

Registered number: 461365

BAXTER HEALTHCARE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019



BAXTER HEALTHCARE LIMITED

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BAXTER HEALTHCARE LIMITED

COMPANY INFORMATION PAGE

DIRECTORS

A Goldney
B Tarras-Wahlberg
M Smialek

REGISTERED NUMBER

461365

REGISTERED OFFICE

Caxton Way
Thetford
Norfolk
IP24 3SE

INDEPENDENT AUDITORS

PricewaterhouseCoopers
One Spencer Dock
North Wall Quay
Dublin
Ireland

BAXTER HEALTHCARE LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

INTRODUCTION

The directors present their strategic report on the Company for the year ended 31 December 2019.

Baxter International Inc. (the ultimate parent company), through its subsidiaries, provides a broad portfolio of essential healthcare products, including acute and chronic dialysis therapies; sterile intravenous (IV) solutions; infusion systems and devices; parenteral nutrition therapies; inhaled anesthetics; generic injectable pharmaceuticals; and surgical hemostat and sealant products. Baxter Healthcare Limited (the Company) is a wholly owned indirect subsidiary of Baxter International Inc.

BUSINESS REVIEW

The profit before taxation amounted to £12,243K (2018 £20,632K). The decrease in profit before taxation is driven by higher administrative expenses linked to the increase in sales.

Sales in respect of continuing operations were up by 14.9% in 2019 compared to 2018 reflecting growth in the hospital products portfolio, specifically compounding and pharmaceuticals.

Net assets at £125,802K (2018 122,790K) increased by £3,012K which reflects the profit earned from operations.

PRINCIPAL RISKS AND UNCERTAINTIES

The Principal risks to the Company are listed below and the financial risks are discussed in the Directors' report.

Markets

The risk posed by any contractions in the market place are mitigated by the continued efforts of the business to drive new initiatives in the market place, working closely with the NHS using health economics data.

Products

The risk arising from the Company's potential inability to deliver new therapies, devices and equipment is managed through its continued pursuit of a healthy product pipeline.

Employees

Various bonus schemes are used as motivational tools for employees, including the Management Incentive Compensation Plan (MICP) for senior staff, local bonus schemes and share option schemes.

The Company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The Company gives full and fair consideration to applications for employment for disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Company. If members of staff become disabled the Company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

BAXTER HEALTHCARE LIMITED

STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Brexit

Brexit is taken very seriously within Baxter as it has the potential to impact the supply of products and services to our customers and patients.

The details of trade, recognition of quality and product regulation standards, and the various issues specific to the healthcare market are still to be clarified in the context of Brexit. As Baxter is a major supplier to the healthcare market, and has a strong manufacturing presence in the UK and throughout Europe, we continue to work with the relevant agencies and take concrete action to prepare for 'No-Deal' on 31st December 2020.

In particular, we have performed the following critical tasks in preparation:

- Updated registrations related to both medicines and medical devices and we continue to work closely with our EU Notified Body to ensure we maintain compliance to applicable standards
- Completed our analysis of the transport lanes between the EU and the UK and have worked with a third-party customs clearing agent to develop processes enabling adherence to customs requirements
- Put plans in place to build stock ahead of the 31st December to mitigate the risk of potential delays at the UK/EU borders. We are also working with Supply Chain Coordination Limited (SCCL) to support their central stock build of critical codes
- Worked with our EU national employees based in the UK to support their application for settled status

The political situation remains volatile and unpredictable. Based on this uncertainty we continue to use the transition period to further prepare for a 'No Deal' on the 31st December 2020.

Risks and Uncertainties Related to COVID-19

Our operations expose us to risks associated with public health crises and epidemics/pandemics, such as the novel strain of coronavirus (COVID-19). COVID-19 may have an adverse impact on our operations, supply chains and distribution systems and increase our expenses, including as a result of impacts associated with preventive and precautionary measures that we, other businesses and governments are taking. Due to these impacts and measures, we have experienced and may continue to experience reductions or increases in demand for certain of our products as health care customers re-prioritize the treatment of patients. For example, elective surgeries are being de-prioritized which has negatively impacted the usage of certain of our products, while other of our products are experiencing an increase in demand which we may not be able to meet in accordance with the customer's desired timing. In addition to travel restrictions, countries have closed borders and imposed prolonged quarantines, often with uncertain duration, which has significantly impacted the ability of our employees to get to their places of work to produce products and may significantly hamper our products from moving through the supply chain. As a result, given the rapid and evolving nature of the virus, COVID-19 could negatively affect our sales, and it is uncertain how COVID-19 will affect our operations generally if these impacts persist or exacerbate over an extended period of time. However, despite all the uncertainties, the Company is secured to continue its operating activities with financial support from the ultimate parent company if required. See going concern disclosure note 3 (ii).

FUTURE DEVELOPMENTS

The Company will continue to focus on developing and marketing innovative healthcare solutions.

BAXTER HEALTHCARE LIMITED

STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

KEY PERFORMANCE INDICATORS

The company's KPIs are focused on turnover and operating profit which is detailed on the face of the income statement. The company's directors are satisfied with the company's performance against these KPIs during the year and given the nature of the business, they are of the opinion that analysis using non-financial KPIs is not required for an understanding of the development, performance or position of the business. See COVID-19 disclosures in "Principal Risks and Uncertainties" section.

SECTION 172 (1) STATEMENT

Directors of Baxter Healthcare Limited ("BHL") are required to act in the way they consider, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term,
- the interests of the Company's employees,
- the need to foster the Company's business relationships with suppliers, customers and others,
- the impact of the Company's operations on the community and the environment,
- the desirability of the Company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between members of the Company.

To assist them in discharging their duty under s172 Companies Act 2006, Directors undertake a number of stakeholder engagement activities to provide them with the information they need to understand the views and interests of stakeholders. This information helps Directors to have regard to stakeholder interests, and the likely long-term consequences, including to the reputation of BHL, when making decisions. BHL's key stakeholders were considered in 2019, they are listed below with examples of the stakeholder engagement activities that took place in 2019.

Employees

Baxter's four culture levers—speed, simplicity, courage and collaboration—form the basis for our cultural transformation. We've embedded the levers into established processes ranging from job interviews to new employee orientations to monthly employee-manager check-ins. During 2019, we emphasised a focus on simplicity, introducing SmartMeeting guidelines for our employees and hosting manager-led sessions about how to simplify workflows and processes. Using monthly surveys, we evaluate the impact of our four culture levers across the Company to ensure we are making progress.

Every year, we conduct a Best Place to Work survey. We share survey results broadly across Baxter to drive continuous improvement. Based on 2018 survey results, manager effectiveness has been a key focus area. During 2019, we developed a people manager effectiveness scorecard that summarises anonymous feedback from employees about their direct managers.

At Baxter, we embrace a continuous feedback model for performance management. This includes monthly check-ins between employees and their managers that focus on constructive feedback and career development. The Company continues its practice of keeping employees informed of matters affecting them as employees and of the financial and economic factors affecting the performance for the Company. This is achieved through:

- meetings with the Employee Euroforum which meets annually,
- Employee Consultative Committee which meets quarterly,
- company newsletters issued on a regular basis,
- employee briefings where employees are encouraged to ask questions.

BAXTER HEALTHCARE LIMITED

STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 172 (1) STATEMENT (continued)

Employees (continued)

In 2019, BHL considered the future of its Defined Benefit pension plan. The Company consulted with plan members and took matters raised by them into account when reaching the final decision announced in January 2020.

Suppliers

Performance of BHL's Procure-to-Pay process is assessed based on several KPI's and reviewed at monthly governance meetings which are attended by at least one Company director. In 2019, the Company continued with its efforts to improve our payment-on-time metric. In addition, directors are informed of payment performance of BHL through a semi-annual payment performance report which is reviewed by at least one director and published.

Reporting on the Slavery Act Statement and UK Labour Standards Assurance System (LSAS) also provided the BHL Board with insights into how supplier relationships are managed.

Customers

In 2019 BHL took concrete actions to prepare for Brexit. At the forefront of the Company's decision-making in that regard was ensuring continuity of supply to our patients in line with our mission to Save and Sustain Lives.

Community

Each year, our employees donate money and volunteer hours to help make a meaningful difference in Baxter communities in the UK. There were several initiatives organised in the UK in 2019 including our centrally led volunteering activity for Horatio's Garden and fundraising primarily for our then charity of the year, Canine Partners.

Environment

Our Compounding Unit in Croydon replaced polystyrene inserts with natural sheep wool to insulate and protect chemotherapy products delivered to customers in London and the broader southeastern portion of the country. This innovative material substitution is expected to save 62,400 pieces of polystyrene on an annual basis at this site.

Ethics & Compliance

Maintaining a reputation for high standards of business conduct is a critical success factor for BHL. BHL has a compliance committee to further integrate ethics and compliance in strategic plans and day-to-day activities across the Company. There are bi-monthly meetings to facilitate discussion among local leadership about key issues, challenges and risks in their area. In 2019, the Company's Compliance Committee supported an initiative to help drive a culture of 'Speaking Up' in the Company.

This report was approved by the board on 24 September 2020 and signed on its behalf.



M Smialek
Director
24 September 2020

BAXTER HEALTHCARE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their report and the audited financial statements for the year ended 31 December 2019.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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;
- 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.

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.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

RESULTS AND DIVIDENDS

The profit before taxation for the financial year amounted to £12,243K (2018 £20,632K).

Turnover for the year was £531,350K (2018 £462,637K), all of which related to continuing operations.

The directors do not recommend the payment of a final dividend (2018 £nil).

FUTURE DEVELOPMENTS

Please refer to the Strategic Report on page 3.

BAXTER HEALTHCARE LIMITED

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

DIRECTORS

The directors who served during the year and up to the point of signing were:

A Goldney
B Tarras-Wahlberg
M Smialek

POLITICAL DONATIONS

The Company has made no donations (2018 none) to a registered political party, other political organisation in the EU (including the UK) or any independent election candidates.

EMPLOYEE ENGAGEMENT

Please refer to the Strategic Report on page 2 and Section 172 (1) Statement in the Strategic Report on page 4.

EQUAL OPPORTUNITIES

Please refer to the Strategic Report on page 2.

BUSINESS RELATIONSHIPS

Please refer to Section 172 (1) Statement in the Strategic Report on page 5.

FINANCIAL RISK MANAGEMENT

The Company is exposed to the following financial risks.

Credit Risk

The Company is exposed to credit risk from credit sales if a customer or a counterparty fails to meet its contractual obligations. The Company actively manages its credit risk exposure by assigning credit limits to private customers, monitoring compliance with contractual payment terms and following up of overdue balances.

Liquidity Risk

Liquidity risk arises from the Company's management of working capital. It is the risk that the Company will encounter difficulty in meeting its financial obligation as they fall due. It is the Company's aim to settle balances as they fall due. The Company is part of a larger group that operates a cash pooling process, whereby Group Treasury is responsible for ensuring cash is correctly distributed to the Company to ensure it can meet its ongoing operating needs.

Foreign Exchange Risk

Foreign exchange risk arises because the Company has operations in Republic of Ireland whose currency is Euro, and because the Company enters into transactions denominated in a currency other than Pound Sterling. The Company hedges against certain foreign currency exposures.

BAXTER HEALTHCARE LIMITED

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

QUALIFYING THIRD-PARTY INDEMNITY PROVISIONS

The Company has qualifying third-party indemnity insurance in place to protect directors, providing them with direct coverage for liability arising out of their service as a director. The qualifying third-party indemnity insurance was in force during the financial year and is in force at the date of approval of the financial statements.

INDEPENDENT AUDITORS

The auditors, PwC Ireland, will be reappointed in accordance with section 485 of the Companies Act 2006.

BRANCHES OUTSIDE THE UK

The Company operates a branch in Dublin, Republic of Ireland.

This report was approved by the board on 24 September 2020 and signed on its behalf.



M Smialek
Director
24 September 2020



Independent auditors' report to the members of Baxter Healthcare Limited

Report on the audit of the financial statements

Opinion

In our opinion, Baxter Healthcare Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared 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); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the income statement, and the statement of comprehensive income, and the statement of changes in equity for the year then ended 31 December 2019; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.



Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

A handwritten signature in black ink that reads 'Irene O'Keeffe'.

Irene O' Keeffe (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Auditors
Dublin
Ireland
24 September 2020

BAXTER HEALTHCARE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 Total £'000	2018 Total £'000
TURNOVER	4	531,350	462,637
Cost of sales		<u>(454,012)</u>	<u>(383,492)</u>
GROSS PROFIT		77,338	79,145
Administrative expenses		(65,862)	(59,567)
Other operating income	5	<u>526</u>	<u>496</u>
OPERATING PROFIT	6	12,002	20,074
Interest receivable and similar income	10	1,410	1,263
Interest payable and similar expenses	10	(1,169)	(705)
PROFIT BEFORE TAXATION		12,243	20,632
Tax on profit	11	(1,526)	(5,286)
PROFIT FOR THE FINANCIAL YEAR		<u>10,717</u>	<u>15,346</u>

The notes on pages 16 to 36 form part of these financial statements.

BAXTER HEALTHCARE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 Total £'000	2018 Total £'000
PROFIT FOR THE FINANCIAL YEAR		10,717	15,346
Actuarial (loss)/gain related to pension scheme	17	(3,383)	4,184
Pension scheme termination benefits	17	(-)	(-)
Tax attributed to actuarial gain/(loss) related to pension scheme		575	(711)
Currency translation effects		<u>(5,901)</u>	<u>1,263</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>2,008</u>	<u>20,082</u>

The notes on pages 16 to 36 form part of these financial statements.

BAXTER HEALTHCARE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

		2019		2018	
	Note	£'000	£'000	£'000	£'000
FIXED ASSETS					
Intangible assets	12		600		905
Tangible assets	13		110,686		107,064
Investments	14		971		971
			<u>112,257</u>		<u>108,940</u>
CURRENT ASSETS					
Inventories	15	51,315		48,817	
Debtors	16	155,857		127,998	
Cash at bank and in hand		2,686		4,217	
Pension surplus (falling due after one year)	17	14,000		15,000	
		<u>223,858</u>		<u>196,032</u>	
CREDITORS: amounts falling due within one year	18	<u>(189,525)</u>		<u>(164,658)</u>	
NET CURRENT ASSETS			<u>34,333</u>		<u>31,374</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
			146,590		140,314
Creditors: amounts falling due after more than one year	19		(13,252)		(10,305)
Deferred tax	20		(7,536)		(7,219)
			<u>125,802</u>		<u>122,790</u>
NET ASSETS					
CAPITAL AND RESERVES					
Called up share capital	21		6,852		6,852
Share premium account			5,855		5,855
Capital contribution reserve			3,308		2,304
Profit and loss account			109,787		107,779
			<u>125,802</u>		<u>122,790</u>
TOTAL SHAREHOLDERS' FUNDS					

The financial statements and notes on pages 16 to 36 were approved by the Board of Directors on 24 September 2020 and were signed on its behalf by

Michael Smialek

M Smialek

Director

Baxter Healthcare Limited, incorporated in England and Wales.

Registered number: 461365

BAXTER HEALTHCARE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital	Share premium account	Capital contribution reserve	Profit and loss account	Total Shareholders' funds
	£'000	£'000	£'000	£'000	£'000
At 1 January 2018	6,852	5,855	1,389	87,697	101,793
Profit for the financial year	-	-	-	15,346	15,346
Pension reserve movement	-	-	-	3,473	3,473
Foreign exchange movements	-	-	-	1,263	1,263
Total comprehensive income for the year	-	-	-	20,082	20,082
Share options in Baxter International Inc granted to employees	-	-	915	-	915
At 31 December 2018	6,852	5,855	2,304	107,779	122,790
Profit for the financial year	-	-	-	10,717	10,717
Pension reserve movement	-	-	-	(2,808)	(2,808)
Currency translation effects	-	-	-	(5,901)	(5,901)
Total comprehensive income for the year	-	-	-	2,008	2,008
Share options in Baxter International Inc granted to employees	-	-	1,004	-	1,004
At 31 December 2019	6,852	5,855	3,308	109,787	125,802

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. COMPANY INFORMATION

Baxter Healthcare Limited is a private company limited by shares, domiciled and incorporated in England and Wales. The Company provides a broad portfolio of essential healthcare products, including acute and chronic dialysis therapies; sterile intravenous (IV) solutions; infusion systems and devices; parenteral nutrition therapies; inhaled anesthetics; generic injectable pharmaceuticals; and surgical hemostat and sealant products.

2. STATEMENT OF COMPLIANCE

The individual financial statements of Baxter Healthcare 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

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.

i. Basis of preparation

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

The financial statements have been prepared under FRS 102.

The Company is itself a subsidiary company exempt from the requirement to prepare group financial statements by virtue of section 400 of the Companies Act 2006. These financial statements therefore present information about the company as an individual undertaking and not about its group.

There was a reclassification in the Income Statement for 2018 from Administrative Expenses to Cost of Sales in the amount of £10,011,205. This reclassification was to align the royalty expense, which the Company pays on net sales for the use of the IP owned by Baxter Healthcare SA within Cost of Sales.

ii. Going concern

After reviewing the Company's forecasts and projections, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements. Refer to "Principal Risks and Uncertainties" section of the Strategic Report for discussion of risks and uncertainties related to COVID-19. Despite all the uncertainties related to COVID-19, the Company is secured to continue its operating activities with financial support from the ultimate parent company if required.

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

iii. Foreign currency

The Company's functional and presentational currency is the pound sterling (£). Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the reporting date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses arising on the retranslation of opening reserves is taken directly to reserves, all other exchange differences are recognised in the profit and loss account.

iv. Revenue recognition

The Company sells a range of goods and services including intravenous (IV) solutions, medical devices for fluid delivery, nutrition solutions, pharmacy compounding products and services, surgical products, renal and blood purification therapies, and homecare services providing medication and medical equipment in the home.

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts, and rebates allowed by the Company and value added taxes.

The Company recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the Company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity.

v. Exceptional items

The Company classifies certain one-off charges or credits that have a material impact on the Company's financial results as "exceptional items". These are disclosed separately to provide further understanding of the financial performance of the Company.

vi. Employee benefits

a) Defined contribution pension plans

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 obligation. 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.

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

vi. Employee benefits (continued)

b) Defined benefit pension plan

The Company operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The net pension surplus or deficits under the defined benefit are included in the statement of financial position.

The fair value of plan assets is measured in accordance with FRS 102 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. The cost of the defined benefit pension plan is recognised in the income statement as employee costs.

c) Share-based payments

The ultimate parent company operates a number of equity-settled compensation plans for its worldwide employees. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each year end the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

vii. Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

a) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

b) Deferred tax

Deferred tax arises from timing differences that are difference between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in period different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

viii. Intangible assets

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised on a straight-line basis over its expected useful life at a rate of 20%.

ix. Tangible assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on a straight-line basis as follows:

Land and buildings	-	2% to 10% or period of the lease
Plant and machinery	-	5% to 33%
Films	-	10%
Assets under construction	-	nil

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

x. **Borrowing costs**

Interest on borrowings in respect of long term projects is capitalised within fixed assets.

xi. **Leased assets**

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchases are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the Company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period. The capital element of rentals payable reduces the outstanding obligation for future instalments.

Rentals under operating leases are charged to the income statement on a straight-line basis over the lease term.

xii. **Investments**

Investments in subsidiary companies are held at cost less accumulated impairment losses.

xiii. **Inventories**

Stocks and work in progress are valued at the lower of cost and net realisable value after making allowance for obsolete and slow-moving stocks. Cost is determined on the first-in, first-out (FIFO) method, including all direct costs and an appropriate proportion of fixed and variable overheads. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation.

xiv. **Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in other current liabilities.

xv. **Provisions and contingencies**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- xvi. **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.
- xvii. **Capital contribution reserve**
Share option awards are treated as an equity-settled share-based payment and the credit to equity is treated as a capital contribution.
- xviii. **Related party transactions**
The Company discloses transactions with related parties which are not wholly owned within the same group. It does not disclose transactions with members of the same group that are wholly owned.
- xix. **Financial instruments**
Basic financial assets and financial liabilities, including trade and other receivables, and trade and other payables, are initially recognized at transaction price. Such assets and liabilities are subsequently carried at amortised cost.
- xx. **Key judgements and estimates**
The Company makes certain estimates and assumptions regarding the future. Judgements and estimates are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have the highest risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.
- a) **Taxation**
Significant judgement is required in determining the provision for income taxes. During the ordinary course of business there are transactions and calculations for which the ultimate tax determination is uncertain. Tax liabilities are recognized when, despite the Company's belief that certain positions are supportable, the Company believes that certain positions could be challenged upon review by tax authorities. The Company believes that its accruals for tax liabilities are adequate for all open audit years based on assessment of many factors including past experience and interpretations of the tax law.
- b) **Share based payment charges**
Baxter International Inc., the Ultimate Parent Undertaking, operates a share option scheme which gives rise to share based payment charges. The calculation of the charges involves a significant level of estimate particularly around market volatility and yield. Baxter International Inc. use the Black-Scholes method for the valuation of share options and the Monte Carlo model method for Performance Share Units.

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

xx. Key judgements and estimates (continued)

c) Defined benefit pension

The Company has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net present obligation in the balance sheet. The assumptions reflect historical experience and current trends. The Company uses the services of global advisory company to assist with the valuations (see note 17).

d) Impact of COVID-19

Our operations expose us to risks associated with public health crises and epidemics/pandemics, such as the novel strain of coronavirus (COVID-19). COVID-19 may have an adverse impact on our operations, supply chains and distribution systems and increase our expenses, including as a result of impacts associated with preventive and precautionary measures that we, other businesses and governments are taking. Due to these impacts and measures, we have experienced and may continue to experience reductions or increases in demand for certain of our products as health care customers re-prioritize the treatment of patients. For example, elective surgeries are being de-prioritized which has negatively impacted the usage of certain of our products, while other of our products are experiencing an increase in demand which we may not be able to meet in accordance with the customer's desired timing. In addition to travel restrictions, countries have closed borders and imposed prolonged quarantines, often with uncertain duration, which has significantly impacted the ability of our employees to get to their places of work to produce products and may significantly hamper our products from moving through the supply chain. As a result, given the rapid and evolving nature of the virus, COVID-19 could negatively affect our sales, and it is uncertain how COVID-19 will affect our operations generally if these impacts persist or exacerbate over an extended period of time. However, despite all the uncertainties, the Company is secured to continue its operating activities with financial support from the ultimate parent company if required. See going concern disclosure note 3 (ii).

xxi. Exemptions Under FRS 102

The Company has taken advantage of the following exemptions under the provisions of FRS 102:

- a) The requirements of Section 4 Statement of Financial Position paragraph 4.12 (a)(iv) to prepare a reconciliation of the number of equity shares outstanding at the beginning and at the end of the financial year;
- b) The requirements of Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17 (d) to prepare a statement of cash flows;
- c) The requirements of Section 11 paragraphs 11.39 to 11.48 (a) and Section 12 paragraphs 12.26 to 12.29 A, regarding disclosures for financial liabilities and assets, as the equivalent disclosures required by FRS 102 are included in the consolidated financial statements of the group in which the entity is consolidated;

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- xxi. Exemptions Under FRS 102 (continued)
- d) From disclosing the Company key management personnel compensation, as required by paragraph 33.7;
 - e) The requirement of Section 33 Related Party Disclosures paragraph 33.9 to disclose related party transactions within other members of the Baxter group;
 - f) From disclosing share-based payment arrangements, required under FRS 102 paragraphs 26.18 (b), 26.19 to 26.21 and 26.23, concerning the equity instruments of Baxter International Inc. as the equivalent disclosures required by FRS 102 are included in the consolidated financial statements of the group in which the entity is consolidated.

4. TURNOVER

The directors are of the opinion that there is only one class of business, being the Company's principal activity.

Majority of turnover is sourced from the United Kingdom and the Republic of Ireland, where the Company's net assets are based. £480,901K (2018 £404,622K) of the turnover is derived from the customers external to the Baxter Group.

A geographical analysis of turnover is as follows:

	2019 £'000	2018 £'000
United Kingdom and Republic of Ireland	480,901	404,622
Rest of Europe	34,299	42,721
Rest of World	16,150	15,294
	<u>531,350</u>	<u>462,637</u>

A category analysis of turnover is as follows:

	2019 £'000	2018 £'000
Sales of goods	214,877	204,106
Manufacturing of goods	306,816	251,689
Services	9,657	6,842
	<u>531,350</u>	<u>462,637</u>

5. OTHER OPERATING INCOME

	2019 £'000	2018 £'000
Pan-European cost sharing mark up	<u>526</u>	<u>496</u>

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

6. OPERATING PROFIT

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

	2019 £'000	2018 £'000
Amortisation – intangible assets	306	180
Depreciation and amounts written off tangible assets: owned by the Company	14,115	11,110
Operating lease rentals	755	515
Difference on foreign exchange	(1,486)	(510)
Loss on disposal of fixed assets	27	31
Inventory recognised as an expense	320,660	262,310

7. AUDITORS' REMUNERATION

	2019 £'000	2018 £'000
Audit of annual financial statements	111	111
Audit of statutory scheme	12	12
Audit of pension scheme financial statements	13	13
Fees payable to the Company's auditors and their associates	136	136

8. EMPLOYEES AND DIRECTORS

Employees

	2019 £'000	2018 £'000
Wages and salaries	74,020	64,627
Social security costs	6,873	6,050
Other pension costs	4,891	5,509
	85,784	76,186

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

	2019 No.	2018 No.
General administration and support	258	215
Production	491	409
Sales and marketing	488	406
Warehouse and distribution	193	160
	1,430	1,190

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

8. EMPLOYEES AND DIRECTORS (continued)

Directors

The directors' emoluments were as follows:

	2019 £'000	2018 £'000
Aggregate emoluments	513	521

Post-employment benefits are not accruing for any director (2018 one) under a defined benefit scheme. One director (2018 one) was a member of defined contribution scheme.

The highest paid director received aggregate emoluments of £306K (2018 £331K). For the highest paid director, there were no accrued defined benefit scheme contributions (2018 £97K) in the year and there is an accrued lump sum of £234K (2018 £219K).

9. SHARE-BASED PAYMENTS

The ultimate parent company's stock-based compensation includes stock options, restricted stock units (RSUs) and performance share units (PSUs). These stock-based plans are granted to employees of the Company.

Stock options

Stock options are granted to employees with exercise prices equal to 100% of the market value on the date of the grant. Generally, employee stock options vest 100% three years from the grant date and have a contractual term of 10 years. The fair value of stock options is determined by using the Black-Scholes option pricing model.

RSUs

RSUs granted to employees generally vest in one-third increments over a three-year period. The fair value of RSUs is determined based on the number of shares granted and the close price of the ultimate parent company's common stock on the date of the grant.

PSUs

The ultimate parent company's annual equity awards stock compensation program for senior management include the issuance of PSUs based on adjusted operating margin and market conditions. The fair value of PSUs based on market conditions is determined by using a Black-Scholes model.

The total charge for the year relating to employee share-based payments plans was £1,004K (2018 £915K), all of which related to equity-settled share-based payment transactions.

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

10. NET INTEREST INCOME/(EXPENSE)

	2019 £'000	2018 £'000
Interest receivable and similar income:		
Net interest income on pension scheme surplus	1,375	1,232
Other interest receivable	<u>35</u>	<u>31</u>
Total interest receivable and similar income	<u>1,410</u>	<u>1,263</u>
Interest payable and similar expenses		
Interest payable on bank loans and overdrafts	(170)	(26)
Interest capitalised	188	337
Interest payable on loans from group undertakings	<u>(1,187)</u>	<u>(1,016)</u>
Total interest payable and similar expenses	<u>(1,169)</u>	<u>(705)</u>
Net interest income	<u>241</u>	<u>558</u>

Interest on three intercompany loans held throughout the year were 0.954%, 1.1165% and 1.21306% (2018 0.9856%, 1.33919%, 1.21306%) (see note 18).

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

11. TAX ON PROFIT

	2019 £'000	2018 £'000
Current tax:		
UK corporation tax charge on profit for the year	2,508	3,815
Adjustments in respect of prior periods	0	(11)
Double taxation relief	(619)	(107)
Foreign tax on income for the year	619	107
	<u>2,508</u>	<u>3,804</u>
Deferred tax:		
Origination and reversal of timing differences	(1,101)	942
Adjustment in respect of previous periods	0	639
Effect of changes in tax rates	119	(99)
	<u>1,526</u>	<u>5,286</u>

The tax assessed for the year is lower than (2018 higher than) the standard rate of corporation tax in the UK of 19% (2018 19%). The differences are explained below:

	2019 £'000	2018 £'000
Profit before taxation	<u>12,243</u>	<u>20,632</u>
Profit before taxation multiplied by the standard rate of tax in the UK of 19% (2018 19%)	2,326	3,920
Effects of:		
Expenses not deductible for tax purposes	0	94
Income not taxable	(36)	(64)
Effects of group relief / other reliefs	(57)	(95)
Forex on Irish branch assets	0	(36)
Effects of change in tax rate	116	(99)
Adjustments in respect of prior periods	0	-
Pension timing difference	(190)	1,578
Share Options	(191)	(232)
Remeasurement of deferred tax	38	-
Other timing differences	(480)	220
	<u>1,526</u>	<u>5,286</u>
Tax on profits	<u>1,526</u>	<u>5,286</u>

Factors that may affect future tax charges

The previously announced change in corporation tax rate to 17% as of 1st April 2020 was revoked by the UK government in March 2020 and the UK corporation tax rate remains unchanged at 19%.

All deferred tax assets and liabilities have been computed using a rate of 17% (2018 17%). The deferred tax was recognised on the basis of corporation tax rates that have been substantively enacted as of the end of the reporting period.

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

12. INTANGIBLE ASSETS

	Computer Software, Trademark & Technology IP £'000
Cost:	
At 1 January 2019	4,980
Additions	-
Disposal	(9)
	<u>4,971</u>
At 31 December 2019	<u>4,971</u>
Accumulated amortisation:	
At 1 January 2019	4,075
Charge	305
Disposal	(9)
	<u>4,371</u>
At 31 December 2019	<u>4,371</u>
Net book value at 31 December 2019	<u><u>600</u></u>
Net book value at 31 December 2018	<u><u>905</u></u>

13. TANGIBLE ASSETS

	Land and buildings £'000	Plant and machinery £'000	Assets under construction £'000	Others £'000	Total £'000
Cost					
At 1 January 2019	40,311	170,417	15,769	3,098	229,595
Foreign exchange	-	(753)	(97)	-	(850)
Additions	1,083	18,296	(243)	-	19,136
Impairment	-	-	(1,048)	-	(1,048)
Disposals	(8)	(1,099)	-	-	(1,107)
	<u>41,386</u>	<u>186,861</u>	<u>14,381</u>	<u>3,098</u>	<u>245,726</u>
At 31 December 2019	<u>41,386</u>	<u>186,861</u>	<u>14,381</u>	<u>3,098</u>	<u>245,726</u>
Accumulated depreciation					
At 1 January 2019	18,104	101,329	-	3,098	122,531
Foreign exchange	-	(526)	-	-	(526)
Charge for the year	3,397	10,718	-	-	14,115
On disposals	(8)	(1,072)	-	-	(1,080)
	<u>21,493</u>	<u>110,449</u>	<u>-</u>	<u>3,098</u>	<u>135,040</u>
At 31 December 2019	<u>21,493</u>	<u>110,449</u>	<u>-</u>	<u>3,098</u>	<u>135,040</u>
Net book value					
At 31 December 2019	<u><u>19,893</u></u>	<u><u>76,412</u></u>	<u><u>14,381</u></u>	<u><u>-</u></u>	<u><u>110,686</u></u>
At 31 December 2018	<u><u>22,207</u></u>	<u><u>69,088</u></u>	<u><u>15,769</u></u>	<u><u>-</u></u>	<u><u>107,064</u></u>

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

13. TANGIBLE ASSETS (continued)

Additions are shown net of transfers from Assets Under Construction to depreciable tangible assets.

The net book value of assets held under finance leases or hire purchase contracts with a leasehold less than fifty years, included above are as follows:

	2019 £'000	2018 £'000
Land and buildings	<u>3,308</u>	<u>3,246</u>

All other land and buildings held are under freehold agreements.

Interest capitalised within tangible assets during the year amounted to £188K (2018 £337K). The cumulative total capitalised is £3,737K (2017 £3,548K). Interest is capitalised at a rate of 5% for the period January to September 2019 and 2.5% from October to December 2019 (2018 5.5%) on all qualifying assets on significant projects where the asset takes in excess of one year to complete.

14. INVESTMENTS

	Investments in subsidiary companies £'000
Cost or valuation	
At 1 January 2019 and 31 December 2019	<u>971</u>
Net book value	
At 31 December 2019	<u>971</u>
At 31 December 2018	<u>971</u>

Subsidiary undertakings

Name	Registered office and place of incorporation	Trading type	Class of shares	Holding
Baxter Healthcare Pension Plan Trustees Limited	AMP House, Dingwall, Croydon, CR0 2LX England & Wales	Non-trading	Ordinary	50%
Baxter (Hellas) EPE	Marinou Antypa 47 & Anafis Str., Athens Greece	Trading	Ordinary	100%
IC Net International Limited	1210 Lansdowne Court, Brockworth, GL3 4AB England & Wales	Trading	Ordinary	100%

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

15. INVENTORIES

	2019 £'000	2018 £'000
Raw materials	14,747	13,778
Work in progress	2,844	2,926
Finished goods and goods for resale	33,724	32,113
	<u>51,315</u>	<u>48,817</u>

Inventories are stated after provisions for impairment of £1,874K (2018 £945K).

The value of inventories in the financial statements are not materially different from the replacement cost.

16. DEBTORS

	2019 £'000	2018 £'000
Due after more than one year		
Amounts recoverable on long term contracts	44	54
Due within one year		
Trade debtors	64,084	60,644
Amounts owed by group undertakings	70,451	48,291
Other debtors	13,763	14,088
Corporation tax	708	-
Prepayments and accrued income	6,807	4,921
	<u>155,857</u>	<u>127,998</u>

Amounts owed by group undertakings include an unsecured, interest free loan balance of £49,481K (2018 £32,127K) with no fixed date of repayment and is repayable on demand. The remaining balance is made up of group trading balances.

Trade debtors are stated after provisions for impairment of £1,076K (2018 £958K).

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

17. POST EMPLOYMENT BENEFITS

The Company operates a Defined Benefit pension scheme.

The scheme provides retirement benefits on the basis of members' final salary. The scheme assets are held in a separately administered fund. The scheme is administered by an independent trustee, who is responsible for ensuring that the plan is sufficiently funded to meet current and future obligations. The Company has agreed a funding plan with the trustee, whereby ordinary contributions are made into the scheme based on a percentage of active employees' salaries.

On 1 January 2003, the defined benefit pension scheme was closed to new entrants. At the same time, the Company established a defined contribution scheme to provide benefits to new employees.

A comprehensive actuarial valuation of the Company pension scheme was carried out at 5 April 2018 by Towers Watson, independent consulting actuaries.

On 21 January 2020 the Company announced that the Plan will close to future accrual from 31 December 2024. The estimated financial impact on the FY20 financial statements cannot be reliably estimated at the date of signing.

The amounts recognised in the Statement of Financial Position are as follows:

	2019 £'000	2018 £'000
Present value of funded obligations	(145,428)	(130,674)
Fair value of scheme assets	<u>192,521</u>	<u>173,571</u>
Surplus in scheme	47,093	42,897
Effect of the limit in paragraph 28.58	<u>(33,093)</u>	<u>(27,897)</u>
Net asset	<u><u>14,000</u></u>	<u><u>15,000</u></u>

In line with paragraph 28.58 of FRS 102, we have not recognised an additional scheme surplus of £33,093K (2018 £27,897K) as this exceeds the amount we expect to recover through reduced contributions in the future or through refunds from scheme.

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

17. POST EMPLOYMENT BENEFITS (continued)

The amounts recognised in profit or loss are as follows:

	2019 £'000	2018 £'000
Current service cost	(1,950)	(2,661)
Interest on obligation	(3,241)	(3,158)
Expected return on scheme assets	4,614	4,389
	<u>(577)</u>	<u>(1,430)</u>
Total		
Actual return on scheme assets	<u>(21,742)</u>	<u>7,499</u>

The Company's pension cost charge within operating profit was £1,950K (2018 £2,661K) in respect of the defined benefit scheme and £2,903K (2018 £2,231K) in respect of contributions payable to the defined contribution pension scheme.

At the end of the year, contributions of £242K (2018 £384K) representing the unpaid contributions for December 2019 were outstanding.

Movements in the present value of the defined benefit obligation were as follows:

	2019 £'000	2018 £'000
Opening defined benefit obligation	130,674	142,912
Current service cost	1,950	2,661
Interest expense	3,241	3,158
Contribution by scheme participants	352	384
Remeasurement of plan obligations	15,315	(12,237)
Termination benefits	(-)	(-)
Benefits paid	(6,104)	(6,204)
	<u>145,428</u>	<u>130,674</u>
Irrecoverable surplus	33,093	27,897
	<u>178,521</u>	<u>158,571</u>
Closing defined benefit obligation		

Changes in the fair value of scheme assets were as follows:

	2019 £'000	2018 £'000
Opening fair value of scheme assets	173,571	184,644
Interest income	4,614	4,388
Remeasurement of plan assets excluding interest income	17,128	(11,887)
Contribution by employer	2,960	2,246
Contributions by scheme participants	352	384
Benefits paid	(6,104)	(6,204)
	<u>192,521</u>	<u>173,571</u>
Closing fair value of scheme assets		

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

17. POST EMPLOYMENT BENEFITS (continued)

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income was a loss of £3,383K (2018 an income of £4,184K). The Company expects to contribute £2,185K to its defined benefit pension scheme in 2020.

The major categories of scheme assets as a percentage of total scheme assets are as follows:

	2019	2018
Equities	0.0%	20.9%
Index-linked bonds	34.6%	40.5%
Fixed-interest bonds	26.1%	2.3%
Corporate bonds	14.0%	13.3%
Other	25.3%	23.0%

Principal actuarial assumptions at the Balance Sheet date (expressed as a weighted averages):

	2019	2018
Discount rate benefit obligations	1.9%	2.7%
Discount rate for service cost	1.9%	2.7%
Discount rate for interest cost on benefit obligations	1.8%	2.5%
Discount rate for interest cost on service cost	1.7%	2.6%
Expected return on scheme assets at 31 December	1.9%	2.7%
Future salary increases	3.5%	3.8%
Inflation assumption	2.6%	2.8%
Rate of increase in payment April 1997 to April 2006 benefits	2.8%	3.0%
Rate of increase in payment Post April 2006 benefits	1.9%	2.3%

The expected long-term rate of return on plan assets is the same as the discount rate as required by FRS 102.

18. CREDITORS: Amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	41,186	21,021
Amounts owed to group undertakings	124,667	112,749
Taxation and social security	8,093	9,584
Other creditors	4,943	6,966
Finance leases	141	97
Corporation tax	0	1,816
Accruals and deferred income	10,495	12,425
	<u>189,525</u>	<u>164,658</u>

Amounts owed to group undertakings include unsecured short term loans with balances of £22,761K (2018 £1,365K), £25,000K (2018 £25,000K) and £54,651K (2018 £54,651K). These loans are payable upon demand. The interest rates at 31 December 2019 were 0.954%, 1.1165% and 1.21306% respectively (2018 0.9856%, 1.33919%, 1.21306%). The remaining balance is made up of group trading balances.

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

19. CREDITORS: Amounts falling due after more than one year

	2019 £'000	2018 £'000
Net obligations under finance leases and hire purchase contracts	2,884	3,025
Accruals and deferred income	10,368	7,280
	<u>13,252</u>	<u>10,305</u>

Obligations under finance leases and hire purchase contracts incurred a rate of interest of 5.5% (2018 5.5%), and are payable as follows:

	2019 £'000	2018 £'000
Less than one year	141	97
Between two and five years	647	613
After five years	2,237	2,413
	<u>3,025</u>	<u>3,123</u>

20. DEFERRED TAX

	2019 £'000	2018 £'000
At 1 January	7,219	5,678
Adjustment in respect of prior years	994	639
Origination and reversal of timing difference	(985)	843
Deferred tax charge in OCI for the period	308	59
Timing differences on pension provision	-	-
	<u>7,536</u>	<u>7,219</u>

The provision for deferred taxation is made up as follows:

	2019 £'000	2018 £'000
Accelerated capital allowances	(5,901)	(5,144)
Pension surplus long-term timing difference	(2,380)	(2,603)
Other long-term timing differences	-	-
Other short-term timing differences	745	528
	<u>(7,536)</u>	<u>(7,219)</u>

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. CALLED UP SHARE CAPITAL

	2019 £'000	2018 £'000
Allotted, called up and fully paid		
6,852,350 (2018 6,852,350) Ordinary shares £1 each	<u>6,852</u>	<u>6,852</u>

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

22. DIVIDENDS

There were no dividends paid in the year (2018 £nil).

23. OPERATING LEASE COMMITMENTS

The Company's future minimum operating lease payments are as follows:

	2019 Total £'000	2018 Total £'000
Less than one year	1,751	1,910
Between two and five years	4,608	4,727
After five years	<u>6,844</u>	<u>7,375</u>
	<u>13,203</u>	<u>14,012</u>

24. RELATED PARTIES

There are no transactions with related parties which are not wholly owned within the same group.

25. EVENTS AFTER THE REPORTING PERIOD

On 1 July 2020 the Company purchased the business of ICNet International Limited, and the assets and liabilities used in it, as a going concern.

On 21 January 2020 the Company announced that the Plan will close to future accrual from 31 December 2024. The estimated financial impact on the FY20 financial statements cannot be reliably estimated at the date of signing.

See COVID-19 disclosures in the Strategic Report and disclosure notes 3 (ii) and 3 (xx) (d). Directors consider these events as non-adjusting.

BAXTER HEALTHCARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

26. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

On 3 December 2019, Baxter Europe Holdings Limited was legally merged into Baxter Healthcare Holding Limited. Following this event, BHL UK is 100% owned by Baxter Healthcare Holding Limited, a company incorporated in Malta which in turn is ultimately owned and controlled by Baxter International Inc.

This company is the smallest and largest group to prepare group financial statements and its details are as follows:

Name	Baxter International Inc
Country of incorporation	United States of America
Address from which copies of the group Financial statements may be obtained	One Baxter Parkway Deerfield Illinois 60015, USA