2013 Annual Report

Making a Difference in People's Lives

ConvaTec

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Our Business

Overview

ConvaTec is 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 at-risk skin, improved patient outcomes and reduced total cost of care. We have over 8,000 employees, with 11 manufacturing sites in 8 countries, and we do business in more than 100 countries. For the 12 months ended December 31, 2013, we had net sales of $1,700.7 million and adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") of $549.6 million.

ConvaTec has a history of innovation and industry leadership that spans over 35 years:

- Our AQUACEL® dressings feature a unique wound contact layer that transforms into a gel on contact with wound fluid, creating an optimal environment for wound healing and minimizing the risk of infection.
- We pioneered modern ostomy care with the development of moisture-absorbing medical adhesives, and today our ostomy products are designed with ConvaTec Moldable Technology™ for clinically superior performance.
- We are the world's leading provider of disposable infusion sets to manufacturers of insulin pumps.

Our Strengths

Leading Position in Attractive, Growing Markets

We are one of the top three global leaders in many of our core segments. We have leading market shares globally in infusion devices, fecal management and several advanced wound care segments; in ostomy care, we have leading share in several markets globally and the second largest share in North America.

Additionally, we have brands that are widely recognized and respected by health care providers and care givers alike. Our broad product portfolio, brand equity and reputation for quality create significant competitive advantages.

We operate in attractive and growing markets. Underlying health care trends —aging populations, growing incidence of disease and expanded adoption of advanced therapies globally — will create additional demand across all markets. The Wound Therapeutics market is expected to grow 5-6% per annum over the next five years, driven by an increase in the number of addressable wounds and a shift from traditional products to more advanced therapies. The Ostomy Care market has an expected growth rate of 3-4% per annum over the next five years, driven by favorable demographics. The Continence & Critical Care ("**CCC**") market has an expected growth rate of 4-5% per annum over the next five years, driven by increases in general, non-elective care consumption and reimbursement coverage. The Infusion Devices market is expected to grow 5-6% per annum over the next five years, driven by the increasing prevalence of diabetes and expanded reimbursement coverage for insulin pump therapy.

Large, Diversified and Recurring Revenue Base Derived from Medical Consumables

Our business is highly diversified across countries, end markets, product lines, customers and payers. For the twelve month period ended December 31, 2013, Ostomy Care, Wound Therapeutics, Continence & Critical Care, and Infusion Devices segments generated 36%, 31%, 18%, and 15% of total net sales, respectively. Our products are marketed and distributed to a wide range of customers, including health care providers, patients and manufacturers. For the year ended December 31, 2013, no single customer represented more than 10% of our net sales, and no single product represented more than 15% of net sales.

A majority of our business is derived from medical consumables and tied to long-term customer relationships, generating consistent, recurring revenues. The Ostomy Care segment in particular is characterized by a large base of loyal long-term patients, with relationships spanning 10-15 years or more.

Deep Product Pipeline and Accelerating New Product Revenue

We have been a leader in new product development for over 35 years. Our long and successful history of product innovation includes Hydrofiber® Technology for wound care (introduced in 1996), Moldable Technology™ in ostomy (introduced in 2002), and Flexi-Seal® for fecal management (introduced in 2004). Recent product launches continue this trend, with AQUACEL® Foam the most successful launch in our history. We have a revitalized core product portfolio and a strong pipeline of innovative new products that will drive future growth.

Successful Acquisitions with Additional M&A Opportunity

We have a strong track record of successful acquisitions, with a focus on high-growth, low-risk targets that are easily integrated and provide immediate value creation. We continue to look for acquisitions in three strategic areas: getting closer to customers through direct-to-consumer channels, enhancing our product portfolio and expanding in emerging markets. We believe there is a significant opportunity to supplement organic growth with such acquisitions.

Strong Emerging Market Growth

We have a growing presence in emerging markets, with double-digit compound annual growth rates since 2010. For the year ended December 31, 2013, sales in emerging markets represented 13.6% of total revenues. Emerging markets have attractive growth characteristics, driven by an expanding middle class, increasing access to health care and aging populations with longer life expectancies. We are well positioned for growth as emerging markets adopt advanced medical treatments.

Growing Direct-to-Customer Capabilities

With the 180 Medical and Symbius Medical acquisitions in the US and similar acquisitions in the UK, we have growing direct-to-customer capabilities. These capabilities enable us to develop stronger relationships with our customers, build brand loyalty and generate additional revenue by leveraging the sales model across our entire portfolio.

Highly Efficient Global Manufacturing

We have a highly efficient and strategically located manufacturing network, with 11 sites in 8 countries, many of which are in relatively low-cost labor markets. This gives us significant operational flexibility and the ability to continuously drive improvements in productivity and overall profitability. Our broad distribution network provides an important complement to our manufacturing capabilities, together enabling us to efficiently serve our global customer base.

Excellent Financial Results and Superior Cash-Flow Generation

Fiscal 2013 marked the second straight year of accelerated business performance for ConvaTec. With most of our products used in necessary and non-elective medical care, our business has strong and predictable cash flow generation characteristics. We have the ability to continue to generate significant cash flow based on our competitive strengths and the relatively low level of capital expenditure and working capital required to maintain our underlying businesses. Increased operating efficiencies and productivity savings have contributed to margin expansion and are allowing us to invest in growth-generating activities.

Our Strategy

We intend to drive sustained revenue and EBITDA growth by extending our market leadership, capturing new revenue streams and continuously improving productivity.

Extend Market Leadership

In Ostomy Care, we are focused on establishing ConvaTec as the clear market leader by developing even stronger relationships with customers and by regularly introducing new products. We have a highly disciplined approach to attracting new ostomy customers and earning their loyalty. We also continue to focus on differentiating our ostomy products through our proprietary ConvaTec Moldable Technology™, which is clinically proven to prevent leakage and

skin complications. In addition, we are leveraging our skin care and clothing accessories to capture incremental revenue and broaden relationships with customers.

In Wound Therapeutics, we are leveraging the AQUACEL® brand into new market segments and medical indications, introducing a variety of new products that support infection control. In particular, we are focused on taking significant share of the nearly $1 billion market for foam dressings with our new AQUACEL® Foam offering and on expanding our share of the global silver dressing market with the launch of our new AQUACEL® Ag+ dressings.

In Continence & Critical Care, we are extending our leadership in fecal management with continuous product enhancements and by helping health care providers respond to the challenge of hospital-acquired infections. In addition we are focused on taking significant share in the $1.5 billion market for intermittent self-catherization with our new GentleCath™ portfolio.

In Infusion Devices, we continue to expand our position as the leading provider of disposable infusion sets to insulin pump manufacturers and pursue broader strategic partnerships with OEMs (original equipment manufacturers). In addition, we are expanding our presence in other continuous infusion therapies, including treatments for Parkinson's disease and pain management.

Launch New Products

We continue to innovate with new technology platforms, products and product extensions. We currently have a full pipeline of new products that we will launch within 12-18 months. We have adopted an outcome-focused R&D approach, with an emphasis on market-driven innovation, speed to market and strong intellectual property protection. A recent example is the launch of our AQUACEL® Ag+ dressings, which feature a breakthrough technology that disrupts biofilms and enables ionic silver to more effectively kill bacteria within the dressing.

Leverage Direct-to-Customer Capabilities

We are leveraging our growing direct-to-customer capabilities across our entire portfolio while strengthening customer relationships by providing best-in-class service and support. Our acquisition of 180 Medical, Symbius Medical and similar companies in the U.K. provide us with a platform for interacting directly with customers, which we plan to expand significantly in coming years. We are also building online capabilities to sell directly to our customers. As care increasingly moves out of hospital settings and into the home, we are well positioned to serve customers through direct channels.

Drive Continuous Productivity

We focus relentlessly on managing costs and driving manufacturing efficiencies through lean transformation and sourcing initiatives. We believe our manufacturing footprint and efficiency give us a distinct advantage in pursuing new business around the world. We also will continue to use cost savings from operational efficiencies to invest in growth-generating activities, including marketing, sales and product development.

Grow in Emerging Markets

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

Selectively Pursue Acquisitions

We have quickly and successfully integrated a variety of acquisitions in recent years, including 180 Medical. In the future, we may selectively pursue acquisitions that pass our stringent criteria for value-creation with a focus on supplementing our product portfolios, extending our presence in emerging markets and building our direct-to-customer capabilities.

Our franchises

We have four franchises: Ostomy Care, Wound Therapeutics, Continence & Critical Care and Infusion Devices.

Ostomy Care

Products

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

Our core brands include our Natura® (two-piece) and ESTEEM® (one-piece) ostomy systems, featuring our skin-friendly and clinically-proven adhesives (Stomahesive®, Durahesive® and ConvaTec Moldable Technology™). Key accessory brands include Stomahesive® paste and powder, Sensi-Care® sting free skin care products, Diamonds™ gelling sachets and the Ostomysecrets® clothing line.

Sales and marketing

Our Ostomy Care customers are end users who receive products from retailers, distributors or directly from public health care providers. We seek to attract patients at the outset of their ostomy surgery and to maintain that relationship for as long as the ostomy is in place, which for permanent ostomies averages approximately 15 years.

Ostomy Care sales in our largest markets are primarily through distributors. In addition, a large portion of sales are to hospitals. Other distribution channels for ostomy products include bandagists (specialized medical stores in Europe), pharmacies, home health care companies and direct sales to end users.

Competition

Key competitors in the global ostomy industry are Coloplast and Hollister/Dansac. In addition, we compete with smaller regional providers of ostomy and ostomy-related products, including B. Braun (Biotrol) in France/Germany; Salts, Eakin-Pelican and Welland in the U.K.; and Alcare in Japan.

Wound Therapeutics

We market a comprehensive portfolio of advanced wound dressings, including antimicrobial and foam dressings, and skin care products. Our dressings are highly regarded for their effectiveness in managing chronic wounds such as pressure ulcers, venous leg ulcers and diabetic foot ulcers. We have also successfully expanded our offerings in the acute wound area, with advanced dressings for surgical site incisions and partial thickness burns.

Key brands include our AQUACEL® line of advanced dressings, which includes our proprietary Hydrofiber® Technology. These dressings feature a wound contact layer that transforms into a gel on contact with wound fluid, creating an optimal environment for healing and protecting against infection. In addition to the base AQUACEL® formulation, we offer AQUACEL® Ag, which contains bacteria-killing silver. We also recently introduced AQUACEL® Ag+, a breakthrough technology that disrupts biofilms, allowing the product's silver to more effectively kill bacteria within the wound dressing. Other product variations include AQUACEL® EXTRA™, which offers greater strength and absorbency; AQUACEL® Foam, the only foam dressing with the comfort and simplicity of foam plus the benefits of an AQUACEL® interface; and AQUACEL® Surgical and AQUACEL® Burn in the acute space. Additional brands include our DuoDERM® family of moisture-retentive dressings and our Aloe Vesta® and Sensi-Care® skin care products.

Sales and marketing

Our Wound Therapeutics customers are specialist nurses and physicians involved in the prevention and management of wounds. We target acute- and post-acute care settings, with a sales focus on wound care clinics, multiple departments within hospitals and long-term care settings, as well as the purchasers/payers who oversee wound care budgets. Wound care distribution is through wholesalers.

Competition

Key competitors include Mölnlycke, Smith & Nephew, Coloplast and Systagenix. We also compete with other local medical products companies offering wound care products, such as Medline (in the U.S.) and Urgo (in EMEA).

Continence & Critical Care (CCC)

Within the CCC franchise, our Intensive Care portfolio includes advanced systems for managing acute fecal incontinence, monitoring urine production output (hourly diuresis) and monitoring intra-abdominal pressure ("**IAP**"). Acute fecal incontinence is a serious health care problem for patients in critical care and can lead to skin breakdown, the development of pressure ulcers and the spread of *C. difficile* infection. Hourly diuresis and IAP monitoring provide clinicians with important indicators of a patient's condition. Monitoring IAP is vital for the early detection of intra-abdominal hypertension ("**IAH**"), estimated to affect up to half of all critical care patients, and enables timely intervention against potential consequences, including abdominal compartment syndrome, multiple organ failure and death. Our key brands in this range include our innovative Flexi-Seal® fecal management systems, UnoMeter™ hourly diuresis management systems and AbViser® and Abdo-Pressure™ intra-abdominal pressure measurement devices.

Our Hospital Care portfolio provides a wide range of high-quality disposable medical devices for use in high-volume procedures in urology, intensive care, operating rooms and other hospital departments — helping care teams complete necessary everyday procedures safely and efficiently. Key products include wound drainage systems; urine collection bags and catheters; airway management and oxygen/aerosol therapy devices; suction handles and tubes; gastroenterology tubes; and securement devices.

To complement our Continence Care product range, we recently launched the GentleCath™ portfolio of intermittent urinary catheters. The GentleCath™ line is designed for maximum comfort, safety and ease of use. It includes a variety of catheter styles to meet a wide range of customer needs.

Sales and marketing

Our primary CCC customers are acute care hospitals. Primary purchasers within those hospitals are specialist nurses and physicians in intensive care units, operating rooms and other departments, as well as purchasers/payers who oversee intensive care and related departmental budgets. Our sales focus also includes post-acute, long-term care and home health care settings for our urology and continence portfolios. CCC hospital products are distributed directly to hospital call points or through hospital distribution partners. Home health care sales are predominately distributed through wholesalers. We also sell directly to consumers through 180 Medical and Symbius Medical in the US.

Competition

The competitive landscape includes both large medical technology companies and smaller niche players. Global and diversified players, such as 3M, C.R. Bard, Covidien, B. Braun and Teleflex, operate in most franchises and markets, whereas the smaller niche players tend to provide limited product ranges with a specific focus on certain franchises.

Infusion Devices

Products

Our Infusion Devices franchise manufactures and sells disposable infusion sets to leading insulin pump manufacturers. An insulin pump is an external computer-controlled device allowing diabetes patients to get continuous delivery of insulin to the body. Infusion sets are the disposable part connected to the pump via tubing and injected into the patient's body,

allowing the insulin to be delivered subcutaneously (under the skin). Insulin pumps are a well-established and recognized technology for treatment of many type 1 and severe type 2 diabetes patients. In addition to insulin pump therapy for diabetes, we also work with pharmaceutical companies and other partners on infusion sets for continuous subcutaneous drug delivery for other diseases, including Apomorphine for Parkinson's disease, immunoglobulins for the treatment of primary immunodeficiencies and Thalassaemia and morphine for palliative pain management.

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

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

Sales and marketing

The Infusion Devices franchise has a concentrated business-to-business customer base, primarily consisting of the leading insulin pump manufacturers, global urology/continence players and respiratory/airway management players.

Infusion Devices has contractual relationships with a number of these manufacturers. These relationships are strategic partnerships involving joint product development and specialized manufacturing capabilities. We also engage in trade marketing activities; support customers, health care professionals and patients through our clinical resources and related programs; and promote the neria™ product range actively for Parkinson's, primary immunodeficiencies and pain management.

The majority of our sales in the hospital and home health care sector are related to urology, continence, respiratory and airway management products.

Competition

We compete with OEMs manufacturing infusion sets themselves as well as a variety of specialized manufacturers.

Distribution Channels

We have a broad base of customers that includes health care providers, patients/consumers and manufacturers. Our distribution channels are diverse. In the U.S., the majority of products in our Ostomy Care, Wound Therapeutics and CCC franchises are sold through distributors/wholesalers and other channel partners, such as hospital buying companies and group purchasing organizations. In Europe, products in these three franchises are also sold through bandagists as well as directly to hospitals, home care companies and other health care providers. We also sell selected products directly to consumers through our home delivery services in the U.K. and U.S. We have an efficient network of distribution centers with regional hubs strategically located to support our key markets.

Suppliers

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

Manufacturing

Our efficient manufacturing and supply chain network is focused on driving continuous productivity through sourcing and lean initiatives, including:

- Supplier negotiations
- Continuous quality improvement
- Lower material costs

- Selective in sourcing
- Just-in-time efficiencies
- Driving non-value added activities out of the manufacturing process

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

Research & Development

Our Research & Development group works to develop and deliver innovative technologies that meet the most important needs of our customers. We are continually focused on improving our existing portfolio of products, as well as developing the next generation of technologies in infection control and prevention, wound management, stoma care, continence care and skin protection.

Our R&D centers in Deeside (U.K.) and Osted (Denmark) have developed a strong reputation among key opinion leaders and are considered among the leading research institutes within their respective fields, especially in the infection prevention and control area. Core R&D competencies include microbiology, infection detection, anti-infective therapies, biofilm science, adhesive science, polymer science, injection molding, product design engineering, materials chemistry and wound skin physiology.

Intellectual Property

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

The majority of our patents are related to key technologies, compositions, processes or product features, and many of our key products have patent protection. We also have licenses to issued patents and patent applications that cover certain of our products and technologies.

Health Care Reimbursement Policies

Overview

Our product portfolios are subject to hospital payment levels, community reimbursement policies and fees of third-party payers in each country in which our products are sold. Increasingly, global health care systems are seeking ways to limit cost increases, placing downward pressure on the prices of many of our products as well as pressure on medical device manufacturers to deliver differentiated products with cost-effective benefits to patients. Coverage and reimbursement in international markets vary significantly by country -- and by region in some countries -- and include both government-sponsored health care and private insurance.

Payers aim to contain health care costs by limiting coverage of existing products and services and by imposing high clinical and economic evidence requirements which limit patients' access to new technologies. Cost-reduction initiatives include competitive bidding programs, commissioning of provider services, regionalization of tender processes, new procurement models, capped reimbursement, and encouraging a return towards traditional, less-expensive first-line treatments. New payment models include shared savings models such as Accountable Care Organizations, Gainsharing programs, payment bundling, episodic payments, and Payment-by-Results programs. Programs to improve quality and efficiency include Value-Based Purchasing, quality of care measures, public reporting of patient care measures, heightened scrutiny and penalties for hospital associated infections, supplier accreditation, and increased investment in health information technology. Higher evidence thresholds to demonstrate product efficacy and cost effectiveness to payers include comparative randomized controlled trials, patient registries, comparative effectiveness research, health economic studies, adaptive study designs, and health technology assessments.

United States

In the United States, citizens secure medical insurance through private commercial plans, many of which are employer- sponsored, or government-sponsored. Private plans may either provide coverage under an indemnity plan, covering a fixed percentage of medical costs, or through a managed care plan, utilizing either a broad (Preferred Provider Organization, or "**PPO**") or narrow (Health Maintenance Organization, or "**HMO**") network of contracted health care professionals. Government-sponsored programs, such as Medicare and Medicaid offer coverage for elderly and indigent patients, respectively, financed through payroll taxes, insurance premiums and government financing.

Enrollment in commercial plans and "**Medicaid**" is expected to grow as insurance coverage mandated by the Affordable Care Act ("**ACA**") is extended to millions of uninsured individuals beginning in 2014.

Coverage of the uninsured and under insured is expected to have some positive impact on demand for our products. However, as states continue to face growing health care costs, it is possible that coverage policies may become more restrictive, putting more pressure on payment and consumption.

The ACA also imposes a new annual federal excise tax on certain medical device manufacturers and importers. Specifically, for sales on or after January 1, 2013, manufacturers, producers, and importers of taxable medical devices must pay a 2.3% excise tax on the sales price of certain devices. We believe that 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 IRS and are, thus, exempt from the tax. Further, the final rule also defines a "Safe Harbor" for certain classes of devices categorized as prosthetic devices under the U.S. Social Security Act. We believe that the ostomy products category is included in the proposed IRS Safe Harbor regulations and is thereby also excluded from the tax.

The ACA also accelerates the Competitive Bidding Program for Durable Medical Equipment, Prosthetics, Orthotics and Supplies ("**DMEPOS**").This program replaces Medicare's fee schedule for certain categories of medical devices with market-based prices based on an auction process conducted among competing suppliers in a geographic region. Prices in Round 1 went down by an average of 32% and in Round 2 by 45%. Although ConvaTec's product categories are not included in competitive bidding, we believe that competitive bidding and its mandated expansion in 2016 will result in retail supplier consolidation and price pressures due to reduced supplier profitability.

United Kingdom

The United Kingdom has a socialized health care system known as the National Health Service ("**NHS**"). The NHS is the world's largest publicly funded health service and is financed by taxes. The United Kingdom utilizes a prescription system for primary care (in the community) and a procurement system in the secondary care (hospital) setting.

Decentralization of large portions of the NHS is encouraging new business and contracting models involving economic decision makers. Reforms creating internal and external market forces on health care 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.

Effective April 1, 2013, the NHS in England abolished Primary Care Trusts ("**PCTs**") and Strategic Health Authorities ("**SHAs**") and introduced Clinical Commissioning Groups ("**CCGs**") and NHS England. The intent of these reforms is to decentralize decision making and empower primary-care physicians by assigning them budgetary responsibility.

Non-clinical decision makers are increasingly making procurement decisions on the products used in hospitals, with price as a key criterion for selection. In addition, large purchasing consortiums, known as Collaborative Procurement Hubs ("**CPHs**"), have been established to accelerate savings through collaborative purchasing for CCGs and hospitals. The goal of the NHS is to effectively prevent widely disparate costs between the primary and secondary markets.

Outside of the hospital in the community setting, reimbursement is available to pharmacies and Dispensing Appliance Contractors ("**DACs**") for medical devices listed on the Drug Tariff. Unlike generic reimbursement categorization schemes utilized by most countries, products on the Drug Tariff are listed and priced by brand. Prices are negotiated with the NHS at the time of market introduction. Further, each product is eligible for an annual price increase upon substantiation of manufacturing cost increases. While the opportunity for annual price increases helps maintain the company's profit margins, competitive pressures and the desire to demonstrate cost effectiveness to prescribers has put downward pressure on prices over the past two years.

Other countries

Germany has a universal multi-payer system with two main types of health insurance: competing, not-for-profit, nongovernmental health insurance funds (called "sickness funds") in the statutory health insurance scheme ("**SHI**"), or voluntary substitutive private health insurance ("**PHI**").

Over the past three years, ostomy supplies have been subjected to cost cutting by sickness funds through capped monthly spending allowances per patient, mandated through contracts between the funds and retailers (bandagists). The average capped spending amount per patient is €205. While this amount is generally adequate to cover patient needs and has not negatively impacted consumption rates to date, several large sickness funds have been negotiating lower monthly caps. Ostomy contracts between bandagists and sickness funds impact 90% of the ostomy population.

In contrast to ostomy supplies, wound dressings utilize a pharmacy distribution channel and are subject to pharmaceutical pricing policies. This system allows for periodic price increases which enables the company to maintain profit margins on these products.

In **Spain**, citizens are entitled to both specialized and primary care through a socialized health care system. Medical devices are reimbursed in two ways: as reimbursement for off-the-shelf medical devices sold through pharmacies (this is the case of ostomy products and to some extent wound dressings) and as orthoprosthetic devices sold through both pharmacies and orthoprosthetic establishments. Health care funds come from compulsory "social insurance" and state health care transfers. A public purchasing system meets health care needs mainly through public tenders. Most of our Wound Therapeutics and Continence and Critical Care products are sold through the tender system.

As a result of government austerity measures, the Spanish reimbursement system has been closed to new product listings since 2006, and not expected to open for at least another year. This negatively impacts our ability to introduce new products sold in the pharmacies, but not so for new products sold to hospitals on tenders (supply contracts). In the future,

reliance on the tendering process may become an opportunity or a challenge as tenders increasingly move from regional to national in scope with only one or two winning competitors. In addition, patient co-pays were increased by the government for ostomy supplies in 2012 resulting in increased cost sharing with consumers and pressuring consumption levels.

Italy has a tax-funded universal health care system called National Health Service (*Servizio Sanitario Nazionale or* "**SSN**" which covers general practice outpatient and inpatient treatments, and the cost of most drugs and sanitary wear. The government sets fundamental levels of care (*Livelli essenziali di assistenza* or"**LEA**"), which cover all necessary treatments that the state must guarantee to all for free or for a "ticket" which covers a share of the costs (but various categories are exempted).

In 2012, the national parliament passed a law aimed at curbing and rationalizing public expenditure. Italy also enacted a law to standardize and centralize purchasing and create a national database of all devices with a set entry price for tenders. Most wound dressings are sold to hospitals through tenders. Similar to Spain, centralization of the tendering process increases the pressure to be selected as a winning bid. Medical devices of all classes must be registered in an Italian database administered by the Ministry of Health. The database includes a new list of products for reimbursement with a reference price per category. This provides an opportunity for better reimbursement prices for ostomy products (the prior list and pricing dates back to 1992).

While reimbursement of ostomy products is available throughout Italy, payment policies vary widely from province to province. Wound dressings are not reimbursed except in two provinces.

In **France**, every citizen is guaranteed health care coverage. Those with the lowest levels of income and those with long-term diseases such as diabetes, cancer, and AIDS pay nothing. Private insurance is mandatory for working families and their dependents. Co-payments are generally required, though they are waived for low income patients and those suffering specific diseases. Private insurance usually covers the cost of co- payments. Reimbursement for medical devices comes in two ways: as "generics," where the pricing is the same for all products in a category, and as "brands," which are reimbursed at a price based on their innovation.

Reimbursement policies for wound dressings were revised in 2010. Randomized controlled clinical trials demonstrating clinical and health economic advantages over competitor or other benchmark products are now required to obtain and retain "branded" reimbursement prices. Antimicrobial dressings can now only be reimbursed as branded listings. Antimicrobial dressings that do not meet the evidence requirements for branded reimbursement are not reimbursed. Ostomy and incontinence products are scheduled to be reviewed in 2014.

Japan has a nationalized health care system with no private insurance. Payment is made via three avenues: Workers Insurance (employees, civil workers, etc.), National Health Insurance (for the unemployed and those not covered by Workers Insurance), and Elderly (75+ or 65+ in the instance of certain disabilities)

Under the system, people with an ostomy are considered "disabled" and receive a small monthly stipend from the Japanese Social Security department to help offset the cost of their ostomy supplies. There is no direct reimbursement of ostomy supplies. Likewise, there is no community reimbursement for wound dressings. However, hospitals are eligible for reimbursement of wound dressings consumed in the hospital setting. Reimbursement of wound dressings in the hospital is subject to bi-annual adjustments based on a Foreign Average Pricing ("**FAP**") process that utilizes reference pricing from countries around the world. The FAP process has resulted in reductions in the reimbursed amounts for our wound dressings in past cycles.

Properties

We operate in approximately 1.8 million square feet of office, warehouse and manufacturing real estate globally and incur total annual rental expense, across all regions, of approximately $26.4 million.

The following table lists our manufacturing facilities as well as our primary office and warehouse spaces as of the date of this Annual Report:

Location	Area (sq ft)	Type	Lease/owned
Haina (Dominican Republic)	191,578	Manufacturing Facility	Leased
Greensboro (United States)	144,000	Manufacturing Facility	Owned
Deeside (Wales, United Kingdom)	249,801	Manufacturing Facility	Leased/Owned
Rhymney (England, United Kingdom)	60,000	Manufacturing Facility	Leased[(1)]
Osted (Denmark)	65,000	Manufacturing Facility	Owned
Reynosa ID (Mexico)	59,180	Manufacturing Facility	Owned
Sungai Petani (Malaysia)	138,842	Manufacturing Facility	Leased
Minsk (Belarus)	46,000	Manufacturing Facility	Owned
Michalovce (Slovakia)	263,716	Manufacturing Facility	Leased
Reynosa HC (Mexico)	96,926	Manufacturing Facility	Owned
Herlev (Denmark)	138,481	Manufacturing Facility	Owned
Minato-ku (Japan)	9,769	Office	Leased
Munich (Germany)	16,381	Office	Leased
Rome (Italy)	11,194	Office	Leased
Schauffhausen (Switzerland)	9,709	Office	Leased
Deeside (Wales, United Kingdom)	43,798	Office/Laboratory	Owned
Montreal (Canada)	11,075	Office	Leased
Skillman (United States)	160,000	Office	Owned[(2)]
Sunderland (England, United Kingdom)	9,538	Warehouse	Leased
Pallion (England, United Kingdom)	9,805	Warehouse	Leased
Reynosa ID (Mexico)	20,000	Warehouse	Leased
180 Medical (USA)	20,000	Warehouse	Leased
180 Medical (USA)	60,000	Office	Owned

(1) We hold a long-term leasehold on this property with a term of 999 years from August 23, 2000.
(2) We have listed this office as available for sale and plan to exit the premise in May 2014.

Legal Proceedings

We have been involved in various lawsuits, claims, proceedings and investigations that are currently pending or have been concluded in the last three years. These matters involve intellectual property, commercial, or environmental, health and safety matters. The most significant of these matters are described below. 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.

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. We 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.

Medtronic recall of certain Unomedical-produced infusion device sets

We supply Medtronic MiniMed, Inc. (Medtronic) with Quick-set™ Infusion Sets and proprietary connectors for use with Medtronic insulin infusion pumps in diabetes care. Medtronic determined it would recall certain of these products due to potential malfunction. We entered into a letter of understanding with Medtronic which provides for the allocation of costs

and expenses incurred by Medtronic as a direct result of the recall and for expenses which Medtronic has incurred or may in the future incur as a result of present or future product liability claims relating to the Quick-set™ infusion sets. We remain responsible for our own costs related to the recall and for our own potential product liability claims. The estimated losses related to the recall as of December 31, 2013 were $34.7 million. Our balance sheet includes a remaining liability for the Medtronic recall in the amount of $10.9 million and $12.4 million included in Accrued expenses and other current liabilities as of December 31, 2013 and 2012, respectively. On April 24, 2014, we made a payment of $8.1 million to Medtronic. Refer to Note 19 – Commitments and Contingencies, in our 2013 Audited Consolidated Financial Statements, included herein for further details.

Subpoena from United States Attorney's Office in Massachusetts

We received a subpoena on March 4, 2014 from the United States Attorney's Office in Massachusetts relating to the Massachusetts United States Attorney's industry-wide investigation of marketing practices in the urology, ostomy and wound care industries. The subpoena requests the production of certain of our documents from 2007 to present related to our sales and marketing of ostomy, urology and wound care products.

Boehringer Arbitrations

We were engaged in two arbitration proceedings against two related Boehringer entities regarding various licensing and product supply disputes arising from two agreements between us and Boehringer governing the licensing, supply, and distribution of Boehringer's negative pressure wound therapy products. Our claims across both arbitrations equaled approximately $4.75 million and Boehringer's claims totaled at least $17.6 million, in addition to unspecified lost profit damages. As of December 12, 2013, the parties entered into a Settlement Agreement and General Release of Claims, which resolved the claims and disputes pending in the arbitrations. The settlement agreement also provided for the termination of the aforementioned agreements and relieved us of exclusivity and global non-compete obligations with respect to Boehringer's negative pressure wound therapy products. In addition, under the settlement agreement, we made a payment to Boehringer (the amount of which is confidential); however such amount has been included in the general and administrative amount in our consolidated statement of operations at December 31, 2013.

In addition to the matters discussed above, the Company is also involved in other claims and legal proceedings. 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 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 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 effect on its business, results of operations, financial condition and/or liquidity.

Insurance

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

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

Environmental Matters

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

Environmental proceedings

We are 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 our current or former sites, or at waste disposal or reprocessing facilities operated by third parties.

With respect to environmental matters for which we are responsible under various national, state and local laws, we typically estimate potential costs based on information obtained from the U.S. Environmental Protection Agency, or counterpart state agencies, other national environmental agencies and/or studies prepared by independent consultants, including total estimated costs for the site and the expected cost-sharing, if any, with other "potentially responsible parties," and we accrue liabilities when they are probable and reasonably estimable. As of December 31, 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.

Employees

As of December 31, 2013, we had more than 8,000 full-time equivalent employees, of whom approximately 1,600 work in sales across 37 countries. About 5,600 of our total employees work in our manufacturing divisions. The majority of our employees are located in the United States, the United Kingdom, the Dominican Republic, Malaysia and Mexico, where we operate our largest manufacturing facilities.

We believe we have satisfactory working relationships with our employees and have not experienced any significant labor disputes or work stoppages in the last ten years. All U.S. employees and all employees at the Wound Therapeutics, Ostomy Care and AFI manufacturing sites are non-unionized. Some of our employees in Europe, Mexico and in the Asia-Pacific segment are covered by collective bargaining agreements that are customary for the industry or are members of labor unions.

We offer pension benefits in most countries in which we operate. Depending on the local situation and local laws, we have implemented several pension plans worldwide. For certain senior management, we also offer individual pension contracts with pension payments depending on the position and years of service. These commitments are fully covered by external funds or pension liability provisions recorded in our financial statements. All our external funding complies with local minimum funding regulations.

Management's discussion and analysis of financial condition and results of operations

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

Forward-looking statements

This MD&A and other sections of this report contain "forward-looking statements" as defined by the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. These statements include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of financial resources. These forward-looking statements may include, without limitation, statements regarding: the impact of global and local operating economic conditions on our financial results; the anticipated effect of 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 47 of this Annual Report for a discussion of some of these risks and uncertainties.

Presentation of financial information

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

Recent developments

On August 12, 2013, ConvaTec Finance International S.A. ("CFI"), a subsidiary of the Parent and sister entity to CHB, successfully completed a $900.0 million PIK Notes offering, at an offering price of 99.0%, after adjustment for original issue discount. The net proceeds from the offering were used to repay preferred equity certificates of the Parent in the amount of $873.1 million and to pay additional related fees and expenses. The PIK Notes mature on January 15, 2019 and are subject to cash interest payments of 8.25% every January 15 and July 15, commencing on January 15, 2014. PIK interest, if cash interest is not elected to be paid, will accrue at 9.00% per annum.

On August 5, 2013, we executed an amendment to the Credit Facilities Agreement. The amendment provides for a reduction in the applicable margins and floors on the EURIBOR and LIBOR base rates of our EURO and U.S. Dollar Term Loan Facilities, as well as a reduction of the floor on Alternate Base Rate ("ABR") borrowings. In addition, the calculation of the amount available for restricted payments, capital expenditures, investments and prepayments of certain indebtedness has been modified. The term loan repricing became effective on September 28, 2013 (the "Repricing"). The outstanding borrowings of both the EURO and U.S. Dollar Term Loan Facilities at the time of the Repricing are subject to a 1% prepayment premium of the aggregate principal amount, if any voluntary repayments or prepayments are made prior to March 28, 2014 to refinance, replace or substitute all or a portion of the term loans with indebtedness having a lower effective yield.

Please refer to "Liquidity and capital resources" within this Annual Report for further discussion of these transactions.

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

Infusion Devices. Our Infusion Devices franchise, previously referred to as Infusion Devices/Industrial Sales, provides disposable infusion sets to manufacturers of insulin pumps for diabetes and similar pumps used in continuous infusion treatments for other conditions (e.g., Parkinson's disease). In addition, the franchise supplies a range of products to hospitals and the home health care sector.

ConvaTec's evolution as a stand-alone company

Nordic Capital and Avista Capital Partners acquired the ConvaTec business, formerly a division of Bristol Myers Squibb ("BMS"), on August 1, 2008 for $4,103.0 million (the "ConvaTec Acquisition"). Additionally, we then acquired the Unomedical business on September 2, 2008 for $593.6 million (the "Unomedical Acquisition"). In conjunction with the ConvaTec Acquisition and the Unomedical Acquisition, the Company issued Series 1, 2 and 3 mandatorily redeemable preferred equity certificates, entered into a Senior Facilities Agreement and Mezzanine Agreement and borrowed cash from the Parent, which was then converted to common stock of the Company. Subsequently, on December 22, 2010, all of the Company's outstanding long term obligations under the Senior Facilities Agreement and Mezzanine Facilities

Agreement were refinanced through the entry into credit facilities and the issuance of Secured and Unsecured private placement bonds. The refinancing of our long term debt obligations was undertaken to provide us with access to long term capital markets, to eliminate some of the exposure we faced with foreign exchange fluctuations and to extend the maturity of our credit instruments. We believe that this evolved capital structure will continue to afford management the flexibility to act on our strategic plan.

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 affect us.

The health care industry is subject to various government-imposed regulations and cost containment programs, which could have far reaching impacts on our business. Increasing per capita health care consumption in developed markets as a result of increased longevity, increased incidence of chronic illnesses, defensive medicine and other factors have driven health care reforms in many countries where we sell our products. Combined with a slow recovery from the global recession and government austerity programs, health care reforms have generally been accelerated in an effort to reduce overall health care 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 ("U.S."), reforms mandated by the Affordable Care Act ("ACA") have, among other things, placed increased downward pressure on hospital profitability as a result of increased regulation and risk of payment penalties. 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.

ACA expanded the Competitive Bidding Program for Durable Medical Equipment, Prosthetics, Orthotics and Supplies (DMEPOS) for medical devices sold in retail settings outside of the hospital. The expansion of this program to most of the largest metropolitan areas beginning in July 2013 accelerates consolidation of the retail supplier market. While ConvaTec device categories are not included in the Competitive Bidding Program, some impact from supplier consolidation is possible. The ACA has also imposed a 2.3% excise tax on medical device manufacturers' domestic sales beginning January 1, 2013. We believe that 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 U.S. 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 United Kingdom ("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 health care delivery, shifting care "closer to home" to less expensive settings and increasing focus on prevention and management of chronic disease are changing the landscape in which we sell. While the increased focus on quality and efficiency provides selling opportunities for our products with strong value messages for care providers and prescribers, this focus has yet to fully filter through to procurement bodies which still largely base decisions solely on price.

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

We continue to monitor the potential impact of global economic conditions as well as government health care 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 health care policies and, as such, will be viewed positively by health care providers.

For further information regarding the potential impact of health care 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 Research and Development ("R&D") team strives to optimize the life cycles of innovative products in our existing portfolio by enhancing key 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 relevant areas of our business where we see opportunities for accelerating commercial growth. Our investment expense in R&D during the year ended December 31, 2013 and 2012 was $32.0 million and $39.9 million, or 1.9% and 2.4% 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 product offerings 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 December 31, 2013 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. health care 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.

	For the Year ended	
(in millions of $)	**December 31, 2013**	**December 31, 2012**
Net sales[(1)]	**$ 1,700.7**	**$ 1,646.2**
Cost of goods sold	753.5	741.0
Gross profit	**947.2**	**905.2**
Selling and marketing expenses	374.7	371.1
General and administrative expenses	200.1	231.9
Research and development expenses	32.0	39.9
Impairment on Long Lived Assets	25.6	4.3
Operating income	**314.8**	**258.0**
Interest expense	448.4	427.0
Foreign exchange loss	5.7	14.3
Other income, net	(2.1)	(4.9)
Loss on extinguishment of debt	4.4	-
Loss before income taxes	**(141.5)**	**(178.4)**
Provision (benefit) for income taxes	32.1	(17.3)
Net loss	**$ (173.7)**	**$ (161.1)**

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

Comparison of the year ended December 31, 2013 and December 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 years ended December 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.

	Year ended December 31,		Percentage change	
(in millions of $)	**2013**	**2012**	**As reported**	**At constant exchange rate**
Net sales by franchise				
Ostomy Care	$ 613.5	$ 629.9	(2.6%)	(1.3%)
Wound Therapeutics	525.7	522.2	0.7%	1.3%
Continence & Critical Care	304.3	238.4	27.6%	27.9%
Infusion Devices	257.2	255.7	0.6%	(0.2%)
Total net sales	$ 1,700.7	$ 1,646.2	3.3%	3.9%

Ostomy Care net sales

Net sales in our Ostomy Care franchise for the year ended December 31, 2013 were $613.5 million, a decrease of $16.5 million, or approximately 2.6%, from $629.9 million for the year ended December 31, 2012. At a constant exchange rate, Ostomy Care net sales decreased 1.3% primarily due to distributor destocking in certain countries. This was offset by the growth in emerging markets and incremental sales from U.K. based acquisitions.

Wound Therapeutics net sales

Net sales in our Wound Therapeutics franchise for the year ended December 31, 2013 were $525.7 million, an increase of $3.5 million, or approximately 0.7%, from $522.2 million for the year ended December 31, 2012. At a constant exchange rate, Wound Therapeutics net sales increased 1.3%. The increase in net sales was primarily related to new product sales and growth in emerging markets. Increases in net sales were partially offset by decreases primarily due to austerity measures in certain European countries.

Continence & Critical Care net sales

Net sales in our CCC franchise for the year ended December 31, 2013 were $304.3 million, an increase of $65.9 million, or approximately 27.6%, from $238.4 million for the year ended December 31, 2012. At a constant exchange rate, CCC net sales increased 27.9%. The increase in net sales was primarily related to incremental net sales from 180 Medical during 2013. Increase in net sales was partially offset by the decrease in net sales from the sale of the Electrodes business on May 31, 2012.

Infusion Devices net sales

Net sales in our Infusion Devices franchise for the year ended December 31, 2013 were $257.2 million, an increase of $1.5 million, or approximately 0.6%, from $255.7 million for the year ended December 31, 2012. At a constant exchange rate, Infusion Devices net sales remained the same year over year, with increased demand offset by the impact of a one-time purchase of safety stock by a customer in the first quarter of 2012.

Costs and expenses

The following is a summary of costs and expenses.

(in millions of $)	Year ended December 31, 2013	2012	Percentage of net sales 2013	2012
Operating costs and expenses:				
Cost of goods sold	$ 753.5	$ 741.0	44.3%	45.0%
Selling and marketing	374.7	371.1	22.0%	22.5%
General and administrative	200.1	231.9	11.8%	14.1%
Research and development	32.0	39.9	1.9%	2.4%
Impairment on Long Lived Assets	25.6	4.3	1.5%	0.3%
Total operating costs and expenses	$ 1,385.9	$ 1,388.2	81.5%	84.3%

Other costs and net expenses:		
Interest expense	$ 448.4	$ 427.0
Foreign exchange loss	5.7	14.3
Other income, net	(2.1)	(4.9)
Loss on extinguishment of debt	4.4	-
Provision (benefit) for income taxes	32.1	(17.3)

In our discussion below, we may make mention of certain costs and expenses on a constant exchange rate basis. Costs and expenses on a constant exchange rate basis is a non-GAAP financial measure and should not be viewed as a replacement of GAAP results. Such a measure is presented because we believe it enables us to focus on the actual performance related changes in the results of operations from period to period without the effects of exchange rates.

Operating costs and expenses

Cost of goods sold

Cost of goods sold are primarily comprised of manufacturing and production costs, including raw materials, labor, overhead and processing costs and any freight costs borne by us in the transport of goods to us from suppliers. Cost of goods sold for the year ended December 31, 2013 was $753.5 million, an increase of $12.5 million from $741 million for the year ended December 31, 2012. As a percentage of net sales, Cost of goods sold decreased to 44.3% for the year ended December 31, 2013 from 45% for the year ended December 31, 2012.

Gross profit (Net sales less Cost of goods sold) increased $42 million, or 4.6%, and gross profit margin (Gross profit as a percentage of Net sales) was 55.7% in the year ended December 31, 2013 as compared with 55% for the year ended December 31, 2012. Gross profit margin excluding impacts from amortization of certain intangible assets and certain non-recurring costs for the year ended December 31, 2013 was 63.4%, as compared with 63.2% in the prior year. The improved gross profit margin is primarily related to manufacturing productivity resulting from 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 $374.7 million and $371.1 million for the year ended December 31, 2013 and 2012, respectively. As a percentage of net sales, Selling and marketing expenses were 22% for the year ended December 31, 2013 as compared to 22.5% for the year ended December 31, 2012. At a constant exchange rate, Selling and marketing expenses increased $6.5 million primarily due to incremental expenses from companies acquired in 2012 and added costs from sales force expansion. These increases were offset by benefits realized from executed cost savings and productivity initiatives.

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 year ended December 31, 2013 were $200.1 million, a decrease of $31.8 million, or approximately 13.7%, from $231.9 million for the year ended December 31, 2012. As a percentage of net sales, G&A expenses were 11.8% for the year ended December 31, 2013, compared to 14.1% for the year ended December 31, 2012. At a constant exchange rate, G&A expenses decreased $30.4 million. The decrease was primarily the result of severance costs recorded in the third quarter of 2012 related to restructuring actions, coupled with benefits realized from those actions as well as other past cost savings and productivity initiatives. The decrease in expenses was partially offset by incremental expenses from acquired companies.

Research and development expenses

R&D expenses consisted of product development and enhancement costs incurred within a centralized R&D function. 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. Our R&D expenses for the year ended December 31, 2013 were $32.0 million, a decrease of $7.9 million from $39.9 million for the year ended December 31, 2012. As a percentage of net sales, R&D expenses were 1.9% for the year ended December 31, 2013, compared to 2.4% for the year ended December 31, 2012. At a constant exchange rate, R&D expenses decreased $7.7 million. Decreases in spending for the year ended December 31, 2013, compared to the same prior year period, were primarily related to benefits realized from executed cost savings and productivity initiatives.

Impairment on long lived assets

Impairment on long lived assets for the year end December 31, 2013 and 2012 was $25.6 million and $4.3 million, respectively. For the year ended December 31, 2013, $24.1 million of this impairment on long lived assets is directly attributed to an impairment recorded on the Company's corporate facility located in Skillman, NJ as a result of the decision to relocate functions performed at the corporate facility to other ConvaTec locations.

Other costs and net expenses

Interest expense

Our Interest expense for the year ended December 31, 2013 was $448.4 million, an increase of $21.4 million from $427.0 million for the year ended December 31, 2012. At a constant exchange rate, the compounding effect of accrued PEC dividends resulted in a year over year increase in interest expense of $16.3 million. Additionally, we incurred an incremental interest expense for the full year of 2013 instead of the partial year in 2012, in connection with the $300.0 million of additional borrowings used to finance the acquisition of 180 Medical at the end of the third quarter of 2012. These increases were partially offset by lower interest rates on our term loans, as a result of refinancing transactions completed during the third and fourth quarters of 2013.

Foreign exchange loss

Foreign exchange loss is comprised of net gains and losses resulting from the re-measurement or settlement of transactions that are denominated in a currency that is not the functional currency of a transacting company subsidiary. For the year ended December 31, 2013, the foreign exchange loss amounted to $5.7 million compared to a foreign exchange loss of $14.3 million during the year ended December 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 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 was $2.1 million and $4.9 million for the year ended December 31, 2013 and 2012, respectively. The gain recorded during the year ended December 31, 2013 primarily related to proceeds received in the first quarter of 2013 as a result of the demutualization of an insurance company that previously

provided insurance coverage for potential product liabilities. The gain recorded during the year ended December 31, 2012 primarily related to the sale of patented technology and related property, plant and equipment assets.

Loss on extinguishment of debt

During the year ended December 31, 2013, we recorded a non-cash $4.4 million loss on early extinguishment of debt, resulting from the refinancing of our term loans completed at the end of the third quarter 2013. The loss was comprised of a $3.9 million write-off of unamortized deferred financing fees and a $0.5 million write-off of unamortized OID. Refer to Note 13 – Long-Term Debt, in our December 31, 2013 Consolidated Financial Statements, included herein for further details.

Provision/Benefit for income taxes

During the year ended December 31, 2013, we recorded a provision for income taxes of $32.1 million and for the year ended December 31, 2012, we recorded a benefit for income taxes for $17.3 million. The increase in the provision for income taxes in 2013 as compared to the benefit recorded in 2012 is primarily the result of an increase in the valuation allowance recorded against deferred tax assets in the U.S. and Luxembourg. This increase primarily relates to net operating losses and other future deductible temporary differences that are not expected to be realized. Additionally, the increase in income tax provision was due to an increase in deferred tax expense for unremitted earnings that are not permanently reinvested, as a result of a tax law change in a certain tax jurisdiction. Also, a change in the profit mix among jurisdictions carrying varying tax rates and an increase in uncertain tax positions further increased the income tax provision recognized during the year ended December 31, 2013, as compared to the same prior year period.

Net loss

As a result of the above, net loss increased $12.6 million to a net loss of $173.7 million for the year ended December 31, 2013, compared to a net loss of $161.1 million for the year ended December 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 not considered by management to 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 year ended December 31, 2013 and 2012.

(in millions of $)	Year Ended December 31, 2013	2012
Net loss	$ (173.7)	$ (161.1)
Provision (Benefit) for income taxes	32.1	(17.3)
Loss on extinguishment of debt	4.4	-
Other income, net	(2.1)	(4.9)
Foreign exchange loss	5.7	14.3
Interest expense	448.4	427.0
Depreciation and amortization	187.6	180.8
EBITDA	**$ 502.5**	**$ 438.8**
Adjustments:		
Integration-related costs [(a)]	-	3.8
Other[(b)]	50.4	54.6
Total adjustments	50.4	58.4
Realized foreign exchange (loss) gain	(3.2)[(2)]	7.0
Adjusted EBITDA[(1)(3)]	**$ 549.7**	**$ 504.2**

(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 of 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.

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

(3) Adjusted EBITDA in 2013 and 2012 includes $9.3 million and $2.1 million, respectively of legal expenses, of which $3.3 million and $2.1 million were incurred in connection with a patent infringement action in which we were plaintiff.

Liquidity and capital resources

As of December 31, 2013 and December 31, 2012, our cash and cash equivalents were $271.4 million and $129.4 million, respectively. Additionally, as of December 31, 2013, we had $252.9 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 for at least the next 12 months our existing cash on hand, combined with our operating cash flow and available borrowings under the Credit Facilities will provide sufficient liquidity to fund our operations, debt service 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 year ended December 31, 2013 and 2012, we generated net cash flows from operating activities, net of interest payments, of $229.1 million and $188.8 million, respectively. Total interest payments were $218.0 million and $216.6 million for the year ended December 31, 2013 and 2012, respectively.

Financing and Financing Capacity

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

In order to fund CFI's interest expense on the PIK Notes, it is anticipated that CHB will fund semi-annual cash interest payments equal to the cash interest owed by CFI to the holders of the PIK Notes. Such funding will be to the extent permitted by our restricted payment capacity, a specified leverage ratio and other provisions outlined in our debt agreements. The cash interest payments are incremental to the interest due on our long term debt and will reduce our operating cash flows going forward. The timing of CHB's cash interest payments will also be on January 15 and July 15, commencing on January 15, 2014. However, since the PIK Notes are not recorded on CHB's consolidated balance sheet, the amount of the cash interest paid by CHB will instead reduce the equivalent amount of accrued PEC dividends on CHB's consolidated balance sheet. As of December 31, 2013, the current portion of accrued PEC dividends on CHB's consolidated balance sheet and the amount of accrued interest on the PIK Notes on the consolidated balance sheet of the Parent was $1,325 million. For further information regarding the differences between the consolidated financial statements of CHB and the Parent, please refer to the "Reconciliation to the Parent's Financial Statements" within this Annual Report.

Our long term debt consists of Secured Notes and Senior Notes and the Credit Facilities Agreement (the "Credit Facilities"), as amended during the third quarter of 2013. Refer to Note 13 – Long Term Debt and the discussion below for additional details regarding the amendment and the repricing of our Term Loan Facilities. As of December 31, 2013, we had total debt outstanding, excluding capital leases and other obligations, of $2,966.2 million, net of $3.8 million of unamortized original issue discount.

As of December 31, 2013, borrowings outstanding under the Secured Notes, due 2017, were EUR 300.0 million ($412.3million) and borrowings outstanding under the Senior Notes, due 2018, were $745.0 million and EUR 250.0 million ($343.6 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").

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

outstanding borrowings of both the EURO and U.S. Dollar Term Loan Facilities at the time of the Repricing are subject to a 1% prepayment premium of the aggregate principal amount, if any voluntary repayments or prepayments are made prior to March 28, 2014 to refinance, replace or substitute all or a portion of the Term Loan Facilities.

Total borrowings outstanding under the Term Loan Facilities denominated in U.S. Dollars and Euros were $804.0 million and EUR 483.9 million ($665.1million), respectively as of December 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. However, as a result of mandatory prepayments discussed further below, no quarterly installment payments are due until the Term Loan Facilities mature on December 22, 2016.

The Revolving Credit Facility of $250.0 million is available through its maturity date in certain currencies at the borrower's option and is used to provide for ongoing working capital requirements, letters of credit, and for our general corporate purposes. The Revolving Credit Facility also allows for up to $40.0 million letters of credit issuances as well as $25.0 million for same-day borrowings, referred to as swingline loans. There were no borrowings outstanding under the Revolving Credit Facility at December 31, 2013. Letters of credit outstanding under the Revolving Credit Facility totaled approximately $0.8 million. As of December 31, 2013, we had $252.9 million of availability under the Revolving Credit Facility.

The Incremental Term Facilities are unfunded commitments and are available in an amount up to $400.0 million (net of any issuance of secured notes issued) in either U.S. Dollars and/or Euros 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 December 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 $45.1 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.

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 and amended in the Credit Facilities Agreement, is the greater of (a) the Prime Rate, (b) the Federal Funds Effective Rate plus 0.50% or (c) the Eurodollar Rate for a one-month interest period plus 1.00%. ABR is subject to an initial margin of 3.25% on borrowings under the Revolving Credit Facility and 2.00% on Dollar Term Loan ABR borrowings. Additionally, at no time can the ABR be less than 2.00% per annum. As a result of the Repricing, EURIBOR and LIBOR borrowings are subject to an initial margin of 3.25% and 3.00%, respectively, and a floor of 1.00%. The margins on our EURIBOR and LIBOR interest rates may increase by 25 basis points if there is a decline in our corporate credit rating.

Under the original terms of the Credit Facilities Agreement, the margin on both EURIBOR and LIBOR loans was 4.25%, subject to a floor of 1.50% to 1.75% on EURIBOR loans and a floor of 1.50% on LIBOR loans. In the third quarter and fourth quarters of 2012, we refinanced both the EURO and U.S. Dollar Term Loan Facilities, whereby the margin on the EURIBOR and LIBOR borrowings was reduced to 4.00% and 3.75%, respectively. The floor was also reduced to 1.25% for both EURIBOR and LIBOR borrowings. Our borrowing arrangements contain a number of financial and non-financial covenants. We were in compliance with all covenants as of December 31, 2013.

Cash flows

The following table sets forth consolidated cash flow data for the year ended December 31, 2013 and 2012:

(in millions of $)	For the Year ended December 31, 2013	2012
Net cash provided by operating activities	$ 229.1	188.8
Net cash used in investing activities	(33.8)	(404.5)
Net cash (used in) provided by financing activities	(53.0)	261.4
Effect of exchange rate changes on cash and cash equivalents	(0.3)	2.2
Net change in cash and cash equivalents	142.0	47.9
Cash and cash equivalents at beginning of period	129.4	81.5
Cash and cash equivalents at end of period	$ 271.4	129.4
Supplemental cash flow information		
Income taxes paid	$ 32.6	$ 32.2
Interest paid	$ 218.0	$ 216.6
Noncash investing activities:		
Accrued capital expenditures included in accounts payable	$ 4.7	$ 4.4

Cash flows from operating activities

Net cash provided by operating activities was $229.1 million and $188.8 million for the year ended December 31, 2013 and 2012, respectively. The $40.3 million increase in our operating cash flows was driven by increased cash flows from acquisitions and continued benefits from the savings achieved from focused productivity and cost control measures. In addition, during 2012 there was incremental spend related to business restructuring actions, while there has been minimal restructuring activity during 2013. The increase in cash from operations was partially offset by working capital changes, primarily related to increased inventory build.

Cash flows from investing activities

For the year ended December 31, 2013 and 2012, net cash used in investing activities was $33.8 million and $404.5 million, respectively. The decrease in cash used in investing activities was primarily due to the fact that we completed multiple acquisitions during 2012, while none were completed during 2013. The most significant of the 2012 acquisitions was 180 Medical, which was acquired on September 28, 2012 for a net cash purchase price of $318.1 million, prior to the $1.0 million working capital adjustment. In addition, timing of capital expenditures further contributed to the decrease in cash used during 2013 versus the comparative prior year period.

Cash flows from financing activities

Net cash used in financing activities was $53 million for the year ended December 31, 2013 versus net cash provided by financing activities of $261.4 million, in the comparative prior year period. The net cash used during the year ended December 31, 2013 was primarily related to a $45.1 million mandatory prepayment we made on our Term Loan Facilities for excess cash flow retained in the business, coupled with $8.0 million of deferred financing fees paid to refinance our term loans and amend our Credit Facilities Agreement. Net cash provided by financing activities for the year ended December 31, 2012 primarily resulted from the issuance of a $299.2 million term loan, after adjustment for original issue discount, to finance the acquisition of 180 Medical. These cash proceeds were partially offset by $29.6 million in debt repayments, inclusive of a $23.9 million mandatory prepayment on our Term Loan Facilities.

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".

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

With respect to environmental matters for which we are responsible under various national, state and local laws, we typically estimate potential costs based on information obtained from the U.S. Environmental Protection Agency, or counterpart state agencies, other national environmental agencies and/or studies prepared by independent consultants, including total estimated costs for the site and the expected cost-sharing, if any, with other "potentially responsible parties," and we accrue liabilities when they are probable and reasonably estimable. As of December 31, 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".

Other Matters

As a result of a routine inspection, we received a warning letter from the FDA dated May 24, 2013. The warning relates to complaint handling and other quality management systems at our Skillman, New Jersey facility. Resources have been added to address the FDA concerns in a timely manner. We have engaged third-party consultants to develop remediation procedures and are working closely and cooperatively with the FDA to alleviate its concerns. We believe that these efforts will be adequate to address the issues raised in the warning letter.

Contractual obligations

The following unaudited table sets forth, as of December 31, 2013, our contractual obligations and commercial commitments, based upon the period in which payments are due. Note that the tabular presentation below does not include obligations related to the Series 1, 2 and 3 PECs we issued to our Sponsors in conjunction with the ConvaTec Acquisition and the Unomedical Acquisition for an aggregate amount of €1,289.7 million ($2,026.7 million) at the time of the acquisitions. The PECs are mandatorily redeemable by us in 2047 or upon the occurrence of a liquidation event. The PECs are included within total liabilities, as presented in our audited Consolidated Financial Statements included herein. See "Certain relationships and related party transactions—Mandatorily redeemable preferred equity certificates" for further discussion of the PECs.

Contractual obligations

(in millions of $)	Total	Less than 1 year	1-3 years	3-5 years	Thereafter
Total debt[(1)]	2,970.3	73.6	1,808.1	1,088.6	0.0
Operating lease obligations	46.4	20.2	19.3	5.7	1.2
Purchase commitments	49.7	25.5	24.2	0.0	0.0
Total	**3,066.4**	**119.3**	**1,851.6**	**1,094.3**	**1.2**

The table above does not include $6.5 million of the total unrecognized tax benefits for uncertain tax positions and $43.6 million of associated accrued interest and penalties. Due to the high degree of uncertainty regarding the timing of potential future cash flows, the Company is unable to make a reasonable estimate of the amount and period in which these liabilities might be paid.

(1) Represents scheduled principal payments of our total debt which is primarily comprised of amounts payable under the Credit Facilities and Secured Notes and Senior Notes, inclusive of $3.8 million of Original Issue Discount on the Credit Facilities.

Capital expenditures

Our capital expenditures were $36.9 million for the year ended December 31, 2013.

For the twelve month period ending December 31, 2014, 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 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 audited Consolidated Financial Statements, for the critical accounting policies that we believe require 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.

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.

Foreign currency risk

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

Interest rate risk

We are exposed to interest rate risk affecting cash flows, particularly on our long term debt obligations. We do not have any interest rate exposure due to rate changes on our Secured Notes and Senior Notes, as they bear interest at a fixed rate.

However, we do have cash flow exposure on our Credit Facilities due to variations in the floating rate indices (LIBOR and EURIBOR).

Reconciliation to the Parent's Financial Statements

In connection with the PIK Notes offering, we are required to present a summary of the primary financial statement reconciliation differences between CHB and the Parent. Please refer to the "Presentation of financial information" and "Recent developments" in the beginning of the MD&A as well as "Financing and Financing Capacity" under "Liquidity and capital resources" for further information regarding the PIK Notes and our financial presentation requirements. We believe that the Consolidated Financial Statements of CHB, prepared in accordance with U.S. GAAP, fairly represent the operating activities of the Parent, with the exception of the differences discussed below. As of the date this Annual Report was available for issuance, the financial statements of the Parent had not been subject to any audit procedures.

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

Consolidated Balance Sheets

As of December 31, 2013 Total Assets and Total Liabilities combined with Stockholder's Deficit differed by $3.3 million on the Parent's Consolidated Balance Sheet, as compared to the balance sheet of CHB. The differences are confined to the following line items:

	Parent December 31, 2013	CHB December 31, 2013	Differences
Assets			
Cash and cash equivalents	$ 271.8	$ 271.4	$ 0.4
Other assets	76.9	80.6	(3.7)
Total Assets Difference			**$ (3.3)**
Liabilities and Stockholder's Deficit			
Accrued expenses and other current liabilities	$ 261.5	$ 232.1	$ 29.4
Long-term debt	3,857.6	2,966.3	891.3
Mandatorily redeemable preferred equity certificates	2,173.0	3,097.3	(924.3)
Retained deficit	(2,390.8)	(2,367.4)	(23.4)
Accumulated other comprehensive income (net of tax)	117.9	94.2	23.7
Total Liabilities and Stockholder's Deficit Difference			**$ (3.3)**

Consolidated Statements of Operations

For the year ended December 31, 2013, the total Net loss for the Parent was $180.2 million, as compared to a total Net loss for CHB of $173.7 million. The total difference of $6.5 million primarily related to management and other fees and an incremental amount of interest expense recorded in the Parent's Consolidated Statement of Operations. The Parent's increased interest expense as compared to that of CHB is driven by an incremental amount of interest-bearing debt and a higher interest rate on a portion of that debt. The expense increases were partially offset by foreign exchange movement.

Consolidated Statements of Cash Flows

As of December 31, 2013, total cash and cash equivalents on the Parent's Consolidated Balance sheets was $271.8 million, as compared to total cash and cash equivalents on CHB of $271.4 million. During the twelve months ended December 31, 2013, the increase in cash and cash equivalents of $0.4 million relates to timing of cash used from the proceeds received from the PIK Notes offering. Included within the net cash used in financing activities on the Parent's Consolidates Statement of Cash Flows were $891 million in proceeds received from the issuance of the PIK Notes, almost entirely offset by a repayment of PECs in the amount of $873.1 million and $17.9 million in payments of deferred financing fees, associated with the issuance of the PIK Notes. There were no material differences in total net cash provided by operating activities or net cash used in investing activities for the year ending December 31, 2013.

Management

Board of Directors

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

Board of directors

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

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

Ken Berger Refer to - "Leadership Team" section for further details

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

David Burgstahler David Burgstahler is a Partner and President at Avista Capital Partners. Mr. Burgstahler was a founding partner of Avista Capital Partners in 2005. Previously, he was a Partner of DLJ Merchant Banking Partners. Prior to that, he worked at DLJ Investment Banking, McDonnell Douglas (now Boeing), and Andersen Consulting (now Accenture). He earned a Master of Business Administration from Harvard Business School and a Bachelor of Science in Aerospace Engineering from the University of Kansas. Mr. Burgstahler is currently a member of several Boards including AngioDynamics, Armored AutoGroup, INC Research, Lantheus Medical Imaging, Strategic Partners, Vertical/Trigen, Visant and WideOpenWest.

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

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

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

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

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

Leadership Team

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

Name	Position
Ken Berger	Chief Executive Officer
John Cannon	Chief Financial Officer
Joseph A. Baiunco	Senior Vice President, Human Resources
Todd Brown	180 Medical Chief Executive Officer and Founder
Robbie Heginbotham	Senior Vice President, Operations
John M. Lindskog	President, Infusion Devices & APAC
Robert McKee	Senior Vice President, Marketing and Communications
Paul Moraviec	President, EMEA
Mark Valentine	President, Americas
Fiona Adam	Vice President and General Manager, Wound Therapeutics
Stephen Bishop	Vice President, Research & Development
Mads Haugaard	Vice President and General Manager, Continence & Critical Care
Douglas Le Fort	Vice President and General Manager, Ostomy Care
Alan Richardson	Vice President, Quality and Regulatory

Ken Berger Ken Berger is the Chief Executive Officer and a Member of the Board of Directors of ConvaTec. Mr. Berger joined ConvaTec in 2012 from Thermo Fisher Scientific, where he held several President-level roles, including Senior Vice President and Group President of the Specialty Diagnostics Group. Prior to Thermo Fisher Scientific, Mr. Berger worked in a series of sales, operating and general management leadership positions at GE, Dow Chemical and Allied Signal (now Honeywell). Mr. Berger holds a degree in Macromolecular Science from Case Western Reserve University and an MBA from Pepperdine University.

John Cannon John Cannon is the Chief Financial Officer of ConvaTec. Mr. Cannon joined ConvaTec in 2012 as Vice President, Finance, with financial responsibility for ConvaTec's global manufacturing operations and the EMEA and APAC regions. He was named acting CFO in July 2013 and assumed the CFO role officially in January 2014. Prior to joining ConvaTec, Mr. Cannon was with PMC Treasury, a financial advisory firm for private-equity sponsored companies. Earlier, he was the senior financial officer with a large global manufacturer. He also spent 15 years in banking with Bankers Trust (now Deutsche Bank) and JPMorgan. Mr. Cannon holds a Bachelor of Science degree in Physics and Economics from Haverford College and an MBA from New York University's Stern School of Business.

Joseph A. Baiunco Joseph Baiunco is Senior Vice President of Human Resources and Shared Services for ConvaTec. Mr. Baiunco joined ConvaTec in 2012. Most recently, he was the Global Vice President of Human Resources at Thermo Fisher Scientific Company. Prior to that, he spent more than 25 years in a multitude of HR roles at various companies including Florida Power and Light Corporation, International Specialty Products and Golden Bear Golf. Mr. Baiunco holds a Master's degree from Florida Institute of Technology in Science and Management and a Bachelor's degree from Temple University.

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

Robbie Heginbotham Robbie Heginbotham is Senior Vice President, Operations. Mr. Heginbotham has more than 40 years of experience in Manufacturing, Supply Chain, Project and General Management. He joined ConvaTec in 1981 from Bristol-Myers Squibb Company and has held multiple roles in Manufacturing, Operations and Supply Chain Management, including Vice President, Manufacturing Operations for the UK. Most recently, Mr. Heginbotham held a leadership role in the development of the ConvaTec Wound Care Center of Excellence in Deeside, UK. Mr. Heginbotham holds a Diploma in Manufacturing Management from Manchester University.

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

Robert McKee Robert McKee is Senior Vice President of Marketing and Communications. Mr. McKee joined ConvaTec in 2012 from Towers Watson, a large publicly traded professional services firm. He spent over 20 years with Towers Watson and its predecessor firms. His roles included Vice President and Global Director of Marketing for Watson Wyatt Worldwide. He also headed global digital media, knowledge management and public relations functions during his career at the firm. Mr. McKee holds a Bachelor of Arts degree in English from Columbia College/Columbia University.

Paul Moraviec Paul Moraviec is President of EMEA, the Company's largest geographic region. Mr. Moraviec is responsible for developing commercial strategy and driving operational excellence for the ConvaTec Europe, Middle East, and Africa ("**EMEA**") markets. Mr. Moraviec joined ConvaTec in 2009 from Prosurgics Limited where he was CEO from 2007 to 2009. Prior to joining Prosurgics, Mr. Moraviec held leadership positions with Abbott Laboratories Diabetes Care Division, IIT, a UK medical devices start-up company, and Codman, part of Johnson & Johnson's Medical Devices and Diagnostics Group. Mr. Moraviec holds a Master's degree in Marketing from Kingston University Business School in the UK.

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

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

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

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

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

Alan Richardson Alan Richardson is Vice President of Quality and Regulatory. Mr. Richardson joined ConvaTec in 2007. Earlier, Mr. Richardson held a number of leadership positions with Bristol Myers Squibb, Covance and Yorkshire Chemicals. Mr. Richardson holds an honors degree from Bradford University (UK) in Chemical Engineering and a Certificate in Management from Dearne Valley Business School.

Principal shareholders

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

Name of shareholder	Total percentage of shares beneficially owned (%)[1]
Nordic Capital[2]	69.85%
Avista Capital Partners[3]	30.15%
Total	**100.00%**

(1) Nordic Capital and Avista Capital Partners ownership is shown pre-management dilution. See Note 16 to the 2013 audited Consolidated Financial Statements included elsewhere in this Annual Report in regards to management's equity ownership in the Company.

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

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

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

Nordic Capital

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

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

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

Avista Capital Partners

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

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

Certain relationships and related party transactions

The following is a summary of certain provisions of the instruments evidencing our material indebtedness. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents. In addition, please note that the provisions outlined below reflect facts and information about the debt instruments as of December 31, 2013. For further information regarding our existing indebtedness, please see "Footnote 13 – Long – Term Debt" within the audited Consolidated Financial Statements and "Certain relationships and related party transactions—Mandatorily redeemable preferred equity certificates", included elsewhere in this Annual Report.

Management agreement

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

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

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

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

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

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

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

Loan Facility Agreement

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

Mandatorily redeemable preferred equity certificates

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

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

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

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

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

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

Subordination agreement

Pursuant to a Subordination Agreement between, among others, CHB, ConvaTec Healthcare C S.à.r.l., ConvaTec Healthcare D S.à.r.l. (collectively, the "Subordinated Obligors"), the Agent on behalf of the Lenders under the existing

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

Description of certain financing arrangements

The following is a summary of certain provisions of the debt instruments evidencing our material indebtedness. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents. In addition, please note that the provisions outlined below reflect facts and information about the debt instruments as of December 31, 2013. For further information regarding our existing indebtedness, please see "Footnote 13 – Long – Term Debt" within the audited Consolidated Financial Statements and "Certain relationships and related party transactions—Mandatorily redeemable preferred equity certificates", included elsewhere in this Annual Report.

The Credit Facilities Agreement

Our Credit Facilities Agreement consists of (i) $500 million and $300.0 million U.S Dollar and EURO 550.0 million term loans (the "Term Loan Facilities"), (ii) a $250.0 million revolving credit facility (the "Revolving Credit Facility"), (iii) and availability for up to $400.0 million of incremental term facilities (the "Incremental Term Facilities"), which will be available on the terms set out below.

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

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

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

Repayments and prepayments

The Term Loan Facilities are repayable in equal quarterly installments in an aggregate annual amount equal to approximately 1% of the original principal amount of the Term Loan Facilities. Additionally, borrowings under the U.S. Dollar term loan are subject to a 1% prepayment premium of the aggregate principal amount, if any voluntary repayments or prepayments are made prior to March 31, 2014 to refinance, replace or substitute all or a portion of the U.S. Dollar term loan with indebtedness having a lower effective yield. Borrowings under the EURO term loan are subject to a 1% prepayment premium of the aggregate principal amount, if any voluntary repayments or prepayments are made prior to November 6, 2013 to refinance, replace or substitute all or a portion of the EURO term loan with indebtedness having a lower effective yield. The Term Loan Facility will mature December 22, 2016 and the Revolving Credit Facility will mature December 22, 2015. Any amounts still outstanding under the respective facilities at such times will be immediately due and payable.

Subject to certain conditions, we may voluntarily prepay our utilizations under the Credit Facilities in a minimum amount of $1 million (or its equivalent) for term loans or revolving loans and $100,000 (or its equivalent) for swingline loans. Amounts repaid under the Term Loan Facility may not be reborrowed. We may also voluntarily permanently cancel all or part of the available revolving commitments under the Credit Facilities in a minimum amount of $1 million (or its equivalent) by giving three business days' prior notice to the Agent under the Credit Facilities.

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

Interest and fees

Borrowings under the Credit Facilities bear interest at either a Euro (EURIBOR) or U.S. Dollar (LIBOR) base rate, or an 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%. LIBOR borrowings are subject to an initial margin of 3.75% and a floor of 1.25%. The margin on all loans may decrease based upon decreases in our leverage ratio.

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

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

Covenants

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

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

- changes in fiscal year;
- negative pledge clauses and clauses restricting subsidiary distributions; and
- changes in lines of business.

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

Financial covenants

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

Events of default

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

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

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

Governing law

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

Intercreditor Agreement

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

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

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

Only the Collateral Agent shall act or refrain from acting with respect to the Shared Collateral (including with respect to any intercreditor agreement with respect to any Shared Collateral), and then only on the instructions of the Requisite Holders, (ii) the Collateral Agent shall not follow any instructions with respect to such Shared Collateral (including with respect to any intercreditor agreement with respect to any Shared Collateral) from any holder of First Lien Obligations

other than the Requisite Holders and (iii) no other holder of First Lien Obligations (other than the Requisite Holders) shall or shall instruct the Collateral Agent to, commence any judicial or non-judicial foreclosure proceedings with respect to, seek to have a trustee, receiver, liquidator or similar official appointed for or over, attempt any action to take possession of, exercise any right, remedy or power with respect to, or otherwise take any action to enforce its security interest in or realize upon, or take any other action available to it in respect of, any Shared Collateral (including with respect to any intercreditor agreement with respect to any Shared Collateral), whether under any agreement governing First Lien Obligations, applicable law or otherwise. No holder of First Lien Obligations will contest, protest or object to any foreclosure proceeding or action brought by the Collateral Agent or any other exercise by the Collateral Agent of any rights and remedies relating to the Shared Collateral, or to cause the Collateral Agent to do so.

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

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

If the Issuer or any Guarantor becomes subject to any bankruptcy case, the Intercreditor Agreement provides that if Issuer or any Guarantor shall, as debtor(s)-in-possession, move for approval of financing ("DIP Financing") to be provided by one or more lenders (the "DIP Lenders") under Section 364 of the U.S. Bankruptcy Code or the use of cash collateral under Section 363 of the U.S. Bankruptcy Code, each holder of First Lien Obligations agrees that it will raise no objection to any such financing or to the liens on the Shared Collateral securing the same ("DIP Financing Liens") or to any use of cash collateral that constitutes Shared Collateral, if the Requisite Holders support such DIP Financing or such DIP Financing Liens or use of cash collateral (and (i) to the extent that such DIP Financing Liens are senior to the liens on any such Shared Collateral for the benefit of the Requisite Holders, each other holder of First Lien Obligations will subordinate its Liens with respect to such Shared Collateral on the same terms as the liens of the Requisite Holders (other than any liens of any holders of First Lien Obligations constituting DIP Financing Liens) are subordinated thereto, and (ii) to the extent that such DIP Financing Liens rank *pari passu* with the liens on any such Shared Collateral granted to secure the First Lien Obligations of the Requisite Holders, each other holder of First Lien Obligations will confirm the priorities with respect to such Shared Collateral as set forth herein), in each case so long as (A) the holders of First Lien Obligations of each series retain the benefit of their liens on all such Shared Collateral pledged to the DIP Lenders, including proceeds thereof arising after the commencement of such proceeding, with the same priority *vis-a-vis* all the other holders of First Lien Obligations (other than any liens of the holders of First Lien Obligations constituting DIP Financing Liens) as existed prior to the commencement of the bankruptcy case, (B) the holders of First Lien Obligations of each series are granted liens on any additional collateral pledged to any holders of First Lien Obligations as adequate protection or otherwise in connection with such DIP Financing or use of cash collateral, with the same priority *vis-a-vis* the holders of First Lien Obligations as set forth in the Intercreditor Agreement, (C) if any amount of such DIP Financing or cash collateral is applied to repay any of the First Lien Obligations, such amount is applied pursuant to the terms of the Intercreditor Agreement and (D) if any holders of First Lien Obligations are granted adequate protection with respect to the First Lien Obligations subject to the Intercreditor Agreement, including in the form of periodic payments, in connection with such DIP Financing or use of cash collateral, the proceeds of such adequate protection are applied pursuant to the Intercreditor Agreement; *provided* that the holders of First Lien Obligations of each series shall have a right to object to the grant of a Lien to secure the DIP Financing over any collateral subject to Liens in favor of the holders

of First Lien Obligations of such series or its authorized representative that shall not constitute Shared Collateral; and *provided*, *further*, that the holders of First Lien Obligations receiving adequate protection shall not object to any other holder of First Lien Obligations receiving adequate protection comparable to any adequate protection granted to such holders of First Lien Obligations in connection with a DIP Financing or use of cash collateral.

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

Issuer Loan

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

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

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

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

Risk factors

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

Risks Related to Our Business

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

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

The reduction in economic activity and lack of available financing have impacted and could continue to impact our business in a variety of ways, including the following:

- loss of jobs and lack of health insurance as a result of the economic slowdown could depress demand for health care services and our products;
- reduction in the number of insured and lack of available credit could result in the inability of private insurers to satisfy their reimbursement obligations, lead to delays in payment or cause the insurers to increase their scrutiny of our claims;
- customers and GPOs could continue to exert downward pressure on the prices of our products;
- shortage of available credit for working capital could lead customers who buy goods from us to curtail their purchases or cause them difficulty in meeting payment obligations;
- tightening of credit and disruption in the financial markets could disrupt or delay performance by our third party vendors and contractors and adversely affect our business; or
- problems in the credit and financial markets could limit the availability and size of alternative or additional financing for our working capital or other corporate needs and could make it more difficult and expensive to obtain waivers under or make changes to our existing credit arrangements.

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

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

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

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

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

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

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

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

The manufacture and sale of medical devices and related products exposes us to a significant risk of litigation, particularly product liability claims. From time to time, we have been, and we currently are, subject to a number of product liability claims alleging that the use of our products resulted in adverse effects. In addition, we are exposed to claims that a material design or manufacturing failures in our products, quality system failures, or other safety issues warrant the recall of some of our products. Even if we are successful in defending against any claims, such claims could nevertheless divert the time, energy and efforts of our management, result in substantial costs, harm our reputation, adversely affect the sales of all our products and otherwise harm our business. If there is a significant increase in the number of product liability claims, our business could be adversely affected.

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

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

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

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

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

- diminished protection of intellectual property;
- greater payables risk due to difficulty in collecting accounts receivable and longer collection periods;
- trade protection measures and import or export licensing and/or product registration requirements;
- difficulty in staffing, training and managing local operations;
- differing legal and labor regulations;
- labor disputes;
- increased costs of transportation or shipping;
- potential adverse tax consequences, including consequences from changes in tax laws and the imposition or increase of withholding and other taxes on remittances and other payments by international subsidiaries, which, among other things, may preclude payments or dividends from certain subsidiaries from being used for our debt service, and exposure to adverse tax regimes;
- political and economic instability; and
- security risks associated with criminal activity in certain countries.

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

in that respective market. If we fail to manage these risks effectively, our business, results of operations and financial condition may be materially adversely affected.

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

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

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

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

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

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

In addition, we rely on third parties to manufacture some of our products as well as some subcomponents of our other products. Third-party contract manufacturers accounted for approximately 15% of our cost of goods sold for 2013. If we encounter a cessation, interruption or delay in the supply of the products purchased from our third-party manufacturers, we may be unable to obtain such products through other sources on acceptable terms, within a reasonable amount of time or at all. In addition, if our agreements with the manufacturing companies are terminated, we may not be able to find suitable replacements within a reasonable amount of time or at all. Any such cessation, interruption or delay affecting our global supply chain may impair our ability to meet scheduled deliveries of our products to our customers and may cause our customers to cancel orders. In that event, our reputation, business, results of operations and financial condition may be adversely affected.

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

We have 11 manufacturing operations located in 8 countries. Significant portions of our products for certain franchises are produced in one/two manufacturing facilities as follows:

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

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

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

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

We depend on our senior managers and other key personnel to run our business and on technical experts to develop new products and technologies. The loss of any of these senior managers or other key personnel could adversely affect our operations. Competition for qualified employees is intense, and the loss of qualified employees or an inability to attract, retain and motivate additional highly skilled employees required for the management, operation and expansion of our business could hinder our ability to expand, conduct research and development activities successfully and develop marketable products.

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

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

We use non-patented, proprietary know-how, trade secrets, processes and other proprietary information and currently employ various methods to protect this proprietary information, including confidentiality agreements, invention assignment agreements and proprietary information agreements with vendors, employees, independent sales agents, distributors, consultants, and others. However, these agreements may be breached. Governmental agencies or other national or state regulatory bodies may require the disclosure of such information in order for us to have the right to

market a product. An agency or regulator may also disclose such information on its own initiative if it should decide that such information is not confidential business or trade secret information. Trade secrets, know-how and other unpatented proprietary technology may also otherwise become known to or independently developed by our competitors.

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

Additionally, our proprietary rights in intellectual property may be challenged, which could have a material adverse effect on our business, financial condition and results of operations. The wound care, ostomy care, infusion devices and continence care industries are highly litigious with respect to the enforcement of patents and other intellectual property rights. In some cases, intellectual property litigation may be used to gain a competitive advantage. We have in the past and may in the future become a party to lawsuits involving patents or other intellectual property. If a third party brings a legal action against us, we may incur substantial costs in defending ourselves, and we cannot assure you that such an action would be resolved in our favor. If such a dispute were to be resolved against us, we may be subject to significant damages, and the testing, manufacture or sale of one or more of our technologies or products may be enjoined.

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

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

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

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

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

Our operations are subject to national, state and local environmental laws, regulations and other requirements, including regulations governing the generation, use, manufacture, handling, transport, storage, treatment and disposal of, or exposure to, hazardous materials, discharges to air and water, the cleanup of contamination and occupational health and

safety matters. For example, our research and development and manufacturing processes involve the use of hazardous and other materials subject to environmental regulation.

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

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

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

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

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

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

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

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

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

The medical device industry is concentrated, with relatively few companies accounting for a large percentage of sales in the markets that we target. No single customer accounted for more than 10% of our consolidated net sales for the years ended December 31, 2012 or 2013. However, we have large customers in each of our franchises. We are likely to experience increased customer concentration, particularly if there is further consolidation or in-sourcing within the medical device industry. For example, insulin pump manufacturers, our primary customers in our Infusion Devices franchise, have attempted to in-source production of our infusion sets in the past. So far, these attempts have not been successful. However, in 2010 a key customer in this franchise in-sourced production of catheters that it had previously purchased from us. Future attempts or decisions by any of our customers to in-source production of our products could have an adverse effect on our business, financial condition and results of operations. We also cannot assure you that net sales to customers that have accounted for significant net sales in the past, either individually or as a group, will reach or exceed historical levels in any future period. The loss or a significant reduction of business from any of our major customers would adversely affect our results of operations and financial condition.

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

As of December 31, 2013 and December 31, 2012, our goodwill represented $1,183.3 million or 25.8% and $1,127.8 million or 25.1%, respectively, of our total assets. Goodwill is generated from acquisitions when the cost of an acquisition exceeds the fair value of the net tangible and identifiable intangible assets we acquire. Goodwill is subject to an impairment analysis at least annually based on a comparison of the fair value of the reporting unit to its carrying value. If impairment is indicated from this first step, the implied fair value of the goodwill must be determined and compared to the carrying value of the goodwill. We could be required to recognize additional reductions in our earnings caused by the impairment of goodwill, which if significantly impaired, could materially and adversely affect our results of operations.

Risks Related to Our Regulatory Environment

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

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

The medical device products we design, develop, test, manufacture, label, distribute, market and export/import are subject to rigorous regulation by governmental authorities such as the FDA in the U.S., the European Union ("**EU**") National Competent Authorities (the "**NCAs**") of the Member States of the European Economic area ("**EEA**"), and numerous other national and/or state governmental authorities in the countries in which we manufacture and sell our products. These regulations govern, among other things: the research testing, manufacturing, safety, clinical efficacy, effectiveness and performance, product standards, packaging requirements, labeling requirements, import/export restrictions, storage, recordkeeping, promotion, distribution, production, tariffs, duties and tax requirements. Our products and operations are also often subject to the rules or norms of industrial standards bodies, such as the International Standards Organization or the rules of associations of health care professionals. In the U.S., our products are subject to regulation by the FDA pursuant to its authority under the federal Food, Drug and Cosmetic Act (the "**FDCA**") and its implementing regulations, and many of the laws and regulations applicable to our products in other countries, such as the Council Directive 93/42/EEC of 14 June 1993 concerning medical devices, as amended (the "**EU Medical Devices Directive**") (as transposed into the respective national laws and regulations of the EEA Member States), are generally comparable to those of the FDCA in their aim to ensure safety and effectiveness of medical devices, but the applicable standards and proceedings are not globally harmonized. Such regulations are subject to continuous revision, which may entail increased requirements, and, more generally, there appears to be a trend toward more stringent regulatory oversight throughout the world. We do not anticipate this trend to diminish in the near future. Due to the movement towards harmonization of standards in the European Union and the expansion of the European Union, we expect a changing regulatory environment in Europe characterized by a shift from a country-by-country regulatory system to a European Union-wide single regulatory system. The timing of this harmonization and its effect on us cannot currently be predicted. Likewise, changes to the EU medical devices legislative framework are currently under review (the "**Recast**" or "**Revision**" of the Medical Device Directive) and this may result in more stringent regulation of, at least, some medical devices, the details and impact of which cannot yet be predicted. The FDA is also currently implementing an action plan to reform the pre-market notification and clearance (510(k)) process, under which a significant proportion of our devices are currently regulated. The changing regulatory environment, as partially evidenced by the former examples, may have a material impact on existing device marketing authorizations as well as future device registration applications, requirements and timings, which may, in turn, have material impacts upon our ability to continue or begin to market existing and new devices.

We are also subject to antitrust, anti-competition, anti-fraud and anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act (the "**FCPA**") and similar laws in other countries, any violation of which could create a substantial liability for us and also cause a loss of reputation or business opportunity in the market. The FCPA prohibits U.S. companies and their officers, directors, employees, shareholders acting on their behalf and agents from offering, promising, authorizing or making payments to foreign officials for the purpose of obtaining or retaining business abroad or otherwise obtaining favorable treatment. Companies must also maintain records that fairly and accurately reflect transactions and maintain internal accounting controls. In many countries, hospitals and clinics are government owned and health care professionals employed by such hospitals and clinics, with whom we regularly interact, may meet the definition of a foreign official for purposes of the FCPA. We have business in countries and regions which are less developed and are generally recognized as potentially more corrupt business environments. Our activities in these countries create the risk of unauthorized payments or offers of payments by one of our employees or agents that could be in violation of various anti-corruption laws including the FCPA. We have implemented safeguards and policies to discourage these practices by our employees and agents, and we conduct investigations from time to time when allegations of improper conduct are made. However, as for similar businesses, there is always a risk our existing safeguards and any future improvements may prove not to be effective. If employees or agents violate our policies or fail to maintain adequate

record-keeping and internal accounting practices to accurately record our transactions we may be subject to regulatory sanctions. If we are found to have violated the FCPA or other similar laws, we may face sanctions including fines, criminal penalties, disgorgement of profits and suspension or debarment of our ability to contract with government agencies or receive export licenses.

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

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

We are required to expend significant time, effort and expense in bringing new products to market and to adhering to post-market requirements. Among other things, we are required to implement and maintain stringent reporting, labeling and record keeping procedures and must make available our manufacturing facilities and records for periodic inspections by governmental agencies, including the FDA in the U.S., state authorities, Notified Bodies and comparable agencies in other countries to assess compliance with current good manufacturing practice ("**cGMP**") requirements in the applicable jurisdiction. Regulatory agencies are increasingly applying requirements to the post-market phase both in terms of surveillance and vigilance as well as in terms of reporting requirements and post market clinical follow-up. This trend is likely to continue and could result in the need for more frequent post-market clinical studies or registry studies, increasing the costs involved in maintaining product registrations and keeping our products on the market.

(iii) Subjecting our business to increasingly complex and changing laws.

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

For instance, 180 Medical, a fully consolidated subsidiary, is required to have a Medicare Supplier Number in order to bill Medicare for services provided to Medicare patients and 180 Medical is required to comply with Medicare's "Medicare Supplier Standards" in order to maintain such number. If 180 Medical is unable to comply with the relevant standards, 180 Medical could lose its Medicare Supplier Number. The loss of such number for any reason would prevent 180 Medical from billing Medicare for patients who rely on Medicare to pay their medical expenses and 180 Medical would be unable to continue Medicare contracts as well as some Medicaid contracts and, as a result, 180 Medical would experience a decrease in its revenues. Furthermore, as a durable medical equipment ("**DME**") supplier operating in many states within the U.S., 180 Medical is subject to and must comply with each such state's licensure laws regulating DME suppliers. State licensure laws for DME suppliers vary from state to state and are subject to change, and 180 Medical must ensure that it maintains each of its state licenses and is continually in compliance with the laws of the states in which 180 Medical operates. In the event that 180 Medical fails to comply with any such state's laws regulating DME suppliers, 180 Medical will be unable to operate as a DME supplier in such state until it regains compliance. In addition, commercial insurers may cancel their agreement with 180 Medical by giving notice per their agreements, resulting in a loss of revenue to 180 Medical. 180 Medical may also be subject to certain fines and/or penalties, including criminal penalties.

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

Various national and state agencies have become increasingly vigilant in recent years in their investigation of various business practices. If we fail to pass an inspection or to comply with applicable regulatory requirements, we may receive a warning letter or could otherwise be required to take corrective action and, in severe cases, we could suffer a disruption of our operations and manufacturing delays. We cannot assure you that the FDA, the NCAs or other governmental authorities would agree with our interpretation of applicable regulatory requirements or that we have in all

instances fully complied with all applicable requirements. Any failure to comply with applicable requirements could adversely affect our product sales and profitability. As a result of a routine inspection, we received a warning letter from the FDA dated May 24, 2013. The warning relates to complaints handling and other quality management systems at our Skillman, New Jersey, facility. We cannot assure you that the FDA or other governmental authorities will not take further action with respect to this or any future warnings letters. Governmental and regulatory actions against us can result in various actions that could adversely impact our operations, including:

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

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

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

We are subject, directly or indirectly, to federal and state health care fraud and abuse laws and regulations and could face substantial penalties if we are unable to fully comply with such laws.

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

- the U.S. Anti-Kickback Law, which prohibits, among other things, persons or entities from soliciting, receiving, offering or providing remuneration, directly or indirectly, in return for or to induce either the referral of an individual for, or the purchase order or recommendation of, any item or services for which payment may be made under a U.S. federal health care program such as the Medicare and Medicaid programs;
- federal false claims laws which, prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payers that are false or fraudulent, and which may apply to entities like us to the extent that our interactions with customers may affect their billing or coding practices;
- the U.S. Health Insurance Portability and Accountability Act of 1996 ("**HIPAA**"), which established new federal crimes for knowingly and willfully executing a scheme to defraud any health care benefit program or

making false statements in connection with the delivery of or payment for health care benefits, items or services; and

- state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws, which may apply to items or services reimbursed by any third-party payer, including commercial insurers.

If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from the Medicare and Medicaid programs, and the curtailment or restructuring of our operations. Any penalties, damages, fines, exclusions, curtailment or restructuring of our operations could adversely affect our ability to operate our business and our financial results. The risk of our being found in violation of these laws is increased by the fact that many of these laws are broad and their provisions are open to a variety of interpretations. Further, The Patient Protection and the Affordable Care Act ("**ACA**"), as amended by the U.S. Health Care and Education Reconciliation Act of 2010, among other things, amends the intent requirement of the federal Anti-Kickback Law and criminal health care fraud statutes. A person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it. In addition, the government may assert that a claim including items or services resulting from a violation of the federal anti-kickback statute constitutes a false or fraudulent claim for purposes of the false claims statutes. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business.

The ACA also requires medical supply and device manufacturers to report certain payments made to physicians and other referral sources. Failure to submit required information may result in civil monetary penalties of up to an aggregate of $150,000 per year (or up to an aggregate of $1 million per year for "knowing failures"), for all payments, transfers of value or ownership or investment interests that are not timely, accurately, and completely reported in an annual submission. Manufacturers were required to begin data collection on August 1, 2013 and report such data to the Centers for Medicare & Medicaid Services ("**CMS**") by March 31, 2014 and by the 90th day of each year thereafter. In addition, there has been a recent trend of increased state regulation of payments made to physicians for marketing. Some states, such as California, Massachusetts and Vermont, mandate implementation of compliance programs, and/or the tracking and reporting of gifts, compensation, and other remuneration to physicians. The shifting compliance environment and the need to implement systems to comply with multiple jurisdictions with different compliance and/or reporting requirements increases the possibility that a health care company may violate one or more of the requirements.

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

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

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

Due to cost containment pressures in many countries, legislation has been passed, and we expect will continue to be introduced and passed, to limit governmental health care coverage and reimbursement expenditures. For example, in the U.S., the Medicare Prescription Drug, Improvement and Modernization Act of 2003 established a competitive acquisition program for items of durable medical equipment, prosthetics, orthotics and supplies ("**DMEPOS**"), a category of products under which our products dispensed to patients for home use are classified. This competitive program — also referred to as "the Medicare DMEPOS Competitive Bidding Program" — is being implemented by the Secretary of the Department of Health and Human Services ("**HHS**"). The program replaces the existing DMEPOS fee schedule payment amounts with amounts derived from bids. Round 1 of the program went into effect January 1, 2011 and reduced fees by an average of 32% compared to the then-current Medicare fee schedule. These new prices are effective in nine areas of the U.S. Round 2 of the program went into effect July 1, 2013 and resulted in payment amounts that are on average 45% less than Medicare's fee schedule rates for eight product categories in 100 geographic markets in the U.S. In addition, the ACA requires CMS to expand competitive bidding further to additional geographic markets (certain markets may be excluded at the discretion of CMS) or to use competitive bid pricing information to adjust the payment amounts otherwise in effect for areas that are not competitive bidding areas by January 1, 2016. Although no ConvaTec device categories were included in Round 1 or Round 2 of the Competitive Bidding Program except for Negative Pressure Wound Therapy ("**NPWT**"), which constitutes a small percentage of revenue, we cannot provide any assurances that our products will not be included in future rounds of competitive bidding, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

In the EU, we are subject to laws relating to our collection, control, processing and other use of personal data (for example, employee and patient data) which impact our operations. The data privacy regime in the EU is harmonized by Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data and by the E-Privacy Directive 2002/58/EC (as amended by Directive 2009/136/EC). Although this legislation has been implemented at a European level, it is for each of the EU member states to enact legislation to incorporate these Directives into its national data privacy regime. The laws applicable in each member state therefore differ from jurisdiction to jurisdiction. We must therefore ensure compliance with the rules in each jurisdiction in which we use personal data. In particular, to the extent that we process, control or otherwise use sensitive data relating to living individuals (which includes the health or medical information relating to an individual who order our products directly), more stringent rules will apply and will limit the circumstances and the manner in which we are legally permitted to process and transfer that data outside of the EU. Local laws are amended from time to time and guidance is issued reasonably frequently by regulators and the Article 29 Working Party (a body formed of the European regulators). Any changes in law and new guidance may impact, and require changes to, our current operations. In addition, the EU Commission is undertaking a review of the entire European regime over the next two years. The outcome of this could

further impact our operations. Whilst we have taken steps to ensure compliance with the current regime in all material respects, given its nature and our geographical diversity, there could be areas where we are non-compliant. Should we not be in compliance with this legislation or any changes thereto, we may be subject to sanctions which could include giving undertakings to regulatory authorities to change our operations, adverse publicity, substantial financial penalties and/or criminal proceedings.

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

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

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

The markets for many of our products are highly competitive and dominated by a small number of large companies. We are continually engaged in product development, research and improvement efforts to sustain our history of innovation. New products and line extensions of existing products represent a significant component of our growth rate. Our ability to continue to grow sales effectively depends on our capacity to keep up with existing or new products and technologies in the wound care, ostomy, continence, and infusion devices products markets. The process of obtaining regulatory clearances and approvals to market a new medical device, or a significant modification to an existing device, can be costly and time consuming and approvals and clearances might not be granted for future products on a timely basis, if at all. In the U.S., before a new medical device, or a new use of, or claim for, an existing device can be marketed, it must first receive either pre-market clearance under Section 510(k) of the FDCA or pre-market approval from the FDA, unless an exemption applies. In the 510(k) clearance process, the FDA must determine that the proposed device is "substantially equivalent" to a device legally on the market, known as a "predicate" device. Clinical data is sometimes required to support substantial equivalence. The PMA pathway, which is typically reserved for devices that are deemed to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, requires an applicant to affirmatively demonstrate the safety and effectiveness of the device for its intended use based, in part, on extensive data from human clinical studies. The FDA can delay, limit or deny clearance or approval of a device for many reasons, including:

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

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

Changes in FDA clearance or approval policies or the adoption of new regulations may also impact our ability to obtain timely clearances and approvals for our products. For example, the FDA completed an internal review of the clearance process and, in January 2011, issued an action plan to reform the 510(k) pre-market notification process and related regulatory mechanisms (including "*de novo* applications"), which could make the 510(k) process more costly and burdensome. Further, on July 9, 2012, the FDA Safety and Innovation Act of 2012 was signed into law, which, among other requirements, obligates the FDA to prepare a report for Congress on the FDA's approach for determining when a new 510(k) will be required for modifications or changes to a previously cleared device. After submitting this report, the FDA is expected to issue revised guidance to assist device manufacturers in making this determination. Until then, manufacturers may continue to adhere to the FDA's 1997 Guidance on this topic when making a determination as to whether or not a new 510(k) is required for a change or modification to a device, but the practical impact of the FDA's continuing scrutiny of these issues remains unclear.

In the EEA, our devices are required to comply with the essential requirements of the EU Medical Devices Directive before they can be commercialized. Compliance with these requirements entitles us to affix the CE conformity mark to our medical devices. In order to demonstrate compliance with the essential requirements and obtain the right to affix the CE conformity mark, we must undergo a conformity assessment procedure, which varies according to the type of medical device and its classification. Except for some low-risk medical devices (Class I non-sterile, non-measuring devices), where the manufacturer can issue an EC Declaration of Conformity based on a self-assessment of the conformity of its products with the essential requirements of the EU Medical Devices Directive, a conformity assessment procedure requires the intervention of an organization accredited by a Member State of the EEA to conduct conformity assessments (a "**Notified Body**"). The EU Medical Devices Directive was amended by Directive 2007/47, which entered into force on March 21, 2010, and the European Commission is currently reviewing the Revision of the Medical Devices Directive) with the aim of simplifying it and ensuring a more uniform application of the provisions contained in the applicable European directives across the EEA. This review may, however, result in increased regulatory oversight of certain devices (most likely higher risk devices, which could include some ConvaTec products) and this may, in turn, increase the costs, time and requirements that need to meet in order to maintain or place such devices on the EEA market.

Delays in receipt of, or failure to obtain, approvals and clearances for future products, or failure to comply with the regulations applicable to our current products, could result in delayed realization of product revenues or in substantial additional costs which could have a material adverse effect on our business or results of operations. In addition, if our competitors' new products and technologies reach the market before our products, they may gain a competitive advantage or render our products obsolete. See "Our Franchises — Competition" under each of our franchises in the "Our Business" section of this Offering Circular for more information about our competitors. The ultimate success of our product development efforts will depend on many factors, including, but not limited to, our ability to create innovative designs and materials, provide innovative medical solutions and techniques for our customers, accurately anticipate and meet customers' needs, commercialize new products in a timely manner and manufacture and deliver products in sufficient volumes on time.

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

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

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

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

In the U.S., the HHS, the Office of Inspector General ("**OIG**"), the FDA, the U.S. Department of Justice ("**DOJ**") and other regulatory agencies actively enforce regulations prohibiting the promotion of a product for a use that has not been cleared or approved by the FDA. Use of a product outside its cleared or approved indications is known as "off-label" use. Physicians may use our products for off-label uses, as the FDA does not restrict or regulate a physician's choice of treatment within the practice of medicine. However, if the OIG, the FDA or another regulatory agency determines that our promotional materials, training or activities constitute improper promotion of an off-label use, it could request that we modify our promotional materials, training or activities, or subject us to regulatory enforcement actions, including the issuance of a warning letter, injunction, seizure, civil fine and criminal penalties. Although our policy is to refrain from statements and activities that could be considered off-label promotion of our products, the FDA, DOJ or another regulatory agency could disagree and conclude that we have engaged in off-label promotion and, potentially, aided and abetted in the submission of false claims. In addition, the off-label use of our products may increase the risk of injury to patients, and, in turn, the risk of product liability claims. Product liability claims are expensive to defend and could divert our management's attention and result in substantial damage awards against us.

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

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

The ACA also establishes new Medicare and Medicaid program integrity provisions, including expanded documentation requirements for Medicare DME prescriptions written by physicians and more stringent procedures for screening competitive bidding program suppliers responsible for dispensing DME products to patients, along with broader expansion of federal fraud and abuse authorities. Although the eventual impact of the health reform provisions of the ACA

are still uncertain, it is possible that the new laws and implementing regulations and their guidelines will have a material adverse impact on our business, results of operations and financial condition.

Other legislative changes have been proposed and adopted in the United States since the ACA was enacted. On August 2, 2011, the Budget Control Act of 2011, among other things, created measures for spending reductions by Congress. A Joint Select Committee on Deficit Reduction, tasked with recommending a targeted deficit reduction of at least $1.2 trillion for the years 2013 through 2021, was unable to reach required goals, thereby triggering the legislation's automatic reduction to several government programs. This includes aggregate reductions of Medicare payments to providers up to 2% per fiscal year. On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012 (the "**ATRA**"), which delayed for another two months the budget cuts mandated by these sequestration provisions of the Budget Control Act of 2011. On March 1, 2013, the President signed an executive order implementing sequestration, and on April 1, 2013, the 2% Medicare payment reductions went into effect. The ATRA also, among other things, reduced Medicare payments to several providers, including hospitals, imaging centers and cancer treatment centers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. We expect that additional federal health care reform measures will be adopted in the future, any of which could limit the amounts that federal and state governments will pay for health care products and services, and in turn could significantly reduce the projected value of certain development projects and reduce our profitability.

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

We will not be subject to the Sarbanes-Oxley Act of 2002.

Since we will not register the Secured Notes, the Senior Notes or the PIK Notes (collectively, the "Notes") under the Securities Act of 1933, as amended (the "Securities Act") after the offering, we will not be subject to the Sarbanes-Oxley Act of 2002, which requires public companies to have and maintain effective disclosure controls and procedures to ensure timely disclosure of material information, and have management review the effectiveness of those controls on a quarterly basis. The Securities Act also requires public companies to have and maintain effective internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements, and have management review the effectiveness of those controls on an annual basis (and have the independent auditor attest to the effectiveness of such internal controls). We will not be required to comply with these requirements and therefore we might not have procedures comparable to public companies.

Risks Related to our Financial Profile

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

We are considered to be highly leveraged. As of December 31, 2013, we had total financial debt of $2,966.5 million related to the term loans, secured and senior debt, and $928.7 million related to the PIK notes offering.

The degree to which we are leveraged could have important consequences to holders of the Notes, including, but not limited to:

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

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

The terms of each of the Credit Facilities Agreement, the Secured Notes Indenture, the Senior Notes Indenture, and the indenture governing the PIK Notes (the "PIK Notes Indenture"), permit us to incur substantial additional indebtedness, which may increase the risks noted above and elsewhere in this annual report.

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

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

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

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

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

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

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

As of December 31, 2013, the Group will have had an aggregate principal amount of $1500.9 million of senior secured debt outstanding, and up to $250.0 million available for additional borrowings under the committed revolving portion of the Credit Facilities (not giving effect to $0.8 million of outstanding letters of credit, which reduces the amount available, and any funding used for foreign currency effects at closing). The Group will be permitted to borrow substantial additional indebtedness, including senior debt, in future, under the terms of the Senior Notes Indenture and the PIK Notes Indenture.

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

The loans under our Credit Facilities bear interest at floating rates of interest per annum equal to LIBOR and/or EURIBOR (subject to a minimum rate in the case of the term loan facility), as adjusted periodically, plus a spread. These interest rates could rise significantly in the future. For example, if interest rates were to increase/decrease by 1% from the interest rates in effect on December 31, 2013, our cash interest payment under our Credit Facilities at December 31, 2013 would have increased/decreased by approximately $29.7 million. Although we may enter into certain hedging arrangements designed to fix a portion of these rates, there can be no assurance that hedging will continue to be available on commercially reasonable terms. To the extent that interest rates were to increase significantly, our interest expense would correspondingly increase, reducing our cash flow.

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

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

Risks Related to Our Ownership

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

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

Glossary

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

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

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of ConvaTec Healthcare B S.a.r.l. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, changes in stockholder's deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2013 and 2012,

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

Emphasis of Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The other sections included within the Company's 2013 Annual Report listed in the table of contents on page 1 are presented for the purpose of additional analysis and are not a required part of the financial statements. These other sections are the responsibility of the Company's management. Such information has not been subjected to the auditing procedures applied in our audits of the financial statements, and accordingly, it is inappropriate to and we do not express an opinion on the other sections referred to above.

Deloitte & Touche LLP

April 30, 2014

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

	December 31, 2013	December 31, 2012
Assets		
Current Assets:		
Cash and cash equivalents	$ 271.4	$ 129.4
Receivables, net of allowances of $40.8 in 2013 and $35.2 in 2012	308.2	285.1
Inventories, net	253.7	207.9
Deferred income taxes, net of valuation allowances	10.5	9.1
Prepaid expenses and other current assets	51.5	67.5
Total Current Assets	895.3	699.0
Property, plant and equipment, net	281.6	302.9
Goodwill	1,183.3	1,127.8
Other intangible assets, net	2,097.9	2,235.9
Deferred income taxes, net of valuation allowances	16.0	10.2
Restricted cash	7.1	4.7
Other assets	80.6	114.8
Total Assets	$ 4,561.8	$ 4,495.3
Liabilities and Stockholder's Deficit		
Current Liabilities:		
Accounts payable	$ 101.2	$ 89.8
Short-term portion of long-term debt	73.6	45.2
Accrued expenses and other current liabilities	112.9	110.3
Accrued compensation	55.7	62.8
Deferred Revenue	18.0	0.0
Accrued rebates and returns	19.2	16.1
Deferred income taxes	6.4	2.1
Total Current Liabilities	387.0	326.3
Long-term debt	2,892.9	2,906.1
Mandatorily redeemable preferred equity certificates	1,772.4	1,701.5
Deferred income taxes	257.5	276.7
Accrued preferred equity certificates interest	1,324.9	1,052.8
Other liabilities	59.6	88.6
Total Liabilities	6,694.3	6,352.0
Commitments and contingencies (Note 19)		
Stockholder's Deficit:		
Preferred stock- EUR 1 ($1.25) par value as of December 31, 2013 and 2012; 20,000 shares issued and outstanding at December 31, 2013 and 2012	-	-
Common stock- EUR 1 ($1.25) par value as of December 31, 2013 and 2012; 112,157,883 shares issued and outstanding at December 31, 2013 and 2012	140.7	140.7
Retained deficit	(2,367.4)	(2,193.7)
Accumulated other comprehensive income (net of tax)	94.2	196.3
Total Stockholder's Deficit	(2,132.5)	(1,856.7)
Total Liabilities and Stockholder's Deficit	$ 4,561.8	$ 4,495.3

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

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

	For the Years Ended December 31,	
	2013	**2012**
Net sales	$ 1,700.7	$ 1,646.2
Cost of goods sold	753.5	741.0
Gross profit	947.2	905.2
Selling and marketing expenses	374.7	371.1
General and administrative expenses	200.1	231.9
Research and development expenses	32.0	39.9
Impairment on long lived assets	25.6	4.3
Operating income	314.8	258.0
Interest expense	448.4	427.0
Foreign exchange loss	5.7	14.3
Other income, net	(2.1)	(4.9)
Loss on extinguishment of debt	4.4	-
Loss before income taxes	(141.6)	(178.4)
Provision (benefit) for income taxes	32.1	(17.3)
Net loss	$ (173.7)	$ (161.1)

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

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

	For the Years Ended December 31,	
	2013	**2012**
Net loss	$ (173.7)	$ (161.1)
Foreign currency translation, including a tax benefit of $6.5 in 2013 and a tax benefit of $2.4 in 2012	(103.1)	(26.5)
Other	1.0	(2.8)
Total Comprehensive Loss	$ (275.8)	$ (190.4)

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

ConvaTec Healthcare B S.a.r.l. and Subsidiaries
Consolidated Statements of Changes in Stockholder's Deficit
(in Millions)

	Preferred Stock		Common Stock				
	Shares	Amount	Shares	Amount	Retained Deficit	Accumulated Other Comprehensive Income	Total
January 1, 2012	20,000	$ -	112,157,883	$ 140.7	$ (2,032.6)	$ 225.6	$ (1,666.3)
Net loss	-	-	-	-	(161.1)	-	(161.1)
Foreign currency translation, including a tax benefit of $2.4 million	-	-	-	-	-	(26.5)	(26.5)
Other	-	-	-	-	-	(2.8)	(2.8)
December 31, 2012	20,000	$ -	112,157,883	$ 140.7	$ (2,193.7)	$ 196.3	$ (1,856.7)
Net loss	-	-	-	-	(173.7)	-	(173.7)
Foreign currency translation, including a tax benefit of $6.5 million	-	-	-	-	-	(103.1)	(103.1)
Other	-	-	-	-	-	1.0	1.0
December 31, 2013	20,000	$ -	112,157,883	$ 140.7	$ (2,367.4)	$ 94.2	$ (2,132.5)

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

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

	For the Years Ended December 31, 2013	For the Years Ended December 31, 2012
Cash flows from operating activities:		
Net loss	$ (173.7)	$ (161.1)
Charges to reconcile net loss to net cash provided by operating activities:		
Depreciation	34.7	33.1
Amortization	152.9	147.7
Deferred income tax benefit	(14.2)	(54.1)
Impairment on long lived assets	25.6	4.3
Losses (Gains) on business divestitures and sales of assets	0.1	(3.8)
Foreign exchange net losses on financing activities	4.0	10.6
Non-cash interest expense	191.9	197.8
Amortization of deferred financing fees and original issue discount	10.7	13.1
Loss on extinguishment of debt	4.4	-
Stock-based compensation	7.9	5.5
Other charges (income), net	(3.3)	6.2
Change in operating assets and liabilities, net of businesses acquired:		
Receivables, net	(24.7)	(24.9)
Inventories, net	(46.4)	21.6
Prepaid expenses and other assets	1.6	4.3
Deferred Revenue	18.0	-
Accounts payable and accrued expenses	29.2	(5.4)
Other liabilities	(0.7)	(6.3)
U.S. and foreign Income taxes	13.6	4.5
Other, net	(2.5)	(4.3)
Net cash provided by operating activities	**229.1**	**188.8**
Cash flows from investing activities:		
Acquisitions, net of cash acquired	-	(338.4)
Escrow funding associated with acquisitions	-	(33.2)
Additions to property, plant and equipment and capitalized software	(36.9)	(41.4)
Proceeds from business divestiture	0.8	4.1
Other investing activities, net	2.3	4.4
Net cash used in investing activities	**(33.8)**	**(404.5)**
Cash flows from financing activities:		
Proceeds from term loan refinancing transactions	1,458.6	1,163.3
Repayment of term loans	(1,458.5)	(1,166.2)
Proceeds from debt borrowings	-	299.9
Debt repayments to third parties	(45.1)	(29.7)
Payments of deferred financing fees	(8.0)	(5.9)
Net cash (used in) provided by financing activities	**(53.0)**	**261.4**
Effect of exchange rate changes on cash and cash equivalents	**(0.3)**	**2.2**
Net change in cash and cash equivalents	**142.0**	**47.9**
Cash and cash equivalents at beginning of the period	**129.4**	**81.5**
Cash and cash equivalents at end of the period	**$ 271.4**	**$ 129.4**
Supplemental cash flow information		
Income taxes paid	$ 32.6	$ 32.2
Interest paid	$ 218.0	$ 216.6
Non-cash investing activities:		
Accrued capital expenditures included in accounts payable	$ 4.7	$ 4.4

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

1. Basis of Presentation and Business Description

Basis of Presentation and Initial Capitalization

On August 1, 2008, ConvaTec was acquired by Cidron Healthcare Limited, an entity owned by Nordic Capital and Avista Capital Partners (the "Equity Sponsors"), from Bristol Myers Squibb Company ("BMS") (the "ConvaTec Acquisition"). In connection with the ConvaTec Acquisition, Cidron Healthcare Limited formed a wholly owned subsidiary, ConvaTec Healthcare A S.a.r.l. (the "Parent"). The Parent, a Luxembourg domiciled holding company, then incorporated a wholly owned subsidiary, ConvaTec Healthcare B S.a.r.l. ("CHB"). CHB, a Luxembourg domiciled holding company, incorporated sub-holding companies to purchase the net assets / shares of ConvaTec. CHB and subsidiaries are collectively referred to herein as "the Company". The Consolidated Financial Statements of the Company do not include the accounts of Cidron Healthcare Limited or the Parent. Subsequent to the ConvaTec Acquisition, a wholly owned subsidiary of the Company acquired the stock of Unomedical Holdings a/s ("Unomedical") on September 2, 2008 (the "Unomedical Acquisition"). In conjunction with the ConvaTec Acquisition and the Unomedical Acquisition, the Company issued Series 1, 2 and 3 mandatorily redeemable preferred equity certificates, entered into a Senior Facilities Agreement and Mezzanine Agreement and borrowed cash from the Parent, which was then converted to common stock of the Company. Subsequently, on December 22, 2010, all of the Company's outstanding long term obligations under the Senior Facilities Agreement and Mezzanine Facilities Agreement were refinanced through the entry into credit facilities and the issuance of Secured and Unsecured private placement bonds. See Note 13-Long Term Debt for further discussion.

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

Business Description

The Company develops, manufactures and markets innovative medical technologies, in particular products for ostomy management, advanced chronic and acute wound care, continence care, sterile single-use medical devices for hospitals, and infusion sets used in diabetes treatment infusion devices. Principal brands include Natura®, SUR-FIT®, Esteem®, AQUACEL®, DuoDERM®, 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.

In September 2012, the Company acquired all of the capital stock of 180 Medical Holdings, Inc., a leading U.S. distributor of disposable, intermittent urological catheters to strengthen the Company's position in intermittent self-catheterization market.

2. Significant Accounting Policies

The accompanying consolidated financial statements reflect the application of certain significant accounting policies as described below and elsewhere in these notes to the consolidated financial statements. The Company believes that a significant accounting policy is one that is both important to the portrayal of the Company's financial condition and results, and requires management's most difficult, subjective, or complex judgments, often as the result of the need to make estimates about the effect of matters that are inherently uncertain.

Basis of Consolidation

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

Use of Estimates

Preparing financial statements in conformity with U.S. GAAP requires management to make certain estimations and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the financial statements and the reported amounts of revenues and expenses.

The most significant assumptions are employed in estimates used in acquisition purchase price allocations, determining values of intangible assets, the determination of the fair value of the MEP units, 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 the revenue recognition policy. Estimates by their nature are based on judgment and available information at the time; as such, actual results may differ from estimated results.

Revenue Recognition

The Company's revenues are derived from sales of products and are recognized when substantially all the risks and rewards of ownership have transferred to the customer, there is persuasive evidence that an arrangement exists, the price is fixed and determinable, and collectability is reasonably assured. Generally, products are insured through delivery and revenue is recognized upon the date of receipt by the customer. Revenues are reduced at the time of recognition to reflect expected product returns and chargebacks, discounts, rebates and estimated sales allowances based on historical experience and updated for changes in facts and circumstances, as appropriate. Such provisions are recorded as a reduction of revenue. When all of the above mentioned revenue recognition criteria are not met, the Company defers revenue, until such time all of the criteria are met. At December 31, 2013 and 2012, the Company had $18.0 million and zero of deferred revenue, respectively.

Sales Rebates, Chargebacks and Return Accruals

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

Income Taxes

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

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

period when such assessments are made.

The Company applies the principles of the income tax accounting guidance that addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements as well as the determination of whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. In accordance with the aforementioned guidance, the Company evaluates all tax positions using a more-likely-than-not threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Differences between tax positions taken in a tax return and amounts recognized in the financial statements are recorded as adjustments to income taxes payable or receivable, or adjustments to deferred taxes, or both.

Cash and Cash Equivalents

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

Restricted Cash

There is a requirement, in certain instances, to set aside cash for guarantees on the payment of value added taxes, custom duties on imports, tender programs, and vehicle/office leases by financial institutions on the Company's behalf. Total restricted balances were $9.1 million and $7.0 million at December 31, 2013 and 2012, respectively, of which $2.0 million and $2.3 million were current assets and are included in Prepaid expenses and other current assets within the accompanying Consolidated Balance Sheets.

Accounts Receivable

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

Concentration of Credit Risk

Financial instruments that potentially expose the Company to credit risk consist primarily of cash and cash equivalents and accounts receivable, which are generally not collaterized or factored. However, in some instances, the Company does have recourse and non-recourse factoring agreements, where certain accounts receivable balances are transferred to unrelated third parties. See Note 8 - Receivables for further details.

The Company sells its products primarily through an internal sales force and sales are made through various distributors around the world. No single customer accounted for 10% or more of total sales for the years ended December 31, 2013 and 2012. However, as of December 31, 2013, one customer accounted for 14% of the accounts receivables balance. Except for this customer, credit risk with respect to accounts receivable is generally diversified due to the large dispersion of customers across many different industries and geographies. Exposure to credit risk is managed through credit approvals, credit limits and monitoring procedures. The Company's business generally involves large customers and if one or more of those customers were to default in its obligations under applicable contractual arrangements, the Company could be exposed to potentially significant losses. However, management believes that its customers have a stable financial condition and the reserves for potential losses are adequate.

Inventory Valuation

Inventories are stated at the lower of cost or market with the cost principally determined using an average cost method.

Capital Assets and Depreciation

Expenditures for additions, renewals and improvements are capitalized at cost. Replacements of major units of property are capitalized and replaced properties are retired. Replacements of minor components of property and repair and maintenance costs are charged to expense as incurred. Depreciation is generally computed on a straight-line method over the estimated useful lives of the related assets. The estimated useful lives of the major classes of depreciable assets primarily range from 20 to 50 years for buildings, from 15 to 40 years for building equipment and depreciable land improvements, and from 5 to 20 years for machinery and equipment.

Interest is capitalized in connection with the construction of qualifying capital assets during the period in which the asset is being installed and prepared for its intended use. Interest capitalization ceases when the construction of the asset is substantially complete and the asset is available for use. Capitalized interest cost is depreciated on a straight-line method over the estimated useful lives of the related assets.

Impairment of Long-Lived Assets

Current facts or circumstances are periodically evaluated regarding indications that the carrying value of depreciable assets to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by the long-lived asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether impairment exists. If an asset is determined to be impaired, the loss is measured based on the difference between the asset's fair value and its carrying value. An estimate of the asset's fair value is based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flows. An asset to be disposed of is reported at the lower of its carrying value or its estimated net realizable value.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill amounts are not amortized, but rather tested for impairment at least annually. Goodwill is tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that a potential impairment may exist. In the evaluation of goodwill for impairment, we may perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is not, no further analysis is required. If it is, a prescribed two-step goodwill impairment test is performed to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit, if any. In the first step of the test, a fair value is calculated for each of the identified reporting units, and that fair value is compared to the carrying value of the reporting unit, including the reporting unit's goodwill. If the fair value of the reporting unit exceeds its carrying value, there is no impairment, and the second step of the test is not performed. If the carrying value exceeds the fair value for the reporting unit, then the second step of the test is required. The second step of the test compares the implied fair value of the reporting unit's goodwill to its carrying value. If the implied fair value of the reporting unit's goodwill is in excess of its carrying value, no impairment is recorded. If the carrying value is in excess of the implied fair value, an impairment charge equal to the excess is recorded. A goodwill impairment assessment was completed in the fourth quarter of 2013 and 2012. As a result of the tests performed, no goodwill impairment charge was recorded during the years ended December 31, 2013 and 2012. Refer to Note – 11 Goodwill for further details.

Certain intangible assets, consisting of patents/trademarks, technology, licenses, contracts/customer relationships, non-compete agreements, amortizable trade names, and capitalized software are amortized on a straight-line basis over their weighted average useful lives, ranging from five to eighteen years. Amortizable intangible assets are evaluated for impairment, based on the above procedures outlined under "Impairment of Long-Lived Assets". Certain costs to obtain internal use software for significant systems projects are capitalized and amortized over the estimated useful life of the software, which ranges from three to ten years. Costs to obtain software that are not significant are expensed as incurred.

Non-amortizing intangible assets consist of indefinite lived trade names. Indefinite lived trade names are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. In

the evaluation of indefinite lived intangible assets for impairment, we may perform a qualitative assessment to determine if it is more likely than not that an indefinite lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. If it is not, no further analysis is required. If it is determined, based on a qualitative assessment, that it is more likely than not that the indefinite lived intangible asset is impaired will it require a quantitative impairment test. The impairment test consists of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. After an impairment loss is recognized, the adjusted carrying amount of the intangible asset is its new accounting basis. No impairment of trade names occurred during 2013 or 2012.

Contingencies

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations, product and environmental liability, and tax matters. In accordance with the accounting guidance regarding loss contingencies, the Company records accruals for such loss contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. Further, the Company does not recognize gain contingencies until realized. For a discussion of contingencies, see Note 19 – Commitments and Contingencies.

Shipping and Handling Costs

The Company typically does not charge customers for shipping and handling costs. Therefore, shipping and handling costs are included in Selling and marketing expenses and were $74.8 million and $70.9 million for the years ended December 31, 2013 and 2012, respectively.

Advertising and Promotion Costs

Advertising and promotion costs are expensed as incurred. Advertising and promotion expense was $40.9 million and $44.2 million for the years ended December 31, 2013 and 2012, respectively, and is recorded in Selling and marketing expenses in the Consolidated Statements of Operations.

Research and Development

Research and development costs are expensed as incurred. Research and development expense was $32.0 million and $39.9 million for the years ended December 31, 2013 and 2012, respectively. For milestones achieved prior to regulatory approval of the product, such payments are expensed as research and development. Milestone payments made in connection with regulatory approvals, including non-U.S. regulatory approvals, are capitalized and amortized to cost of products sold over the remaining useful life of the asset. No significant milestone payments were made in connection with regulatory approvals, including non-U.S. regulatory approvals and additional indications during 2013 or 2012.

Stock Compensation

Stock-based compensation represents the costs related to share-based awards granted to employees, as well as those purchased by employees at more than a 5% discount off of the estimated fair value as of the purchase date. Stock-based compensation cost is measured at the grant date or date of purchase, based on the estimated fair value of the award and is recognized on a straight-line basis (net of estimated forfeitures) over the employee requisite service period or upon the occurrence of a liquidity event. Certain features of share-based awards may require the awards to be accounted for as liabilities as opposed to equity. Liability awards are required to be updated to fair value at the end of each reporting period until settlement. See Note 16 – Employee Stock Benefit Plans for a further description of the plans and the relevant accounting guidance applied by the Company.

Foreign Currency Translation and Transactions

Assets and liabilities of subsidiaries whose functional currency is not the U.S. Dollar are translated into U.S. Dollars at the rate of exchange in effect on the balance sheet date. The related equity accounts of subsidiaries are translated into U.S.

Dollars at the historical rate of exchange. Income and expenses are translated into U.S. Dollars at the weighted average rates of exchange prevailing during the year. Foreign currency gains and losses resulting from the re-measurement or settlement of transaction balances that are denominated in a currency that is not the functional currency of a subsidiary and that are not of a long-term investment nature are classified separately in the Consolidated Statements of Operations.

Reclassification

The Company has reclassified certain prior period amounts to conform to the current period presentation. The Company reclassified $3.9 million from cost of goods sold and $0.4 million from general and administrative expenses to impairment on long lived assets in the Consolidated Statement of Operations for the year ended December 31, 2012.

Recently Issued Accounting Standards

In July 2013, the FASB ("Financial Accounting Standards Board") issued new accounting guidance entitled, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The provisions of the rule require an unrecognized tax benefit to be presented as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. Exceptions to this rule exist when the carryforward, or tax loss, is not available at the reporting date under the tax laws of the applicable jurisdiction to settle any additional income taxes or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purposes. When those circumstances are present, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The new financial statement presentation provisions relating to this update are prospective and effective for interim and annual periods beginning after December 15, 2014, with early adoption permitted. As this standard impacts presentation requirements only, the adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In March 2013, the FASB ("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 Consolidated Financial Statements.

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

In February 2013, the FASB issued new accounting guidance entitled, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. Under the new accounting guidance, an entity is required to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income ("AOCI") by component.

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

3. Acquisitions

In accordance with the Company's business strategy to selectively pursue strategic and complementary acquisitions, the Company has acquired the businesses described below. The acquisitions are included in the 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. There were no acquisitions during the year ended December 31, 2013.

2012 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 purchase price allocation of the acquisition resulted in the following:

Receivables, net	$ 10.1
Inventories, net	1.6
Prepaid expenses and other current assets	0.5
Property, plant and equipment, net	1.1
Deferred income taxes - noncurrent	0.8
Other intangible assets	137.5
Goodwill	221.2
Total assets acquired	372.8
Current liabilities	(6.0)
Long-term deferred tax liabilities, net	(47.7)
Total liabilities assumed	(53.7)
Net assets acquired	$ 319.1

The goodwill recorded in connection with the acquisition of 180 Medical is not deductible for tax purposes.

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.

As of December 31, 2013 the Company finalized the purchase accounting associated with all acquisitions that occurred in 2012 and there was no impact to the 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. As of December 31, 2013 and 2012, the current portion of the escrows amounted to $21.0 million and $19.8 million, respectively, and the noncurrent portion amounted to $ 1.4 million and $16.1 million, respectively. Corresponding liabilities of $16.7 million and $15.5 million, respectively, have been recorded to Accrued expenses and other current liabilities for the current portion and $1.3 million and $16.1 million, respectively. Other liabilities for the noncurrent portion, representing payments due to the sellers of the acquisitions, assuming no pre-acquisition indemnity claims arise subsequent to the respective acquisition dates. Lastly, as of December 31, 2013 and 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.

Additionally, during the fourth quarter of 2012 and the third quarter of 2013, the Company released $1.6 million and $15 million of the original $31.6 million held in escrow to the sellers of the 180 Medical acquisition. The $1.6 million was originally held in escrow until the Company finalized the working capital and the $15 million was a General indemnity escrow originally held in accordance with the acquisition agreement.

4. Divestitures

There were no divestitures in 2013. 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 was released from escrow 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. During the years ended December 31, 2013 and 2012, the Company incurred $3.0 million in annual contractual fees to the Equity Sponsors for services rendered in accordance with the Management Agreement. In accordance with the Management agreement, the Company recorded an additional $1.5 million and $1.4 million for other fees during the years ended December 31, 2013 and 2012, respectively. The accompanying Consolidated Balance Sheets include a receivable from the Parent recorded in Other assets in the amount of $21 million and $16.5 million as of December 31, 2013 and 2012, respectively. The receivable is inclusive of accrued interest on the outstanding balance.

Additionally, the Company loans money to Cidron Healthcare Limited in connection with the repurchase of Management Equity Plan units. The loan is governed by an agreement where the maximum 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 December 31, 2013 the total outstanding loan

amount of $6.3 million, is recorded as equal and offsetting amounts within Stockholder's equity. See Note 16 – Employee Stock Benefit Plans for further discussion regarding the Management Equity Plan.

6. Restructuring

2013 Activities

During the year ended December 31, 2013, the Company recorded pre-tax charges of $4.5 million for business restructuring activities, of which $4.3 million related to employee separation costs and $0.2 million are related to lease termination and facility closure costs. Such costs were recorded in General and administrative expenses in the Consolidated Statements of Operations. Total overall costs for this action have been recorded as of December 31, 2013 and the Company expects minimum remaining charges recorded by the end of the first quarter of 2014.

2012 Activities

During the year ended December 31, 2012, the Company recorded pre-tax charges of $27.7 million for business restructuring activities.

At the end of the second quarter of 2012, the Company initiated a restructuring action to reduce its overall cost structure, further enhance productivity and increase profitability. As a result of this action, the Company incurred costs at the end of the second quarter and through the remainder of 2012, primarily relating to employee involuntary termination benefits and other employee separation costs. For the year ended December 31, 2012, the total costs incurred specifically relating to this action were $24.3 million, and were recorded in General and administrative expenses in the Consolidated Statements of Operations. The Company has recorded all costs relating to this plan by the end of 2013.

In addition to the aforementioned restructuring action, the Company initiated restructuring activities in the first quarter of 2012 to realign operations in certain sales and marketing functions as well as general and administrative functions. During the year ended December 31, 2012, the Company incurred $3.4 million primarily in relation to these activities, which were recorded within General and administrative expenses in the Consolidated Statements of Operations. The Company completed these activities by December 31, 2012.

Roll-forward

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

		Employee Termination Liability
Balance at January 1, 2012	$	1.7
Charges		28.2
Spending		(23.9)
Changes in estimate		(0.5)
Balance at December 31, 2012	$	5.5
Charges		4.5
Spending		(7.7)
Changes in estimate		(0.2)
Balance at December 31, 2013	$	2.1

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

7. Income Taxes

The components of loss before income taxes were:

	For the Year Ended December 31, 2013	For the Year Ended December 31, 2012
U.S.	$ (73.4)	$ (32.7)
Non-U.S.	(68.2)	(145.7)
	$ (141.6)	$ (178.4)

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

The provision (benefit) for income taxes consisted of:

	For the Year Ended December 31, 2013	For the Year Ended December 31, 2012
Current:		
U.S. Federal	$ -	$ -
U.S. States	2.2	0.8
Non-U.S.	46.0	36.0
	48.2	36.8
Deferred:		
U.S. Federal	13.2	(24.9)
U.S. States	0.7	(2.6)
Non-U.S.	(30.0)	(26.6)
	(16.1)	(54.1)
	$ 32.1	$ (17.3)

Effective Tax Rate

The Company's benefit for income taxes in 2013 and 2012 was different from the amount computed by applying the statutory U.S. Federal income tax rate to loss before income taxes, as a result of the following:

	% of Income Before Income Taxes			
	For the Year Ended December 31, 2013		For the Year Ended December 31, 2012	
Loss before income taxes	$ (141.6)		$ (178.4)	
U.S. statutory rate	(49.6)	35.0%	(62.4)	35.0%
State taxes, net of federal effect	(3.2)	2.3%	(1.8)	1.0%
Foreign/U.S. tax differential	(18.8)	13.3%	5.6	-3.1%
Foreign Permanent Items and Tax Credits	8.2	-5.8%	8.1	-4.5%
Domestic Permanent Items and Tax Credits	(7.2)	5.1%	2.6	-1.5%
Valuation Allowances	121.9	-86.1%	42.0	-23.5%
US and Foreign Uncertain Tax Positions	2.2	-1.6%	0.6	-0.3%
Repatriation of Foreign Income	6.7	-4.7%	4.0	-2.2%
Deferred Impact of Tax Rate Changes	(24.4)	17.2%	(13.0)	7.3%
Other	(3.7)	2.6%	(3.0)	1.7%
	$ 32.1	-22.7%	$ (17.3)	9.7%

Deferred Taxes and Valuation Allowance

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

	As of December 31, 2013	As of December 31, 2012
Inventory	$ 8.8	$ 4.0
Accruals	0.2	1.8
Loss carryforward	520.0	429.6
Employee benefits	4.2	3.3
Other	37.5	18.4
Gross deferred tax assets before valuation allowance	$ 570.7	$ 457.1
Valuation allowance	(520.6)	(394.2)
Total deferred tax assets	$ 50.1	$ 62.9
Equity	$ (4.5)	$ (10.6)
Other	(19.6)	(13.9)
Fixed Asset / Intangibles	(263.4)	(297.9)
Total deferred tax liabilities	$ (287.5)	$ (322.4)
Deferred tax liabilities, net	$ (237.4)	$ (259.5)
Recognized as:		
Deferred Income Taxes—Current	$ 4.1	$ 7.0
Deferred Income Taxes—Non-Current	(241.5)	(266.5)
Total	$ (237.4)	$ (259.5)

The majority of the Company's deferred tax assets were generated from U.S. and foreign net operating loss carryforwards. Before considering valuation allowance, the Company had U.S. net operating loss carryforwards of $228.7 million and $169.0 million and foreign net operating loss carryforwards of $1,331.2 million and $1,093.2 million as of December 31, 2013 and 2012, respectively. The U.S. net operating loss carryforwards will begin to expire in 2029 and fully expire in

2033. Foreign net operating loss carryforwards expire at various points in time with the most significant having an indefinite expiration date.

The Company has analyzed all the positive and negative evidence in determining the required amount of valuation allowance. Based on this analysis, the Company was unable to conclude that it will meet the "more-likely-than-not" threshold to be able to realize certain deferred tax assets and therefore increased the valuation allowances to $520.6 million as of December 31, 2013 from $394.2 million as of December 31, 2012.

The Company has increased its valuation allowance by $126.4 million as of December 31, 2013. This increase primarily relates to net operating losses and other future deductible temporary differences that have arisen in the U.S. and Luxembourg. As of December 31, 2013 and 2012, the Company's total cumulative valuation allowances for net operating losses not expected to be realized were $451.9 million and $347.3 million, respectively. In addition, valuation allowances of $68.6 million and $46.9 million were recorded against other deferred tax assets as of December 31, 2013 and 2012, respectively. Valuation allowances will be maintained until sufficient positive evidence exists to support the reversal of a portion or all of the allowance.

A table reflecting the activity in the valuation allowance is as follows:

	2013	2012
Balance, January 1	$ 394.2	$ 349.1
Increase as reflected in income tax expense	121.9	42.0
Cumulative Translation Adjustment	4.5	3.1
Balance, December 31	$ 520.6	$ 394.2

The Company is not permanently reinvested in its unremitted earnings. However, if such earnings were remitted, they would generally not be subject to income tax due to the application of favorable domestic law and tax treaties. The Company has accrued $19.4 million and $13.9 million as of December 31, 2013 and 2012, respectively, related to taxes that would be due in certain jurisdictions where a remittance of earnings would be subject to tax.

The Company conducts business in various countries throughout the world and is subject to tax in numerous jurisdictions. As a result of its business activities, the Company files a significant number of tax returns that are subject to examination by various federal, state and foreign tax authorities. Tax examinations are often complex, as tax authorities may disagree with the treatment of items reported by the Company and may require several years to resolve. The liability for unrecognized tax benefits represents a reasonable provision for taxes that could be paid if various taxing authorities did not agree with the tax positions taken by the Company. The effect of changes related to uncertain tax positions on the Company's effective tax rate is included in the effective tax rate reconciliation above.

A reconciliation of the Company's changes in uncertain tax positions including interest and penalties are as follows:

	2013	2012
Unrecognized tax benefits at January 1	$ 53.7	$ 43.8
Increases in tax positions for the current year	1.1	11.4
Increases in tax positions for prior years	32.9	7.9
Decrease in tax positions for prior years	(6.3)	(0.1)
Decreases due to settlements w ith taxing authorities	(17.6)	(6.9)
Lapse in statute of limitations	(1.1)	(3.0)
Cumulative translation adjustment	(0.8)	0.6
Unrecognized tax benefits at December 31	$ 61.9	$ 53.7

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

The amounts of unrecognized tax benefits that, if recognized, would impact the effective tax rate were $26.5 million as of December 31, 2013 and $17.9 million as of December 31, 2012.

The Company classifies interest and penalties related to unrecognized tax benefits as income tax expense. The related amount of expense included in the benefit for income taxes for the year ended December 31, 2013 and 2012 is $0.5 million, respectively. The amount of interest and penalties included in the unrecognized tax benefits at December 31, 2013 and 2012 is $5.4 million and $4.8 million, respectively, and are included in the tabular rollforward above.

The Company is considered under examination by a number of tax authorities, including all of the major tax jurisdictions listed in the table below. The Company does not expect the unrecognized tax benefits as of December 31, 2013 to significantly change over the next twelve months. The Company believes that it has adequately provided for all open tax years by tax jurisdiction in compliance with the accounting guidance.

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

U.S.	2008 to 2013
U.K.	2010 to 2013
Japan	2008 to 2013
Denmark	2013
Luxembourg	2009 to 2013
France	2009 to 2013
Italy	2009 to 2013
Germany	2013

8. Receivables

The major categories of receivables are as follows:

	December 31, 2013	December 31, 2012
Trade receivables	$ 336.3	$ 310.0
Miscellaneous receivables	12.7	10.3
	349.0	320.3
Less allowances and chargebacks	(40.8)	(35.2)
Receivables, net	$ 308.2	$ 285.1

During 2012, the Company had non-recourse accounts receivable factoring agreements in Italy and also with recourse factoring agreements in Brazil, both of which have ceased prior to 2013. Both the non-recourse and with recourse factoring agreement transfers are accounted for as sales of receivables, as the Company does not retain any financial or legal interest in the factored receivables. Accordingly, such receivables have not been included in the accompanying Consolidated Balance Sheets. The amount of receivables factored was $16.9 million for the year ended December 31, 2012. Commission expenses incurred in connection with factoring activities amounted to $0.7 during the year ended December 31, 2012. Such amounts are included within Interest expense in the accompanying Consolidated Statements of Operations.

Allowances and chargebacks include prime vendor chargebacks, sales discounts, and allowance for uncollectible accounts. The most significant portion of allowances and chargebacks relates to Prime vendor chargebacks, representing $29.5 million and $26.9 million of the amount as of December 31, 2013 and 2012, respectively.

9. Inventories

The major categories of inventories are as follows:

	December 31, 2013	December 31, 2012
Finished goods	$ 167.4	$ 139.3
Work in process	29.9	23.6
Raw and packaging materials	56.4	45.0
Inventories, net	$ 253.7	$ 207.9

10. Property, Plant, and Equipment

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

	December 31, 2013	December 31, 2012
Land	$ 19.8	$ 27.1
Buildings and building equipment	117.7	120.7
Machinery, equipment and fixtures	351.6	290.9
Construction in progress	40.0	76.9
	529.1	515.6
Less accumulated depreciation	(247.5)	(212.7)
Property, plant and equipment, net	$ 281.6	$ 302.9

Depreciation expense was $34.7 million and $33.1million for the years ended December 31, 2013 and 2012, respectively, and are mainly included in Cost of goods sold in the accompanying Consolidated Statements of Operations.

For the year ended December 31, 2013, the Company recorded an impairment charge on long lived assets of $25.6 million, of which $24.1 million was related to the corporate facility located in Skillman, NJ. The fair value was based on a market approach taking into consideration comparable valuation for properties in the area. The corporate facility is actively being marketed for sale, however the corporate facility does not meet the Held-for-Sale accounting criteria. For the year ended December 31, 2012, the Company recorded an impairment charge of $4.3 million primarily for specific machinery and equipment at a manufacturing facility in the Dominican Republic.

During the year ended December 31, 2013, the Company recognized $0.1 million loss on the sale of property, plant and equipment. During the year ended December 31, 2012, the Company completed the sale of certain property, plant and equipment assets of $0.5 million and related internally developed patented technology, resulting in a gain of $4.5 million. The gain is included in Other (income) expense, net in the accompanying Consolidated Statements of Operations.

11. 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:

	Total
Balance as of January 1, 2012	$ 878.0
Current year acquisitions	248.7
Adjustments to goodwill acquired in prior periods	1.4
Changes in foreign exchange rates	(0.3)
Balance as of December 31, 2012	$ 1,127.8
Changes in foreign exchange rates	55.5
Balance as of December 31, 2013	$ 1,183.3

For the year ended December 31, 2013, there is no change in total goodwill, except a $55.5 million increase due to foreign currency translation adjustment. No acquisitions or divestitures were made in 2013.

The Company finalized the purchase accounting associated with the 2012 acquisitions of 180 Medical, a U.S. based company, and two U.K.-based companies. No adjustments to Goodwill were noted in 2013. See Note 3 – Acquisitions for further details.

As described above in Note 2 – Significant Accounting Policies, to the extent a qualitative assessment determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount; goodwill is tested for impairment using a two-step process on an annual basis or more frequently if required. The Company completed the required annual impairment test during the fourth quarter, which resulted in no impairment of goodwill for the years ended December 31, 2013 and 2012, respectively. Based on the results of the impairment assessments, the Company determined that the fair values of its reporting units exceeded their respective carrying values. The accumulated goodwill impairment charges were $336.6 million as of December 31, 2013 and 2012.

12. Other Intangible Assets

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

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

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		252.2	-	252.2
Total intangibles assets		$ 2,864.4	$ (628.5)	$ 2,235.9

With regards to the 2012 acquisitions, the Company acquired an intangible license asset of $9.2 million with a useful life of 10 years, developed technology intangible assets of $18.1 million with a weighted average useful life of 12 years, and a non-compete agreement of $0.8 million with a useful life of 3 years. The license asset is included in ―Patents, Trademarks, and Licenses, developed technology intangible assets are included in ―Technology, and the non-compete agreement is included in ―Non-compete agreement. See Note 3 – Acquisitions for further discussion.

Foreign currency translation, primarily related to intangible assets denominated in the British pound sterling, resulted in an increase of $23.8 million for the year ended December 31, 2013 and an increase of $39.7 million for the year ended December 31, 2012, in the gross carrying amount of intangible assets.

Amortization expense for other intangible assets for the years ended December 31, 2013 and 2012 was $152.9 million and $147.7 million, respectively.

Expected amortization expense related to the current net carrying amount of other intangible assets, subject to amortization is as follows:

Years Ending December 31,	
2014	$ 152.3
2015	151.2
2016	150.7
2017	150.5
2018	149.9

13. Long – Term Debt

The table below depicts the total obligation outstanding for each component of Long – term debt as of:

	December 31, 2013	December 31, 2012
Credit Facilities Agreement:		
Term Loan Facilities	$ 1,469.1	$ 1,486.4
Original Issue Discount ("OID")	(3.8)	(6.1)
Credit Facilities, net of discount	1,465.3	1,480.3
7.375% Secured Notes	412.3	395.8
10.5% U.S. Dollar Senior Notes	745.0	745.0
10.875% Euro Senior Notes	343.6	329.8
Capital Lease Obligations	0.3	0.4
Total Debt	2,966.5	2,951.3
Less: Current Portion of Long-Term Debt	(73.6)	(45.2)
Total Long-Term Debt	$ 2,892.9	$ 2,906.1

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 original Term Loan Facilities were comprised of a $500.0 million and a EUR 550.0 million term loan. On September 28, 2012, the Company completed the acquisition of 180 Medical, which was financed using $300 million in availability under the original Incremental Term Facilities at an offering price of 99.75%, after adjustment for an original issue discount. In conjunction with this acquisition financing, 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. However, as a result of mandatory prepayments discussed further below, no quarterly installment payments are due until the Term Loan Facilities mature on December 22, 2016.

On August 5, 2013, the Company executed an amendment to the Credit Facilities Agreement. The amendment provides for a reduction in the applicable margins and floors on the EURIBOR and LIBOR base rates of the EURO and U.S. Dollar Term Loan Facilities, as well as a reduction of the floor on Alternate Base Rate ("ABR") borrowings. In addition, the calculation of the amount available for restricted payments, capital expenditures, investments and prepayments of certain indebtedness has been modified. The repricing of the term loans became effective on September 28, 2013 ("the Repricing"). The details regarding the changes in each of the applicable interest rates are discussed further below. The outstanding borrowings of both the EURO and U.S. Dollar Term Loan Facilities at the time of the Repricing are subject to a 1% prepayment premium of the aggregate principal amount, if any voluntary repayments or prepayments are made prior to March 28, 2014 to refinance, replace or substitute all or a portion of the term loans with indebtedness having a lower effective yield.

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

Total borrowings outstanding under the Term Loan Facilities denominated in U.S. Dollars and Euros are $804.0 million and EUR 483.9 million ($665.1 million) at December 31, 2013 and $784.0 million and EUR 532.4 million ($702.4 million) at December 31, 2012. Immediately prior to the Repricing on September 28, 2013, borrowings outstanding under the Term Loan Facilities denominated in U.S. Dollars and Euros were $760.2 million and EUR 516.2 million ($698.3 million). The Term Loan Facilities will mature on December 22, 2016.

The Revolving Credit Facility of $250.0 million is available through its maturity date of December 22, 2016, in certain currencies at the borrower's option and is used to provide for ongoing working capital requirements, letters of credit, and general corporate purposes of the Company. The original offering price of the $250.0 million revolving credit facility was 98.5%, after adjustment for an OID. The Revolving Credit Facility allows for up to $40.0 million of letter of credit issuances as well as $25.0 million for borrowings on same-day notice, referred to as the swingline loans. There were no borrowings outstanding under the Revolving Credit Facility as of December 31, 2013 or December 31, 2012. Letters of credit outstanding under the revolving credit facility totaled $0.8 million as of December 31, 2013 and $0.5 million as of December 31, 2012, respectively. Availability under the Revolving Credit Facility, after deducting both the outstanding letters of credit and amounts withdrawn, totaled $249.2 million as of December 31, 2013 and $249.5 million as of December 31, 2012, respectively. The commitment fees paid on The Revolver Credit Facility in 2013 totaled $1.9 million.

OID is being amortized to interest expense, using the effective interest method, over the terms of the related outstanding borrowings. Total amortization expense related to OID was $1.8 million for the year ended December 31, 2013 and 2012. In connection with the September 28, 2012 and November 6, 2012 refinancing transactions discussed above, the Company recorded a non-cash charge of approximately $4.4 million in 2012 to Interest expense for the unamortized OID associated with the original issuance of these term loans. Total amortization expense relating to OID, including the aforementioned non-cash charge and amortization both prior to and subsequent to the refinancing transaction dates, amounted to $6.0 million for the year ended December 31, 2012.

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) in either U.S. Dollars and/or Euros provided that a certain leverage ratio is not exceeded and the Company satisfies certain requirements, including: no default or event of default, pro forma compliance with financial covenants, minimum borrowing amounts of $15.0 million and a maturity date and weighted average life-to-maturity of each individual loan within the Incremental Term Facilities that is greater than the weighted average maturity date of the Term Loan Facilities. Additionally, should the yield on the Incremental Term Facilities exceed the yield on the Term Loan Facilities by more than 0.50%, 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 December 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 or LIBOR interest rates may apply to outstanding borrowings under the Revolving Credit Facility. ABR, as defined and amended in the Credit Facilities Agreement, is the greater of (a) the Prime Rate, (b) the Federal Funds Effective Rate plus 0.50% or (c) the Eurodollar Rate for a one-month interest period plus 1.00%. ABR is subject to an initial margin of 3.25% on borrowings under the Revolving Credit Facility and 2.00% on Dollar Term Loan ABR borrowings. Additionally, at no time can the ABR be less than 2.00% per annum. As a result of the Repricing, EURIBOR and LIBOR borrowings are subject to an initial margin of 3.25% and 3.00%, respectively, and a floor of 1.00%. The margins on our EURIBOR and LIBOR interest rates may increase by 25 basis points if there is a decline in our corporate credit rating.

Under the original terms of the Credit Facilities Agreement, the margin on both EURIBOR and LIBOR loans was 4.25%, subject to a floor of 1.50% to 1.75% on EURIBOR loans and a floor of 1.50% on LIBOR loans. In the third quarter and fourth quarters of 2012, we refinanced both the EURO and U.S. Dollar Term Loan Facilities, whereby the margin on the EURIBOR and LIBOR borrowings was reduced to 4.00% and 3.75%, respectively. The floor was also reduced to 1.25% for both EURIBOR and LIBOR borrowings.

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 $45.1 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 both the U.S. Dollar and EURO Term Loan Facilities, in accordance with the terms outlined in the Credit Facilities Agreement. As a result, there will be no quarterly installment payments due until the Term Loan Facilities mature on December 22, 2016. At December 31, 2013, the Company calculated a $73.5 million excess cash flow prepayment to be remitted in May 2014, which is included in short term portion of long term debt on the Consolidated Balance Sheet.

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

Secured Notes and Senior Notes

The Secured Notes consist of EUR 300.0 million ($412.3 million at December 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 ($412.3 million at December 31, 2013 and $395.8 million at 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 ($343.6 million at December 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 ($343.6 million at December 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, including the recent Repricing transaction, the total capitalized deferred financing fees, net of accumulated amortization and the write-off of $3.9 million recorded during third quarter of 2013, was $45.8 million as of December 31, 2013. Deferred financing fees are included in Other assets in the accompanying Consolidated Balance Sheets and are being amortized to interest expense over the terms of the underlying borrowings using the effective interest method. Total amortization expense related to deferred financing fees amounted to $8.9 million and $7.1 million during the years ended December 31, 2013 and 2012, respectively.

Accrued interest related to the Company's outstanding debt obligations was $7.2 million and $8.0 million as of December 31, 2013 and December 31, 2012, respectively, and is recorded in Accrued expenses and other current liabilities. Interest expense for the year ended December 31, 2013 and 2012, associated with the Credit Facilities, Secured Notes and Senior Notes, was $217.7 million and $215.6 million, respectively. The weighted average interest rate for borrowings under the Company's outstanding debt obligations was 7.3% for the year ended December 31, 2013 and 7.9% for the year ended December 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 December 31, 2013.

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

Years Ending December 31,	
2014	73.6
2015	0.2
2016	1,395.6
2017	412.3
2018	1,088.6
Thereafter	-
Total	$ 2,970.3

14. 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. The PECs, which include long-term accrued dividends, were $3,097.3 million and $2,754.3 million at December 31, 2013 and December 31, 2012, respectively. Total accrued dividends at December 31, 2013 amounted to $1,324.9 million. Total accrued dividends at December 31, 2012 amounted to $1,052.8 million, all of which were included in Mandatorily redeemable preferred equity certificates in the accompanying Consolidated Balance Sheets. Total dividends expensed during the years ended December 31, 2013 and 2012 were $220.6 million and $197.8 million, respectively, which were classified as Interest expense in the accompanying 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 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.

15. Stockholder's Deficit / Divisional Equity

The Company's total share capital was EUR 112.2 million ($140.7 million) as of December 31, 2013 and 2012, respectively. The Company had one hundred twelve million one hundred fifty-seven thousand eight hundred eighty-three issued and outstanding shares of common stock at December 31, 2013 and 2012. The Company had five thousand issued and outstanding shares of class A preferred stock, five thousand issued and outstanding shares of class B preferred stock, five thousand issued and outstanding shares of class C preferred stock, and five thousand issued and outstanding shares of class D preferred stock at December 31, 2013 and 2012. The par value of common and preferred stock was one EUR per share ($1.25) as of December 31, 2013 and 2012. Each share has an identical voting right and each shareholder has voting rights commensurate to its shareholding. Each shareholder is entitled to equal rights to any distribution of dividends.

16. 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 the Company's employees were 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.

The accounting standard relating to stock based compensation requires that the cost of all share-based payment transactions be recognized in the financial statements, establishes fair value as the measurement objective, and requires entities to apply a fair value-based measurement method in accounting for share-based payment transactions. The Company's Parent grants stock-based compensation awards which vest over a specified period or upon a liquidity event, such as a change of control or an initial public offering. The fair value of equity instruments issued to employees is measured on the date of grant and expense is recognized over the vesting period or upon a liquidity event, depending upon the specific terms of the individual award. Also, as mentioned above, certain employees were 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 or upon a liquidity event similar to the granted MEP Units. The amount of the discount is measured on the date of purchase, and expense is recognized over the vesting period or upon a liquidity event. As stated in Note 2 – Significant Accounting Policies, Stock Compensation, certain features of share-based awards may require the awards to be

accounted for as liabilities as opposed to equity. Liability awards are required to be updated to fair value at the end of each reporting period until settlement. Generally, unvested awards are forfeited for no consideration upon termination of employment. No awards may be transferred other than under specified limited circumstances which generally are to family members for estate planning purposes. Stock-based awards granted under the AEP, MIP, MEP or MEP Units purchased at a discount more than 5% off the estimated fair value do not entitle the participants to any voting rights.

The fair value of each award is estimated on the date of grant using the Black-Scholes pricing model based on assumptions noted in the following table. The fair value, for awards accounted for as liabilities, is re-measured at each reporting date. Expected volatilities are based on historical volatilities of comparable companies. The risk-free interest rate is based on the weighted-average of U.S. Treasury strip rates over the contractual term of the awards. The expected term of the awards granted represents the period of time that awards are expected to be outstanding.

	Year ended December 31, 2013	Year ended December 31, 2012
Dividend yield	0.0%	0.0%
Expected volatility	48.4%	48.7%
Risk-free interest rate	0.3%	0.3%
Expected life of AEP awards granted during period	1.8 years	2.5 years
Expected life of MEP awards granted during period	1.8 years	2.5 years
Expected life of MIP awards granted during period	1.8 years	2.5 years

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

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

Annual Equity Program

In July 2009, the Company's Parent adopted the AEP, which allows for the issuance of units ("AEP Units") to employees for shares of common stock. The Company's Parent is authorized to grant up to 1.0 million AEP Units to purchase common stock under the AEP, representing 2.0% of the common stock in the Company's Parent. AEP Units are granted at the allocable fair market value of a share of stock on the date of grant and vest upon a liquidity event, as described above.

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

Summary activity related to the AEP during the years ended December 31, 2013 and 2012 is presented below:

AEP Units in thousands	
Nonvested at January 1, 2012	642
Granted	46
Vested	0
Forfeited/cancelled	(91)
Nonvested at December 31, 2012	597
Granted	233
Vested	-
Forfeited/cancelled	(122)
Nonvested at December 31, 2013	708

Additional Information about AEP Units In millions, except per share amounts		Year ended December 31, 2013		Year ended December 31, 2012
Weighted average grant date fair value of AEP Units granted	$	9.67	$	5.97
Total compensation expense for AEP Units	$	-	$	-
Related tax benefit	$	-	$	-

Total unrecognized compensation cost related to AEP Units granted was $6.8 million and $3.6 million as of December 31, 2013 and 2012, respectively, and is expected to be recognized when a liquidity event occurs. Certain AEP Unit forfeitures are determined upon the occurrence of a liquidity event. Given that the timing of a liquidity event cannot be predicted, the portion of vested and forfeited shares has yet to be determined. In these instances the full amount of AEP Units was included in the nonvested amount as of December 31, 2013. The total unrecognized compensation cost as of December 31, 2013 includes AEP Units with partial yet to be determined forfeited units.

Management Executive Plan

In October 2008, the Company's Parent adopted the MEP, which allows for the issuance of units ("MEP Units") to employees for shares of common stock. The Company's Parent is authorized to grant up to 1.0 million MEP Units to purchase common stock under the MEP, representing 8.0% of the common stock in the Company's Parent. MEP Units are granted at the allocable fair market value of a share of stock on the date of grant and vest over five years or upon a liquidity event, as described above.

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

Summary activity related to the MEP during the years ended December 31, 2013 and 2012 is presented below:

MEP Units in thousands	
Nonvested at January 1, 2012	388
Granted	654
Vested	86
Forfeited/cancelled	(334)
Nonvested at December 31, 2012	794
Granted	80
Vested	79
Forfeited/cancelled	(198)
Nonvested at December 31, 2013	755

Additional Information about MEP Units In millions, except per share amounts	Year ended December 31, 2013	Year ended December 31, 2012
Weighted average grant date fair value of MEP Units granted	$ 38.68	$ 23.89
Total compensation expense for MEP Units	$ 9.0	$ 3.7
Related tax benefit	$ -	$ 1.4

Total unrecognized compensation cost related to MEP Units granted was $15.6 million and $2.0 million as of December 31, 2013 and 2012, respectively, and is expected to be recognized over a weighted-average period of 3.7 years.

Management Incentive Plan

In November 2008, the Company's Parent adopted the MIP, which allows for the issuance of units ("MIP Units") to employees for common stock and PECs of the Company's Parent. The Company's Parent is authorized to grant up to 3.0 million MIP Units under the Plan, representing 0.3% of the common stock and 0.4% of the PECs in the Company's Parent. MIP Units are granted at the allocable fair market value of a share of stock or PECs on the date of grant and vest upon a liquidity event, as described above.

There have been no new grants related to the MIP Units during the years ended December 31, 2013 and 2012. The Company had approximately 2,132 thousand nonvested MIP Units and 2,425 thousand nonvested MIP units for the years ended December 31, 2013 and 2012, respectively. There were 292 thousand and 288 thousand MIP Units forfeited/cancelled for the years ended December 31, 2013 and 2012, respectively. The weighted average fair value of MIP Units was $3.16 and $3.62 for the years ended December 31, 2013 and 2012, respectively. Total unrecognized compensation cost related to MIP Units granted was $6.7 million and $9.8 million as of December 31, 2013 and 2012, respectively, and is expected to be recognized when a liquidity event occurs. Certain MIP Unit forfeitures are determined upon the occurrence of a liquidity event. Given that the timing of a liquidity event cannot be predicted, the portion of vested and forfeited shares has yet to be determined. In these instances the full amount of MIP Units was included in the nonvested amount as of December 31, 2013. The total unrecognized compensation cost as of December 31, 2013 includes MIP Units with partial yet to be determined forfeited units.

17. Fair Value Measurements

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

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

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

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

To increase consistency and comparability in fair value measures, the accounting standard relating to fair value measurements established a three-level fair value hierarchy to prioritize inputs used in valuation techniques between observable inputs that reflect quoted prices in actives markets, inputs other than quoted market prices with observable market data, and unobservable data (e.g., the Company's own data). The guidance requires disclosures detailing the extent to which companies measure assets and liabilities at fair value, the methods and assumptions used to measure fair value and the effect of fair value measurements on earnings. Accordingly, the Company has applied the following valuation techniques to measure fair value:

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

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

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

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

		Recurring Fair Value Measurements		
December 31, 2013	**Total**	**Level 1**	**Level 2**	**Level 3**
Liabilities:				
Contingent consideration associated with acquisitions	$ 1.3	$ -	$ -	$ 1.3
December 31, 2012				
Liabilities:				
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 Consolidated Balance Sheets. Additionally, $2.0 million of assumed contingent consideration relating to an acquisition made by 180 Medical was paid in the third quarter of 2013. This $2.0 million of assumed contingent consideration was included in Accrued expenses and other current liabilities on the Consolidated Balance Sheets as of December 31, 2012. Subsequent changes in the fair value of contingent consideration are recorded in the Consolidated Statements of Operations. The aforementioned contingent consideration is calculated using a discounted cash flow technique. Level 3 unobservable inputs include probability assessments of the respective acquisitions achieving the targeted performance metrics, as outlined in the acquisition agreements. For the year ended December 31, 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 December 31, 2013 and 2012, the Company estimates that the fair value of its Secured Notes approximated $412.3 million and $430.4 million and the Senior Notes approximated $1,088.6 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 13 – 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, 2013.

18. Employee Benefit Plans

Postretirement Plans

The Company offers defined contribution plans to eligible employees primarily in the U.S., whereby employees contribute a portion of their compensation, which is partially matched by the Company. The Company also provides for a discretionary qualified non-elective contribution (also known as a profit sharing contribution) in addition to the partial matching described above, of which both are expensed as incurred. Once the contributions have been paid, the Company has no further payment obligations. For the years end December 31, 2013 and 2012, the matching contributions for Company employees totaled approximately $4.0 million and $3.9 million, respectively. For the year ended December 31, 2013 and 2012, the Company elected to not provide employees with a discretionary profit sharing contribution, and thus no amount was accrued.

Post-Employment Benefit Plans

The Company provides post-employment benefits to its employees in certain countries that lawfully require employers to provide lump sum benefits upon termination of employment. Employee benefits are earned for each year's service, and the benefit earned for each year's service amounts to one month's pay at the employee's annual compensation rate. Benefits are recognized over the service period during which the employee earns the benefit. Total post-employment expense recognized in the Consolidated Statements of Operations amounted to $0.3 million and $0.4 million, for the years ended December 31, 2013 and 2012, respectively. The unpaid portion of these benefits is included in Accrued compensation in the accompanying Consolidated Balance Sheets and amounted to $2.7 million as of December 31, 2013 and 2012, respectively.

19. Commitments and Contingencies

Operating Leases

Future minimum rental commitments under all non-cancelable operating leases, primarily real estate, in effect as of December 31, 2013 were:

Years Ending December 31,		
2014	$	20.2
2015		13.2
2016		6.1
2017		3.8
2018		1.9
Later Years		1.2
	$	46.4

Certain lease agreements, primarily for real estate, contain renewal options and rent escalation clauses. Operating lease rental expense was $26.4 million and $24.0 million for the years ended December 31, 2013 and 2012, respectively.

Purchase Commitments

The Company has minimum purchase commitments for materials, supplies and services through 2016 as part of the normal course of business. As of December 31, 2013 and 2012, the cumulative amount of these commitments was approximately $49.7 million and $79.8 million, respectively.

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 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 most significant of the Company's legal matters are described below.

Medtronic Recall of Certain Unomedical Produced Infusion Device Sets

Unomedical supplies Medtronic MiniMed, Inc. ("Medtronic") with Quickset® infusion sets and proprietary connectors for use with Medtronic insulin infusion pumps in diabetes care. On July 7, 2009, Medtronic determined it would recall certain of these products due to potential malfunction. Effective October 2009, Unomedical and Medtronic entered into a letter of understanding which provides for the allocation between them of costs and expenses incurred by Medtronic as a direct result of the recall and for expenses which Medtronic has incurred or may in the future incur as a result of present or future product liability claims relating to the Quickset® infusion sets. An amendment to the original letter of understanding was signed in June 2010. With respect to the Medtronic costs of recall, Unomedical agreed to pay certain fees over a period of three years, in quarterly payments commencing January 1, 2010. In the event actual Medtronic recall costs exceed or are less than the current estimate, the recall costs will be adjusted after Unomedical makes the final payment under the amended letter of understanding. With respect to Medtronic product liability costs, Unomedical has agreed to reimburse Medtronic for the first $5 million, or such lesser quantity of product liability costs as may be incurred and paid by Medtronic. In the event Medtronic product liability costs exceed $5 million, Unomedical has agreed to reimburse Medtronic for thirty-three percent (33%) of the costs incurred and paid by Medtronic in excess of $5 million. The amended letter of understanding is a complete release and discharge of any claims of Medtronic and Unomedical a/s against each other relating to the subject matter of the recall. Unomedical remains responsible for its own costs related to the recall and for its own potential product liability claims. The estimated losses related to the recall as of December 31, 2013 were $34.7 million. The accompanying Consolidated Balance Sheets include a remaining liability for the Medtronic recall in the amount of $10.9 million and $12.4 million included in Accrued expenses and other current liabilities as of December 31, 2013 and 2012, respectively. On April 24, 2014, the Company made a payment of $8.1 million to Medtronic.

Subpoena from United States Attorney's Office in Massachusetts

The Company received a subpoena on March 4, 2014 from the United States Attorney's Office in Massachusetts relating to the Massachusetts United States Attorney's industry-wide investigation of marketing practices in the urology, ostomy and wound care industries. The subpoena requests the production of certain of our documents from 2007 to present related to our sales and marketing of ostomy, urology and wound care products.

Boehringer Arbitrations

The Company was engaged in two arbitration proceedings against two related Boehringer entities regarding various licensing and product supply disputes arising from two agreements between us and Boehringer governing the licensing, supply, and distribution of Boehringer's negative pressure wound therapy products. Our claims across both arbitrations equaled approximately $4.75 million and Boehringer's claims totaled at least $17.6 million, in addition to unspecified lost profit damages. As of December 12, 2013, the parties entered into a Settlement Agreement and General Release of Claims, which resolved the claims and disputes pending in the arbitrations. The settlement agreement also provided for the termination of the aforementioned agreements and relieved us of exclusivity and global non-compete obligations with respect to Boehringer's negative pressure wound therapy products. In addition, under the settlement agreement, we made a payment to Boehringer (the amount of which is confidential); however such amount has been included in the general and administrative amount in our consolidated statement of operations at December 31, 2013.

In addition to the matters discussed above, the Company is also involved in other claims and legal proceedings. 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 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 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 effect on its business, results of operations, financial condition and/or liquidity.

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.

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. As of December 31, 2013 and 2012, the estimated total future costs are considered minimal.

Other Matters

As a result of a routine inspection, the Company received a warning letter from the Food and Drug Administration (''FDA'') dated May 24, 2013. The warning relates to complaints handling and other quality management systems at our Skillman, New Jersey facility. Resources are being added to address the FDA concerns in a timely manner. At this time, the Company has engaged third-party consultants to develop remediation procedures and is working closely and cooperatively with the FDA to alleviate its concerns. The Company believes that these efforts will be adequate to address the issues raised in the warning letter.

20. Subsequent Events

The Company has evaluated subsequent events through April 30, 2014, the date the financial statements were available to be issued.

Business combination

On January 2, 2014, the Company, through its subsidiary 180 Medical, acquired all of the capital stock of Symbius Medical, LLC a U.S. based company that specializes in the home delivery of intermittent catheters and other medical supplies. The acquisition complements the Company's existing home delivery services business. Consideration for the acquisition totaled $44.2 million. The transaction will be accounted for in accordance with the acquisition method. Due to the recent closing of this transaction relative to the date the report is available to be issued, the Company is still evaluating the allocations of the purchase price to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date.

Restructuring

On January 31, 2014, the Company announced that all business activities being performed at the facility in Skillman, New Jersey would be transferred to other ConvaTec sites around the world. This decision was intended to consolidate office space, improve communications by co-locating certain teams and functions, and produce efficiencies. Activities which were performed in Skillman were relocated to Schaffhausen, Deeside, Greensboro and Oklahoma City sites. The Company expects the closure of the Skillman facility to be substantially complete by the end of April 2014. Offices were leased in Bridgewater, New Jersey and Raleigh, North Carolina to support US sales operations and the executive management team, respectively. The Company expects to incur $7 million in charges related to this restructuring activity during the remainder of fiscal 2014, of which $6.3 million relates to employee severance costs.