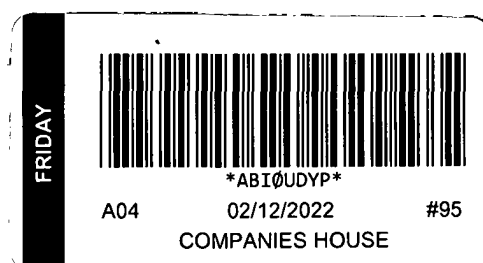


Registered number: 09051011

Avanos Medical UK Limited

Annual report and financial statements

For the year ended 31 December 2021



Avanos Medical UK Limited

Company Information

Directors	D Krines N C C Vanderroost
Registered number	09051011
Registered office	25 Clarendon Road Redhill Surrey RH1 1QZ
Independent auditor	Deloitte LLP 3 Rivergate Temple Quay BS1 6GD United Kingdom

Avanos Medical UK Limited

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Avanos Medical UK Limited

Strategic report For the year ended 31 December 2021

The directors present their strategic report for the year ended 31 December 2021.

Principal activities, review of business and future developments

The company's principal activity is the sale of medical devices. The 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 reduced by £3,407,259 from £14,478,743 in the prior year to £11,071,484 in the current year due to the impact of COVID-19 which decreased during the year. Despite the decrease in turnover, the company still made a profit and the company's profit and loss reserve increased to £1,330,798 from £994,699 in the previous year. The company's net assets increased to £3,137,493 from £2,801,364 in the previous year.

No dividend was declared or paid during 2021 (2020: £4,045,763).

On 11 March 2020, the world health organisation declared the Coronavirus ("COVID-19") outbreak to be a pandemic in recognition of its rapid spread across the globe. Many governments have taken increasingly stringent steps to help contain or delay the spread of the virus.

The unprecedented global reach of the COVID-19 pandemic reminded us just how critical our market sector is and what it means to truly be a responsible corporate citizen.

The company is committed to supporting customers and has continued to ensure that customers are able to supply their patients with the products and services they need during this critical period.

The group is supporting the healthcare sector by adjusting production and therefore more of our respiratory health products can help treat COVID-19 patients.

The company is not exposed to any significant risks or uncertainties, due to the nature of the business the demand for the supply of medical devices has increased.

At the time of signing the financial statements, COVID-19 has had a negligible impact on the operations and business activity of the company.

The main strategy in the coming years is to grow sales in Medical Devices. Globally, Avanos Medical, Inc. intends to supplement its growth through strategic acquisitions and investments in new medical technologies.

No future developments are foreseen for the next year.

Key performance indicators

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

	2021 £'000	2020 £'000
Net sales	11,071	14,479
Gross profit (GP)	5,943	7,634
GP margin	54%	53%

Avanos Medical UK Limited

Strategic report (continued) For the year ended 31 December 2021

Key performance indicators (continued)

Net sales represent net revenue with third party customers. Gross profit is determined after deducting standard cost of sales and pre sale distribution expense from net sales in both years.

Net sales have decreased from £14.5m in 2020 to £11m in 2021 and this is due to a lower demand for our products and the impact of Covid 19 which has decreased in the year.

The gross profit margin has increased from 53% in 2020 to 54% in 2021 due to a change in the company's product mix as a result of COVID-19, resulting in an increase of some products (respiratory health) and decrease in others compared to previous years.

Principal risks and uncertainties

The directors consider the companies principal risks and uncertainties to be as follows:

- 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

2022 and signed on its behalf.



N C C Vanderroost
Director
Nov 28, 2022

Avanos Medical UK Limited

Directors' report For the year ended 31 December 2021

The directors present their annual report and the financial statements for the year ended 31 December 2021.

Results and dividends

The profit for the year, after taxation, amounted to £336,129 (2020: £596,562).

The directors proposed dividends of £Nil in respect of the year ended 31 December 2021 (2020: £4,045,763).

Directors

The directors who served during the financial year and up to the date of signing the financial statements (except as noted) were:

J Allsop (resigned 21 November 2021)

D Krines (appointed 24 January 2022)

N C C Vanderroost

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 2021 £	Rating at 31 December 2021 £	Rating at 31 December 2020 £	Rating at 31 December 2020 £
Citibank	A	168,070	A	178,829
Bank Mendes Gans	A	4,989,407	A	5,737,828
		5,157,477		5,916,657

Avanos Medical UK Limited

Directors' report (continued) For the year ended 31 December 2021

Financial risk management objectives and policies (continued)

Liquidity risk

Liquidity risk arises from the company's management of working capital and the finance charges. 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, tradable 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).

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 company has traded positively in the year, generating a profit before tax of £422,953 (2020: £740,573). It is in a net asset position at the year end with a balance of £3,137,493 (2020: £2,801,364) and has a positive cash balance of £5,157,477 (2020: £5,916,657). The directors are confident that the company has the ability to continue to operate as a going concern for at least 12 months from the approval of the financial statements. This has been based on a forecasts covering the period to 30 November 2023 which are underpinned by the distribution agreement between Avanos Medical Belgium BVBA and Avanos Medical UK Limited. Furthermore, a letter of intention has been obtained from the Belgium company, which in turn has a similar distribution arrangement with the US parent company Avanos Medical, Inc., to confirm that there are no intentions of terminating or cancelling the distribution agreement in place. In addition, the company is party to group cash pool arrangements and the directors have satisfied themselves that the group has sufficient cash to honour both this arrangement and the intentions as set out in the letter. The directors have thus formed a judgement, at the time of approving the financial statements, that the company has adequate resources to continue to operate for the future, despite the current uncertain economic climate. For this reason the directors continue to adopt the going concern basis of accounting preparing the financial statements.

Future developments

Information on future developments in the business of the company have been included in the strategic report on page 1.

Avanos Medical UK Limited

Directors' report (continued) For the year ended 31 December 2021

Directors' responsibilities statement

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

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

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditor

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

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

Avanos Medical UK Limited

Directors' report (continued) For the year ended 31 December 2021

Independent auditor

The independent auditor, Deloitte LLP, will be proposed for reappointment in accordance with section 487 of the Companies Act 2006.

This report was approved by the board on

2022 and signed on its behalf.



N C C Vanderoost
Director

Nov 28, 2022

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 of Avanos Medical UK Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 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 which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 20.

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 Financial Reporting Council's (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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to material misstatement in the financial statements themselves. 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 this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. All products that are distributed in EU meet the requirements of the European Medical Device Directive 93/42/EEC.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations.

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

Report on other legal and regulatory requirements

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 directors' report.

Matters on which we are required to report by exception

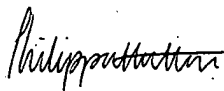
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

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.



Philippa Hutton FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Bristol
United Kingdom
Date: 28 November 2022

Avanos Medical UK Limited

Statement of comprehensive income For the year ended 31 December 2021

	Note	2021 £	2020 £
Turnover	5	11,071,484	14,478,743
Cost of sales		(5,128,427)	(6,844,341)
Gross profit		5,943,057	7,634,402
Administrative expenses		(6,129,479)	(7,802,413)
Other operating income	6	609,613	891,740
Operating profit	7	423,191	723,729
Finance (expense) / income (net)	10	(238)	16,844
Profit before tax		422,953	740,573
Tax on profit	11	(86,824)	(144,011)
Profit for the financial year		336,129	596,562
Other comprehensive income			
Total comprehensive income		336,129	596,562

The results were derived from continuing operations.

The notes on pages 14 to 26 form part of these financial statements.

Avanos Medical UK Limited

Registered number: 09051011

**Balance sheet
As at 31 December 2021**

	Note	2021 £	2020 £
Fixed assets			
Tangible assets	12	-	-
Current assets			
Debtors	13	1,431,206	1,585,548
Cash at bank and in hand	14	5,157,477	5,916,657
		<u>6,588,683</u>	<u>7,502,205</u>
Creditors: amounts falling due within one year	15	(3,451,190)	(4,700,841)
Net current assets		<u>3,137,493</u>	<u>2,801,364</u>
Total assets less current liabilities		<u>3,137,493</u>	<u>2,801,364</u>
Net assets		<u>3,137,493</u>	<u>2,801,364</u>
Capital and reserves			
Called up share capital	16	1,318,498	1,318,498
Share premium account		488,197	488,197
Profit and loss account		1,330,798	994,669
Total equity		<u>3,137,493</u>	<u>2,801,364</u>

The financial statements on page 11 to 26 were approved and authorised for issue by the board and were signed on its behalf on 2022.



Nov 28, 2022

N C C Vanderroost
Director

The notes on pages 14 to 26 form part of these financial statements.

Avanos Medical UK Limited

Statement of changes in equity For the year ended 31 December 2021

	Called up share capital £	Share premium account £	Profit and loss account £	Total equity £
At 1 January 2020	1,318,498	488,197	4,443,870	6,250,565
Comprehensive income for the year				
Profit for the financial year	-	-	596,562	596,562
Dividends paid in the year (note 3.13)	-	-	(4,045,763)	(4,045,763)
At 31 December 2020 and 1 January 2021	1,318,498	488,197	994,669	2,801,364
Comprehensive income for the year				
Profit for the financial year	-	-	336,129	336,129
At 31 December 2021	1,318,498	488,197	1,330,798	3,137,493

The notes on pages 14 to 26 form part of these financial statements.

Avanos Medical UK Limited

Notes to the financial statements For the year ended 31 December 2021

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, registered in England and Wales 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 £336,129 (2020: £596,562).

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.

Avanos Medical UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2021

3. Summary of significant accounting policies (continued)

3.2 Going concern

The company has traded positively in the year, generating a profit before tax of £422,953 (2020: £740,573). It is in a net asset position at the year end with a balance of £3,137,493 (2020: £2,801,364) and has a positive cash balance of £5,157,477 (2020: £5,916,657). The directors are confident that the company has the ability to continue to operate as a going concern for at least 12 months from the approval of the financial statements. This has been based on a forecasts covering the period to 30 November 2023 which are underpinned by the distribution agreement between Avanos Medical Belgium BVBA and Avanos Medical UK Limited. Furthermore, a letter of intention has been obtained from the Belgium company, which in turn has a similar distribution arrangement with the US parent company Avanos Medical, Inc., to confirm that there are no intentions of terminating or cancelling the distribution agreement in place. In addition, the company is party to group cash pool arrangements and the directors have satisfied themselves that the group has sufficient cash to honour both this arrangement and the intentions as set out in the letter. The directors have thus formed a judgement, at the time of approving the financial statements, that the company has adequate resources to continue to operate for the future, despite the current uncertain economic climate. For this reason the directors continue to adopt the going concern basis of accounting preparing the financial statements.

3.3 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 flows;
- 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.

3.4 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. Net revenue is the revenue a company earns in a given period after any purchaser discounts or allowances are factored.

Avanos Medical UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2021

3. Summary of significant accounting policies (continued)

3.5 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
-----------------	-----------

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 statement of comprehensive income.

3.6 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 statement of comprehensive income, 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 the statement of comprehensive income.

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 statement of comprehensive income.

3.7 Cash at bank and in hand

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

Bank overdrafts are shown within current liabilities.

Avanos Medical UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2021

3. Summary of significant accounting policies (continued)

3.8 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'.

Avanos Medical UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2021

3. Summary of significant accounting policies (continued)

3.9 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 debtors, amounts owed by fellow subsidiaries and cash at bank and in hand 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.

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 creditors 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.

Avanos Medical UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2021

3. Summary of significant accounting policies (continued)

3.9 Financial instruments (continued)

(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.

3.10 Current and deferred taxation

The tax expense for the year comprises current tax. Tax is recognised in the statement of comprehensive income, 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 all 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.

3.11 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 statement of comprehensive income 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.

Avanos Medical UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2021

3. Summary of significant accounting policies (continued)

3.11 Equity-settled share-based payments (continued)

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 the statement of comprehensive income over the remaining vesting period. Where equity instruments are granted to persons other than employees, the statement of comprehensive income is charged with the fair value of goods and services received.

3.12 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.

3.13 Dividends

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.

3.14 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.

3.15 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.

Avanos Medical UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2021

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.

5. Analysis of turnover

Analysis of turnover by category:

	2021 £	2020 £
Medical devices	<u>11,071,484</u>	<u>14,478,743</u>

Analysis of turnover by country of destination:

	2021 £	2020 £
United Kingdom	<u>11,071,484</u>	<u>14,478,743</u>

6. Other operating income

	2021 £	2020 £
Other operating income	<u>609,613</u>	<u>891,740</u>

These are salary costs which are recharged to companies within the Group.

7. Operating profit

The operating profit is stated after charging/(crediting):

	2021 £	2020 £
Depreciation of tangible fixed assets (note 12)	-	1,775
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	53,973	55,936
Exchange differences	(92,648)	288,861
Share based payment (note 17)	16,905	38,029
Defined contribution pension costs (note 18)	<u>133,143</u>	<u>122,445</u>

Avanos Medical UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2021

8. Employees

Staff costs were as follows:

	2021 £	2020 £
Wages and salaries	2,363,391	2,760,952
Social security costs	307,678	311,039
Cost of defined contribution scheme (note 18)	133,143	122,445
	<u>2,804,212</u>	<u>3,194,436</u>

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

	2021 No.	2020 No.
Sales	<u>22</u>	<u>21</u>

9. 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. Their allocation to this entity is nil as no relevant services were provided.

During the year retirement benefits were accruing to no directors (2020: none) in respect of defined contribution pension schemes.

During the year no directors (2020: none) received shares under long term incentive schemes.

10. Finance (expense) / income (net)

	2021 £	2020 £
Interest receivable	1,510	17,981
Interest payable on bank loans and overdrafts	(1,748)	(1,137)
	<u>(238)</u>	<u>16,844</u>

Finance (expense) / income (net) does not include interest in relation to amounts due to/from group undertakings.

Avanos Medical UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2021

11. Tax on profit

	2021 £	2020 £
Corporation tax		
Current tax on profits for the year	86,343	141,203
Adjustments in respect of previous periods	481	3,109
Total current tax	86,824	144,312
Deferred tax		
Origination and reversal of timing differences	-	(337)
Effect of changes to tax rates	-	36
Total deferred tax	-	(301)
Tax on profits	86,824	144,011

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2020: higher than) the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	2021 £	2020 £
Profit before tax	422,953	740,573
Profit multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	80,361	140,709
Effects of:		
Tax rate changes	-	36
Expenses not deductible	5,982	157
Adjustments in respect of previous periods	481	3,109
Total tax charge for the year	86,824	144,011

Factors that may affect future tax charges

Changes to UK corporation tax rates were substantively enacted by the Finance Bill 2021 (on 24 May 2021). These included an increase in the corporation tax rate from 19% to 25% from 1 April 2023.

Avanos Medical UK Limited

Notes to the financial statements (continued) **For the year ended 31 December 2021**

12. Tangible assets

	Sales equipment £
Cost	
At 1 January 2021 / 31 December 2021	21,295
Depreciation	
At 1 January 2021 / 31 December 2021	21,295
Net book value	
At 31 December 2020 / 31 December 2021	-

13. Debtors

	2021 £	2020 £
Trade debtors	1,196,492	1,233,849
Amounts owed by fellow subsidiaries	160,685	308,165
Prepayments and accrued income	28,551	43,534
Corporation tax	45,478	-
	<u>1,431,206</u>	<u>1,585,548</u>

Amounts owed by fellow subsidiaries are unsecured, interest free and repayable on demand.

Trade debtors are stated after provisions for impairment of £Nil (2020: £1,347).

14. Cash and cash equivalents

	2021 £	2020 £
Cash at bank and in hand	5,157,477	5,916,657

The amount refers only to cash at bank. There is no cash in hand held by the company.

Avanos Medical UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2021

15. Creditors: amounts falling due within one year

	2021 £	2020 £
Trade creditors	501,791	487,075
Amounts owed to parent company	919,230	38,127
Amounts owed to fellow subsidiaries	-	1,469,568
Corporation tax	-	41,698
Other taxation and social security	230,122	358,309
Accruals	1,800,047	2,306,064
	<u>3,451,190</u>	<u>4,700,841</u>

Amounts owed to fellow subsidiaries are unsecured, interest free and repayable on demand.

16. Called up share capital

	2021 £	2020 £
Shares classified as equity		
Allotted, called-up and fully paid		
131,849,745 (2020: 131,849,745) Ordinary shares of £0.01 each	<u>1,318,498</u>	<u>1,318,498</u>

17. 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 contractual life (ability to exercise is 10 years from grant date 5 July 2030). The vesting (ability to exercise) is 30% of the value after year 1 (5 July 2021) 30% of the value after year 2 (5 July 2022) and 40% after year 3 (5 July 2023). The options outstanding at the end of the year have a weighted average remaining contractual life of 10 years (2020: 10 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 \$28.87 (2020: \$28.87) and with a range of vesting dates.

Expense of £16,905 (2020: £38,029) was recognised directly in the income statement within administrative expenses.

Avanos Medical UK Limited

Notes to the financial statements (continued) For the year ended 31 December 2021

18. 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 £133,143 (2020: £122,445). This amount is recognised in the statement of comprehensive income as an expense. There were no contributions owing at the year end (2020: none).

19. 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.

20. 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.