

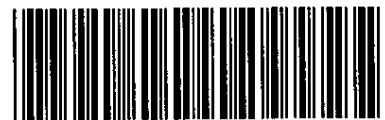
Registered number: 09051011

**Halyard Health UK Limited**

**Annual report and financial statements**

**For the year ended 31 December 2016**

FRIDAY



\*A6G0IFA7\*

A12

29/09/2017

#180

COMPANIES HOUSE

---

## **Halyard Health UK Limited**

### **Company Information**

<b>Directors</b>	P G Y Deschamps B Verreydt
<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

# **Halyard Health UK Limited**

## **Contents**

	Page
<b>Strategic report</b>	<b>1 - 2</b>
<b>Directors' report</b>	<b>3 - 5</b>
<b>Independent auditor's report</b>	<b>6 - 7</b>
<b>Statement of comprehensive income</b>	<b>8</b>
<b>Balance sheet</b>	<b>9</b>
<b>Statement of changes in equity</b>	<b>10</b>
<b>Notes to the financial statements</b>	<b>11 - 26</b>

## Halyard Health UK Limited

### Strategic report For the year ended 31 December 2016

The directors present their strategic report for the year ended 31 December 2016.

#### Principal activity and business review

The company's principal activity is the sale of clinical products, solutions and medical devices in infection prevention, surgical solutions, respiratory health, digestive health, pain management and IV therapy.

The company is a wholly owned subsidiary and part of the Halyard Group, headed by Halyard Health, Inc., a company listed on the New York Stock Exchange ("NYSE") (ticker HYH).

During the year, the company issued 1,839,745 ordinary shares of £0.01 each to acquire CORPAK Medsystems UK Limited for consideration of £506,595.

On 23 June 2016, the UK electorate voted to discontinue its membership of the EU. Until further clarity is known regarding terms in which the UK will exit, the directors are not able to assess the impact on the company or what impact the wider regulatory and legal consequences of the UK leaving the EU would be on the company.

#### Key performance indicators

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

	2016 £000	2015 £000
Net Sales	14,559	16,084
Gross Profit (GP)	7,471	6,416
GP margin	51.3%	39.9%

Net sales decreased by 9.5% through loss of tender business in certain surgical & infection control products categories. This was partially offset through increased sales of medical devices. Gross profit margin improved thanks to the favourable sales mix towards medical devices.

#### Future developments

The main strategy in the coming years is to maintain sales in Surgical and Infection Prevention ("S&IP") and grow sales in Medical Devices. Globally, Halyard Health, Inc. intends to supplement its growth through strategic acquisitions of, investments in, and alliances with new medical technologies. Halyard UK Ltd will be delivering on this strategy in 2017, as thanks to the acquisition of Corpak Medsystems by the corporation in May 2016, and sales carve out to Halyard UK in November 2016, the company plans to significantly increase its revenue and gross profit in 2017.

#### 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.

## **Halyard Health UK Limited**

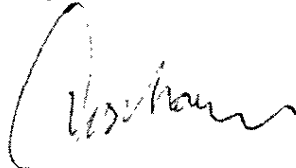
### **Strategic report For the year ended 31 December 2016**

#### **Principal risks and uncertainties (continued)**

- 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 26 September 2017 and signed on its behalf.

**P G Y Deschamps**  
Director



## Halyard Health UK Limited

### Directors' report For the year ended 31 December 2016

The directors present their annual report and the audited financial statements for the year ended 31 December 2016.

#### Results and dividends

The profit for the year, after taxation, amounted to £666,119 (2015: £608,366).

No dividends are proposed in respect of the year ended 31 December 2016 (2015: £Nil).

#### Directors

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

P G Y Deschamps  
B Verreydt

#### Qualifying third party indemnity provisions

The company has put in place qualifying third party indemnity provisions for all of the directors of Halyard Health 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 2016	Balance at 31 December 2016 £	Rating at 31 December 2015	Balance at 31 December 2015 £
Citibank	A	281,785	A	241,734
Bank Mendes Gans	A	1,929,520	A	1,247,715
		<u>2,211,305</u>		<u>1,489,449</u>

# **Halyard Health UK Limited**

## **Directors' report For the year ended 31 December 2016**

### **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).

#### *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 Halyard Health 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 Halyard 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**

Information on future developments in the business of the company has been included in the Strategic report on page 1. There are no post balance sheet events that require disclosure.

## Halyard Health UK Limited

### Directors' report For the year ended 31 December 2016

#### Directors' responsibilities statement

The directors are responsible for preparing the strategic report, the directors' 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 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 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;
- 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 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.

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 that director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- that 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.

#### 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 26 September 2017 and signed on its behalf.

P G Y Deschamps  
Director





## **Halyard Health UK Limited**

### **Independent auditor's report to the members of Halyard Health UK Limited**

We have audited the financial statements of Halyard Health UK Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

#### **Respective responsibilities of directors and auditor**

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

#### **Scope of the audit of the financial statements**

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

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other 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 and the Directors' Report.

## **Halyard Health UK Limited**

### **Independent auditor's report to the members of Halyard Health UK Limited**

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

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

- adequate accounting records have not been kept, 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;



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

Date: 26 September 2017

## Halyard Health UK Limited

### Statement of comprehensive income For the year ended 31 December 2016

	Note	2016 £	2015 £
Turnover		14,559,278	16,084,301
Cost of sales		(7,088,127)	(9,668,027)
<b>Gross profit</b>		<b>7,471,151</b>	<b>6,416,274</b>
Distribution costs		(1,189,374)	(1,680,281)
Administrative expenses		(5,776,417)	(4,599,311)
Other operating income		329,565	624,295
<b>Operating profit</b>		<b>834,925</b>	<b>760,977</b>
Interest receivable and similar income	10	5,979	96
Interest payable and similar charges	11	(1,716)	(968)
<b>Profit on ordinary activities before taxation</b>		<b>839,188</b>	<b>760,105</b>
Taxation on profit on ordinary activities	12	(173,069)	(151,739)
<b>Profit for the financial year</b>		<b>666,119</b>	<b>608,366</b>

The notes on pages 11 to 26 form part of these financial statements.

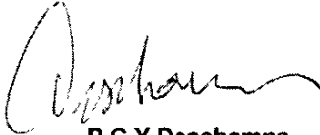
# Halyard Health UK Limited

Registered number: 09051011

## Balance sheet As at 31 December 2016

	Note	2016 £	2015 £
<b>Fixed assets</b>			
Tangible assets	13	21,295	-
Investments	14	506,595	-
		<u>527,890</u>	<u>-</u>
<b>Current assets</b>			
Stocks	15	56,634	1,954,257
Debtors	16	3,756,462	3,266,800
Cash at bank and in hand		2,211,305	1,489,449
		<u>6,024,401</u>	<u>6,710,506</u>
Creditors: amounts falling due within one year	17	(2,962,903)	(4,293,832)
<b>Net current assets</b>		<u>3,061,498</u>	<u>2,416,674</u>
<b>Total assets less current liabilities</b>		<u>3,589,388</u>	<u>2,416,674</u>
<b>Net assets</b>		<u><u>3,589,388</u></u>	<u><u>2,416,674</u></u>
<b>Capital and reserves</b>			
Called-up share capital	19	1,318,498	1,300,100
Share premium account		488,197	-
Retained earnings		1,782,693	1,116,574
<b>Total equity</b>		<u><u>3,589,388</u></u>	<u><u>2,416,674</u></u>

The financial statements on pages 8 to 26 were approved and authorised for issue by the board of directors and were signed on its behalf on 26 September 2017.

  
**P G Y Deschamps**  
Director

The notes on pages 11 to 26 form part of these financial statements.

## Halyard Health UK Limited

### Statement of changes in equity As at 31 December 2016

	Called-up share capital £	Share premium account £	Retained earnings £	Total equity £
At 1 January 2016	1,300,100	-	1,116,574	2,416,674
<b>Comprehensive income for the year</b>				
Profit for the financial year	-	-	666,119	666,119
<b>Contributions by and distributions to owners</b>				
Shares issued during the year	18,398	488,197	-	506,595
<b>At 31 December 2016</b>	<b>1,318,498</b>	<b>488,197</b>	<b>1,782,693</b>	<b>3,589,388</b>

### Statement of changes in equity As at 31 December 2015

	Called-up share capital £	Retained earnings £	Total equity £
At 1 January 2015	1,300,100	508,208	1,808,308
<b>Comprehensive income for the year</b>			
Profit for the financial year	-	608,366	608,366
<b>At 31 December 2015</b>	<b>1,300,100</b>	<b>1,116,574</b>	<b>2,416,674</b>

The notes on pages 11 to 26 form part of these financial statements.

## **Halyard Health UK Limited**

### **Notes to the financial statements For the year ended 31 December 2016**

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

Halyard Health UK Limited ("the company") supplies clinical products, solutions and medical devices in infection prevention, 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. The address of the registered office is 25 Clarendon Road, Redhill, Surrey, RH1 1QZ.

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

The individual financial statements of Halyard Health 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.

#### **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.

# Halyard Health UK Limited

## Notes to the financial statements For the year ended 31 December 2016

### 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 and will if needed receive the necessary financial support from the group. 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 Halyard Health 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, Halyard Health 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.

#### 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.

## Halyard Health UK Limited

### Notes to the financial statements For the year ended 31 December 2016

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

##### 3.6 Tangible fixed assets (continued)

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.

##### 3.7 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.

##### 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.



# Halyard Health UK Limited

## Notes to the financial statements For the year ended 31 December 2016

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

#### 3.10 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'.

#### 3.11 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 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.

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.

## **Halyard Health UK Limited**

### **Notes to the financial statements For the year ended 31 December 2016**

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

##### **3.11. Financial instruments (continued)**

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 loans from fellow group companies, 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.

##### **3.12 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.

## **Halyard Health UK Limited**

### **Notes to the financial statements For the year ended 31 December 2016**

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

##### **3.13 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.

# **Halyard Health UK Limited**

## **Notes to the financial statements For the year ended 31 December 2016**

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

#### **3.14 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.

#### **3.15 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.

## **Halyard Health UK Limited**

### **Notes to the financial statements For the year ended 31 December 2016**

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

##### **3.16 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.

##### **3.17 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.

##### **3.18 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.

The directors are conscious that in preparation of these accounts their judgement has been used in certain areas, namely bad debt provision, stock provision and share based payments allocation. Every care has however been taken to ensure that these judgements have been used conservatively and carefully backed up by their knowledge of the debtors, stock and parent company's share based payment expense.

Debtors with overdue invoices are subject to risk provision following these criteria:

- Doubtful accounts = 100%
- Overdue > 360 days = 100%
- Overdue 271 - 360 days = 50%
- Overdue 181 - 270 days = 10%
- Overdue 91 - 180 days = 5%

The provision as of 31 December 2016 was £1,622.

The company has assessed the need for a provision for the impairment of stock which requires judgements to be made by the directors. The judgements, estimates and associated assumptions necessary to calculate the provision are based on historical experience and other reasonable factors such as remaining shelf life and days of inventory on hand.

The approach to share based payment expense is explained in note 3.14.

## Halyard Health UK Limited

### Notes to the financial statements For the year ended 31 December 2016

#### 5. Analysis of turnover

Analysis of turnover by category:

	2016 £	2015 £
Surgical and infection prevention	7,858,792	12,416,679
Medical devices	5,930,387	2,637,555
Intercompany	770,099	1,030,067
	<u>14,559,278</u>	<u>16,084,301</u>

Analysis of turnover by country of destination:

	2016 £	2015 £
United Kingdom	12,993,852	14,246,722
Rest of Europe	1,565,426	1,837,579
	<u>14,559,278</u>	<u>16,084,301</u>

#### 6. Other operating income

	2016 £	2015 £
Other operating income	329,565	624,295

#### 7. Operating profit

Operating profit is stated after charging/(crediting):

	2016 £	2015 £
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	74,723	30,000
Exchange differences	35,137	109,511
Share-based payments (note 20)	352	(25,616)
Defined contribution pension cost (note 21)	40,312	65,446
Operating lease charges	22,859	26,264

## Halyard Health UK Limited

### Notes to the financial statements For the year ended 31 December 2016

#### 8. Employees

Staff costs, including directors' remuneration, were as follows:

	2016 £	2015 £
Wages and salaries	954,352	1,003,932
Social security costs	126,045	65,665
Cost of defined contribution scheme	40,312	65,446
	<u>1,120,709</u>	<u>1,135,043</u>

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

	2016 No.	2015 No.
Sales	<u>13</u>	<u>12</u>

#### 9. Directors' remuneration

	2016 £	2015 £
Directors' emoluments	-	196,272
Company contributions to defined contribution pension schemes	-	4,166
	<u>-</u>	<u>200,438</u>

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 (2015: none) in respect of defined contribution pension schemes.

During the year no directors (2015: none) received shares under long term incentive schemes.

#### 10. Interest receivable and similar income

	2016 £	2015 £
Other interest receivable	<u>5,979</u>	<u>96</u>

#### 11. Interest payable and similar charges

	2016 £	2015 £
Bank loans and overdrafts	<u>1,716</u>	<u>968</u>

## Halyard Health UK Limited

### Notes to the financial statements For the year ended 31 December 2016

#### 12. Taxation

	2016 £	2015 £
<b>Corporation tax</b>		
Current tax on profits for the year	173,124	153,862
Adjustments in respect of previous periods	1,143	-
<b>Total current tax</b>	<b>174,267</b>	<b>153,862</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(1,784)	(2,149)
Changes to tax rates	586	26
<b>Total deferred tax</b>	<b>(1,198)</b>	<b>(2,123)</b>
<b>Taxation on profit on ordinary activities</b>	<b>173,069</b>	<b>151,739</b>

#### Factors affecting tax charge for the year

The tax assessed for the year is higher than (2015: lower than) the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below:

	2016 £	2015 £
Profit on ordinary activities before tax	839,188	760,105
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	167,838	153,921
<b>Effects of:</b>		
Expenses not deductible for tax purposes	3,502	3,025
Adjustment from previous periods	1,143	-
Non-taxable income	-	(5,207)
Tax rate changes	586	-
<b>Total tax charge for the year</b>	<b>173,069</b>	<b>151,739</b>

#### Factors that may affect future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and 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.



# Halyard Health UK Limited

## Notes to the financial statements For the year ended 31 December 2016

### 13. Tangible assets

	Sales equipment £
<b>Cost or valuation</b>	
Additions	21,295
At 31 December 2016	<u>21,295</u>
<b>Net book value</b>	
At 31 December 2016	<u>21,295</u>
At 31 December 2015	<u>-</u>

### 14. Fixed asset investments

	Investment in subsidiary company £
<b>Cost or valuation</b>	
Additions	506,595
At 31 December 2016	<u>506,595</u>
<b>Net book value</b>	
At 31 December 2016	<u>506,595</u>
At 31 December 2015	<u>-</u>

#### Subsidiary undertaking

The following was a subsidiary undertaking of the company:

Name	Class of shares	Holding	Principal activity
CORPAK Medsystems UK Limited	Ordinary	100 %	Sales, marketing and support services for parent

During the year the company acquired the entire ordinary share capital of CORPAK Medsystems UK Limited for the consideration of £506,595. The address of the registered office of CORPAK Medsystems UK Limited is 20-22 Bedford Row, London, WC1R 4JS.

## Halyard Health UK Limited

### Notes to the financial statements For the year ended 31 December 2016

#### 15. Stocks

	2016 £	2015 £
Finished goods and goods for resale	<u>56,634</u>	<u>1,954,257</u>

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

#### 16. Debtors

	2016 £	2015 £
Trade debtors	3,523,017	2,745,793
Amounts owed by group undertakings	224,767	332,420
Other debtors	2,635	-
Prepayments and accrued income	2,722	186,464
Deferred taxation	3,321	2,123
	<u>3,756,462</u>	<u>3,266,800</u>

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

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

	2016 £	2015 £
Trade creditors	147,051	519,874
Amounts owed to group undertakings	1,436,964	3,259,597
Corporation tax	-	150,969
Other taxation and social security	714,874	42,188
Accruals and deferred income	664,014	321,204
	<u>2,962,903</u>	<u>4,293,832</u>

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

# Halyard Health UK Limited

## Notes to the financial statements For the year ended 31 December 2016

### 18. Deferred taxation

	Deferred tax £
At 1 January 2016	2,123
Charged to the profit or loss	1,198
<b>At 31 December 2016</b>	<b>3,321</b>

The deferred tax asset is made up as follows:

	2016 £	2015 £
Accelerated capital allowances	3,321	2,149
Tax rate changes	-	(26)
	<b>3,321</b>	<b>2,123</b>

### 19. Share capital

	2016 £	2015 £
<b>Allotted, called-up and fully paid</b>		
131,849,745 (2015: 130,010,000) Ordinary shares of £0.01 each	<b>1,318,498</b>	<b>1,300,100</b>

During the year, 1,839,745 ordinary shares of £0.01 each were issued as consideration to acquire 100% of the share capital of CORPAK Medsystems UK Limited.

## Halyard Health UK Limited

### Notes to the financial statements For the year ended 31 December 2016

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

The Halyard Health, Inc. Equity Participation Plan and the Halyard Health, 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 Halyard Health, 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, Halyard Health, 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 2.2 years (2015: 3.2 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 (2015: £29.66) and with a range of vesting dates.

Expense of £352 (2015: income of £25,616) 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 £40,312 (2015: £65,446). 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:

	2016 £	2015 £
Not later than 1 year	15,532	22,859
Later than 1 year and not later than 5 years	26,624	13,280
<b>Total</b>	<b>42,156</b>	<b>36,139</b>

## **Halyard Health UK Limited**

### **Notes to the financial statements For the year ended 31 December 2016**

#### **23. Related party transactions**

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

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

During the year, the shares of Halyard Health UK Limited were sold by Halyard Health, Inc. to Corpak Medsystems, Inc. at equity value.

The company is a wholly owned subsidiary of CORPAK Medsystems, Inc., a company incorporated in the state of Delaware, United States of America. Halyard Health, 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 Halyard Health, Inc. The consolidated financial statements of the Halyard Group are available to the public and may be obtained from the company's website at [www.halyardhealth.com](http://www.halyardhealth.com).