CONVATEC LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

Registered number: 01309639

ConvaTec Limited

Contents

ConvaTec Limited

Strategic report

The directors, in preparing this Strategic report, have complied with s414C of the Companies Act 2006.

Review of business and principle risks and uncertainties

The company's principal activities are the manufacturing and marketing of ostomy, incontinence, wound care and skin care products. The company will continue to manufacture ostomy, incontinence, wound care and skin care products for the medical market and seek ways to improve the current range of products and increase patient benefit. The principal risk and uncertainty that the business faces is increased competition in the sector, and in the future, the company's performance will be affected by the developments in the health care market and government policies.

In the UK, decentralisation 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.

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 2016 and further improve our competitive position.

Within the UK market, manufacturing and commercial activities are reported separately, however key KPI's such as sales per sector, gross profit, operating profit, debtor and creditor days are monitored on a monthly, quarterly and annual basis for each reporting sector.

Key performance indicators and future developments

Turnover decreased by £641k to £150,248k (2014: £150,889k), being a 0.42% reduction over the prior year. The profit for the year after taxation was £34,586k (2014: £49,689k).

The balance sheet of the financial statements shows that the company's financial position at the year-end has improved in net asset terms by £34,586k to £389,680k due to the retained profit for the year.

Whilst turnover decreased by 0.42% in the year, gross margin saw a decrease of 7.6%. This is a reflection of a combination of adverse manufacturing variances, coupled with the non-recurrence of a large one off royalty payment credit in 2014 to reflect a general reduction in the royalties payable. R&D spending in the year ended 31 December 2015 included a focus on the life cycle management of our existing technologies and products to maximise the value of our strategic brands, alongside increased spend on new technologies which we consider to be technological advances. Moving forward ConvaTec remains committed to producing a pipeline of innovative products to continue to support our growth strategies.

Details of significant events since the balance sheet date are contained in note 21 to the financial statements.

Approved and signed on behalf of the Board

S J Lewis
Director
19 July 2016

GDC First Avenue
Deeside Industrial Park
Deeside
Flintshire
CH5 2NU

ConvaTec Limited

Directors' report

The directors present their annual report on the affairs of the company, together with the financial statements and auditor's report, for the year ended 31 December 2015.

The company's business activities and events after the balance sheet date, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on page 1.

Research and development

During the year, research and development has been aimed at improving and filling the gaps in our current product range. The company believes that it will be able to develop and market new products in the future as a result of its research and development activities. Total expenditure on research and development during the year was £10,083k gross and £578k net credit after recharges to other group undertakings (2014: £8,394k gross and £148k net debit after recharges to other group undertakings).

Going concern

During 2015 the group refinanced its bank borrowings. These borrowings are due for repayment by ConvaTec Healthcare E S.A., ConvaTec Healthcare B S.ar.l., ConvaTec Inc. and other group companies, in instalments at various dates between 2015 and 2020. The amount of borrowing outstanding for the ConvaTec group of companies at 31 December 2015 was approximately $2.6 billion and is subject to the group meeting certain covenants. This is secured against certain companies within the group, including ConvaTec Limited and its subsidiaries. If the group were to default on repayments in the future, this could threaten the ability of the company to continue as a going concern. However, the management of ConvaTec Limited and the group believe that the group will generate sufficient operating cash flows to cover all debt repayments as they fall due.

Having considered the company's business activities, principal risks, uncertainties and the current uncertain economic environment, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company continues to generate strong profit and cash flows and expects to continue to do so for the foreseeable future. Thus, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Financial risk management objectives and policies

The company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The use of financial derivatives is governed by the company's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The company does not use derivative financial instruments for speculative purposes.

Cash flow risk

The company is exposed to risks of changes in foreign currency exchange rates and interest rates. In connection with the group's risk management strategy, currency agreements and interest rate agreements are entered into with major financial institutions only for trading purposes to reduce the impact of exchange rate and/or interest rate fluctuations related to debt payments. The company does not trade speculatively.

Credit risk

The company's principal financial assets are bank balances and cash, trade and other receivables, and investments.

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

All investments in group companies are held at cost less any impairment during the year.

Liquidity risk

In order to maintain liquidity and to ensure that sufficient funds are available for ongoing operations and future developments, the company borrows from group companies.

Directors' report (continued)

Directors

The directors who served during the year and to the date of this report, unless otherwise indicated, are as follows:

R Heginbotham	(resigned 1 September 2015)
S J Lewis	
S Cottrill	
A La Regina	(resigned 1 September 2015)
R Barratt	
J Cannon	(resigned 23 March 2015)
S Whitfield	(appointed 27 March 2015)
A Richardson	(appointed 1 September 2015)
F Gehres	(appointed 13 January 2016)

Directors' indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Political contributions

The company has not made any political donations (2014: £nil).

Dividends

The directors did not pay a dividend in the year (2014: £nil).

On 11 May 2016 the company paid a dividend of £258,532k. On 23 June 2016 the company paid a further dividend of £12,000k.

Employee policies

Employment of disabled persons

The company is an equal opportunities employer and gives full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities.

Where people become disabled during the course of their employment, every effort is made to retain their services and to provide retraining, if necessary. All employees are eligible for consideration for appropriate training, career development and promotional opportunities; disabled people are not treated differently in this respect.

Employee involvement

The company attaches importance to the development of employee involvement based on a positive, open and constructive approach.

Consultation on affairs of the business is achieved principally through line management, supplemented by a Safety Committee and also communication meetings held periodically with all employees. The aim is to improve the open management style and to continue to encourage employees at all levels to contribute more fully to the decision making process within the business.

Directors' report (continued)

Auditor

Each of the persons who is a director of the company at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office and accordingly a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approval of reduced disclosures

The company, as a qualifying entity, has taken advantage of the disclosure exemptions in FRS 102 paragraph 1.12. The company's shareholder has been notified in writing about the intention to take advantage of the disclosure exemptions and no objections have been received.

The company also intend to take advantage of these exemptions in the financial statements to be issued in the following year. Objections may be served on the company by ConvaTec Holdings U.K. Limited, as the immediate parent of the entity.

Approved and signed on behalf of the Board

S J Lewis
Director
19 July 2016

GDC First Avenue
Deeside Industrial Park
Deeside
Flintshire
CH5 2NU

ConvaTec Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of ConvaTec Limited

We have audited the financial statements of ConvaTec Limited for the year ended 31 December 2015 which comprise Profit and loss account, Balance sheet, Statement of comprehensive income, Statement of changes in equity and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of the company's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of ConvaTec Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Anthony Farnworth BA (Hons) ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom

19 July 2016

ConvaTec Limited

Profit and loss account
For the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Turnover	3	150,248	150,889
Cost of sales		(94,372)	(83,319)
Gross profit		55,876	67,570
Administrative expenses		(19,969)	(10,654)
Distribution expenses		(12,889)	(12,982)
Operating profit		23,018	43,934
Finance income (net)	4	9,615	6,859
Dividend income from fixed asset investments		-	6
Profit on ordinary activities before taxation	5	32,633	50,799
Tax credit/(charge) on profit on ordinary activities	8	1,953	(1,110)
Profit for the financial year		34,586	49,689

The company has no recognised income or expenses in either year other than the profit for the current and prior year stated above and accordingly no separate statement of comprehensive income has been prepared.

ConvaTec Limited

Balance sheet
At 31 December 2015

	Note	2015 £'000	2014 £'000
Fixed assets			
Intangible assets	9	30,203	33,789
Tangible assets	10	68,979	61,934
Investments	11	-	-
		99,182	95,723
Current assets			
Stocks	12	15,837	18,447
Debtors			
– due within one year	13	283,522	236,189
– due after one year	13	448	-
Cash at bank and in hand		25,937	36,986
		325,744	291,622
Creditors: Amounts falling due within one year	14	(32,627)	(27,185)
Net current assets		293,117	264,437
Total assets less current liabilities		392,299	360,160
Creditors: Amounts falling due after more than one year	15	(447)	(419)
Provisions for liabilities	16	(2,172)	(4,647)
Net assets		389,680	355,094
Capital and reserves			
Called-up share capital	17	81	81
Share premium account		35,784	35,784
Profit and loss account		353,815	319,229
Shareholders' funds		389,680	355,094

The financial statements of ConvaTec Limited (registered number 01309639) were approved by the board of directors and authorised for issue on 19 July 2016. They were signed on its behalf by:

S J Lewis

S J Lewis

Director

ConvaTec Limited

Statement of changes in equity
At 31 December 2015

	Called-up share Capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 31 December 2013 as previously stated	81	35,784	271,537	307,402
Changes on transition to FRS 102 (see note 24)	-	-	(1,997)	(1,997)
At 1 January 2014 as restated	81	35,784	269,540	305,405
Profit for the year	-	-	49,689	49,689
Total comprehensive income	-	-	49,689	49,689
At 31 December 2014	81	35,784	319,229	355,094
Profit for the year	-	-	34,586	34,586
Total comprehensive income	-	-	34,586	34,586
At 31 December 2015	81	35,784	353,815	389,680

Notes to the financial statements
For the year ended 31 December 2015

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

a. General information and basis of accounting

ConvaTec Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the Strategic report on page 1.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The prior year financial statements were restated for material adjustments on adoption of FRS 102 in the current year. For more information see note 24.

The functional currency of ConvaTec Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates. Foreign operations are included in accordance with the policies set out below.

ConvaTec Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to share-based payments, financial instruments, presentation of a cash flow statement and intra-group transactions .

b. Basis of consolidation

The financial statements contain information about ConvaTec Limited as an individual company and do not contain consolidated information as parent of a group. The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements, as it is part of a larger group which prepares consolidated financial statements.

c. Going concern

ConvaTec Limited's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 1 to 2. As detailed within the Directors' report the assets of the company are all secured against the external borrowings of the ConvaTec group. The management of ConvaTec Limited and the group believe that the group will generate sufficient operating cash flows to cover all debt repayments as they fall due.

Having considered these risks and the current uncertain economic environment, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company continues to generate strong profit and cash flows and expects to continue to do so for the foreseeable future. Thus, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

d. Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is 20 years. Provision is made for any impairment.

1. **Accounting policies (continued)**

e. Intangible assets – research and development

Research and development expenditure is written off as incurred.

f. Intangible assets – Technology and software

Separately acquired technology and software are included at cost and amortised in equal annual instalments over a period of 152 months for technology and 60 months for software, which is their estimated useful economic life. Provision is made for any impairment.

Intangible assets acquired as part of a business combination are measured at fair value at the acquisition date.

g. Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Buildings	2% per annum
Short term leasehold interest	over the term of the lease
Plant and machinery	6.25% to 20% per annum
Fittings & fixtures	10% to 33.3% per annum

Assets under construction are not depreciated.

h. Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

(a) Returns to the holder are (i) a fixed amount; or (ii) a fixed rate of return over the life of the instrument; or (iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate; or (iv) some combination of such fixed rate and variable rates, providing that both rates are positive.

(b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

(c) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in relevant taxation or law.

1. Accounting policies (continued)

h. Financial instruments (continued)

(i) Financial assets and liabilities (continued)

(d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

Debt instruments that are classified as payable or receivable within one year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the company, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Investments

Investments are measured at cost less impairment.

(iii) Equity instruments

Equity instruments issued by the company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

i. Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Cost is calculated using the FIFO (first-in, first-out) method. Provision is made for obsolete, slow-moving or defective items where appropriate.

j. Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets
An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the cash-generating units of which the goodwill is a part. Any impairment loss in respect of a CGU is allocated first to the goodwill attached to that CGU, and then to other assets within that CGU on a pro-rata basis.

1. Accounting policies (continued)

j. Impairment of assets (continued)

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. Where a reversal of impairment occurs in respect of a CGU, the reversal is applied first to the assets (other than goodwill) of the CGU on a pro-rata basis and then to any goodwill allocated to that CGU.

Financial assets
For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

k. Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) that is recognised in a business combination is less (more) than the value at which it is recognised, a deferred tax liability (asset) is recognised for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) is recognised for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

1. Accounting policies (continued)

l. Turnover

Turnover is stated net of VAT and trade discounts and is recognised when the significant risks and rewards are considered to have been transferred to the buyer. Turnover is recognised at the point of despatch for intercompany sales and at the point of delivery for third party sales.

m. Employee benefits

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

n. Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

o. Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

p. Government grants

Government grants are recognised based on the accrual model and are measured at the fair value of the asset received or receivable. Grants are classified as relating either to revenue or to assets. Grants relating to revenue are recognised in income over the period in which the related costs are recognised. Grants relating to assets are recognised over the expected useful life of the asset. Where part of a grant relating to an asset is deferred, it is recognised as deferred income.

2. Critical accounting judgments and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 1, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying the accounting policies

The following are the critical judgments, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rate of exchange prevailing at that date. Exchange differences are recognised in the profit and loss in the period in which they arise.

2. Critical accounting judgments and key sources of estimation uncertainty (continued)

Impairment of assets

There are no indicators of impairment of assets; the company is profitable and the assets are generating a positive return.

Slow moving stock impairment

A provision has been made for potential slow moving stock. The provision is based on stock held in excess of quantity of the last 2 years sales.

Key sources of estimation

Recoverability of trade debtors

The company's trade debtor credit limits are reviewed annually and on an as needs basis to ensure the company protects the recoverability of its trade debtors. A provision for potential bad debts is estimated based on the aged profile of the trade debtors ledger.

3. Turnover

An analysis of the turnover by class of business is set out below.

Turnover:	2015 £'000	2014 £'000
Wound therapeutics	93,688	90,043
Ostomy	51,707	54,975
Continence and critical care	4,853	5,871
	150,248	150,889

An analysis of turnover by geographical market is set out below.

	2015 £'000	2014 £'000
United Kingdom	61,947	58,129
Rest of Europe	76,066	81,022
North America	6,209	5,259
Rest of World	6,026	6,479
	150,248	150,889

An analysis of turnover is as follows:

	2015 £'000	2014 £'000
Sale of goods	150,248	150,889

4. Finance income (net)

	2015 £'000	2014 £'000
Interest payable and similar charges	(488)	(469)
Other finance income	10,103	7,328
	9,615	6,859

Interest payable and similar charges

	2015 £'000	2014 £'000
Interest payable to group undertakings	485	462
Amortisation of deferred financing fees	3	7
	488	469

Other finance income

	2015 £'000	2014 £'000
Interest receivable from group undertakings	10,056	7,315
Interest receivable from third parties	47	13
	10,103	7,328

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2015 £'000	2014 £'000
Depreciation of tangible fixed assets (note 10)	4,909	3,906
Impairment of tangible fixed assets	-	1,986
Amortisation of intangible assets (note 9)	569	735
Research and development costs incurred	10,083	8,394
Research and development costs recharged	(10,661)	(8,246)
Amortisation of goodwill (note 9)	3,017	3,017
Government grants	(183)	(210)
Operating lease rentals	1,381	1,429
Foreign exchange loss/(gain)	361	(93)
Cost of stock recognised as an expense	94,372	83,319
Loss on disposal of fixed assets (note 10)	113	887

The company and a competitor Smith & Nephew ("S&N") have engaged in a series of multi-year litigations related to patents concerning various wound care products. In one of these matters, the defendants (including S&N) agreed to not market the product (Durafiber) during the pendency of the litigation provided that in the event the company lost at trial it would pay for the defendants' lost profits. The company lost at trial and on appeal and had until recently been engaged in litigation with the defendants as to the amount of their lost profits. The parties have entered into a confidential settlement agreement in respect of certain aspects of the litigations. The settlement is included in administrative expenses.

The impairment of tangible assets in 2014 arose as a result of a change to the manufacturing strategy at the Rhymney plant.

The impairment of stock arose as a result of slow moving stock, the provision has been based on expected future sales volumes.

Impairments of fixed assets and stocks are included in cost of sales.

£3,017k (2014: £3,017k) of amortisation of intangible assets is included in cost of sales with £569k (2014: £735k) included in administrative expenses.

The analysis of the auditor's remuneration is as follows:

	2015 £'000	2014 £'000
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	99	93
Fees payable to the company's auditor and its associates for other services		
The audit of the company's subsidiaries	-	2
Total audit fees	99	95

No services were provided pursuant to contingent fee and there were no fees paid to the company's auditor for non-audit services.

6. Staff numbers and costs

The average monthly number of employees (including executive directors) was:

	2015 Number	2014 Number
Production	450	438
Sales	99	98
Administration	266	224
	815	760

Their aggregate remuneration comprised:

	2015 £'000	2014 £'000
Wages and salaries	31,204	26,876
Social security costs	3,964	3,232
Other pension costs (see note 19)	1,831	1,561
Termination payments	421	366
	37,420	32,035

'Other pension costs' includes only those items included within operating costs.

7. Directors' remuneration and transactions

	2015 £'000	2014 £'000
Directors' remuneration		
Emoluments	908	958
Company contributions to money purchase pension schemes	75	98
	983	1,056

	Number	Number
The number of directors who:		
Are members of a money purchase pension scheme	6	4

	2015 £'000	2014 £'000
Remuneration of the highest paid director:		
Emoluments	174	279
Company contributions to money purchase schemes	18	-

The highest paid director did not exercise any share options in the year.

Notes to the financial statements (continued)
For the year ended 31 December 2015

8. Tax on profit on ordinary activities

The tax charge comprises:

	2015 £'000	2014 £'000
Current tax on profit on ordinary activities		
UK corporation tax	-	1,979
Adjustments in respect of prior years		
UK corporation tax	(153)	(874)
Total current tax	(153)	1,105
Deferred tax		
Origination and reversal of timing differences	(770))	145
Effect of increase in tax rate on opening liability	-	4
Effect of transitional adjustments under FRS 102	-	6
Decrease in estimate of recoverable deferred tax liability	(1,030)	(150)
Total deferred tax (see note 16)	(1,800)	5
Total tax on profit on ordinary activities	(1,953)	1,110

The standard rate of tax applied to reported profit on ordinary activities is 20.25 per cent (2014: 21.50 per cent). The applicable tax rate has changed following the substantive enactment of the Finance Act 2015.

During the year beginning 1 January 2016, the net reversal of deferred tax assets and liabilities is expected to decrease the corporation tax charge for the year by £334k. This is due to forecasted capital allowances less expected depreciation and amortisation.

There is no expiry date on timing differences, unused tax losses or tax credits.

8. Tax on profit on ordinary activities (continued)

The difference between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2015 £'000	2014 £'000
Profit on ordinary activities before tax	32,633	50,799
Tax on profit on ordinary activities at standard UK corporation tax rate of 20.25 per cent (2014: 21.50 per cent)	6,608	10,922
Effects of:		
- Group relief received for nil consideration	(6,904)	(7,914)
- Expenses not deductible for tax purposes	985	975
- Patent box profits taxed at lower rate	(1,472)	(2,253)
- Dividends received from fixed asset investment	-	(1)
- Impact of change in tax rates on deferred liabilities brought forward	-	4
- Rate difference on temporary differences	12	401
- Adjustments to tax charge in respect of previous periods	(1,182)	(1,024)
Total tax charge for year	(1,953)	1,110

9. Intangible fixed assets

	Developed technology £'000	Software £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2015 and 31 December 2015	7,145	931	55,056	63,132
Amortisation				
At 1 January 2015	1,269	923	27,151	29,343
Charge for the year	564	5	3,017	3,586
At 31 December 2015	1,833	928	30,168	32,929
Net book value				
At 31 December 2015	5,312	3	24,888	30,203
At 31 December 2014	5,876	8	27,905	33,789

10. Tangible fixed assets

	Freehold and leasehold property £'000	Short term leasehold interest £'000	Plant and machinery £'000	Fixtures and fittings £'000	Assets in the course of construction £'000	Total £'000
Cost						
At 1 January 2015	28,725	959	71,876	4,830	9,298	115,688
Additions	-	-	-	-	12,067	12,067
Disposals	(58)	-	(1,493)	(62)	-	(1,613)
Transfers	261	-	3,148	233	(3,642)	-
At 31 December 2015	28,928	959	73,531	5,001	17,723	126,142
Depreciation						
At 1 January 2015	8,300	890	40,798	3,766	-	53,755
Charge for the year	703	32	3,942	232	-	4,909
Disposals	(34)	-	(1,405)	(61)	-	(1,500)
At 31 December 2015	8,969	922	43,335	3,937	-	57,163
Net book value						
At 31 December 2015	19,959	37	30,196	1,064	17,723	68,979
At 31 December 2014	20,425	69	31,078	1,064	9,298	61,934

11. Fixed asset investments

	2015 £	2014 £
Cost and carrying value		
Subsidiary undertakings	2	2

The company has investments in the following subsidiary undertakings.

Subsidiary undertakings	Country of incorporation or principal business address	Principal activity	Holding	%
ConvaTec Accessories Limited	United Kingdom	Dormant company	Ordinary	100%
ConvaTec Speciality Fibres Limited	United Kingdom	Dormant company	Ordinary	100%

ConvaTec Limited

Notes to the financial statements (continued)
For the year ended 31 December 2015

12. Stocks

	2015 £'000	2014 £'000
Raw materials and consumables	4,601	5,423
Work in progress	5,443	6,997
Finished goods and goods for resale	5,793	6,027
	15,837	18,447

13. Debtors

	2015 £'000	2014 £'000
Amounts falling due within one year:		
Trade debtors	7,127	7,587
Amounts owed by group undertakings	273,382	226,988
Corporation tax	1,677	-
Other debtors	291	756
Prepayments and accrued income	1,045	858
	283,522	236,189
Amounts falling due after more than one year:		
Other debtors	448	-
	283,263	236,189

14. Creditors – amounts falling due within one year

	2015 £'000	2014 £'000
Trade creditors	13,547	6,788
Amounts owed to group undertakings	12,377	15,254
Corporation tax	-	8
Other taxation and social security	810	1,490
Other creditors	2,548	1,065
Government grants	43	43
Accruals and deferred income	3,277	2,537
Defined contribution pension scheme accrual	25	-
	32,627	27,185

Notes to the financial statements (continued)
For the year ended 31 December 2015

15. Creditors – amounts falling due after more than one year

	2015 £'000	2014 £'000
Other creditors	69	-
Government grants	370	419
Defined contribution pension scheme accrual	8	-
	447	419

16. Provisions for liabilities

	Lease restoration provision £'000	Restructuring provision £'000	Deferred taxation £'000	Total £'000
At 1 January 2015	521	163	3,963	4,647
Charged/(credited) to profit and loss account	4	-	(1,800)	(1,796)
Released unused	(301)	(19)	-	(320)
Deferred R&D tax credit	-	-	(34)	(34)
Utilisation of provision	(181)	(144)	-	(325)
At 31 December 2015	43	-	2,129	2,172

Deferred tax

Deferred tax is provided as follows:

	2015 £'000	2014 £'000
Accelerated capital allowances	(2,170)	(4,043)
Other timing differences	41	80
Provision for deferred tax	(2,129)	(3,963)

17. Called-up share capital and reserves

	2015 £'000	2014 £'000
Allotted, called-up and fully-paid		
80,829 ordinary shares of £1.00 each	81	81

The company has one class of ordinary shares which carry no right to fixed income.

The company's other reserves are as follows:

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

Notes to the financial statements (continued)
For the year ended 31 December 2015

18. Financial commitments

Capital commitments are as follows:

	2015 £'000	2014 £'000
Contracted for but not provided for	11,026	1,192

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2015		2014	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
- within one year	562	722	210	571
- between one and five years	2,117	1,203	388	794
- after five years	449	-	-	-
	3,128	1,925	598	1,365

19. Employee benefits

Defined contribution schemes

The company operates defined contribution retirement benefit schemes for all employees. The total expense charged to profit or loss in the year ended 31 December 2015 was £1,831k (2014: £1,561k).

20. Contingent liabilities

The ultimate parent undertaking, has secured borrowings against the underlying assets of various subsidiaries within the group, including those of ConvaTec Limited. These outstanding borrowings totalled approximately $2.6 billion at 31 December 2015 (2014: $2.7 billion).

21. Subsequent events

On 11 May 2016 the company paid a dividend to its immediate parent company ConvaTec Holdings U.K. Limited of £258,532k. This was settled by offsetting the balance against intercompany loans. On 23 June 2016 the company paid a further dividend of £12,000k by way of a cash distribution.

22. Related party transactions

ConvaTec Limited meets the definition of a qualifying entity under Section 33 of FRS 102 and has taken advantage of the exemption available for disclosure of intra-group transactions.

The key management personnel of the company are regarded to be the directors who served in the year. The total remuneration for key management personnel for the period totalled £983k (2014: £1,056k), being remuneration disclosed in note 7.

23. Controlling party

In the opinion of the directors, the ultimate controlling party is a consortium of private equity firms led by Nordic Capital and also including Avista Capital Partners. The ultimate parent undertaking is Cidron Healthcare Limited, which is incorporated in Jersey. The immediate parent undertaking is ConvaTec Holdings U.K. Limited, which is registered in England. Consolidated financial statements for ConvaTec Healthcare A S.a.r.l, the largest and smallest group to consolidate the results of this company, can be obtained from The Manager, ConvaTec Healthcare A S.a.r.l., 7A Rue Robert Stumper L-2557 Luxembourg, Grand Duchy of Luxembourg.

24. Explanation of transition to FRS 102

This is the first year that the company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 December 2014 and the date of transition to FRS 102 was therefore 1 January 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

Reconciliation of equity

Note		At 1 January 2014 £'000	At 31 December 2014 £'000
	Equity reported under previous UK GAAP	307,402	356,948
	Adjustments to equity on transition to FRS 102		
1	Recognition of government grant income	(357)	(399)
2	Release of capitalised borrowing costs	(522)	(452)
3	Reversal of deferred tax on intangible assets	(1,296)	(1,175)
4	Deferred tax impact of FRS 102 transitional adjustments	178	172
	Equity reported under FRS 102	305,405	355,094

Reconciliation of profit or loss for 2014

Note		£'000
	Profit for the financial year under previous UK GAAP	49,546
1	Recognition of government grant income	(42)
2	Release of capitalised borrowing costs	70
3	Reversal of deferred tax on intangible assets	121
4	Deferred tax impact of FRS 102 transitional adjustments	(6)
	Profit for the financial year under FRS 102	49,689

24. Explanation of transition to FRS 102 (continued)

Notes to the reconciliation of equity and profit or loss for 2014

1. Recognition of government grant income

There are two grants which have a differing accounting treatment under FRS 102 when compared to previous UK GAAP.

Under previous UK GAAP grant income received to assist with the purchase of fixed assets had been recognised to the end of the qualifying conditions period. Under FRS 102 the grant income has been recognised in line with the depreciation periods of the fixed assets purchased.

Under previous UK GAAP grant income received as a contribution to costs incurred for specific product development had been spread over the period to the expected product launch. Under FRS 102 the grant income has been matched to the costs incurred for each stage payment.

2. Release of capitalised borrowing costs

Under previous UK GAAP allocated borrowing costs had been capitalised and were being depreciated in line with the assets purchased with borrowings allocated from a group company. Under FRS 102 as these borrowings were not specific to the purchase of the assets the associated interest cannot be capitalised. The interest capitalised and associated depreciation has been released and taken to the profit and loss account.

3. Recognition of deferred tax on intangible assets

Under previous UK GAAP a deferred tax provision was recognised on the NBV of developed technology. Under FRS 102 this is not recognised and the provision has been released to the profit and loss account.

4. Deferred tax

A deferred tax liability has been recognised on the increase in profit on ordinary activities under FRS 102.