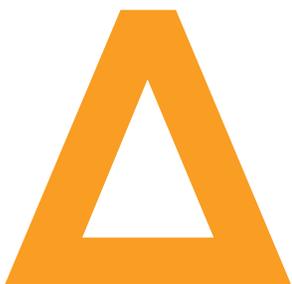


# ΔVΔNOS

## 2018 CORPORATE CITIZENSHIP REPORT



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# A MESSAGE FROM THE CEO

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New beginnings are always exciting: they provide the opportunities to start fresh and forge new paths that will ultimately become part of your history.

For Avanos, 2018 was our new beginning, and what a year it was! Born from solid roots in the healthcare industry, we hit the ground running. In just half a year, we launched our new name and brand, successfully sold our Surgical & Infection Prevention business and completed a significant acquisition - all in the midst of a major IT technology transformation!

We delivered a solid financial performance during our first year and remain on track to continue investing in our diverse portfolio to accelerate growth over time. Despite industry-wide challenges, we remain focused on serving our customers by streamlining our business to work efficiently and cost-effectively.

While I take great pride in our financial performance, I'm even more proud of our commitment to being an agent for change. We embarked on this journey with a desire to be different - and to earn a reputation for innovation and excellence in the medical device space.

Being a good corporate citizen means that our care extends beyond the patients who benefit from our products. We're also committed to operating ethically and responsibly, complying with all applicable regulations around the world. We partner with suppliers who mirror our integrity by offering quality products, while operating safely and sustainably.

Our commitment to corporate citizenship is also reflected in our strong stand on opioid abuse - an epidemic with far-reaching societal effects. Avanos is committed to helping reduce and eliminate opioid abuse by offering alternate methods of pain relief. We believe that by living our values and working collaboratively, we will achieve our vision at being the best at getting patients back to the things that matter.

Thank you for your interest in Avanos!



A handwritten signature in black ink that reads "Joe L. Woody". The signature is fluid and cursive, written in a professional style.

Joseph F. Woody  
Chief Executive Officer  
Avanos Medical

# ABOUT ΔVΔNOS

This report focuses on our business following the divestiture of our surgical and infection prevention business on April 30, 2018. Unless otherwise noted, this report covers the period from May 1, 2018, through December 31, 2018.

## OVERVIEW

Avanos is a medical device company focused on delivering clinically superior breakthrough solutions that will help patients get back to the things that matter. We are committed to creating the next generation of innovative healthcare solutions to address our most important healthcare needs, including reducing the use of opioids while helping patients move from surgery to recovery.

We develop, manufacture and market our recognized brands in more than 90 countries and hold leading market positions in multiple categories across our portfolio. With corporate headquarters in Alpharetta, Georgia, Avanos operates 8 principal medical device production facilities, employing 4,700 people worldwide. 2018 net revenue from continuing operations was \$652 million.

Avanos is traded on the New York Stock Exchange under the ticker symbol AVNS.

## BUSINESS

Avanos is comprised of two franchises – Pain Management and Chronic Care. We offer therapies and solutions with a relentless focus on advancing change in the medical device industry to reduce the use of opioids while helping patients recover faster and improve their quality of life.

Avanos is vertically integrated and manufactures most of its products. Each franchise is supported by a dedicated sales force, a customer support team with significant industry experience and robust product training, and customer education programs. Avanos continues to invest in R&D to commercialize new products and to enhance the effectiveness, reliability and safety of our existing products.

## RAW MATERIALS

Avanos uses a wide variety of raw materials and other inputs in our production processes. We base our purchasing decisions on quality assurance, cost-effectiveness and constraints resulting from regulatory requirements. We work closely with our suppliers to ensure continuity of supply while maintaining high quality and reliability. We primarily purchase these materials from external suppliers, some of which are single-source suppliers.

Global commodity prices can affect pricing of certain raw materials we use. The prices of resins and finishing supplies often fluctuate in response to changes in oil prices. Prices of these commodities can be volatile and have varied significantly in recent years, contributing to fluctuations in our operating results. More information can be found in our SEC filings.

Avanos relies on product materials and inputs, such as polyethylene and other commodities, in the manufacture of polymer products that are developed and sold globally.

Materials Used (MT)	2018
Polymers	1,450

## GOVERNANCE

Our culture is based on our commitment to operate ethically and in compliance with applicable global laws and regulations. Our governance for overseeing and managing our business includes:

- A board of directors that is 89% independent
- A clear reporting structure and lines of accountability
- A global code of conduct
- A comprehensive policy platform, including policies on human rights, labor, diversity and inclusion, and environmental issues
- Oversight on key environmental, social and governance issues

Board Diversity Overview	2018	% of total as of December 2018
Independent members	8	89%
Women	3	33%
Minority group membership	0	
Total board members	9	

Avanos' board of directors provides oversight and guidance on all aspects of our businesses and relationships with stakeholders. Our annual proxy statement contains detailed information on our board and committee structure, the independence of the members, and the responsibilities and meeting frequency of the board and each committee. The board has established the following committees: audit, compensation, compliance, executive and governance. Each committee is responsible for reviewing policies on matters relevant to that committee.

Avanos has a robust compliance and ethics program, overseen by the board's compliance committee, the Management Compliance Oversight Committee, our chief ethics and compliance officer and our senior vice president of global quality assurance, regulatory affairs and product safety. Key components of that program include: our quality and regulatory policies and procedures, which are designed to ensure compliance with applicable laws and regulations; and our anti-corruption policies and procedures, which are designed to ensure compliance with global anti-corruption standards, including the United States Foreign Corrupt Practices Act and the United Kingdom Bribery Act.

## COMPLIANCE

The development, manufacturing, marketing, sale, promotion and distribution of Avanos products are subject to comprehensive government regulation. Government regulation by various national, regional, federal, state and local agencies, both in the United States and other countries, addresses (among other matters) inspection of, and controls over, research and laboratory procedures, clinical investigations, product approvals and manufacturing, labeling, packaging, marketing and promotion, pricing and reimbursement, sampling, distribution, quality control, post-market surveillance, record keeping, storage and disposal practices.

## COMPLIANCE continued

Avanos operations are also affected by trade regulations in many countries that limit the import of raw materials and finished products, and bylaws and regulations that seek to prevent corruption and bribery in the marketplace (including the United States Foreign Corrupt Practices Act and the United Kingdom Bribery Act, which regulate corporate interactions with government officials) as well as regulations that require safeguards for the protection of personal data. In addition, Avanos is subject to laws and regulations pertaining to healthcare fraud and abuse, including state and federal anti-kickback and false claims laws in the United States. The Physician Payment Sunshine Act, and comparable laws in other jurisdictions, also require Avanos and other manufacturers to annually report payments and items of value given to hospitals and doctors.

## POLITICAL SPENDING AND LOBBYING

In 2018, Avanos engaged in federal lobbying activities in the United States in an effort to help alleviate the opioid crisis. We engaged the consulting firm ADVI to advise and represent the company on Medicare coverage and payment policy issues tied to the opioid issue before the Centers for Medicare and Medicaid Services (CMS). We engaged the law firm Polsinelli PC to advise us and lobby on our behalf before the U.S. Congress and CMS to help ensure non-opioid alternatives like our pain management devices are appropriately accessible to patients and providers to avoid the use of opioids. Avanos is also a member of AdvaMed, a medical device industry association, which lobbies on behalf of its members.

Avanos does not currently operate a political action committee (PAC) in the United States or elsewhere. Similarly, the company makes no contributions to political candidates, PACs that contribute to candidates, or other organizations formed solely for the election or defeat of a public official in the United States or elsewhere.

## PROTECTING HUMAN RIGHTS

We respect international social compliance and environmental principles aimed at promoting and protecting human rights and the environment. Avanos also promotes human rights in our supply chain, through our Supplier Social Compliance Standards. The standards are designed to identify, prevent, mitigate and account for human rights violations, with a focus on countries at high risk for human rights abuses.

Our board of directors' Audit and Compliance Committees oversee our efforts to ensure compliance with the Avanos Code of Conduct, other internal policies and certain legal and regulatory requirements.

# EMPLOYEES

## DEMOGRAPHICS

Employees are our most-valued resource and are at the center of everything we do. Their talent, diversity and commitment are crucial to our innovation and success. Our work environment fosters personal, professional and corporate growth and nurtures innovation through product development and customer solutions. Our global teams work together in a spirit of cooperation to improve health and healthcare every day.

Full-Time Employees	2018	% of Total
North America	4,463	94.3%
United States	1,028	21.7%
Mexico	3,433	72.5%
Canada	2	0.0%
Latin America	4	0.1%
Europe, Middle East and Africa	175	3.7%
Asia-Pacific	91	1.9%
<b>TOTAL</b>	<b>4,733</b>	

Employee demographics represent the count as of December 31, 2018

## COMPENSATION

Avanos compensates employees competitively and fairly in markets throughout the world. Compensation for salaried employees is strongly tied to performance objectives. Salaried employees above a certain pay grade have a substantial portion of their total compensation subject to performance objectives. More about our executive officer compensation can be found in our 2018 proxy statement.

## OCCUPATIONAL HEALTH AND SAFETY

Avanos has undertaken a detailed plan for risk assessment and mitigation; upgrading safety management systems; issuing communications; and establishing a metric for behavior-based safety initiatives. Our operations leadership and management teams all have a safety component to their annual performance objectives and actively participate in the programs. Our safety goals involve creating total employee awareness, solid risk management and facility/equipment compliance, and high individual accountability for safety. We believe strongly in the recognition and celebration of outstanding achievements in safety. Our Crystal Eagle award recognizes sites that achieve 365 consecutive days without a recordable incident. In 2018, 88% of our sites received this award.

# EMPLOYEES

## OCCUPATIONAL HEALTH AND SAFETY continued

Employee Safety	Since May 1, 2018
Fatalities	0.00
Permanently disabling injuries	0.00
Total reportable incident rate (TRIR)	0.08
North America	0.08
Latin America	0.00
Europe	0.00
Middle East and Africa	0.00
Asia-Pacific	0.00
Lost-time reportable incident rate (LTRIR)	0.08
North America	0.08
Latin America	0.00
Europe	0.00
Middle East and Africa	0.00
Asia-Pacific	0.00
Safety compliance penalties	0

## TRAINING AND EDUCATIONAL OPPORTUNITIES

Because Avanos is a medical device manufacturer, employees are regularly trained in key areas required by the FDA and other applicable regulatory authorities, including topics such as documentation, safety, complaint handling, anti-bribery and quality, among others. In addition to regulated training, employees are educated on the Avanos Code of Conduct, so that all employees align with our cultural and behavioral expectations.

## EMPLOYEE ENGAGEMENT

Avanos believes that employees who are engaged in their roles, treated as partners in the business and recognized for their efforts, are more satisfied and productive. The company's goal is to ensure that each of its more than 4,700 employees understands how he/she contributes to the company's innovation and growth. This is accomplished with a focus on two-way communications utilizing multiple channels and a variety of methods including intranet and social media, town halls and other meetings where employees hear directly from members of the executive team.

## EMPLOYEE WELLNESS

Avanos takes its commitment to the ongoing health and safety of its employees seriously, offering far-reaching health and benefits packages including, in many locations, wellness and health screening/awareness programs. Wellness initiatives vary by location but include biometric screenings, on-site health assessments, reduced or free exercise facility memberships, and employer-sponsored challenges that instruct and foster healthy habits.

# EMPLOYEES

## DIVERSITY AND INCLUSION

Avanos' diversity and inclusion commitment is aligned to help the company achieve success as we continue to grow our business and develop our workforce. Our employee profile below reflects the results on December 31, 2018.

Employee Diversity	2018
Women - global director and above <sup>1</sup>	31.6%
Ethnic minorities - U.S. director and above <sup>1</sup>	23.2%
Women - global salaried employees	42.9%
Ethnic minorities - U.S. salaried employees	31.3%

<sup>1</sup>Leaders in director-level position or higher

## HUMAN RIGHTS

The Avanos Human Rights in Employment Policy underscores our commitment to diversity and inclusion. The policy prohibits discrimination and harassment based on race, color, sex, pregnancy, sexual orientation, gender identity, age, religion, creed, national origin, disability, and other categories protected by applicable law.

Avanos' commitment to protecting human rights is consistent with our respect for one another and our heritage of fairness, honesty and integrity. This commitment is formalized in our Human Rights in Employment Policy as well as the Avanos Code of Conduct. Our policies align with the goals of several international standards, including the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and those of the UN Global Compact.

# SUPPLIERS

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## CORPORATE SOCIAL COMPLIANCE

The Avanos Code of Conduct provides guidance for dealing with our customers, suppliers, other employees, competitors and the public with integrity and in an ethical and appropriate manner.

We respect international social compliance and environmental principles aimed at promoting and protecting human rights and the environment. We integrate human rights into our direct and contracted operations, as well as through our supplier arrangements. Avanos policies align with the goals of several international standards, including the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. These values are formalized in the Avanos Human Rights in Employment Policy and Instructions.

### SUPPLIER SOCIAL COMPLIANCE STANDARDS

Social compliance is integral to Avanos' workplace accountability programs. These standards are driven by the belief that good corporate citizenship is essential to our long-term business success and must be reflected in our relationships and actions in our workplaces and the workplaces of those who are authorized to directly supply our business.

### DUE DILIGENCE PROCESS

In selecting new, finished-product, contract manufacturing suppliers, Avanos uses a multi-level due diligence process that involves surveys, reviews of supplier policies, procedures, records, and background and reference checks.

### CALIFORNIA TRANSPARENCY IN SUPPLY CHAINS ACT DISCLOSURE

Avanos evaluates and addresses risks of human trafficking and slave labor throughout its supply chain. Verification of this process is completed by independent audits and/or self-assessments. During these audits, Avanos receives certification from certain of our direct suppliers that the materials incorporated into their products comply with the laws regarding slavery and human trafficking of the country in which they are doing business.

Avanos' Social Compliance Standards and Code of Conduct are enforced to help maintain internal and external social compliance accountability standards and procedures for suppliers, employees or contractors in regard to combating slavery and human trafficking.

### CONFLICT MINERALS REPORTING

Conflict minerals are tungsten, tin, tantalum and gold, and any other mineral or its derivatives determined by the U.S. Secretary of State to be financing conflict in the Democratic Republic of Congo (DRC) or any country that shares an internationally recognized border with the DRC.

Avanos conducts a reasonable country-of-origin inquiry (RCOI) to determine whether any materials used in our products originated in the DRC or an adjoining country or were from recycled or scrap sources. A summary of our RCOI, as well as the steps taken to exercise due diligence on the source and chain of custody of our product materials, is included in our Conflict Minerals Report, which can be found in our SEC filings.

# COMMUNITIES

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## COMMUNITY RELATIONS

Avanos strives to improve the well-being of the people it touches every day through a range of health, humanitarian, economic and environmental initiatives to help sustain the communities where our employees work and live. We maintain strategic partnerships with global organizations that address issues related to our business and that are of interest to our employees, customers and global communities.

## SUPPORTING UNITED WAY

Since Avanos' inception, employees across the U.S. have participated in United Way campaigns that provide funding, resources, volunteers and other support targeted at advancing the common good by creating opportunities for all. The employee contributions and company match give Avanos a meaningful way to support neighbors, friends, families and co-workers in its communities through fundraising and volunteer activities.

## VOLUNTEERISM AND GIVING

Throughout the year, Avanos employees around the world participated in multiple volunteer activities with local nonprofit organizations.

Avanos' Matching Gifts program enables U.S. employees to double their donations to qualified charitable organizations. All contributions over \$50 and up to \$1,000 annually per employee to qualified organizations such as not-for-profit entities and schools are matched 100 percent by Avanos.

# PRODUCTS

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## SUPPLY CHAIN

Maintaining a responsible and resilient supply chain is a business imperative, and our relationships with suppliers are essential to our ability to deliver on promises to customers and other stakeholders. Avanos seeks to do business with suppliers who share our values of quality, service, fair dealing and our commitment to being a responsible corporate citizen.

The Supplier Social Compliance Standards (SSCS) are a vital pillar of Avanos' supply chain and align with our Code of Conduct and Human Rights in Employment Policy. These standards are driven by the belief that good corporate citizenship is essential to our long-term business success and must be reflected in our relationships and actions in Avanos workplaces and the workplaces of those who are authorized to directly supply our business. The practices reflect the values we uphold in our own policies, and we expect our suppliers to follow these standards and requirements.

## CRISIS PREPARATIONS

Avanos works closely with a network of materials suppliers to maintain production levels and meet customers' needs. We have a comprehensive response plan in place to help ensure that business can continue with the least amount of disruption possible in the event of a crisis.

More specifically, Avanos manufacturing business units have contingency plans in place for sourcing services and products. These plans include assessing product inventory to determine whether there is enough product to supply customers in the near-, mid- and long-term. In addition, Avanos business leaders regularly assess the availability of raw materials, including verifying alternative sources.

## QUALITY

Ensuring quality is an essential part of Avanos' business strategy, and a culture of quality is the foundation for meeting the expectations of healthcare providers and their patients. It is our policy to design, manufacture, deliver and service products that meet or exceed customer expectations for quality, performance and value. We accomplish this by:

- establishing quality objectives, processes, procedures and practices that meet or exceed customer and regulatory requirements
- establishing accountability for quality systems management
- providing resources necessary to execute the quality management system
- conducting regular assessments of quality systems and practices to promote continuous process, product and service improvement, and to ensure compliance with applicable laws and regulations

External regulations and industry best practices, as well as internally developed standards, define our quality criteria. Programs are established to measure compliance with these and report results to senior management. These quality standards and established quality system processes drive the continuous improvement activities that ensure that Avanos products are safe and effective for customers.

Should they become necessary, product field action/recall programs are in place to promptly address potential product or safety issues. These processes are tested periodically to ensure that they are effective and efficient.

# PRODUCTS

## QUALITY continued

In 2018, the following voluntary field actions/recalls were conducted by Avanos:

Product	Regions
CORTRAK* 2 NG/NI feeding tubes with transmitting stylet - Advisory Notice	U.S. and Germany
Closed suction systems with Flex Connector - Advisory Notice	Worldwide

Avanos maintains an ongoing commitment to protecting customer health and safety. Our product-safety scientists are trained and accredited in the fields of toxicology, biocompatibility testing and health-risk assessments. Most have doctoral degrees and several are board-certified by the American Board of Toxicology. Safety assessments conducted by our product-safety experts cover the complete life cycle of a product: research and development, manufacture, sale, use and disposal.

## PACKAGING

Our product packaging helps ensure the quality and safe delivery of our products to customers around the world every day. As we focus on continuous improvement, we incorporate sustainable packaging considerations early in the design process, balancing environmental concerns with the need to protect product quality and transport products efficiently and economically. Optimizing packaging designs for patient safety and customer ease of use, while meeting sterilization and supply chain needs, are also key considerations.

## UNIQUE DEVICE IDENTIFICATION

Avanos employs Unique Device Identification (UDI)-compliant labeling.

The UDI is a system used to mark and identify medical devices through their distribution and use. This helps reduce medical errors and more quickly identify medical devices in the case of adverse events or recalls, in addition to providing an accessible source of definitive device identification information. Scanning bar codes containing standardized product information not only streamlines recall management and facilitates device data tracking by clinical research registries, but also offers hospitals the opportunity to better manage inventory and integrate standardized product information into their electronic medical records.

Using UDI to document the device(s) in a patient's record improves the accuracy of surveillance and patient care, and furthers our mission to be the best at getting patients back to the things that matter.

# ENVIRONMENTAL

Striving for clean air, clean water and a healthy environment is fundamental to the way we manufacture our products. As in previous years, we continue to rigorously track and report metrics related to waste, utilities and regulatory activity in all owned facilities and buildings within our purview of responsibility.

## MANAGING WASTE

Avanos has worked diligently to be 94% landfill-free of manufacturing waste. However, our goal remains 100%. This is a goal that Avanos has been purposefully pursuing and will continue to set as a priority.

Because managing waste is important to our stakeholders, and because the majority of our products are single use, we have made waste management a key priority.

Nonhazardous Waste (MT)	Since May 1, 2018
Landfilled	51.7
Recycled	732.4
Converted to energy	0.3
Incinerated	71.4
<b>TOTAL (MT)</b>	<b>855.8</b>
Manufacturing waste diverted from landfill	94%

Hazardous Waste (kg)	Since May 1, 2018
Percentage of hazardous waste to energy	34%
Recycled	1,512.1
Incineration without heat recovery	24,560.8
Chemical treatment	15,440.6
Thermal treatment	0.0
Permanent storage	5,004.5
Landfilled	0.0
Blended fuel	24,329.9
<b>TOTAL (kg)</b>	<b>70,847.9</b>

## MANAGING GREENHOUSE GAS EMISSIONS

Our measurements track Scope 1 (direct) emissions, including on-site fuel generation and emissions from vehicles, which are owned and controlled by Avanos. We also track and report Scope 2 (indirect) emissions, which include electricity, steam and other energy generated off-site and purchased by Avanos.

# ENVIRONMENTAL

## MANAGING GREENHOUSE GAS EMISSIONS continued

Energy Efficiency (million Btu)	Since May 1, 2018
Total electricity purchased	47,352
Other natural gas	372
Total energy purchased	50,739

Greenhouse Gas Emissions (CO <sub>2</sub> e)	Since May 1, 2018
Scope 1 (direct)	180
Scope 2 (indirect)	6,534
Total emissions (tCO <sub>2</sub> e)	6,713
Biomass (CO <sub>2</sub> emissions only)	0

## MANAGING WATER USE

Although water is not utilized in many Avanos processes, water is measured and recorded for manufacturing water use, tracking it to its discharge destination. Where we use process water in Mexico, the water is returned to the environment cleaner than it is received.

Manufacturing Water Use [m <sup>3</sup> ]	Since May 1, 2018
Influent	49,313
Surface water	5,888
Municipal water	17,175
Ground Water	26,250
Effluent	26,100
Surface water discharge	9,139
Municipal water discharge	16,961