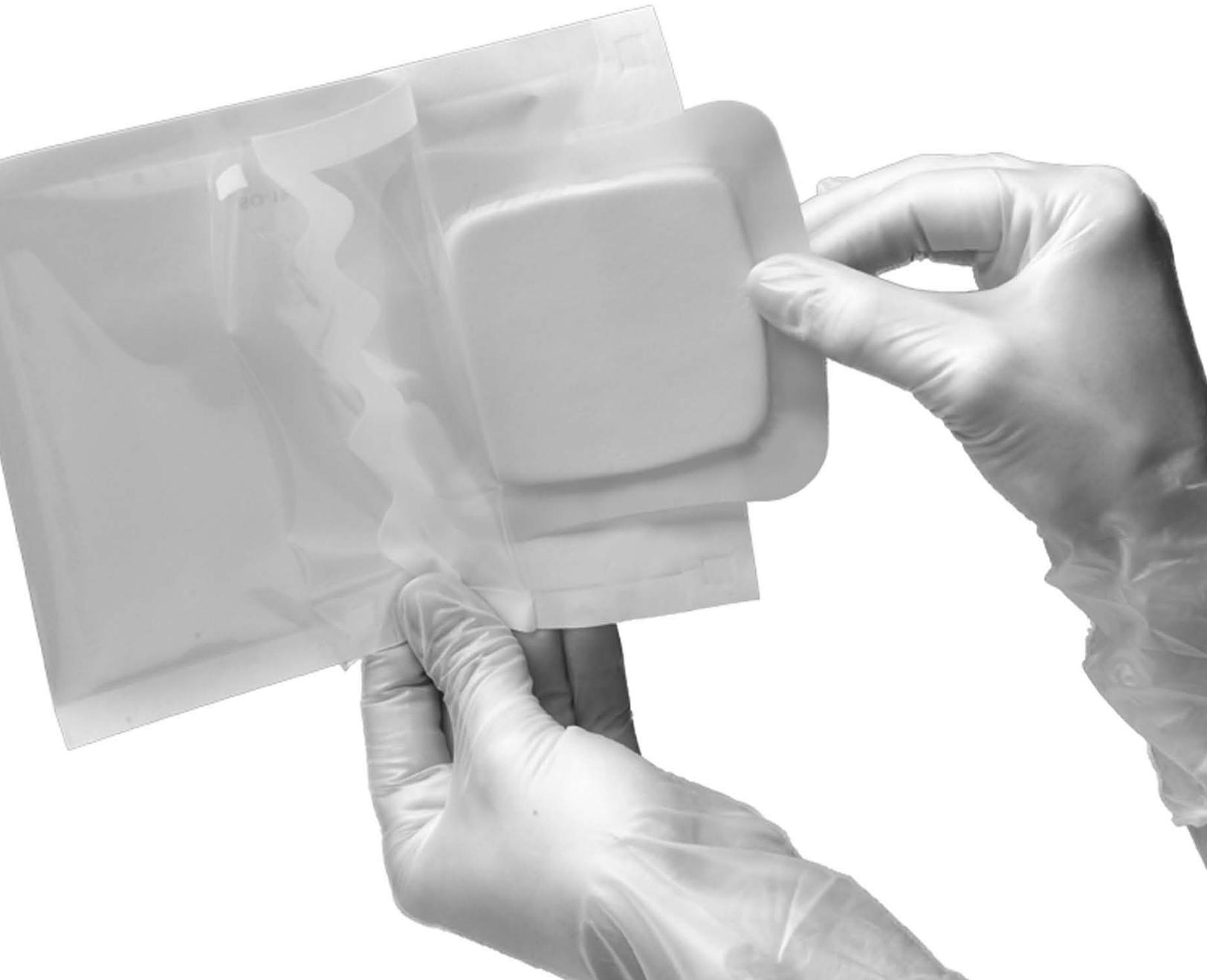


Financial Results

First Quarter 2013



Making a Difference in People's Lives

ConvaTec



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Risk factors

Investing in our Company involves risk. You should carefully consider the discussion of risk factors beginning on page 38 of our Annual Report for the year ended December 31, 2012, which is available on our website. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results. There have been no material changes to these risk factors.

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 Condensed Consolidated Financial Statements and related notes beginning on page F-1 of this report. For additional context with which to understand our financial condition and results of operations, see the MD&A beginning on page 10 of our Annual Report for the year ended December 31, 2012, as well as the Consolidated Financial Statements and related notes contained therein (the "2012 Annual Report"). The 2012 Annual Report is available on our website.

Forward-looking statements

This MD&A and other sections of this report contain "forward-looking statements" as defined by the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. These statements include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of financial resources. These forward-looking statements may include, without limitation, statements regarding: the impact of global and local operating economic conditions on our financial results; the anticipated effect of a new tax on medical devices; 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 consider the disclosure of risk factors beginning on page 38 of the 2012 Annual Report along with page 2 of this Quarterly Report for a discussion of some of these risks and uncertainties.

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.

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.

Wound Therapeutics. Our Wound Therapeutics franchise includes advanced wound dressings and professional 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.

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 continence (urinary and bowel) issues related to spinal cord injuries, multiple sclerosis, spina bifida, aging 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 (e.g., Parkinson’s disease). In addition, the franchise supplies a range of products to hospitals and the home healthcare sector.

Key factors influencing our results of operations

Our results of operations have been, can be or will be affected by the following factors.

The economic environment and regulatory reform

Our results of operations are affected not only by global economic conditions but also by local operating and economic conditions, which can vary substantially by market. Certain macroeconomic events, such as adverse conditions in the global economy, can have a more wide-ranging and prolonged impact on the general business environment and thus materially and adversely affects us.

The healthcare industry is subject to various government-imposed regulations and cost containment programs, which could have far reaching impacts on our business. 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 a slow recovery from the global recession and government austerity programs, healthcare reforms have been accelerated in an effort to reduce overall healthcare spending. As a result, there has been an increased emphasis on primary care and prevention as well as technologies that improve health outcomes, cost effectiveness and the efficiency of care. Payment incentives that reward “quality of care” rather than “quantity of care” are becoming more common.

In the United States, 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. 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 group purchasing organization (“GPO”) pricing pressures. Some of these impacts, like GPO pricing, are spread over several years due to multi-year contracts.

The ACA has also imposed a 2.3% excise tax on medical device manufacturer’s domestic sales beginning January 1, 2013. Many of ConvaTec’s products meet the “retail exemption” requirements of 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 Social Security Act. We have determined the ostomy products category is included in the proposed IRS Safe Harbor regulations and is thereby also excluded from the tax.

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.

Sovereign debt issues and healthcare reform 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 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 potential impact of the 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. New products and support programs will enhance our value proposition to customers in 2013 and further improve our competitive position.

For further information regarding the potential impact of healthcare reform on our business, please refer to “Risk Factors”.

Innovation and new products

Our business strategy includes development of innovative products that address unmet customer needs and differentiate us from our competitors. In addition to new product development, our Global Research and Development (“R&D”) team strives to optimize the life cycles of innovative products in our existing portfolio by enhancing features and leveraging technologies across our franchises. Looking forward, we remain committed to producing a pipeline of innovative products to continue to support our growth strategies and may supplement our internal development efforts with targeted scouting initiatives for innovative late stage or developed products in the relevant areas of our business where we see opportunities for accelerating commercial growth. Our investment expense in R&D during the three months ended March 31, 2013 and 2012 was \$6.3 million and \$10.2 million, or 1.7% and 2.7% of sales, respectively. The split of our R&D expense by franchise changes over time dependent on the quantity, type and stage of development of projects in the pipeline.

International and foreign exchange

We market our products in more than 100 countries and have 11 manufacturing operations located in eight countries throughout the world. 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.

Acquisitions

We may selectively pursue complementary acquisitions that will allow us to expand our scope and scale to further enhance our offering to our customers.

On September 28, 2012, we acquired all of the capital stock of 180 Medical Holdings, Inc. (“180 Medical”), a leading U.S. distributor of disposable, intermittent urological catheters, for a net cash purchase price of \$319.1 million. Of the consideration paid, \$31.6 million was placed in escrow, primarily to satisfy potential future indemnity obligations. The acquisition strengthens our position in the fast-growing intermittent self-catheterization market.

On June 1, 2012, we acquired all of the capital stock of a U.K.-based company that specializes in accessory products for ostomy care patients for a net cash purchase price of \$10.9 million and funded \$0.8 million of contingency escrows. The acquisition enhances our portfolio of ostomy care products.

On May 1, 2012, we acquired all of the capital stock of a U.S.-based company that specializes in products for the critical care marketplace and complements our Continence and Critical Care business. We acquired this U.S.-based company for a net cash purchase price of \$6.5 million, inclusive of \$0.5 million of contingent consideration. Additionally, we funded \$0.5 million of indemnity escrows.

On March 1, 2012, we acquired all of the capital stock of a U.K.-based company that specializes in the home delivery of prescribable ostomy care and continence devices. The acquisition complements our existing home delivery services business. We acquired this U.K.-based company for a net cash purchase price of \$34.0 million and funded \$0.3 million of indemnity escrows.

The operating results of each of the respective acquired entities have been included in our consolidated results from the date they were acquired. Refer to Note 3 – Acquisitions, in our March 31, 2013 Condensed Consolidated Financial Statements, included herein for further details.

Seasonality

The end-use of our products are generally not seasonal in nature because ostomy appliances, 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.

Results of operations

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

(in millions of \$)	For the Three Months ended	
	March 31, 2013	March 31, 2012
Net sales ⁽¹⁾	\$376.4	\$371.1
Cost of goods sold	175.0	174.6
Gross profit	201.4	196.5
Selling and marketing expenses	86.7	97.0
General and administrative expenses	50.8	51.1
Research and development expenses	6.3	10.2
Operating income	57.6	38.2
Interest expense	111.5	106.4
Foreign exchange (gain) loss	(7.6)	5.0
Other income, net	(1.0)	-
Loss before income taxes	(45.3)	(73.2)
Provision for income taxes	2.6	4.7
Net loss	(\$47.9)	(\$77.9)

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

Net sales and Operations

Comparison of the three months ended March 31, 2013 and March 31, 2012

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 historical net sales by franchise for the three months ended March 31,

2013 and 2012. 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. 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 third quarter of 2012, we modified our management and reporting of our CCC 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 CCC franchise are now included in our Infusion Devices franchise. For comparability purposes, we have reclassified similar amounts for the prior period presented. For the three months ended March 31, 2012, \$3.1 million has been reclassified from CCC to Infusion Devices.

(in millions of \$)	Three Months ended March 31,		Percentage change	
	2013	2012	As reported	At constant exchange rate
Net sales by franchise				
Ostomy Care	\$ 139.5	\$ 137.0	1.8%	2.8%
Wound Therapeutics	117.3	116.7	0.5%	1.4%
Continence & Critical Care	68.6	49.5	38.6%	39.0%
Infusion Devices	51.0	67.9	-24.9%	-25.0%
Total net sales	\$ 376.4	\$ 371.1	1.4%	2.1%

Ostomy Care net sales

Net sales in our Ostomy Care franchise for the three months ended March 31, 2013 were \$139.5 million, an increase of \$2.5 million, or approximately 1.8%, from \$137.0 million for the three months ended March 31, 2012. At a constant exchange rate, Ostomy Care net sales increased 2.8% due primarily to incremental sales from companies acquired in the U.K. and growth in emerging markets. This was partially offset by a decrease due to timing of orders.

Wound Therapeutics net sales

Net sales in our Wound Therapeutics franchise for the three months ended March 31, 2013 were \$117.3 million, an increase of \$0.6 million, or approximately 0.5%, from \$116.7 million for the three months ended March 31, 2012. At a constant exchange rate, Wound Therapeutics net sales increased 1.4%. The increase in net sales was primarily related to sales growth in Europe, fueled primarily by new products, as well as growth across emerging markets. Increases in net sales were partially offset by a decrease due to timing of orders.

Continence & Critical Care net sales

Net sales in our CCC franchise for three months ended March 31, 2013 were \$68.6 million, an increase of \$19.1 million, or approximately 38.6%, from \$49.5 million for the three months ended March 31, 2012. At a constant exchange rate, CCC net sales increased 39.0%. The increase in net sales was primarily related to incremental net sales from U.S.-based acquisitions. Net sales growth was partially offset by a decrease in net sales in connection with the May 31, 2012 sale of the Electrodes business.

Infusion Devices net sales

Net sales in our Infusion Devices franchise, previously referred to as Infusion Devices/Industrial Sales, for the three months ended March 31, 2013 were \$51.0 million, a decrease of \$16.9 million, or approximately 24.9%, from \$67.9 million for the three months ended March 31, 2012. At a constant exchange rate, Infusion Devices net sales decreased 25.0% primarily due to purchase of safety stock by a customer in the first quarter of 2012, coupled with inventory destocking in the first quarter of 2013 by the same customer.

Costs and expenses

The following is a summary of costs and expenses.

(in millions of \$)	Three Months ended March 31,		Percentage of net sales		
	2013	2012	2013	2012	
Operating costs and expenses:					
Cost of goods sold	\$ 175.0	\$ 174.6	46.5%	47.0%	
Selling and marketing	86.7	97.0	23.0%	26.1%	
General and administrative	50.8	51.1	13.5%	13.8%	
Research and development	6.3	10.2	1.7%	2.7%	
Total operating costs and expenses	\$ 318.8	\$ 332.9	84.7%	89.7%	
Other costs and net expenses:					
Interest expense	\$ 111.5	\$ 106.4			
Foreign exchange (gain) loss	(7.6)	5.0			
Other income, net	(1.0)	-			
Provision for income taxes	2.6	4.7			

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 three months ended March 31, 2013 was \$175.0 million, an increase of \$0.4 million from \$174.6 million for the three months ended March 31, 2012. As a percentage of net sales, Cost of goods sold decreased to 46.5% for the three months ended March 31, 2013 from 47.0% for the year ended three months ended March 31, 2012.

Gross profit (Net sales less Cost of goods sold) increased \$4.9 million, or 2.5%, for the quarter and gross profit margin (Gross profit as a percentage of Net sales) was 53.5% in the three months ended March 31, 2013 as compared with 53.0% for the three months ended March 31, 2012. Gross profit margin excluding impacts from amortization of certain intangible assets and certain non-recurring costs for the three months ended March 31, 2013 was 62.2%, as compared with 62.0% in the same prior year period. The improved gross profit margin is primarily related to manufacturing productivity resulting from increased production volumes, favorable product mix and benefits realized from executed cost savings initiatives and optimization efforts. These items were partially offset by pricing pressures.

Selling and marketing

Selling and marketing expenses consisted of advertising, promotion, marketing, sales force, and distribution costs. Selling and marketing expenses were \$86.7 million and \$97.0 million for the three months ended March 31, 2013 and 2012, respectively. As a percentage of net sales, Selling and marketing expenses were 23.0% for the three months ended March 31, 2013 as compared to 26.1% for the three months ended March 31, 2012. At a constant exchange rate, Selling and marketing expenses decreased \$9.5 million primarily due to benefits realized from executed cost savings and productivity initiatives. These decreases were partially offset by incremental expenses from companies acquired in 2012.

General and administrative expenses

General and administrative (“G&A”) expenses consisted of executive management, human resources, finance, information management, legal, facilities and other costs. G&A expenses for the three months ended March 31, 2013 were \$50.8 million, a decrease of \$0.3 million, or approximately 0.6%, from \$51.1 million for the three months ended March 31, 2012. As a percentage of net sales, G&A expenses were 13.5% for the three months ended March 31, 2013, compared to 13.8% for the three months ended March 31, 2012. At a constant exchange rate, G&A expenses remained consistent with the prior year. Incremental expenses from acquired companies were offset by benefits realized from cost savings and productivity initiatives.

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 three months ended March 31, 2013 were \$6.3 million, a decrease of \$3.9 million from \$10.2 million for the three months ended March 31, 2012. As a percentage of net sales, R&D expenses were 1.7% for the three months ended March 31, 2013, compared to 2.7% for the three months ended March 31, 2012. At a constant exchange rate, R&D expenses decreased \$3.7 million. Decreases in spending for the three months ended March 31, 2013, compared to the same prior year period, were primarily related to benefits realized from executed cost savings and productivity initiatives. R&D spending reflects a mix of internal development efforts and in-sourcing initiatives. Internal development efforts may also include life cycle management of our existing technologies and products to maximize the value of our strategic brands.

Other costs and net expenses

Interest expense

Our Interest expense for the three months ended March 31, 2013 was \$111.5 million, an increase of \$5.1 million from \$106.4 million for the three months ended March 31, 2012. The compounding effect of accrued PEC dividends resulted in a year over year increase in interest expense of \$3.7 million. Additionally, we incurred \$3.8 million of incremental interest expense in connection with the \$300.0 million of additional borrowings used to finance the acquisition of 180 Medical in the third quarter of 2012. These increases were partially offset by lower interest rates on our term loans as a result of the refinancing transactions completed during the third and fourth quarters of 2012.

Foreign exchange (gain) loss

Foreign exchange (gain) 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 a transacting company subsidiary. For the three months ended March 31, 2013, the foreign exchange gain amounted to \$7.6 million compared to a foreign exchange loss of \$5.0 million during the three months ended March 31, 2012. The foreign exchange activity during both comparative periods was primarily driven by intercompany activities, including loans transacted in non-functional currencies.

Other income, net

Other (income) expense represents gains and losses on transactions that are non-operating in nature, including any (gains)/losses on the sale of businesses or long-lived assets. Other income, net for the three months ended March 31, 2013 was \$1.0 million, while Other income, net for the three months ended March 31, 2012 was nominal. The gain recorded during the three months ended March 31, 2013 related to proceeds received as a result of the demutualization of an insurance company that previously provided insurance coverage for potential product liabilities.

Provision for income taxes

The Provision for income taxes for the three months ended March 31, 2013 was \$2.6 million on a pre-tax loss of \$45.3 million. Comparatively, during the three months ended March 31, 2012, we recorded an income tax provision of \$4.7 million on a pre-tax loss of \$73.2 million. Overall, the decline in the provision for income taxes was driven by a change in profit mix among jurisdictions carrying varying tax rates. Although there was a significant decline in the pre-tax loss when comparing the two periods, the decline in the loss was primarily concentrated in the U.S. where we record a full valuation allowance against income tax benefits identified. Consequently, there is no corresponding increase in the income tax provision.

Net loss

As a result of the above, net loss decreased \$30.0 million to a net loss of \$47.9 million for the three months ended March 31, 2013, compared to a net loss of \$77.9 million for the three months ended March 31, 2012.

EBITDA and Adjusted EBITDA

We believe that EBITDA (“Earnings before Interest, Taxes, Depreciation and Amortization”) and Adjusted EBITDA (Adjusted to exclude income and expense items that are non-recurring in nature) 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 recurring 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) earnings for the respective period before (benefit) provision for income taxes, other expense (income), net, foreign exchange (gain) loss, interest expense, 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 considered by management to be non-recurring in nature and other non-cash and unusual items. Any such excluded costs or gains in deriving Adjusted EBITDA are considered by management to not be reflective of the on-going performance of the business. EBITDA and Adjusted EBITDA are not measurements of financial performance under GAAP, are not audited and should not replace measures of liquidity or operating profit that are derived in accordance with GAAP. The following table reconciles net loss to EBITDA and provides a further reconciliation of EBITDA to Adjusted EBITDA for the three months ended March 31, 2013 and 2012.

(in millions of \$)	Three Months Ended March 31,	
	2013	2012
Net loss	\$ (47.9)	\$ (77.9)
Provision for income taxes	2.6	4.7
Other income, net	(1.0)	-
Foreign exchange (gain) loss	(7.6)	5.0
Interest expense	111.5	106.4
Depreciation and amortization	46.9	44.1
EBITDA	\$ 104.5	\$ 82.3
Adjustments:		
Integration-related costs ^(a)	-	0.4
Other ^(b)	3.8	5.9
Total adjustments	3.8	6.3
Realized foreign exchange gain (loss)	0.3	(0.4)
Adjusted EBITDA ⁽¹⁾	\$ 108.6	\$ 88.2

(a) Represents costs incurred that are related to the integration of Unomedical, primarily systems related.

(b) Represents transactions/items that are non-recurring or unusual in nature and are not reflective of the normal operating performance in the business. Such activity is excluded from EBITDA to derive Adjusted EBITDA, which is our profit measure. Amounts in 2013 and 2012 include, but are not limited to, the following expense or income items: (i) transaction costs in connection with business development and financing activities, (ii) restructuring expenses and (iii) asset impairments.

(1) In September 2011, we acquired Latin American distributor BMD. Until the value of BMD acquired inventory was sold through to third party customers, our profit margin on the sale of inventory was lower than the normal margin on inventory sales. The BMD acquired inventory was sold through by the end of the first quarter of 2012. The gross margins recognized on acquired inventory from the acquisition date through the end of the first quarter 2012 reflect the spread between the price we sold to BMD as an intermediary distributor and the consumer sales price. Accordingly, the gross profit and EBITDA in 2012 were lower than a normal profit margin on inventory sales by \$3.7 million. Beginning in the second quarter of 2012, the gross margins on inventory sales reflected the spread between our manufactured cost and the consumer sales price.

Liquidity and capital resources

As of March 31, 2013 and December 31, 2012, our cash and cash equivalents were \$170.2 million and \$129.4 million, respectively. Additionally, as of March 31, 2013, we had \$249.5 million of availability under the Revolving Credit Facility. We believe that our business has strong cash flow generation characteristics. Our strengths include the recurring, non-discretionary nature of our products, our diverse product offering and geographic footprint, and our strong market positions 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.

Historically, the non-elective nature of our product offerings has resulted in significant recurring cash inflows. A principal use of our operating cash has been to make interest payments on our long-term debt. For the three months ended March 31, 2013 and 2012, we generated net cash flows from operating activities, net of interest payments, of \$54.0 million and \$38.8 million, respectively. Total interest payments were \$19.3 million and \$18.0 million for the three months ended March 31, 2013 and 2012, respectively.

Financing and Financing Capacity

Our long term debt consists of Secured Notes and Senior Notes and the Credit Facilities Agreement (the “Credit Facilities”), as amended during the third quarter of 2012. As of March 31, 2013, we had total debt outstanding, excluding capital leases and other obligations, of \$2,910.8 million, net of \$5.8 million of unamortized original issue discount.

As of March 31, 2013, borrowings outstanding under the Secured Notes, due 2017, were EUR 300.0 million (\$384.6 million) and borrowings outstanding under the Senior Notes, due 2018, were \$745.0 million and EUR 250.0 million (\$320.5 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, 2015.

The Credit Facilities consist 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”).

The Term Loan Facilities are comprised of \$500.0 million and \$300.0 million term loans and a EUR 550.0 million term loan. Total borrowings outstanding under the Term Loan Facilities denominated in U.S. Dollars and Euros are \$784.0 million and EUR 532.4 million (\$682.5 million), respectively as of March 31, 2013. 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. In addition, the \$500.0 million and EUR 550.0 million term loan facilities are subject to a 1% prepayment premium of the aggregate principal amount, if any voluntary repayments or prepayments occur prior to September 28, 2012 and November 6, 2013, respectively, to refinance, replace or substitute all or a portion of the term loans with indebtedness having a lower effective yield. The Term Loan Facilities will 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 March 31, 2013. Letters of credit outstanding under the Revolving Credit Facility totaled approximately \$0.5 million. As of March 31, 2013, we had \$249.5 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 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 Loans Facilities by more than 0.50%, then the yield on the Term Loan Facilities will automatically increase such that the yield on the Incremental Term Facilities shall be 0.50% below the yield on the Term Loan Facilities. There were no amounts funded or drawn under the amended Incremental Term Facilities as of March 31, 2013.

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 2013 and 2012, we made mandatory prepayments of \$45.0 million and \$23.9 million, respectively, for excess cash retained in the business. Both the 2013 and 2012 mandatory prepayments were applied against the remaining quarterly installments due under the 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.

Borrowings under the Credit Facilities Agreement bear interest at either a Euro (EURIBOR) or U.S. Dollar (LIBOR) base rate, or Alternate Base Rate (“ABR”). EURIBOR interest is associated with the EUR borrowings; LIBOR interest is associated with U.S. Dollar borrowings, while ABR, EURIBOR or LIBOR interest rates may apply to outstanding borrowings under the Revolving Credit Facility. ABR, as defined 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%. Interest rates are subject to an initial margin of 3.25% and a floor of 2.75% per annum on ABR borrowings. EURIBOR borrowings are subject to an initial margin of 4.00% and a floor of 1.25%. Prior to the refinancing transaction completed on November 6, 2012, EURIBOR borrowings were subject to an initial margin of 4.25% and a floor ranging from 1.5% to 1.75. Interest rates on LIBOR borrowings are subject to an initial margin of 3.75% and a floor of 1.25%. Prior to the refinancing transaction completed on September 28, 2012, LIBOR borrowings were subject to an initial margin of 4.25% and a floor of 1.5%. The margin on all loans may decrease based upon decreases in our leverage ratio. Our borrowing arrangements contain a number of financial and non-financial covenants. We were in compliance with all covenants as of March 31, 2013.

Cash flows

The following table sets forth consolidated cash flow data for the three months ended March 31, 2013 and 2012:

(in millions of \$)	For the Three Months ended March 31,	
	2013	2012
Net cash provided by operating activities	\$ 54.0	\$ 38.8
Net cash used in investing activities	(6.6)	(45.6)
Net cash used in financing activities	-	(4.0)
Effect of exchange rate changes on cash and cash equivalents	(6.6)	2.1
Net change in cash and cash equivalents	40.8	(8.7)
Cash and cash equivalents at beginning of period	129.4	81.5
Cash and cash equivalents at end of period	\$ 170.2	\$ 72.8
Supplemental cash flow information		
Income taxes paid	\$ 6.2	\$ 0.8
Interest paid	\$ 19.3	\$ 18.0

Cash flows from operating activities

Net cash provided by operating activities was \$54.0 million and \$38.8 million for the three months ended March 31, 2013 and 2012, respectively. The \$15.2 million increase in our operating cash flow was driven by increased cash generated from operations, partially offset by increased inventory build due to timing of customer demand.

Cash flows from investing activities

For the three months ended March 31, 2013 and 2012, net cash used in investing activities was \$6.6 million and \$45.6 million, respectively. The decrease in cash used in investing activities was primarily due to the fact that we did not have any acquisitions during the first quarter of 2013. Comparatively, during the first quarter of 2012, we acquired a U.K. based company for \$34.3 million. In addition, timing of capital expenditures also contributed to the quarter over quarter decrease.

Cash flows from financing activities

There was no cash provided by or used in financing activities for the year three months ended March 31, 2013, compared to \$4.0 million of net cash used in financing activities during the comparative prior year period. During the first quarter of 2012, we made the quarterly installment payments due under our term loan facilities. No such installment payments were due in the first quarter of 2013.

Contingent liabilities

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” in our 2012 Annual Report for further discussion. Changes to Legal Proceedings that were disclosed in the 2012 Annual Report have not had a significant impact to the financial statements through March 31, 2013.

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 March 31, 2013, 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” in our 2012 Annual Report for further discussion. There have not been significant changes to the environmental matters as of March 31, 2013.

Contractual obligations

We are obligated to make future payments under various contracts such as debt agreements (including scheduled cash interest payments), operating lease agreements, and unconditional purchase obligations. A discussion of these contractual obligations is included in the 2012 Annual Report. There have not been significant changes to these contractual obligations as of March 31, 2013.

Capital expenditures

Our capital expenditures were \$7.1 million for the three months ended March 31, 2013.

For the twelve month period ending December 31, 2013, we estimate our capital expenditures to be approximately \$42.0 million, which primarily relate to productivity improvements, capacity expansion, quality and compliance initiatives, and new product development. The remaining expenditures will include routine plant and facility enhancements.

Critical accounting policies

Critical 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. See Note 2 – Significant Accounting Policies, included in our 2012 Annual Report, for the critical accounting policies that we believe requires subjective and/or complex judgments and that may have an impact on the financial statements, including the periods reported herein. The most significant assumptions are employed in estimates used in acquisition purchase price allocations, determining values of intangible assets, restructuring charges and accruals, sales rebates, chargebacks and return accruals, legal contingencies, tax assets and tax liabilities, stock-based compensation costs, retirement and postretirement benefits (including the actuarial assumptions), as well as in estimates used in applying our revenue recognition policy. There have been no significant changes to the accounting policies disclosed in our December 31, 2012 Audited Consolidated Financial Statements contained within the 2012 Annual Report nor has there been any change to our assessment of which accounting policies would be considered critical accounting policies.

Quantitative and qualitative disclosure about market risk

We are, in the normal course of business, exposed to a variety of market risk, 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. A discussion and analysis of our market risk is included in the 2012 Annual Report. There have been no significant changes to these market risks as of March 31, 2013. See the Economic Environment and Regulatory Reform section shown earlier in this report for further discussion.

Glossary

AQUACEL®.....	ConvaTec advanced wound dressing, utilizing Hydrofiber Technology
AQUACEL Ag.....	ConvaTec silver-based antimicrobial advanced wound dressing, utilizing Hydrofiber Technology
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
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
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
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 exudates
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®, AQUACEL Ag, and Versiva® XC® products
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
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
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

Versiva® XC®..... ConvaTec proprietary “gelling” foam wound dressing utilizing Hydrofiber Technology

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

	March 31, 2013	December 31, 2012
Assets		
Current Assets:		
Cash and cash equivalents	\$ 170.2	\$ 129.4
Receivables, net of allowances of \$21.1 in 2013 and \$35.2 in 2012	256.2	285.1
Inventories, net	220.1	207.9
Prepaid expenses and other current assets	84.6	76.6
Total Current Assets	731.1	699.0
Property, plant and equipment, net of accumulated depreciation of \$213.6 in 2013 and \$212.7 in 2012	288.6	302.9
Goodwill	1,111.0	1,127.8
Other intangible assets, net	2,151.7	2,235.9
Other assets	129.4	129.7
Total Assets	\$ 4,411.8	\$ 4,495.3
Liabilities and Stockholder's Deficit		
Current Liabilities:		
Accounts payable	\$ 94.5	\$ 89.8
Short-term portion of long-term debt	45.2	45.2
Accrued expenses and other current liabilities	189.9	191.3
Total Current Liabilities	329.6	326.3
Long-term debt	2,866.0	2,906.1
Mandatorily redeemable preferred equity certificates	1,653.2	1,701.5
Deferred income taxes	269.4	276.7
Accrued preferred equity certificates interest	1,075.5	1,052.8
Other liabilities	89.1	88.6
Total Liabilities	6,282.8	6,352.0
Commitments and contingencies (Note 15)		
Stockholder's Deficit:		
Preferred stock- EUR 1 (\$1.25) par value as of March 31, 2013 and December 31, 2012; 20,000 shares issued and outstanding at March 31, 2013 and December 31, 2012	-	-
Common stock- EUR 1 (\$1.25) par value as of March 31, 2013 and December 31, 2012; 112,157,883 shares issued and outstanding at March 31, 2013 and December 31, 2012	140.7	140.7
Retained deficit	(2,241.6)	(2,193.7)
Accumulated other comprehensive income (net of tax)	229.9	196.3
Total Stockholder's Deficit	(1,871.0)	(1,856.7)
Total Liabilities and Stockholder's Deficit	\$ 4,411.8	\$ 4,495.3

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

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

	For the Three Months Ended March 31, 2013		For the Three Months Ended March 31, 2012
Net sales	\$ 376.4	\$	371.1
Cost of goods sold	175.0		174.6
Gross profit	201.4		196.5
Selling and marketing expenses	86.7		97.0
General and administrative expenses	50.8		51.1
Research and development expenses	6.3		10.2
Operating income	57.6		38.2
Interest expense	111.5		106.4
Foreign exchange (gain) loss	(7.6)		5.0
Other income, net	(1.0)		-
Loss before income taxes	(45.3)		(73.2)
Provision for income taxes	2.6		4.7
Net loss	\$ (47.9)	\$	(77.9)

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

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

	For the Three Months Ended March 31, 2013	For the Three Months Ended March 31, 2012
Cash flows from operating activities:		
Net loss	\$ (47.9)	\$ (77.9)
Charges to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	46.9	44.1
Non-cash interest expense	54.0	50.3
Change in operating assets and liabilities, net of businesses acquired:		
Receivables, net	21.2	15.6
Inventories, net	(20.4)	(4.1)
Accounts payable and other accrued expenses	(25.3)	(31.6)
Accrued interest	35.8	36.1
Income taxes	(3.6)	3.9
Other, net	(6.7)	2.4
Net cash provided by operating activities	54.0	38.8
Cash flows from investing activities:		
Purchase of business, net of cash acquired	-	(34.3)
Additions to property, plant and equipment and capitalized software	(7.1)	(11.5)
Other investing activities, net	0.5	0.2
Net cash used in investing activities	(6.6)	(45.6)
Cash flows from financing activities:		
Debt borrowings from third parties	-	0.6
Debt repayments to third parties	-	(4.6)
Net cash used in financing activities	-	(4.0)
Effect of exchange rate changes on cash and cash equivalents	(6.6)	2.1
Net change in cash and cash equivalents	40.8	(8.7)
Cash and cash equivalents at beginning of the period	129.4	81.5
Cash and cash equivalents at end of the period	\$ 170.2	\$ 72.8
Supplemental cash flow information		
Income taxes paid	\$ 6.2	\$ 0.8
Interest paid	\$ 19.3	\$ 18.0

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

ConvaTec Healthcare B S.a.r.l. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation and Business Description

Basis of Presentation

These Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). These financial statements should be read in conjunction with the Company’s Audited Consolidated Financial Statements contained in the 2012 Annual Report for the fiscal year ended December 31, 2012.

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®, Versiva® XC®, Flexi-Seal®, and Unomedical. These products are marketed worldwide, primarily to hospitals, medical professionals, and medical suppliers. The Company relies on an internal sales force, and sales are made through various distributors around the world. The Company manufactures these products in the United States (“U.S.”), the United Kingdom (“U.K.”), the Dominican Republic, Denmark, Slovakia, Mexico, Belarus, and Malaysia.

2. Significant Accounting Policies

Basis of Consolidation

Critical 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. Presented within the section entitled “Significant Accounting Policies” of the Company’s 2012 Audited Consolidated Financial Statements contained in the 2012 Annual Report are the Company’s critical accounting policies that the Company believes require subjective and/or complex judgments that may have an impact on the financial statements, including the periods reported herein. Such critical accounting policies include revenue recognition, sales rebates, chargebacks and returns, inventory valuation, goodwill and other indefinite-lived intangible assets, impairment of long-lived assets, income taxes, foreign currency translation and transactions, and loss contingencies. There have been no significant changes to the accounting policies disclosed in the December 31, 2012 Audited Consolidated Financial Statements nor has there been any change to the Company’s assessment of which accounting policies would be considered critical accounting policies.

Recently Issued Accounting Standards

In March 2013, the FASB (“Financial Accounting Standards Board”) 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 Condensed Consolidated Financial Statements.

ConvaTec Healthcare B S.a.r.l. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

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 Condensed 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 is not expected to have a material impact on the Company's Condensed Consolidated Financial Statements.

3. Acquisitions

In accordance with the Company's business strategy to selectively pursue strategic and complementary acquisitions, the Company has acquired the businesses, as described below. The acquisitions are included in the Condensed Consolidated Financial Statements from the respective acquisition dates. Since the acquisitions were not material individually or in the aggregate, the Company has not presented pro forma results of operations for periods prior to the acquisitions.

On September 28, 2012, the Company acquired all of the capital stock of 180 Medical Holdings, Inc. ("180 Medical"), a leading U.S. distributor of disposable, intermittent urological catheters. 180 Medical has a distinctive business model that emphasizes quality service, support and passion for patients. The acquisition strengthens the Company's position in the fast-growing intermittent self-catheterization market. The Company purchased 180 Medical for a net cash purchase price of \$319.1 million, inclusive of \$31.6 million funded into escrow primarily to satisfy potential future indemnity obligations. To fund the acquisition, the Company borrowed \$300.0 million of the availability under the Incremental Term Loans. The preliminary purchase price allocation of the aforementioned acquisition, as disclosed in our 2012 Annual Report, is subject to revisions as additional information is obtained about the facts and circumstances that existed as of the acquisition date. Such revisions may have an impact on the Condensed Consolidated Financial Statements

On June 1, 2012, the Company acquired all of the capital stock of a U.K.-based company that specializes in accessory products for ostomy care patients for a net cash purchase price of \$10.9 million and funded \$0.8 million of contingency escrows. The acquisition enhances the Company's portfolio of ostomy care products.

On May 1, 2012, the Company acquired all of the capital stock of a U.S.-based company that specializes in products for the critical care marketplace and complements the Company's Continence and Critical Care business. The Company acquired this U.S.-based company for a net cash purchase price of \$6.5 million, inclusive of \$0.5 million of contingent consideration. Additionally, the Company funded \$0.5 million of indemnity escrows.

On March 1, 2012, the Company acquired all of the capital stock of a U.K.-based company that specializes in the home delivery of prescribable ostomy care and continence devices for a net cash purchase price of \$34.0 million and funded \$0.3 million of indemnity escrows. The acquisition complements the Company's existing home delivery services business.

ConvaTec Healthcare B S.a.r.l. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

During the first quarter of 2013, the Company finalized the purchase accounting associated with the acquisitions that occurred in the first two quarters of 2012, and there was no impact to the Condensed Consolidated Financial Statements.

Acquisition Escrows

Pursuant to the acquisition agreements related to the above transactions, the Company has funded various 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. At March 31, 2013 and December 31, 2012, the current portion of the escrows amounted to \$15.5 million, and the noncurrent portion amounted to \$16.1 million. The current and noncurrent portions of the escrows have been included in Prepaid expenses and other current assets and Other assets, respectively, in the accompanying Condensed Consolidated Balance Sheets. Correspondingly, as of March 31, 2013 and December 31, 2012, Accrued expenses and other current liabilities and Other liabilities contain \$15.5 million and \$16.1 million, respectively, of payments due to the sellers of the acquisitions, assuming no pre-acquisition indemnity claims arise subsequent to the respective acquisition dates. Lastly, as of March 31, 2013 and December 31, 2012, \$4.3 million is included in Prepaid expenses and other current assets and noncurrent Other liabilities, primarily as a result of claims made against the amount held in escrow to fund potential tax obligations that are subject to indemnification under the 2011 BMD acquisition agreement.

4. Divestitures

On May 31, 2012, the Company completed the sale of its Electrodes business for total consideration of \$4.9 million. Of the total consideration, \$0.8 million remains in escrow for settlement of potential future indemnity claims. This amount is expected to be released to the Company in the second quarter of 2013.

5. 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. The accompanying Condensed Consolidated Balance Sheets include a receivable from the Parent recorded in Other assets in the amount of \$16.9 million and \$16.5 million as of March 31, 2013 and December 31, 2012, respectively.

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 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 the option of Cidron Healthcare Limited. As of March 31, 2013 and as of December 31, 2012, the total outstanding loan amount of \$5.0 million is recorded as equal and offsetting amounts within Stockholder’s equity. See Note 13 – Employee Stock Benefit Plans for further discussion regarding the Management Equity Plan.

6. Restructuring

During the three months ended March 31, 2013, the Company recorded pre-tax charges of \$1.1 million for business restructuring activities.

During the first quarter of 2013, the Company recorded pre-tax charges of \$0.6 million in termination benefits for involuntary workforce reductions, as a result of transferring certain manufacturing functions from one manufacturing facility to a lower cost location. These costs were recorded in General and administrative expenses in the Condensed Consolidated Statements of Operations. The Company has completed this restructuring action as of the end of the first quarter 2013, and as a result, there will be no further costs incurred.

As disclosed in the 2012 Annual Report, the Company initiated a restructuring action at the end of the second quarter 2012 to reduce its overall cost structure, further enhance productivity and increase profitability. The Company incurred \$24.3

ConvaTec Healthcare B S.a.r.l. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

million in costs by the end of 2012, primarily relating to employee involuntary termination benefits and other employee separation costs. The Company will have recorded all remaining charges by the end of the second quarter 2013, none of which are expected to be significant. For the three months ended March 31, 2013, the total costs incurred specifically relating to this action were \$0.5 million, and were recorded in General and administrative expenses in the Condensed Consolidated Statements of Operations.

Roll-forward

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

		Employee Termination Liability
Balance at January 1, 2013	\$	5.5
Charges		1.2
Spending		(4.6)
Changes in estimate		(0.1)
Balance at March 31, 2013	\$	2.0

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

7. Income Taxes

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 local tax authorities. Accordingly, the Company must determine the appropriate allocation of income to each of these jurisdictions based on current interpretations of complex income tax regulations.

The Company's effective tax rate for each of the three months ended March 31, 2013 and 2012 was (5.7)% and (6.4)%, respectively. The effective rates during the 2013 and 2012 comparative periods deviated from the U.S. Statutory rate of 35.0% primarily as a result of unfavorable permanent adjustments for valuation allowances recorded in connection with deferred tax assets principally in Luxembourg, the U.S. and the U.K. that are not likely to be realized.

The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers projected future taxable income and tax planning strategies in making this assessment. At present, the Company does not have a sufficient history of income to conclude that it is more-likely-than-not that the Company will be able to realize all of its tax benefits in the near future. Accordingly, the Company has increased its valuation allowance by \$6.7 million since December 31, 2012. A valuation allowance will be maintained until sufficient positive evidence exists to support the reversal of any portion or all of the valuation.

As of March 31, 2013, the total amount of the liability for unrecognized tax benefits was \$49.8 million along with \$4.8 million of accrued interest and penalties. As of December 31, 2012, the liability for unrecognized tax benefits was \$48.9 million along with \$4.8 million of accrued interest and penalties.

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8. Inventories

The major categories of inventories follow:

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Finished goods	\$ 147.4	\$ 139.3
Work in process	25.2	23.6
Raw and packaging materials	47.5	45.0
Inventories, net	<u>\$ 220.1</u>	<u>\$ 207.9</u>

9. 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:

	<u>Total</u>
Balance as of January 1, 2013	\$ 1,127.8
Changes in foreign exchange rates	<u>(16.8)</u>
Balance as of March 31, 2013	<u>\$ 1,111.0</u>

Goodwill is tested for impairment using a two-step process on an annual basis or more frequently if events or changes in circumstances indicate that a potential impairment may exist. The Company performs its annual goodwill impairment test in the fourth quarter of each year. There were no events or changes in circumstances in the first three months of 2013 leading to an additional impairment test.

10. Other Intangible Assets

As of March 31, 2013 and December 31, 2012, other intangible assets consisted of the following:

<u>March 31, 2013</u>	<u>Weighted Average Useful Life</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Amortized Intangible Assets:				
Patents, Trademarks, and Licenses	18 years	\$ 1,985.0	\$ (510.4)	\$ 1,474.6
Technology	17 years	238.9	(61.8)	177.1
Capitalized Software	8 years	77.3	(40.4)	36.9
Contracts and customer relationships	16 years	242.5	(38.7)	203.8
Non-compete agreement	5 years	3.5	(0.5)	3.0
Trade Names	10 years	4.8	(0.2)	4.6
Unamortized Intangible Assets:				
Trade Names		<u>251.7</u>	<u>-</u>	<u>251.7</u>
Total intangibles assets		<u>\$ 2,803.7</u>	<u>\$ (652.0)</u>	<u>\$ 2,151.7</u>

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December 31, 2012	Weighted Average Useful Life	Cost	Accumulated Amortization	Net
Amortized Intangible Assets:				
Patents, Trademarks, and Licenses	18 years	\$ 2,030.1	(493.6)	1,536.5
Technology	17 years	250.8	(61.0)	189.8
Capitalized Software	8 years	77.4	(37.7)	39.7
Contracts and customer relationships	16 years	245.6	(35.7)	209.9
Non-compete agreement	5 years	3.5	(0.4)	3.1
Trade Names	10 years	4.8	(0.1)	4.7
Unamortized Intangible Assets:				
Trade Names		<u>252.2</u>	<u>-</u>	<u>252.2</u>
Total intangibles assets		<u>\$ 2,864.4</u>	<u>\$ (628.5)</u>	<u>\$ 2,235.9</u>

Foreign currency translation, primarily related to intangible assets denominated in the British pound sterling, resulted in a decrease in the gross carrying amount of intangible assets of \$60.7 million for the three months ended March 31, 2013. Amortization expense for intangible assets for the three months ended March 31, 2013 and 2012 was \$38.6 million and \$35.7 million, respectively.

11. Long – Term Debt

The table below depicts the total obligation outstanding for each component of Long – term debt as of March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Credit Facilities Agreement:		
Term Loan Facilities	\$ 1,466.5	\$ 1,486.4
Original Issue Discount ("OID")	(5.8)	(6.1)
Credit Facilities, net of discount	<u>1,460.7</u>	<u>1,480.3</u>
7.375% Secured Notes	384.6	395.8
10.5% U.S. Dollar Senior Notes	745.0	745.0
10.875% Euro Senior Notes	320.5	329.8
Capital Lease Obligations	<u>0.4</u>	<u>0.4</u>
Total Debt	2,911.2	2,951.3
Less: Current Portion of Long-Term Debt	<u>(45.2)</u>	<u>(45.2)</u>
Total Long-Term Debt	<u>\$ 2,866.0</u>	<u>\$ 2,906.1</u>

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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”).

The Term Loan Facilities are comprised of \$500.0 million and \$300.0 million term loans and a EUR 550.0 million term loan. On September 28, 2012, the Company completed the refinancing of \$484.0 million in outstanding borrowings under the \$500.0 million U.S. Dollar term loan facility. The offering price of the refinanced \$484.0 million was 99.75%, after adjustment for an original issue discount (“OID”). Similarly, on November 6, 2012, the Company completed the refinancing of EUR 532.0 million in outstanding borrowings under the EUR 550.0 million term loan facility. The offering price of the refinanced EURO term loan facility was 99.75%, after adjustment for an OID. The term loans 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. In addition, the refinanced U.S. Dollar and EURO term loan facilities are subject to a 1% prepayment premium of the aggregate principal amount, if any voluntary repayments or prepayments occur prior to September 28, 2012 and November 6, 2013, respectively, to refinance, replace or substitute all or a portion of the term loans with indebtedness having a lower effective yield. Total borrowings outstanding under the Term Loan Facilities denominated in U.S. Dollars and Euros are \$784.0 million and EUR 532.4 million (\$682.5 million) at March 31, 2013 and \$784.0 million and EUR 532.4 million (\$702.4 million) at December 31, 2012. The Term Loan Facilities will 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 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 at March 31, 2013 or December 31, 2012. Letters of credit outstanding under the revolving credit facility totaled \$0.5 million at both March 31, 2013 and December 31, 2012. Availability under the Revolving Credit Facility, after deducting both the outstanding letters of credit and amounts withdrawn, total \$249.5 million as of both March 31, 2013 and December 31, 2012.

OID is being amortized to interest expense, using the effective interest method, over the terms of the related outstanding borrowings. During the three months March 31, 2013 and 2012, total amortization expense relating to OID was \$0.3 million and \$0.4 million, respectively.

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 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 Loans Facilities by more than 0.50%, then the yield on the Term Loan Facilities will automatically increase such that the yield on the Incremental Term Facilities shall be 0.50% below the yield on the Term Loan Facilities. There were no amounts funded or drawn under the amended Incremental Term Facilities as of March 31, 2013.

Borrowings under the Credit Facilities Agreement bear interest at either a Euro (EURIBOR) or U.S. Dollar (LIBOR) base rate, or Alternate Base Rate (“ABR”). EURIBOR interest is associated with the EUR borrowings, LIBOR interest is associated with U.S. Dollar borrowings, while ABR, EURIBOR and LIBOR interest rates may apply to the outstanding borrowings under the Revolving Credit Facility. ABR, as defined 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%. Interest rates are subject to an initial margin of 3.25% and a floor of 2.75% per annum on ABR borrowings. EURIBOR borrowings are subject to an initial margin of 4.00% and a floor of 1.25%. Prior to the refinancing on

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November 6, 2012, EURIBOR borrowings were subject to an initial margin of 4.25% and a floor ranging from 1.5% to 1.75%. Interest rates on LIBOR borrowings are subject to an initial margin of 3.75% and a floor of 1.25%. Prior to the refinancing on September 28, 2012, LIBOR borrowings were subject to an initial margin of 4.25% and a floor of 1.5%. The margin on all term loans may decrease depending on the Company's leverage ratio. The Credit Facilities Agreement requires the Company to pay commitment fees equal to 0.75%, quarterly in arrears, on the available but unused commitments under the Revolving Credit Facility. Commitment fees would apply from the initial date of the lender's commitment notice up to maturity. The Revolving Credit commitment may be used for cash borrowings or the issuance of letters of credit/guarantees. The Company pays a fronting fee to the letter of credit issuing bank in the amount of 0.25% of the notional amount of the letter of credit, payable in arrears.

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 2013 and 2012, the Company made mandatory prepayments of \$45.0 million and \$23.9 million, respectively, for excess cash retained in the business. Both the 2013 and 2012 mandatory prepayments were applied against the remaining quarterly installments due under the 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.

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 EUR 300.0 million (\$384.6 million at March 31, 2013 and \$395.8 million at December 31, 2012) senior secured notes (the "Secured Notes") due December 15, 2017. Borrowings outstanding under the Secured Notes were EUR 300.0 million (\$384.6 million as of March 31, 2013 and \$395.8 million as of December 31, 2012). 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 EUR 250.0 million (\$320.5 million at March 31, 2013 and \$329.8 million at December 31, 2012) 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 EUR 250.0 million (\$320.5 million at March 31, 2013 and \$329.8 million at December 31, 2012). 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 Secured 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, 2015. 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.

In connection with the issuance of all of the aforementioned borrowings, the Company incurred fees totaling \$63.5 million, which have been capitalized as deferred financing fees. Deferred financing fees are included in Other assets in the

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accompanying Condensed 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 \$2.1 million and \$1.6 million during the three months ended March 31, 2013 and 2012, respectively.

Accrued interest related to the Company's outstanding debt obligations was \$43.3 million and \$8.0 million as of March 31, 2013 and December 31, 2012, respectively, and is recorded in Accrued expenses and other current liabilities. Interest expense for the three months ended March 31, 2013 and 2012, associated with the Credit Facilities, Secured Notes and Senior Notes, was \$55.3 million and \$54.0 million, respectively. The weighted average interest rate for borrowings under the Company's outstanding debt obligations was 7.5% for the three months ended March 31, 2013 and 7.9% for the three months ended March 31, 2012.

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 March 31, 2013.

The aggregate maturities of debt obligations as of March 31, 2013 are as follows:

Years Ending December 31,	
2013	45.2
2014	0.1
2015	0.1
2016	1,421.5
2017	384.6
Thereafter	1,065.5
Total	<u>\$ 2,917.0</u>

12. 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 EUR 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 a dividend equivalent ranging from approximately 7% to 9% of the par value per annum on a cumulative basis. PEC dividends accrue monthly and compound on an annual basis. Total dividends accrued at March 31, 2013 and December 31, 2012 amounted to \$1,075.5 million and \$1,052.8 million, respectively, which are separately classified as Accrued preferred equity certificates interest in the accompanying Condensed Consolidated Balance Sheets. Total dividends expensed during the three months ended March 31, 2013 and 2012 were \$54.0 million and \$50.3 million, respectively, which were classified as Interest expense in the accompanying Condensed Consolidated Statements of Operations. The variance between the cumulative balances of accrued dividends and cumulative dividends 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

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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.

13. 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"). Also, certain of our employees are able to purchase MEP Units at more than a 5% discount off of the estimated fair value as of the purchase date. Additional information regarding these plans is provided below.

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.

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 issue 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. Additionally, certain employees are able to purchase MEP units at more than a 5% discount off of the estimated fair value as of the purchase date. The purchased MEP units vest over a specified period of time or upon a liquidity event similar to the granted MEP units.

Management Incentive Plan

The MIP allows for the issuance of units ("MIP Units") to employees for common stock and PEC's 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.

During the three months ended March 31, 2013 there were no AEP, MEP or MIP units granted and approximately 34,000 units purchased at more than a 5% discount off of the estimated fair value as of the purchase date. The Company recognized total compensation expense for all plans of \$0.9 million and \$0.5 million for the three months ended March 31, 2013 and 2012, respectively.

14. 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.

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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 active 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 table summarizes those financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2013:

<u>March 31, 2013</u>	<u>Total</u>	<u>Recurring Fair Value Measurements</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Liabilities:</u>				
Contingent consideration associated with acquisitions	\$ 3.3	\$ -	\$ -	\$ 3.3

In accordance with the accounting guidance related to business combinations, contingent consideration is recognized at fair value at the end of each reporting period. The Company recorded \$1.3 million related to the initial fair value assessment of contingent consideration for certain 2012 acquisitions in Other liabilities on the Condensed Consolidated Balance Sheets. Additionally, \$2.0 million of assumed contingent consideration relating to an acquisition made by 180 Medical is included in Accrued expenses and other current liabilities on the Condensed Consolidated Balance Sheets. Subsequent changes in the fair value of contingent consideration are recorded in the Condensed 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 three months ended March 31, 2013, 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. See Note 3 – Acquisitions for further information regarding 2012 acquisitions.

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 March 31, 2013 and December 31, 2012, the Company estimates that the fair value of its Secured Notes approximated \$412.7 million and \$430.4 million and the Senior Notes approximated \$1,189.5 million and \$1,196.4 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 11 – 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, 2012.

There were no nonrecurring fair value measurements as of March 31, 2013.

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The following table summarizes those assets and liabilities measured at fair value on a non-recurring basis as of December 31 2012:

	Non-recurring Fair Value Measurements				Total Losses
	Total	Level 1	Level 2	Level 3	
December 31, 2012					
Assets:					
Long-lived assets held and used	\$ 2,538.8	\$ -	\$ -	\$ 2,538.8	\$ (4.3)

Non-recurring fair value measurements consist of long-lived assets held and used. Long-lived assets held and used with a carrying amount of \$2,538.8 million as of December 31, 2012 and were written down to their fair values, resulting in impairment charges of \$4.3 million recorded during the fourth quarter of the year ended December 31, 2012. The assets associated with the impairment charges were generally included in Level 3 and primarily related to machinery and equipment assets. Included in the total impairment charges of \$4.3 million were impairment charges of \$3.3 million that were associated with the impairment of specific machinery and equipment assets, resulting from the decision to no longer use such assets in operations.

15. Commitments and Contingencies

Legal Proceedings

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.

In the ordinary course of business, the Company is 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 may be involved as either a plaintiff or defendant in patent infringement actions. If a third party's patent infringement claim were to be determined against the Company, the Company might be required to make significant royalty or other payments or might be subject to an injunction or other limitation on its ability to manufacture or distribute one or more products. If a patent owned by or licensed to the Company were to be determined to be invalid or unenforceable, the Company might be required to reduce the value of the patent on the Company's Condensed Consolidated Balance Sheets and to record a corresponding charge, which could be significant in amount. There are various lawsuits, claims, proceedings and investigations which are currently pending involving the Company.

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 2012 Annual Report have not had a significant impact to the financial statements through the three months ended March 31, 2013.

Environmental Proceedings

The Company is a party to proceedings and other matters under various state, Federal and foreign 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.

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With respect to Environmental matters for which the Company is responsible under various state, Federal and foreign laws, the Company typically estimates potential costs based on information obtained from the U.S. Environmental Protection Agency (EPA), or counterpart state agency 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. There have been no significant changes to the Environmental Proceedings disclosed in the Company’s Audited Consolidated Financial Statements contained in the 2012 Annual Report for the fiscal year ended December 31, 2012.

16. Subsequent Events

The Company has evaluated subsequent events through May 21, 2013, the date the financial statements were available to be issued.