Franchises - Competition" under each of our franchises in the "Our Business" section of this Annual Report for more information about our competitors. The ultimate success of our product development efforts will depend on many factors, including, but not limited to, our ability to create innovative designs and materials, provide innovative medical solutions and techniques for our customers, accurately anticipate and meet customers' needs, commercialize new products in a timely manner and manufacture and deliver products in sufficient volumes on time.

Moreover, research and development efforts may require a substantial investment of time and resources before we are able to determine the commercial viability of a new product, technology, material or other innovation. Even in the event that we are able to successfully develop innovations, they may not produce revenue in excess of the costs of development and may be quickly rendered obsolete as a result of changing customer preferences or the introduction by our competitors of products embodying new technologies or features.

Sales may decline if our customers do not receive adequate levels of coverage and reimbursement from third-party payors for our products and if certain types of healthcare programs are adopted in our key markets.

In many countries, patients or healthcare providers that purchase our products (e.g., hospitals, physicians and other healthcare providers) rely on payments from third-party payors (principally national, state and private health insurance plans) to cover all or a portion of the cost of our products. In institutional care settings, such as acute care hospitals, third party payments to providers are often made under a prospective payment system in the form of a pre-determined, "lump sum" amount based on a patient's diagnosis and/or procedures. With few exceptions, there is no separate reimbursement for medical supplies such as ostomy supplies and wound dressings in hospital or other institutional settings. Reductions in lump sum payment amounts by payers has an indirect impact on our sales as hospital operating margins are compressed and hospitals, in turn, put pressure on manufacturer selling prices. Outside of the hospital, separate reimbursement of medical supplies exists in most developed countries. Reductions in reimbursement amounts for medical supplies in this setting can have a direct impact on our sales depending on the product categories impacted and the degree of the impact on reimbursement amounts and patient co-pays.

We believe that nurses, surgeons, hospitals and other healthcare providers may not use, purchase or prescribe our products and patients may not purchase our products if these third-party payers do not provide adequate coverage of and reimbursement for the costs of our products or the procedures involving the use of our products. In the event that third-party payers deny coverage or reduce their current levels of reimbursement, we may be unable to sell certain products on a profitable basis, thereby materially adversely impacting our results of operations. Further, third-party payers are continuing to carefully review their coverage policies with respect to existing and new therapies and can, without notice, deny coverage for treatments that may include the use of our products.

Due to cost containment pressures in many countries, legislation has been passed, and we expect will continue to be introduced and passed, to limit governmental healthcare coverage and reimbursement expenditures. For example, in the U.S., the Medicare Prescription Drug, Improvement and Modernization Act of 2003 established a competitive bidding program for items of durable medical equipment, prosthetics, orthotics and supplies ("DMEPOS"), a category of products under which our products dispensed to patients for home use are classified. This competitive program - also referred to as "the Medicare DMEPOS Competitive Bidding Program" - is being implemented by the Secretary of the Department of Health and Human Services ("HHS"). The program replaces the existing DMEPOS fee schedule payment amounts with amounts derived from bids. Round 1 of the program went into effect January 1, 2011 in nine areas of the U.S. and reduced fees by an average of 32% compared to the then-current Medicare fee schedule. Round 2 of the program went into effect July 1, 2013 and resulted in payment amounts that are on average 45% less than Medicare's fee schedule rates for eight product categories in 100 geographic markets in the U.S. Round 1 Recompete rates went into effect on January 1, 2014 and resulted in payment amounts; reimbursement rates from the re-bidding process were publicly released by CMS on October 1, 2013. CMS announced average

savings of approximately 37% off the current standard Medicare payment rates in effect from the product categories included in competitive bidding. CMS intends to commence the Round 2 Recompete in the same geographic areas that were included in Round 2 in the winter of 2015. Round 2 Recompete contracts are scheduled to become effective on July 1, 2016 and will expire on December 31, 2018.

In addition, the ACA requires CMS to expand competitive bidding further to additional geographic markets (certain markets may be excluded at the discretion of CMS) or to use competitive bid pricing information to adjust the payment amounts otherwise in effect for areas that are not competitive bidding areas by January 1, 2016. Although no ConvaTec device categories were included in Round 1 or Round 2 of the Competitive Bidding Program except for Negative Pressure Wound Therapy ("NPWT"), which constitutes a small percentage of revenue, we cannot provide any assurances that our products will not be included in future rounds of competitive bidding, which could have a material adverse effect on our business, results of operations and financial condition.

In the majority of the non-U.S. markets in which our products are sold, government healthcare systems mandate the coverage and reimbursement rates and clinical evidence requirements for medical devices and procedures. If adequate levels of coverage and reimbursement from third-party payers are not obtained, sales of our products may decline. In addition, some insurance plans in the U.S. have adopted, or are considering the adoption of, a system in which the providers contract to provide comprehensive healthcare for a fixed cost per person. In the event that the U.S. considers the adoption of a national healthcare system in which prices are controlled and patient care is managed by the government, such regulation could have a material adverse effect on our business, results of operations and financial condition. See "Risk Factors- Risks Related to Our Regulatory Environment - National and state healthcare reform and cost control efforts include provisions that could adversely impact our business, results of operations and financial condition."

Private insurers in a managed care system may attempt to control costs by authorizing fewer elective surgical procedures or by requiring the use of the least expensive products available. Many markets, including Canada, and some European and Asian countries, have in the past reduced reimbursement rates. Our ability to continue to sell certain products profitably in these markets may diminish if the government managed healthcare systems continue to reduce reimbursement rates for our products. In response to these and other pricing pressures, our competitors may lower the prices for their products. We may not be able to match the prices offered by our competitors, thereby adversely impacting our results of operations and future prospects.

National and state healthcare reform and cost control efforts include provisions that could adversely impact our business, results of operations and financial condition.

From time to time the passage of new healthcare laws and other healthcare reform measures have significantly affected the manner in which healthcare services and products are dispensed and reimbursed. Major reform was passed in March 2010, when the President of the United States signed into law the ACA. The ACA is a sweeping measure designed to expand access to affordable health insurance, control healthcare spending, and improve healthcare quality in the U.S. Several provisions of the ACA specifically impact the medical device industry. In addition to changes in Medicare reimbursement for DME, prosthetics and supplies and an expansion of competitive bidding programs, the ACA imposes a new annual federal excise tax on certain medical device manufacturers and importers. Specifically, for sales on or after January 1, 2013, manufacturers, producers, and importers of taxable medical devices must pay as an excise tax 2.3% of the price for which the devices are sold.

The ACA also establishes new Medicare and Medicaid program integrity provisions, including expanded documentation requirements for Medicare DME prescriptions written by physicians and more stringent procedures for screening competitive bidding program suppliers responsible for dispensing DME products to patients, along with broader expansion of federal fraud and abuse authorities. Although the eventual impact of the health reform provisions of the ACA are still uncertain, it is possible that the new laws and implementing regulations and their guidelines will have a material adverse impact on our business, results of operations and financial condition.

Other legislative changes have been proposed and adopted in the U.S. since the ACA was enacted. On August 2, 2011, the Budget Control Act of 2011, among other things, created measures for spending reductions by Congress. A Joint

Select Committee on Deficit Reduction, tasked with recommending a targeted deficit reduction of at least $1.2 trillion for the years 2013 through 2021, was unable to reach required goals, thereby triggering the legislation's automatic reduction to several government programs. This includes aggregate reductions of Medicare payments to providers of 2% per fiscal year, which went into effect on April 1, 2013 and, due to subsequent legislative amendments, will stay in effect through 2024 unless additional Congressional action is taken. On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which, among other things, further reduced Medicare payments to several providers, including hospitals, imaging centers and cancer treatment centers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. We expect that additional federal healthcare reform measures will be adopted in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, and in turn could significantly reduce the projected value of certain development projects and reduce our profitability.

Similarly, many U.S. states have adopted or are considering changes in state healthcare payer and regulatory policies as a result of state budgetary shortfalls. While ACA-mandated expansions of the Medicaid program will have some positive impact on the volume of claims submitted and paid, it will also pressure state budgets further over the next few years. Medicaid changes implemented recently by several states have included expanded enrollment of beneficiaries into "managed care" programs and reductions in provider and supplier reimbursement of "optional benefits," including in some cases reduced reimbursement for our products and/or other Medicaid coverage restrictions. Optional benefits, which may include coverage of ostomy supplies and wound dressings, are those which states are not required to provide in order to qualify for matching federal funds. As states continue to face significant financial pressures, it is possible that state health policy changes will adversely affect our profitability.

Risks Related to Our Business

We operate in a highly competitive business environment, and our inability to compete effectively could adversely affect our business prospects, results of operations and financial condition.

We operate in highly competitive and fragmented markets. Our Wound Therapeutics franchise and the Hospital Care sub-group of our CCC franchise compete with both large and small companies, including several large, diversified companies with significant market share and numerous smaller niche companies, particularly in the wound care products market. Our Ostomy Care and Infusion Devices franchises and the AFI sub-group of our CCC franchise generally compete with a small number of competitors in the market. We may not be able to offer products similar to, or more desirable than, those of our competitors or at a price comparable to that of our competitors. Existing or new competitors could introduce innovative new technologies that may be preferred by our customers, which could have a direct impact on our businesses, either through market share losses or price reductions. Our competition could also decide to more aggressively compete on price, causing us and others in the industry to counter by reducing prices accordingly in an effort to maintain market share. This would impact profitability and potentially the attractiveness of the product and/or market segment.

In addition to our direct competitors who make products similar to ours, many of our advanced products compete with traditional products for the same applications. For example, because our advanced wound care products compete with conventional wound care products such as gauze, we also compete with manufacturers of such products. If we are not successful in driving the shift from conventional to advanced products, we may face greater competition from manufacturers who do not directly compete with us but make alternatives to our products.

We are also facing increased competition from our channel partners, especially in markets such as the U.S., Germany and the U.K. In some cases, channel partners have launched their own private label brands of our products to directly compete with us. If this practice increases, or if we are otherwise not able to compete effectively with our direct and indirect competitors as described above, our business, results of operations and financial condition may be adversely affected.

The success of many of our products depends heavily on acceptance by healthcare professionals who prescribe and recommend our products and by end users of our products, and our failure to maintain a high level of confidence in our products could adversely affect our business.

We maintain customer relationships with numerous specialized nurses, surgeons, primary care physicians, home healthcare providers, other specialist physicians and other healthcare professionals. We believe that sales of our products depend significantly on their confidence in, and recommendations of, our products. In addition, our success depends on end users' acceptance and confidence in the effectiveness, comfort and ease-of-use of our products, including our new products. In order to achieve acceptance by end users and healthcare professionals alike, we seek to educate patients and the healthcare community as to the distinctive characteristics, perceived benefits, clinical efficacy and cost-effectiveness of our products compared to alternative products, including the products offered by our competitors. Acceptance of our products also requires effective training of patients and healthcare professionals in the proper use and application of our products. Failure to effectively educate and train our customers and end-users and failure to continue to develop relationships with leading healthcare professionals and new patients could result in a less frequent recommendation of our products, which may adversely affect our sales and profitability.

Our business may be harmed as a result of litigation, particularly if the number of product liability claims increases significantly and/or our insurance proves inadequate.

From time to time we may be party to legal proceedings that arise in the ordinary course of business, including in connection with the contractual disputes, which could have an adverse effect on our business, results of operations and financial condition. Additionally, the manufacture and sale of medical devices and related products exposes us to a significant risk of litigation, particularly product liability claims. From time to time, we have been, and we currently are, subject to a number of product liability claims alleging that the use of our products resulted in adverse effects. In addition, we are exposed to claims that a material design or manufacturing failures in our products, quality system failures, or other safety issues warrant the recall of some of our products. Even if we are successful in defending against any claims, such claims could nevertheless divert the time, energy and efforts of our management, result in substantial costs, harm our reputation, adversely affect the sales of all our products and otherwise harm our business. If there is a significant increase in the number of product liability claims, our business could be adversely affected.

We maintain product liability insurance that is subject to annual renewal and includes self-insurance elements. Our existing product liability insurance coverage may be inadequate to satisfy liabilities we might incur. If a product liability claim or series of claims is brought against us for uninsured liabilities or is in excess of our insurance coverage limits, our business could suffer and our results of operations and financial condition could be materially adversely impacted.

Our international operations, particularly those in emerging markets, expose us to risks related to conducting business outside developed markets and may cause our profitability to decline due to increased costs.

The international scope of our operations exposes us to economic, regulatory and other risks, particularly outside developed markets. We intend to continue to pursue growth opportunities in emerging markets, which could expose us to additional risks associated with such sales and operations. Our operations outside the U.S., Europe and other developed markets are, and will continue to be, subject to a number of risks and potential costs, including:

- diminished protection of intellectual property;
- greater payables risk due to difficulty in collecting accounts receivable and longer collection periods;
- trade protection measures and import or export licensing and/or product registration requirements;
- difficulty in staffing, training and managing local operations;
- differing legal and labor regulations;
- labor disputes;
- increased costs of transportation or shipping;
- potential adverse tax consequences, including consequences from changes in tax laws and the imposition or increase of withholding and other taxes on remittances and other payments by international subsidiaries, which, among other

things, may preclude payments or dividends from certain subsidiaries from being used for our debt service, and exposure to adverse tax regimes;
- political and economic instability; and
- security risks associated with criminal activity in certain countries.

In addition, as we aim to grow our operations in emerging markets, we may become increasingly dependent on local distributors for our compliance and adherence to local laws and regulations that we may not be familiar with, and we cannot assure you that these distributors will adhere to such laws and regulations or adhere to our own business practices and policies. Any violation of laws and regulations by local distributors or a failure of such distributors to comply with our business practices and policies could result in legal or regulatory sanctions against us or potentially damage our reputation in that respective market. If we fail to manage these risks effectively, our business, results of operations and financial condition may be materially adversely affected.

We are exposed to market risk due to changes in currency exchange rates, which impact profitability measures and cash flows.

We manufacture and sell our products in various countries around the world and as a result of the global nature of our operations, we are exposed to risks arising from changes in currency exchange rates. Transactions that are to be settled in a currency that is not the functional currency of the transacting entity are recorded to the income statement at each remeasurement date or settlement date. Additionally, assets and liabilities of subsidiaries whose functional currency is not the U.S. Dollar are translated into U.S. Dollars at the exchange rate at each balance sheet date. Any cumulative translation difference is recorded within equity.

Our primary net foreign currency translation exposures are the Euro, Japanese Yen, British Pound Sterling, Danish Krone and Canadian Dollar. Significant increases in the value of the U.S. Dollar relative to foreign currencies could have a material adverse effect on our results of operations. Assets and liabilities are converted based on the exchange rate on the balance sheet date, and income statement items are converted based on the average exchange rate during the period.

We generally attempt to use "natural" hedges within our foreign currency activities, including the matching of revenues and costs and strategically denominating our debt in certain functional currencies in order to match with the projected functional currency exposures within our operations. We currently do not utilize foreign currency forward contracts. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosure About Market Risk - Foreign Currency Risk".

If we lose one of our key suppliers or one of our contract manufacturers stops making the raw materials and components used in our products, we may be unable to meet customer orders for our products in a timely manner or within our budget.

We rely on a limited number of suppliers for the raw materials and components used in our products. Wherever possible, we attempt to source materials from multiple suppliers. However, some key components and raw materials are from a single source, and in some cases, these suppliers are pre-approved by the FDA. One or more of our suppliers may decide to cease supplying us with raw materials and components for reasons beyond our control. The FDA or other government regulations may require additional testing of any raw materials or components from new suppliers prior to our use of those materials or components. In addition, in the case of a device which is the subject of a PMA, we may be required to obtain prior permission from the FDA or another regulatory body (which may or may not be given), which could delay or prevent our access or use of such raw materials or components. If we are unable to obtain materials we need from our suppliers or our agreements with our suppliers are terminated, and we cannot obtain these materials from other sources, we may be unable to manufacture our products to meet customer orders in a timely manner or within our manufacturing budget. In that event, our business, results of operations and financial condition could be adversely affected.

In addition, we rely on third parties to manufacture some of our products as well as some subcomponents of our other products. Third-party contract manufacturers accounted for approximately 23.9% of our cost of goods sold for the year ended December 31, 2014. If we encounter a cessation, interruption or delay in the supply of the products purchased from our third-party manufacturers, we may be unable to obtain such products through other sources on acceptable terms, within a

reasonable amount of time or at all. In addition, if our agreements with the manufacturing companies are terminated, we may not be able to find suitable replacements within a reasonable amount of time or at all. Any such cessation, interruption or delay affecting our global supply chain may impair our ability to meet scheduled deliveries of our products to our customers and may caus4 our customers to cancel orders. In that event, our reputation, business, results of operations and financial condition may be adversely affected.

Many of our products are sourced from only a single internal manufacturing facility, so an event affecting our manufacturing capabilities, such as a natural or man-made disaster, could have a material adverse effect on our business.

We have 11 manufacturing operations located in eight countries. Significant portions of our products for certain franchises are produced in one or two manufacturing facilities as follows:

- Michalovce (Slovakia): majority of our CCC urinary bags and catheters;
- Rhymney/Deeside (U.K.): majority of our Wound Therapeutics Hydrofiber Technology based products;
- Haina (Dominican Rep): majority of our Ostomy Care pouches; and
- Reynosa ID (Mexico): majority of our Infusion Device products.

For many of our products, we do not have redundancy or excess capacity, either in terms of space or equipment, to manufacture products at a different location in our network in the event of failure or unavailability of one of our facilities. In the event that any of our facilities is severely damaged or destroyed, including as a result of a natural or man-made disaster, we would be forced to shift production to our other facilities and/or rely on third-party manufacturers. In some cases, shifting production to an alternate site could take three to six months or more, which could result in loss of sales, back orders, penalties, damage to our reputation, and loss of our customers to our competitors, among other things. Such an event could have a material adverse effect on our business, results of operations and financial condition.

We also have a facility in Schaffhausen, Switzerland which commenced operations in October 2009. Functions served in Schaffhausen include EMEA regional management, EMEA logistics and distribution management and global production and inventory planning as well as all supporting functions such as human resources, quality, finance, marketing and customer service for some of the European markets. The distribution operation manages regional distribution centers located in Germany, Poland, France, Italy, Spain, Sweden and Singapore. In the event that the Schaffhausen facility is severely damaged or destroyed as a result of a natural or man-made disaster, this would significantly adversely impact our business, results of operations and financial condition.

We may experience delays or outages in our information technology system and computer networks.

We may be subject to information technology system failures and network disruptions. These may be caused by delays or disruptions due to system updates, natural disasters, malicious attacks, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins or similar events or disruptions. Because we have grown over the years through various acquisitions and our operations are geographically diverse, we have many disparate information technology systems across our organization, certain of which are outdated and due for replacement. As a result of these disparate information technology systems, we face the challenge of supporting older systems and implementing upgrades when necessary. We may in the future add applications to replace outdated systems and to operate more efficiently. Predictions regarding benefits resulting from the implementation of these projects are subject to uncertainties. We may not be able to successfully implement the projects without experiencing difficulties. In addition, any expected benefits of implementing projects might not be realized, or the costs of implementation might outweigh the benefits realized.

A disruption in our information technology systems because of a catastrophic event or security breach could interrupt or damage our operations. In addition, we could be subject to reputational harm or liability if confidential customer information is misappropriated from our information technology systems. Despite our security measures and business continuity plans, these systems could be vulnerable to disruption, and any such disruption could negatively affect our financial condition and results of operations.

If our patents and other intellectual property rights do not adequately protect our products, we may lose market share to our competitors and may not be able to operate our business profitably.

We rely on a combination of patents, trade secrets, copyrights, trademarks, license agreements and contractual provisions to establish and protect our intellectual property rights in our products and the processes for the development, manufacture and marketing of our products.

We use non-patented, proprietary know-how, trade secrets, processes and other proprietary information and currently employ various methods to protect this proprietary information, including confidentiality agreements, invention assignment agreements and proprietary information agreements with vendors, employees, independent sales agents, distributors, consultants, and others. However, these agreements may be breached. Governmental agencies or other national or state regulatory bodies may require the disclosure of such information in order for us to have the right to market a product. An agency or regulator may also disclose such information on its own initiative if it should decide that such information is not confidential business or trade secret information. Trade secrets, know-how and other unpatented proprietary technology may also otherwise become known to or independently developed by our competitors.

In addition, we also hold U.S. and non-U.S. patents relating to a number of our components and products and have patent applications pending with respect to other components and products. We also apply for additional patents in the ordinary course of our business, as we deem appropriate. However, these precautions offer only limited protection, and would not, for example, protect against our proprietary information becoming known to, or being independently developed by, competitors. A limited number of our patents will also expire during the term of the Notes and we cannot assure you that follow-on patents will allow us to maintain a competitive advantage. Additionally, we cannot assure you that our existing or future patents, if any, will afford us adequate protection or any competitive advantage, that any future patent applications will result in issued patents or that our patents will not be circumvented, invalidated or declared unenforceable.

Additionally, our proprietary rights in intellectual property may be challenged, which could have a material adverse effect on our business, financial condition and results of operations. The wound care, ostomy care, infusion devices and continence care industries are highly litigious with respect to the enforcement of patents and other intellectual property rights. In some cases, intellectual property litigation may be used to gain a competitive advantage. We have in the past and may in the future become a party to lawsuits involving patents or other intellectual property. If a third party brings a legal action against us, we may incur substantial costs in defending ourselves, and we cannot assure you that such an action would be resolved in our favor. If such a dispute were to be resolved against us, we may be subject to significant damages, and the testing, manufacture or sale of one or more of our technologies or products may be enjoined. For example, we and our competitor Smith & Nephew ("S&N") have engaged in a series of multi-year litigations related to patents concerning various wound care products. In one of these matters, the defendants (including S&N) agreed to not market the product (Durafiber) during the pendency of the litigation provided that in the event we lost at trial we would pay for the defendants' lost profits. We lost at trial and on appeal and are currently engaged in litigation with the defendants as to the amount of their lost profits. At this time it is uncertain what the amount of lost profits will be, however, any payment we are required to make may have an adverse effect on our business, results of operations and financial condition.

Any proceedings before a national patent and/or trademark governmental authority or in a national or state court could result in adverse decisions as to the priority of our inventions and the narrowing or invalidation of claims in issued or pending patents. We could also incur substantial costs in any such proceedings. In addition, the laws of some of the countries in which our products are or may be sold may not protect our products and intellectual property to the same extent as other countries such as the U.S. or in Europe, if at all. We may also be unable to protect our rights in trade secrets, trademarks and unpatented proprietary technology in certain countries.

In addition, we hold patent, trademark and other intellectual property licenses from third parties for some of our products and on technologies that are necessary in the design and manufacture of some of our products. The loss of such licenses could prevent us from manufacturing, marketing and selling these products, which in turn could harm our business, results of operations and financial condition.

Our business involves large customers and if we were to lose one or more of those customers or if one or more were to default in its obligations under applicable contractual arrangements, we could be exposed to potentially significant losses.

The medical device industry is concentrated, with relatively few companies accounting for a large percentage of sales in the markets that we target. No single customer accounted for more than 10% of our consolidated net sales for the years ended December 31, 2014 or 2013. However, we have large customers in each of our franchises. We are likely to experience increased customer concentration, particularly if there is further consolidation or in-sourcing within the medical device industry. For example, insulin pump manufacturers, our primary customers in our Infusion Devices franchise, have attempted to in-source production of our infusion sets in the past. So far, these attempts have not been successful. However, in 2010 a key customer in this franchise in-sourced production of catheters that it had previously purchased from us. Future attempts or decisions by any of our customers to in-source production of our products could have an adverse effect on our business, financial condition and results of operations. We also cannot assure you that net sales to customers that have accounted for significant net sales in the past, either individually or as a group, will reach or exceed historical levels in any future period. The loss or a significant reduction of business from any of our major customers would adversely affect our results of operations and financial condition.

Loss of our key management and other personnel, or an inability to attract such management and other personnel, could impact our business.

We depend on our senior managers and other key personnel to run our business and on technical experts to develop new products and technologies. The loss of any of these senior managers or other key personnel could adversely affect our operations. Competition for qualified employees is intense, and the loss of qualified employees or an inability to attract, retain and motivate additional highly skilled employees required for the management, operation and expansion of our business could hinder our ability to expand, conduct research and development activities successfully and develop marketable products. No assurances can be made that we will retain or successfully recruit senior managers, or that their services will remain available to us. Changes to our senior management team could result in a material business interruption as a result of losing their services and material costs, including as a result of severance or other termination payments. For example, in December 2014, the employment of our Chief Executive Officer ended and we are currently recruiting to fill this senior management vacancy.

We are subject to cost-containment efforts of group purchasing organizations, which may have a material adverse effect on our business, results of operations and financial condition.

Many customers of our products have joined GPOs in an effort to contain costs. GPOs conduct tender processes and/or negotiate pricing arrangements with medical supply manufacturers and distributors, and these negotiated prices are made available to a GPO's affiliated hospitals and other members. If we are not one of the providers selected by a GPO, affiliated hospitals and other members may be less likely to purchase our products, and if the GPO has negotiated a strict compliance contract for another manufacturer's products, we may be precluded from making sales to GPO members for the duration of the contractual arrangement. A failure to respond to GPOs' cost-containment efforts may cause us to lose market share to our competitors and could have a material adverse effect on our business, results of operations and financial condition.

We are impacted by global economic and related credit and financial market problems that may pose additional risks and exacerbate existing risks to our business.

The global economy, as well as the credit and financial markets, may have an impact on demand for our products, availability and reliability of vendors and third party contract manufacturers, our ability to timely collect our accounts receivable and the availability of financing for acquisitions and working capital requirements. We may be impacted, in part, due to customers purchasing less frequently (through extending use of each product) and/or purchasing lower cost, less advanced products. The general economic situation in Europe, the United States and/or in the other countries in which we sell our products could contribute to those trends remaining a problem or becoming worse.

The ongoing impact from the reduction in economic activity since 2009 and continued market volatility have impacted and could continue to impact our business in a variety of ways, including the following:

- customers and GPOs could continue to exert downward pressure on the prices of our products;
- shortage of available credit for working capital could lead customers who buy goods from us to curtail their purchases or cause them difficulty in meeting payment obligations;
- tightening of credit and disruption in the financial markets could disrupt or delay performance by our third party vendors and contractors and adversely affect our business; or
- problems in the credit and financial markets could limit the availability and size of alternative or additional financing for our working capital or other corporate needs and could make it more difficult and expensive to obtain waivers under or make changes to our existing credit arrangements.

If any of these (or other similar) risks were to materialize, our business, results of operations and financial condition may be adversely affected, and the risks could become more pronounced if the problems in the global economy and the credit and financial markets continue or worsen.

Consolidation in the healthcare industry could have an adverse effect on our revenues and results of operations.

Many healthcare industry companies, including medical device companies, are consolidating to create larger companies. As the healthcare industry consolidates, competition to provide products and services to industry participants may become more intense. In addition, many of our distribution channels and purchasing entities are consolidating, and industry participants may try to use their purchasing power to negotiate price concessions or reductions for the products that we manufacture and market. Consolidation may have an impact on price or may enable a competitor to offer a more complete portfolio of products to customers. If we are forced to reduce our prices or suffer other competitive disadvantages because of consolidation in the healthcare industry, our revenues could decrease, and our business, financial condition and results of operations could be adversely affected.

We could incur significant costs complying with environmental and health and safety requirements, or as a result of liability for contamination or other potential environmental harm caused by our operations.

Our operations are subject to national, state and local environmental laws, regulations and other requirements, including regulations governing the generation, use, manufacture, handling, transport, storage, treatment and disposal of, or exposure to, hazardous materials, discharges to air and water, the cleanup of contamination and occupational health and safety matters. For example, our research and development and manufacturing processes involve the use of hazardous and other materials subject to environmental regulation.

We cannot eliminate the risk of contamination or injury resulting from hazardous materials, and we may incur liability as a result of any contamination or injury. Under some environmental laws and regulations, we could also be held responsible for costs relating to any contamination at our past or present facilities and at third party waste disposal sites where we have sent wastes. These could include costs relating to contamination that did not result from any violation of law, and in some circumstances, contamination that we did not cause. We may incur significant expenses in the future relating to any failure to comply with environmental laws or regulations, including material fines and penalties. Any such future expenses or liability could have a significant negative impact on our financial condition and results of operations. The enactment of stricter laws or regulations, the stricter interpretation of existing laws and regulations or the requirement to undertake the investigation or remediation of currently unknown environmental contamination at our own or third party sites may require us to make additional expenditures, which could be material.

We may not be able to successfully integrate businesses that we have recently acquired, or businesses we may acquire in the future, and we may not be able to realize the anticipated cost savings, revenue enhancements or other synergies from such acquisitions.

Our ability to successfully implement our business plan and achieve targeted financial results may be dependent on our ability to successfully integrate businesses that we acquire in the future. We, for example, have made a number of acquisitions, including the purchase of Boston Medical Device, Inc. in 2011, the purchase of 180 Medical in 2012 and the purchase of Symbius in January 2014. The process of integrating such acquired businesses involves risks. These risks include, but are not limited to:

- demands on management related to integration processes;
- diversion of management's attention from the management of daily operations to the integration of newly acquired operations;
- difficulties in the assimilation of different corporate cultures, practices and sales and distribution methodologies;
- difficulties in conforming the acquired company's accounting books and records, internal accounting controls, and procedures and policies to ours;
- retaining the loyalty and business of the customers of acquired businesses;
- retaining employees who may be vital to the integration of the acquired business or to the future prospects of the combined businesses;
- difficulties and unanticipated expenses related to the integration of departments and information technology systems, including accounting systems;
- difficulties integrating technologies and maintaining uniform standards, such as internal accounting controls, procedures and policies; and
- unanticipated costs and expenses associated with any undisclosed or potential liabilities.

Failure to successfully transfer business operations and to otherwise integrate the former operations of any acquired businesses may result in reduced levels of revenue, earnings or operating efficiency than we have achieved or might have achieved if we had not acquired such businesses, and loss of customers of the acquired businesses.

Furthermore, even if we are able to integrate successfully the former operations of acquired businesses, we may not be able to realize the potential cost savings, synergies and revenue enhancements that were anticipated from the integration, either in the amount or within the timeframe that we expect, and the costs of achieving these benefits may be higher than, and the timing may differ from, what we expect. Our ability to realize anticipated cost savings, synergies and revenue enhancements may be affected by a number of factors, including, but not limited to, the following:

- the use of more cash or other financial resources on integration and implementation activities than we expect;
- increases in other expenses unrelated to the acquisitions, which may offset the cost savings and other synergies from the acquisitions;
- our ability to eliminate duplicative back office overhead and overlapping and redundant selling, general and administrative functions, rationalize manufacturing capacity and shift production to more economical facilities; and
- our ability to avoid labor disruptions in connection with any integration, particularly in connection with any headcount reduction.

If we fail to realize anticipated cost savings, synergies or revenue enhancements, our financial results will be adversely affected, and we may not generate the cash flow from operations that we anticipated.

A substantial amount of our assets represents goodwill, and our earnings will be reduced if our goodwill becomes impaired.

As of December 31, 2014 and December 31, 2013, our goodwill represented $973.2 million, or 24.4%, and $1,183.3 million, or 25.9% of our total assets, respectively. Goodwill is generated from acquisitions when the cost of an acquisition exceeds the fair value of the net tangible and identifiable intangible assets we acquire. Goodwill is subject to an impairment analysis at least annually based on a comparison of the fair value of the reporting unit to its carrying value. If impairment is indicated from this first step, the implied fair value of the goodwill must be determined and compared to the carrying value of the goodwill. We could be required to recognize additional reductions in our earnings caused by the impairment of goodwill, which if significantly impaired, could materially and adversely affect our results of operations. As a result of the annual goodwill impairment test performed as of October 1, 2014, we concluded that the carrying value of the Asia-Pacific ("APAC") and the Americas reporting units exceeded their fair values. As required by the second step of the impairment test, we performed an allocation of the fair value to all the assets and liabilities of the reporting unit, including identifiable intangible assets, based on their estimated fair values, to determine the implied fair value of goodwill. At October 1, 2014, the Americas and APAC reporting units had $16.2 million and $46.4 million of goodwill, respectively. Based on the results of the second step impairment test, no impairment was required to be recorded for the Americas reporting unit. Based on the results of the second step

impairment test, we recorded a goodwill impairment charge in its Consolidated Statements of Operations related to the APAC reporting unit of $46.4 million during the quarter ended December 31, 2014 for the difference between the carrying value of the goodwill in the reporting unit and its implied fair value. Our impairment in the APAC reporting unit resulted in a complete impairment of goodwill assigned to the reporting unit due to revised estimates of revenues and profitability, based on recent and anticipated future performance trends. Please refer to Note 10 - Goodwill in the Notes to the Consolidated Financial Statements for additional information.

Our research and development effort for new products may be unsuccessful.

We incur research and development expenses to develop new products and technologies in an effort to maintain our competitive position in a market characterized by rapid rates of technological advancement. Our research and development efforts are subject to unanticipated delays, expenses and technical problems. There can be no assurance that any of these products or technologies will be successfully developed or that, if developed, will be commercially successful. In the event that we are unable to develop commercialized products from our research and development efforts or we are unable or unwilling to allocate amounts beyond our currently anticipated research and development investment, we could lose our entire investment in these new products and technologies. Any failure to translate research and development expenditures into successful new product introduction could have an adverse effect on our business.

Risks Related to our Financial Profile

Our substantial leverage and debt service obligations could adversely affect our business and prevent us from fulfilling our obligations with respect to the Notes and the Notes Guarantees.

We are considered to be highly leveraged. As of December 31, 2014, we had total financial debt of $2,729.3 million related to the term loans, senior secured notes and senior notes, and $900.0 million of ConvaTec Finance International S.A.'s ("CFI") payment-in-kind notes ("the PIK Notes").

The degree to which we are leveraged could have important consequences to our lenders and noteholders, including, but not limited to:

- making it difficult for us to satisfy obligations with respect to our debt instruments;
- increasing our vulnerability to, and reducing flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal, and interest on, indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures, acquisitions, joint ventures, product research and development or other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the competitive environment and the industry in which we operate;
- placing us at a competitive disadvantage as compared to our competitors, to the extent that they are not as highly leveraged; and
- limiting our ability to borrow additional funds and increasing the cost of any such borrowing.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy debt obligations.

The terms of the credit facilities agreement (the “Credit Facilities Agreement”) governing our U.S. Dollar and Euro term loans (the “Term Loan Facilities”) due December 2016, our revolving credit facility due December 2015 (the “Revolving Credit Facility”) and our incremental unfunded term facilities (the “Incremental Term Facilities” and, together with the Term Loan Facilities and the Revolving Credit Facility, the “Credit Facilities”), the indenture (the “Secured Notes Indenture”) governing the €300.0 million senior secured notes due 2017 (the “Secured Notes"), the indenture (the “Senior Notes Indenture”) governing the $745.0 million senior notes due 2018 (the “U.S. Dollar Senior Notes”) and the €250.0 million senior notes due 2018 (the “Euro Senior Notes”, together with the U.S. Dollar Senior Notes, the “Senior Notes” and together with the Secured

Notes and the PIK Notes, the "Notes"), permit us to incur substantial additional indebtedness, which may increase the risks noted above and elsewhere in this Annual Report.

We will require a significant amount of cash to meet our obligations under our indebtedness and to sustain our operations, which we may not be able to generate or raise.

Our ability to make principal or interest payments when due on our indebtedness, including the Credit Facilities and our obligations under the Secured Notes, the Senior Notes and the PIK Notes, and to fund our ongoing operations, will depend on our future performance and our ability to generate cash, which, to a certain extent, is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in these "Risk Factors," many of which are beyond our control. Our Credit Facilities provide for term loan facilities which mature in December 2016 and a Revolving Credit Facility of which $250.0 million will be available until December 2015. The Secured Notes mature in 2017, the Senior Notes mature in 2018 and the PIK Notes mature in 2019. See "Description of Certain Financing Arrangements." At the maturity of these loans, the Secured Notes, the Senior Notes, the PIK Notes or any other debt which we may incur, if we do not have sufficient cash flows from operations and other capital resources to pay our debt obligations, or to fund our other liquidity needs, we may be required to refinance our indebtedness. If we are unable to refinance all or a portion of our indebtedness or obtain such refinancing on terms acceptable to us, we may be forced to sell assets, or raise additional debt or equity financing in amounts that could be substantial. The type, timing and terms of any future financing will depend on our cash needs and the prevailing conditions in the financial markets. We cannot assure that we will be able to accomplish any of these measures in a timely manner or on commercially reasonable terms, if at all. In addition, the terms of the Secured Notes Indenture, the Senior Notes Indenture, and the PIK Notes Indenture, may limit our ability to pursue any of these measures.

As of December 31, 2014, we had an aggregate principal amount of $1,410.4 million of senior secured debt outstanding, and up to $250.0 million available for additional borrowings under the committed revolving portion of the Credit Facilities (not giving effect to $1.3 million of outstanding letters of credit, which reduces the amount available, and any funding used for foreign currency effects at closing). We are permitted to borrow substantial additional indebtedness including senior debt, in future, under the terms of the Credit Facilities Agreement, the Secured Notes Indenture, the Senior Notes Indenture and the PIK Notes Indenture.

We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.

Each of the Credit Facilities Agreement, Secured Notes Indenture, the Senior Notes Indenture and the PIK Notes Indenture restrict, among other things, our ability to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions, with respect to the shares of such entity;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to, and on the transfer of, assets to such entity;
- sell, lease or transfer certain assets, including stock of restricted subsidiaries;
- engage in certain transactions with affiliates;
- consolidate or merge with other entities; and
- impair the security interest for the benefit of the holders of the Secured Notes.

All of these limitations are subject to significant exceptions and qualifications. The covenants to which we are subject could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest.

In addition, we are subject to the affirmative and negative covenants contained in the Credit Facilities Agreement. In particular, the Credit Facilities Agreement requires us to maintain specified financial ratios and satisfy certain financial

condition tests which become more restrictive over the life of such indebtedness. Our ability to meet those financial ratios and tests can be affected by events beyond our control, and we cannot assure you that we will meet them. A breach of any of those covenants, ratios, tests or restrictions could result in an event of default under our Credit Facilities Agreement. Upon the occurrence of any event of default under our Credit Facilities Agreement, subject to applicable cure periods and other limitations on acceleration or enforcement, the relevant creditors could cancel the availability of the facilities and elect to declare all amounts outstanding under the Credit Facilities Agreement, together with accrued interest, immediately due and payable. In addition, any default under the Credit Facilities Agreement could lead to an event of default and acceleration under other debt instruments that contain cross default or cross acceleration provisions, including for the Secured Notes Indenture and the Senior Notes Indenture, as well as the PIK Notes Indenture. If our creditors, including the creditors under our Credit Facilities Agreement, accelerate the payment of those amounts, we cannot assure that our assets and the assets of our subsidiaries would be sufficient to repay in full those amounts, to satisfy all other liabilities of our subsidiaries which would be due and payable and to make payments to enable us to repay the outstanding borrowings under the Credit Facilities Agreement, and the Notes, in full or in part. In addition, if we are unable to repay those amounts, our creditors could proceed against any collateral granted to them to secure repayment of those amounts.

The loans under our existing Credit Facilities bear interest at floating rates that could rise significantly, increasing our costs and reducing our cash flow.

The loans under our Credit Facilities bear interest at floating rates of interest per annum equal to LIBOR and/or EURIBOR (subject to a minimum rate in the case of the term loan facility), as adjusted periodically, plus a spread. These interest rates could rise significantly in the future. For example, if interest rates were to increase by 1% from the interest rates in effect on December 31, 2014, our cash interest payments under our Credit Facilities at December 31, 2014 would have increased by approximately $14.1 million. Additionally, if we were fully drawn against our $250.0 million Revolving Credit Facility, our cash interest payments would have increased by approximately $2.5 million. To the extent that interest rates were to increase significantly, our interest expense would correspondingly increase, reducing our cash flow.

We may not have the ability to raise the funds necessary to finance an offer to repurchase the Notes upon the occurrence of certain events constituting a change of control as required by the Indentures.

Upon the occurrence of certain events constituting a “change of control” under the Indentures, we (or our parent company) would be required to offer to repurchase all outstanding Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest to the date of purchase. If a change of control were to occur, we may not have sufficient funds available at such time (or we may be restricted under other existing contractual obligations) from making such required repurchases and any failure by us to make such required repurchases (without the consent of the applicable holders of the Notes) would constitute a default under the applicable Indentures.

Risks Relating to Tax Matters

We may not be able to maintain a competitive worldwide effective corporate tax rate.

While we believe that being incorporated in Luxembourg should help us maintain a competitive worldwide effective corporate tax rate, we cannot give any assurance as to what our effective tax rate will be because of, among other things, uncertainty regarding the tax policies of all the jurisdictions where we operate our business. Our actual effective tax rate may vary from our expectation and that variance could be material. Additionally, the tax laws of Luxembourg and other jurisdictions could change in the future, and such changes could cause a material change in our effective tax rate. In particular, legislation may be enacted by the U.S. Congress and/or regulatory guidance may be promulgated by the U.S. Department of the Treasury ("Treasury Department") and the IRS which could have a material adverse effect on our effective tax rate and/or require us to take further action, at potentially significant expense, to seek to preserve our effective tax rate.

Examination and audits by tax authorities could result in additional tax payments.

Our tax returns are subject to examination by various tax authorities, including the IRS in the U.S., the Denmark Tax Authority (“SKAT”), the New Zealand Inland Revenue, and the China Tax Authority in Shanghai. The IRS is examining our

U.S. federal income tax return for 2012. SKAT concluded its examination of our Denmark corporate income tax returns for the years 2006 through 2012 resulting in a final additional tax liability of $0.5 million. This amount was paid in January 2014. New Zealand Inland Revenue commenced examining our New Zealand corporate income tax returns for 2009 through 2012 but there are no proposed tax adjustments yet. Subsequent to the year ended December 31, 2014, the China Tax Authority in Shanghai commenced examining our China corporate income tax return for 2013. There is no guarantee that this examination will not expand to also include prior years.

We provide reserves for potential payments of tax to various tax authorities related to uncertain tax positions. It is our intention to vigorously defend our prior tax returns. However, the calculation of our tax liabilities involves the application of complex tax regulations to our global operations in many jurisdictions. Therefore, any dispute with a tax authority may result in a payment that is significantly different from our current estimate of the tax liabilities associated with these returns. If payment of these amounts ultimately proves to be less than the recorded amounts, the reversal of the liabilities generally would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If our estimate of tax liabilities proves to be less than the amount for which we are ultimately liable, we would incur additional charges to expense and such charges could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Risks Relating to Our Jurisdiction of Incorporation

Tax-related legislative and/or regulatory action in the U.S. could materially and adversely affect us.

Legislation may be enacted by the U.S. Congress and/or regulatory guidance may be promulgated by the Treasury Department and the IRS which could limit the availability of tax benefits or deductions that we currently claim, override tax treaties upon which we rely, or otherwise affect the taxes that the U.S. imposes on our worldwide operations. Such changes could have a material adverse effect on our effective tax rate and/or require us to take further action, at potentially significant expense, to seek to preserve our effective tax rate.

Risks Related to Our Ownership

The interests of our principal shareholders may conflict with the interests of the Note holders.

The interests of our principal shareholders, in certain circumstances, may conflict with interests of holders of the Notes. As of the date of this annual report, each of Nordic Capital and Avista Capital Partners owns indirectly 69.85% and 30.15% of our shares, respectively. See “Principal Shareholders.” As a result, these shareholders have, and will continue to have, directly or indirectly, the power, among other things, to affect our legal and capital structure and our day-to-day operations, as well as the ability to elect and change our management and to approve any other changes to our operations. For example, the shareholders could vote to cause us to incur additional indebtedness, to sell certain material assets or make dividends, in each case, so long as our indebtedness documents so permit. The incurrence of additional indebtedness would increase our debt service obligations and the sale of certain assets could reduce our ability to generate revenue, each of which could adversely affect holders of the Notes.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our Consolidated Financial Statements and related notes beginning on page F-1 of this report.

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 health 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 see "Risk Factors" within this Annual Report for a discussion of some of these risks and uncertainties.

Presentation of financial information

ConvaTec Healthcare B S.à.r.l. ("CHB") is a wholly owned subsidiary of ConvaTec Healthcare A S.à.r.l. (the "Parent"). We are presenting the Consolidated Financial Statements of CHB in this report. The Parent has no significant business operations other than investments in CHB. On August 12, 2013, CFI, a subsidiary of the Parent, completed an offering of $900.0 million senior payment-in-kind notes. 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 Annual Report for further details.

Overview

We are a global medical products and technologies company, with leading market positions in ostomy care, wound therapeutics, 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 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, surgery, diabetes, venous disease, immobility and other factors.

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

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

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

Acquisitions

On January 1, 2014, we acquired all of the voting interest in Symbius, a national home medical supply company which provides urological and other medical supplies nationally, as well as durable medical equipment on a regional basis. The addition of Symbius extends our ability to serve customers directly. Consideration for the acquisition totaled $44.0 million. Of the consideration paid, $3.5 million was initially funded into escrow, primarily to satisfy potential future indemnity obligations, of which $0.5 million was released as of December 31, 2014.

The operating results of the acquired entity have been included in our consolidated results from the date they were acquired. Refer to Note 3 – Acquisitions, in our December 31, 2014 Consolidated Financial Statements, included herein for further details.

Change in Management

Our executive leadership team went through a significant amount of change during 2014. In July 2014, Nigel Clerkin was appointed Chief Financial Officer, replacing John Cannon. In August 2014, Adam Deutsch was appointed as Senior Vice President and General Counsel and Robert Steele was appointed as Vice President of Quality and Regulatory. In December 2014, Paul Moraviec was appointed as Interim Chief Executive Officer of ConvaTec, replacing former CEO, Ken Berger. Paul Moraviec previously served as President of Europe, Middle East and Africa, which is our largest geographic region. For additional information regarding our Board of Directors and Leadership Team, refer to "Management".

Results of operations

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

(in millions of $)	For the Years Ended December 31, 2014	2013
Net sales[1]	**$ 1,735.5**	**$ 1,700.7**
Cost of goods sold	821.8	753.5
Gross profit	**913.7**	**947.2**
Selling and marketing expenses	397.0	374.7
General and administrative expenses	195.2	200.1
Research and development expenses	37.2	32.0
Impairment of goodwill and long lived assets	73.7	25.6
Operating income	**210.6**	**314.8**
Interest expense, net	449.6	448.4
Foreign exchange loss	19.3	5.7
Other income, net	(0.1)	(2.1)
Loss on extinguishment of debt	—	4.4
Loss before income taxes	**(258.2)**	**(141.6)**
Provision for income taxes	28.3	32.1
Net loss	**$ (286.5)**	**$ (173.7)**

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

Comparison of the years ended December 31, 2014 and December 31, 2013

Net sales by franchise

We analyze our net sales by franchise. Net sales are comprised of the sales of our products net of returns, sales incentives and chargebacks. The following table sets forth our net sales by franchise for the years ended December 31, 2014 and 2013. The table also presents the percentage change on a reported and constant exchange rate basis. Net sales on a constant exchange rate basis is a non-GAAP financial measure and should not be viewed as a replacement of GAAP results. Price changes had the effect of decreasing net sales by approximately 3.6% and 2.0% for the years ended December 31, 2014 and 2013, respectively. The primary exchange rate movement that impacts net sales is the movement of the Euro compared to the U.S. Dollar. The impact of exchange rate movements on net sales is not indicative of the impact of net earnings due to offsetting impact of exchange rate movements on operating costs and expenses incurred in other currencies. 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.

In the first quarter of 2014, we modified our management and reporting of our Infusion Devices franchise. As a result of this change, and to better align our disclosures with current franchise management, certain sales that were previously part of our Infusion Devices franchise are now included in our CCC franchise. For comparability purposes, we have reclassified similar amounts for the prior period presented. For the year ended December 31, 2013, $16.8 million has been reclassified from Infusion Devices to CCC.

(in millions of $)	For the Years Ended December 31, 2014	2013	Percentage change As reported	At constant
Net sales by franchise				
Wound Therapeutics	$ 566.2	$ 525.7	7.7 %	8.5 %
Ostomy Care	573.1	613.5	(6.6)%	(5.7)%
Continence & Critical Care	346.8	321.1	8.0 %	9.0 %
Infusion Devices	249.4	240.4	3.7 %	3.8 %
Total net sales	**$ 1,735.5**	**$ 1,700.7**	**2.0 %**	**2.8 %**

Wound Therapeutics, net sales

Net sales in our Wound Therapeutics franchise for the year ended December 31, 2014 were $566.2 million, an increase of $40.5 million, or approximately 7.7%, from $525.7 million for the year ended December 31, 2013. At a constant exchange rate, Wound Therapeutics net sales increased 8.5%, primarily related to growth across our AQUACEL® product family.

Ostomy Care, net sales

Net sales in our Ostomy Care franchise for the year ended December 31, 2014 were $573.1 million, a decrease of $40.4 million, or approximately 6.6%, from $613.5 million for the year ended December 31, 2013. At a constant exchange rate, Ostomy Care net sales decreased 5.7%, primarily due to pricing and distributor buying patterns.

Continence & Critical Care, net sales

Net sales in our CCC franchise for the year ended December 31, 2014 were $346.8 million, an increase of $25.7 million, or approximately 8.0%, from $321.1 million for the year ended December 31, 2013. At a constant exchange rate, CCC net sales increased 9.0% primarily due to incremental sales from the Symbius acquisition and organic growth of our 180 Medical business.

Infusion Devices, net sales

Net sales in our Infusion Devices franchise for the year ended December 31, 2014 were $249.4 million, an increase of $9.0 million, or approximately 3.7%, from $240.4 million for the year ended December 31, 2013. At a constant exchange rate, Infusion Devices net sales increased 3.8%, primarily driven by volume growth, partially offset by reduced inventory holdings by our principal customer.

Costs and expenses

The following is a summary of costs and expenses.

	For the Years Ended December 31,		Percentage of net sales	
(in millions of $)	**2014**	**2013**	**2014**	**2013**
Operating costs and expenses				
Cost of goods sold	$ 821.8	$ 753.5	47.4%	44.3%
Selling and marketing	397.0	374.7	22.9%	22.0%
General and administrative	195.2	200.1	11.2%	11.8%
Research and development	37.2	32.0	2.1%	1.9%
Impairment of goodwill and long lived assets	73.7	25.6	4.2%	1.5%
Total operating costs and expenses	**$ 1,524.9**	**$ 1,385.9**	**87.9%**	**81.5%**
Other costs and net expenses:				
Interest expense, net	$ 449.6	$ 448.4		
Foreign exchange loss	19.3	5.7		
Other income, net	(0.1)	(2.1)		
Loss on extinguishment of debt	—	4.4		
Provision for income taxes	28.3	32.1		

In our discussion below, we may make mention of certain costs and expenses on a constant exchange rate basis. Costs and expenses on a constant exchange rate basis is 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.

Operating costs and expenses

Cost of goods sold

Cost of goods sold are primarily comprised of manufacturing and production costs, including raw materials, labor, overhead and processing costs and any freight costs borne by us in the transport of goods to us from suppliers. Cost of goods sold for the year ended December 31, 2014 was $821.8 million, an increase of $68.3 million from $753.5 million for the year ended December 31, 2013. As a percentage of net sales, cost of goods sold increased to 47.4% for the year ended December 31, 2014 from 44.3% for the year ended December 31, 2013. At a constant exchange rate, costs of goods sold increased $65.4 million. The increase in cost of goods sold is primarily driven by higher volume of products, including new products introduced in 2014, as well as charges related to inventory write-downs.

Gross profit (net sales less cost of goods sold) decreased $33.5 million, or 3.5%, and gross profit margin (gross profit as a percentage of net sales) was 52.6% for the year ended December 31, 2014 as compared with 55.7% for the year ended December 31, 2013. Gross profit margin excluding impacts from amortization of certain intangible assets and certain non-recurring costs for the year ended December 31, 2014 was 60.3%, as compared with 63.4% in the prior year. The reduced gross profit margin is primarily related to pricing actions, product mix and inventory write-downs. We recorded inventory reserves of $26.6 million and $11.1 million, respectively, for the years ended December 31, 2014 and 2013. The $15.5 million increase in inventory reserves is primarily related to the increased provisions for slow moving product, as well as impairments related to the global recall of the Flexi-Seal® CONTROL Fecal Management System. The negative effect on the margin was partially offset by manufacturing productivity resulting from benefits realized from executed cost saving initiatives and optimization efforts.

Selling and marketing expenses

Selling and marketing expenses consisted of advertising, promotion, marketing, sales force, and distribution costs. Selling and marketing expenses were $397.0 million and $374.7 million for the year ended December 31, 2014 and 2013, respectively. As a percentage of net sales, selling and marketing expenses were 22.9% for the year ended December 31, 2014 as compared to 22.0% for the year ended December 31, 2013. At a constant exchange rate, selling and marketing expenses increased $26.0 million. The increase is primarily due to incremental costs associated with the Symbius acquisition and targeted sales initiatives across most geographic regions, especially EMEA and Latin America, and was offset by reduction in sales personnel and promotional expenses in the U.S.

General and administrative expenses

General and administrative expenses consisted of executive management, human resources, finance, information management, legal, facilities and other costs. General and administrative expenses for the year ended December 31, 2014 were $195.2 million, a decrease of $4.9 million, or approximately 2.4%, from $200.1 million for the year ended December 31, 2013. As a percentage of net sales, general and administrative expenses were 11.2% for the year ended December 31, 2014, compared to 11.8% for the year ended December 31, 2013. At a constant exchange rate, general and administrative expenses increased $7.6 million. The increase was primarily due to incremental costs associated with the Symbius acquisition and additional costs related to professional service fees associated with a number of remediation activities that we are undertaking to address material weaknesses and significant deficiencies in our internal financial controls.

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

Research and development expenses

R&D expenses consisted of product development and enhancement costs incurred within a centralized R&D function. Our R&D expenses for the year ended December 31, 2014 were $37.2 million, an increase of $5.2 million from $32.0 million for the year ended December 31, 2013. As a percentage of net sales, R&D expenses were 2.1% for the year ended December 31, 2014, compared to 1.9% for the year ended December 31, 2013. At a constant exchange rate, R&D expenses increased $4.7 million. The increase is primarily driven by regulatory compliance costs of $7.4 million related to the FDA remediation activities.

Impairment of goodwill

As a result of the annual goodwill impairment test, we recorded an impairment charge on goodwill of $46.4 million for the year ended December 31, 2014. The impairment charge related to our APAC reporting unit as a result of our revised estimates for revenues and profitability in this region, taking into account our recent and anticipated future performance trends. No goodwill impairment charges were recorded for the year ended December 31, 2013.

Impairment on long lived assets

Impairment charges on long lived assets were $27.3 million and $25.6 million for the years ended December 31, 2014 and 2013, respectively. The charges for the year ended December 31, 2014 were primarily related to the impairment of the ConvaTec trade name for $16.6 million, the impairment to the intangible assets acquired in the Symbius acquisition for $4.3 million and the manufacturing facility located in Rhymney, U.K. for $3.2 million. The charges of $24.1 million for the year ended December 31, 2013 were primarily related to our corporate facility located in Skillman, NJ, which was closed in April 2014.

Other costs and net expenses

Interest expense, net

Our interest expense, net for the year ended December 31, 2014 was $449.6 million, an increase of $1.2 million from $448.4 million for the year ended December 31, 2013. The compounding effect of accrued preferred equity certificates ("PEC" or "PECs") interest resulted in a year-over-year increase in interest expense, partially offset by lower interest rates on our term loans as a result of the refinancing transactions completed during the third quarter of 2013.

Foreign exchange loss

Foreign exchange loss is comprised of net gains and losses resulting from the re-measurement or settlement of transactions that are denominated in a currency that is not the functional currency of the transacting subsidiary. For the year ended December 31, 2014, the foreign exchange loss amounted to $19.3 million compared to a foreign exchange loss of $5.7 million during the year ended December 31, 2013. The foreign exchange activity during the year ended December 31, 2014 is primarily driven by exchange rate fluctuations impacting long-term debt denominated in non-functional currency and for the prior year is primarily driven by intercompany loans transacted in non-functional currencies. Additionally the foreign exchange loss was impacted by a $2.2 million charge related to our adoption of highly-inflationary accounting for our Venezuela subsidiary.

Other income, net

Other income, net represents gains and losses on transactions that are non-operating in nature, including any gains on the sale of businesses or long-lived assets. Other income, net was $0.1 million and $2.1 million for the year ended December 31, 2014 and 2013, respectively. The $1.1 million gain in the first quarter of 2013 was related to proceeds received as a result of the demutualization of an insurance provider.

Loss on extinguishment of debt

During the year ended December 31, 2013, we recorded a non-cash $4.4 million loss on early extinguishment of debt, resulting from the refinancing of our term loans completed at the end of the third quarter 2013. The loss was comprised of a $3.9 million write-off of unamortized deferred financing fees and a $0.5 million write-off of unamortized original issue discount (“OID”). For the year ended December 31, 2014, there was no refinancing of debt.

Provision for income taxes

During the year ended December 31, 2014, we recorded a provision for income taxes of $28.3 million on a pre-tax loss of $258.2 million and for the year ended December 31, 2013, we recorded a provision for income taxes of $32.1 million on a pre-tax loss of $141.6 million. The decrease in the provision for income taxes in 2014 as compared to 2013 is primarily the result of a decrease in foreign current taxes partially offset by favorable deferred tax benefits that were recorded in 2013 for tax rate changes in Denmark and the U.K. and decreases in non-U.S. taxes as a result of lower overall earnings.

Net loss

As a result of the above, net loss increased $112.8 million to a net loss of $286.5 million for the year ended December 31, 2014, compared to a net loss of $173.7 million for the year ended December 31, 2013.

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, other income, net, foreign exchange loss, interest expense, net, and depreciation and amortization. Adjusted EBITDA represents EBITDA as adjusted (i) to include realized foreign exchange gains or losses and (ii) to exclude costs or gains that are excluded by management in assessing the operating performance of the business, such as asset impairment, non-cash stock compensation, and other non-cash items, as well as certain cash items such as restructuring and remediation expenses. 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 year ended December 31, 2014 and 2013.

	For the Years Ended December 31,	
(in millions of $)	**2014**	**2013**
Net loss	**$ (286.5)**	**$ (173.7)**
Provision for income taxes	28.3	32.1
Loss on extinguishment of debt	—	4.4
Other income, net	(0.1)	(2.1)
Foreign exchange loss	19.3	5.7
Interest expense, net	449.6	448.4
Depreciation and amortization	191.2	187.6
EBITDA	**401.8**	**502.4**
Adjustments [(a)]:		
Goodwill and long lived asset impairments	73.7	25.6
Restructuring costs	13.6	4.5
Remediation costs	10.3	—
Other	0.5	20.3
Total Adjustments	98.1	50.4
Adjusted EBITDA, excluding realized foreign exchange loss	**499.9**	**552.8**
Realized foreign exchange loss [(b)]	(10.6)	(3.2)
Adjusted EBITDA	**$ 489.3**	**$ 549.6**

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

(b) In connection with our third quarter 2013 repricing transaction, we realized $1.4 million foreign exchange loss that was excluded from the above calculation of Adjusted EBITDA.

For the year ended December 31, 2014, we recorded $13.6 million in restructuring costs, of which $13.0 million was recorded to general and administrative expenses and $0.6 million was recorded to selling and marketing expenses in our Consolidated Statements of Operations. For the year ended December 31, 2013, we recorded $4.5 million of restructuring costs, all of which was recorded to general and administrative expenses in our Consolidated Statements of Operations.

We recorded $10.3 million of remediation costs for the year ended December 31, 2014, of which $7.4 million was recorded to R&D expenses and $2.9 million was recorded to general and administrative expenses in our Consolidated Statements of Operations. Remediation costs include regulatory compliance costs related to the FDA activities and professional service fees

associated with activities that we are undertaking to address material weaknesses and significant deficiencies in our internal controls.

For the year ended December 31, 2014, we recorded $0.5 million of other adjustments which was recorded to general and administrative expenses in our Statements of Operations. We recorded $20.3 million of other adjustments for the year ended December 31, 2013, of which $19.9 million, $0.3 million, and $0.1 million were recorded to general and administrative expenses, cost of goods sold, and selling and marketing expenses, respectively. Other adjustments included transaction costs in connection with business development and financing activities.

Liquidity and capital resources

As of December 31, 2014 and December 31, 2013, our cash and cash equivalents were $234.0 million and $271.4 million, respectively. Additionally, as of December 31, 2014, we had $248.7 million of availability under the Revolving Credit Facility. Restricted cash was $7.8 million as of December 31, 2014.

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 $147.3 million and $229.1 million of cash from operating activities from continuing operations during the years ended December 31, 2014 and 2013, respectively. Significant cash uses during the year ended December 31, 2014 included $44.7 million for capital expenditures, $42.5 million for the Symbius acquisition, $270.9 million of interest payments and $73.6 million of debt repayments. Significant cash uses during the year ended December 31, 2013 included $36.9 million for capital expenditures, $218.0 million of interest payments and $45.1 million of debt repayments.

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

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

Pursuant to the Third Amendment to the Credit Agreement dated August 5, 2013, and pursuant to Section 4.06 of both the Senior Secured Notes and Senior Notes Indentures dated December 22, 2010 (collectively, the "Indentures"), we are permitted in certain circumstances to make certain payments that would otherwise be restricted. As of December 31, 2014, we had the capacity to make such restricted payments up to an amount of $262.5 million.

Cash flows

The following table sets forth Consolidated Cash Flow data for the years ended December 31, 2014 and 2013:

	For the Years Ended December 31,	
(in millions of $)	**2014**	**2013**
Net cash provided by operating activities	$ 147.3	$ 229.1
Net cash used in investing activities	(88.2)	(33.8)
Net cash used in financing activities	(73.6)	(53.0)
Effect of exchange rate changes on cash and cash equivalents	(22.9)	(0.3)
Net change in cash and cash equivalents	(37.4)	142.0
Cash and cash equivalents at beginning of year	271.4	129.4
Cash and cash equivalents at end of year	$ 234.0	$ 271.4
Supplemental cash flow information		
Income taxes paid	$ 40.4	$ 32.6
Interest paid	$ 270.9	$ 218.0

Cash flows from operating activities

The following table sets forth the components of net cash provided by operating activities for the years ended December 31, 2014 and 2013:

	For the Years Ended December 31,	
(in millions of $)	**2014**	**2013**
Adjusted EBITDA, excluding realized foreign exchange loss	**$ 499.9**	**$ 552.8**
Realized foreign exchange loss	(10.6)	(3.2)
Cash interest payments	(270.9)	(218.0)
Cash tax payment	(40.4)	(32.6)
Other payments	(27.8)	(20.9)
Working capital increase	(2.9)	(49.0)
Net cash provided by operating activities	**$ 147.3**	**$ 229.1**

Net cash provided by operating activities was $147.3 million and $229.1 million for the years ended December 31, 2014 and 2013, respectively.

For the year ended December 31, 2014, cash interest paid was $270.9 million, an increase of $52.9 million, from $218.0 million for the year ended December 31, 2013. This was primarily due to the interest related payment made on the PEC Notes in the first and third quarters of 2014.

The other payments of $27.8 million and $20.9 million for the years ended December 31, 2014 and 2013, respectively, are related to restructuring charges, remediation costs, and the payments made towards the settlement of the Medtronic related liabilities.

The working capital increase of $2.9 million for year ended December 31, 2014 is primarily due to an increase in inventory and a decrease in accounts payable offset by a decrease in accounts receivable. The working capital increase of $49.0 million

for the year ended December 31, 2013 is primarily due to increases in accounts receivable and inventory offset by the decrease in accounts payable and other current liabilities.

Cash flows from investing activities

Net cash used in investing activities was $88.2 million and $33.8 million for the years ended December 31, 2014 and 2013, respectively. The $88.2 million in cash used in investing activities in 2014 was primarily due to the acquisition of Symbius for a net cash purchase price of $42.5 million and $44.7 million of investment in capital expenditures as a result of our investment in our manufacturing facilities located in Deeside, U.K., Herlev, Denmark , Greensboro, U.S. and Haina, Dominican Republic as well as our 180 Medical operations. The $33.8 million cash used in investing activities in 2013 was primarily due to capital expenditures related to our investments in our manufacturing facilities listed above.

Cash flows from financing activities

Net cash used in financing activities was $73.6 million for the year ended December 31, 2014 compared to net cash used in financing activities of $53.0 million during 2013. Net cash used in financing activities was primarily related to the mandatory prepayments on our Term Loan Facilities of $73.5 million and $45.1 million made in the second quarters of 2014 and 2013, respectively, for excess cash retained in the business, based on the terms or our Credit Facilities Agreement. Additionally, there was $8.0 million of deferred financing fees paid to refinance our term loans and amend our Credit Facilities Agreement in the third quarter of 2013.

Financing and Financing Capacity

On August 12, 2013, 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 preferred equity certificates ("PECs") of the Parent in the amount of $873.1 million and to pay additional related fees and expenses. The PIK Notes mature on January 15, 2019 and are subject to cash interest payments of 8.25% every January 15 and July 15, commencing on January 15, 2014. PIK interest, if cash interest is not elected to be paid, will accrue at 9.00% per annum. All interest owed will be paid by CFI directly to the holders of the PIK Notes. The PIK Notes are recorded on the balance sheet of CFI, whose financial information is ultimately consolidated by the Parent. The PIK Notes are non-recourse to CHB and thus exclusively the obligation of CFI and the Parent.

In order to fund CFI's interest expense on the PIK Notes, it is anticipated that CHB will distribute certain accrued PEC interest to the Parent. The PECs allow for distribution of interest to the extent permitted by our restricted payment capacity, a specified leverage ratio and other provisions outlined in our Credit Facilities Agreement and the Indentures governing the Senior Notes and Secured Notes. During the year ended December 31, 2014, we made a payment of $68.6 million of accrued PEC interest to the Parent. We anticipate that we will 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 is expected to be on January 15 and July 15, going forward. 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 December 31, 2014, the current portion of accrued PEC interest on CHB's Consolidated Balance Sheet which represents the amount of accrued interest on the PIK Notes on the Consolidated Balance Sheet of the Parent was $34.2 million. For further information regarding the differences between the Consolidated Financial Statements of CHB and the Parent, please refer to the "Reconciliation to the Parent's Financial Statements" within this Annual Report.

Our long-term debt consists of Senior Secured Notes, Senior Unsecured Notes, and the Credit Facilities. Refer to Note 12 – Long-Term Debt and the discussion below for details regarding the amendment and the repricing of our Term Loan Facilities. As of December 31, 2014, we had total debt outstanding, excluding capital leases, other obligations, and the PIK Notes, of $2,729.3 million, net of $2.3 million of unamortized original issue discount.

As of December 31, 2014, borrowings outstanding under the Senior Secured Notes, due 2017, were €300.0 million ($362.9 million) and borrowings outstanding under the Senior Notes, due 2018, were $745.0 million and €250.0 million ($302.5 million). Borrowings under the Secured Notes bear interest of 7.375% per annum. Borrowings under the U.S. Dollar Senior

Notes bear interest of 10.5% per annum, while the Euro Senior Notes bear interest of 10.875% per annum. Interest is payable on both the Secured Notes and Senior Notes on June 15 and December 15 of each year. The Secured Notes and Senior Notes may be prepaid and are subject to a premium if payment is made prior to December 15, 2016.

The Credit Facilities consist of (i) U.S Dollar and Euro term loans due December 2016, (ii) a revolving credit facility that terminates December 2015 and (iii) incremental unfunded term facilities.

On August 5, 2013, we executed an amendment to our Credit Facilities Agreement. The amendment provides for a reduction in the applicable margins and floors on the EURIBOR and LIBOR base rates of our Euro and U.S. Dollar Term Loan Facilities, as well as a reduction of the floor on Alternate Base Rate ("ABR") borrowings. In addition, the calculation of the amount available for restricted payments, capital expenditures, investments and prepayments of certain indebtedness have been modified. The repricing of the term loans became effective on September 28, 2013 (the "Repricing"). The details regarding the changes in each of the applicable interest rates are discussed further below.

Total borrowings outstanding under the Term Loan Facilities denominated in U.S. Dollars and Euros were $770.5 million and €455.2 million ($550.7 million), respectively as of December 31, 2014. The Term Loan Facilities are payable in equal quarterly installments in an aggregate annual amount equal to approximately 1% of the original principal amount of the Term Loan Facilities. However, as a result of mandatory prepayments discussed further below, no quarterly installment payments are due until the Term Loan Facilities mature on December 22, 2016.

The Revolving Credit Facility of $250.0 million is available through its maturity date in certain currencies at the borrower's option and is used to provide for ongoing working capital requirements, letters of credit, and for our general corporate purposes. The Revolving Credit Facility also allows for up to $40.0 million letters of credit issuances as well as $25.0 million for same-day borrowings, referred to as swingline loans. There were no borrowings outstanding under the Revolving Credit Facility at December 31, 2014. As of December 31, 2014, letters of credit outstanding under the Revolving Credit Facility totaled approximately $1.3 million, and therefore had $248.7 million of availability under the Revolving Credit Facility.

The Incremental Term Facilities are unfunded commitments and are available in an amount up to $400.0 million (net of any issuance of secured notes issued) in either U.S. Dollars and/or Euros with a maturity date in December 2016, provided that a certain leverage ratio is not exceeded and we satisfy certain requirements, including: no default or event of default, pro forma compliance with financial covenants, minimum borrowing amounts of $15.0 million and a maturity date and weighted average life-to-maturity of each individual loan within the Incremental Term Facilities that is greater than the weighted average maturity date of the Term Loan Facilities. Additionally, should the yield on the Incremental Term Facilities exceed the yield on the Term Loan Facilities by more than 0.50%, then the yield on the Term Loan Facilities will automatically increase such that the yield on the Term Loan Facilities shall be 0.50% below the yield on the Incremental Term Facilities. There were no amounts funded or drawn under the amended Incremental Term Facilities as of December 31, 2014.

Borrowings and commitments under the Credit Facilities, including the Term Loan Facilities, are subject to full or partial mandatory prepayments from the proceeds of asset sales above a specified threshold, the issuance or incurrence of debt and from excess cash flow retained in the business. The amount and timing of the mandatory prepayments are subject to certain criteria. During the second quarters of 2014 and 2013, we made mandatory prepayments of $73.5 million and $45.1 million, respectively, for excess cash retained in the business. Both the 2014 and 2013 mandatory prepayments were applied, and the estimated 2015 mandatory prepayment of $43.6 million 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.

Term loan borrowings denominated in Euros under the Credit Facilities bear interest at a Euro (EURIBOR) base rate and term loan borrowings denominated in U.S. Dollars may, at the borrower's option, bear interest at either U.S. Dollar (LIBOR) base rate or ABR. Borrowings under the Revolving Credit Facility denominated in Euros may bear interest at either ABR or EURIBOR and borrowings denominated in any currencies other than Euros (including U.S. Dollars) may bear interest at either ABR or LIBOR. ABR, as defined and amended in the Credit Facilities Agreement, is the greater of (a) the Prime Rate, (b) the Federal Funds Effective Rate plus 0.50% or (c) the Eurodollar Rate for a one-month interest period plus 1.00%. The initial ABR margin applicable to borrowings under the Revolving Credit Facility is 3.25% but may be incrementally reduced by 0.25% up to three times upon obtaining consolidated leverage ratios specified in the Credit Agreement. The ABR margin

applicable to U.S. Dollar term loans is 2.00% subject to an increase by 25 basis points if there is a decline in our corporate credit rating below B3 or B- from Moody's and Standard and Poor's, respectively. As a result of the Repricing, ABR is subject to a floor of 2.0%. Also as a result of the Repricing, EURIBOR and LIBOR borrowings are subject to an initial margin of 3.25% and 3.00%, respectively, each with a floor of 1.00%, and each such margins are subject to the same 25 basis point increase if we receive the aforementioned decline in our corporate rating. Our current credit rating on the Senior Secured Notes is Ba3 and B+ from Moody's and Standard and Poor's, respectively.

Under the original terms of the Credit Facilities Agreement, the margin on both EURIBOR and LIBOR loans was 4.25%, each subject to a floor of 1.50% and ABR was subject to a floor of 2.75%. In the third quarter of 2012, we refinanced both the Euro and U.S. Dollar Term Loan Facilities, whereby the margin on the EURIBOR and LIBOR borrowings was reduced to 4.00% and 3.75%, respectively. The floor was also reduced to 1.25% for LIBOR borrowings and 2.25% for ABR borrowings. Our borrowing arrangements contain a number of non-financial and financial covenants, including maintaining certain consolidated leverage and interest coverage ratio levels. Under the terms of the Credit Facilities Agreement, the consolidated leverage ratio may not exceed 6.40 to 1.00 as of December 30, 2014 and will decrease over time to 5.95 to 1.00 by December 30, 2015. The consolidated interest coverage ratio may not fall below 1.55 to 1.00 as of December 30, 2014 and will increase over time to 1.60 to 1.00 by June 30, 2016. The Company was in compliance with all covenants as of December 31, 2014

Contractual obligations

The following unaudited table sets forth, as of December 31, 2014, our contractual obligations and commercial commitments, based upon the period in which payments are due. Note that the tabular presentation below does not include obligations related to the Series 1, 2 and 3 PECs we issued to Avista Capital Partners and Nordic Capital ("Sponsors") for an aggregate amount of €1,289.7 million ($2,026.7 million) at the time of the acquisitions. The PECs are mandatorily redeemable by us in 2047 or upon the occurrence of a liquidation event. The PECs are included within total liabilities, as presented in our Consolidated Financial Statements included herein, at an amount of $2,879.1 million (€2,379.9 million) and $3,097.3 million (€2,253.8 million), inclusive of accrued and unpaid interest of $1,318.9 million (€1,090.2 million) and $1,324.9 million (€964.1 million) for the years ended December 31, 2014 and 2013, respectively. See "Certain relationships and related party transactions—Mandatorily redeemable preferred equity certificates" for further discussion of the PECs. The table below does not reflect the $900.0 million PIK Notes issued by CFI, a sister company to CHB.

(in millions of $)	Total	Less than 1 year	1-3 years	3-5 years	Thereafter
Total debt[(a)]	$ 2,731.8	$ 43.7	$ 2,688.1	$ —	$ —
Operating lease obligations	45.3	18.8	23.3	3.2	—
Purchase commitments	55.1	40.3	14.8	—	—
Total	**$ 2,832.2**	**$ 102.8**	**$ 2,726.2**	**$ 3.2**	**$ —**

(a) Represents scheduled principal payments of our total debt which is primarily comprised of amounts payable under the Credit Facilities and Secured Notes and Senior Notes, inclusive of $2.3 million of Original Issue Discount on the Credit Facilities and does not reflect the $900.0 million of PIK Notes.

The table above does not include $35.1 million of the total unrecognized tax benefit for uncertain tax positions and $5.4 million of associated accrued interest and penalties. Due to the high degree of uncertainty regarding the timing of potential future cash flows, we are unable to make a reasonable estimate of the amount and period in which these liabilities might be paid.

Capital expenditures

Our capital expenditures were $44.7 million and $36.9 million for the years ended December 31, 2014 and 2013, respectively.

For the twelve month period ending December 31, 2015, we estimate our capital expenditures to be approximately $50.0 million, which primarily relate to routine plant and facility enhancements.

Contingent liabilities

Legal and Regulatory Proceedings

We have been involved in certain lawsuits, claims, proceedings and investigations that are currently pending. In accordance with the accounting guidance related to contingencies, we record 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 matters or that any future lawsuits, claims, proceedings, or investigations will not be material. See “Our Business – Legal Proceedings” and "Risk Factors".

Environmental Proceedings

We are also a party to proceedings and other matters under various national, state and local environmental laws, and from time to time we incur 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 we are responsible under various national, state and local laws, we typically estimate 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 we accrue liabilities when they are probable and reasonably estimable. As of December 31, 2014, we do not expect to incur, and there have been no material costs for investigation and remediation for any sites for which we may be responsible, including liabilities under the U.S. Comprehensive Environmental Response, Compensation and Liability Act and for other remedial obligations. See “Our Business – Environmental Matters”.

We have 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, we record 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 matters or that any future lawsuits, claims, proceedings, or investigations will not be material. Management continues to believe that during the next few years, the aggregate impact, beyond current reserves, of these and other legal matters affecting us is not likely to be material to our results of operations and cash flows, or our financial condition and liquidity. See “Our Business – Legal Proceedings” for further discussion.

We are also a party to proceedings and other matters under various national, state and local environmental laws, and from time to time we incur 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 we are responsible under various national, state and local laws, we typically estimate 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 we accrue liabilities when they are probable and reasonably estimable. As of December 31, 2014, we do not expect to incur, and there have been no material costs for investigation and remediation for any sites for which we may be responsible, including liabilities under the U.S. Comprehensive Environmental Response, Compensation and Liability Act and for other remedial obligations.

Critical accounting policies

This discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP" or "GAAP"). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. In accordance with GAAP, we base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully described in Note 2 - Significant Accounting Policies to our Consolidated Financial Statements, we believe the following accounting policies are critical to the process of making significant judgments and estimates in the preparation of our financial statements.

Revenue Recognition

Our revenues are derived from sales of products and are recognized when substantially all the risks and rewards of ownership have transferred to the customer, there is persuasive evidence that an arrangement exists, the price is fixed and determinable, and collectability is reasonably assured. Generally, products are insured through delivery, and revenue is recognized upon the date of receipt by the customer. Revenues are reduced at the time of recognition to reflect expected product returns and chargebacks, discounts, rebates and estimated sales allowances based on historical experience and updated for changes in facts and circumstances, as appropriate. Such provisions are recorded as a reduction of revenue. When all of the aforementioned revenue recognition criteria are not met, we defer revenue, until such time all of the criteria are met. Amounts collected from customers and remitted to government authorities, such as value-added taxes ("VAT") in foreign jurisdictions, are presented on a net basis in our Consolidated Statements of Operations and do not impact net product sales.

Stock Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award. Generally, compensation expense is recognized on a straight-line basis over the vesting period. In order to determine the fair value of stock options on the grant date, we utilize a binomial model. Inherent in the binomial model are assumptions related to expected stock-price volatility, option life, risk-free interest rate and dividend yield. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the grant date with a term equal to the contractual term of the stock option. Certain features of share-based awards require the awards to be accounted for as liabilities as opposed to equity. Liability awards are required to be updated to fair value at the end of each reporting period until settlement.

Contingencies

In the normal course of business, we are subject to loss contingencies, such as legal proceedings and claims arising out of our business, that cover a wide range of matters, including, among others, government investigations, product and environmental liability, and tax matters. In accordance with the accounting guidance regarding loss contingencies, we record accruals for such loss contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. Further, we do not recognize gain contingencies until realized.

Income Taxes

The provision for income taxes has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax bases of the assets and liabilities. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax attributes are expected to be recovered or paid, and are adjusted for changes in tax rates and tax laws when changes are enacted.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The assessment of whether or not a valuation allowance is required often requires significant judgment including the long-range forecast of future taxable income and the evaluation of tax planning strategies and ability to carry back any losses under the relevant tax law. Adjustments to the deferred tax valuation allowances are recorded in the period when such assessments are made.

We apply 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, we evaluate 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.

Accounts Receivable

Credit is extended to customers based on the evaluation of the customer's financial condition. Creditworthiness of customers is evaluated on a regular basis. Accounts receivable consists of amounts billed and currently due from customers. An allowance for doubtful accounts is maintained for estimated losses that result from the failure or inability of customers to make required payments. In determining the allowance, consideration includes the probability of recoverability based on past experience and general economic factors. Certain accounts receivable may be fully reserved when specific collection issues are known to exist, such as pending bankruptcy. We charge off uncollectible receivables at the time it is determined the receivable is no longer collectable. We do not charge interest on past due amounts. The analysis of receivable recoverability is monitored and the bad debt allowances are adjusted accordingly. Accounts receivable are also reduced at the time of revenue recognition to reflect prompt pay discounts chargebacks.

Goodwill

Goodwill is tested for impairment annually or more frequently if impairment indicators arise using a fair-value based test. We assign goodwill recorded in connection with acquisitions to its six reporting units. The fair value of each reporting unit is calculated and compared to its carrying value. In determining the fair value of each reporting unit, we use a weighted-average combination of both market and income approaches. The market approach to estimating fair value is based primarily on applying external market information to a historical earnings measure. The income approach to estimating fair value is based on a discounted value of estimated future cash flows of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then we will record an impairment loss for the excess of the carrying value of goodwill over its implied fair value. During 2014, we recorded goodwill impairment charges of $46.4 million. No goodwill impairment was recorded in 2013. Refer to Note 10 - Goodwill for additional discussion.

Impairment of Long-Lived Assets

Intangible assets with finite lives and other long-lived assets, such as property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We evaluate the recoverability of assets to be held and used by comparing the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. For the years ended December 31, 2014 and 2013, we recorded long-lived asset impairment charges of $27.3 million and $25.6 million, respectively. Refer to Note 9 - Property, Plant and Equipment and Note 11 - Other Intangible Assets for additional discussion.

New Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and the IASB has issued IFRS 15, Revenue from Contracts with Customers. The issuance of these documents completes the joint effort by the FASB and the IASB to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and IFRS. The new guidance affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets unless those contracts are within the scope of other standards. This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. For public entities, the amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. For nonpublic entities, the amendments are effective for annual reporting periods beginning after December 15, 2017. Early application is only permitted to the extent it is aligned with public entities effective date, but not earlier. We will continue to evaluate this newly issued guidance.

Quantitative and qualitative disclosure about market risk

We are, in the normal course of business, exposed to a variety of market risks, including foreign exchange rate risk and interest rate risk. Our risk management strategy aims to minimize the adverse effects of these risks on our financial performance. Accordingly, we generally attempt to use natural hedges within our foreign currency activities to minimize foreign exchange risk. We have not entered into any transactions in derivative financial instruments for trading purposes.

Foreign currency risk

We manufacture and sell our products in various countries around the world. As a result of the global nature of our operations, we are exposed to market risk due to changes in currency exchange rates; however our foreign currency risk is diversified. Our primary net foreign currency translation exposures are the Euro, Japanese Yen, British Pound Sterling, Danish Krone and Canadian Dollar. We generally attempt to use “natural” hedges within our foreign currency activities, including the matching of revenues and costs and strategically denominating our debt in certain functional currencies in order to match with the projected functional currency exposures within our operations and thereby minimizing foreign currency risk. As a result, the impact of the fluctuations in the market values of assets and liabilities and the settlement of foreign currency transactions are reduced. Our capital structure provides a “natural” hedge for a significant portion of our outstanding debt obligations. We currently do not utilize foreign currency forward contracts to reduce our foreign currency risk, although we continue to evaluate our foreign currency exposures in light of the current volatility in the foreign currency markets.

Impact of Foreign Currency Translation - Venezuela Currency

In January 2014, the Venezuela government announced that the Comisión de Administracion de Divisas (“CADIVI”) would be replaced by the government-operated National Center of Foreign Commerce (the "CENCOEX"), and indicated that the Sistema Complementario de Administración de Divisas (“SICAD”) market would continue to be offered as an alternative foreign currency exchange. Additionally, a parallel foreign currency exchange system has been developed, SICAD II, which started functioning on March 24, 2014. SICAD II exchange market had an average transaction rate for us of approximately 50 Bolivars per U.S. Dollar (the “SICAD II Rate”). The SICAD II market allows companies to apply for the purchase of foreign currency and foreign currency denominated securities for any legal use or purpose.

Due to the continued deterioration in the Venezuela currency, during the second quarter of 2014, we elected to exchange Bolivars for U.S. Dollars to the extent permitted through the CENCOEX, SICAD and SICAD II markets based on its ability to participate in those markets. As a result, we considered its specific facts and circumstances in order to determine the appropriate rate of exchange to translate ConvaTec Venezuela’s financial statements. Based on our assessment of factors, including our legal ability and intent to continue to participate in the SICAD II exchange market to import finished goods into Venezuela, we determined that it was appropriate to utilize the SICAD II Rate of 50 Bolivars per U.S. Dollar to translate Convatec Venezuela’s balance sheet as of December 31, 2014.

As a result of the change from the official rate of 6.3 Bolivars per U.S. Dollar to the SICAD II Rate on December 31, 2014, we were required to re-measure all of ConvaTec Venezuela’s monetary assets and liabilities at the rate of 50 Bolivars per U.S.

Dollar as of December 31, 2014. Non-monetary assets and liabilities continue to be measured at their historical rates. We recorded a foreign currency loss of $2.2 million for the year ended December 31, 2014, as a result of the required re-measurement of ConvaTec Venezuela's balance sheet. As Venezuela was designated as a highly inflationary economy effective January 1, 2010, we reflected this foreign currency loss in earnings as a component of other income, net in the Consolidated Statements of Operations for the year ended December 31, 2014.

Interest rate risk

We are exposed to interest rate risk affecting cash flows, particularly on our long term debt obligations. We do not have any interest rate exposure due to rate changes on our Secured Notes and Senior Notes, as they bear interest at a fixed rate. However, we do have cash flow exposure on our Credit Facilities due to variations in the floating rate indices (LIBOR and EURIBOR). These interest rates could rise significantly in the future. For example, if interest rates were to increase by 1% from the interest rates in effect on December 31, 2014, our cash interest payment under our Credit Facilities at December 31, 2014 would have increased by approximately $14.1 million.

Reconciliation to the Parent's Financial Statements

In connection with 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 the "Presentation of financial information" in the beginning of the MD&A as well as "Financing and Financing Capacity" under "Liquidity and capital resources" for further information regarding the PIK Notes and our financial presentation requirements. We believe that the 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 Consolidated Financial Statements of CHB and the Parent for each period were related to the management fees paid to our Sponsors, the accumulated value of the loan between CHB and the Parent resulting from the management fees paid, the amount of accrued interest on this loan, as well as minor foreign currency and tax related differences. The management fee, including other related fees, results in $3.0 to $4.0 million of incremental general and administrative expenses per year on the Parent's Consolidated Statements 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 preferred equity certificates 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 December 31, 2014, total assets and total liabilities combined with stockholder's deficit differed by $45.6 million on the Parent's Condensed Consolidated Balance Sheet (unaudited), as compared to the balance sheet of CHB. The differences are confined to the following line items:

	As of December 31, 2014		
(in millions of $)	**Parent (Unaudited)**	**CHB**	**Differences**
Assets:			
Cash and cash equivalents	$ 234.3	$ 234.0	$ 0.3
Other assets	140.5	95.2	45.3
Total Assets Difference			**$ 45.6**
Liabilities and Stockholder's Deficit:			
Accrued expenses and other current liabilities	$ 336.9	$ 301.2	$ 35.7
Long-term debt	3,579.4	2,685.8	893.6
Mandatorily redeemable preferred equity certificates	2,030.8	2,844.9	(814.1)
Retained deficit	(2,641.8)	(2,657.1)	15.3
Accumulated other comprehensive income (net of tax)	256.9	341.8	(84.9)
Total Liabilities and Stockholder's Deficit Difference			**$ 45.6**

Consolidated Statements of Operations (Unaudited)

For the year ended December 31, 2014, the total net loss for the Parent was $223.5 million, as compared to a total net loss for CHB of $286.5 million. The total difference of $63.0 million primarily related to the foreign exchange adjustment due to the hedging agreement between the Parent and Cidron Healthcare Limited (a related party, which is not included in the Consolidated Financial Statements of the Parent), which was partially offset by management and other fees and an incremental amount of interest expense recorded in the Parent's Consolidated Statements of Operations (unaudited). 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 December 31, 2014, total cash and cash equivalents on the Parent's Consolidated Balance Sheet (unaudited) was $234.3 million, as compared to total cash and cash equivalents on CHB of $234.0 million. There was no significant difference in total net cash provided by or used in operating, financing or investing activities for the year ending December 31, 2014.

Management

Board of Directors

The persons set forth below are the current members of our Board of Directors.

Name	Position
Magnus Lundberg	Chairman
Paul Moraviec	Director
Toni Weitzberg	Director
Kristoffer Melinder	Director
Thompson Dean	Director
David Burgstahler	Director
Vincent Vigneron	Director
Claes-Johan Geijer	Director
Els Alwyn	Director

Magnus Lundberg Magnus Lundberg is the Chairman of the ConvaTec Board of Directors. Mr. Lundberg served as President and Chief Executive Officer of Phadia AB, a medical diagnostics company, from 1999 until 2011. Earlier, Mr. Lundberg served as Vice President of Chiron Corporation and President of Chiron Vaccine & Therapeutics, and held management positions at Pharmacia Corporation. Mr. Lundberg holds a Master of Science degree in Biology and Biochemistry from Abo Akademi in Turku, Finland. Mr. Lundberg is a member of several additional Boards of Directors, including Atos Medical AB (Chairman) and Airsonett AB (Chairman).

Paul Moraviec Refer to "Leadership Team" section for further details.

Toni Weitzberg Toni Weitzberg is a Partner at NC Advisory AB, advisor to the Nordic Capital funds. Mr. Weitzberg joined NC Advisory AB in 2000 from the Pharmacia group, where he held various positions including Senior Vice President of Europe at the Pharmacia & Upjohn Company. He earned a Master of Business Administration degree from the University of Wisconsin and a Bachelor of Science degree in Economics and Business Administration from the University of Uppsala. Mr. Weitzberg is also a member of the Boards of Directors of Acino and Handicare.

Kristoffer Melinder Kristoffer Melinder is a Managing Partner at NC Advisory AB, advisor to the Nordic Capital funds. Mr. Melinder joined Nordic Capital in 1998 from JP Morgan in London. During his tenure at JP Morgan, Mr. Melinder worked in the Leveraged Finance and Advisory group. He earned a Master of Science degree in Economics from the Stockholm School of Economics and the University of Cologne. Mr. Melinder attended the Swedish Army Language School and spent one year in Bosnia as a UN officer. Mr. Melinder is also a member of several additional Boards of Directors, including The Binding Site (Chairman), Resurs Group and Ellos.

Thompson Dean Thompson Dean is a Co-Managing Partner and Co-CEO at Avista Capital Partners. Mr. Dean was a co-founder of Avista Capital Partners in 2005. Prior to that, he led DLJ Merchant Banking Partners for 10 years as Co-Managing Partner and was Chairman of several DLJ Investment Committees. He holds a Master of Business Administration degree with high distinction from Harvard Business School where he was a Baker Scholar, and a Bachelor of Arts degree from the University of Virginia where he was an Echols Scholar. Mr. Dean is currently a member of several additional Boards including Acino Holdings, Sidewinder Drilling, Zest Anchors and VWR International.

David Burgstahler David Burgstahler is a Partner and President at Avista Capital Partners. Mr. Burgstahler was a founding partner of Avista Capital Partners in 2005. Previously, he was a Partner at DLJ Merchant Banking Partners. Prior to that, he worked at DLJ Investment Banking, McDonnell Douglas (now Boeing), and Andersen Consulting (now Accenture). He earned a Master of Business Administration degree from Harvard Business School and a Bachelor of Science degree in Aerospace

Engineering from the University of Kansas. Mr. Burgstahler is currently a member of several Boards including AngioDynamics, Armored AutoGroup, INC Research, Lantheus Medical Imaging, Strategic Partners, Vertical/Trigen, Visant and WideOpenWest.

Vincent Vigneron Vincent Vigneron is the Finance Director of ConvaTec Luxembourg entities. Mr. Vigneron joined ConvaTec in June 2010. Prior to that, he worked as an audit Senior Manager at PricewaterhouseCoopers in France and Luxembourg for 10 years, specializing in international structures. He earned a Master of Finance degree and a Master of Management, Audit and Accounting degree from the University of Orleans in France.

Claes-Johan Geijer Claes-Johan Geijer is an independent Director and Advisor based in Luxembourg. Mr. Geijer has a background in international industrial corporations, venture capital and banking. He served in various management positions in Swedish Match, Stora and Lexmar in Sweden and abroad before moving into banking where he held various positions in Swedbank and Carnegie, most recently as Group Head of private banking in the Carnegie Group. Mr. Geijer holds a Bachelor of Science degree in Economics and Business Administration from the Stockholm School of Economics. Mr. Geijer is a member of several Boards of Directors within and outside of Luxembourg.

Els Alwyn Els Alwyn is a Director of Nordic Capital Luxembourg companies. Ms. Alwyn joined Nordic Capital in May 2011. Previously, she worked at Nauta Dutilh and was admitted as an "Advocaat" to the Rotterdam Bar in 1997. Ms. Alwyn worked in the Corporate Finance teams of Norton Rose and Watson Farley Williams in Singapore, Gilbert & Tobin in Sydney and the investment funds team at Ogier in Jersey. Ms. Alwyn studied Law at the Erasmus University Rotterdam and holds an LL.M.

Leadership Team

The persons set forth below are the current members of our Leadership Team.

Name	Position
Paul Moraviec	Interim Chief Executive Officer and President, EMEA
Nigel Clerkin	Chief Financial Officer
Todd Brown	Chief Executive Officer and Founder, 180 Medical
Robbie Heginbotham	Senior Vice President, Operations
John Magnus Lindskog	President, Infusion Devices, Asia Pacific, and CCC
Mark Valentine	President, Americas
Fiona Adam	Vice President and General Manager, Wound Therapeutics
Stephen Bishop	Vice President, Research & Development
Mads Haugaard	Vice President and General Manager, Continence & Critical Care
Douglas LeFort	Vice President and General Manager, Ostomy Care
Adam Deutsch	Senior Vice President and General Counsel
Robert Steele	Vice President, Quality, Regulatory and Clinical Affairs
Joseph Rolley	Vice President, Government Affairs and Health Policy

Paul Moraviec Paul Moraviec is the Interim CEO of ConvaTec. Mr. Moraviec joined ConvaTec in 2009 as President of Europe, Middle East and Africa (EMEA), which is the Company's largest geographic region. Based in Schaffhausen, Switzerland, Mr. Moraviec has a track record of driving growth in major global healthcare companies across a number of medical device specialties including orthopedics, neurosurgery, diabetes and general surgery. Mr. Moraviec has held international leadership roles with Johnson & Johnson, Abbott Laboratories and Bausch and Lomb, as well as CEO roles with two early-stage venture capital funded companies. Mr. Moraviec holds a Master's degree in Marketing from Kingston University Business School in the U.K.

Nigel Clerkin Nigel Clerkin is the Chief Financial Officer of ConvaTec. Mr. Clerkin was previously Executive Vice President and Chief Financial Officer of Elan Corporation, a Dublin-based biotechnology company. He was part of a senior team that built significant shareholder value at Elan, culminating in its sale to Perrigo, a pharmaceutical manufacturer, in December 2013. Mr. Clerkin joined Elan in 1998 and held a series of roles in strategic planning and finance prior to being named CFO in 2011. Earlier in his career, Nigel was an auditor with KPMG. He holds Bachelor's and Master's degrees in accounting from Queens University, Belfast, and is a fellow of Chartered Accountants Ireland.

Todd Brown Todd Brown is the Chief Executive Officer and Founder of 180 Medical. Mr. Brown joined ConvaTec in 2012 with the acquisition of 180 Medical, a leader in the home delivery of disposable, intermittent catheters and urologic medical supplies in the U.S. A successful entrepreneur, Mr. Brown founded 180 Medical 11 years ago following his own personal experience with injury. Mr. Brown holds a Bachelor's degree in Business from the University of Central Oklahoma.

Robbie Heginbotham Robbie Heginbotham is the Senior Vice President, Operations. Mr. Heginbotham has more than 40 years of experience in manufacturing, supply chain, project and general management. He joined ConvaTec in 1981 from Bristol‑Myers Squibb Company and has held multiple roles in manufacturing, operations and supply chain management, including Vice President, Manufacturing Operations for the U.K. Most recently, Mr. Heginbotham held a leadership role in the development of the ConvaTec Wound Care Center of Excellence in Deeside, U.K. Mr. Heginbotham holds a Diploma in Manufacturing Management from Manchester University.

John Magnus Lindskog John Magnus Lindskog is the President of Infusion Devices, Asia Pacific ("APAC") and CCC. He also leads our commercial operations in the growing APAC region. Mr. Lindskog joined ConvaTec in 2008 when, as General Manager of Unomedical's Infusion Device business unit, he helped lead the integration of Unomedical into ConvaTec. His 25 years of experience in the infusion devices industry began at Pharma-Plast, which later merged with Maersk Medical and became Unomedical. Mr. Lindskog holds a Bachelor's degree in Business Administration through the internal academy at the East Asiatic Company in Denmark, and a Graduate certificate in Business Administration from Copenhagen Business School.

Mark Valentine Mark Valentine is the President of the Americas region, where he leads our commercial operations in North and South America, including the large U.S. market. Mr. Valentine joined ConvaTec in 2013 from Biomet Inc., where he served as Senior Vice President, Sales and Marketing in the Surgical Products division. Prior to joining Biomet Inc., Mr. Valentine spent 21 years with Johnson & Johnson and its subsidiaries, holding a variety of leadership roles in sales, marketing and commercial operations. Mr. Valentine holds a Bachelor of Science degree in Marketing from Providence College.

Fiona Adam Fiona Adam is the Vice President and General Manager of ConvaTec's Wound Therapeutics business. Ms. Adam joined ConvaTec in 1997 in the U.K. and later moved to the U.S. to manage the global commercialization of Flexi-Seal® FMS in 2004. Prior to ConvaTec, Ms. Adam held sales and marketing roles at both Baxter Healthcare and Colgate Palmolive. Ms. Adam graduated from The Royal Veterinary College, London, and completed her business studies at The Chartered Institute of Marketing and Ashridge Business School in the U.K.

Stephen Bishop Stephen Bishop is the Vice President, Research & Development at ConvaTec. Mr. Bishop joined ConvaTec in 1990. Prior to joining ConvaTec, Mr. Bishop worked in R&D at Amersham International and UniLever's Unipath division. Mr. Bishop holds a Bachelor's degree in Biochemistry from the University of Southampton and a postgraduate diploma in Industrial Pharmaceutical Studies from the University of Brighton, and is a Member of the Society of Biology.

Mads Haugaard Mads Haugaard is the Vice President and General Manager of ConvaTec's Continence & Critical Care business. Mr. Haugaard joined ConvaTec in 2008 as Marketing Manager of Unomedical's Infusion Device business unit and has since held several positions as Marketing Director and Sales Director in ConvaTec's business-to-business franchise. Prior to joining ConvaTec, Mr. Haugaard held international marketing roles with Unomedical and Radiometer Medical. Mr. Haugaard holds a Master's degree in International Business and Modern Languages from Odense University, Denmark.

Douglas LeFort Douglas LeFort is the Vice President and General Manager of ConvaTec's Ostomy Care business. Mr. LeFort joined ConvaTec in 2011 from Freehand Surgical Ltd., where he was CEO from 2009 to 2011. Prior to joining Freehand Surgical, he held leadership positions with Abbott Laboratories Diabetes Care Division, Chiron Corporation and SC Johnson Inc. Mr. Le Fort holds a Master of Business Administration degree from Henley Management College in the U.K.

Adam Deutsch Adam Deutsch is the Senior Vice President and General Counsel of ConvaTec. Mr. Deutsch joined ConvaTec in 2014 from Biomet, Inc. His roles included Corporate Vice President and Associate General Counsel – Litigation, Investigations & Risk Management, as well as Chief Compliance Officer. Prior to joining Biomet, Mr. Deutsch was a partner and associate with prominent law firms based in Chicago. Mr. Deutsch holds a Bachelor of Arts degree from Rutgers University and a Juris Doctor degree from New York University School of Law.

Robert Steele Robert Steele is the Vice President of Quality, Regulatory and Clinical Affairs. Mr. Steele joined ConvaTec in 2014 from Stryker. His most recent role was Vice President of Regulatory Affairs, Quality Assurance and Clinical. Prior to Stryker, Mr. Steele held a variety of roles with medical technologies company KCI, including Vice President of Global Quality. Mr. Steele began his career as an engineer working at medical device manufacturing companies in the U.K. Mr. Steele holds a Bachelor of Arts degree in Electro Mechanical Engineering from Open University as well as two National Certificates in Mechanical Engineering and one in Electronic Engineering. He is a Chartered Engineer and Chartered Quality professional.

Joseph Rolley Joseph Rolley is the Vice President of Government Affairs and Health Policy at ConvaTec as well as Interim General Manager for Wound Therapeutics. Mr. Rolley joined ConvaTec in 1986 as a member of the sales force. He has extensive experience in the medical device industry, spanning sales, marketing, business development, government affairs

and health policy. Early in his career, he was the manager of a home medical equipment supplier. Mr. Rolley holds a Bachelor of Science degree in Biochemistry and a Master of Science degree in Industrial Administration, both from Purdue University.

Principal Shareholders

The following table sets forth certain information concerning the significant shareholders of the Company. The Company is a wholly owned subsidiary of ConvaTec Healthcare A S.à.r.l. (the "Parent"). The Parent is a wholly owned subsidiary of Cidron Healthcare Limited ("Cidron"), which in turn is wholly owned by Nordic Capital and Avista Capital Partners.

Name of Shareholder	Total Percentage of Shares Beneficially Owned (%)[1]
Nordic Capital[2]	69.85%
Avista Capital Partners[3]	30.15%
Total	**100.00%**

(1) Nordic Capital and Avista Capital Partners ownership is shown pre-management dilution. Refer to Note 13 to the 2014 audited Consolidated Financial Statements included elsewhere in this Annual Report in regards to management's equity ownership in the Company.

(2) Nordic Capital Fund VI, Nordic Capital Fund VII and certain co-investors.

(3) Avista Capital Partners LP, Avista Capital Partners II LP and their affiliated funds and co-invest vehicles.

The following is a brief description of each of our significant beneficial shareholders:

Nordic Capital

Nordic Capital is a group of private equity funds creating value in its investments through committed ownership and by targeting strategic development and operational improvements. Founded in 1989, Nordic Capital was one of the private equity pioneers in northern Europe and has invested in a large number of companies operating in different sectors and regions.

Nordic Capital's core investment principles are based on a dedicated partnership with the management of its portfolio companies.

Nordic Capital and affiliates have significant experience in the healthcare sector, currently owning seven healthcare companies and having previously owned a further six.

Avista Capital Partners

Founded in 2005, Avista Capital Partners ("Avista") is a leading private equity firm with offices in New York, New York, London, U.K. and Houston, Texas. Avista's strategy is to make controlling or influential minority investments in growth oriented healthcare, energy, media, consumer and industrial companies. Through its team of seasoned investment professionals and industry experts, Avista seeks to partner with exceptional management teams to invest in and add value to well-positioned businesses.

Avista Capital Partners has significant experience in the healthcare sector, having completed thirteen healthcare investments since Avista closed on its inaugural fund.

Certain Relationships and Related Party Transactions

The following is a summary of certain provisions of the instruments evidencing our material indebtedness. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents. In addition, please note that the provisions outlined below reflect facts and information about the debt instruments as of December 31, 2014. For further information regarding our existing indebtedness, please refer to "Note 12 – Long – Term Debt" within the audited Consolidated Financial Statements and "Certain relationships and related party transactions—Mandatorily redeemable preferred equity certificates", included elsewhere in this Annual Report.

Management agreement

In connection with the acquisition of ConvaTec from BMS, on August 1, 2008, our Parent entered into a management agreement with Nordic Capital VII Limited, a Jersey limited company (together with any investment funds managed or advised by such entity, "Nordic"), Avista Capital Holdings, LP, a Delaware limited partnership (together with any investment funds managed or advised by such entity, "Avista"), and Cidron pursuant to which Nordic and Avista provide us and our affiliates with financial advisory and strategic planning services (the "Management Agreement"). Pursuant to the Management Agreement, we pay, on behalf of our Parent, Nordic an annual fee of $2.1 million and Avista an aggregate annual fee of $0.9 million, in each case payable in equal quarterly installments. In the event that Nordic and its affiliates hold less than 10% of the outstanding ordinary shares of Cidron, the fee payable to Nordic shall be decreased to $0. In the event that Avista and its affiliates hold less than 10% of the outstanding ordinary shares of Cidron, the fee payable to Avista shall be decreased to $0.

In addition, in the event of any subsequent business combination, including a sale of the business or an initial public offering of common stock (a "Subsequent Transaction"), payment will be made to each of Nordic and Avista, on a pro rata basis in proportion to their respective equity ownership immediately prior to such Subsequent Transaction, a fee which is customary in amount for such transactions, provided that such fee is approved by the Board of Directors of Cidron and that such fee shall not exceed 2% of the transaction value of such Subsequent Transaction.

The Management Agreement shall renew automatically on an annual basis unless terminated because neither Nordic nor Avista continue to hold at least 10% of the outstanding ordinary shares of Cidron or Cidron initiates an initial public offering of equity of Cidron or its successor entity. In the event of a transaction which results in termination of the Management Agreement, a lump sum payment will be made to Nordic and Avista in an amount equal to the aggregate fee which in each case would otherwise be payable to them during the period from the closing of such transaction until the completion of the then-remaining initial term or renewal term of the Management Agreement.

Pursuant to the Management Agreement, our Parent also agreed to pay to or on behalf of each of Nordic and Avista, promptly as billed (i) all reasonable out-of-pocket expenses incurred by Nordic and Avista in connection with the services rendered under the Management Agreement, (ii) all reasonable out-of-pocket expenses incurred by Nordic and Avista in connection with its investment in Cidron including, without limitation, its continued ownership of shares of the capital stock of Cidron, and (iii) all reasonable and documented out-of-pocket expenses incurred by each director appointed to the board of directors of a ConvaTec Company in connection with attending regular and special meetings of such board of directors and any committee thereof. Also, we paid, on behalf of our Parent, certain fees to Nordic and Avista in connection with the ConvaTec Acquisition and the Unomedical Acquisition.

In the event that a payment in respect of the annual fee payable to Nordic or Avista would result in a breach or event of default pursuant to an instrument of indebtedness to which any of the ConvaTec companies are a party (the "Indebtedness") such payment shall not be paid to the extent that the payment of such amount would result in such breach or default, but instead shall be accrued on the books of the Parent and shall bear interest at 8.0% per annum. Furthermore, pursuant to the Management Agreement, the Parent shall not agree to any amendment of the terms of the Indebtedness which would specifically prohibit the payment of the annual fees under the Management Agreement or impose any higher financial test ratio or other pre-condition more onerous than any terms of the Indebtedness in effect on the date of the Management Agreement. The Parent also agreed that, in the event that any ConvaTec companies incur additional indebtedness, such company shall not grant in favor of the holders of such additional indebtedness a covenant or right specifically prohibiting the payment of the annual

fees under the Management Agreement or imposing any higher financial test ratio or other pre-condition more onerous than is applicable to the Indebtedness.

The Parent also agreed (i) to indemnify Nordic, Avista and their respective affiliates, partners, directors, officers, employees, agents and controlling persons for any and all losses, suits, proceedings, demands, judgments, claims, damages and liabilities relating to or arising out of the services contemplated by the Management Agreement and (ii) to reimburse all costs and expenses in connection with any pending or threatened claim, action or proceeding arising there from, except where such loss is found to have resulted from the indemnified party's willful misconduct or gross negligence.

Loan facility agreement

Additionally, we entered into a loan agreement with Cidron. Per the agreement, money will be loaned to Cidron to enable Cidron to repurchase Management Equity Plan Units that have been issued to employees, directors or consultants. Pursuant to the agreement, the maximum aggregated loan amount in any given fiscal year cannot exceed $5.0 million. Interest on the loan accrues at 7.0% per annum. The outstanding loan and interest shall be due and payable at Cidron's option.

Mandatorily redeemable preferred equity certificates

In conjunction with the ConvaTec Acquisition and the Unomedical Acquisition and related transactions, we issued Series 1, 2 and 3 preferred equity certificates for an aggregate amount of €1,289.7 million ($2,026.7 million) to the Parent.

In accordance with their terms, the PECs are mandatorily redeemable by us upon the occurrence of certain events, including maturity on July 27, 2047 or our liquidation (which includes voluntary or involuntary liquidation, insolvency, dissolution, or winding up of our affairs). Provided that a certain consolidated leverage test is met and no Event of Default is continuing or will arise, we may also voluntarily redeem, prepay, refinance or convert into equity any or all of the PECs in cash, shares, new PECs or property subject to a specified cap. PECs have priority over the common and preferred stock in the distribution of dividends. PECs were entitled to interest equivalent ranging from approximately 13% to 14% of the par value per annum on a cumulative basis, which was amended effective July 1, 2011 to a range of 7% to 9% of the par value per annum on a cumulative basis. PEC interest accrues monthly and compounds on an annual basis.

On a redemption (whether mandatory or voluntary), the accrued but unpaid interest on the PECs shall be payable only if and to the extent that we can make any payment out of funds available net of tax, we will not be insolvent after making such payment and such payment is permitted under the agreement governing the existing Credit Facilities. The par value of the PECs shall be payable only if and to the extent that we will not be insolvent after making such payment and such payment is permitted under the agreement governing the existing Credit Facilities.

Although interest will continue to accrue on the PECs, no cash payments are permitted in respect of accrued interest while any amount is outstanding under the existing Credit Facilities or the Notes (other than upon redemption). With respect to payment rights, redemption and rights upon liquidation, the PECs rank in priority to our share capital but subordinate to all our other present and future obligations including the existing Credit Facilities and the Notes.

The PECs are also subject to the subordination agreement described below under "Subordination agreement".

The holders of the PECs do not have voting rights in respect to us by reason of ownership of the PECs. The PECs can only be transferred to other PEC holders, shareholders or affiliates of PEC holders or shareholders, and our consent is required to each transfer.

The PECs are included within total liabilities, as presented in our Consolidated Financial Statements included herein, at an amount of $2,879.1 million (€2,379.9 million) and $3,097.3 million (€2,253.8 million), inclusive of accrued and unpaid interest of $1,318.9 million (€1,090.2 million) and $1,324.9 million (€964.1 million) for the years ended December 31, 2014 and 2013, respectively.

Subordination agreement

Pursuant to a Subordination Agreement between, among others, CHB, ConvaTec Healthcare C S.à.r.l., ConvaTec Healthcare D S.à.r.l. (collectively, the "Subordinated Obligors"), the Agent on behalf of the Lenders under the existing Credit Agreement and the holders of the Secured Notes, and the agent on behalf of the holders of the Senior Notes (collectively, the "Senior Representatives"), the PECs are subordinated in right of payment to the payment in full of the obligations under the New Credit Facilities, the Secured Notes and the Senior Notes (collectively, the "Senior Obligations"). The Subordinated Obligors have agreed that until the payment in full of the Senior Obligations (i) in the event of any bankruptcy proceeding involving any borrower or guarantor of the Senior Obligations, no distribution in cash, securities or other property will be made to the Subordinated Obligors on account of the PECs, (ii) subject to certain exceptions set forth in the documentation relating to the Senior Obligations, distributions in cash, securities or other property to the Subordinated Obligors on account of the PECs will be restricted, (iii) no enforcement actions will be taken with respect to the PECs, and (iv) if any payments or distributions with respect to the PECs are made in violation of the Subordination Agreement, the Subordinated Obligor receiving such distribution will pay such amounts over to the Senior Representatives.

Description of Certain Financing Arrangements

The following is a summary of certain provisions of the debt instruments evidencing our material indebtedness. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents. In addition, please note that the provisions outlined below reflect facts and information about the debt instruments as of December 31, 2014. For further information regarding our existing indebtedness, please refer to "Note 12 – Long – Term Debt" within the audited Consolidated Financial Statements and "Certain relationships and related party transactions—Mandatorily redeemable preferred equity certificates", included elsewhere in this Annual Report.

The Credit Facilities Agreement

Our Credit Facilities Agreement consists of (i) $500.0 million and $300.0 million U.S Dollar and €550.0 million term loans (the "Term Loan Facilities"), (ii) a $250.0 million revolving credit facility (the "Revolving Credit Facility"), (iii) and availability for up to $400.0 million of incremental term facilities (the "Incremental Term Facilities"), which will be available on the terms set out below.

The Revolving Credit Facility makes available $250.0 million of committed financing of which up to $40.0 million will be available for utilization by way of issuance of letters of credit and up to $25.0 million for borrowings on same-day notice, referred to as swingline loans. Borrowings under the Revolving Credit Facility are used to finance our general corporate and working capital needs and are available for drawing in U.S. Dollars, Euros, Great Britain Pounds and Danish Krones.

The Incremental Term Facilities, as amended, are unfunded commitments and are available in an amount up to $400.0 million (net of any issuance of secured notes issued after the closing date) in either U.S. Dollars and/or Euros provided that a certain leverage ratio is not exceeded and we satisfy certain requirements, including: no default or event of default, pro forma compliance with financial covenants, minimum borrowing amounts of $15.0 million and a maturity date and weighted average life-to-maturity of each individual loan within the Incremental Term Facilities that is greater than the weighted average maturity date of the Term Loan Facilities. Additionally, should the yield on the Incremental Term Facilities exceed the yield on the Term Loan Facilities by more than 0.50%, then the yield on the Term Loan Facilities will automatically increase such that the yield on the Term Loan Facilities shall be 0.50% below the yield on the Incremental Term Facilities.

The borrowers under the Credit Facilities are ConvaTec Inc., ConvaTec Healthcare E S.A. (the "Issuer"), ConvaTec Dominican Republic, Inc., ConvaTec Limited, ConvaTec Holdings U.K. Limited, ConvaTec (Denmark) ApS, Papyro-Tex A/S, and Unomedical A/S. The Credit Facilities are guaranteed by each of the borrowers along with certain of the Company's remaining wholly-owned subsidiaries, which generate the majority of the Company's consolidated Adjusted EBITDA. The Company's borrowers along with the Company's wholly-owned subsidiaries are herein after referred to as the "Guarantors", as defined in the Credit Facilities Agreement. JPMorgan Chase Bank, N.A is both the collateral agent (the "Collateral Agent") and administrative agent (the "Administrative Agent") under the Credit Facilities Agreement.

Repayments and prepayments

The Term Loan Facility will mature December 22, 2016 and the Revolving Credit Facility will terminate on December 22, 2015. Any amounts still outstanding under the respective facilities at such times will be immediately due and payable.

Subject to certain conditions, we may voluntarily prepay our utilizations under the Credit Facilities in a minimum amount of $1.0 million (or its equivalent) for term loans or revolving loans and $100,000 (or its equivalent) for swingline loans. Amounts repaid under the Term Loan Facility may not be reborrowed. We may also voluntarily permanently cancel all or part of the available revolving commitments under the Credit Facilities in a minimum amount of $1.0 million (or its equivalent) by giving three business days' prior notice to the Agent under the Credit Facilities.

In addition to voluntary prepayments, the agreement associated with our Credit Facilities requires mandatory prepayment in full or in part in certain circumstances, including in relation to the Term Loan Facility, and subject to certain criteria, from the proceeds of asset sales above a specified threshold, the issuance or incurrence of debt and from excess cash flow. The amount and timing of the mandatory prepayments are subject to certain criteria. During the second quarters of 2014 and 2013, we

made mandatory prepayments of $73.5 million and $45.1 million, respectively, for excess cash retained in the business. Both the 2014 and 2013 mandatory prepayments were applied, and the estimated 2015 mandatory prepayment of $43.6 million 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.

Interest and fees

Borrowings under the Credit Facilities bear interest at either a Euro (EURIBOR) or U.S. Dollar (LIBOR) base rate, or an ABR. EURIBOR interest is associated with Term Loan borrowings denominated in Euros while Term loan borrowings denominated in Dollars may, at our option, be subject to LIBOR interest or ABR. Borrowings under the Revolving Credit Facility denominated in Euros may bear interest at either ABR or EURIBOR and borrowings denominated in any currencies other than Euros (including U.S. Dollars) may bear interest at either ABR or LIBOR. ABR, as defined and amended in the Credit Facilities Agreement, is the greater of (a) the Prime Rate, (b) the Federal Funds Effective Rate plus 0.50% or (c) the Eurodollar Rate for a one-month interest period plus 1.00%. The initial ABR margin applicable to borrowings under the Revolving Credit Facility is 3.25% but may be incrementally reduced by 0.25% up to three times upon obtaining consolidated leverage ratios specified in the Credit Agreement. The ABR margin applicable to Dollar term loans is 2.00% subject to an increase by 25 basis points if there is a decline in our corporate credit rating below B3 or B- from Moody's and Standard and Poor's, respectively. As a result of the Repricing, ABR is subject to a floor of 2.00%. Also as a result of the Repricing, EURIBOR and LIBOR borrowings are subject to an initial margin of 3.25% and 3.00%, respectively, each with a floor of 1.00%, and each such margins are subject to the same 25 basis point increase if we receive the aforementioned decline in our corporate rating. Our current corporate credit rating is B2 and B+ from Moody's and Standard and Poor's, respectively.

We are required to pay a commitment fee of 0.75% per annum, quarterly in arrears, on available but unused commitments under the Revolving Credit Facility.

We are also required to pay fees related to the issuance of letters of credit and certain fees to the Administrative Agent and the security agent in connection with the Credit Facilities.

Covenants

The Credit Facilities contain customary operating and negative covenants including but not limited to covenants limiting:

- incurrence of indebtedness;
- incurrence of liens;
- guarantee obligations;
- mergers, consolidations, liquidations, dissolutions and other fundamental changes;
- sales of assets;
- dividends and other payments in respect of capital stock subject to an available amount built by retained excess cash flow;
- capital expenditures;
- acquisitions;
- prepayments of debt and modifications of debt and organizational documents in a manner material and adverse to the Lenders;
- transactions with affiliates;
- changes in fiscal year;
- negative pledge clauses and clauses restricting subsidiary distributions; and
- changes in lines of business.

The Credit Facilities also require the Issuer, each borrower and each guarantor to observe certain customary affirmative covenants. Each set of annual and quarterly financial statements provided by us under the Credit Facilities include a consolidated balance sheet, profit and loss account and cash flow statement.

Financial covenants

Our financial and operating performance are monitored by financial covenants, which require us to ensure that the ratio of Consolidated Total Debt to Consolidated EBITDA, as defined in the Credit Facilities Agreement, does not exceed an agreed level. Additionally, the ratio of Consolidated EBITDA to Consolidated Interest Expense, as defined in the Credit Facilities Agreement, cannot be less than an agreed level. These financial covenants are tested quarterly on a rolling twelve month basis.

Events of default

The Credit Facilities contain customary events of default (subject in certain cases to agreed grace periods, thresholds and other qualifications), including but not limited to the following:

- nonpayment of principal when due;
- nonpayment of interest, fees or other amounts;
- material inaccuracy of a representation or warranty when made;
- violation of certain covenants;
- cross default to material indebtedness (including a cross default with respect to an Event of Default under, and as defined in, the Indentures);
- bankruptcy and related insolvency events of ConvaTec or its subsidiaries (other than immaterial subsidiaries);
- certain ERISA/pension obligation events;
- material judgments;
- actual or asserted invalidity of any guarantee, security document or subordination provisions or non-perfection of security interest;
- changes in the passive holding company activity of ConvaTec Healthcare B S.à.r.l., ConvaTec Healthcare C S.à.r.l. or ConvaTec Healthcare D S.à.r.l.; and
- a change of control.

The occurrence of an Event of Default would, subject to agreed grace periods, thresholds and other qualifications, allow the lenders to accelerate all or part of the outstanding utilizations and/or terminate their commitments and/or declare all or part of their utilizations payable on demand and/or declare that cash cover in respect of letter of credit facilities is immediately due and payable.

Governing law

The Credit Facilities and any non-contractual obligation arising out of or in connection with it are governed by and construed and interpreted in accordance with New York law.

Intercreditor Agreement

The Collateral Agent, the Administrative Agent, as authorized representative for lenders under the Credit Facilities, and Deutsche Trustee Company Limited, as authorized representative for the holders of the Secured Notes, have entered into an intercreditor agreement (as the same may be amended from time to time, the "Intercreditor Agreement"), which may be amended from time to time without the consent of the holders of the Secured Notes to add other parties (or their authorized representative) holding other indebtedness permitted to be secured on a first lien basis (together with the obligations under the Secured Notes and the Secured Indenture, "Other First Lien Obligations") that is permitted to be incurred under the Secured Indenture and the Credit Facilities and that is permitted to be secured by first priority liens on the assets and property of the Issuer and the Guarantors that secure the obligations under the Credit Facilities (such obligations, including obligations under certain specified swap agreements and cash management agreements with lenders and their affiliates, the "Credit Agreement Obligations") and the Secured Indenture (such assets and property, the "Shared Collateral").

Under the Intercreditor Agreement, as described below, the "Requisite Holders" have the right to direct the Collateral Agent with respect to foreclosing upon, and taking other actions with respect to, the Shared Collateral, and the holders of each other series of First Lien Obligations will not have the right to take actions with respect to the Shared Collateral. "Requisite Holders" means (i) at any time the aggregate principal amount of the Credit Agreement Obligations is greater than 25% of the aggregate principal amount of the sum of the Credit Agreement Obligations and the Other First Lien Obligations (together, the "First Lien Obligations"), the holders of a majority of the outstanding principal amount of the Credit Agreement Obligations at such time; *provided* that at any time after the Other Authorized Representative Enforcement Date and during which the conditions giving rise to such Other Authorized Representative Enforcement Date are continuing and for so long as the Requisite Holders as determined pursuant to this clause (i) (without giving effect to this proviso) shall not have directed the Collateral Agent to commence any enforcement actions under the Intercreditor Agreement, the "Requisite Holders" shall be the holders of a majority in aggregate principal amount of the then outstanding Other First Lien Obligations and (ii) at any time the aggregate principal amount of the Credit Agreement Obligations is equal to or less than 25% of the aggregate principal amount of the First Lien Obligations, the holders of a majority of the outstanding principal amount of any then outstanding First Lien Obligations.

"Other Authorized Representative Enforcement Date" means the date which is 150 days (throughout which 150-day period the aggregate principal amount of the Other First Lien Obligations is at least 50.1% of the aggregate principal amount of the First Lien Obligations) after the occurrence of both (i) an Event of Default (under and as defined in any agreement governing any Other First Lien Obligations) and (ii) the Collateral Agent's and each other authorized representative's receipt of written notice from the authorized representative with respect to the agreement referred to in clause (i) certifying that (x) the aggregate principal amount of the Other First Lien Obligations is at least 50.1% of the aggregate principal amount of the then outstanding First Lien Obligations and that an Event of Default (under and as defined in the agreement governing the Other First Lien Obligations for which it is the authorized representative) has occurred and is continuing and (y) such Other First Lien Obligations are currently due and payable in full (whether as a result of acceleration thereof or otherwise) in accordance with the terms of such agreement; *provided* that the Other Authorized Representative Enforcement Date shall be stayed and shall not occur and shall be deemed not to have occurred with respect to any Shared Collateral (1) at any time the Administrative Agent or the Collateral Agent (on behalf of the Administrative Agent or the other Secured Parties (as defined in the Credit Facilities)) has commenced and is diligently pursuing any enforcement action with respect to such Shared Collateral or (2) at any time the grantor that has granted the security interest in such Shared Collateral is then a debtor under or with respect to (or otherwise subject to) any insolvency or liquidation proceeding.

Only the Collateral Agent shall act or refrain from acting with respect to the Shared Collateral (including with respect to any intercreditor agreement with respect to any Shared Collateral), and then only on the instructions of the Requisite Holders, (ii) the Collateral Agent shall not follow any instructions with respect to such Shared Collateral (including with respect to any intercreditor agreement with respect to any Shared Collateral) from any holder of First Lien Obligations other than the Requisite Holders and (iii) no other holder of First Lien Obligations (other than the Requisite Holders) shall or shall instruct the Collateral Agent to, commence any judicial or non-judicial foreclosure proceedings with respect to, seek to have a trustee, receiver, liquidator or similar official appointed for or over, attempt any action to take possession of, exercise any right, remedy or power with respect to, or otherwise take any action to enforce its security interest in or realize upon, or take any other action available to it in respect of, any Shared Collateral (including with respect to any intercreditor agreement with respect to any Shared Collateral), whether under any agreement governing First Lien Obligations, applicable law or otherwise. No holder of First Lien Obligations will contest, protest or object to any foreclosure proceeding or action brought by the Collateral Agent or any other exercise by the Collateral Agent of any rights and remedies relating to the Shared Collateral, or to cause the Collateral Agent to do so.

If an Event of Default (as defined in the applicable agreement governing First Lien Obligations) has occurred and is continuing, and the Collateral Agent is taking action to enforce rights in respect of any Shared Collateral, or any distribution is made in respect of any Shared Collateral in any bankruptcy case of the Issuer or the Guarantors or any holder of First Lien Obligations receives any payment pursuant to any intercreditor agreement (other than the Intercreditor Agreement) with respect to any Shared Collateral, then the proceeds of any sale, collection or other liquidation of any such collateral and the proceeds of any such distribution (subject, in the case of any such distribution, to the immediately following paragraph) to which the First Lien Obligations are entitled under any intercreditor agreement (other than the Intercreditor Agreement) shall be applied among the First Lien Obligations on a ratable basis, after payment of all amounts owing to the Collateral Agent.

Notwithstanding the foregoing, with respect to any Shared Collateral for which a third party (other than a holder of First Lien Obligations) has a lien or security interest that is junior in priority to the security interest of any series of First Lien Obligations but senior (as determined by appropriate legal proceedings in the case of any dispute) to the security interest of any other series of First Lien Obligations (such third party an "Intervening Creditor"), the value of any Shared Collateral or proceeds which are allocated to such Intervening Creditor shall be deducted on a ratable basis solely from the Shared Collateral or proceeds to be distributed in respect of the series of First Lien Obligations with respect to which such impairment exists.

If the Issuer or any Guarantor becomes subject to any bankruptcy case, the Intercreditor Agreement provides that if Issuer or any Guarantor shall, as debtor(s)-in-possession, move for approval of financing ("DIP Financing") to be provided by one or more lenders (the "DIP Lenders") under Section 364 of the U.S. Bankruptcy Code or the use of cash collateral under Section 363 of the U.S. Bankruptcy Code, each holder of First Lien Obligations agrees that it will raise no objection to any such financing or to the liens on the Shared Collateral securing the same ("DIP Financing Liens") or to any use of cash collateral that constitutes Shared Collateral, if the Requisite Holders support such DIP Financing or such DIP Financing Liens or use of cash collateral (and (i) to the extent that such DIP Financing Liens are senior to the liens on any such Shared Collateral for the benefit of the Requisite Holders, each other holder of First Lien Obligations will subordinate its Liens with respect to such Shared Collateral on the same terms as the liens of the Requisite Holders (other than any liens of any holders of First Lien Obligations constituting DIP Financing Liens) are subordinated thereto, and (ii) to the extent that such DIP Financing Liens rank *pari passu* with the liens on any such Shared Collateral granted to secure the First Lien Obligations of the Requisite Holders, each other holder of First Lien Obligations will confirm the priorities with respect to such Shared Collateral as set forth herein), in each case so long as (A) the holders of First Lien Obligations of each series retain the benefit of their liens on all such Shared Collateral pledged to the DIP Lenders, including proceeds thereof arising after the commencement of such proceeding, with the same priority *vis-a-vis* all the other holders of First Lien Obligations (other than any liens of the holders of First Lien Obligations constituting DIP Financing Liens) as existed prior to the commencement of the bankruptcy case, (B) the holders of First Lien Obligations of each series are granted liens on any additional collateral pledged to any holders of First Lien Obligations as adequate protection or otherwise in connection with such DIP Financing or use of cash collateral, with the same priority *vis-a-vis* the holders of First Lien Obligations as set forth in the Intercreditor Agreement, (C) if any amount of such DIP Financing or cash collateral is applied to repay any of the First Lien Obligations, such amount is applied pursuant to the terms of the Intercreditor Agreement and (D) if any holders of First Lien Obligations are granted adequate protection with respect to the First Lien Obligations subject to the Intercreditor Agreement, including in the form of periodic payments, in connection with such DIP Financing or use of cash collateral, the proceeds of such adequate protection are applied pursuant to the Intercreditor Agreement; *provided* that the holders of First Lien Obligations of each series shall have a right to object to the grant of a Lien to secure the DIP Financing over any collateral subject to Liens in favor of the holders of First Lien Obligations of such series or its authorized representative that shall not constitute Shared Collateral; and *provided*, *further*, that the holders of First Lien Obligations receiving adequate protection shall not object to any other holder of First Lien Obligations receiving adequate protection comparable to any adequate protection granted to such holders of First Lien Obligations in connection with a DIP Financing or use of cash collateral.

The holders of First Lien Obligations acknowledge that the First Lien Obligations of any series may, subject to the limitations set forth in the other agreement governing First Lien Obligations, be increased, extended, renewed, replaced, restated, supplemented, restructured, repaid, refunded, refinanced or otherwise amended or modified from time to time, all without affecting the priorities set forth in the Intercreditor Agreement defining the relative rights of the holders of First Lien Obligations of any series.

Issuer Loan

ConvaTec Healthcare E S.A., as lender and Issuer, and ConvaTec Healthcare D S.à.r.l., as borrower, entered into the Issuer Loan, pursuant to which the Issuer lent to ConvaTec Healthcare D S.à.r.l. an amount equal to the aggregate principal amount of the proceeds from the issuance of Secured Notes and the Senior Notes (less certain costs and expenses).

The Issuer Loan constitutes a stand-alone agreement without incorporating the terms of the Indentures.

The Issuer Loan is made and is payable in Euros and/or U.S. Dollars. All amounts payable under the Issuer Loan are payable to such account or accounts as the Issuer may designate. The Issuer Loan is a senior unsecured obligation of ConvaTec Healthcare D S.à.r.l.

The Issuer assigned its rights in respect of the Issuer Loan as security for its obligations in respect of the Secured Notes and for the borrowers' obligations in respect of the Credit Facilities.

Glossary

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

ESTEEM synergy®	ConvaTec brand for a Two-Piece Ostomy System employing the patented Adhesive Coupling Technology that allows for a low profile and flexibility typical of a one-piece system. This system also offers closed-end, drainable and urostomy pouches
exudate	Fluid, cells or cellular debris that has filtered from the circulatory system into a lesion or area of inflammation and deposited in tissues or on tissue surfaces and leaking out of the wound
Flexi-Seal® fecal management system or FMS	ConvaTec brand of fecal containment device designed to safely and effectively contain and divert liquid fecal matter to protect patients' wounds from fecal contamination and reduce risk of skin breakdown and the spread of infection
Foam	Typically, polyurethane-based dressing with foam-like feel used for wounds with moderate to heavy exudate
GAAP	Accounting principles generally accepted in the United States of America ("U.S. GAAP" or "GAAP")
hydrocolloid	Dressing containing a polymeric hydrocolloid material which dissolves, gels, swells (or exhibits some combination of these actions) upon interaction with water to provide a moist wound healing environment. Hydrocolloid dressings are typically used for wounds with light to moderate exudates
Hydrofiber® Technology	ConvaTec proprietary technology based on the unique gelling properties of Hydrofiber materials; serves as the basis of the AQUACEL® and AQUACEL® Ag, and Versiva® XC® products
InvisiClose™	Velcro-like integrated closure 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	ConvaTec proprietary two‑piece ostomy system; 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

Index to financial statements

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of ConvaTec Healthcare B S.a.r.l.
Luxembourg

We have audited the accompanying consolidated financial statements of ConvaTec Healthcare B S.a.r.l. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, changes in stockholder's deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2014 and 2013,

and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The other sections included within the Company's 2014 Annual Report listed in the table of contents on page 1 are presented for the purpose of additional analysis and are not a required part of the financial statements. These other sections are the responsibility of the Company's management. Such information has not been subjected to the auditing procedures applied in our audits of the financial statements, and accordingly, it is inappropriate to and we do not express an opinion on the other sections referred to above.

Deloitte & Touche LLP

April 27, 2015

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

	December 31, 2014	December 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	$ 234.0	$ 271.4
Receivables, net of allowances of $47.0 in 2014 and $40.8 in 2013	241.9	308.2
Inventories, net	250.1	253.7
Deferred income taxes, net of valuation allowances	10.7	10.5
Prepaid expenses and other current assets	32.7	51.5
Total Current Assets	769.4	895.3
Property, plant and equipment, net	263.7	281.6
Goodwill	973.2	1,183.3
Other intangible assets, net	1,893.2	2,097.9
Deferred income taxes, net of valuation allowances	8.3	16.0
Restricted cash	7.3	7.1
Other assets	79.6	80.6
Total Assets	**$ 3,994.7**	**$ 4,561.8**
Liabilities and Stockholder's Deficit		
Current Liabilities:		
Accounts payable	$ 80.3	$ 101.2
Short-term portion of long-term debt	43.7	73.6
Accrued expenses and other current liabilities	127.5	112.9
Accrued compensation	46.5	55.7
Deferred revenue	15.2	18.0
Accrued rebates and returns	19.0	19.2
Deferred income taxes	12.7	6.4
Total Current Liabilities	344.9	387.0
Long-term debt	2,685.8	2,892.9
Mandatorily redeemable preferred equity certificates	1,560.2	1,772.4
Deferred income taxes	244.6	257.5
Accrued preferred equity certificates interest	1,284.7	1,324.9
Other liabilities	49.1	59.6
Total Liabilities	6,169.3	6,694.3
Commitments and contingencies (Note 17)		
Stockholder's Deficit:		
Preferred stock- €1 ($1.25) par value as of December 31, 2014 and 2013; 20,000 shares issued and outstanding at December 31, 2014 and 2013	—	—
Common stock- €1 ($1.25) par value as of December 31, 2014 and 2013; 112,157,883 shares issued and outstanding at December 31, 2014 and 2013	140.7	140.7
Retained deficit	(2,657.1)	(2,367.4)
Accumulated other comprehensive income (net of tax)	341.8	94.2
Total Stockholder's Deficit	(2,174.6)	(2,132.5)
Total Liabilities and Stockholder's Deficit	**$ 3,994.7**	**$ 4,561.8**

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

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

	For the Years Ended December 31,	
	2014	**2013**
Net sales	**$ 1,735.5**	**$ 1,700.7**
Cost of goods sold	821.8	753.5
Gross profit	**913.7**	**947.2**
Selling and marketing expenses	397.0	374.7
General and administrative expenses	195.2	200.1
Research and development expenses	37.2	32.0
Impairment of goodwill and long lived assets	73.7	25.6
Operating income	**210.6**	**314.8**
Interest expense, net	449.6	448.4
Foreign exchange loss	19.3	5.7
Other income, net	(0.1)	(2.1)
Loss on extinguishment of debt	—	4.4
Loss before income taxes	**(258.2)**	**(141.6)**
Provision for income taxes	28.3	32.1
Net loss	**$ (286.5)**	**$ (173.7)**

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

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

	For the Years Ended December 31, 2014	2013
Net loss	$ (286.5)	$ (173.7)
Foreign currency translation, including a tax expense of $23.3 in 2014 and a tax benefit of $6.5 in 2013	243.8	(103.1)
Other	0.6	1.0
Total Comprehensive Loss	**$ (42.1)**	**$ (275.8)**

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

ConvaTec Healthcare B S.à.r.l. and Subsidiaries
Consolidated Statements of Changes in Stockholder's Deficit
(in Millions, except share and per share data)

	Preferred Stock		Common Stock				
	Shares	Amount	Shares	Amount	Retained Deficit	Accumulated Other Comprehensive Income	Total
January 1, 2013	**20,000**	**$ —**	**112,157,883**	**$ 140.7**	**$ (2,193.7)**	**$ 196.3**	**$ (1,856.7)**
Net loss	—	—	—	—	(173.7)	—	(173.7)
Foreign currency translation, including a tax benefit of $6.5 million	—	—	—	—	—	(103.1)	(103.1)
Other	—	—	—	—	—	1.0	1.0
December 31, 2013	**20,000**	**$ —**	**112,157,883**	**$ 140.7**	**$ (2,367.4)**	**$ 94.2**	**$ (2,132.5)**
Net loss	—	—	—	—	(286.5)	—	(286.5)
Foreign currency translation, including a tax expense of $23.3 million	—	—	—	—	(3.2)	247.0	243.8
Other	—	—	—	—	—	0.6	0.6
December 31, 2014	**20,000**	**$ —**	**112,157,883**	**$ 140.7**	**$ (2,657.1)**	**$ 341.8**	**$ (2,174.6)**

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

ConvaTec Healthcare B S.à.r.l. and Subsidiaries
Consolidated Statements of Cash Flows

(in millions of $)	For the Years Ended December 31, 2014	2013
Cash flows from operating activities:		
Net loss	$ (286.5)	$ (173.7)
Charges to reconcile net loss to net cash provided by operating activities:		
Depreciation	35.5	34.7
Amortization	155.7	152.9
Deferred income tax benefit	(11.4)	(14.2)
Impairment on long lived assets	73.7	25.6
Foreign exchange net losses on financing activities	22.8	4.0
Non-cash interest expense	160.6	191.9
Amortization of deferred financing fees and original issue discount	11.9	10.7
Loss on extinguishment of debt	—	4.4
Stock-based compensation	(0.9)	7.9
Other income, net	(1.3)	(3.2)
Change in operating assets and liabilities, net of businesses acquired:		
Receivables, net	42.3	(24.7)
Inventories, net	(22.6)	(46.4)
Prepaid expenses and other assets	(7.3)	1.6
Deferred revenue	(2.8)	18.0
Accounts payable and accrued expenses	(19.8)	29.2
Other liabilities	2.7	(0.7)
U.S. and foreign income taxes	(0.3)	13.6
Other, net	(5.0)	(2.5)
Net cash provided by operating activities	**147.3**	**229.1**
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(42.5)	—
Purchases of property, plant and equipment and capitalized software	(44.7)	(36.9)
Other, net	(1.0)	3.1
Net cash used in investing activities	**(88.2)**	**(33.8)**
Cash flows from financing activities:		
Proceeds from term loan refinancing transactions	—	1,458.6
Repayment of term loans	—	(1,458.5)
Debt repayments to third parties	(73.6)	(45.1)
Payments of deferred financing fees	—	(8.0)
Net cash used in financing activities	**(73.6)**	**(53.0)**
Effect of exchange rate changes on cash and cash equivalents	**(22.9)**	**(0.3)**
Net change in cash and cash equivalents	**(37.4)**	**142.0**
Cash and cash equivalents at beginning of the year	**271.4**	**129.4**
Cash and cash equivalents at end of the year	**$ 234.0**	**$ 271.4**
Supplemental cash flow information		
Income taxes paid	$ 40.4	$ 32.6
Interest paid	$ 270.9	$ 218.0
Non-cash investing activities:		
Accrued capital expenditures included in accounts payable	$ 2.0	$ 4.7

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

1. Basis of Presentation and Business Description

Basis of Presentation and Initial Capitalization

On August 1, 2008, ConvaTec ("the Company") was acquired by Cidron Healthcare Limited, an entity owned by Nordic Capital and Avista Capital Partners (the "Equity Sponsors"), from Bristol Myers Squibb Company ("BMS") (the "ConvaTec Acquisition"). In connection with the ConvaTec Acquisition, Cidron Healthcare Limited formed a wholly owned subsidiary, ConvaTec Healthcare A S.à.r.l. (the "Parent"). The Parent, a Luxembourg domiciled holding company, then incorporated a wholly owned subsidiary, ConvaTec Healthcare B S.à.r.l. ("CHB"). CHB, a Luxembourg domiciled holding company, incorporated sub-holding companies to purchase the net assets / shares of ConvaTec. CHB and subsidiaries are collectively referred to herein as "the Company". The Consolidated Financial Statements of the Company do not include the accounts of Cidron Healthcare Limited or the Parent. Subsequent to the ConvaTec Acquisition, a wholly owned subsidiary of the Company acquired the stock of Unomedical Holdings a/s ("Unomedical") on September 2, 2008 (the "Unomedical Acquisition"). In conjunction with the ConvaTec Acquisition and the Unomedical Acquisition, the Company issued Series 1, 2 and 3 mandatorily redeemable preferred equity certificates, entered into a Senior Facilities Agreement and Mezzanine Agreement and borrowed cash from the Parent, which was then converted to common stock of the Company. Subsequently, on December 22, 2010, all of the Company's outstanding long term obligations under the Senior Facilities Agreement and Mezzanine Facilities Agreement were refinanced through the entry into credit facilities and the issuance of Secured and Unsecured private placement bonds. Refer to Note 12-Long Term Debt for further discussion.

The accompanying Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Any reference in these notes to applicable guidance is meant to refer to the authoritative United States generally accepted accounting principles as found in the Accounting Standards Codification ("ASC") and Accounting Standards Update ("ASU") of the Financial Accounting Standards Board ("FASB"). The Company considers the U.S. Dollar to be its functional currency.

Business Description

The Company develops, manufactures and markets innovative medical technologies, in particular products for ostomy management, advanced chronic and acute wound care, continence care, sterile single-use medical devices for hospitals, and infusion sets used in diabetes treatment infusion devices. Principal brands include Natura®, SUR-FIT®, Esteem®, AQUACEL®, DuoDERM®, Flexi-Seal®, and Unomedical. These products are marketed worldwide, primarily to hospitals, medical professionals, and medical suppliers. The Company relies on an internal sales force, and sales are made through various distributors around the world. The Company manufactures these products in the U.S., the 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

The accompanying Consolidated Financial Statements reflect the application of certain significant accounting policies as described below and elsewhere in these notes to the Consolidated Financial Statements. Significant accounting policies are those that require application of management's subjective 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.

Basis of Consolidation

The 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 certain estimations and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the financial statements and the reported amounts of revenues and expenses.

Management makes significant assumptions and estimates in performing its annual goodwill and indefinite-lived asset impairment tests; performing acquisition purchase price allocation; sales allowances including chargeback and product return accruals;legal contingencies; and the determination of fair value of the Management Executive Plan ("MEP"), Annual Equity Program ("AEP"), and Management Incentive Plan ("MIP") awards. Management also makes significant estimates in recording the allowance for its doubtful accounts, inventory reserves, income tax reserves and valuation allowances. Estimates by their nature are based on judgment and available information at the time; as such, actual results may differ from estimated results.

Revenue Recognition

The Company's revenues are derived from sales of products and are recognized when substantially all the risks and rewards of ownership have transferred to the customer, there is persuasive evidence that an arrangement exists, the price is fixed and determinable, and collectability is reasonably assured. Generally, products are insured through delivery and revenue is recognized upon the date of receipt by the customer. Revenues are reduced at the time of recognition to reflect expected product returns and chargebacks, discounts, rebates and estimated sales allowances based on historical experience and updated for changes in facts and circumstances, as appropriate. Such provisions are recorded as a reduction of revenue. When all of the above mentioned revenue recognition criteria are not met, the Company defers revenue, until such time all of the criteria are met. At December 31, 2014 and 2013, the Company had $15.2 million and $18.0 million of deferred revenue, respectively.

Amounts collected from customers and remitted to government authorities, such as value-added taxes ("VAT") in foreign jurisdictions, are presented on a net basis in the Company's Consolidated Statements of Operations and do not impact net product sales.

Sales Rebates, Chargebacks and Product Return Accruals

Accruals for sales rebates and discounts, as well as for product returns, are established in the same period the related revenue is recognized, resulting in a reduction to sales and the establishment of a liability for amounts unpaid, and are included in Accrued rebates and returns in the accompanying Consolidated Balance Sheets. An accrual is recorded based on an estimate of the proportion of recorded revenue that will result in a rebate or return. Chargebacks are also established in a similar manner and are recorded as a reduction to accounts receivable.

Income Taxes

The provision for income taxes has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax bases of the assets and liabilities. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax attributes are expected to be recovered or paid, and are adjusted for changes in tax rates and tax laws when changes are enacted.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The assessment of whether or not a valuation allowance is required often requires significant judgment including the long-range forecast of future taxable income and the evaluation of tax planning strategies and ability to carry back any losses under the relevant tax law. Adjustments to the deferred tax valuation allowances are recorded in the period when such assessments are made.

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.

Cash and Cash Equivalents

All liquid investments with original maturities of three months or less are considered cash and cash equivalents.

Restricted Cash

In certain instances, there are requirements to set aside cash for guarantees on the payment of value added taxes, custom duties on imports, tender programs, and vehicle/office leases by financial institutions on the Company's behalf. Total restricted balances were $7.8 million and $9.1 million at December 31, 2014 and 2013, respectively, of which $0.5 million and $2.0 million were current assets and are included in Prepaid expenses and other current assets within the accompanying Consolidated Balance Sheets.

Fair Value of Financial Instruments

The carrying amounts reflected in the Consolidated Balance Sheets for cash and cash equivalents, receivables, prepaid expenses and other assets, accounts payable, accrued expenses and other liabilities approximate fair value due to their short-term maturities. The Company's marketable securities are valued based upon pricing of securities with similar investment characteristics and holdings. Debt obligations are carried at historical cost, which approximates fair value.

Accounts Receivable

Credit is extended to customers based on the evaluation of the customer's financial condition. Creditworthiness of customers is evaluated on a regular basis. Accounts receivable consists of amounts billed and currently due from customers. An allowance for doubtful accounts is maintained for estimated losses that result from the failure or inability of customers to make required payments. In determining the allowance, consideration includes the probability of recoverability based on past experience and general economic factors. Certain accounts receivable may be fully reserved when specific collection issues are known to exist, such as pending bankruptcy. The Company charges off uncollectible receivables at the time it is determined the receivable is no longer collectable. The Company does not charge interest on past due amounts. The analysis of receivable recoverability is monitored and the bad debt allowances are adjusted accordingly. Accounts receivable are also reduced at the time of revenue recognition to reflect prompt pay discounts and chargebacks.

Concentration of Credit Risk

Financial instruments that potentially expose the Company to credit risk consist primarily of cash and cash equivalents and accounts receivable, which are generally not collaterized or factored. However, in some instances, the Company does have recourse and non-recourse factoring agreements, where certain accounts receivable balances are transferred to unrelated third parties. Refer to Note 7 - Receivables for further details.

The Company sells its products primarily through an internal sales force and sales are made through various distributors around the world. No single customer accounted for 10% or more of total sales for the years ended December 31, 2014 and 2013. Credit risk with respect to accounts receivable is generally diversified due to the large dispersion of customers across many different industries and geographies. Exposure to credit risk is managed through credit approvals, credit limits and monitoring procedures. The Company's business generally involves large customers and if one or more of those customers were to default in its obligations under applicable contractual arrangements, the Company could be exposed to potentially significant losses. However, management believes that its customers have a stable financial condition and the reserves for potential losses are adequate.

Inventory Valuation

Inventories are stated at the lower of cost or market with the cost principally determined using an average cost method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and indirect production overhead. Production overhead comprise indirect material and labor costs, maintenance and depreciation of the machinery and production buildings used in the manufacturing process as well as costs of production administration and management.

The Company evaluates the carrying value of inventories on a regular basis, taking into account such factors as historical and anticipated future sales compared with quantities on hand, the price the Company expects to obtain for products in their respective markets compared with historical cost and the remaining shelf life of goods on hand.

Property, Plant and Equipment

Expenditures for additions, renewals and improvements are capitalized at cost. Replacements of major units of property are capitalized and replaced properties are retired. Replacements of minor components of property and repair and maintenance costs are charged to expense as incurred. Depreciation is generally computed on a straight-line method, commencing when the assets become available for productive use, based on the following estimated useful lives:

Buildings	20 - 50 years
Building equipment and depreciable land improvements	15 - 40 years
Machinery, equipment and fixtures	3 - 20 years

Leasehold improvements and assets under capital lease arrangements are amortized over the lesser of the asset's estimated useful life or the term of the respective lease. Maintenance costs are expensed as incurred. Construction-in-progress reflects amounts incurred for property, plant, equipment construction or improvements that have not been placed in service. Interest is capitalized in connection with the construction of qualifying capital assets during the period in which the asset is being installed and prepared for its intended use. Interest capitalization ceases when the construction of the asset is substantially complete and the asset is available for use. Capitalized interest cost is depreciated on a straight-line method over the estimated useful lives of the related assets.

Internal-use Software Costs

The Company follows authoritative guidance on development costs associated with its system. The costs incurred in the preliminary stages of development are expensed as incurred. Once a project has reached the application development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Costs related to design or maintenance of internal-use software are expensed as incurred. Upgrades and enhancements are capitalized to the extent they will result in added functionality. These capitalized costs are amortized over the expected benefit period of three years. For the year ended December 31, 2014, the Company capitalized $1.7 million of costs associated with internal-use software development, of which $1.3 million was placed into Construction-in-Progress ("CIP"). For the year ended December 31, 2013, the Company capitalized $0.6 million of costs associated with internal-use software development and all of which is placed into CIP.

Impairment of Long-Lived Assets

Long-lived assets with finite lives are tested for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If indicators of impairment are present, the asset is tested for recoverability by comparing the carrying value of the asset to the related estimated undiscounted future cash flows expected to be derived from the asset. If the expected cash flows are less than the carrying value of the asset, then the asset is considered to be impaired and its carrying value is written down to fair value, based on the related estimated discounted future cash flows.

Indefinite-lived intangible assets are tested for impairment annually or more frequently if events or changes in circumstances between annual tests indicate that the asset may be impaired. Impairment losses on indefinite-lived intangible assets are recognized based solely on a comparison of the fair value of the asset to its carrying value, without consideration of any recoverability test.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill amounts are not amortized, but rather tested for impairment at least annually. Goodwill is tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that a potential impairment may exist. In the evaluation of goodwill for impairment, the Company may perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is not, no further analysis is required. If it is, a prescribed two-step goodwill impairment test is performed to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit, if any.

In the first step of the test, a fair value is calculated for each of the identified reporting units, and that fair value is compared to the carrying value of the reporting unit, including the reporting unit's goodwill. If the fair value of the reporting unit exceeds its carrying value, there is no impairment, and the second step of the test is not performed. If the carrying value exceeds the fair value for the reporting unit, then the second step of the test is required. The second step of the test compares the implied fair value of the reporting unit's goodwill to its carrying value. If the implied fair value of the reporting unit's goodwill is in excess of its carrying value, no impairment is recorded. If the carrying value is in excess of the implied fair value, an impairment charge equal to the excess is recorded. A goodwill impairment assessment was completed in the fourth quarter of 2014 and 2013. Refer to Note – 10 Goodwill for further details.

Certain intangible assets, consisting of patents/trademarks, technology, licenses, contracts/customer relationships, non-compete agreements, amortizable trade names, and capitalized software are amortized on a straight-line basis over their average useful lives, ranging from five to eighteen years. Amortizable intangible assets are evaluated for impairment, based on the above procedures outlined under "Impairment of long lived assets".

Non-amortizing intangible assets consist of indefinite-lived trade names. Indefinite-lived trade names are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. In the evaluation of indefinite-lived intangible assets for impairment, the Company may perform a qualitative assessment to determine if it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. If it is not, no further analysis is required. If it is determined, based on a qualitative assessment, that it is more likely than not that the indefinite-lived intangible asset is impaired will it require a quantitative impairment test. The impairment test consists of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. After an impairment loss is recognized, the adjusted carrying amount of the intangible asset is its new accounting basis. Refer to Note 11 - Other Intangible Assets for further details.

Contingencies

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations, product and environmental liability, and tax matters. In accordance with the accounting guidance regarding loss contingencies, the Company records accruals for such loss contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. Further, the Company does not recognize gain contingencies until realized. For a discussion of contingencies, refer to Note 17 – Commitments and Contingencies.

Shipping and Handling Costs

The Company typically does not charge customers for shipping and handling costs. Therefore, shipping and handling costs are included in selling and marketing expenses in the Consolidated Statements of Operations and were $77.7 million and $74.8 million for the years ended December 31, 2014 and 2013, respectively.

Advertising and Promotion Costs

Advertising costs comprise product samples, print media and promotional materials. Advertising and promotion costs are expensed as incurred. Advertising and promotion expense was $39.5 million and $40.9 million for the years ended December 31, 2014 and 2013, respectively, and is recorded in selling and marketing expenses in the Consolidated Statements of Operations.

Interest Expense

Interest expense includes standby fees and the amortization of debt discounts and deferred financing costs. Interest costs are expensed as incurred, except to the extent such interest is related to construction in progress, in which case interest is capitalized.The capitalized interest recorded for the years ended December 31, 2014 and 2013 was not material. Refer to Note 12 - Long-Term Debt for additional discussion.

Research and Development

Research and development expenses are comprised of costs incurred in performing research and development activities including payroll and benefits, clinical manufacturing and pre-launch clinical trial costs, manufacturing development and scale-up costs, product development and regulatory costs, contract services and other outside contractor costs, research license fees, depreciation and amortization of lab facilities, and lab supplies. Research and development costs are expensed as incurred. Research and development expense was $37.2 million and $32.0 million for the years ended December 31, 2014 and 2013, respectively. During 2014, the Company included, as a component of research and development expense, $7.4 million of third party remediation costs incurred to remediate the Company's product design history files as required by the FDA. The costs incurred are customary research and development related costs. No remediation costs were incurred during the year ended December 31, 2013. For milestones achieved prior to regulatory approval of the product, such payments are expensed as research and development. Milestone payments made in connection with regulatory approvals, including non-U.S. regulatory approvals, are capitalized and amortized to cost of products sold over the remaining useful life of the asset. No milestone payments were made in connection with regulatory approvals, including non-U.S. regulatory approvals and additional indications during 2014 or 2013.

Stock Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award. Stock-based compensation expense is recognized on a straight-line basis over the vesting period. In order to determine the fair value of stock options on the grant date, the Company utilizes a binomial model. Inherent in the binomial model are assumptions related to expected stock-price volatility, option life, risk-free interest rate and dividend yield. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the grant date with a term equal to the contractual term of the stock option. Certain features of share-based awards require the awards to be accounted for as liabilities as opposed to equity. Liability awards are required to be updated to fair value at the end of each reporting period until settlement. Refer to Note 15 – Employee Stock Benefit Plans for a further description of the plans and the relevant accounting guidance applied by the Company. Stock-based compensation is recognized in general and administrative expenses in the Consolidated Statements of Operations.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income includes foreign currency translation adjustments. Accumulated other comprehensive income is recorded as a component of stockholder’s deficit.

Foreign Currency Translation and Transactions

Assets and liabilities of subsidiaries whose functional currency is not the U.S. Dollar are translated into U.S. Dollars at the rate of exchange in effect on the balance sheet date. The related equity accounts of subsidiaries are translated into U.S. Dollars at the historical rate of exchange. Income and expenses are translated into U.S. Dollars at the average rates of exchange prevailing during the year. Foreign currency gains and losses resulting from the re-measurement or settlement of transaction balances that are denominated in a currency that is not the functional currency of a subsidiary and that are not of a long-term investment nature are classified separately in the Consolidated Statements of Operations.

Impact of Foreign Currency Translation - Venezuela Currency

In January 2014, the Venezuela government announced that the Comisión de Administracion de Divisas ("CADIVI") would be replaced by the government-operated National Center of Foreign Commerce (the "CENCOEX"), and indicated that the Sistema Complementario de Administración de Divisas ("SICAD") market would continue to be offered as an alternative foreign currency exchange. Additionally, a parallel foreign currency exchange system has been developed, SICAD II, which started functioning on March 24, 2014, the SICAD II exchange market had an average transaction rate to the Company of approximately 50 Bolivars per U.S. Dollar (the "SICAD II Rate"). The SICAD II market allows companies to apply for the purchase of foreign currency and foreign currency denominated securities for any legal use or purpose.

Due to the continued deterioration in the Venezuela currency, during the second quarter of 2014, the Company elected to exchange Bolivars for U.S. Dollars to the extent permitted through the CENCOEX, SICAD and SICAD II markets based on its ability to participate in those markets. As a result, the Company considered its specific facts and circumstances in order to determine the appropriate rate of exchange to translate ConvaTec Venezuela's financial statements. Based on the Company's assessment of factors, including of its legal ability and intent to continue to participate in the SICAD II exchange market to import finished goods into Venezuela, the Company determined that it was appropriate to utilize the SICAD II Rate of 50 Bolivars per U.S. Dollar to translate Convatec Venezuela's balance sheet as of December 31, 2014. As a result of the change from the official rate of 6.3 Bolivars per U.S. Dollar to the SICAD II Rate on December 31, 2014, the Company was required to re-measure all of ConvaTec Venezuela's monetary assets and liabilities at the rate of 50 Bolivars per U.S. Dollar as of December 31, 2014. Non-monetary assets and liabilities continue to be measured at their historical rates. The Company recorded a foreign currency loss of $2.2 million for the year ended December 31, 2014, as a result of the required re-measurement of ConvaTec Venezuela's balance sheet. As Venezuela was designated as a highly inflationary economy effective January 1, 2010, the Company reflected this foreign currency loss in earnings as a component of Other expense in the Consolidated Statements of Operations for the year ended December 31, 2014.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and the IASB has issued IFRS 15, Revenue from Contracts with Customers. The issuance of these documents completes the joint effort by the FASB and the IASB to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and IFRS. The new guidance affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. For public entities, the amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. For nonpublic entities, the amendments are effective for annual reporting periods beginning after December 15, 2017. Early application is only permitted to the extent it is aligned with public entities effective date, but not earlier. The Company will continue to evaluate this newly issued guidance.

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

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

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

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

In February 2013, the FASB issued new accounting guidance entitled, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. Under the new accounting guidance, an entity is required to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income ("AOCI") by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. This new accounting guidance does not change the current requirements for reporting net income or other comprehensive income in the financial statements. The amendments are effective prospectively for reporting periods beginning after December 15, 2013. As these standards impact presentation requirements only, the adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

3. Acquisitions

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

On January 1, 2014, the Company through its subsidiary, 180 Medical, acquired all of the voting interest in Symbius Medical, LLC ("Symbius"), a national home medical supply company. Symbius provides urological and other medical supplies nationally, as well as durable medical equipment on a regional basis. The addition of Symbius extends the Company's ability to serve customers directly. Consideration for the acquisition totaled $44.0 million. Of the consideration paid, $3.5 million was initially funded into escrow, primarily to satisfy potential future indemnity obligations, of which $0.5 million was released

as of December 31, 2014. The transaction has been accounted for in accordance with the acquisition method. As of December 31, 2014 the remaining escrow amount related to Symbius was $3.0 million.

The purchase price allocation of the acquisition resulted in the following:

(in millions of $)	
Cash and cash equivalents	$ 1.3
Receivables, net	4.7
Inventories, net	1.5
Prepaid expenses and other current assets	0.5
Property, plant and equipment, net	1.1
Other intangible assets	17.7
Goodwill	21.3
Total assets acquired	48.1
Current liabilities	(4.1)
Total liabilities assumed	(4.1)
Net assets acquired	$ 44.0

The fair value of the financial assets acquired includes trade receivables with a fair value of $4.7 million. The gross accounts receivable is $6.8 million, of which $2.1 million is expected to be uncollectible.

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

Refer to Note 11 - Other Intangible Assets for the amounts assigned to the other intangible assets by type.

Acquisition Escrows

Pursuant to the acquisition agreements related to various acquisitions, the Company has funded several escrow accounts, primarily to satisfy potential pre-acquisition indemnity and tax claims arising subsequent to the respective acquisition dates. Additionally, a certain acquisition agreement required the Company to fund into escrow $0.8 million in estimated contingent consideration tied to the achievement of specified future performance metrics. As of December 31, 2014 and 2013, the amount of escrows included within the Consolidated Balance Sheet was as follows:

	As of December 31,	
	2014	**2013**
Assets:		
Current	$ 3.0	$ 21.0
Non-current	1.4	1.4
	$ 4.4	$ 22.4
Liabilities:		
Current	3.0	16.7
Non-current	1.3	1.3
	$ 4.3	$ 18.0

On May 27, 2014, the Company executed a release and settlement agreement related to the escrow established for the former stockholders of Boston Medical Devices, Inc. In conjunction with the release and settlement agreement, the Company released the remainder of the escrow funds in the amount of $2.9 million. Additionally, the Company released two separate $15.0 million balances held in escrow to the sellers of the 180 Medical acquisition during both the third quarter of 2013 and 2014, respectively. The total $30.0 million was a general indemnity escrow originally held in accordance with the acquisition agreement. As of December 31, 2014 there is no remaining escrow balance in relation to the acquisitions of BMD and 180 Medical.

4. Related Parties

The Parent maintains an agreement with its Equity Sponsors (the "Management Agreement"), whereby the Equity Sponsors provide certain management advisory services. For services rendered by the Equity Sponsors, an annual fee of $3.0 million is payable in equal quarterly installments. The Company also pays other specified fees on behalf of the Parent, in accordance with the Management Agreement. During the years ended December 31, 2014 and 2013, the Company incurred $3.0 million in annual contractual fees to the Equity Sponsors for services rendered in accordance with the Management Agreement. In accordance with the Management agreement, the Company recorded an additional $2.1 million and $1.5 million for other fees during the years ended December 31, 2014 and 2013, respectively. The accompanying Consolidated Balance Sheets include a receivable from the Parent recorded in Other assets in the amount of $26.1 million and $21.0 million as of December 31, 2014 and 2013, respectively. The receivable is inclusive of accrued interest on the outstanding balance.

Additionally, the Company loans money to Cidron Healthcare Limited in connection with the repurchase of Management Equity Plan units. The loan is governed by an agreement where the maximum loan amount in any given fiscal year cannot exceed $5.0 million. 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 Healthcare Limited. As of December 31, 2014 and 2013, the total outstanding loan amount of $7.5 million and $6.3 million, respectively, is recorded as equal and offsetting amounts within Stockholder's equity. Refer to Note 15 – Employee Stock Benefit Plans for further discussion regarding the Management Equity Plan.

In connection with the Company's initial capitalization, the Company issued preferred equity certificates ("PECs") for an aggregate amount of €1,289.7 million. Refer to Note 13 - Mandatorily Redeemable Preferred Equity Certificates for further discussion.

5. Restructuring

2014 Activities

During the year ended December 31, 2014, the Company recorded pre-tax charges of $13.7 million for business restructuring activities, primarily related to termination benefits for involuntary workforce reductions associated with the 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. These costs were recorded in general and administrative expenses in the Consolidated Statements of Operations.

2013 Activities

During the year ended December 31, 2013, the Company recorded pre-tax charges of $4.5 million for business restructuring activities, of which $4.3 million related to employee separation costs and $0.2 million are related to lease termination and facility closure costs. Such costs were recorded in general and administrative expenses in the Consolidated Statements of Operations. Total overall costs for this action have been recorded as of December 31, 2013.

Roll-forward

Restructuring charges and spending against liabilities associated with prior and current actions are as follows:

(in millions of $)	Employee Termination Liability
Balance at January 1, 2013	$ 5.5
Charges	4.5
Spending	(7.7)
Changes in estimate	(0.2)
Balance at December 31, 2013	$ 2.1
Charges	13.7
Spending	(11.0)
Changes in estimate	(0.1)
Balance at December 31, 2014	$ 4.7

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

6. Income Taxes

The components of income (loss) before income taxes were:

	For the Years Ended December 31,	
(in millions of $)	2014	2013
U.S.	$ 54.7	$ (73.4)
Non-U.S.	(312.9)	(68.2)
	$ (258.2)	$ (141.6)

The above amounts are categorized based on the location of the taxing authorities.

The provision for income taxes consisted of:

(in millions of $)	For the Years Ended December 31, 2014	2013
Current:		
U.S. Federal	$ —	$ —
U.S. States	2.0	2.2
Non-U.S.	38.5	46.0
	40.5	48.2
Deferred:		
U.S. Federal	9.0	13.2
U.S. States	0.6	0.7
Non-U.S.	(21.8)	(30.0)
	(12.2)	(16.1)
	$ 28.3	$ 32.1

Effective Tax Rate

The Company's provision for income taxes in 2014 and 2013 was different from the amount computed by applying the statutory U.S. Federal income tax rate to loss before income taxes, as a result of the following:

	% of Loss Before Income Taxes			
	For the Years Ended December 31,			
(in millions of $)	2014		2013	
Loss before income taxes	$ (258.2)		$ (141.6)	
U.S. statutory rate	(90.4)	35.0 %	(49.6)	35.0 %
State taxes, net of federal effect	2.4	(0.9)%	(3.2)	2.3 %
Foreign/U.S. tax differential	15.7	(6.1)%	(18.8)	13.3 %
Foreign Permanent Items and Tax Credits	32.5	(12.6)%	8.2	(5.8)%
Domestic Permanent Items and Tax Credits	5.0	(1.9)%	(7.2)	5.1 %
Valuation Allowances	55.5	(21.5)%	121.9	(86.1)%
US and Foreign Uncertain Tax Positions	0.2	(0.1)%	2.2	(1.6)%
Repatriation of Foreign Income	2.8	(1.1)%	6.7	(4.7)%
Deferred Impact of Tax Rate Changes	(0.8)	0.3 %	(24.4)	17.2 %
Other	5.4	(2.1)%	(3.7)	2.6 %
	$ 28.3	**(11.0)%**	**$ 32.1**	**(22.7)%**

Deferred Taxes and Valuation Allowance

The components of current and non-current deferred income tax assets (liabilities) were:

	As of December 31,	
(in millions of $)	**2014**	**2013**
Inventory	$ 7.7	$ 8.8
Accruals	—	0.2
Loss carryforward	519.7	520.0
Employee benefits	1.0	4.2
Other	44.7	37.5
Gross deferred tax assets before valuation allowance	$ 573.1	$ 570.7
Valuation allowance	(532.8)	(520.6)
Total deferred tax assets	$ 40.3	$ 50.1
Equity	$ (24.2)	$ (4.5)
Other	(21.5)	(19.6)
Fixed assets and intangibles	(232.9)	(263.4)
Total deferred tax liabilities	$ (278.6)	$ (287.5)
Deferred tax liabilities, net	$ (238.3)	$ (237.4)
Recognized as:		
Deferred Income Taxes—Current	(2.0)	4.1
Deferred Income Taxes—Non-Current	(236.3)	(241.5)
Total	**$ (238.3)**	**$ (237.4)**

The Company had U.S. federal net operating loss carryforwards of $304.5 million and $228.7 million and foreign net operating loss carryforwards of $1,420.0 million and $1,331.2 million as of December 31, 2014 and 2013, respectively. The Company has state net operating loss carryforwards of $150.1 million and $112.9 million as of December 31, 2014 and 2013, respectively. The U.S. net operating loss carryforwards will begin to expire in 2021 and fully expire in 2034. Foreign net operating loss carryforwards expire at various points in time with the most significant having an indefinite expiration date.

The valuation allowance was $532.8 million as of December 31, 2014 and $520.6 million as of December 31, 2013. The Company has concluded, based on the standard set forth in the Financial Accounting Standards Board Standards Codification related to Income Taxes that it is more likely than not that the Company will not realize any benefit from the deferred tax assets related to U.S. and Luxembourg net operating losses. The Company has increased its valuation allowance by $12.2 million as of December 31, 2014. This increase primarily relates to net operating losses and other future deductible temporary differences that have arisen in the U.S. and Luxembourg.

Utilization of net operating losses and tax credits may be subject to an annual limitation due to ownership change limitations provided in the Internal Revenue Code of 1986, as amended, and similar state provisions. This annual limitation may result if there is an ownership change before the utilization or expiration of unused net operating losses and credits.

The Company is not indefinitely reinvested in its unremitted earnings. However, if such earnings were remitted, they would generally not be subject to income tax due to the application of favorable domestic law and tax treaties. The Company has accrued $21.5 million and $19.4 million as of December 31, 2014 and 2013, respectively, related to taxes that would be due in certain jurisdictions where a remittance of earnings would be subject to tax.

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. The liability for unrecognized tax benefits represents a reasonable provision for taxes that could be paid if various taxing authorities did not agree with the tax positions taken by the Company. The effect of changes related to uncertain tax positions on the Company's effective tax rate is included in the effective tax rate reconciliation above.

A reconciliation of the Company's changes in uncertain tax positions including interest and penalties from January 1, 2014 to December 31, 2014 and January 1, 2013 to December 31, 2013 is as follows:

	As of December 31,	
(in millions of $)	**2014**	**2013**
Unrecognized tax benefits at January 1	$ 61.9	$ 53.7
Increases in tax positions for the current year	2.7	1.1
Increases in tax positions for prior years	—	32.9
Decrease in tax positions for prior years	(1.8)	(6.3)
Decreases due to settlements with taxing authorities	(27.7)	(17.6)
Lapse in statute of limitations	—	(1.1)
Cumulative translation adjustment	—	(0.8)
Unrecognized tax benefits at December 31	**$ 35.1**	**$ 61.9**

The uncertain tax benefits are recorded against the Company's deferred tax assets to the extent the uncertainty directly related to that asset; otherwise, they are recorded as either current or non-current liabilities, depending on whether the Company will make payments in the next twelve months.

The amounts of unrecognized tax benefits that, if recognized, would impact the effective tax rate were $28.0 million as of December 31, 2014 and $26.5 million as of December 31, 2013.

The Company classifies interest and penalties related to unrecognized tax benefits as income tax expense. The related amount of expense included in the provision for income taxes for the year ended December 31, 2014 and 2013 is zero and $0.5 million, respectively. The amount of interest and penalties included in the unrecognized tax benefits at December 31, 2014 and 2013 is $5.4 million, respectively, and are included in the tabular rollforward above.

The Company is considered under examination by a number of tax authorities, including all of the major tax jurisdictions listed in the table below. The Company does not expect the unrecognized tax benefits as of December 31, 2014 to significantly change over the next twelve months. The Company believes that it has adequately provided for all open tax years by tax jurisdiction in compliance with the accounting guidance.

The following is a summary of major tax jurisdictions for which tax authorities may assert additional taxes against the Company based upon tax years currently under audit and subsequent years that may be audited:

Jurisdiction:	Years
U.S.	2011 to 2014
U.K.	2009 to 2014
Japan	2008 to 2014
Denmark	2009 to 2014
Luxembourg	2009 to 2014
France	2008 to 2014
Italy	2008 to 2014
Germany	2011 to 2014

7. Receivables

The major categories of receivables are as follows:

	As of December 31,	
(in millions of $)	**2014**	**2013**
Trade receivables	$ 281.7	$ 336.3
Miscellaneous receivables	7.2	12.7
	288.9	349.0
Less: allowances and chargebacks	(47.0)	(40.8)
Receivables, net	**$ 241.9**	**$ 308.2**

On December 23, 2014, the Company's operations in Italy transferred certain accounts receivable to an unrelated third party through a non-recourse factoring agreement. The factoring agreement transfer is accounted for as a sale of receivables, as the Company does not retain any financial or legal interest in the factored receivables. Accordingly, such receivables have not been included in the accompanying Consolidated Balance Sheets. The amount of receivables factored was $6.4 million for the year ended December 31, 2014. Commission expenses incurred in connection with factoring activities amounted to $0.2 million and such amounts are included within interest expense, net in the accompanying Consolidated Statements of Operations for the year ended December 31, 2014.

Allowances and chargebacks include chargebacks, sales discounts, and allowance for uncollectible accounts. The most significant portion of allowances and chargebacks relates to chargebacks, representing $32.0 million and $29.5 million of the amount as of December 31, 2014 and 2013, respectively.

8. Inventories

The major categories of inventories are as follows:

	As of December 31,	
(in millions of $)	**2014**	**2013**
Finished goods	$ 162.2	$ 167.4
Work in process	27.3	29.9
Raw and packaging materials	60.6	56.4
Inventories, net	**$ 250.1**	**$ 253.7**

9. Property, Plant and Equipment, net

The major categories of property, plant and equipment are as follows:

	As of December 31,	
(in millions of $)	**2014**	**2013**
Land	$ 19.8	$ 19.8
Buildings and building equipment	122.5	117.7
Machinery, equipment and fixtures	350.5	351.6
Construction in progress	28.0	40.0
	520.8	529.1
Less accumulated depreciation	(257.1)	(247.5)
Property, plant and equipment, net	**$ 263.7**	**$ 281.6**

Depreciation expense was $35.5 million and $34.7 million for the years ended December 31, 2014 and 2013, respectively, and is mainly included in cost of goods sold in the accompanying Consolidated Statements of Operations.

Impairment charges on property, plant and equipment were $3.2 million and $25.6 million for the years ended December 31, 2014 and 2013, respectively. The Company recorded an impairment charge on machinery, equipment and fixtures of $3.2 million related to the manufacturing facility located in Rhymney, U.K for the year ended December 31, 2014 and $24.1 million related to the corporate facility located in Skillman, NJ for the year ended December 31, 2013.

Asset impairment charges were measured at fair value using significant unobservable inputs that are categorized as Level 3 under the fair value hierarchy, which is described further in Note 16 - Fair Value Measurements.

10. Goodwill

Goodwill represents the excess purchase price over the fair value of identifiable net assets of businesses acquired. The following is a summary of the change in goodwill in total:

(in millions of $)	
Balance as of January 1, 2013	$ 1,127.8
Changes in foreign exchange rates	55.5
Balance as of December 31, 2013	**1,183.3**
Current year acquisitions	21.3
Changes in foreign exchange rates	(185.0)
Impairment charges	(46.4)
Balance as of December 31, 2014	**$ 973.2**

Goodwill of $21.3 million was recorded in connection with the 2014 acquisition of Symbius, representing the excess of the consideration transferred over the fair value of identifiable net assets acquired at the acquisition date. Refer to Note 3 – Acquisitions for further details.

The fair values of the Americas, Europe, Middle East and Africa ("EMEA"), Asia-Pacific ("APAC"), Infusion Devices ("ID"), Infusion Sets ("IS") and 180 Medical reporting units were estimated using a weighted average of a market approach and an income approach as this combination was deemed to be the most indicative of the Company's estimated fair value in an orderly transaction between market participants and is consistent with the methodology used for the goodwill impairment test in prior

years. In addition, the Company ensures that the fair values estimated under these two approaches are comparable with each other. Under the market approach, the Company utilizes publicly-traded comparable company information to determine revenue and earnings multiples that are used to value its reporting units adjusted for an estimated control premium. Under the income approach, the Company determines fair value based on estimated future cash flows of each reporting unit discounted by an estimated weighted average cost of capital, reflecting the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Determining the estimated fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including selection of market comparables, estimated future cash flows, and discount rates.

As a result of the annual goodwill impairment test performed as of October 1, 2014, the Company concluded that the carrying value of the APAC and the Americas reporting units exceeded their fair values. As required by the second step of the impairment test, the Company performed an allocation of the fair value to all the assets and liabilities of the reporting unit, including identifiable intangible assets, based on their estimated fair values, to determine the implied fair value of goodwill for these reporting units. At October 1, 2014, the Americas and APAC reporting units had $16.2 million and $46.4 million of goodwill, respectively. Based on the results of the second step impairment test, no impairment was required to be recorded for the Americas reporting unit. The Company recorded a $46.4 million goodwill impairment charge in its Consolidated Statements of Operations related to the APAC reporting unit during the quarter ended December 31, 2014 for the difference between the carrying value of the goodwill in the reporting unit and its implied fair value. Impairment in the APAC reporting unit resulted in a complete impairment of goodwill assigned to the reporting unit due to revised estimates of revenues and profitability, based on recent and anticipated future performance trends. Accumulated impairment charges were $383.0 million and $336.6 million as of December 31, 2014 and 2013, respectively.

The key assumptions used for the 2014 goodwill impairment test were revenue growth rate, adjusted EBITDA growth rate, discount rate and terminal value long term growth rate. Determining the fair value of the business enterprise value for each of our reporting units in step 1, as well as the residual goodwill in the Americas and APAC reporting units in step 2 is judgmental in nature and requires the use of estimates and key assumptions and is considered a Level 3 valuation technique. Refer to Note 16 - Fair Value Measurements for further details. It is reasonably possible that changes in judgments, assumptions and estimates the Company made in assessing the fair value of goodwill could cause the Company to consider some portion or all of the remaining goodwill of these reporting units to become impaired. In addition, a future decline in the overall market conditions and/or changes in the Company's market share in specific to these reporting units could negatively impact the market comparables, estimated future cash flows and discount rates used in the market and income approaches to determine the fair value of the reporting unit and could result in an impairment charge in the foreseeable future.

In 2013, as a result of the annual goodwill impairment test, the Company concluded that the estimated fair values of all the Company's reporting units exceeded their estimated carrying values and therefore goodwill in those reporting units was not impaired.

11. Other Intangible Assets

As of December 31, 2014 and 2013, other intangible assets consisted of the following:

		As of December 31, 2014		
(in millions of $)	Weighted Average Useful Life	Cost	Accumulated Amortization	Net
Amortized Intangible Assets:				
Patents, trademarks, and licenses	18 years	$ 2,001.6	$ (710.1)	$ 1,291.5
Technology	17 years	238.8	(86.9)	151.9
Capitalized software	8 years	79.8	(52.6)	27.2
Contracts and customer relationships	16 years	246.4	(65.9)	180.5
Non-compete agreements	5 years	5.7	(2.5)	3.2
Trade names	10 years	4.8	(1.1)	3.7
Unamortized Intangible Assets:				
Trade names		235.2	—	235.2
Total intangibles assets		**$ 2,812.3**	**$ (919.1)**	**$ 1,893.2**

		As of December 31, 2013		
	Weighted Average Useful Life	Cost	Accumulated Amortization	Net
Amortized Intangible Assets:				
Patents, trademarks, and licenses	18 years	$ 2,043.0	$ (610.8)	$ 1,432.2
Technology	17 years	256.6	(78.1)	178.5
Capitalized software	8 years	77.3	(46.4)	30.9
Contracts and customer relationships	16 years	250.0	(53.2)	196.8
Non-compete agreements	5 years	3.5	(1.2)	2.3
Trade names	10 years	4.8	(0.6)	4.2
Unamortized Intangible Assets:				
Trade names		253.0	—	253.0
Total intangibles assets		**$ 2,888.2**	**$ (790.3)**	**$ 2,097.9**

The fair values and associated useful lives assigned to intangible assets by type, relating to the acquisition of Symbius are as follows:

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

Refer to Note 3 – Acquisitions for further discussion. The determination of fair value of the intangible assets in the table above is considered a Level 3 valuation technique. Refer to Note 16 – Fair Value Measurement for further details.

As a result of the Company's annual impairment test performed as of October 1, the Company recognized a $16.6 million impairment on its trade name.

Additionally, during the fourth quarter of 2014, due to the loss of patients as a result of the alleged violation of non-compete clauses by certain former employees, the Company performed an interim impairment test on certain of the Symbius assets. The determination of the intangible assets' fair values are considered a Level 3 valuation technique. An additional $4.3 million impairment was recognized in relation to Symbius' intangible assets of which $0.6 million related to the Symbius trade name. Refer to Note 17 - Commitments and Contingencies for additional discussion related to the alleged violations.

Foreign currency translation, primarily related to intangible assets denominated in British Pound Sterling, resulted in a decrease in the gross carrying amount of intangible assets of $75.4 million for the year ended December 31, 2014 and an increase of $23.8 million for the year ended December 31, 2013. Amortization expense for other intangible assets for the years ended December 31, 2014 and 2013 was $155.7 million and $152.9 million, respectively.

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

2015	$ 150.3
2016	150.0
2017	149.6
2018	146.7
2019	145.6

12. Long – Term Debt

The table below depicts the total obligation outstanding for each component of long-term debt:

	As of December 31, 2014	As of December 31, 2013
(in millions of $)		
Credit Facilities Agreement:		
Term Loan Facilities	$ 1,321.2	$ 1,469.1
Original Issue Discount ("OID")	(2.3)	(3.8)
Credit Facilities, net of discount	1,318.9	1,465.3
7.375% Secured Notes	362.9	412.3
10.5% U.S. Dollar Senior Notes	745.0	745.0
10.875% Euro Senior Notes	302.5	343.6
Capital Lease Obligations	0.2	0.3
Total Debt	2,729.5	2,966.5
Less: Current Portion of Long-Term Debt	43.7	73.6
Total Long-Term Debt	**$ 2,685.8**	**$ 2,892.9**

The Credit Facilities Agreement

The Credit Facilities Agreement consists of (i) U.S. Dollar and EURO term loans (the "Term Loan Facilities") due 2016, (ii) a revolving credit facility due 2015 (the "Revolving Credit Facility"), (iii) and incremental unfunded term facilities (the "Incremental Term Facilities") (collectively, the "Credit Facilities").

On August 5, 2013, the Company executed an amendment to the Credit Facilities Agreement. The amendment provides for a reduction in the applicable margins and floors on the EURIBOR and LIBOR base rates of the EURO and U.S. Dollar Term Loan Facilities, as well as a reduction of the floor on Alternate Base Rate ("ABR") borrowings. In addition, the calculation of the amount available for restricted payments, capital expenditures, investments and prepayments of certain indebtedness has been modified. The Repricing of the term loans became effective on September 28, 2013 ("Repricing"). The details regarding the changes in each of the applicable interest rates are discussed further below.

The execution of the amendment and related Repricing required the consent of the lenders in each of the Company's Term Loan Facilities. While the majority of the lenders of both the Euro and U.S. Dollar term loans consented to the terms of the amendment and the related Repricing, it was determined that certain individual lenders had extinguished their lending positions. As a result, a loss on debt extinguishment of $4.4 million was recorded and included as a separate line item entitled Loss on extinguishment of debt in the Consolidated Statements of Operations for the year ended December 31, 2013. Included within the Loss on extinguishment of debt were $3.9 million of unamortized deferred financing fees and $0.5 million of unamortized original issue discount. The Company will continue to amortize the remaining unamortized deferred financing fees and original issue discount, associated with the Term Loan Facilities. Additionally, in connection with the Repricing, the Company incurred fees of approximately $9.6 million. Of this amount, $8.0 million was capitalized as deferred financing fees, and $1.6 million was expensed and included within general and administrative expenses in the Consolidated Statements of Operations for the year ended December 31, 2013.

Total borrowings outstanding under the Term Loan Facilities denominated in U.S. Dollars and Euros are $770.5 million and €455.2 million ($550.7 million) at December 31, 2014 and $804.0 million and €483.9 million ($665.1 million) at December 31, 2013. The Term Loan Facilities will mature on December 22, 2016.

The Revolving Credit Facility of $250.0 million is available through its termination date in certain currencies at the borrower's option and is used to provide for ongoing working capital requirements, letters of credit, and general corporate purposes of the Company. The original offering price of the $250.0 million revolving credit facility was 98.5%, after adjustment for an OID. The Revolving Credit Facility allows for up to $40.0 million of letter of credit issuances as well as $25.0 million for borrowings on same-day notice, referred to as the swingline loans. There were no borrowings outstanding under the Revolving Credit Facility as of December 31, 2014 or December 31, 2013. Letters of credit outstanding under the revolving credit facility totaled $1.3 million as of December 31, 2014 and $0.8 million as of December 31, 2013. Availability under the Revolving Credit Facility, after deducting both the outstanding letters of credit and amounts withdrawn, totaled $248.7 million as of December 31, 2014 and $249.2 million as of December 31, 2013.

OID is being amortized to interest expense, using the effective interest method, over the terms of the related outstanding borrowings. Total amortization expense related to OID was $1.5 million and $1.8 million for the years ended December 31, 2014 and 2013, respectively.

The Incremental Term Facilities, as amended, are unfunded commitments and may be available in an amount up to $400.0 million (net of any issuance of secured notes) in either U.S. Dollars and/or Euros provided that a certain leverage ratio is not exceeded and the Company satisfies certain requirements, including: no default or event of default, pro forma compliance with financial covenants, minimum borrowing amounts of $15.0 million and a maturity date and weighted average life-to-maturity of each individual loan within the Incremental Term Facilities that is greater than the weighted average maturity date of the Term Loan Facilities. Additionally, should the yield on the Incremental Term Facilities exceed the yield on the Term Loan Facilities by more than 0.5%, then the yield on the Term Loan Facilities will automatically increase such that the yield on the Term Loan Facilities shall be 0.5% below the yield on the Incremental Term Facilities.

Borrowings under the Credit Facilities bear interest at either a Euro (EURIBOR) or U.S. Dollar (LIBOR) base rate, or an ABR. EURIBOR interest is associated with Term Loan borrowings denominated in Euros while Term loan borrowings denominated in Dollars may, at the Company's option, be subject to LIBOR interest or ABR. Borrowings under the Revolving Credit Facility denominated in Euros may bear interest at either ABR or EURIBOR and borrowings denominated in any currencies other than Euros (including U.S. Dollars) may bear interest at either ABR or LIBOR. ABR, as defined and amended in the Credit Facilities Agreement, is the greater of (a) the Prime Rate, (b) the Federal Funds Effective Rate plus 0.50% or (c) the Eurodollar Rate for a one-month interest period plus 1.00%. The initial ABR margin applicable to borrowings under the Revolving Credit Facility is 3.25% but may be incrementally reduced by 0.25% up to three times upon obtaining consolidated leverage ratios specified in the Credit Agreement. The ABR margin applicable to U.S. Dollar term loans is 2.00% subject to an increase by 25 basis points if there is a decline in the Company's corporate credit rating below B3 or B- from Moody's and Standard and Poor's, respectively. As a result of the Repricing, ABR is subject to a floor of 2.0%. Also as a result of the Repricing, EURIBOR and LIBOR borrowings are subject to an initial margin of 3.25% and 3.00%, respectively, each with a floor of 1.00%, and each such margins are subject to the same 25 basis point increase if the Company receives the aforementioned decline in its corporate rating. The Company's current credit rating on the Senior Secured Notes is Ba3 and B+ from Moody's and Standard and Poor's, respectively.

Under the original terms of the Credit Facilities Agreement, the margin on both EURIBOR and LIBOR loans was 4.25%, subject to a floor of 1.50% and ABR was subject to a floor of 2.75%. In the third quarter of 2012, the Company refinanced both the Euro and U.S. Dollar Term Loan Facilities, whereby the margin on the EURIBOR and LIBOR borrowings was reduced to 4.00% and 3.75%, respectively. The floor was also reduced to 1.25% for LIBOR borrowings and 2.25% for ABR borrowings. The borrowing arrangements contain a number of non-financial and financial covenants, including maintaining certain consolidated leverage and interest coverage ratio levels. The consolidated leverage ratio may not exceed 6.40 to 1.00 as of December 30, 2014 and will decrease over time to 5.95 to 1.00 by December 30, 2015. The consolidated interest coverage ratio may not fall below 1.55 to 1.00 as of December 30, 2014 and will increase over time to 1.60 to 1.00 by June 30, 2016. The Company was in compliance with all covenants as of December 31, 2014.

Borrowings and commitments under the Credit Facilities, including the Term Loan Facilities, are subject to full or partial mandatory prepayments from the proceeds of asset sales above a specified threshold, the issuance or incurrence of debt and from excess cash flow retained in the business. The amount and timing of the mandatory prepayments are subject to certain criteria. During the second quarters of 2014 and 2013, the Company made mandatory prepayments of $73.5 million and $45.1 million, respectively, for excess cash retained in the business. Both the 2014 and 2013 mandatory prepayments were applied, and the estimated 2015 payment will be applied, against the remaining quarterly installments due under both the U.S. Dollar and Euro Term Loan Facilities, in accordance with the terms outlined in the Credit Facilities Agreement. As a result, there will be no quarterly installment payments due until the Term Loan Facilities mature on December 22, 2016. At December 31, 2014, the Company calculated a $43.6 million excess cash flow prepayment to be remitted in May 2015, which is included in the Short-term portion of long-term debt on the Consolidated Balance Sheet.

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

Secured Notes and Senior Notes

The Secured Notes consist of €300.0 million ($362.9 million at December 31, 2014 and $412.3 million at December 31, 2013) senior secured notes (the "Secured Notes") due December 15, 2017. Borrowings outstanding under the Secured Notes were €300.0 million ($362.9 million at December 31, 2014 and $412.3 million at December 31, 2013). Borrowings under the Secured Notes bear interest of 7.375% per annum. Interest on the Secured Notes will be payable semi-annually in arrears from the issue date or from the most recent interest payment date to which interest has been paid or provided for, whichever is the later. Interest is payable on each Secured Note on June 15 and December 15 of each year.

The Senior Notes consist of $745.0 million and €250.0 million ($302.5 million at December 31, 2014 and $343.6 million at December 31, 2013) senior notes (the "U.S. Dollar Senior Notes" and the "Euro Senior Notes") due December 15, 2018 (collectively the "Senior Notes"). Borrowings outstanding under the Senior Notes were $745.0 million and €250.0 million ($302.5 million at December 31, 2014 and $343.6 million at December 31, 2013). Borrowings under the U.S. Dollar Senior Notes bear interest of 10.5% per annum. Borrowings under the Euro Senior Notes bear interest of 10.875% per annum. Interest on the Senior Notes is payable semi-annually in arrears from the issue date or from the most recent interest payment date to which interest has been paid or provided for, whichever is the later. Interest is payable on each Senior Note on June 15 and December 15 of each year.

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

The total capitalized deferred financing fees, net of accumulated amortization, was $33.1 million as of December 31, 2014. Deferred financing fees are included in Other assets in the accompanying Consolidated Balance Sheets and are being amortized to interest expense over the terms of the underlying borrowings using the effective interest method. Total amortization expense related to deferred financing fees amounted to $10.4 million and $8.9 million during the years ended December 31, 2014 and 2013, respectively.

Accrued interest related to the Company's outstanding debt obligations was $6.3 million and $7.2 million as of December 31, 2014 and December 31, 2013, respectively, and is recorded in accrued expenses and other current liabilities. Interest expense for the years ended December 31, 2014 and 2013, associated with the Credit Facilities, Secured Notes and Senior Notes, was $204.3 million and $217.7 million, respectively. The weighted average interest rate for borrowings under the Company's outstanding debt obligations was 7.0% for the year ended December 31, 2014 and 7.3% for the year ended December 31, 2013.

The Company's borrowing arrangements contain a number of covenants. The more significant financial covenants include certain ratios and a limitation on capital expenditures. The Company was in compliance with all financial covenants as of December 31, 2014.

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

2015	$	43.7
2016		1,277.7
2017		362.9
2018		1,047.5
2019		—
Thereafter		—
Total	**$**	**2,731.8**

13. Mandatorily Redeemable Preferred Equity Certificates

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

PECs have priority over the common and preferred stock in the distribution of dividends. PECs are entitled to interest equivalent ranging from approximately 7% to 9% of the par value per annum on a cumulative basis. PEC interest accrues monthly and compounds on an annual basis. The PECs, which include current and long-term accrued interest, were $2,879.1 million (€2,379.9 million) and $3,097.3 million (€2,253.8 million) at December 31, 2014 and December 31, 2013, respectively. Total accrued interest at December 31, 2014 amounted to $1,318.9 million (€1,090.2 million). Total accrued interest at December 31, 2013 amounted to $1,324.9 million (€964.1 million), all of which was included in mandatorily redeemable preferred equity certificates in the accompanying Consolidated Balance Sheets. Total interest expensed during the years ended December 31, 2014 and 2013 was $234.6 million (€176.5 million) and $220.6 million (€166.0 million), respectively, which was classified as interest expense in the accompanying Consolidated Statements of Operations. The PECs allow for distribution of interest to the extent permitted by the Company's restricted payment capacity, a specified leverage ratio and other provisions outlined in its debt agreements. During the year ended December 31, 2014, the Company made a payment of $68.6 million (€50.4 million) of accrued PEC interest to the Parent. No payments were made in the corresponding period in 2013. 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, commencing on January 15, 2014. As of December 31, 2014, the current portion of accrued PEC interest on the Consolidated Balance Sheet was $34.2 million (€28.3 million). 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,

Secured Notes and Senior Notes, as well as present and future obligations of the Company whether secured or unsecured. The holders of the PECs do not have voting rights in respect to the Company by reason of ownership of the PECs. The Series 3 PECs cannot be transferred without prior consent of the Company or pursuant to the Company's third party debt agreements.

14. Stockholder's Deficit

The Company's total share capital was €112.2 million ($140.7 million) as of December 31, 2014 and 2013, respectively. The Company had one hundred twelve million one hundred fifty-seven thousand eight hundred eighty-three issued and outstanding shares of common stock at December 31, 2014 and 2013. The Company had five thousand issued and outstanding shares of class A preferred stock, five thousand issued and outstanding shares of class B preferred stock, five thousand issued and outstanding shares of class C preferred stock, and five thousand issued and outstanding shares of class D preferred stock at December 31, 2014 and 2013. The par value of common and preferred stock was one Euro per share ($1.25) as of December 31, 2014 and 2013. Each share has an identical voting right and each shareholder has voting rights commensurate to its shareholding. Each shareholder is entitled to equal rights to any distribution of dividends.

15. Employee Stock Benefit Plans

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

The accounting standard relating to stock-based compensation requires that the cost of all share-based payment transactions be recognized in the financial statements, establishes fair value as the measurement objective, and requires entities to apply a fair value-based measurement method in accounting for share-based payment transactions. The Company grants share-based compensation awards which vest over a specified period or upon a liquidity event, such as a change of control or an initial public offering. The fair value of share-based compensation awards issued to employees is measured on the date of grant and expense is recognized over the vesting period or upon a liquidity event, depending upon the specific terms of the individual award. Certain features of share-based awards require the awards to be accounted for as liabilities as opposed to equity. Liability awards are required to be updated to fair value at the end of each reporting period until settlement. The Company obtains a valuation report for the MEP, MIP and AEP awards on an annual basis. The valuation is utilized for calculating the current period stock compensation expense associated with any MEP awards granted and remeasuring the liability for fully vested MEP awards. The Company believes that any difference in fair value of the awards at the interim and annual periods would not be material to the Consolidated Financial Statements. Generally, unvested awards are forfeited for no consideration upon termination of employment. No awards may be transferred other than under specified limited circumstances which generally are to family members for estate planning purposes.

Fair value of the Company's equity was estimated using an income approach and further substantiated with a market approach. The income approach was deemed to be the most indicative of the Company's estimated fair value in an orderly transaction between market participants and is consistent with the methodology used for the equity valuation in prior years. Under the income approach, the Company determines fair value using the discounted cash flow method which is based on an analysis of the Company's projected financial information, significant debt-free cash flow assumptions, discount rate, terminal value, and indication of value. Under the market approach, the Company utilizes publicly-traded comparable company information to determine trailing and forward multiples that are used to value its equity. Determining the estimated fair value is judgmental in nature and requires the use of significant estimates and assumptions, including selection of market comparables, industry trends, estimated future cash flows, and discount rates. Fair value is estimated using significant unobservable inputs that are characterized as Level 3 under the fair value hierarchy, which is described in further detail in Note 16 - Fair Value Measurements.

The fair value of each award is estimated on the date of grant using the Black-Scholes pricing model. Expected volatilities are based on historical volatilities of comparable companies. The risk-free interest rate is based on the weighted average of U.S. Treasury strip rates over the contractual term of the awards. The expected term of the awards granted represents the period of time that awards are expected to be outstanding.

	For the Years ended December 31, 2014	2013
Dividend yield	0.0%	0.0%
Expected volatility	48.5%	48.4%
Risk-free interest rate	0.5%	0.3%
Expected life of AEP awards granted during period	1.7 years	1.8 years
Expected life of MEP awards granted during period	1.7 years	1.8 years
Expected life of MIP awards granted during period	1.7 years	1.8 years

As stock-based compensation expense is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. The accounting standard requires forfeitures to be estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates.

The Company's stock-based compensation awards have certain characteristics that are significantly different from traded awards. Changes in the subjective assumptions can materially affect the estimated value, therefore in management's opinion, the Black-Scholes pricing model may not provide an accurate measure of the fair value of the Company's stock-based compensation awards. Although the fair value of stock-based compensation was determined in accordance with the accounting standard using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

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 year ended December 31, 2014 and 2013, respectively.

AEP Units that are unallocated or forfeited can be redistributed to an existing AEP participant or other employee upon the recommendation of the Chief Executive Officer if, and to the extent, the recipient in such transfer is acceptable to the Board of Directors. Any redistribution of AEP units would be considered a new grant under the terms of the AEP.

Summary activity related to the AEP during the years ended December 31, 2014 and 2013 is presented below:

AEP Units in thousands	
Outstanding at January 1, 2013	597
Granted	233
Forfeited/cancelled	(122)
Outstanding at December 31, 2013	708
Granted	214
Forfeited/cancelled	(50)
Outstanding at December 31, 2014	872

Additional Information about AEP Units	**For the Years Ended December 31, 2014**	**2013**
Weighted average fair value per AEP Unit	$ 3.81	$ 9.67

As of December 31, 2014 and 2013, total unrecognized compensation cost related to outstanding AEP Units was $3.3 million and $6.8 million based on the fair value of the AEP Units at those respective dates. The compensation cost recognized, if any, will be based on the fair value of the AEP Units at the time the liquidity event occurs. Certain AEP Unit forfeitures are determined upon the occurrence of a liquidity event. Given that the timing of a liquidity event cannot be predicted, the portion of vested and forfeited shares has yet to be determined. In these instances the full amount of AEP Units was included in the outstanding amount as of December 31, 2014.

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, as described above.

MEP Units that are unallocated or forfeited can be redistributed to an existing MEP participant or other employee upon the recommendation of the Chief Executive Officer if, and to the extent, the recipient in such transfer is acceptable to the Board of Directors. Any redistribution of MEP Units would be considered a new distribution under the terms of the MEP.

Summary activity related to the MEP during the years ended December 31, 2014 and 2013 is presented below:

MEP Units in thousands	
Outstanding at January 1, 2013	794
Granted	80
Vested	79
Forfeited/cancelled	(198)
Outstanding at December 31, 2013	755
Granted	88
Forfeited/cancelled	(161)
Outstanding at December 31, 2014	682

Additional Information about MEP Units	**For the Years Ended December 31,**	
In millions, except per share amounts	**2014**	**2013**
Fair value of MEP Units	$ 15.25	$ 38.68
Total compensation expense for MEP Units	$ 3.3	$ 9.0

The following table represents a summary of vested and non-vested MEP Units:

	As of December 31,	
	2014	**2013**
Vested units	408	239
Non-vested units	274	516
Outstanding	682	755

The Company accounts for MEP Units as liability awards. The Company recorded liabilities of $12.6 million and $13.6 million for its outstanding MEP Units as a component of accrued expenses and other current liabilities in the Consolidated Balance Sheets at December 31, 2014 and 2013, respectively. The MEP Units are remeasured to fair value on an annual basis. The Company recognized $5.5 million as a reduction of general and administrative expenses in the Consolidated Statements of Operations during 2014 as a result of the decline in the fair value of the MEP Units between periods.

Total unrecognized compensation cost related to the outstanding MEP Units was $3.6 million and $15.6 million at of December 31, 2014 and 2013, respectively. The unrecognized compensation cost is expected to be recognized over a weighted average period of 3.6 years. There are 318 thousand MEP Units available for future grant at December 31, 2014.

Management Incentive Plan

The MIP allows for the issuance of units ("MIP Units") to employees for common stock and PECs of the Company's Parent. The Company's Parent is authorized to grant up to 3.0 million MIP Units under the Plan, representing 0.3% of the common stock and 0.4% of the PECs in the Company's Parent. MIP Units are granted at the allocable fair market value of a share of stock or PECs on the date of grant and vest upon a liquidity event, as such no share-based compensation has been recognized for the MIP Units during year ended December 31, 2014 and 2013, respectively.

Summary activity related to the AEP during the years ended December 31, 2014 and 2013 is presented below:

MIP Units in thousands	
Outstanding at January 1, 2013	2,424
Granted	—
Forfeited/cancelled	(292)
Outstanding at December 31, 2013	2,132
Granted	—
Forfeited/cancelled	(15)
Outstanding at December 31, 2014	2,117

Additional Information about MIP Units	**For the Years Ended December 31,**	
In millions, except per share amounts	**2014**	**2013**
Weighted average grant date fair value of MIP Units granted	$ 2.87	$ 3.16

Total unrecognized compensation cost related to MIP Units granted was $6.1 million and $6.7 million as of December 31, 2014 and 2013, respectively, and is expected to be recognized when a liquidity event occurs. Certain MIP Unit forfeitures are determined upon the occurrence of a liquidity event. Given that the timing of a liquidity event cannot be predicted, the portion of vested and forfeited shares has yet to be determined. In these instances the full amount of MIP Units was included in the outstanding amount as of December 31, 2014.

16. Fair Value Measurements

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

The Company's financial instruments and the methods used to determine fair value consist of the following:

- Cash and cash equivalents, receivables, accounts payable and certain accrued expenses – Carrying amounts approximate fair value due to the short-term maturities of these assets and liabilities.

- Preferred equity certificates – Carrying amounts approximate fair value due to the holders' ability to redeem the instruments at face value at issuance.

To increase consistency and comparability in fair value measures, the accounting standard relating to fair value measurements established a three-level fair value hierarchy to prioritize inputs used in valuation techniques between observable inputs that

reflect quoted prices in actives markets, inputs other than quoted market prices with observable market data, and unobservable data (e.g., the Company's own data). The guidance requires disclosures detailing the extent to which companies measure assets and liabilities at fair value, the methods and assumptions used to measure fair value and the effect of fair value measurements on earnings. Accordingly, the Company has applied the following valuation techniques to measure fair value:

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

Level 2 - Significant other observable inputs (e.g., quoted prices for similar items in active markets, quoted prices for identical or similar items in markets that are not active, inputs other than quoted prices that are observable such as interest rate and yield curves, and market-corroborated inputs)

Level 3 - Unobservable inputs in which there is a little or no market data, which require the reporting entity to develop its own assumptions

The following tables summarize those financial assets and liabilities measured at fair value on a recurring basis as of:

(in millions of $)		**Recurring Fair Value Measurements**		
December 31, 2014	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Marketable securities	**$ 0.9**	$ 0.9	$ —	$ —
Liabilities:				
Contingent consideration associated with acquisitions	**$ 1.3**	$ —	$ —	$ 1.3
December 31, 2013				
Liabilities:				
Contingent consideration associated with acquisitions	**$ 1.3**	$ —	$ —	$ 1.3

In accordance with the accounting guidance related to business combinations, contingent consideration is recognized at fair value at the end of each reporting period. Subsequent changes in the fair value of contingent consideration are recorded in the Consolidated Statements of Operations. The aforementioned contingent consideration is calculated using a discounted cash flow technique. Level 3 unobservable inputs include probability assessments of the respective acquisitions achieving the targeted performance metrics, as outlined in the acquisition agreements. For the year ended December 31, 2014, no adjustments to the initial estimates were required. There were no transfers between the levels of the fair value hierarchy or any additional activity other than the initial recognition of the contingent consideration.

The Company has not elected to carry its long-term debt at fair value. The carrying value of long-term debt represents amortized cost. Based on quoted market prices and current interest rates offered for similar debt at December 31, 2014 and 2013, the Company estimates that the fair value of its Secured Notes approximated $362.9 million and $412.3 million and the Senior Notes approximated $1,047.5 million and $1,088.6 million, respectively. The Company estimates that its long-term debt under the Credit Facilities Agreement, based on quoted market prices and current interest rates offered for similar debt, approximates fair value. The fair values of the Secured Notes, Senior Notes and long-term debt under the Credit Facilities Agreement are categorized as Level 2 financial liabilities. Please refer to Note 12– Long - Term Debt for the carrying values of the individual components of the Company's Long-term debt.

There were no other financial assets or financial liabilities measured at fair value on a recurring basis as of December 31, 2014.

17. Commitments and Contingencies

Operating Leases

Future minimum rental commitments under all non-cancelable operating leases, primarily real estate, in effect as of December 31, 2014 were:

For the Years Ending December 31,		
2015	$	18.8
2016		11.8
2017		7.9
2018		3.6
2019		2.2
Thereafter		1.0
Total	**$**	**45.3**

Certain lease agreements, primarily for real estate, contain renewal options and rent escalation clauses. Operating lease rental expense was $25.0 million and $26.4 million for the years ended December 31, 2014 and 2013, respectively.

Purchase Commitments

The Company has minimum purchase commitments for materials, supplies and services through 2018 as part of the normal course of business. As of December 31, 2014 the cumulative amount of these commitments was approximately $55.1 million**.**

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 legal 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 Consolidated Balance Sheets and to record a corresponding charge, which could be significant in amount. There are various lawsuits, claims, proceedings and investigations which are currently pending involving the Company.

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

The Company believes that it has adequately accrued for all legal matters or, for matters not requiring accrual, believes that it will not have a material adverse impact on the results of operations, financial position or cash flows based on information currently available. However, litigation is inherently unpredictable and, although the Company believes that its accruals are adequate and/or that it has valid defenses in these matters, unfavorable resolutions could occur, which could materially and adversely impact the Company's results of operations or cash flows in a particular reporting period. In addition, based on the information available currently, the Company does not believe that any of these proceedings and claims would have a material adverse effect on its business, results of operations, financial condition and/or liquidity. Changes to legal proceedings that were disclosed in the 2013 Annual Report have not had a significant impact to the financial statements through the year ended December 31, 2014.

FDA Regulations

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

As a medical device manufacturer, the Company is required to register its facilities and list its products with the FDA. In addition, the Company is required to comply with the FDA's current good manufacturing practices for medical devices, known as the Quality System Regulation, ("QSR"), which requires that its devices be manufactured and records be maintained in a prescribed manner with respect to design and development, manufacturing, testing and control activities. The Company's manufacturing facilities are subject to periodic and occasional unannounced inspections by the FDA for compliance with the QSR. 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 Unomedical A/S's, a ConvaTec company, Osted, Denmark facility. 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 and the Company was able to close and verify one observation at the closing meeting. Unomedical carefully reviewed the Form FDA-483 observations and submitted a written response to the FDA which identified the actions being taken to address the FDA's observations. In March 2015 the Company received a letter from the FDA indicating they were satisfied with its responses to the inspectional observations and that no further regulatory action was justified. They also stated they would follow up at their next scheduled inspection to ensure these were corrected and verified.

On June 24, 2014, the FDA issued a Warning Letter to Unomedical, a ConvaTec company, resulting from an inspection of the Michalovce, Slovakia manufacturing plant in February 2014. The Warning Letter identified certain violations of FDA regulations relating to manufacturing processes and controls at the facility. Following the February 2014 inspection, the Company took prompt action to correct the violations the FDA had identified, and provided updates, including documented evidence of corrective actions, to the FDA in April and June 2014. The Company held a follow-up meeting with the Foreign Inspections office of the FDA in September 2014 during which the Foreign Inspections office confirmed that it had no further questions. The Company is still in the process of refining and further improving its corrective actions. The Company hosted

a follow up inspection from the FDA in January 2015.

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 the quality system to address the FDA's concerns. For example, the Company has employed resources at its Greensboro site for complaint handling and at the Deeside Design Center in the U.K. for its R&D activities. The Company continues to engage third-party consultants to assist in the implementation of remediation plans to effectively implement its corrective actions, and continues to work closely and cooperatively with the FDA. As agreed with the FDA, consultant led certification audits were completed in December 2014 and submitted to the FDA. The Company was able to demonstrate significant progress in its remediation efforts.

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

Recalls

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

The Company has been in the past, and continues to be, subject to various product liability lawsuits, product recalls and requirements to issue field corrections related to its products due to manufacturing deficiencies, labeling errors or other safety or regulatory reasons. In July 2014, the Company announced the initiation of a voluntary global recall of its Flexi-Seal® CONTROL Fecal Management System as a result of the potential risk of harm associated with inconsistent performance of the product and certain related regulatory issues. The FDA classified this recall as a Class I recall, reflecting a determination that exposure to the device carries a reasonable probability of serious adverse health consequences, including death. The Company is working to finalize completion of all actions committed to the FDA in connection with the recall and have requested that the FDA formally close the recall. The Company is awaiting a response from the FDA. The Company recorded expenses associated with this recall of $6.0 million in cost of goods sold in the accompanying Consolidated Statements of Operations. In October 2014, the Company became aware of an issue with its NicoFix Securement device and decided to carry out a voluntary recall of affected lots which is currently underway.

The circumstances that lead to recalls, as well as similar occurrences in the future, may be the subject of product liability claims due to allegations that use of the Company's products resulted in adverse health consequences. For example, in June 2013, Medtronic MiniMed, Inc. ("Medtronic"), issued a recall of certain infusion sets, including the Quick-Set® and Silhouette® infusion sets, which include P-Cap connectors designed by Medtronic and manufactured for Medtronic by Unomedical A/S for use with Medtronic insulin infusion pumps in diabetes care. Medtronic issued this recall due to a potential safety issue that can occur if insulin or other fluids come in contact with the inside of the tubing/P-Cap connector. This recall has resulted in new pending or threatened litigation against various Unomedical and ConvaTec entities (the latter of which had no involvement in the manufacture or sale of infusion sets). These lawsuits allege that the infusion sets are defective and have caused injuries or death to various plaintiffs. All of these cases also include claims against Medtronic, and allegations that their insulin pumps (which Unomedical does not make or sell) are defective. To the best of the Company's knowledge, as of April 27, 2015, approximately 11 product liability lawsuits had been filed. ConvaTec has sent a demand to Medtronic seeking indemnification for these lawsuits consistent with the terms of the agreements between them. To date, Medtronic has rejected

this demand. The Company also carries product liability insurance, subject to a self-insured retention, and have notified the insurance carrier about these lawsuits. The lawsuits are all in their infancy, and at this stage the Company is unable to predict the likelihood of an unfavorable outcome or estimate any potential loss.

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

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

180 Medical, along with multiple manufacturers and suppliers in the ostomy care, wound care, and continence/urology care markets, also informally received a copy of an unsealed, amended qui tam False Claims Act Complaint filed in U.S. District Court for the District of Massachusetts on November 20, 2014. The amended complaint originates with a qui tam action filed by current and former Coloplast employees. The amended complaint generally alleges improper marketing and business practices of manufacturers and suppliers in the ostomy care, wound care, and continence/urology care markets, and seeks to recover treble damages sustained by, and civil penalties and restitution owed to, the U.S. as a result of allegedly illegal kickback schemes, illegal telephone solicitation campaigns, and deceptive sales campaigns designed to defraud Medicare to pay for medically unnecessary products and fraudulent billing schemes. There also are claims against four defendants, but not 180 Medical, for similar conduct related to the State of California's Medicaid program.

While 180 Medical is a named defendant in the amended complaint, ConvaTec is not a named party. All parties in the amended complaint have agreed, and the Court has ordered, that service of the amended complaint is stayed until May 19, 2015, to allow the government and qui tam relators' counsel an opportunity to conduct additional investigation and have discussions with the various defendants.

The Company is unable to predict what action, if any, might be taken in the future by the USAO against either the Company, its subsidiary, or its employees as a result of the matters that are the subject of the investigation, or the outcome of the qui tam action filed in the U.S. District Court of Massachusetts. In the event the Company's operations are found to be violative of an applicable civil or criminal statute, the Company may be subject to civil and/or criminal fines and penalties, including possible exclusion from federal healthcare programs, and/or be required to enter into a corporate integrity or other settlement agreement with the government, any of which could have a material effect on its business. Because the USAO investigation is ongoing and in the early stages, the Company cannot reasonably estimate a range of possible losses.

Theft of Patient Data Litigation / HIPAA Matters

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

In March 2015, the Employee Defendants turned over information and documents during the course of discovery in the pending lawsuit, which for the first time disclosed a related breach circumstance of which the Company was previously unaware. The documents evidence that in May 2014, a current employee violated law and Company policies by emailing a spreadsheet

containing 14,121 rows of patient data to the Employee Defendants, after they were hired by the competitor. The Company is analyzing the additional data set in order to identify the uniquely affected individuals, and expect to timely update OCR about these recent developments, and to send additional notifications to individuals as required by law.

The Company understands that in other data breach situations, OCR has imposed fines and penalties and/or corrective action plans, following OCR post-breach investigations and compliance reviews. Because the OCR investigation is ongoing and in the early stages, the Company cannot reasonably estimate a range of possible losses or state whether the investigation will result in a finding that Symbius failed to comply with applicable provisions of the Privacy and Security Rule, and/or the Breach Notification Rule, and/or a formal enforcement action that results in the imposition of civil monetary penalties.

During the fourth quarter of 2014, the Company reviewed for impairment its indefinite-lived trade names and specific definite-lived intangible assets recorded in connection with the Symbius acquisition due to the loss of patients as a result of alleged violation of non-compete clauses by certain former employees. An additional $4.3 million impairment was recognized in relation to Symbius' contracts and customer relationships, non-compete and trade name as a result of the alleged violation of non-compete clauses by certain former employees. Refer to Note 11 - Other Intangible Assets for additional discussion.

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 ("EPA"), 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 December 31, 2014, 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 probably that a liability will be incurred and the amount of loss can be reasonably estimated. These matters involve intellectual property, commercial, or environmental, health and safety matters.

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

18. Subsequent Events

The Company has evaluated subsequent events through April 27, 2015, the date the financial statements were approved by the board of directors.

The Company is initiating 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, but may expand to additional countries, including the U.S., depending on the outcome of the Company's continued investigation and ongoing discussions with regulatory authorities and marketing and distribution partners in jurisdictions where the affected devices are currently in commerce. Unomedical A/S is initiating 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 is low, Unomedical A/S is commencing the recall following discussions with regulatory authorities in Germany. 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.