

Registered number: 09051011

**Avanos Medical UK Limited**  
(formerly known as Halyard Health UK Limited)

**Annual report and financial statements**

**For the year ended 31 December 2018**



**Avanos Medical UK Limited**  
(formerly known as Halyard Health UK Limited)

**Company Information**

<b>Director</b>	J Allsop N C Vanderroost
<b>Registered number</b>	09051011
<b>Registered office</b>	25 Clarendon Road Redhill Surrey RH1 1QZ
<b>Independent auditor</b>	Deloitte LLP Statutory Auditor Crawley United Kingdom

**Avanos Medical UK Limited**  
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**Avanos Medical UK Limited**  
(formerly known as Halyard Health UK Limited)

**Strategic report**  
**For the year ended 31 December 2018**

The directors present their strategic report for the year ended 31 December 2018.

**Principal activity and business review**

The company's principal activity is the sale of medical device. Avanos company is focused on delivering clinically superior breakthrough solutions in respiratory health, pain management and IV therapy.

The company is a wholly owned subsidiary of Avanos Medical, Inc., a company listed on the New York Stock Exchange ("NYSE") (ticker AVNS).

Turnover decreased by £1,869,241 from £20,213,488 in the prior year to £18,344,247 in the current period due to a competitive market. Despite the decrease in turnover, the company still made a healthy profit and the company's profit and loss reserve increased to £4,045,763 from £2,818,642 in the previous period. The company's net assets increased by £1,227,121 in the current period. This was mainly due to the increase in net current assets with cash increasing by £1,377,517 and creditors decreasing by £398,199.

On 1 November 2017 Avanos Medical Inc, ("AVNS"), the ultimate parent and controlling party of Avanos Medical UK Limited, announced a plan to sell its surgical and infection prevention ("S&IP") business to Owens & Minor, Inc. ("OMI"). The sale was completed on 30 April 2018 (please see note 6).

For the UK affiliate the deal includes the transfer of S&IP customer contracts worth GBP 8.8 million and the transfer of employment contracts of four sales representatives to an OMI affiliate: O&M Halyard UK Ltd.

The Group is working further on its transformation into a pure-play medical devices business after the announcement of the disposal of the S&IP division. The sale of the S&IP business has been closed on 30 April 2018. Both parties have signed a Limited Distribution Agreement ("LRD") starting 1 May 2018 for the sale of S&IP products in Europe during a transition period in order for both parties to organise themselves in their new structure. The agreement was terminated on 31 January 2019.

Avanos Medical UK Limited will continue to operate under the same AVNS distribution agreement that existed in 2018.

**Key performance indicators**

Performance indicators are net sales and gross profit at annual standard costs.

	2018 £'000	2017 £'000
Net Sales	18,344	20,213
Gross Profit (GP)	6,354	8,895
GP margin	35%	44%

Net sales represent net revenue with third party customers. Gross Profit is using 2018 standard cost of sales and standard distribution expense in both years.

The gross margin has diminished from 44% in 2017 to 35% in 2018 due to sale of the S&IP business and subsequent LRD agreement as from May 2018.

**Future developments and post balance sheet events**

On 1 February 2019 the company changed its name from Halyard Health UK Limited to Avanos Medical UK Limited.

The Limited Risk Distribution (LRD) agreement ended on 31 January 2019. The business will continue with the sale of medical devices in 2019 and the outlook is further growth in this segment.

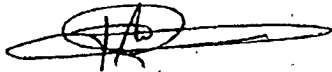
**Avanos Medical UK Limited**  
(formerly known as Halyard Health UK Limited)

**Strategic report**  
**For the year ended 31 December 2018**

**Principal risks and uncertainties**

- We are subject to extensive government regulation, which may require us to incur significant expenses to ensure compliance.
- We may incur product liability losses, litigation liability, product recalls, safety alerts or regulatory action associated with our products which can be costly and disruptive for our business.
- Cost-containment efforts of our customers, health care purchasing groups, third party payers and governmental organisations could adversely affect our sales and profitability.
- Our customers depend on third-party coverage and reimbursements. The failure of healthcare programs to provide coverage and reimbursement, or reductions in levels of reimbursement, could have a material adverse effect on our business.
- Currency exchange rate fluctuations could have a material adverse effect on our business and results of operations.
- We cannot guarantee that any of our strategic acquisitions, investments or alliances will be successful.
- Breaches of our information technology systems could have a material adverse effect on our business.

This report was approved by the board on 30 September 2019 and signed on its behalf.



**N C Vanderroost**  
Director

**Avanos Medical UK Limited**  
(formerly known as Halyard Health UK Limited)

**Directors' report**  
**For the year ended 31 December 2018**

The directors present their annual report and the audited financial statements for the year ended 31 December 2018.

**Results and dividends**

The profit for the year, after taxation, amounted to £1,227,121 (2017: £1,035,949).

No dividends are proposed in respect of the year ended 31 December 2018 (2017: £Nil).

**Directors**

The directors who served during the financial year and up to the date of signing the financial statements were:

J Allsop (appointed 10 June 2019)  
T Caspar (appointed 6 April 2018 and resigned 10 June 2019)  
P G Y Deschamps (resigned 6 April 2018)  
N C Vanderoost (appointed 6 April 2018)  
B Verreydt (resigned 6 April 2018)

**Qualifying third party indemnity provisions**

The company has put in place qualifying third party indemnity provisions for all of the directors of Avanos Medical UK Limited.

**Financial risk management objectives and policies**

*Credit risk*

Credit risk is the risk of financial loss to the company if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. The company is mainly exposed to credit risk from credit sales. It is company policy, implemented locally, to assess the credit risk of new customers. Such credit ratings are taken into account by local business practices. Each new customer is analysed individually for creditworthiness.

At a local level, a monthly review of the trade receivables' ageing analysis is undertaken and customers' credit is reassessed periodically. Existing customers that become "high risk" as a result of the periodic reassessment are placed on a restricted customer list.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted.

A significant amount of cash is held with the following institutions:

	Rating at 31 December 2018	Balance at 31 December 2018 £	Rating at 31 December 2017	Balance at 31 December 2017 £
Citibank	A	172,893	A	380,088
Bank Mendes Gans	A	8,135,804	A	6,551,092
		<u>8,308,697</u>		<u>6,931,180</u>

**Avanos Medical UK Limited**  
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**Directors' report (continued)**  
**For the year ended 31 December 2018**

**Financial risk management objectives and policies (continued)**

*Liquidity risk*

Liquidity risk arises from the company's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the company will encounter difficulty in meeting its financial obligations as they fall due.

The Board receives cash flow projections on a weekly basis as well as information regarding cash balances.

*Market risk*

Market risk arises from the company's use of interest bearing, tradeable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

The official notification of withdrawal from the European Union on 29 March 2017 started the two-year timer on negotiating the UK's exit, as well as the post Brexit relationship with Europe from March 2019 onwards. European leaders have granted a six month extension for the UK to agree its exit terms until 31 October 2019. The directors are continuing to consider and assess the impact on the company and are awaiting further clarity regarding exit terms and the wider regulatory and legal implications.

*Cash flow interest rate risk*

During the year under review, the company has no debts where it is exposed to interest risks. Therefore this risk is, for this year, not applicable for Avanos Medical UK Limited.

*Foreign exchange risk*

Foreign exchange risk arises when individual company entities enter into transactions denominated in a currency other than their functional currency. The company's policy is, where possible, to allow company entities to settle liabilities denominated in their functional currency (Pound Sterling) with the cash generated from their own operations in that currency. Where company entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will be made available through the cash pool.

The company is predominantly exposed to currency risk on purchases within the Avanos Group, denominated in Euro and in US Dollar. A hedging plan has been set up on a corporate level to minimise this currency exchange risk.

**Going concern**

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in the financial statements.

**Future developments and post balance sheet events**

Information on future developments and post balance sheet events in the business of the company has been included in the Strategic report on page 1.

**Avanos Medical UK Limited**  
(formerly known as Halyard Health UK Limited)

**Directors' report (continued)**  
**For the year ended 31 December 2018**

**Directors' responsibilities statement**

The directors are responsible for preparing the strategic report, the directors' report and the audited financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the audited financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the audited financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Disclosure of information to auditor**

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

**Independent auditor**

The independent auditor, Deloitte LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on

30/09/

2019 and signed on its behalf.

  
**N C Vanderroost**  
Director



## **Avanos Medical UK Limited**

(formerly known as Halyard Health UK Limited)

### **Independent auditor's report to the members of Avanos Medical UK Limited**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Avanos Medical UK Limited (the 'company') which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

##### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

**Avanos Medical UK Limited**  
(formerly known as Halyard Health UK Limited)

**Independent auditor's report to the members of Avanos Medical UK Limited (continued)**

**Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Use of our report**

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

**Avanos Medical UK Limited**  
(formerly known as Halyard Health UK Limited)

**Independent auditor's report to the members of Avanos Medical UK Limited (continued)**

**Report of other legal and regulatory framework**

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

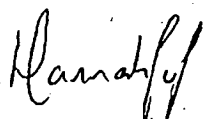
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

**Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.



Hannah Pop FCA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
Crawley  
United Kingdom

30 September

**Avanos Medical UK Limited**  
(formerly known as Halyard Health UK Limited)

**Statement of comprehensive income**  
**For the year ended 31 December 2018**

	Note	Continuing operations 2018 £	Discontinued operations 2018 £	Total 2018 £	Continuing operations (as restated) 2017 £	Discontinued operations (as restated) 2017 £	Total 2017 £
Turnover	5	9,194,249	9,149,998	18,344,247	10,635,414	9,578,074	20,213,488
Cost of sales		(4,104,015)	(7,886,138)	(11,990,153)	(4,670,027)	(6,648,536)	(11,318,563)
<b>Gross profit/(loss)</b>		<b>5,090,234</b>	<b>1,263,860</b>	<b>6,354,094</b>	<b>5,965,387</b>	<b>2,929,538</b>	<b>8,894,925</b>
Distribution costs		(110,626)	(279,574)	(390,200)	(119,963)	(280,178)	(400,141)
Administrative expenses		(4,525,725)	(887,183)	(5,412,908)	(5,333,479)	(2,205,279)	(7,538,758)
Other operating income	7	47,966	-	47,966	249,800	-	249,800
<b>Operating profit/(loss)</b>	8	<b>501,849</b>	<b>97,103</b>	<b>598,952</b>	<b>761,745</b>	<b>444,081</b>	<b>1,205,826</b>
Profit on disposal of operations	6	-	856,301	856,301	-	-	-
Income from investments in group companies	14	-	-	-	69,736	-	69,736
<b>Profit/(loss) before interest and taxation</b>	8	<b>501,849</b>	<b>953,404</b>	<b>1,455,253</b>	<b>831,481</b>	<b>444,081</b>	<b>1,275,562</b>
Finance income (net)	11	31,873	-	31,873	7,416	-	7,416
<b>Profit/(loss) before taxation</b>	8	<b>533,722</b>	<b>953,404</b>	<b>1,487,126</b>	<b>838,897</b>	<b>444,081</b>	<b>1,282,978</b>
Tax on profit	12	(79,826)	(180,179)	(260,005)	(169,219)	(77,810)	(247,029)
<b>Profit/(loss) for the financial year</b>		<b>453,896</b>	<b>773,225</b>	<b>1,227,121</b>	<b>669,678</b>	<b>366,271</b>	<b>1,035,949</b>

The notes on pages 12 to 27 form part of these financial statements.

**Avanos Medical UK Limited**  
(formerly known as Halyard Health UK Limited)

Registered number: 09051011

**Balance sheet**  
**As at 31 December 2018**

	Note	2018 £	2017 £
<b>Fixed assets</b>			
Tangible assets	13	8,873	15,971
Fixed asset investments	14	-	-
		<u>8,873</u>	<u>15,971</u>
<b>Current assets</b>			
Stocks	15	186,546	6,457
Debtors	16	3,584,399	4,304,477
Cash at bank and in hand		8,308,697	6,931,180
		<u>12,079,642</u>	<u>11,242,114</u>
<b>Creditors: amounts falling due within one year</b>	17	<u>(6,234,549)</u>	<u>(6,632,748)</u>
<b>Net current assets</b>		<u>5,845,093</u>	<u>4,609,366</u>
<b>Total assets less current liabilities</b>		<u>5,853,966</u>	<u>4,625,337</u>
<b>Provisions for liabilities</b>			
Deferred tax	18	<u>(1,508)</u>	-
		<u>(1,508)</u>	-
<b>Net assets</b>		<u><u>5,852,458</u></u>	<u><u>4,625,337</u></u>
<b>Capital and reserves</b>			
Called-up share capital	19	1,318,498	1,318,498
Share premium account		488,197	488,197
Profit and loss account		4,045,763	2,818,642
<b>Total equity</b>		<u><u>5,852,458</u></u>	<u><u>4,625,337</u></u>

The financial statements on pages 9 to 27 were approved and authorised for issue by the board of directors and were signed on its behalf on 30/09/2019.



**N C Vanderroost**  
Director

The notes on pages 12 to 27 form part of these financial statements.

**Avanos Medical UK Limited**  
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**Statement of changes in equity**  
**As at 31 December 2018**

	Called-up share capital £	Share premium account £	Profit and loss account £	Total equity £
At 1 January 2017	1,318,498	488,197	1,782,693	3,589,388
Comprehensive income for the year				
Profit for the financial year	-	-	1,035,949	1,035,949
At 31 December 2017 and 1 January 2018	1,318,498	488,197	2,818,642	4,625,337
Comprehensive income for the year				
Profit for the financial year	-	-	1,227,121	1,227,121
At 31 December 2018	1,318,498	488,197	4,045,763	5,852,458

The notes on pages 12 to 27 form part of these financial statements.

## **Avanos Medical UK Limited**

(formerly known as Halyard Health UK Limited)

### **Notes to the financial statements For the year ended 31 December 2018**

#### **1. General Information**

Avanos Medical UK Limited ("the company") supplies clinical products, solutions and medical devices in surgical solutions, respiratory health, digestive health, pain management and IV therapy.

The company is a private company limited by shares and is incorporated and domiciled in England, United Kingdom. The address of the registered office is 25 Clarendon Road, Redhill, Surrey, RH1 1QZ.

#### **2. Statement of compliance**

The individual financial statements of Avanos Medical UK Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

The profit for the year, after taxation, amounted to £1,227,121 (2017: £1,035,949).

#### **3. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### **3.1 Basis of preparation of financial statements**

The financial statements have been prepared on a going concern basis, under the historical cost convention.

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The directors' report further describes the financial position of the company; its cash flows, liquidity position and borrowing facilities; the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk. The company meets its day to day working capital requirements through an overdraft facility which is set for an indefinite term (recoverable at any time). The current economic conditions create uncertainty particularly over (a) the level of demand for the company's products; (b) the exchange rate between the UK Pound and the US Dollar and thus the consequence for the cost of the company's raw materials; and (c) the availability of bank finance in the foreseeable future.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

**Avanos Medical UK Limited**  
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**Notes to the financial statements**  
**For the year ended 31 December 2018**

**3. Summary of significant accounting policies (continued)**

**3.2 Going concern**

The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should have access to sufficient funds to carry out its ordinary commercial activities. The company is a wholly owned subsidiary of a listed entity who have committed to provide financial support should it be necessary. The company is part of a cashpool without end date to facilitate the access to cash if needed.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

**3.3 Consolidation**

The financial statements contain information about Avanos Medical UK Limited as an individual company and do not contain consolidated information as the parent of a group, as the company has taken advantage of the exemption available under section 400 of the Companies Act 2006.

**3.4 Exemptions for qualifying entities under FRS 102**

FRS 102 allows a qualifying entity certain disclosure exemptions. These exemptions are:

- the requirement to prepare a statement of cash flow;
- certain financial instrument disclosures;
- certain share based payments disclosures; and
- the non disclosure of key management personnel compensation.

The company has taken advantage of these exemptions on the basis that it is a qualifying entity and its ultimate parent company, Avanos Medical, Inc., includes the company's results in the equivalent disclosures in its own consolidated financial statements.

**3.5 Turnover**

Turnover from the sale of goods is recognised when the company has transferred the significant risks and rewards of ownership to the buyer and it is probable that the company will receive the previously agreed upon payment. These criteria are considered to be met when the goods are delivered to the buyer. Where the buyer has a right of return, the company defers recognition of revenue until the right to return has lapsed.



**Avanos Medical UK Limited**  
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**Notes to the financial statements**  
**For the year ended 31 December 2018**

**3. Summary of significant accounting policies (continued)**

**3.6 Tangible fixed assets**

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Sales equipment	- 3 years
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The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the profit and loss account.

**3.7 Impairment of non-financial assets**

At each balance sheet date non-financial assets not carried forward at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

**3.8 Fixed asset investments**

Investment in a subsidiary company is held at cost less accumulated impairment.

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**Notes to the financial statements**  
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**3. Summary of significant accounting policies (continued)**

**3.9 Stock**

Stock is stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out ('FIFO') or weighted-average cost basis.

At each balance sheet date, stock is assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

**3.10 Cash and cash equivalents**

Cash and cash equivalents includes deposits held with banks and bank overdrafts.

Bank overdrafts are shown within current liabilities.

**3.11 Foreign currency translation**

**(i) Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The financial statements are presented in 'sterling', which is the company's functional and presentation currency.

**(ii) Transactions and balances**

Foreign currency transactions are translated into the company's functional currency using the exchange rates prevailing at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'administrative expenses'.

**3.12 Financial instruments**

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

**(i) Financial assets**

Basic financial assets, including trade and other receivables, amounts owed by group undertakings and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

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**3. Summary of significant accounting policies (continued)**

**3.12 Financial instruments (continued)**

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the statement of comprehensive income.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

**(ii) Financial liabilities**

Basic financial liabilities, including trade and other payables and amounts owed to group undertakings, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

**(iii) Offsetting**

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle to liability simultaneously.

**3.13 Dividend**

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

**Avanos Medical UK Limited**  
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**Notes to the financial statements**  
**For the year ended 31 December 2018**

**3. Summary of significant accounting policies (continued)**

**3.14 Current and deferred taxation**

The tax expense for the year comprises current tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

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

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except;

The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations; when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

**3.15 Equity-settled share-based payments**

Where the company participates in a share based payment arrangement established by a group company, the company takes advantage of the alternative treatment allowed under Section 26 of FRS 102. The company recognises the share based payment expense based on a reasonable allocation of the parent company's total expense. The company has calculated its allocation of the parent company's total expense based on the group charge for participating UK employees in the company.

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the profit or loss over the vesting period. The fair value of stock option awards is determined using a Black Scholes option pricing model utilising a range of assumptions related to volatility, risk free interest rate, expected term and dividends yield. Non market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the company keeping the scheme open or the employee maintaining any contributions required by the scheme). Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period. Where equity instruments are granted to persons other than employees, the profit and loss account is charged with the fair value of goods and services received.

## **Avanos Medical UK Limited**

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### **Notes to the financial statements For the year ended 31 December 2018**

#### **3. Summary of significant accounting policies (continued)**

##### **3.16 Employee benefits**

###### **(i) Holiday pay accrual**

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

###### **(ii) Defined contribution pension plan**

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

##### **3.17 Operating leases**

Rentals paid under operating leases are charged to the profit or loss on a straight line basis over the period of the lease.

##### **3.18 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

##### **3.19 Related party transactions**

The company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.

#### **4. Critical accounting judgements and estimation uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

There are no critical judgements, nor key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

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**Notes to the financial statements**  
**For the year ended 31 December 2018**

**5. Analysis of turnover**

Analysis of turnover by category:

	2018 £	2017 £
Surgical and infection prevention	9,149,998	9,578,074
Medical devices	9,194,249	10,635,414
	<u>18,344,247</u>	<u>20,213,488</u>

Analysis of turnover by country of destination:

	2018 £	2017 £
United Kingdom	<u>18,344,247</u>	<u>20,213,488</u>

**6. Discontinued operations**

On 30 April 2018 the company disposed of its Surgical and Infection Prevention ("S&IP") business. The company transferred its S&IP customer contracts worth GBP 8.8 million and employment contracts of four sales representatives to an OMI affiliate: O&M Halyard UK Ltd.

During the year the S&IP business contributed post-tax profits of £773,225 (2017: £366,271). The profit on disposal of £856,301 was recognised in the statement of comprehensive income.

**7. Other operating income**

	2018 £	2017 £
Other operating income	<u>47,966</u>	<u>249,800</u>

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**Notes to the financial statements**  
**For the year ended 31 December 2018**

**8. Profit before taxation**

Profit before taxation is stated after charging:

	2018 £	2017 £
Depreciation of tangible fixed assets (note 13)	7,098	5,324
Impairment of investments (note 14)	-	100
Profit on disposal of operations (note 6)	(856,301)	-
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	54,722	38,586
Exchange differences	(35,976)	74,140
Share-based payments (note 20)	1,218	1,171
Defined contribution pension cost (note 21)	77,071	43,075
Operating lease charges	12,237	15,532

**9. Employees**

Staff costs were as follows:

	2018 £	2017 £
Wages and salaries	1,512,883	1,158,129
Social security costs	154,306	143,058
Cost of defined contribution scheme (note 21)	77,071	43,075
	<u>1,744,260</u>	<u>1,344,262</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2018 £	2017 £
Sales	20	14

**10. Directors' remuneration**

During the year, the directors were remunerated for their services to the group as a whole, which are disclosed in the financial statements of other group companies. The directors do not consider it practical to apportion remuneration based on the services performed for individual undertakings within the group.

During the year retirement benefits were accruing to no directors (2017: none) in respect of defined contribution pension schemes.

During the year no directors (2017: none) received shares under long term incentive schemes.

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**Notes to the financial statements**  
**For the year ended 31 December 2018**

**11. Finance income (net)**

	2018 £	2017 £
Interest receivable	33,850	8,084
Interest payable on bank loans and overdrafts	(1,977)	(668)
	<u>31,873</u>	<u>7,416</u>

**12. Taxation**

	2018 £	2017 £
<b>Corporation tax</b>		
Current tax on profits for the year	280,138	250,147
Adjustments in respect of previous periods	(23,561)	(4,519)
<b>Total current tax</b>	<u>256,577</u>	<u>245,628</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	3,831	(2,514)
Adjustment in respect of previous periods	-	3,656
Effect of changes in tax rates	(403)	259
<b>Total deferred tax</b>	<u>3,428</u>	<u>1,401</u>
<b>Taxation on profit</b>	<u>260,005</u>	<u>247,029</u>



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**Notes to the financial statements**  
**For the year ended 31 December 2018**

**12. Taxation (continued)**

**Factors affecting tax charge for the year**

The tax assessed for the year is the same as (2017: higher) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 £	2017 £
Profit before tax	1,487,126	1,282,978
Profit multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%)	282,554	246,929
Effects of:		
Tax rate changes	(403)	259
Expenses not deductible	1,415	14,126
Adjustments in respect of previous periods	(23,561)	(863)
Non-taxable income	-	(13,422)
<b>Total tax charge for the year</b>	<b>260,005</b>	<b>247,029</b>

**Factors that may affect future tax charges**

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

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**For the year ended 31 December 2018**

**13. Tangible assets**

	Sales equipment £
<b>Cost</b>	
At 1 January 2018 / 31 December 2018	21,295
<b>Depreciation</b>	
At 1 January 2018	5,324
Charge for the year	7,098
At 31 December 2018	12,422
<b>Net book value</b>	
At 31 December 2018	8,873
At 31 December 2017	15,971

**14. Fixed asset investments**

	Investments in subsidiary companies £
<b>Cost</b>	
At 1 January 2018	100
Disposal	(100)
At 31 December 2018	-
<b>Impairment</b>	
At 1 January 2018	100
Disposal	(100)
At 31 December 2018	-
<b>Net book value</b>	
At 31 December 2018	-
At 31 December 2017	-

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**Notes to the financial statements**  
**For the year ended 31 December 2018**

**14. Fixed asset investments (continued)**

**Subsidiary undertakings**

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Registered office
CORPAK Medsystems UK Limited	Ordinary	100 %	20 - 22 Bedford Row, London, WC1R 4JS

On 14 November 2018 the subsidiary undertaking CORPAK Medsystems UK Limited was dissolved.

**15. Stocks**

	2018 £	2017 £
Finished goods and goods for resale	186,546	6,457

There is no significant difference between the replacement cost of finished goods and goods for resale and their carrying amounts.

**16. Debtors**

	2018 £	2017 £
Trade debtors	3,348,302	3,808,521
Amounts owed by group undertakings	227,871	490,122
Prepayments and accrued income	8,226	3,914
Deferred taxation (note 18)	-	1,920
	<u>3,584,399</u>	<u>4,304,477</u>

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

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**For the year ended 31 December 2018**

**17. Creditors: amounts falling due within one year**

	2018 £	2017 £
Trade creditors	757,937	218,552
Amounts owed to group undertakings	3,878,602	4,548,957
Corporation tax	129,138	165,742
Other taxation and social security	608,201	660,174
Accruals	860,671	1,039,323
	<u>6,234,549</u>	<u>6,632,748</u>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

**18. Deferred taxation**

	2018 £
At 31 December 2017	1,920
Charged to profit or loss	(3,428)
At 31 December 2018	<u>(1,508)</u>

The deferred taxation balance is made up as follows:

	2018 £	2017 £
Accelerated capital allowances	<u>(1,508)</u>	<u>1,920</u>

**19. Share capital**

	2018 £	2017 £
<b>Shares classified as equity</b>		
Allotted, called-up and fully paid		
131,849,745 (2017: 131,849,745) Ordinary shares of £0.01 each	<u>1,318,498</u>	<u>1,318,498</u>

## Avanos Medical UK Limited

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### Notes to the financial statements For the year ended 31 December 2018

#### 20. Equity-settled share-based payments

The Avanos Medical, Inc. Equity Participation Plan and the Avanos Medical, Inc. Outside Directors' Compensation Plan (together, the "Plans") provide for awards of stock appreciation rights, restricted stock (and in certain limited cases, unrestricted stock), restricted stock units, performance units and cash awards to eligible employees (including officers who are employees), directors, advisors and consultants of Avanos Medical, Inc. and its subsidiaries.

The company operates a stock option plan for selected employees. Options are granted in respect of shares of the parent company, Avanos Medical, Inc., and are exercisable at a price equal to the average market price of the parent company's shares at the date of grant.

The fair value of stock option awards are determined using a Black-Scholes option-pricing model utilising a range of assumptions related to volatility, risk free interest rate, expected term and dividends yield.

The options are settled in the equity of the parent company once exercised. The options outstanding at the end of the year have a weighted average remaining contractual life of 0.7 years (2017: 1.2 years). No options were exercised during the year.

The company also operates a restricted stock unit ("RSU") scheme. Shares are granted at an exercise price of £Nil (2017: £Nil) and with a range of vesting dates.

Expense of £1,218 (2017: £1,171) was recognised directly in the income statement within administrative expenses.

#### 21. Pension commitments

A defined pension contribution scheme is operated by the company on behalf of the employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge represents contributions payable by the company to the fund and amounted to £77,071 (2017: £43,075). This amount is recognised in the profit and loss account as an expense. There were no contributions owing at the year end.

#### 22. Commitments under operating leases

At 31 December the company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £	2017 £
Not later than 1 year	6,706	9,511
Later than 1 year and not later than 5 years	-	7,376
Total	<u>6,706</u>	<u>16,887</u>

#### 23. Related party transactions

The company has taken the exemption conferred by FRS 102 not to disclose transactions with Avanos Medical, Inc. or other wholly owned subsidiaries within the group.

## **Avanos Medical UK Limited**

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### **Notes to the financial statements**

**For the year ended 31 December 2018**

#### **24. Controlling party**

The company is a wholly owned subsidiary of Avent Inc., a company incorporated in the State of Arizona, United States of America whose registered office is 5405 Windward Parkway, county of Alpharetta, in the state of Georgia, United States of America. Avanos Medical Inc. is the ultimate parent company and ultimate controlling party.

The smallest and largest group in which the results of the company are consolidated is that headed by Avanos Medical Inc. whose registered office is 1209 Orange Street, Wilmington, county of New Castle, in the state of Delaware, United States of America. The consolidated financial statements of the Avanos Group are available to the public and may be obtained from the company's website at [www.avanos.com](http://www.avanos.com).

#### **25. Post balance sheet events**

On 1 February 2019 the company changed its name from Halyard Health UK Limited to Avanos Medical UK Limited.

The Limited Risk Distribution (LRD) agreement ended on 31 January 2019. The business will continue with the sale of medical devices in 2019 and the outlook is further growth in this segment.