Annual Report 2019 | Care by design

Fisher & Paykel
HEALTHCARE

1969

# A world of care.

CELEBRATING 50

A World of Care · 1969–2019

Our first humidifier began with three people, in one city and a can-do prototype made from a humble fruit preserving jar. In the 50 years since, we've transformed from across town to across continents. Our work is all about talented people working together to solve problems so that millions of patients can have healthier, more restful, productive lives. 50 years of care today, many more from tomorrow.

care.

2019

# 5

BEYOND

collaboration.

can-do.

We know that
when great people
come together with a
can-do attitude
and an utmost
sense of care,
lives are changed.

Helping approximately
14 million patients in more
than 120 countries, our
world of care continues
to expand, grow
and develop.

## Contents



This report covers the financial year ended 31 March 2019 and is dated 27 May 2019. The report has been approved by the Board and is signed on behalf of Fisher & Paykel Healthcare Corporation Limited by Tony Carter, Chairman and Lewis Gradon, Managing Director and Chief Executive Officer.

TONY CARTER, CHAIRMAN

LEWIS GRADON, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Constant currency information contained within this report is non-conforming financial information, as defined by the NZ Financial Markets Authority (FMA) and has been provided to assist users of financial information to better understand and assess the company's financial performance without the impacts of spot financial currency fluctuations and hedging results, and has been prepared on a consistent basis each financial year. A reconciliation between reported results and constant currency results is available on page 36 of this report. The company's constant currency income statement framework can be found on our website at www.fphcare.com/ccis.

## About this report

Welcome to Fisher & Paykel Healthcare's 2019 Annual Report – A World of Care.

We are privileged to be in an industry where the work we do has a direct impact on improving people's lives, right around the world. Last year, we estimate that our products were used in the treatment of approximately 14 million patients.

Our report this year underlines our primary focus on producing innovative healthcare devices that improve the health and quality of life for people all over the world, something that we have been doing for the last 50 years. We also recognise the importance of sustainable, profitable growth which will enable us to continue to deliver new innovations and improved patient outcomes for many years into the future.

Fisher & Paykel Healthcare see corporate social responsibility and sustainability as inextricably linked to the way we do business. We know that strong financial performance cannot be achieved without looking after our people, suppliers and customers. And being financially successful means we can continue to be a major contributor to medical care, to our communities and economies through areas such as tax and employment, and to return a portion of profits to our shareholders as dividends. Our awareness of the reciprocal nature of this is what we believe positions our company for long-term, sustainable and profitable growth.

This report is designed to meet the evolving needs and requirements of a wide range of stakeholders. In previous years we have prepared separate reports, including a separate Corporate Governance Statement, detailing our governance, sustainability and social responsibility practices. This year we have incorporated all of these topics within this one report. As with all areas of our business, we are constantly looking for continuous improvement opportunities and would welcome feedback on this report. Please address any questions, comments or suggestions to investor@fphcare.co.nz.

Digital versions of this report, and of our previous annual, interim and sustainability reports, are available at www.fphcare.com/investor-reports.

## OUR BUSINESS AT A GLANCE

# Fisher & Paykel Healthcare is a leading designer, manufacturer and marketer of products and systems for use in respiratory care, acute care, surgery and the treatment of obstructive sleep apnea.

Our medical devices and technologies are designed to help patients get better faster. We help patients transition to less acute care settings, help them recover more quickly and provide solutions that can assist them to avoid more acute conditions. We also provide the ability for many patients to be treated in the home rather than the hospital.

Product innovation is essential to our success. Since 1969, when our first prototype respiratory humidifier was developed, we have focused on continuous development and innovation. Our aim is to lead the way in the development of medical devices and technologies, and our products are considered leaders in their respective fields.

We are driven by our purpose of improving care and outcomes through inspired and world leading healthcare solutions. Assisting clinicians around the world to deliver the best possible patient care through continuous product improvement, pioneering new therapies and changing clinical practice is key to our success.

# HOW OUR BUSINESS WORKS

## RESEARCH & DEVELOPMENT

Our R&D is based in New Zealand. The team spends many hours in hospitals, and with patients and clinicians, in order to develop better technology that enhances patient care. We typically invest around 9–10% of our revenue in R&D annually.

## PATIENTS

Each year millions of patients are treated with our products in over 120 countries. Seeking to understand our patients' needs is what drives our R&D programme.

## CUSTOMERS

We work with thousands of healthcare professionals, including doctors, clinicians and nurses, giving them the products and tools to deliver the best possible care. Our largest markets (in order of size) are North America, Europe, and Asia Pacific.


## THERAPIES

60% of our operating revenue is from products and systems used in hospitals in invasive ventilation, non-invasive ventilation, nasal high flow therapy and surgery. The remainder is from products used in home environments to treat patients suffering from obstructive sleep apnea and those in need of respiratory support.

## MANUFACTURING

We manufacture in NZ (approximately 66%) and Mexico (approximately 34%). The co-location of engineering, quality, manufacturing, marketing and clinical teams facilitates collaboration and an awareness of the medical device process from concept and design right through to how our products are used by patients.

## SUPPLY CHAIN

We have distribution centres located around the world and a network of distributors. We use air, sea, road and rail freight, with a focus on sustainable and cost effective methods of transportation. We source materials from all over the world and look for socially responsible partners to support our growth.

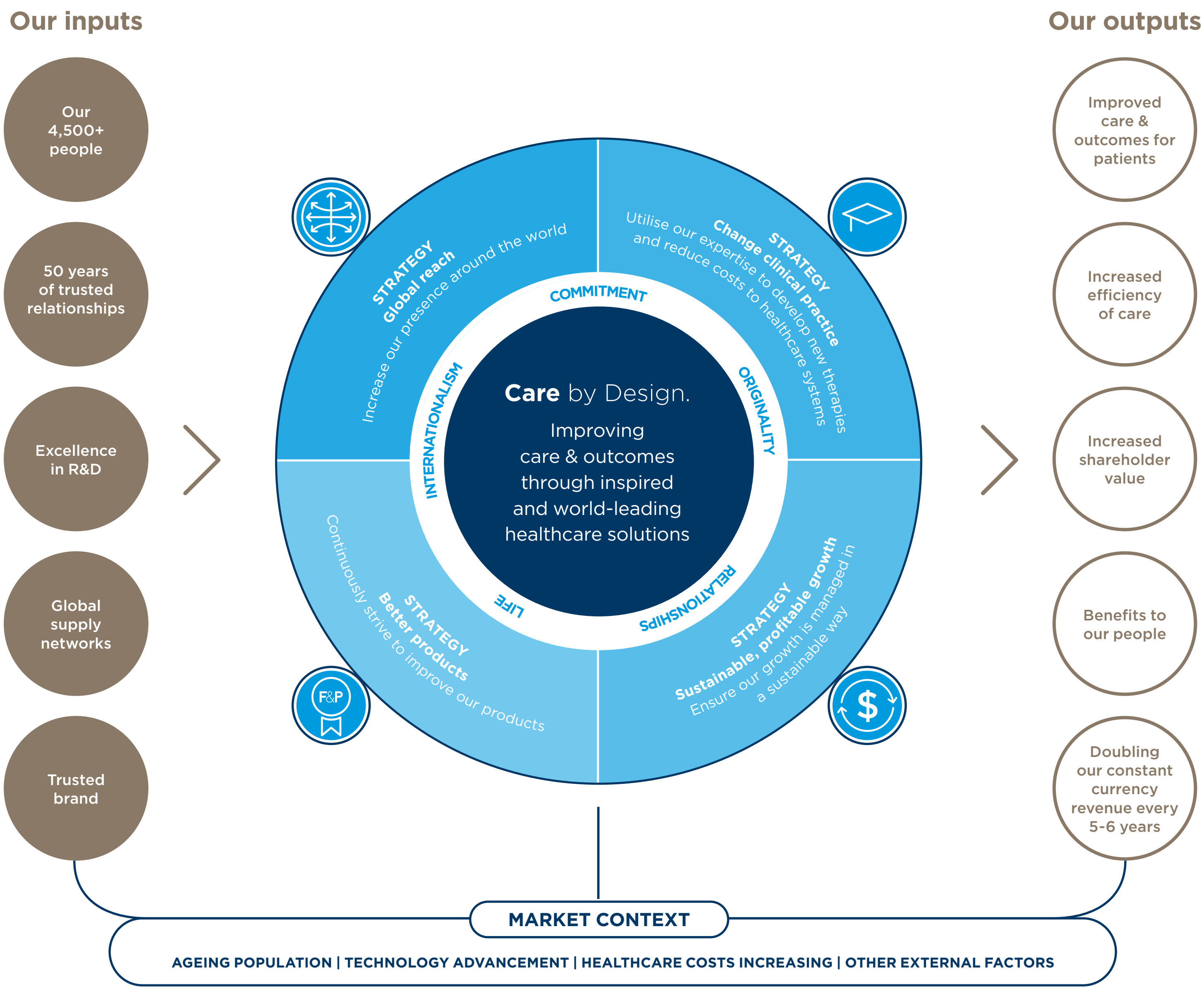

**38**
Our people are located in 38 countries

**1,493**
People in North America

**303**
People in Europe

**2,416**
People in New Zealand

**335**
People in the rest of the world


Our inputs
Our 4,500+ people
50 years of trusted relationships
Excellence in R&D
Global supply networks
Trusted brand
STRATEGY
Global reach
Increase our presence around the world
STRATEGY
Change clinical practice
Utilise our expertise to develop new therapies and reduce costs to healthcare systems
STRATEGY
Better products
Continuously strive to improve our products
STRATEGY
Sustainable, profitable growth
Ensure our growth is managed in a sustainable way
COMMITMENT
ORIGINALITY
RELATIONSHIPS
LIFE
INTERNATIONALISM
Care by Design.
Improving care & outcomes through inspired and world-leading healthcare solutions
F&P
$
Our outputs
Improved care & outcomes for patients
Increased efficiency of care
Increased shareholder value
Benefits to our people
Doubling our constant currency revenue every 5-6 years
MARKET CONTEXT
AGEING POPULATION | TECHNOLOGY ADVANCEMENT | HEALTHCARE COSTS INCREASING | OTHER EXTERNAL FACTORS

# OUR UNIQUE CULTURE, VALUES AND BELIEFS

In our view, a company's culture is often the key factor that distinguishes between those that succeed and those that fail.

At Fisher & Paykel Healthcare we have a culture of remembering our roots, having genuine care for the work and always doing the right thing. Actions, not just words.

In the early days we were the underdogs, competing against much larger multinationals with more resources. We trusted each other, we were inclusive, we solved problems by looking for alternatives, and we weren't afraid to think differently; to strive to deeply understand our customers and try new things, accepting that making mistakes is a cornerstone of innovation. We knew that our advantage was our ability to innovate. Put simply, we had to be better to survive.

While some of our products may now be the market leaders, we recognise the importance of maintaining that underdog mentality. It's our culture, created back when we were a team much smaller than we are today, that will see us into the next 50 years.

Our culture is encapsulated by the following values and beliefs:

## OUR VALUES

**Life**
We relentlessly focus on improving patients' lives and strive to provide a high quality of life for our employees.

**Relationships**
We care for our patients, customers, suppliers, shareholders, the environment and each other.

**Internationalism**
We are global in people, in thinking and in behaviours.

**Commitment**
We value people who are self-motivated and have a desire to make a real contribution.

**Originality**
We encourage original thinking which leads to the innovative solutions required to create better products, processes and practices.

## OUR BELIEFS

We believe in doing what is best for the patient.

We believe the commitment to doing the right thing is what our customers will find compelling.

We believe that empathy, effectiveness and efficiency are essential to our success.

We believe our people are our strength.

We believe lessons learned are the cornerstones of innovation.

We believe in the need to be relentless in the pursuit of healthcare innovation.

# DETERMINING OUR MATERIAL MATTERS

In 2018, we conducted a materiality assessment to determine our most material issues. The process referenced guidance set by the Global Reporting Initiative (GRI) framework, and "materiality" in this context differs from financial and audit interpretations and NZX/ASX definitions of material information.

In 2019, we validated and updated this materiality assessment through interviews with a small set of key stakeholders who were chosen to represent different facets of our business.

Results of the materiality assessment are shown in the matrix on the next page. The highest-ranking issues have been grouped according to our core business strategies, as indicated below, and will be the focus of this report. Other issues have also been categorised, and are covered later in this report, predominantly in the Social Responsibility & Governance section.

### Global reach

**CUSTOMER EXPERIENCE**

LEGAL COMPLIANCE

ANTI-BRIBERY AND CORRUPTION

MARKET ACCESS RISK

### Change clinical practice

**PATIENT SAFETY**

ETHICAL RESEARCH

### Better products

**PRODUCT INNOVATION**

**PRODUCT QUALITY**

CYBER SECURITY AND DATA PROTECTION

EMPLOYEE ATTRACTION, DEVELOPMENT AND RETENTION

### Sustainable, profitable growth

**SUSTAINABLE, FINANCIAL PERFORMANCE**

HEALTH, SAFETY & WELLBEING

INTELLECTUAL PROPERTY

BUSINESS CONTINUITY

CORPORATE GOVERNANCE

## Our materiality process

In 2018, material topics were identified through review of our business risks matrix, the United Nations (UN) Sustainable Development Goals (SDGs), GRI issues, and the UN Global Compact. Additionally, we drew on our knowledge from regular consultation with customers, healthcare professionals, suppliers and investors. We also considered broader trends, such as the ageing population, healthcare demographics and disruptive technologies. Subsequent interviews were conducted with a cross-functional range of our internal and external stakeholders asking for their assistance in prioritising our topics. We then consulted and reflected on the results with members of our Executive Management team.

While we did not expect these topics to change significantly for 2019, we have again elected to directly engage a cross-section of internal and external stakeholders, this time through a series of interviews conducted by an independent third party, thinkstep. Included in the 2019 interviews were representatives from our employees, customers, physicians, community, healthcare professionals, investors and suppliers.

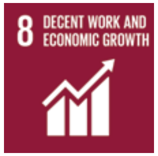
When our original materiality matrix was developed we asked our stakeholders to rank issues according to what they believed should be the most important to our business. As can be seen in the matrix, there was strong alignment of views between internal and external stakeholders.

The underlying themes have remained broadly consistent with last year's materiality process. Patient safety remains an overriding priority for all stakeholders. The importance of innovation and product quality were also common threads in the 2019 interviews. Another theme that came through very strongly this year was that it is our culture that sets us apart – a culture that is innovative, supportive and always puts the patient first. These themes will be explored further in future reports as we continue to build on the management and reporting of environmental, social and governance topics we began in 2018.

The approach taken to our materiality assessment and the content in this report has been informed by the principles of the GRI. A GRI reference index based on the GRI Sustainability Reporting Standards (2016) can be found on pages 103 to 104. We anticipate that future reports will be in accordance with the GRI Standard (core).

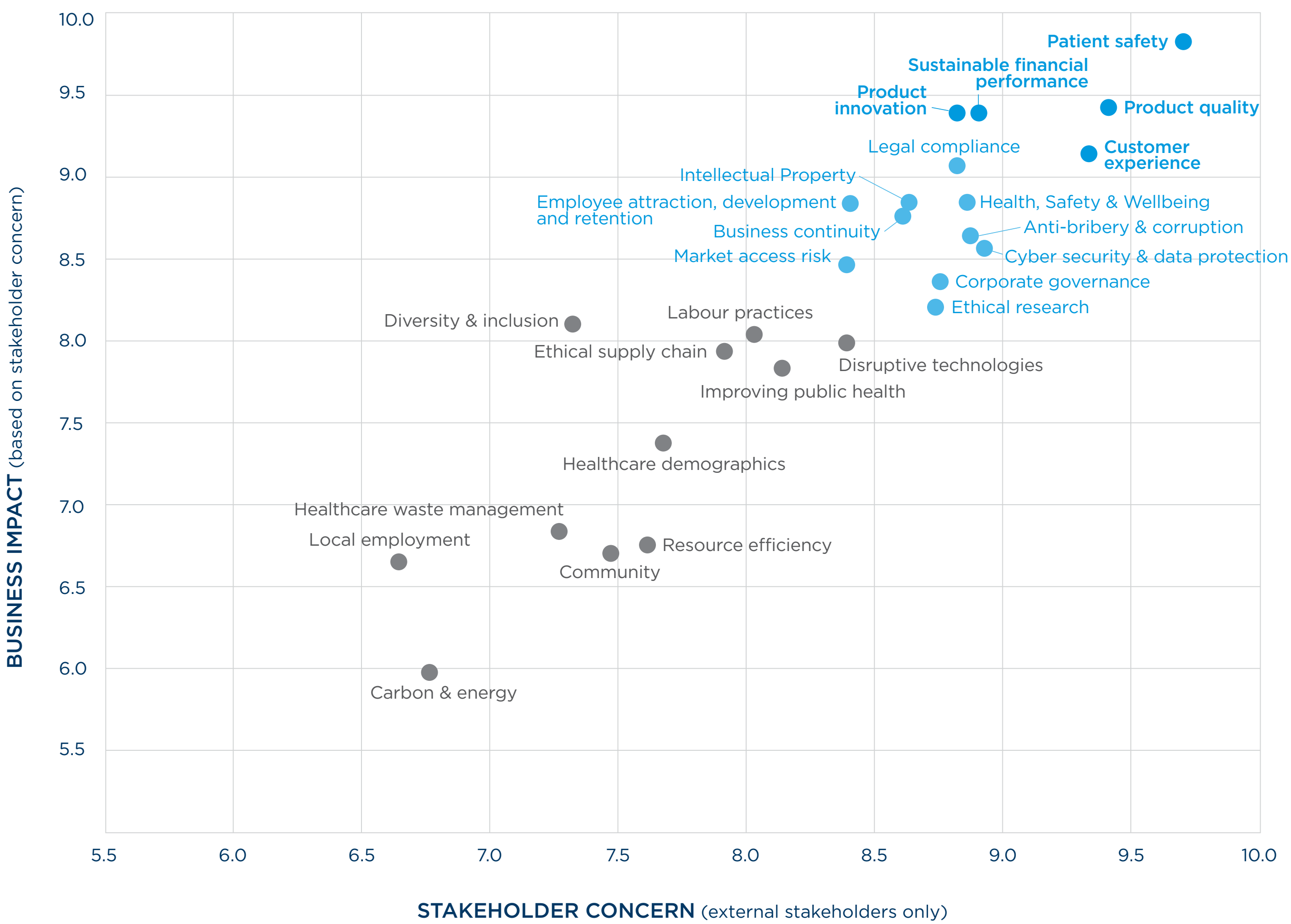
## United Nations Sustainable Development Goals

Fisher & Paykel Healthcare supports the UN SDGs. We have identified three goals where we believe we have a unique opportunity to make a positive difference in order to achieve a better and more sustainable future for all. We have highlighted below the SDGs to which we can contribute the most and in this report we share areas and initiatives where we contribute toward these goals.



### MATERIALITY MATRIX



# Financial & business highlights

**OPERATING REVENUE**

NZ$1.07 billion ↑9%

**NET PROFIT AFTER TAX**
NZ$209.2 MILLION

↑10%

**TOTAL DIVIDEND FOR YEAR**
NZ 23.25CPS FULLY IMPUTED

↑9%

**SPEND ON R&D** NZ$
9% OF OPERATING REVENUE

$100.4M

**GROSS MARGIN**
56 BASIS POINTS INCREASE

66.9%

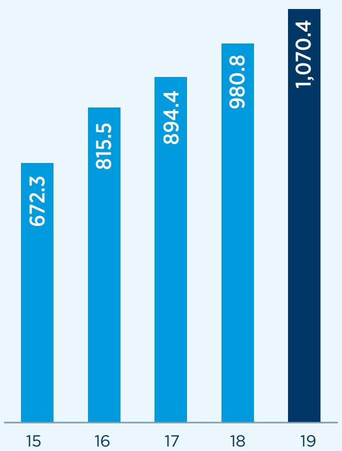
**HOSPITAL REVENUE GROWTH**
NZ$642.3 MILLION

↑12%

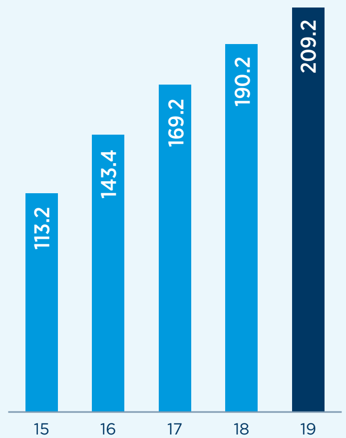
**NEW APPLICATIONS CONSUMABLES**
REVENUE GROWTH

↑20% (CONSTANT CURRENCY)

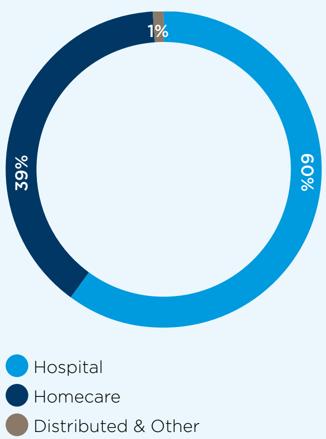
**OPERATING REVENUE**
NZ$ MILLIONS



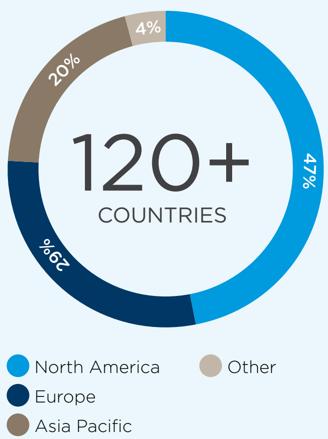

**NET PROFIT AFTER TAX**
NZ$ MILLIONS




**REVENUE BY PRODUCT GROUP**
12 MONTHS TO 31 MARCH 2019




**REVENUE BY REGION**
12 MONTHS TO 31 MARCH 2019




## + INTRODUCED

F&P Vitera™ full face mask, F&P Optiflow™ 3S nasal cannula, and new neonatal breathing circuits for the F&P 950™ Heated Humidification System.

## + CONTINUED

with the global roll-out of our enterprise resource planning system (ERP).

## + IMPACTED

the lives of approximately 14 million patients around the world.

## + COMPLETED

construction of our second manufacturing facility in Tijuana, Mexico with operations to commence during FY20.

## + WELCOMED

Neville Mitchell as a non-executive director and two new members of our Executive Management Team; Lyndal York as CFO and Marcus Driller as VP-Corporate.

## + AWARDED

two Gold Pins in the User Experience category at the NZ Best Design Awards for F&P InfoSmart™ Web and our F&P Sleepstyle™ patient app.

## + PROGRESSED

an exciting product pipeline, with several new product launches anticipated.

## + GREW

the body of clinical evidence supporting the use of Optiflow nasal high flow, including a key publication demonstrating significant benefits for Chronic Obstructive Pulmonary Disease (COPD) patients in the home using our myAirvo™ device.

## + INCLUDED

in the FTSE4Good and Dow Jones Sustainability Indices for 2018.

# Report from the Chairman of the Board Tony Carter

**I am pleased to report on what has been another successful year for our company with net profit after tax up 10% to $209.2 million. Of particular note, we were delighted to achieve the milestone of becoming a NZ$1 billion company, with operating revenue of $1.07 billion.**

We continue to build on our history of innovation and global competitiveness and our drive to do things differently and better.

It is now 50 years since Fisher & Paykel's prototype respiratory humidifier was first developed. It took three years to get the Spence and Melville Humidifier to the prototype stage. The company then worked with clinicians and patients, experts from New Zealand's Department of Scientific and Industrial Research and specialist materials manufacturers.

The project spanned from design to manufacturing logistics to protection of intellectual property. The focus was on international sales and a key factor during development was ensuring the product met standards specifications for global markets. As it is today, our philosophy of collaboration with world-leading clinical experts was at the forefront of our efforts.

Fifty years on, we are a substantial business, operating successfully on the global stage and with a proven track record. Our product range has grown to include over 1,400 products and sales have grown from just $20,000 in 1972 to be over $1 billion now.

However, some things have not changed. Our relentless focus on delivering the best solutions for patients continues to underpin all that we do and our 'Care by Design' philosophy unites our global team of over 4,500 people. On behalf of the Board, I would like to acknowledge the efforts of all our people in our markets across the world.

## Protection of Intellectual Property

Throughout our history, we have invested consistently in R&D, leading to products and systems which have enabled us to positively impact the lives of many millions of patients. Protecting this investment and our intellectual property is crucial in today's competitive global marketplace.

We have now settled all outstanding patent infringement disputes between the company and ResMed. We are pleased to bring these disputes to a close and we appreciate the support of our customers and shareholders through the process. We will continue to defend and protect our intellectual property where necessary.

## Investing in our business

Our aspiration remains to sustainably double our constant currency revenue every five to six years and we are investing in our business to support this growth.

We took possession of our second Mexican manufacturing facility - the Melville Building - in January 2019 and our first production output is expected in the middle of this year. This is on a 15 hectare campus providing room for future expansion. The location is part of a global medical device manufacturing hub in Tijuana and allows us access to the established skill set of the local workforce. The Board visited our Mexican facilities in September 2018 and we continue to be impressed with the quality, efficiency and performance of our Mexican teams.

In New Zealand, we are making good progress on the construction of our fourth building, which we expect to be completed in early 2020. This will house a combination of R&D, pilot manufacturing and a distribution centre and has been designed and built with environmental sustainability in mind, to a New Zealand Building Council Green Star 5 rating.

## Your Board

We farewelled long serving director Arthur Morris in August last year and welcomed Neville Mitchell as a non-executive director. Neville has extensive global financial and medical device experience and most recently served as Chief Financial Officer of ASX-listed Cochlear Limited, the world leader in the development, manufacture and sale of cochlear implants.

We were also pleased to welcome Claudia Wyss as part of the Future Directors programme, which provides Board participation for potential directors. We believe this is a valuable programme that not only provides benefit to our company, but also grows the pool of director talent in New Zealand.

Both Neville and Claudia bring valuable insights and expertise which complement that of other Board members.

We continue to find an external independent review of the Board to be a very useful process, identifying areas of strength and opportunities for improvement. This year's review helped the Board further refine succession planning. We were able to use these insights as part of the director search process, following which Neville Mitchell was appointed to the Board.

## Dividend

The Board has declared a final dividend of 13.50 cents per share. This takes the total dividend for the 2019 financial year to 23.25 cents per share and equates to a dividend payout ratio of approximately 64% of net profit after tax for the year.

Given the company's strong performance over the last five years and reduction of debt to below the target gearing range, the Board has determined to suspend the dividend reinvestment plan. As a result, all shareholders will receive dividends in cash for the dividend scheduled to be paid on 5 July 2019.

## We have an exciting future

Demand for quality healthcare continues to increase, alongside the rising costs of caring for aging and growing populations. Healthcare providers and patients are seeking solutions that deliver improved patient outcomes in more sustainable and effective ways. Our innovative products and therapies meet this need, last year improving outcomes for approximately 14 million patients around the world. Reducing acuity of care and, where possible, allowing for treatment in the home rather than the hospital, further reduces the pressure on healthcare systems.

We look forward to continuing to deliver consistent sustainable growth and value for our communities and our shareholders for another 50 years and more.

**TONY CARTER**
CHAIRMAN

# Report from the Managing Director & Chief Executive Officer Lewis Gradon

**Our long term and consistent growth strategy continues to drive results, once again delivering record revenue and strong profit growth as we reached the milestone of achieving over $1 billion in revenue.**

Our consistently improving results are a reflection of our innovative products, the dedication of our teams around the world, a culture of continuous improvement, and the value we offer for clinicians and patients. Care and innovation underpins all that we do, as we continue to focus on improving patient outcomes through inspired and world-leading healthcare solutions.

Our business is structured into two parts – Hospital and Homecare - both of which delivered revenue and operating profit growth in FY19. Sixty percent of revenue was from products and therapies used in the hospital in invasive ventilation, non-invasive ventilation, nasal high flow therapy and surgery. Thirty nine percent of revenue was from products used in the home environment to treat patients with OSA and those in need of respiratory support.

## Hospital

Our hospital business began in invasive ventilation in the early 1970s. Over the last 20 years, we have expanded into new applications for our products in the hospital, including Optiflow nasal high flow therapy, non-invasive ventilation and surgical humidification. Revenue in our Hospital product group grew 12% to $642.3 million and 62% of hospital consumables revenue was contributed by these newer applications for our technology. The most recent Northern Hemisphere flu season was less severe than the previous year, but the results in our hospital product group reflect similar underlying growth trends to previous periods. Constant currency growth of 20% in new applications consumables revenue was very pleasing given the weaker flu season.

This year we released revolutionary neonatal breathing circuits for the F&P 950 heated humidification system, following on from the successful launch of the adult system. The feedback we received from customers during clinical trials has been overwhelmingly positive, principally in terms of ease of use and performance. The neonatal circuits are currently available in New Zealand and Australia and will be rolled out to other countries over the next year.

Our Optiflow nasal high flow therapy remains a key growth driver for our hospital business. We expect a growing body of clinical evidence to support the use of Optiflow for a wider range of patient groups, and in more areas of the hospital outside the intensive care unit such as respiratory wards and in the emergency department. Over the past year we estimate that approximately 3 million patients were treated with our Optiflow nasal high flow therapy.

In surgical humidification, we are concurrently continuing to improve on existing products and technology. Adding further tangible benefits for surgeons and patients; growing the body of clinical evidence through supporting more clinical trials; and using our products and the clinical evidence to generate sales in more markets.

## Homecare

Our Homecare group comprises products and systems used to treat obstructive sleep apnea (OSA) and for patients requiring respiratory support in the home. OSA remains the largest portion of Homecare revenue, and we see home respiratory support, which is growing strongly from a small base, as an exciting opportunity for our company.

Operating revenue in our Homecare product group grew 6% to $421.4 million during the year. A hiatus in OSA mask launches since the successful release of our F&P Brevida mask in 2016 was offset by a strong contribution from the successfully completed roll out of our new SleepStyle OSA CPAP system to all major markets, and from home respiratory support.

We were pleased to launch our new F&P Vitera OSA mask in May this year. This mask puts patient comfort first and incorporates our new VentiCool™ technology, the next generation of mask seal and other innovative design features. Vitera is currently available in New Zealand, Australia, Europe and Canada and it will be rolled out around the world as relevant regulatory clearances are received.

We see a growing opportunity to deliver respiratory support in the home for patients with chronic respiratory conditions, such as COPD. The publication of a long term study in Denmark in April 2018, on the benefits of nasal high flow therapy in the home for patients with COPD, demonstrated the value of this therapy and we are sharing this with clinicians. A number of long term trials are underway around the world, with expected timelines of three to five years. We expect to see increasing uptake of the therapy as the results from these clinical studies are published.

## Better products

One of our overarching principles is to develop innovative products which solve specific problems. R&D remains a fundamental part of our success story, with a cumulative $750+ million invested in R&D since 2001.

Last year, we invested $100 million (equal to 9% of our revenue) into R&D and we have a full pipeline of new products in development. Over the past year we were pleased to launch neonatal breathing circuits for the F&P 950 heated humidification system, our new Optiflow 3S nasal cannula and, more recently, our new Vitera mask.

**3million**

ESTIMATED PATIENTS WERE TREATED WITH OUR OPTIFLOW NASAL HIGH FLOW THERAPY OVER THE PAST YEAR

> We are seeing growing demand in China and India, both of which offer significant future potential for our company with large populations and increasing spend on healthcare.

All of our teams work collaboratively with a large network of leading physicians and clinical researchers all around the world as we improve our products and make our contribution to changing clinical practice. We held 12 international clinical forums in our Auckland, New Zealand facility over the past year. The purpose of these forums is to consult with experts who directly manage patients on a day-to-day basis and to discuss topics of research interest.

### Change clinical practice

Helping to improve outcomes and reduce costs by contributing to changing clinical practice takes time. Clinical validation from research, trials and studies is a key component to this. At any one time, we are supporting multiple studies around the world, in partnership with researchers, clinicians and healthcare providers. These range from short term pilot trials to demonstrate feasibility, through to longer-term studies running over several years to qualify outcomes.

Our relationships with clinicians around the world ensure we deliver the best possible tools and products to enable them to provide the best possible care.

### Global Reach

Since our inception, we have always identified as a global company, competing on the worldwide stage. We sell in more than 120 countries, and we have our own people in 38 countries. We continue to identify and assess opportunities to expand the number of our people selling into hospital, homecare and surgical environments. While still a relatively small proportion of our business today, we are seeing growing demand in China and India, both of which offer significant future potential for our company with large populations and increasing spend on healthcare.

### Sustainable profitable growth

Our strategy is necessarily very consistent. We aim to grow our business in a profitable way that is sustainable over the long term. We are continuously improving the foundations of our business in invasive ventilation in intensive care and the treatment of OSA. Our medium and longer term opportunities lie in helping to change clinical practice to improve care and outcomes and at the same time reduce costs to healthcare systems. Clinical practice is slow to change and requires persistence. To realise these opportunities we think, act and invest over the long term.

We are continuing our investment in improved Enterprise Resource Planning (ERP) systems with the rollout of the SAP ERP system across both manufacturing plants and the Asia Pacific region completed in 2018. Our focus will be on the implementation of SAP in our United States operations during 2019.

# 4,500+

OUR GLOBAL TEAM OF OVER
4,500 PEOPLE

## Our people

At its core, a company is a collection of people. Our approach of 'Care by Design' draws together and unites our global team of over 4,500 people with the simple thought that we care about what we do, and the impact we have on patients, customers and all of our other stakeholders.

We have a highly experienced executive team and this year we were pleased to welcome Lyndal York as Chief Financial Officer. Lyndal is a new appointment following the retirement of long-standing CFO, Tony Barclay, in May last year.

Lyndal has strong international experience within the medical device industry, and as such, possesses a good understanding of its unique characteristics. Prior to joining us, Lyndal most recently served as Chief Financial Officer of ASX-listed Asaleo Care, based in Melbourne. Prior to her role at Asaleo Care, she held Head of Group Finance and Group Financial Controller roles at Cochlear over an 11-year period.

## Outlook

Achieving $1 billion in revenue is a milestone for our company, however, we are not sitting still. We will continue to build on our strengths and continuously improve and expand our portfolio of valued solutions for healthcare providers and patients.

We expect capital expenditure for the 2020 financial year to be approximately NZ$150 million as we increase capacity for both existing and new products and complete construction of the fourth building on our Auckland campus.

At current exchange rates we expect full year operating revenue for the 2020 financial year to be approximately NZ$1.15 billion and net profit after tax to be approximately NZ$240 million to NZ$250 million. Recent changes introduced by the New Zealand Taxation (Research and Development Tax Credits) Act 2019, a significant reduction in patent litigation costs and forecast currency benefits have been factored into our earnings guidance for 2020.

Historically, our growth has come from our expertise in respiratory humidification and, in the last two decades, from CPAP therapy and products to treat OSA. These areas remain the foundation of our business, however, we are now using the expertise we have developed over the last 50 years to build our presence in new segments in the healthcare market where we can add value. We are excited about the potential in Optiflow nasal high flow in both hospital and home environments, as well as the longer term opportunity in surgical technologies.

We are looking forward to the future and what it holds for our company and are well positioned to meet growing demand for our products and systems and continuing to deliver better healthcare solutions.

**LEWIS GRADON**, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

# Hospital

### Invasive ventilation

Our products for invasive ventilation provide warm, humidified air to patients with bypassed airways. This can help maintain the natural balance of heat and moisture in the airways.

### Non-invasive ventilation

Non-invasive ventilation is a therapy which provides airway support for patients through a face mask. Heated and humidified gas flows can improve patient comfort and compliance, reduce airway drying and improve secretion clearance.

### Optiflow nasal high flow therapy

Nasal high flow is a respiratory care therapy delivering high flows of air and oxygen through a unique F&P Optiflow nasal cannula. This allows comfortable, effective delivery of up to 100% oxygen for hypoxemic patients in mild to moderate respiratory distress.

### Surgical technologies

Our surgical products provide warm, humidified $CO_2$ during surgery, which may protect patients from hypothermia and post-operative pain and reduce the risk of surgical site infections, adhesions and cancer metastasis.

**60%**
OF OPERATING REVENUE

OPERATING REVENUE GROWTH (NZ$642.3M)
**↑12%**

CONSTANT CURRENCY CONSUMABLE REVENUE GROWTH FROM NEW APPLICATIONS
**↑20%**

# Homecare

### CPAP therapy

Our range of CPAP machines and masks support patients with obstructive sleep apnea. Our masks are extremely popular and have become well known for their comfort, simplicity and ease of use, which is a key factor in patient compliance. Our patient management and support tools complete a seamless experience to help patients succeed in embracing therapy.

### Home respiratory support

We have taken our expertise in nasal high flow therapy and non-invasive ventilation from the hospital to offer respiratory support in the home and in long-term care settings, with the intention of improving patients' quality of life and reducing hospital admissions. The myAirvo device provides flows of humidified air, which can contain supplemental oxygen if necessary through an Optiflow nasal cannula or tracheostomy connector, and is used for patients with chronic respiratory conditions such as COPD or bronchiectasis.

**39%**

OF OPERATING REVENUE

OPERATING REVENUE GROWTH (NZ$421.4M)

**↑6%**

OSA FLOW GENERATOR CONSTANT CURRENCY GROWTH

**↑27%**

# Global Reach

Increase our presence around the world

**MATERIAL ISSUE**

**Customer experience**

We work with thousands of healthcare professionals around the world, including doctors, clinicians and nurses, providing them with the products and tools they need to deliver the best possible care. We now have more than 1,000 people in our sales, marketing and support teams in 38 countries.

Building trusting relationships between our people and our customers is a critical part of our sales approach, right around the world.

## Sharing our Expertise

Each year, we continue to expand, train and strengthen our sales teams so they are well equipped to explain the clinical advantages of our products and support a beneficial change in clinical practice.

This was clearly in evidence when Simon Bedwell, an F&P sales representative in the Australian state of New South Wales, was contacted by a doctor in the Nepean Hospital Neonatal Intensive Care Unit (NICU). She was caring for two premature babies, both born at 27 weeks. The babies had spent six months in hospital, had become oxygen dependent, and were experiencing nose bleeds from their therapy. The medical team had tried several times to wean the babies off the oxygen, but they had crashed each time. As a result, the babies were expected to spend a minimum of another six months in intensive care.

Simon visited the doctor and together they discussed using humidified nasal high flow therapy, rather than cold, dry oxygen. Through their discussion and demonstration of F&P's Airvo™ device, it became clear that a different approach to therapy could benefit these patients.

The babies were transitioned to the Airvo and immediately their statistics improved. One baby was discharged a month later. The other, whose mother had not been home for six months as they lived in a very remote area out of the city, was able to return home where the mother administered the therapy herself using the Airvo device. The baby was completely off the therapy within three months.

## Going above and beyond

Our sales people will often go above and beyond to ensure our customers' needs are met. In February 2019, the VCU Medical Center, located in Richmond, Virginia, decided to implement F&P humidifiers across seven ICUs and 20 acute care areas. A team from our US office spent two weeks working on the implementation - assembling equipment, training and ensuring that the transition was smooth and seamless. The training on its own was a significant undertaking, with a group of respiratory therapists, nurses, doctors and other team members in each of the 27 care areas. The implementation was completed successfully, on time and seamlessly, with a follow up visit three months later.

Jennifer Reed, the Neonatal & Pediatric Respiratory Manager at VCU Health commented: "This crew is amazing. They made me exhausted watching them work. They kept their enthusiasm up the entire time. I appreciate each and every one of F&P's team members, including those working behind the scenes to make this implementation a success. A seriously impressive team!"

## Where there is a will, there is a way

Even the smallest things can make a difference as attested to by the actions of F&P Respiratory Sales Specialist, Mike Krumholz.

Very early on a Saturday morning, Mike was contacted by a hospital customer in New York, who were out of RT380 breathing circuits. Mike immediately drove with his two young children to Brooklyn to deliver some circuits so that patient care could continue.

The respiratory director of the hospital emailed us with this story and had this to say:

> "Everyone's time is precious. The fact that he went out of his way to be of assistance was very much appreciated. As a customer, I admire and appreciate Mike's dedication to Fisher & Paykel and their customers."

# Changing clinical practice

Utilise our expertise to develop new therapies and reduce costs to healthcare systems

**MATERIAL ISSUE**

**Patient safety**

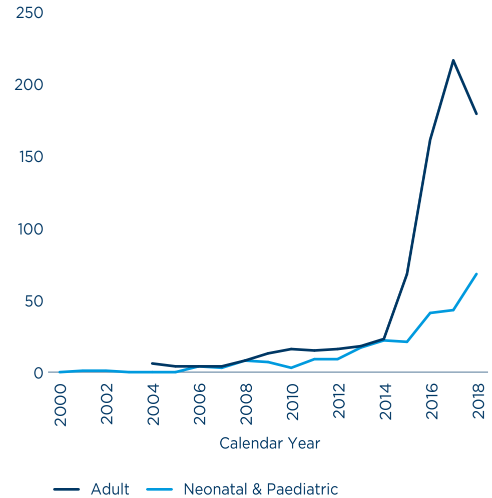
## OUR QUALITY MANAGEMENT SYSTEM

The healthcare device industry is highly regulated worldwide. Our ability to meet stringent standards is vital to ensuring market acceptance of our products. We comply with these standards by operating a quality management system certified to a range of international standards which apply to both our manufacturing facilities and our sales network. These include the US Food & Drug Administration (FDA)'s Quality System Regulation and the ISO 13485 Quality Management System standard, along with other global regulations.

We have over 200 people in our Quality and Regulatory team, working across product design and development, manufacturing, distribution and market surveillance, as well as operations in New Zealand, Mexico and the US. Our quality teams operate as a service to our product and process development and manufacturing operations teams, which means that quality controls are built into the design process through a partnership approach.

We take a proactive risk management approach and the quality management process starts right at the beginning with the design assurance process and then encompasses the clinical evidence to validate the effectiveness and efficiency of the therapy.

PUBLISHED CLINICAL PAPERS
NASAL HIGH FLOW FOCUSSED




## Developing a Body of Clinical Evidence – Optiflow nasal high flow therapy

We understand what is required to develop a sufficient body of clinical evidence to drive practice change. This began in the early 1970's, supporting research being conducted on the use of active humidification during invasive ventilation. Again, we assisted with clinical studies in the late 1990s to demonstrate the benefit of humidifying CPAP therapy for OSA patients. In the first decade of the 2000s we supported studies that were investigating the physiological effect and mechanisms of action of nasal high flow. In 2018 we saw a further 247 clinical papers published investigating the use of nasal high flow in different patient groups. This brings the total number of published clinical papers on nasal high flow to 1,584 since 2003, as shown in the graph above.

Nasal high flow is emerging as a popular non-invasive mode of respiratory support in adults and children. Initially, studies investigated the mechanisms of action and how nasal high flow works, using computer and animal models. This then progressed into clinical indications, followed by studies confirming the safety and effectiveness of nasal high flow. In the last five years, a number of robust clinical outcome studies have been published, including randomised controlled trials looking at the outcomes for patients with acute hypoxemic respiratory failure. We believe that the clinical evidence for use of nasal high flow therapy in this patient group is compelling.

Interest has now turned to studies investigating mechanisms of action, clinical indications, safety and effectiveness of nasal high flow in patients with hypercapnia and in patients who are being treated in other parts of the hospital outside of the ICU. These studies are being conducted globally by the leading researchers in the field.

F&P is now supporting clinical research investigating the use of nasal high flow in the home for patients with COPD. In last year's annual report we mentioned the first significant clinical outcome study, Storgaard et al was published in April 2018. There are at least 10 additional studies currently being conducted in relation to nasal high flow on COPD patients and we look forward to their publication over the next five years.

# Better Products

Continuously strive to improve our products

**MATERIAL ISSUES**

**Product innovation**
**Product quality**

Whether in Hospital or Homecare, our product development process is informed by extensive research to understand the needs of our patients and the environments our products are used in. This is exemplified in two of our recent product introductions.

## VITERA FULL FACE MASK – 'REDEFINING COMFORT'.

The vision of the OSA mask development team is to create CPAP masks that patients *want to use* and *can* easily use.

Despite dramatic improvements in mask technology in recent years, the number one unmet need for patients undergoing CPAP therapy is still mask comfort. When designing F&P Vitera, the mask development team focused on designing a full face mask which is first and foremost a comfortable mask. Comfortable not just at the initial consultation, but across a full night's sleep.

Drawing on the design 'DNA' from our highly successful F&P Simplus™ mask, and recognising that comfort means different things to different people, our F&P Vitera design team focused on stability, adaptability and breathability.

Stability of the mask is provided by the Stability Bar. Wide anchoring points on the top and bottom straps provide a greater zone of support, reducing the likelihood of the cushion riding up the face or the mask dislodging. This zone of support also allows our next generation *RollFit™ XT* cushion to adjust and seal dynamically on a range of different nose and face shapes, providing a more adaptable mask.

With mask headgear typically covering a portion of a patient's head, patients can experience discomfort from heat and sweating. Vitera headgear features proprietary breathable fabric – VentiCool – that allows 21 times greater air flow and 32% more moisture transfer than the material used in our other leading full face masks, helping patients keep cool and comfortable during sleep.

We believe F&P Vitera is our most comfortable full-face mask yet and reflects another step forward in patient care.

## NEONATAL CIRCUITS FOR F&P 950

The NICU provides a unique challenge when designing a breathing circuit due to the changing temperature conditions between incubator, warmer, and ambient environment.

When a baby is in an ambient environment, such as during skin-to-skin contact with a parent, the circuit will have a single heating requirement across its length. When a baby is placed in an incubator or warmer, this changes. While one end of the circuit remains in the ambient conditions of the room, the other is exposed to the heated environment of the incubator or warmer. This variation in operating environment across the length of the circuit creates challenges for the delivery of humidified gases while still controlling condensate.

Our vision for the F&P 950 System neonatal circuit was to provide simplicity for caregivers by having a circuit that could handle these changing environments without the need for any detachable unheated extensions or other caregiver intervention.

The result is Thermadapt™, a technology that is incorporated across the F&P 950 System neonatal circuit range. Thermadapt enables independent heating of two zones within the inspiratory limb, allowing the circuit to adapt to changing temperature conditions and reducing condensate. This, coupled with a longer circuit length, also encourages skin-to-skin contact time, giving parents the opportunity to bond with their baby.

# Sustainable profitable growth

Ensuring our growth is managed in a sustainable way

**MATERIAL ISSUE**

## Sustainable financial performance

Fisher & Paykel Healthcare's new Chief Financial Officer, Lyndal York, moved from Australia to New Zealand to take up the role and says the best thing about working for a medical device business is knowing that you are having a positive impact on people's lives – and at F&P Healthcare, this belief is even more pronounced. Lyndal commenced her role with F&P in March 2019. We asked what attracted her to the company, her reflections on the first few months and what drives her.

I like that F&P is a global company based in New Zealand. The culture is what attracted me the most – everyone in the organisation believes 100% in doing the right thing for our customers and patients, no matter if you are in sales, finance or manufacturing. Everything is about Care by Design; delivering better outcomes for our customers and patients.

Continuous improvement is also ingrained into the culture and everyone is always striving to do things better and more efficiently.

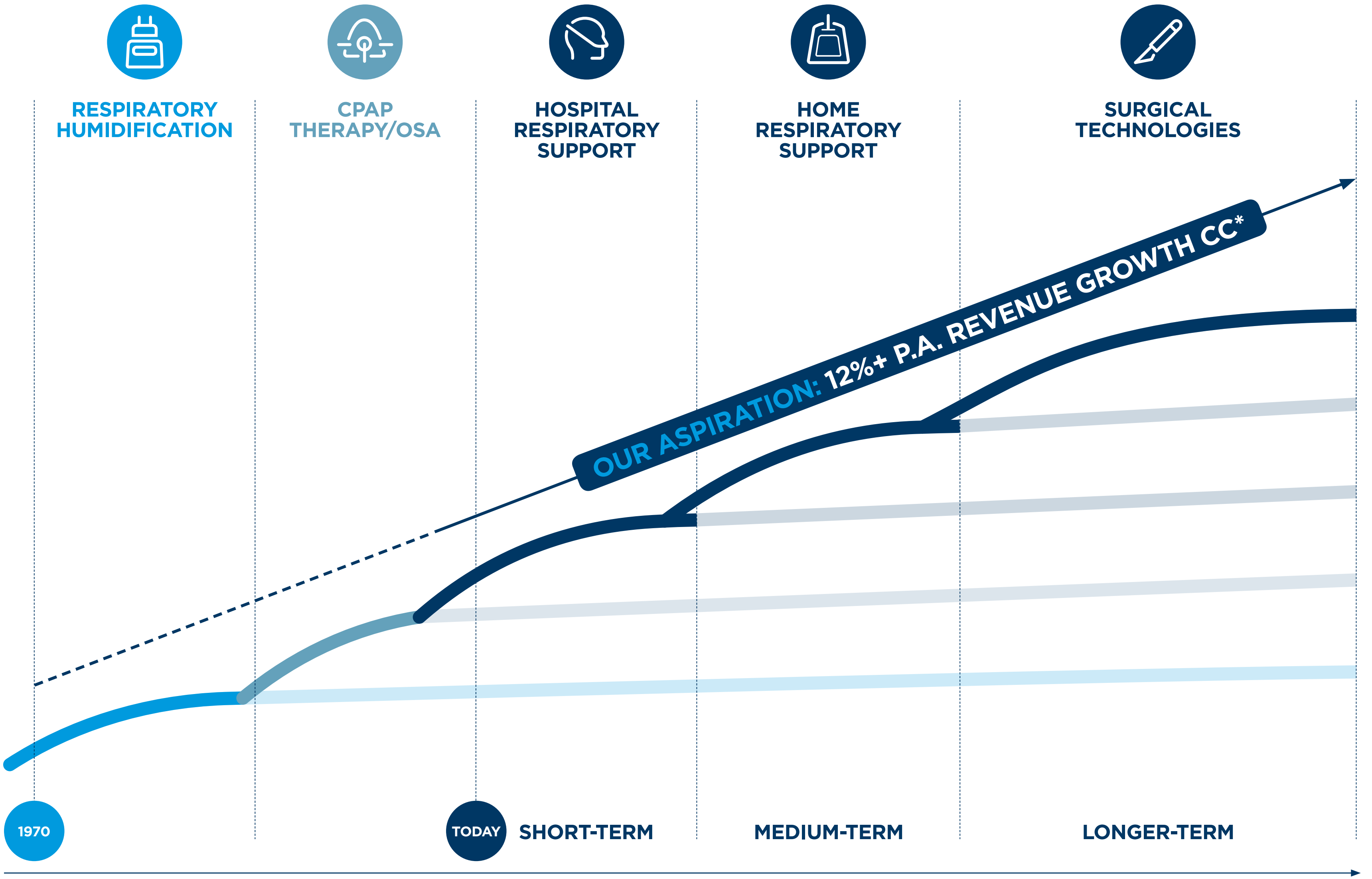
I inherited a high performing global finance team. As a group, we have an in-depth understanding of our business and what drives our results. The rollout of the SAP system is going well and we are focused on making sure we get the most benefit from this. We will also be looking to further refine our sustainable growth metrics and making sure they are well embedded in the business.

There is increasing demand for companies to take a more proactive approach to corporate social responsibility and sustainability. F&P is very conscious of this and we will be building on the already transparent approach to reporting and disclosure. On a personal level, I am looking forward to meeting investors and ensuring F&P remains a compelling investment opportunity.

F&P has a business model built around long-term thinking. It can take many years to bring a new product to market, so we need to make sure we are thinking a long way ahead to support our product development pipeline. Our patients are also moving into different life stages and we're looking at how we can support them and our customers as their healthcare needs change. We are also looking at how we can use our expertise to expand into new areas. For example, F&P is a global leader in respiratory care in hospitals and we are now looking to leverage this to offer respiratory support in the home.

I have worked in medical device businesses for the past 15 years, including with companies where most of the sales are offshore. F&P presents a similar business model and challenges and I believe my experience and insights will be of value in my role. I have also personally experienced the invaluable benefits of respiratory care when my daughter was born premature and spent a number of months being supported in a neonatal unit. The best thing about working for F&P is the altruistic factor – going home at the end of the day, knowing we are making a positive difference in people's lives.

# OUR ASPIRATION: Sustainably DOUBLING our constant currency revenue every 5-6 years.




*CONSTANT CURRENCY

Tony Carter

Lewis Gradon

Michael Daniell

Pip Greenwood

Geraldine McBride

Neville Mitchell

Donal O'Dwyer

Scott St John

# Our Board

## Tony Carter

**Chair and non-executive director**

**TERM OF OFFICE:**
Appointed December 2010, last re-elected 24 August 2017, appointed Chair in April 2012.

Tony was managing director of Foodstuffs New Zealand Limited for ten years, until his retirement in 2010. Tony is chairman of Air New Zealand Limited, a director of Fletcher Building Limited, Vector Limited and ANZ Bank New Zealand Limited, and a trustee of the Maurice Carter Charitable Trust.

Master of Engineering, MPhil (Engineering)

**COMMITTEE RESPONSIBILITIES:**
Member People and Remuneration Committee, Member Audit & Risk Committee, Member Quality, Safety and Regulatory Committee.

## Geraldine McBride

**Non-executive director**

**TERM OF OFFICE:**
Appointed August 2013, last re-elected 24 August 2017.

Geraldine has been involved in the technology industry for 30 years and has a wealth of global experience. She has held senior executive roles at SAP AG and Dell Inc, and is a former President of SAP North America. She is a current director of National Australia Bank and Sky Network Television Limited, and the founder and CEO of MyWave.

Bachelor of Science – Zoology

## Lewis Gradon

**Managing Director and Chief Executive Officer**

**TERM OF OFFICE:**
Appointed 1 April 2016, elected 23 August 2016.

Lewis became Managing Director & CEO in April 2016. Prior to that, he spent 15 years as Senior Vice President – Products & Technology, and six years as General Manager – Research and Development. During his 35 year tenure with Fisher & Paykel, Lewis has held various engineering positions overseeing the development of our range of products as well as the development of our manufacturing, quality, intellectual property, supply chain and clinical research functions.

Bachelor of Science – Physics

## Neville Mitchell

**Non-executive director**

**TERM OF OFFICE:**
Appointed November 2018.

Neville was CFO and Company Secretary of Cochlear Limited between 1995 and 2017. He is a non-executive director of Sonic Healthcare, Osprey Medical and Q'Biotics Group and a member of the Australian Board of Taxation and a director of the South East Sydney Local Health District Board. Previously, he served on the New South Wales Medical Devices Fund, was Chairman of the Group of 100, and Chairman, Standing Committee (Accounting and Auditing), for the Australian Securities and Investments Commission.

Bachelor of Commerce

**COMMITTEE RESPONSIBILITIES:**
Member Quality, Safety and Regulatory Committee.

## Michael Daniell

**Non-executive director**

**TERM OF OFFICE:**
Appointed November 2001, last re-elected 23 August 2018.

Mike was Managing Director and CEO of Fisher & Paykel Healthcare from November 2001 to March 2016. He was General Manager of Fisher & Paykel's medical division from 1990 to 2001 and previously held various technical management and product design roles within the company. Mike is a member of the Council of the University of Auckland, a director of Tait International Limited and the Medical Research Commercialisation Fund, and Chair of the Medical Technologies Centre of Research Excellence.

Bachelor of Engineering (Hons)

**COMMITTEE RESPONSIBILITIES:**
Member Audit & Risk Committee.

## Donal O'Dwyer

**Non-executive director**

**TERM OF OFFICE:**
Appointed December 2012, last re-elected 23 August 2016.

Donal is Chairman of Atcor Medical Pty Limited and a director of Cochlear Limited, Mesoblast Limited and nib Holdings Limited. From 1996 to 2003 he was with Cordis Cardiology, initially as its president (Europe) and from 2000 to 2003 as its worldwide president. Prior to joining Cordis, Donal worked for 12 years with Baxter Healthcare, rising from plant manager in Ireland to president of the Cardiovascular Group, Europe, now Edwards Lifesciences.

Bachelor of Engineering, Master of Business Administration

**COMMITTEE RESPONSIBILITIES:**
Chair Quality, Safety and Regulatory Committee, Member People and Remuneration Committee.

## Pip Greenwood

**Non-executive director**

**TERM OF OFFICE:**
Appointed June 2017, elected 24 August 2017.

Pip is a director of Spark New Zealand Limited, Westpac New Zealand Limited, a current trustee of the Auckland Writers Festival and served as a member of the New Zealand Takeovers Panel from 2007 to 2011. She will also join the Board of a2 Milk Company Limited on 1 July 2019. Pip was a partner at Russell McVeagh between 2001 and 2019 and has advised on many market-leading transactions.

Bachelor of Laws

**COMMITTEE RESPONSIBILITIES:**
Chair People and Remuneration Committee.

## Scott St John

**Non-executive director**

**TERM OF OFFICE:**
Appointed October 2015, last re-elected 23 August 2018.

Scott is Chancellor of the University of Auckland, and a director of Mercury Limited, the NEXT Foundation and Fonterra Cooperative Group Limited. Scott was CEO of First NZ Capital from 2002 to March 2017. He is a member of Chartered Accountants Australia and New Zealand and a fellow of the Institute of Finance Professionals of New Zealand.

Bachelor of Commerce, Diploma in Business

**COMMITTEE RESPONSIBILITIES:**
Chair Audit & Risk Committee, Member People and Remuneration Committee.

# Our Executive Management Team

Lewis Gradon

Lyndal York

Paul Shearer

Andrew Somervell

Winston Fong

Brian Schultz

Debra Lumsden

Nicholas Fourie

Jonti Rhodes

Marcus Driller

# Our Executive Management Team

## Lewis Gradon

**Managing Director & Chief Executive Officer**

Lewis was appointed Managing Director & CEO in April 2016. He previously served as Senior Vice President – Products & Technology and General Manager – Research and Development. During his 35 year tenure with Fisher & Paykel, Lewis has held various engineering positions overseeing the development of our range of products as well as the development of our manufacturing, quality, intellectual property, supply chain and clinical research functions. He received his Bachelor of Science degree in physics from the University of Auckland, New Zealand.

## Winston Fong

**Vice President – Surgical Technologies**

Winston was appointed Vice President – Surgical Technologies in 2017. Winston previously served as Vice President – ICT from 2010 and held various IT management, systems engineering and software development roles in the business since 1999. Winston received his Bachelor of Engineering degree with honours in Electronics & Software Engineering from Manukau Institute of Technology and Master of Business Administration from the University of Auckland, New Zealand.

## Jonti Rhodes

**General Manager – Supply Chain**

Jonti was appointed General Manager – Supply Chain in 2015. Jonti joined Fisher & Paykel Healthcare in 2007 as a product design engineer, and since that time has held roles, both in New Zealand and the United States, in quality, regulatory, and most recently as Group Logistics Manager. Jonti has overseen the implementation of the New Zealand and US distribution hubs and played a key role in the development of our product surveillance system. He holds a Bachelor of Engineering (Mechanical) from Auckland University of Technology and a Master of Business Administration from the University of Auckland.

## Lyndal York

**Chief Financial Officer**

Lyndal was appointed CFO in March 2019. Before joining Fisher & Paykel Healthcare, Lyndal was CFO at Asaleo Care and prior to this held Head of Group Finance and Group Financial Controller roles at Cochlear in Australia over an 11-year period. She has also spent time in the US, as VP Corporate Accounting and Reporting at Edwards Lifesciences. Lyndal is a member of Chartered Accounts Australia and New Zealand, a graduate of the Australian Institute of Company Directors, and received her Bachelor of Economics from Macquarie University and Masters in Business Administration from Pepperdine University.

## Brian Schultz

**Vice President – Quality & Regulatory**

Brian was appointed Vice President – Quality & Regulatory Affairs in 2015. Brian previously served as Quality Manager for New Zealand Manufacturing since joining the company in 2011. Prior to joining Fisher & Paykel Healthcare, Brian held quality management positions within the medical device and pharmaceutical industries in Australia, Switzerland, the United Kingdom and the United States. He received his Bachelor of Science degree from Grand Valley State University, Michigan, United States.

## Marcus Driller

**Vice President – Corporate**

Marcus was appointed Vice President – Corporate in February 2019. Marcus joined Fisher & Paykel Healthcare in 2009 as an in-house lawyer and since that time has held roles in legal, investor relations and corporate affairs and most recently as General Manager – Corporate. Prior to joining the company, he was with New Zealand law firm, Russell McVeagh where he specialised in corporate and commercial law. Marcus is admitted as a Barrister and Solicitor of the High Court of NZ, is a member of the Institute of Financial Professionals NZ Inc and received his Bachelor of Commerce and Bachelor of Laws from the University of Auckland.

## Paul Shearer

**Senior Vice President – Sales & Marketing**

Paul was appointed Senior Vice President – Sales & Marketing in 2001. Paul previously served as the General Manager – Sales and Marketing of Fisher & Paykel's healthcare business from 1996. From 1990 to 1998, Paul held various positions in the business and established our sales operations in the UK and US. He has held various positions with Computercorp Ltd, a computer systems integrator, and ICL Ltd., a multinational computer systems company. Paul received his Bachelor of Commerce degree in marketing from the University of Canterbury, New Zealand.

## Debra Lumsden

**Vice President – Human Resources**

Debra was appointed Vice President – Human Resources in December 2016. Debra is from the United Kingdom and has over 20 years' experience working in HR across a variety of industries and sectors. Before joining Fisher & Paykel Healthcare, Debra was Vice President HR at Gilbarco Veeder-Root in the UK, where she headed up HR for Europe, the Middle East, Africa, and the Asia Pacific regions. She has also held senior roles with Insurance Australia Group, E2V Technologies and BAE Systems. She has a Bachelor of Science in Social Sciences from Brunel University and a Master of Business Administration from Warwick University, United Kingdom.

## Andrew Somervell

**Vice President – Products & Technology**

Andrew was appointed Vice President – Products & Technology in April 2016. Since joining Fisher & Paykel Healthcare in 2006, he has held various product development and operations management roles, and most recently was General Manager — Product Groups. He has overseen the development of the OSA product range and managed research and development, marketing, clinical, manufacturing, and aspects of the supply chain. Before joining Fisher & Paykel Healthcare, Andrew was a Research Fellow at the University of Auckland, New Zealand, and holds a doctorate in physics from the same university.

## Nicholas Fourie

**Vice President – Information & Communication Technology**

Nicholas was appointed Vice President – Information & Communication Technology in February 2017. Nicholas has been with Fisher & Paykel Healthcare since 2007, and in that time has held various systems engineering and IT management roles, including his most recent position as ICT Manager – Development & Engineering. Prior to joining Fisher & Paykel Healthcare, he was with the South African division of BHP Billiton. Nicholas holds a Diploma in Computer Engineering from Damelin School of Information Technology in South Africa.

# Financials

# FINANCIAL COMMENTARY

## INCOME STATEMENTS

| Year ended 31 March | 2018 NZ$M | 2019 NZ$M | Variation Reported % | Variation CC (1) % |
|---|---|---|---|---|
| **Operating revenue** | **980.8** | **1,070.4** | +9 | +8 |
| Gross profit | 650.4 | 715.8 | +10 | +9 |
| **Gross margin** | **66.3%** | **66.9%** | 56 bps | 58 bps |
| Other income | 5.0 | 5.0 | +0 | +0 |
| SG&A expenses | (290.9) | (327.8) | +13 | +11 |
| R&D expenses | (94.7) | (100.4) | +6 | +6 |
| Total operating expenses | (385.6) | (428.2) | +11 | +9 |
| **Operating profit** | **269.8** | **292.6** | +8 | +7 |
| **Operating margin** | **27.5%** | **27.3%** | -17 bps | -8 bps |
| Financing expenses (net) | (2.0) | (1.4) | -30 | -145 |
| **Profit before tax** | **267.8** | **291.2** | +9 | +9 |
| Taxation | (77.6) | (82.0) | +6 | +7 |
| **Profit after tax** | **190.2** | **209.2** | +10 | +9 |

[1] Constant currency (CC) removes the impact of exchange rate movements. This approach is used to assess the Group's underlying comparative financial performance without any distortion from changes in foreign exchange rates. A full reconciliation and basis of preparation is set out on page 36.

Total profit after tax for the year was up 10% to NZ$209.2 million (9% in constant currency).

### Revenue

Operating revenue was NZ$1,070.4 million, which was 9% above last year or 8% in constant currency. Hospital revenue grew 11% in constant currency driven by the growth in Optiflow nasal high flow therapy. Homecare revenue grew 4% in constant currency. Strong growth in home respiratory support and from our SleepStyle OSA CPAP system helped offset the hiatus in OSA mask launches.

### Gross margin

Our gross margin improved by 56 basis points to 66.9%, with a continued benefit from product mix and our Mexico manufacturing facility. This is above our stated long term target of 65%.

### Operating expenses

Operating expenses increased 11% (9% in constant currency) to $428.2 million driven by higher patent litigation expenses. Excluding total patent litigation expenses of $23.4 million, operating expense growth was 8% in constant currency, reflecting ongoing expenditure to support global sales growth and the global ERP implementation.

R&D spend of $100.4 million grew 6%, lower than revenue growth following several years of it growing above revenue. Over the long term we plan for R&D spend to grow in line with constant currency revenue growth.

### Financing expenses

Total reported financing expenses includes higher interest income on short term deposits and capitalised borrowing costs associated with our property projects. Offsetting this was foreign exchange losses on the translation of foreign currency debt.

### Tax

Our effective tax rate for the year was 28.2% down from 29% in the prior year. This decrease was largely due to a benefit from foreign currency conversions and ongoing lower global tax rates.

### Callaghan Grant and R&D Tax Credits

Included within other income is $5 million of income from the Callaghan Innovation growth grant. This growth grant was recently extended through to 31 March 2021. In May 2019 the New Zealand Government passed the Taxation (Research and Development Tax Credits) Act which will be effective for us from 1 April 2019. This provides a 15% tax credit on eligible R&D expenditure and replaces the Callaghan grant.

## FINANCIAL COMMENTARY CONTINUED

### CONSTANT CURRENCY INCOME STATEMENTS

| Year ended 31 March | 2017 NZ$M | 2018 NZ$M | Variation 2017 to 2018 % | 2019 NZ$M | Variation 2018 to 2019 % |
|---|---|---|---|---|---|
| **Operating revenue** | **888.4** | **966.0** | **+9** | **1040.8** | **+8** |
| Cost of sales | (301.8) | (327.7) | +9 | (347.0) | +6 |
| Gross profit | 586.6 | 638.3 | +9 | 693.8 | +9 |
| **Gross margin** | **66.0%** | **66.1%** | **5 bps** | **66.7%** | **58 bps** |
| Other income | 5.0 | 5.0 | - | 5.0 | - |
| SG&A expenses | (274.2) | (291.0) | +6 | (321.7) | +11 |
| R&D expenses | (86.0) | (94.7) | +10 | (100.4) | +6 |
| Total operating expenses | (360.2) | (385.7) | +7 | (422.1) | +9 |
| **Operating profit** | **231.4** | **257.6** | **+11** | **276.7** | **+7** |
| **Operating margin** | **26.0%** | **26.7%** | **62 bps** | **26.6%** | **-8 bps** |
| Financing expenses (net) | 3.1 | 2.0 | -35 | (0.9) | -145 |
| **Profit before tax** | **228.3** | **255.6** | **+12** | **277.6** | **+9** |

The significant exchange rates used in the constant currency analysis, being the budget exchange rates for the year ended 31 March 2019, are USD 0.72, EUR 0.59, AUD 0.93, GBP 0.52, CAD 0.94, JPY 77 and MXN 13.60.

### CONSTANT CURRENCY ANALYSIS

A Constant Currency Income Statement is prepared each month to enable the Board and management to monitor and assess the Group's underlying comparative financial performance without any distortion from changes in foreign exchange rates. Constant Currency Income statements are presented in New Zealand dollars, restated at the budget foreign exchange rates for the 2019 financial year. These income statements exclude the impact of movements in foreign exchange rates, hedging results and balance sheet translations.

This constant currency analysis is non–conforming financial information, as defined by the NZ Financial Markets Authority, and has been provided to assist users of financial information to better understand and assess the Group's financial performance without the impacts of spot foreign currency fluctuations and hedging results and has been prepared on a consistent basis each year.

The Group's constant currency income statement framework can be found on the company's website at www.fphcare.com/ccis.

### RECONCILIATION OF CONSTANT CURRENCY TO ACTUAL INCOME STATEMENTS

| Year ended 31 March | 2017 NZ$M | 2018 NZ$M | 2019 NZ$M |
|---|---|---|---|
| **Profit before tax (constant currency)** | **228.3** | **255.6** | **277.6** |
| Spot exchange rate effect | (9.3) | (3.2) | 14.3 |
| Foreign exchange hedging result | 22.1 | 14.7 | (1.9) |
| Balance sheet revaluation | (2.7) | 0.7 | 1.2 |
| **Profit before tax (as reported)** | **238.4** | **267.8** | **291.2** |

The reconciliation above illustrates that, when comparing the NZD profit before tax shown in the actual income statement for the 2019 year with the corresponding prior year:

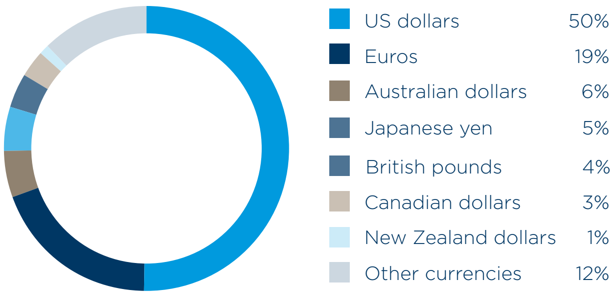
- the movement in average daily spot exchange rates had a favourable impact of $17.5 million; and
- the result of foreign exchange hedging activities was lower by $16.6 million.

Overall, the net favourable effect of movements in exchange rates and the hedging programme was $1.4 million, including the impact of balance sheet revaluations.

FINANCIAL COMMENTARY CONTINUED

## FOREIGN CURRENCY IMPACTS

The Group is exposed to movements in foreign exchange rates, with operating revenue generated in a wide range of currencies as shown below.




The Group's cost base continued to be more diverse with over 55% of cost of goods sold and over 55% of operating expenses in currencies other than NZD.

The NZD weakened against all major currencies compared to the previous year. The USD conversion rate remained similar to the prior comparable period, with a slight increase in EUR average conversion exchange rate. While foreign exchange hedging contributed a loss of $1.9 million (2018: $14.7 million gain) to operating profit, new hedging in USD and EUR is expected to realise benefits in future periods.

The average daily spot rate and the average conversion exchange rate (i.e. the accounting rate, incorporating the benefit of forward exchange contracts in respect of the relevant financial year) of the main foreign currency exposures for the reported periods are set out in the table below.

| | Average daily spot rate | | Average conversion exchange rate | |
|---|---|---|---|---|
| Year ended 31 March | 2018 | 2019 | 2018 | 2019 |
| USD | 0.7148 | 0.6811 | 0.6823 | 0.6804 |
| EUR | 0.6115 | 0.5883 | 0.5999 | 0.6039 |

The effect of balance sheet translations for the year resulted in an increase in operating revenue of $2.4 million (2018: $1.8 million) and an increase in profit before tax of $1.2 million (2018: $0.7 million).

### Foreign exchange hedging position

During the year, downwards volatility allowed opportunities to add cover for future years although widening interest rate differentials favouring USD made longer dated NZD/USD hedging more difficult. In particular, USD cover for 2020 to 2022 and EUR cover for 2021 to 2027. These hedges are expected to lead to currency benefits particularly in relation to EUR hedges added. The hedging position for our main currency exposures as at 24 May 2019 is:

| Year to 31 March | 2020 | 2021 | 2022 | 2023 | 2024 | 2025–27 |
|---|---|---|---|---|---|---|
| USD % cover of expected exposure | 85% | 60% | 15% | 0% | 0% | 0% |
| USD average rate of cover | 0.668 | 0.656 | 0.663 | – | – | – |
| EUR % cover of expected exposure | 85% | 60% | 45% | 35% | 20% | 5% |
| EUR average rate of cover | 0.575 | 0.545 | 0.525 | 0.509 | 0.502 | 0.473 |

Hedging cover has been rounded to the nearest 5%.

## BALANCE SHEET

| | 2018 NZ$M | 2019 NZ$M | Change NZ$M |
|---|---|---|---|
| Trade receivables | 127.8 | 136.0 | 8.2 |
| Inventory | 125.4 | 136.1 | 10.7 |
| Less Trade and other payables ++ | (69.4) | (87.6) | (18.2) |
| **Working capital** | **183.8** | **184.5** | **0.7** |
| Property, plant and equipment | 476.4 | 601.4 | 125.0 |
| Intangible assets | 50.4 | 61.5 | 11.1 |
| Other net assets | 0.9 | 11.4 | 10.5 |
| Net debt | 49.9 | 54.4 | 4.5 |
| **Net assets** | **761.4** | **913.2** | **151.8** |

++ Trade and other payables exclude all non current payables and all employee entitlements and provisions

Our balance sheet remains strong with working capital well managed.

Trade receivables and inventories increased largely in line with our business growth. Our debtors days were within the normal range being 46 days (2018: 45 days). Trade and other payables includes an increase in capital building projects accruals.

The increase in property plant and equipment includes capital investment of $125 million of which $83 million related to building additions, primarily our NZ and Mexico new building projects. The increase included a $34 million revaluation of land in New Zealand and Mexico. These increases were offset by $34 million of depreciation.

## FINANCIAL COMMENTARY CONTINUED

Intangible assets increased by $11 million including patent acquisition costs and ERP implementation costs. The global SAP rollout will continue over the next two to three years, with the US office implementation expected in June 2019.

Other net asset increases include an increase in net derivative instrument assets, largely reflecting continued favourable Euro currency positions.

### Funding and Short-term Investments

| | 2018 NZ$M | 2019 NZ$M | Change NZ$M |
|---|---|---|---|
| Loans and borrowings | | | |
| – Current | (13.7) | – | 13.7 |
| – Non Current | (52.5) | (69.0) | (16.5) |
| Bank overdrafts | (16.2) | (17.3) | (1.1) |
| **Total interest-bearing liabilities** | **(82.4)** | **(86.3)** | **(3.9)** |
| Cash and cash equivalents | 31.9 | 48.2 | 16.3 |
| Short-term investments | 100.4 | 92.5 | (7.9) |
| **Total cash and investments** | **132.3** | **140.7** | **8.4** |
| **Net debt** | **49.9** | **54.4** | **4.5** |
| Gearing | -7.3% | -6.7% | 0.6% |
| Undrawn debt facilities | 165.3 | 164.1 | (1.2) |

The average maturity of loans and borrowings of $69 million was 2.5 years and the currency split was 85% USD; 4% Euros; 4% Australian dollars and 7% Canadian dollars (with no NZD denominated debt). Interest-bearing debt increased by approximately $4.5 million including the impact of currency revaluations, and our ongoing building programme in Mexico.

We hold cash balances and short-term investments, mainly in NZD, of $140.7 million at the end of the period. This balance, and operating cash generated in 2020, will fund the payment of the final dividend and ongoing payments for our new building in Auckland.

### Gearing[1]

At 31 March 2019 the group had net cash of $54.4 million and gearing of -6.7%. Gearing is below the target range of -5% to +5% however is forecast to be within the target range by 31 March 2020 following the completion of the significant building programme in New Zealand and Mexico.

## CASH FLOWS

The full statement of cash flows is provided on page 42.

| Year ended 31 March | 2018 NZ$M | 2019 NZ$M | Change NZ$M |
|---|---|---|---|
| Operating profit before financing costs | 269.8 | 292.6 | 22.8 |
| Plus depreciation and amortisation | 44.6 | 41.7 | (2.9) |
| Change in working capital and other | 4.2 | 1.7 | (2.5) |
| Net interest paid | (1.7) | (1.1) | 0.6 |
| Net income tax paid | (69.1) | (81.6) | (12.5) |
| **Operating cash flows** | **247.8** | **253.3** | **5.5** |
| Purchase of land and buildings | (41.4) | (74.0) | (32.6) |
| Purchase of plant and equipment | (41.8) | (41.4) | 0.4 |
| Purchase of intangible assets | (15.5) | (17.9) | (2.4) |
| **Free cash flows** | **149.1** | **120.0** | **(29.1)** |
| Dividends paid | (102.5) | (114.6) | (12.1) |

### Operating cash flows

Cash flows from operations for the year increased 2% to $253.3 million. Excluding tax paid, cash flows from operations increased by 6%. Tax paid is higher than the prior year largely due to changes in the calculation and timing of New Zealand provisional tax payments providing a cash flow benefit in the prior year.

### Capital expenditure

Property, plant and equipment purchases for the period were $115 million, an increase from $83 million in the prior year. The $115 million of purchases in 2019 primarily related to building projects in New Zealand and Mexico, totaling $74 million with the remaining expenditure being production tooling and equipment costs.

### Dividends

Dividends paid of $115 million were 12% higher than the prior year. 10% of eligible shareholders took up dividends in the form of fully paid ordinary shares under the dividend reinvestment plan. This plan has been suspended for the final 2019 dividend payment.

[1] Net interest-bearing debt (debt less cash and cash equivalents and short-term investments) to net interest-bearing debt and equity (less hedging reserves).

# FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2019

| | Notes | 2018 NZ$M | 2019 NZ$M |
|---|---|---|---|
| Operating revenue | 4 | 980.8 | 1,070.4 |
| Cost of sales | | (330.4) | (354.6) |
| **Gross profit** | | **650.4** | **715.8** |
| Other income | 5 | 5.0 | 5.0 |
| Selling, general and administrative expenses | | (290.9) | (327.8) |
| Research and development expenses | | (94.7) | (100.4) |
| **Total operating expenses** | | **(385.6)** | **(428.2)** |
| Operating profit before financing costs | | 269.8 | 292.6 |
| Financing income | | 1.6 | 3.3 |
| Financing expense | | (3.7) | (2.5) |
| Exchange gain (loss) on foreign currency borrowings | | 0.1 | (2.2) |
| **Net financing expense** | | **(2.0)** | (1.4) |
| Profit before tax | 5 | **267.8** | **291.2** |
| Tax expense | 11 | (77.6) | (82.0) |
| **Profit after tax** | | **190.2** | **209.2** |
| Basic earnings per share | 16 | 33.4 cps | 36.5 cps |
| Diluted earnings per share | 16 | 33.0 cps | 36.2 cps |

The accompanying Notes form an integral part of the Financial Statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

| | Notes | 2018 NZ$M | 2019 NZ$M |
|---|---|---|---|
| **Profit after tax** | | **190.2** | **209.2** |
| **Other comprehensive income** | | | |
| *Items that may be reclassified to profit or loss* | | | |
| **Foreign currency translation reserve** | | | |
| Exchange differences on translation of foreign operations | | – | 0.2 |
| **Hedging reserves** | | | |
| Changes in fair value in hedging reserves | | 22.7 | 29.3 |
| Transfers to profit before tax | | (17.6) | (10.0) |
| Tax on changes in fair value and transfers to profit before tax | 11 | (1.4) | (5.4) |
| *Items that will not be reclassified to profit or loss* | | | |
| **Revaluation of land** | 9 | – | 34.1 |
| **Other comprehensive income, net of tax** | | **3.7** | **48.2** |
| **Total comprehensive income** | | **193.9** | **257.4** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

| | Notes | Share capital NZ$M | Treasury shares NZ$M | Retained earnings NZ$M | Reserves NZ$M | Total equity NZ$M |
|---|---|---|---|---|---|---|
| **Balance at 31 March 2017** | | **183.5** | **(1.7)** | **391.0** | **88.8** | **661.6** |
| **Total comprehensive income** | | **–** | **–** | **190.2** | **3.7** | **193.9** |
| Dividends paid | 17 | – | – | (113.9) | – | (113.9) |
| Issue of share capital under dividend reinvestment plan | 15 | 11.4 | – | – | – | 11.4 |
| Issue of share capital | 15 | 0.5 | – | – | – | 0.5 |
| Movement in share based payments reserve | 17 | – | – | – | 3.2 | 3.2 |
| Movement in treasury shares | 15 | – | (1.3) | – | – | (1.3) |
| Increase in share capital under share based payment schemes for employee services | 15 | 6.0 | – | – | – | 6.0 |
| **Balance at 31 March 2018** | | **201.4** | **(3.0)** | **467.3** | **95.7** | **761.4** |
| **Total comprehensive income** | | **–** | **–** | **209.2** | **48.2** | **257.4** |
| Dividends paid | 17 | – | – | (127.3) | – | (127.3) |
| Issue of share capital under dividend reinvestment plan | 15 | 12.7 | – | – | – | 12.7 |
| Issue of share capital | 15 | 0.4 | – | – | – | 0.4 |
| Movement in share based payments reserve | 17 | – | – | – | 0.9 | 0.9 |
| Movement in treasury shares | 15 | – | 1.2 | – | – | 1.2 |
| Increase in share capital under share based payment schemes for employee services | 15 | 6.5 | – | – | – | 6.5 |
| **Balance at 31 March 2019** | | **221.0** | **(1.8)** | **549.2** | **144.8** | **913.2** |

The accompanying Notes form an integral part of the Financial Statements.

# CONSOLIDATED BALANCE SHEET

As at 31 March 2019

| | Notes | 2018 NZ$M | 2019 NZ$M |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 31.9 | 48.2 |
| Short-term investments | | 100.4 | 92.5 |
| Trade and other receivables | 7 | 146.0 | 157.9 |
| Inventories | 8 | 125.4 | 136.1 |
| Derivative financial instruments | 6 | 18.8 | 19.2 |
| Tax receivable | | 1.7 | 1.4 |
| **Total current assets** | | **424.2** | **455.3** |
| **Non-current assets** | | | |
| Derivative financial instruments | 6 | 36.9 | 47.0 |
| Other receivables | | 2.5 | 2.6 |
| Property, plant and equipment | 9 | 476.4 | 601.4 |
| Intangible assets | 10 | 50.4 | 61.5 |
| Deferred tax assets | 11 | 34.7 | 38.9 |
| **Total assets** | | **1,025.1** | **1,206.7** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Interest-bearing liabilities | 12 | 29.9 | 17.3 |
| Trade and other payables | 13 | 112.8 | 135.0 |
| Provisions | 14 | 4.7 | 4.9 |
| Tax payable | | 22.0 | 24.4 |
| Derivative financial instruments | 6 | 9.0 | 2.8 |
| **Total current liabilities** | | **178.4** | **184.4** |
| **Non-current liabilities** | | | |
| Interest-bearing liabilities | 12 | 52.5 | 69.0 |
| Provisions | 14 | 2.1 | 2.2 |
| Other payables | 13 | 8.6 | 12.7 |
| Derivative financial instruments | 6 | 4.9 | 1.9 |
| Deferred tax liabilities | 11 | 17.2 | 23.3 |
| **Total liabilities** | | **263.7** | **293.5** |

| | Notes | 2018 NZ$M | 2019 NZ$M |
|---|---|---|---|
| **EQUITY** | | | |
| Share capital | 15 | 201.4 | 221.0 |
| Treasury shares | 15 | (3.0) | (1.8) |
| Retained earnings | | 467.3 | 549.2 |
| Reserves | 17 | 95.7 | 144.8 |
| **Total equity** | | **761.4** | **913.2** |
| **Total liabilities and equity** | | **1,025.1** | **1,206.7** |

The accompanying Notes form an integral part of the Financial Statements.

On behalf of the Board
24 May 2019

**Tony Carter**
Chairman

**Lewis Gradon**
Managing Director and
Chief Executive Officer

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers | 968.6 | 1,058.1 |
| Grants received | 5.0 | 4.8 |
| Interest received | 1.0 | 3.5 |
| Payments to suppliers and employees | (654.9) | (726.9) |
| Tax paid | (69.1) | (81.6) |
| Interest paid | (2.8) | (4.6) |
| **Net cash flows from operating activities** | **247.8** | 253.3 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Net short-term investments | (100.0) | 7.5 |
| Sales of property, plant and equipment | 0.2 | 0.1 |
| Purchases of property, plant and equipment | (83.2) | (115.4) |
| Purchases of intangible assets | (15.5) | (17.9) |
| **Net cash flows from investing activities** | **(198.5)** | (125.7) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Employee share purchase schemes | 0.9 | 1.8 |
| Issue of share capital | 0.9 | 0.3 |
| New borrowings | 31.4 | 40.1 |
| Repayment of borrowings | (9.8) | (40.7) |
| Dividends paid | (102.5) | (114.6) |
| **Net cash flows from financing activities** | **(79.1)** | (113.1) |
| Net (decrease) increase in cash | (29.8) | 14.5 |
| Opening cash | 45.6 | 15.8 |
| Effect of foreign exchange rates | – | 0.6 |
| **Closing cash** | **15.8** | 30.9 |
| **RECONCILIATION OF CLOSING CASH** | | |
| Cash and cash equivalents | 31.9 | 48.2 |
| Bank overdrafts | (16.1) | (17.3) |
| **Closing cash** | **15.8** | 30.9 |

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| **CASH FLOW RECONCILIATION** | | |
| **Profit after tax** | **190.2** | **209.2** |
| Add (deduct) non-cash items: | | |
| Depreciation and amortisation | 44.6 | 41.7 |
| Share based payments | 4.9 | 5.5 |
| Movement in provisions | 1.6 | 0.3 |
| Movement in deferred tax assets / liabilities | 0.5 | (3.3) |
| Foreign currency translation | (0.8) | 2.5 |
| Other non-cash items | (0.1) | (1.3) |
| | 50.7 | 45.4 |
| Net working capital movements: | | |
| Trade and other receivables | (16.4) | (11.8) |
| Inventories | 9.6 | (10.7) |
| Trade and other payables | 6.6 | 17.4 |
| Taxation | 7.1 | 3.8 |
| | 6.9 | (1.3) |
| **Net cash flows from operating activities** | **247.8** | **253.3** |

The accompanying Notes form an integral part of the Financial Statements.

# Notes to the Financial Statements

## CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

## 1. REPORTING ENTITY

Fisher & Paykel Healthcare Corporation Limited (the "Company" or "Parent") together with its subsidiaries (the "Group") is a leading designer, manufacturer and marketer of medical device products and systems for use in both hospital and homecare settings. Products are sold in over 120 countries worldwide. The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 15 Maurice Paykel Place, East Tamaki, Auckland. These consolidated financial statements were approved for issue by the Board of Directors on 24 May 2019.

## 2. BASIS OF PREPARATION AND PRINCIPLES OF CONSOLIDATION

### Statement of compliance and measurement base

The Company is registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The Company is also listed on the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX). The consolidated financial statements have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013.

These consolidated financial statements for the year ended 31 March 2019 have been prepared in accordance with New Zealand Generally Accepted Accounting Principles (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS). The Group is a for-profit entity for the purposes of complying with NZ GAAP.

These consolidated financial statements are presented in New Zealand dollars (NZD) to the nearest million (to one decimal place) unless otherwise stated.

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at balance date and the results of all subsidiaries for the year then ended. All subsidiaries are 100% owned within the Group.

Intercompany transactions, balances and unrealised gains on transactions between subsidiary companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### Significant accounting policies

Accounting policies are disclosed in each of the applicable notes to the financial statements and are designated with an AP symbol.

### Historical cost convention

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss and/or other comprehensive income, and the revaluation of land.

### Foreign currency

*Functional and presentation currency*

The consolidated financial statements are presented in NZD, which is the Group's presentation currency. Items included in the financial statements of each of the subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The Group operates as one integrated business, and the functional currency of all material global operations is New Zealand dollars, with the exception of the Fisher & Paykel Healthcare Mexico Properties S.A. de C.V ("Mexico Properties") which was established for the purpose of holding the Group's property in Mexico. Upon completion of the Mexico Properties capital project it was determined that the functional currency is United States dollars (USD). The results and financial position of entities that have a different functional currency are translated to NZD as follows: assets and liabilities are translated at the exchange rate at balance date and Income Statement items are translated at the average exchange rates for the year. Exchange differences are recognised in other comprehensive income as a currency translation reserve movement.

*Transactions and balances*

Foreign currency transactions are translated into the relevant functional currency at the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

### Critical accounting estimates and judgements

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The Directors regularly review all accounting policies and areas of judgement in presenting the financial statements. Significant estimates are disclosed in each of the applicable notes to the financial statements and are designated with an E symbol.

# NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

## 3. SIGNIFICANT TRANSACTIONS AND EVENTS IN THE FINANCIAL YEAR
The following significant transactions and events affected the financial performance and financial position of the Group for the year ended 31 March 2019:

### Global patent infringement litigation settlement
In February 2019, Fisher & Paykel Healthcare reached an agreement with ResMed to settle all outstanding patent infringement disputes between the companies in all venues around the world.

Under the agreement, all ongoing infringement proceedings against named products were dismissed. The settlement involved no payment by either party. During the year, the Group incurred net intellectual property litigation expenses of $23.4 million (2018: $15.6 million). Further details are included in Note 19.

### Capital expenditure
During the year, the building of the Group's new production facility in Tijuana, Mexico was completed. Production at the facility is expected to begin in FY20. To date, spending on the land and building project totals $58.1 million (2018: $10.3 million), excluding furniture and fittings.

During the year, construction work has progressed for a fourth building on our Auckland, New Zealand campus. Capital commitments at 31 March 2019 include $69.9 million related to this project (2018: $126.4 million). To date, spending on this project totals $69.2 million (2018: $10.3 million). The building is expected to be operational in 2020.

## 4. OPERATING REVENUE AND SEGMENTAL INFORMATION

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| Sales revenue | 964.5 | 1,072.1 |
| Foreign exchange gain (loss) on hedged sales | 16.3 | (1.7) |
| **Total operating revenue** | **980.8** | **1,070.4** |
| **Revenue by Product Group** | | |
| Hospital products | 572.1 | 642.3 |
| Homecare products | 398.1 | 421.4 |
| | 970.2 | 1,063.7 |
| Distributed and other products | 10.6 | 6.7 |
| **Total operating revenue** | **980.8** | **1,070.4** |
| **Revenue after hedging by geographical location of customer:** | | |
| North America | 458.5 | 501.5 |
| Europe | 297.6 | 314.6 |
| Asia Pacific | 181.0 | 208.1 |
| Other | 43.7 | 46.2 |
| **Total operating revenue** | **980.8** | **1,070.4** |

AP

Revenue is recognised at the point in time performance obligations are satisfied by transferring control of goods to the customer at the transaction price specified in the contract. Control typically transfers to the customer at the same time as the legal title passes to the customer, typically on delivery. The transaction price includes all amounts which the Group expects to be entitled to net of sales taxes and other indirect taxes, expected rebates and discounts. Where applicable, rebates and/or discounts are included within the consideration using an estimation typically based on the most likely method, and are only recognised to the extent that it is highly probable that a significant reversal will not occur.

There are no significant financing components in the Group's revenue arrangements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

## 4. OPERATING REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

### Segment reporting

The Group operates predominantly in one segment - being the design, manufacture, marketing and sale of medical devices and systems globally. These products and systems are for use in respiratory care, acute care, surgery and the treatment of OSA in the home and within the hospital. Resource allocation decisions are made to optimise the consolidated Group's financial operating profit.

During the year management has reassessed the determination of operating segments. This determination is made to be consistent with the internal reporting provided to the chief operating decision-maker (CODM), being a group comprising the Board of Directors (which includes the Chief Executive Officer), Vice-President – Products and Technology, Senior Vice-President - Sales and Marketing and the Chief Financial Officer.

Revenue is disclosed by the following regions:

**North America** – United States of America and Canada.

**Europe** – United Kingdom, France, Germany, Sweden, Turkey, Russia and neighbouring European countries.

**Asia-Pacific** – Australia, Japan, India, China, South Korea, Taiwan and Hong Kong.

**Other** – New Zealand, Latin America, Africa, the Middle East and other countries not included in the above list.

Non current asset disclosures by geographical location are included in Note 9.

## 5. OPERATING PROFIT

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| **Profit before tax is after charging the following specific expenses:** | | |
| Auditors' fees: | | |
| Statutory audit and half year review (a) | 1.0 | 0.9 |
| Other assurance and audit related services (b) | 0.1 | 0.1 |
| Total audit, other assurance services and audit related services | 1.1 | 1.0 |
| Other services (c) | 0.1 | 0.1 |
| **Total fees paid to auditors** | **1.2** | **1.1** |
| Donations | 0.2 | 0.1 |
| Inventory written off (net) | 6.3 | 3.5 |
| Rental and lease expense | 11.2 | 13.0 |
| Intellectual property litigation expense (net – refer Note 19) | 15.6 | 23.4 |

### Other fees paid to auditors

(a) Statutory audit and half year review includes $306,000 (2018: 291,000) paid to PwC Network firms in the United Kingdom, France Germany, Sweden, Hong Kong, China and Mexico.

(b) Other assurance and audit related services of $50,100 (2018: $60,000) include assurance procedures in relation to compliance with the constant currency framework and assessment of eligible expenditure for the purposes of the research and development grant and scrutineering the counting of votes at the Annual Shareholders' Meeting (ASM).

(c) Other services in 2019 include treasury risk management advice, remuneration benchmarking as well as tax compliance. In 2018, other services included these items as well as accounting standards advice and risk management advice.

| | 2018 | 2019 |
|---|---|---|
| **Profit before tax is after crediting the following specific income:** | | |
| Research and development growth grant | 5.0 | 5.0 |

AP

Government Grants are recognised in the Income Statement over the same period that the related costs are expensed. Government Grants are recognised when there is reasonable assurance the Group will comply with the conditions attaching to the grants.

### Research and development growth grant

The Callaghan Growth Grant provides reimbursement for eligible research and development 'R&D' expenditure up to a maximum of $5.0 million per annum (excluding GST). The initial three year term of the Callaghan Growth Grant concluded on 30 September 2016 and was extended to 30 September 2018. The Group has been granted a further extension to 31 March 2021.

## NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

### 6. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2018 | | 2019 | |
|---|---|---|---|---|
| | Assets NZ$M | Liabilities NZ$M | Assets NZ$M | Liabilities NZ$M |
| **CURRENT** | | | | |
| Foreign currency forward exchange contracts – cash flow hedges | 14.4 | 8.6 | 14.7 | 2.6 |
| Foreign currency forward exchange contracts – not hedge accounted | | | 0.2 | – |
| Foreign currency option contracts – cash flow hedges | 4.0 | 0.2 | 3.8 | – |
| Foreign currency option contracts – time value | 0.1 | 0.1 | 0.3 | – |
| Interest rate swaps – cash flow hedges | 0.1 | 0.1 | 0.1 | 0.2 |
| Interest rate options – cash flow hedges | 0.2 | – | 0.1 | – |
| | **18.8** | **9.0** | **19.2** | **2.8** |
| **NON-CURRENT** | | | | |
| Foreign currency forward exchange contracts – cash flow hedges | 27.0 | 4.7 | 43.0 | 1.6 |
| Foreign currency option contracts – cash flow hedges | 8.4 | – | 3.1 | – |
| Foreign currency option contracts – time value | 0.6 | – | 0.5 | – |
| Interest rate swaps – cash flow hedges | 0.6 | 0.2 | 0.3 | 0.3 |
| Interest rate options – cash flow hedges | 0.3 | – | 0.1 | – |
| | **36.9** | **4.9** | **47.0** | **1.9** |

AP

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group generally applies hedge accounting to all derivative financial instruments.

The Group designates certain derivatives as either (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges) or (2) hedges of highly probable forecast transactions (cash flow hedges). At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions.

The Group also documents their assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items. Any ineffective portion is recognised immediately in the Income Statement. Derivatives that are designated as hedges will be classified as non-current if they have maturities greater than 12 months after the balance sheet date.

Some components of hedge accounted derivatives are excluded from the designated risk. Cash flow hedges include only the intrinsic value of options. Time value on options is excluded from the hedge designation and is marked to market through Other Comprehensive Income and accumulated within a separate component of equity ('the Costs of Hedging Reserve' within 'Hedging Reserves') until such time as the related hedge accounted cash flows affect profit or loss. At this stage the cumulative amount is reclassified to profit or loss.

#### Master netting arrangements
The Group enters into derivative transactions under the International Swaps and Derivatives Associate (ISDA) master agreements. The ISDA agreements do not meet the criteria for offsetting derivatives in the balance sheet. Netting arrangements are only enforceable upon early termination, for example, on occurrence of a credit default.

Refer to Note 21 for information on the calculation of fair values and maturity of undiscounted cash flows for these financial instruments.

# NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

## 6. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Contractual amounts of derivative financial instruments were as follows:

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| **Foreign currency forward contracts and options** | | |
| Sale commitments forward exchange contracts | 879.3 | 982.1 |
| Purchase commitments forward exchange contracts | 60.7 | 63.1 |
| Foreign currency borrowing forward exchange contracts | 8.5 | 23.5 |
| NZD call option contracts purchased | – | 7.7 |
| Collar option contracts – NZD call options purchased (i) | 113.7 | 86.3 |
| Collar option contracts – NZD put options sold (i) | 125.5 | 94.6 |
| **Interest rate derivatives** | | |
| Interest rate swaps | 42.1 | 50.2 |
| Interest rate options | 20.7 | 22.0 |

(i) Foreign currency contractual amounts of put and call options are equal.

Undiscounted foreign currency contractual amounts for outstanding hedges were as follows:

| | Foreign Currency | |
|---|---|---|
| | 2018 M | 2019 M |
| **Sale commitments** | | |
| United States dollars | US$294.5 | US$302.8 |
| European Union euros | €210.7 | €241.5 |
| Australian dollars | A$19.6 | A$16.5 |
| British pounds | £21.5 | £19.4 |
| Canadian dollars | C$21.0 | C$26.6 |
| Japanese yen | ¥3,670.0 | ¥4,925.0 |
| Chinese yuan | ¥82.5 | ¥88.0 |
| Korean won | ₩8,553.7 | ₩7719.1 |
| Swedish kronor | kr38.3 | kr23.3 |
| Danish krone | kr4.5 | kr3.5 |
| **Purchase commitments** | | |
| Mexican pesos | MXN$855.5 | MXN$941.0 |

## NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

### 7. TRADE AND OTHER RECEIVABLES

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| **CURRENT** | | |
| Trade receivables | 128.3 | 136.4 |
| Loss allowance for doubtful trade receivables | (0.5) | (0.4) |
| | 127.8 | 136.0 |
| Other receivables | 18.2 | 21.9 |
| | **146.0** | **157.9** |

AP

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance for doubtful trade receivables. Bad debts are written off when they are considered to have become uncollectable.

#### Trade receivables credit risk
As at balance date 84% of trade receivables were current (2018: 86%) with less than 1% (2018: 1%) more than 90 days past due. The total loss allowance for doubtful trade receivables covers the majority of these more than 90 days past due balances.

#### Customer and receivable concentration

| | 2018 | 2019 |
|---|---|---|
| Five largest customers' proportion of the Group's: | | |
| Operating revenue | 17.5% | 18.0% |
| Trade receivables | 12.9% | 16.6% |

There is no history of default in relation to these customers. Further information about the credit quality and the Group's exposure to credit risk can be found in Note 21.

### 8. INVENTORIES

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| Materials | 32.6 | 38.8 |
| Finished products | 103.1 | 107.0 |
| Provision for obsolete inventories | (10.3) | (9.7) |
| | **125.4** | **136.1** |

AP

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the first-in, first-out (FIFO) method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

## NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

### 9. PROPERTY, PLANT AND EQUIPMENT
Reconciliation of carrying amounts at the beginning and end of the year

| | Land | Buildings | | Plant & equipment | Capital projects | | Total |
|---|---|---|---|---|---|---|---|
| | Fair Value NZ$M | Structure NZ$M | Fit out and other NZ$M | NZ$M | Buildings NZ$M | Other NZ$M | NZ$M |
| **Cost and revaluation** | | | | | | | |
| Balance at 31 March 2017 | 117.0 | 89.5 | 128.7 | 280.5 | 3.3 | 50.2 | 669.2 |
| Additions | 19.9 | – | 1.1 | 8.4 | 20.5 | 36.2 | 86.1 |
| Transfers | 1.2 | – | 1.9 | 30.8 | (1.0) | (32.9) | – |
| Disposals | – | – | – | (36.0) | – | – | (36.0) |
| Foreign exchange differences | 0.1 | – | – | – | – | – | 0.1 |
| **Balance at 31 March 2018** | **138.2** | **89.5** | **131.7** | **283.7** | **22.8** | **53.5** | **719.4** |
| Revaluation recognised in asset revaluation reserve | 34.1 | – | – | – | – | – | 34.1 |
| Additions | – | 0.3 | 1.1 | 13.9 | 82.9 | 26.9 | 125.1 |
| Transfers | 7.4 | 27.1 | 8.6 | 25.6 | (43.1) | (25.6) | – |
| Disposals | – | – | – | (4.4) | – | – | (4.4) |
| Foreign exchange differences | 0.3 | – | – | – | – | – | 0.3 |
| **Balance at 31 March 2019** | **180.0** | **116.9** | **141.4** | **318.8** | **62.6** | **54.8** | **874.5** |
| **Depreciation and impairment losses** | | | | | | | |
| Balance at 31 March 2017 | – | 16.3 | 58.3 | 169.4 | – | – | 244.0 |
| Depreciation charge for the year | – | 1.8 | 6.5 | 26.7 | – | – | 35.0 |
| Disposals | – | – | – | (36.0) | – | – | (36.0) |
| **Balance at 31 March 2018** | **–** | **18.1** | **64.8** | **160.1** | **–** | **–** | **243.0** |
| Depreciation charge for the year | – | 2.0 | 5.7 | 26.6 | – | – | 34.3 |
| Disposals | – | – | – | (4.2) | – | – | (4.2) |
| **Balance at 31 March 2019** | **–** | **20.1** | **70.5** | **182.5** | **–** | **–** | **273.1** |
| **Carrying amounts** | | | | | | | |
| At 31 March 2017 | 117.0 | 73.2 | 70.4 | 111.1 | 3.3 | 50.2 | 425.2 |
| At 31 March 2018 | 138.2 | 71.4 | 66.9 | 123.6 | 22.8 | 53.5 | 476.4 |
| **At 31 March 2019** | **180.0** | **96.8** | **70.9** | **136.3** | **62.6** | **54.8** | **601.4** |

Buildings additions in New Zealand and Mexico include capitalised finance costs of $2.2 million (2018: $0.7 million). The average effective interest rate used is between 2.8% and 5.4% (2018: 3% and 4.4%).

AP

Land is measured at fair value, based on periodic but at least triennial valuations by external independent valuers less any impairment losses recognised after the date of the revaluation. Valuations are performed with sufficient regularity to ensure that the fair value does not differ materially from its carrying amount.

All other property, plant and equipment is stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. This cost includes labour attributable to bringing the assets to the location and working condition for its intended use.

Depreciation is generally calculated using the straight line method and is expensed over the estimated useful lives. Depreciation methods, residual values and useful lives are reassessed at each reporting date. Estimated useful lives are as follows:

| | |
|---|---|
| Buildings – structure | 25 – 50 years |
| Buildings – fit-out and other | 3 – 50 years |
| Plant and equipment | 3 – 15 years |

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

#### Revaluations of land
Any revaluation increment is credited to the asset revaluation reserve included in equity, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in the Income Statement, in which case the increment is recognised in the Income Statement.

Any revaluation decrement is recognised in the Income Statement, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset. Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

## 9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

E

### Land revaluation

As described in Note 21 land in Mexico and New Zealand is considered to be a level 3 asset within the fair value hierarchy for valuation purposes. There are certain estimates associated with determining fair value, with the significant input being comparable land sales information per square metre ('psm') for similar properties adjusted to reflect relevant physical and locational characteristics. Valuation of land is performed in accordance with the provisions of NZ IAS 16 *Property, Plant and Equipment* and NZ IFRS 13 *Fair Value Measurement*.

*New Zealand*

The New Zealand land holding was valued by Jones Lang LaSalle (JLL NZ), with an effective date of 31 March 2019 in accordance with the Australia and New Zealand Property Institute Valuation Standards. The valuation of land ranged from $400 psm for land with improvements and $350 psm for development land.

*Mexico*

The Group has approximately 15 hectares of land in Tijuana. An independent valuation of the Mexico land was conducted by Jones Lang LaSalle (JLL Mexico) as at 31 March 2019 in accordance with the International Valuation Standards. The land has been valued at US$15.7 million (NZ$23.0 million) representing US$100 psm (NZ$143 psm).

### Carrying amounts of land if measured at historical cost

| | New Zealand | | Mexico | |
|---|---|---|---|---|
| | 2018 NZ$M | 2019 NZ$M | 2018 NZ$M | 2019 NZ$M |
| **At historical cost** | 63.5 | 70.9 | 21.2 | 21.2 |
| **At Fair Value** | 117.0 | 157.0 | 21.2 | 23.0 |

### Property, plant and equipment and intangible assets by geographical location:

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| New Zealand | 438.3 | 542.1 |
| Mexico | 76.9 | 108.7 |
| North America | 6.9 | 7.3 |
| Europe | 2.4 | 2.5 |
| Asia Pacific | 2.2 | 2.2 |
| Other | 0.1 | 0.1 |
| | **526.8** | **662.9** |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

## 10. INTANGIBLE ASSETS

| | Software | Patents, trademarks & applications | Other | ERP project in progress | Total |
|---|---|---|---|---|---|
| | NZ$M | NZ$M | NZ$M | NZ$M | NZ$M |
| **Cost** | | | | | |
| Balance at 31 March 2017 | 44.4 | 34.0 | 5.0 | 0.3 | 83.7 |
| Additions | 4.4 | 8.0 | – | 3.2 | 15.6 |
| Transfers | 0.3 | – | – | (0.3) | – |
| Disposals | (0.9) | – | – | – | (0.9) |
| **Balance at 31 March 2018** | **48.2** | **42.0** | **5.0** | **3.2** | **98.4** |
| Additions | 3.5 | 10.6 | – | 4.5 | 18.6 |
| Transfers | 2.7 | – | – | (2.7) | – |
| Disposals | (0.1) | (1.4) | – | – | (1.5) |
| **Balance at 31 March 2019** | **54.3** | **51.2** | **5.0** | **5.0** | **115.5** |
| **Amortisation and impairment losses** | | | | | |
| Balance at 31 March 2017 | 16.7 | 18.9 | 3.6 | – | 39.2 |
| Amortisation for the year | 3.6 | 6.0 | – | – | 9.6 |
| Disposals | (0.8) | – | – | – | (0.8) |
| **Balance at 31 March 2018** | **19.5** | **24.9** | **3.6** | **–** | **48.0** |
| Amortisation for the year | 3.9 | 3.5 | – | – | 7.4 |
| Disposals | – | (1.4) | – | – | (1.4) |
| **Balance at 31 March 2019** | **23.4** | **27.0** | **3.6** | **–** | **54.0** |
| **Carrying amounts** | | | | | |
| At 31 March 2017 | 27.7 | 15.1 | 1.4 | 0.3 | 44.5 |
| At 31 March 2018 | 28.7 | 17.1 | 1.4 | 3.2 | 50.4 |
| **At 31 March 2019** | **30.9** | **24.2** | **1.4** | **5.0** | **61.5** |

AP

**Software**: Acquired computer software licences are initially capitalised at cost, which includes the purchase price and other directly attributable cost of preparing the asset for its intended use including employee costs. Direct expenditure, which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured, is added to the original cost of the software. Software costs are amortised over the useful economic life of 3 to 15 years.

The ERP implementation project costs are transferred from ERP project in progress to Software, as each stage is completed.

**Patents and trademarks**: Patents and trademarks have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of patents and trademarks over their anticipated useful lives of 5 to 15 years. In the event of a patent being superseded or a trademark registration is not continued or renewed, the unamortised costs are expensed immediately.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

### 11. INCOME TAX

#### INCOME TAX EXPENSE

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| **Profit before tax** | **267.8** | **291.2** |
| Tax expense at the New Zealand rate of 28% | 75.0 | 81.5 |
| Adjustments to tax: | | |
| Non-assessable income | (0.4) | (0.3) |
| Non-deductible expenses | 1.7 | 2.4 |
| Foreign rates other than 28% | 1.1 | (0.2) |
| Effect of foreign currency translations | (0.1) | (0.8) |
| Prior period over provision | 0.3 | (0.6) |
| **Tax expense** | **77.6** | **82.0** |
| This is represented by: | | |
| Current tax | 77.1 | 85.2 |
| Deferred tax | 0.5 | (3.2) |
| **Tax expense** | **77.6** | **82.0** |
| Effective tax rate | 29.0% | 28.2% |

AP

Tax expense comprises current and deferred tax. Tax expense is recognised in the Income Statement except to the extent that it relates to items recognised outside of the Income Statement, in which case it is recognised in Other Comprehensive Income or directly in Equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance date. It also includes any adjustment to tax payable in respect of previous financial years.

Deferred tax arises due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for tax purposes.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by balance date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

| IMPUTATION CREDITS | 2018 M | 2019 M |
|---|---|---|
| New Zealand imputation credits available for use in subsequent reporting periods | NZ$92.5 | NZ$118.8 |
| Australian franking credits available for use in subsequent reporting periods | A$8.3 | A$9.1 |

#### DEFERRED TAX

| | Provisions and accruals | Property, plant and equipment and intangibles | Financial instruments | Other | Total |
|---|---|---|---|---|---|
| | NZ$M | NZ$M | NZ$M | NZ$M | NZ$M |
| Balance at 31 March 2017 | 42.3 | (16.9) | (8.9) | 1.0 | 17.5 |
| Amounts recognised in: | | | | | |
| Other comprehensive income | – | – | (1.4) | – | (1.4) |
| Directly in equity | – | – | – | 1.9 | 1.9 |
| In the Income Statement | 2.4 | (2.5) | (0.6) | 0.2 | (0.5) |
| **Balance at 31 March 2018** | **44.7** | **(19.4)** | **(10.9)** | **3.1** | **17.5** |
| Amounts recognised in: | | | | | |
| Other comprehensive income | – | – | (5.4) | – | (5.4) |
| Directly in equity | – | – | – | 0.3 | 0.3 |
| In the Income Statement | 6.1 | (3.6) | (0.3) | 1.0 | 3.2 |
| **Balance at 31 March 2019** | **50.8** | **(23.0)** | **(16.6)** | **4.4** | **15.6** |

Deferred tax assets and liabilities are offset within the Balance Sheet where they relate to income taxes levied by the same taxation authority.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

## 12. INTEREST-BEARING LIABILITIES

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| **CURRENT** | | |
| Bank overdrafts | 16.1 | 17.3 |
| Borrowings | 13.8 | – |
| | **29.9** | **17.3** |
| **NON-CURRENT** | | |
| Borrowings expiring | | |
| Between one and two years | – | 44.1 |
| Between two and three years | 52.5 | – |
| Between three and four years | – | – |
| Between four and five years | – | 24.9 |
| | **52.5** | **69.0** |

AP

Borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, borrowings are measured at amortised cost, applying the effective interest rate method. Financing expenses directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

### Borrowing Facilities

Borrowings have been aged in accordance with the expiry dates of the facilities as there are no required principal payments before the expiry of each facility. At year end the weighted average interest rate is 2.7% (2018: 2.4%).

Key lenders to the Group are Debt Certificate Holders under the Negative Pledge Deed. In April 2017, an amended Negative Pledge Deed was executed. The negative pledge includes the covenant that security can be given only in limited circumstances.

The companies in the Group providing the undertakings under the amended Negative Pledge Deed are:

Fisher & Paykel Healthcare Corporation Limited

Fisher & Paykel Healthcare Limited

Fisher & Paykel Healthcare Treasury Limited

Fisher & Paykel Healthcare Properties Limited

The principal covenants of the negative pledge are that:

(a) the interest cover ratio for the Group shall not be less than 3 times earnings before interest, tax, depreciation and amortisation (EBITDA);

(b) the net tangible assets of the Group shall not be less than $200 million; and

(c) the total tangible assets of the Guaranteeing Group shall constitute at least 80% of the total tangible assets of the Group.

Refer to Note 21 (d) for further information on these covenants.

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| **Unused lines of credit** | | |
| Bank overdraft facilities | 26.8 | 31.2 |
| Borrowing facilities | 138.5 | 145.0 |
| | **165.3** | **176.2** |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

## 13. TRADE AND OTHER PAYABLES

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| **CURRENT** | | |
| Trade payables | 32.7 | 55.1 |
| Employee entitlements | 43.4 | 47.4 |
| Other payables and accruals | 36.7 | 32.5 |
| | **112.8** | **135.0** |
| **NON-CURRENT** | | |
| Employee entitlements | 8.0 | 11.2 |
| Other payables and accruals | 0.6 | 1.5 |
| | **8.6** | **12.7** |

**AP**

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Refer to Note 18 for further details of employee entitlements and benefits.

## 14. PROVISIONS

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| **Warranty provision** | | |
| **CURRENT** | | |
| Balance at beginning of the year | 3.2 | 4.7 |
| Current year provision | 8.6 | 7.6 |
| Warranty expenses incurred | (7.1) | (7.4) |
| **Balance at end of the year** | **4.7** | **4.9** |
| **NON-CURRENT** | | |
| Balance at beginning of the year | 2.0 | 2.1 |
| Current year provision | 0.1 | 0.1 |
| Warranty expenses incurred | - | - |
| **Balance at end of the year** | **2.1** | **2.2** |

**AP**

Provisions are recognised where the Group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

**Warranty**

Provision for warranty covers the obligations for the unexpired warranty periods for products, based on recent historical costs incurred on warranty exposure. Currently typical warranty terms are 1 to 2 years for parts or parts and labour.

As the provision for warranty is based on historical warranty rates, the actual future warranty claims experienced by the Group may be different to that of the past. Factors that could impact the provision for warranty include the success of the Group's quality system, as well as future parts and labour costs. Where the Group is aware of specific product warranty issues these are included in the provision.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

## 15. SHARE CAPITAL

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| Share capital at beginning of the year | 183.5 | 201.4 |
| Issue of share capital under dividend reinvestment plan (i) | 11.4 | 12.7 |
| Issue of share capital | 0.5 | 0.4 |
| Increase in share capital under share based payment schemes for employee services | 6.0 | 6.5 |
| Share capital at end of the year | 201.4 | 221.0 |
| Less treasury shares (ii) | (3.0) | (1.8) |
| | **198.4** | **219.2** |

**Number of issued shares**

| | 2018 | 2019 |
|---|---|---|
| Number of shares on issue at beginning of the year | 567,686,436 | 571,230,264 |
| Shares issued: | | |
| Dividend reinvestment plan (i) | 946,443 | 918,827 |
| Employee share purchase schemes | 182,982 | 90,510 |
| Exercise of share options | 138,619 | 77,980 |
| Exercise of share options under cancellation facility | 1,727,514 | 954,488 |
| Exercise of performance share rights | 548,270 | 436,670 |
| Number of shares on issue at end of the year | 571,230,264 | 573,708,739 |
| Less treasury shares (ii) | (425,725) | (210,457) |
| | **570,804,539** | **573,498,282** |

AP

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction. Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

All shares are fully paid. All ordinary shares rank equally with one vote attached to each fully paid ordinary share.

(i) Shares were issued under the Company's dividend reinvestment plan at an average price of $13.87 (2018: $12.05) per share.

(ii) The treasury shares are those shares held and controlled by Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited.

## 16. EARNINGS PER SHARE

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| **Profit after tax** | **190.2** | **209.2** |
| Weighted average number of ordinary shares | 570,023,436 | 572,780,545 |
| Adjustment for share options, PSRs and ESRs | 6,426,201 | 5,270,055 |
| Weighted average number of ordinary shares for diluted earnings per share | 576,449,637 | 578,050,600 |
| Basic earnings per share (cents per share) | 33.4 cps | 36.5 cps |
| Diluted earnings per share (cents per share) | 33.0 cps | 36.2 cps |

AP

Basic earnings per share is calculated by dividing the profit after tax of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Options, Performance Share Rights (PSRs) and Employee Share Rights (ESRs) are convertible into the Company's shares, and are therefore considered dilutive securities for diluted earnings per share.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

### 17. RESERVES

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| Hedging reserves | 30.2 | 44.1 |
| Asset revaluation reserve | 53.5 | 87.6 |
| Employee share based payment reserves | 12.0 | 12.9 |
| Foreign currency translation reserve | – | 0.2 |
| **Total reserves** | **95.7** | **144.8** |

#### Nature and purpose of reserves

*Hedging reserves*

**Cash flow hedge reserve**: This reserve is used to record unrealised gains or losses on hedging instruments that are recognised directly in equity.

**Costs of hedging reserve**: This reserve contains the cumulative net change in the time value on currency options which are excluded from hedge designations of foreign currency risk.

Amounts are recycled to the Income Statement when the associated hedged transactions affect the Income Statement.

*Asset revaluation reserve*

The asset revaluation reserve relates to the revaluation of land. For details refer to Note 9.

*Share based payment reserves*

**Employee share option reserve**: This reserve is used to recognise the fair value of options, PSRs and ESRs granted but not exercised or lapsed. Tax deductions in excess of the cumulative share based payment expense are recognised in equity.

Amounts are transferred to share capital (including income tax benefits) when the vested options or performance share rights are exercised by the employee or lapse upon expiry.

**Employee share entitlement reserve**: This reserve is used to recognise the fair value of shares granted but not exercised or lapsed. Amounts are transferred to share capital when the shares are exercised or lapsed.

*Foreign currency translation reserve*

The foreign currency translation reserve contains foreign exchange differences arising on consolidation of assets and liabilities of overseas entities with a functional currency other than New Zealand dollars.

#### Dividends

All dividends are recognised as distributions to shareholders.

During the year, supplementary dividends of $13.6 million were paid to non resident shareholders (2018: $10.7 million), for which the Group received an equivalent foreign investor tax credit entitlement. The foreign investor tax credit entitlement is included in income taxes paid within the Statement of Cash Flows.

| | Cents per share | NZ$M |
|---|---|---|
| **Dividends** | | |
| 2017 final | 11.25 | 64.0 |
| 2018 interim | 8.75 | 49.9 |
| **31 March 2018** | **20.00** | **113.9** |
| 2018 final | 12.50 | 71.5 |
| 2019 interim | 9.75 | 55.8 |
| **31 March 2019** | **22.25** | **127.3** |

#### Subsequent event – dividend declared

On 24 May 2019 the directors approved the payment of a fully imputed 2019 final dividend of $77.5 million (13.50 cents per share) to be paid on 5 July 2019. A supplementary dividend of 2.3824 cents per share was also approved for eligible non-resident shareholders.

# NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

## 18. EMPLOYEE BENEFITS

| | 2018 | 2019 NZ$M |
|---|---|---|
| Wages and salaries | 302.7 | 337.8 |
| Other employment costs | 15.2 | 12.2 |
| Employer contributions to defined contribution superannuation plans inclusive of tax | 8.4 | 9.2 |
| Equity settled share based payment expense | 4.9 | 5.5 |
| Movement in liability for long service leave | 0.7 | 3.0 |
| | **331.9** | **367.7** |

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### Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave, are recognised within employee entitlements in respect of employees' services up to the reporting date, and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

### Equity settled share based payments
The fair value (at grant date) of PSRs, ESRs and options granted to employees is recognised as an employee expense in the Income Statement over the vesting period with a corresponding increase in the employee share based payment reserve. When options, PSRs or ESRs are exercised, the amount in the share based payment reserve relating to those options, together with the option exercise price paid by the employee, is transferred to share capital. When any vested options, PSRs or ESRs lapse, upon employee termination or unexercised options reaching maturity, the amount in the share based payment reserve relating to those options, PSRs or ESRs is also transferred to share capital.

### Long service leave
The liability for long service leave is recognised in employee entitlements in trade and other payables and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### a) Employee share based compensation
The Board believes that the issue of a combination of options and share rights broadly in equal value proportions provides appropriate incentive for participating employees to grow the total shareholder return of the Company. The combination of the option, PSR and ESR Plans assist the Group to attract, motivate and retain key employees in an environment where such employees are in high demand both within New Zealand and internationally. Options and share rights are issued to employees as a long-term component of remuneration in accordance with the Group's remuneration policy. Details of the option and share based payment arrangements are described below.

*(i) Employee option plans*

The Employee Share Option Plans allow employees to acquire shares of the Company. One option gives the employee the right to subscribe for one ordinary share in the Company subject to meeting the vesting conditions. No amount is payable for the grant of options.

Options vest at any time between the third and the fifth anniversary of the grant date, as long as the Company's share price on the NZX has, at any time on or after the third anniversary, exceeded the "escalated price" and as long as the employee remains in service. This "escalated price" is determined using a base price established on or around the grant date being the volume weighted average price for a share on the NZX for the 5 business days prior to the grant date; and

- increasing the last calculated base price each year by a percentage determined by the Board, based on independent advice, to represent the Company's cost of capital; and
- reducing the resulting figure by any dividend paid by the Company in respect of a share in the 12 month period immediately preceding that anniversary.

*(ii) Employee performance share rights plan*

The Employee Performance Share Rights (PSR) Plan allows employees to acquire shares of the Company. One share right gives the employee the potential to exercise a share right for an ordinary share in the Company at no cost. Share rights become exercisable if the Company's gross total shareholder return (TSR) performance exceeds the performance of the Dow Jones US Select Medical Equipment Total Return Index (DJSMDQT) in New Zealand dollars over the same period. If the Company's TSR performance exceeds that of the DJSMDQT at either of the third, fourth or fifth anniversary of the grant date of the PSRs, some or all of the PSRs become exercisable as long as the employee remains in service. Where an employee has exercised a portion of their PSRs before the fifth anniversary of the grant date, the remaining PSRs lapse at the time that portion has been exercised.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

## 18. EMPLOYEE BENEFITS (CONTINUED)

*(iii) Employee share rights plan*

The Employee Share Rights (ESR) Plan was introduced in 2019 and allows certain New Zealand and Australian employees to acquire shares of the Company. ESRs automatically vest on the third anniversary of their grant date at no cost to the employee as long as the employee remains in service, at which point the Company will issue or transfer to the employee one ordinary share for each vested ESR.

All unexercised PSRs and Options expire on the fifth anniversary of the grant date.

PSRs, ESRs and Options granted to employees have no voting rights until they have been exercised and ordinary shares issued.

*(iv) Other Employee share and stock purchase plans*

All New Zealand and Australian full time employees are eligible, after a qualifying period, to participate in the Employee Share Purchase Plans, with no interest being charged on the loans, and shares issued at a discount of 20% of market price. The qualifying period between grant and vesting date is 3 years, at which point the shares are transferred to the employees and become freely transferable. 210,457 shares (2018: 425,725) are held by the Trustees of the plans, being 0.0% (2018: 0.1%) of the Company's issued and paid up capital. At 31 March 2019 the total receivable owing from employees was $0.6 million (2018: $1.4 million).

North American employees working more than 20 hours per week, in accordance with section 423 of the US Internal Revenue Code, as amended are eligible to participate in an Employee Stock Purchase Plan. Shares under this Plan are issued at a discount of 15%, are allocated to employees at the time of issue and vest immediately. Shares issued under this plan in 2019 totalled 90,510 shares (2018: 40,409).

Movements in the number of Options, PSRs and ESRs outstanding and their exercise prices are as follows:

| | 2018 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Options | Performance Share Rights | Employee Share Rights | Options | Performance Share Rights | Employee Share Rights |
| **Number outstanding** | | | | | | |
| As at beginning of the year | 6,326,248 | 1,410,109 | – | 4,827,988 | 1,231,313 | – |
| Granted during the year | 1,119,685 | 408,183 | – | 670,303 | 216,937 | 126,377 |
| Exercised during the year | (2,527,553) | (548,270) | – | (1,569,457) | (436,670) | – |
| Lapsed during the year | (90,392) | (38,709) | – | (120,406) | (39,350) | (4,022) |
| **As at end of the year** | **4,827,988** | **1,231,313** | **–** | **3,808,428** | **972,230** | **122,355** |
| Exercisable at year end | 1,299,717 | 1,480 | – | 929,970 | – | – |
| Number of employees holding employee share options, PSRs and ESRs | 503 | 503 | – | 478 | 478 | 227 |
| Weighted average exercisable price | $8.16 | – | – | $10.46 | – | – |
| Weighted average contractual life (months) | 33 | 41 | – | 33 | 39 | 29 |
| Fair value of share options or rights granted during the year (NZ$M) | 3.0 | 3.2 | – | 2.3 | 2.2 | 1.8 |
| Fair value of share options or rights granted during the year ($ per share) | $2.72 | $7.72 | – | $3.39 | $10.16 | $14.38 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

## 18. EMPLOYEE BENEFITS (CONTINUED)

### Key inputs and assumptions

| | 2018 | 2019 |
|---|---|---|
| **Employee Option Plans** | | |
| Share price at grant date | $12.13 | $15.16 |
| Exercise price | $11.81 | $14.91 |
| Expected share price volatility | 27.00% | 27.00% |
| Dividend yield | 1.55% | 1.99% |
| Risk free interest rate | 2.47% | 2.55% |
| Cost of equity | 8.60% | 8.20% |
| **Performance Share Rights** | | |
| Share price at grant date | $12.13 | $15.16 |
| NZD/USD exchange rate of grant date | 0.7260 | 0.6560 |
| 5 year NZD risk free rate | 2.47% | 2.59% |
| 5 year USD risk free rate | 1.76% | 2.90% |
| Expected share price volatility | 27.00% | 27.00% |
| Expected NZD/USD volatility | 12.00% | 13.00% |
| Expected DJSMDQT index volatility | 14.00% | 13.00% |
| **Employee Share Rights** | | |
| Share price at grant date | – | $15.16 |
| Expected share price volatility | – | 27.00% |
| Dividend yield | – | 1.99% |
| Risk free interest rate | – | 2.55% |

The expected price volatility is derived by analysing the historical volatility over the most recent historical period corresponding to the term of the Option, PSR or ESR.

### b) Key management and director compensation

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| Short term benefits | 6.6 | 6.3 |
| Directors fees | 1.0 | 1.0 |
| Share based benefits | 1.1 | 1.2 |
| Employer contributions to defined contribution superannuation plans | 0.2 | 0.2 |
| | **8.9** | **8.7** |

Key management personnel includes the Chief Executive Officer and direct reports. The amounts of key management and director compensation outstanding as at balance date are $1.6 million (2018: $2.5 million).

The table excludes any dividends received on the Company's shares held by the Directors or key management personnel.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

## 19. CONTINGENT LIABILITIES

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Contingent liabilities are subject to uncertainty or cannot be reliably measured and are not provided for. Disclosures as to the nature of any contingent liabilities are set out below. Judgements and estimates are applied to determine the probability that an outflow of resources will be required to settle an obligation. These are made based on a review of the facts and circumstances surrounding the event and advice from both internal and external parties.

As previously disclosed, Fisher & Paykel Healthcare and ResMed were involved in patent litigation in a number of countries.

The dispute included patent infringement proceedings filed by ResMed in the United States District Court for the Southern District of California, the United States International Trade Commission ("US ITC"), the Regional Court in Munich, Germany and the High Court of New Zealand alleging that certain FPH products including its Simplus, Eson and Eson 2 range of masks and its ICON CPAP device infringe ResMed Patents. It also included patent infringement proceedings filed by FPH in the United States District Court for the Southern District of California, the US ITC, the Regional Court in Munich, Germany and the Federal Court of Australia, alleging that certain ResMed products including its AirSense flow generators, AirFit P10, Swift LT and Swift FX masks, and ClimateLine heated tubes infringe FPH Patents.

Each party responded that the patents asserted by the other were not infringed and were invalid.

As disclosed on 21 February 2019, FPH and ResMed reached a settlement on all outstanding patent infringement disputes between the companies in all venues around the world. The settlement involves no payment or admission of liability by either side and as a result of the settlement, there will be no further infringement proceedings by the parties against the above named ResMed and FPH products.

The parties continue to pursue various patent invalidity proceedings in Europe, the United States and New Zealand.

The Directors are unaware of any claim or other contingencies that would have a material impact on the operations of the Group.

## 20. COMMITMENTS

| | 2018 NZ$M | 2019 NZ$M |
|---|---|---|
| Capital expenditure commitments contracted for but not recognised as at the reporting date: | | |
| Within one year | 99.1 | 79.7 |
| Between one and two years | 50.3 | 1.2 |
| Between two and five years | 2.1 | – |
| | **151.5** | **80.9** |
| Gross commitments under non-cancellable operating leases: | | |
| Within one year | 8.8 | 9.4 |
| Between one and two years | 6.7 | 8.3 |
| Between two and five years | 7.2 | 8.3 |
| Over five years | – | 0.7 |
| | **22.7** | **26.7** |

### Leases

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Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight line basis over the period of the lease.

Operating lease commitments relate mainly to building leases. Certain building leases give a right to renew the lease which are not included in the lease commitments disclosure.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

## 21. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Board of Directors has approved policies and guidelines for the Group that identify and evaluate risks and authorise various financial instruments to manage financial risks. These policies and guidelines are reviewed regularly.

### a. Market risk

*(i) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro, Japanese yen and Mexican peso.

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The purpose of the Group's foreign currency risk management activities is to protect the Group from exchange rate volatility with respect to New Zealand dollar net cash movements resulting from the sale of products in foreign currencies to foreign customers, and the purchase of raw materials in foreign currencies from foreign and domestic suppliers. The Group enters into foreign currency option contracts and forward foreign currency contracts within policy parameters to manage the risk associated with anticipated sales or costs. The terms of the foreign currency option contracts and the forward foreign currency contracts generally do not exceed 5 years. However, with Board approval, the foreign currency option contracts and the forward foreign currency contracts may have terms of up to 10 years.

Foreign exchange contracts and options in relation to sales are designated at the Group level as hedges of foreign exchange risk on specific forecast foreign currency denominated sales.

Major capital expenditure in foreign currency may be hedged with forward exchange contracts and options and may be designated as hedges.

Balance sheet foreign exchange risk arising from net assets held by the Group may be hedged either by debt in the relevant currency, foreign currency swaps or by foreign currency option contracts and forward foreign currency contracts.

*(ii) Price risk*

The Group has no material exposure to price risk.

*(iii) Interest rate risk*

The Group's main interest rate risk arises from floating rate borrowings drawn under bank debt facilities. When deemed appropriate, the Group manages floating interest rate risk by using floating-to-fixed interest rate swaps and interest rate options. Interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Interest rate options give the right, but not the obligation, to enter into an interest rate swap at a fixed rate at a future date. Under the Group Treasury policy, the mix between economically fixed and floating debt is reviewed on a regular basis. Interest rate swaps and options are accounted for as cash flow hedges.

The carrying amounts of significant financial assets and liabilities are denominated in the following foreign currencies:

| | NZD NZ$M | USD NZ$M | EUR NZ$M | JPY NZ$M | AUD NZ$M | CAD NZ$M | GBP NZ$M | MXN NZ$M | Other NZ$M | Total NZ$M |
|---|---|---|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | | | | |
| Cash | 12.7 | 11.6 | 2.1 | 0.2 | – | 0.4 | – | 1.5 | 3.4 | 31.9 |
| Short-term investments | 100.4 | – | – | – | – | – | – | – | – | 100.4 |
| Trade receivables | 1.4 | 53.3 | 31.7 | 14.3 | 6.9 | 5.5 | 5.2 | – | 10.0 | 128.3 |
| Trade and other payables | (25.3) | (20.5) | (8.5) | (1.6) | (3.1) | (0.5) | (2.9) | (4.0) | (3.6) | (70.0) |
| Bank overdraft | – | (2.7) | (4.0) | (6.2) | (0.7) | (0.2) | (1.0) | – | (1.3) | (16.1) |
| Borrowings | – | (52.5) | (8.5) | – | (3.5) | (1.8) | – | – | – | (66.3) |
| | **89.2** | **(10.8)** | **12.8** | **6.7** | **(0.4)** | **3.4** | **1.3** | **(2.5)** | **8.5** | **108.2** |
| **2019** | | | | | | | | | | |
| Cash | 27.4 | 10.0 | 1.6 | 0.3 | – | 0.8 | – | 1.7 | 6.4 | 48.2 |
| Short-term investments | 92.5 | – | – | – | – | – | – | – | – | 92.5 |
| Trade receivables | 1.6 | 57.8 | 33.2 | 16.1 | 7.8 | 5.6 | 4.7 | – | 9.6 | 136.4 |
| Trade and other payables | (31.7) | (23.9) | (6.3) | (1.4) | (3.2) | (0.6) | (3.9) | (3.4) | (14.7) | (89.1) |
| Bank overdraft | – | (2.0) | (2.6) | (10.0) | (0.4) | – | (1.2) | – | (1.1) | (17.3) |
| Borrowings | (2.9) | (55.9) | (4.9) | – | (3.4) | (1.9) | – | – | – | (69.0) |
| | **86.9** | **(14.0)** | **21.0** | **5.0** | **0.8** | **3.9** | **(0.4)** | **(1.7)** | **0.2** | **101.7** |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

## 21. FINANCIAL RISK MANAGEMENT (CONTINUED)

*Summarised sensitivity analysis*

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk and foreign exchange risk.

A sensitivity of +/-10% for foreign exchange risk has been selected (2018: +/-10%). The Group's primary foreign currency exposure is the NZD versus the US dollar, with other currencies as discussed above forming the balance of the exposure. The Group believes that an overall sensitivity of +/-10% is reasonably possible given the exchange rate volatility observed on a historical basis for the preceding 5 year period with a higher weighting given to exchange rate volatility over the preceding year and the range of market expectations for potential future movements. A sensitivity of +/-1% has been selected for interest rate risk (2018: +/-1%). This sensitivity is based on reasonably possible changes over a financial year using the observed range of historical data for the preceding 5 year period.

All variables other than the applicable interest rates and exchange rates are held constant.

| | 2018 | | 2019 | |
|---|---|---|---|---|
| | NZ$M | NZ$M | NZ$M | NZ$M |
| | -1% | + 1% | -1% | + 1% |
| **Interest rate change** | | | | |
| Impact on net profit after tax | (0.6) | 0.6 | (0.7) | 0.7 |
| Impact on hedging reserves (within equity) | (1.9) | 2.0 | (1.7) | 1.7 |
| | **(2.5)** | **2.6** | **(2.4)** | **2.4** |
| | -10% | + 10% | -10% | + 10% |
| **Foreign exchange rate change** | | | | |
| Impact on net profit after tax | 0.8 | (0.7) | (0.9) | 0.7 |
| Impact on hedging reserves (within equity) | (63.3) | 52.7 | (70.1) | 60.3 |
| | **(62.5)** | **52.0** | **(71.0)** | **61.0** |

*Fair value estimation*

NZ IFRS 13 for financial assets and liabilities measured at fair value requires disclosure of the fair value measurements by level from the following fair value hierarchy:

- Level 1 – Quoted price (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – Inputs, other than quoted price included within level 1, that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3 – Inputs for assets and liabilities that are not based on observable market data (that is, unobservable inputs).

All the Group's financial instruments held at fair value have been measured at the fair value measurement hierarchy of level 2 (2018: level 2), as all significant inputs required to ascertain the fair value are observable.

The fair value of derivative instruments designated in a hedging relationship is determined using the following valuation techniques:

- Foreign currency forward exchange contracts have been fair valued using quoted forward exchange rates and discounted using yield curves from quoted interest rates that match the maturity dates of the contracts.
- Foreign currency option contracts have been fair valued using observable option volatilities, and quoted forward exchange and interest rates that match the maturity dates of the contracts.
- Interest rate swaps are fair valued by discounting the future interest and principal cash flows using current market interest rates that match the maturity dates of the contracts

These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates.

Refer to Note 9 for further information about land that is measured at fair value including a summary of the valuation techniques used.

All financial assets other than derivatives are classified as loans and receivables including short-term investments. All financial liabilities other than derivatives are classified as measured at amortised cost. Financial liabilities measured at amortised cost are fair valued using the contractual cash flows. The carrying value of financial assets and liabilities other than derivatives approximates their fair value. In considering the fair value of interest bearing assets and liabilities the estimated future interest rates approximate the discount rates used in a fair value assessment.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

## 21. FINANCIAL RISK MANAGEMENT (CONTINUED)

### b. Liquidity risk

Management monitors rolling forecasts of the Group's liquidity position on the basis of expected cash flow.
The table below set out the contractual, undiscounted cash flows for non-derivative financial liabilities and derivative financial instruments.

| | < 1 year NZ$M | 1–2 years NZ$M | 2–3 years NZ$M | 5+ years NZ$M | Contractual cash flows NZ$M | Consolidated Balance Sheet NZ$M |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Bank overdrafts | 16.1 | – | – | – | 16.1 | 16.1 |
| Trade and other payables | 70.0 | – | – | – | 70.0 | 70.0 |
| Borrowings | 15.3 | 1.3 | 53.4 | – | 70.0 | 66.3 |
| **Total non-derivative financial liabilities** | **101.4** | **1.3** | **53.4** | **–** | **156.1** | **152.4** |
| Foreign currency forward exchange contracts | | | | | | |
| – Inflow | 407.5 | 289.0 | 244.3 | – | 940.8 | |
| – Outflow | (400.6) | (277.9) | (230.6) | – | (909.1) | |
| | 6.9 | 11.1 | 13.7 | – | 31.7 | 28.0 |
| Foreign currency option contracts | | | | | | |
| – Inflow | – | – | – | – | – | |
| – Outflow | – | – | – | – | – | |
| | – | – | – | – | – | 12.8 |
| Interest rate derivative instruments net inflows (outflows) (i) | (0.1) | – | 0.3 | 0.1 | 0.3 | 0.9 |
| **Total derivative financial instruments** | **6.8** | **11.1** | **14.0** | **0.1** | **32.0** | **41.7** |
| **2019** | | | | | | |
| Bank overdrafts | 17.3 | – | – | – | 17.3 | 17.3 |
| Trade and other payables | 90.8 | – | – | – | 90.8 | 89.1 |
| Borrowings | 1.9 | 45.5 | 26.6 | – | 74.0 | 69.0 |
| **Total non-derivative financial liabilities** | **110.0** | **45.5** | **26.6** | **–** | **182.1** | **175.4** |
| Foreign currency forward exchange contracts | | | | | | |
| – Inflow | 459.5 | 301.1 | 274.9 | – | 1,035.5 | |
| – Outflow | (447.1) | (286.0) | (250.0) | – | (983.1) | |
| | 12.4 | 15.1 | 24.9 | – | 52.4 | 53.7 |
| Foreign currency option contracts | | | | | | |
| – Inflow | – | – | – | – | – | |
| – Outflow | – | – | – | – | – | |
| | – | – | – | – | – | 7.7 |
| Interest rate derivative instruments net inflows (outflows) (i) | – | – | – | – | – | 0.1 |
| **Total derivative financial instruments** | **12.4** | **15.1** | **24.9** | **–** | **52.4** | **61.5** |

(i) Interest rate swaps derivative cash flows are estimated using forward interest rates at reporting date.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

## 21. FINANCIAL RISK MANAGEMENT (CONTINUED)

### c. Credit risk

The Group is exposed to credit risk in respect of trade receivables, financial instruments, cash and cash equivalents and short-term investments in the normal course of business. The maximum exposure to credit risk is represented by the carrying value of these financial assets. Credit risk is managed on a Group basis with no significant concentration of credit risk.

The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. There are no significant trade receivable balances relating to customers who have previously defaulted on amounts due to the Group.

Derivative counterparties, cash transactions, cash at banks, and short-term investments are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution according to the credit rating of the financial institution concerned. Over 96% of cash and short term investments (2018: 97%) is held with counterparties with credit rating of Standard and Poors' A- and above.

The Group's exposure to credit risk from derivative financial instruments is limited because it does not expect non-performance of the obligation contained therein due to the credit rating of the financial institutions concerned. The Group does not require collateral or other security to support derivative financial instruments.

### d. Capital risk management

The main objective of capital risk management is to ensure the Group operates as a going concern, meets debts as they fall due, maintains an appropriate capital structure, and manages the cost of capital. Group capital comprises all components of equity. To maintain or alter the capital structure the Group has the ability to review the size of the dividends paid to shareholders, return capital or issue new shares, reduce or increase debt or sell assets.

There are a number of external bank covenants in place relating to debt facilities. These covenants are calculated monthly and reported to the banks semi-annually. The principal covenants relating to capital management are the interest cover ratio, the net tangible assets minimum requirement and total tangible assets ratio. The consequences of a breach of these covenants would depend on the nature of the breach, but could range from an instigation of an event of review, to a demand for repayment. There have been no breaches of these covenants or events of review for the current or prior period.

## 22. SIGNIFICANT EVENTS AFTER BALANCE DATE

Other than the dividends disclosed in Note 17, there are no significant events after balance date.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

## 23. OTHER ACCOUNTING POLICIES

### a. Changes to accounting policies

During the period the Group adopted NZ IFRS 15 'Revenue from Contracts with Customers', effective 1 April 2018. Based on the assessment performed by the Group, the impact of the revised standard on the Group's revenue recognition is minimal and no transition adjustments have been made. The majority of revenue earned by the Group is derived from the satisfaction of a single performance obligation for each contract which is the sale of products. This revenue has historically been recognised at the time legal title of the products passes to the customer. It has been determined that the customer obtains control of products at the same time as legal title passes to the customer, typically on delivery. In relation to the contract price, it has been determined that there are no material changes under NZ IFRS 15 to the accounting for rebates, discounts, or any other variable consideration. It has also been determined that there are no significant financing components as part of the Groups sales arrangements. The new accounting policy is disclosed in Note 4.

There have been no other changes in accounting policies.

### b. Standards, Interpretations and Amendments to Published Standards

The following accounting standards and amendments to existing standards are not yet effective and have not been early adopted:

**NZ IFRS 16, 'Leases'**: The current accounting model for leases requires leasees to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use' asset for virtually all lease contracts. The standard will be effective for the Group for the year ended 31 March 2020. Lease commitments as set out in Note 20 predominantly relate to leased properties outside New Zealand that are expected to be brought onto the balance sheet.

The nature of expenses related to leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Group recognised an operating lease expense over the term of the lease. Based on the information currently available, the Group estimates that it will recognise right-of-use assets within a range of approximately $28-30 million and lease liabilities within a range of approximately $32-$35 million on 1 April 2019.

The estimated impact was calculated using a discount rate derived from the incremental borrowing rate for each relevant overseas territory when the interest rate implicit in the lease was not readily available.

The Group plans to apply NZ IFRS 16 initially on 1 April 2019, using the modified retrospective approach. Certain practical expedients are expected to be applied. The cumulative effect of adopting NZIFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 April 2019, with no restatement of comparative information. This is a non cash adjustment and will not impact the Group's ability to comply with its debt covenants.

Impact on our earnings:
Applying the new standard will impact our operating margin and net profit. Rental and lease expenses are effectively reclassified into a deprecation component and an interest component to reflect the implied financing in the lease. This will result in an increase in our operating margin, offset by an increase in the financing costs. Our estimate is an increase to operating margin of between $1-2 million.

There are no other new standards or amendments to existing standards which have or are expected to have a material impact on the Group.

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### c. Impairment of non-financial assets

Assets that have an indefinite useful life or are under development are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

### d. Goods and Services Tax (GST)

The Income Statement has been prepared so that all components are stated exclusive of GST. All items in the Balance Sheet are stated net of GST, with the exception of trade receivables and payables, which include GST invoiced.

### e. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within current interest-bearing liabilities on the Balance Sheet.

### f. Short-term investments

Short-term investments includes all other current investments that do not meet the definition of Cash and cash equivalents. The Group's balance is made up of deposits with financial institutions with maturities at the date of acquisition between 90 and 120 days.

### g. Research and development

Research expenditure is expensed as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the Group are recognised as intangible assets only when all the following criteria are met: it is technically feasible to complete the product so that it will be available for use or sale; management intends to complete the product and use or sell it; there is an ability to use or sell the product; it can be demonstrated that the product will generate future economic benefits; adequate technical, financial and other resources to complete the development and to use or sell the product are available; and the expenditure attributable to the product during its development can be reliably measured and is material. Directly attributable costs capitalised as part of the product would include employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs recognised as an asset are amortised over their estimated useful lives.

### h. Financial guarantee contracts

A financial guarantee contract is a contract that requires a company within the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due. Financial guarantee contracts are initially recognised at fair value. Financial guarantees are subsequently measured at the greater of the initial recognition amount less amounts recognised as income or the estimated amount expected to have to be paid to a holder for a loss incurred.

## INDEPENDENT AUDITOR'S REPORT

To the shareholders of Fisher & Paykel Healthcare Corporation Limited

We have audited the consolidated financial statements which comprise:

- the consolidated balance sheet as at 31 March 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

### OUR OPINION

In our opinion, the accompanying consolidated financial statements of Fisher & Paykel Healthcare Corporation Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

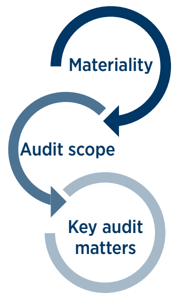
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of treasury risk management advice, remuneration benchmarking, tax compliance, scrutineering the counting of votes at the Annual Shareholders' Meeting and other assurance services in relation to constant currency disclosures and the assessment of eligible expenditure for the purposes of the research & development growth grant. The provision of these other services has not impaired our independence as auditor of the Group.

### OUR AUDIT APPROACH

*Overview*




An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: $14.5 million, which represents approximately 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

We have determined that there is one key audit matter being revenue recognition.

#### Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

#### Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Our Group audit scope focused on the major operating subsidiaries which were selected based on their contribution to the Group's revenue or profit before tax. In aggregate, the subsidiaries selected for full scope audit procedures contributed 88% of the Group's revenue and 87% of the Group's profit before tax. We performed analytical procedures over the other subsidiaries.

Audits of each subsidiary are performed at a materiality level calculated by reference to a proportion of Group materiality appropriate to the relative scale of the business concerned.

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. The key audit matter below was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Revenue recognition*<br><br>The Group's revenue primarily consists of the sale of products which totalled $1,070.4 million in the year ended 31 March 2019 as outlined in Note 4.<br><br>As described in Note 23, the Group adopted NZ IFRS 15 *Revenue from Contracts with Customers* for the year ended 31 March 2019 and management has assessed the impact of adoption on the Group's recognition of revenue.<br><br>In determining the correct recognition of revenue, management has considered the following factors:<br>• the Group's products are sold to customers in multiple territories with varying sales contract terms and conditions;<br>• in certain markets sales are made to distributors and include rebate arrangements; and<br>• there is potential for manual intervention in the timing of revenue recognition because of the time between despatch of products and the transfer of control to customers.<br><br>Management has concluded that:<br>• revenue is primarily derived from the satisfaction of a single performance obligation for each contract which is the sale of products;<br>• control of product transfers to the customer/distributor at the same time as legal title passes; and<br>• the adoption of NZ IFRS 15 did not result in any transition adjustments.<br><br>We have given significant audit focus and attention to the recognition of revenue in light of the factors referred to above and the adoption of NZ IFRS 15. | We obtained management's assessment of the impact of adopting NZ IFRS 15 for each territory. On a sample basis:<br>• we examined contracts with customers to validate that management's conclusion in relation to transfer of control was appropriate; and<br>• validated that the rebate, payment and pricing arrangements supported the recognition of a sale on transfer of control to the distributor.<br><br>We completed detailed audit procedures over revenue including:<br>• evaluating and testing key controls in place over the recording of revenue;<br>• utilising data assurance techniques to match cash received during the year and amounts receivable at balance date to invoices issued to customers and obtaining supporting evidence for any significant transactions that were not matched to cash or receivables;<br>• for a sample of transactions within accounts receivable at balance date we obtained either a confirmation of the amount owing from the customer, or evidence that the amount owing was received by the Group subsequent to year end; and<br>• defining the time period, both before and after 31 March 2019, where there was a heightened risk of error in relation to the timing of recognition of sales transactions. This involved determining the potential time difference between when revenue is recognised in the accounting system and when legal title passes. For a sample of transactions recognised within the defined time period we confirmed that the date on which revenue was recognised by management was appropriate by examining the associated invoice, the terms of the sales contract, and the relevant delivery documentation.<br><br>No exceptions were identified from our procedures. |

# INDEPENDENT AUDITOR'S REPORT

## INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs 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 consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

*https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/*

This description forms part of our auditor's report.

## WHO WE REPORT TO

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Keren Blakey.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants

24 May 2019 Auckland

# Social Responsibility & Governance

## Contents

# PEOPLE

## Culture, purpose and values

Our business' purpose is to improve care and outcomes for patients, clinicians and communities around the world. This is a purpose that is about people. If we are to truly deliver on this, we know we need the best people and the best environment in which the best ideas can grow.

We recognise that our ongoing success is a direct result of the skills and expertise of our people. We value self-motivation, the drive to make a real contribution, continuous improvement and innovative thinking. We have more than 4,500 people working in, or supporting, over 120 countries around the globe.

The tables below outline our total numbers of people by headcount.

| | 2018 | | 2019 | |
|---|---|---|---|---|
| **Region** | **Permanent** | **Temporary** | **Permanent** | **Temporary** |
| NZ | 2,152 | 151 | 2,226 | 218 |
| Mexico | 998 | 10 | 1,126 | 66 |
| Rest of World | 907 | 10 | 953 | 6 |
| **Total** | **4,057** | **171** | **4,305** | **290** |

Of all permanent employees globally, 19% were covered by collective bargaining agreements compared to 21% in 2018.

| | 2018 | | 2019 | |
|---|---|---|---|---|
| **Gender** | **Permanent** | **Temporary** | **Permanent** | **Temporary** |
| Women | 1,911 | 122 | 2,089 | 199 |
| Men | 2,146 | 48 | 2,216 | 91 |
| **Total** | **4,057** | **171**[1] | **4,305** | **290** |

[1] One employee with gender undisclosed

| | 2018 | | 2019 | |
|---|---|---|---|---|
| **Gender** | **Full-time** | **Part-time** | **Full-time** | **Part-time** |
| Women | 1,895 | 32 | 2,083 | 29 |
| Men | 2,146 | 11 | 2,245 | 20 |
| **Total**[2] | **4,041** | **43** | **4,328** | **49** |

[2] New Zealand temporary employees (casual, fixed term, temporary, temporary part-time and contract temporary) are not included in these numbers due to the changing nature of their hours.

## Diversity & Inclusion Policy

One of our core beliefs is that the commitment to doing the right thing is what our customers will find compelling. This extends to doing the right thing by our own people.

This commitment involves:

1. **Empowering employees to reach their potential**
   We believe our people are our strength, and are committed to providing equal employment opportunities for our people, and an environment where everyone has the opportunity to reach their full potential.

2. **Creating an inclusive culture**
   We are global in people, in thinking and in behaviour, and we believe that an inclusive culture is essential for diversity to thrive. We are committed to fostering an inclusive workplace where our employees feel they are treated fairly and their contributions are respected and valued.

3. **Measuring and reporting on our objectives and progress**
   We relentlessly strive to provide a high quality of life for our employees and believe that "what gets measured gets improved". We will use both quantitative and qualitative measures to review our diversity and inclusion performance and, as with all areas of our business, have a focus on continuous improvement.

A copy of the company's Diversity and Inclusion Policy is available on the company's website.

**PEOPLE** CONTINUED

## Caring for our people

We offer our people the opportunity to work for a world class, successful company where each person is valued and respected. We fully support the principles in the United Nation's Declaration on Human Rights and the International Labour Organisation Declaration on Fundamental Principles and Rights at Work, including non-discrimination, freedom of association and collective bargaining, and freedom from forced and child labour. We seek to uphold human rights in all business activities.

We pay our employees fairly based on performance and the complexity and size of the individual role. The table below outlines the gender pay ratio calculated within salary bands and functions using the average pay ratio between females and males.

| | 2018 | 2019 |
|---|---|---|
| New Zealand (Salaried and Waged) | 99.3% | 99.4% |
| Outside of New Zealand (Salaried only) | 97.6% | 98.0% |
| **Total** | **98.7%** | **98.9%** |

The annual salary review procedure was updated this year to improve consistency across teams by requiring managers to report the employee's performance rating as part of the review. This assisted with calibration and contributed to the increase in the gender pay ratio observed this year.

We recognise that the results we achieve are built on the hard work and dedication of our team of more than 4,500 employees across the world. In recognition of this contribution, and as has been our longstanding practice, we pay our employees a profit-sharing bonus. In FY19, this represented approximately 2.4% of annual base pay for each employee, and a total profit-share of $5.7 million.

As part of our 2019 diversity objectives, we commenced the evaluation of job roles in Mexico using Hay Evaluation Methodology. This evaluation will be completed this year, and will allow us to more accurately analyse the gender pay ratio in Mexico in like-for-like roles.

| | 2018 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Women | Men | Women % | Men % | Women | Men | Women % | Men % |
| Board | 2 | 6 | 25% | 75% | 2 | 6 | 25% | 75% |
| Senior executives[1] | 1 | 8 | 11% | 89% | 2 | 8 | 20% | 80% |
| All employees[2] | 1,910 | 2,138 | 47% | 53% | 2,089 | 2,216 | 49% | 51% |

[1] "Senior executive", as it is used in the table above, refers to the Chief Executive Officer and senior executives reporting directly to the Chief Executive Officer.

[2] Temporary staff are not included in the above numbers.

## PEOPLE CONTINUED

The table below reports the age ranges of our people across Board and employee categories.

| | Under 30 years old | 30 – 50 years old | Over 50 years old | % Under 30 years old | % 30 – 50 years old | % Over 50 years old |
|---|---|---|---|---|---|---|
| Board | – | – | 8 | –% | –% | 100% |
| Senior executives[1] | – | 8 | 2 | –% | 80% | 20% |
| All employees[2] | 1,134 | 2,460 | 711 | 26% | 57% | 17% |

[1] "Senior executive", as it is used in the table above, refers to the Chief Executive Officer and senior executives reporting directly to the Chief Executive Officer.

[2] Temporary staff are not included in the above numbers.

**Note:** This is the first year that the age across employee categories is reported. Therefore, no comparison is provided to 2018.

### Creating an inclusive culture

We strive to create an environment in which our people feel a sense of belonging, and no one is excluded in their day-to-day interactions. This year, we sought to get a deeper understanding of our employees' perceptions of our culture.

#### Employee Perceptions on Inclusion

We performed a detailed analysis into the comments indicating our people's perceptions on inclusivity from our employee engagement survey, MySay. The results of the analysis indicated:

- Our workplace is generally perceived as inclusive, with a lack of discrimination experienced by our people;
- Celebrations for cultural and religious events are perceived as demonstrations of workplace inclusivity; and
- Diversity in our workforce is perceived as representative of the inclusiveness of our recruitment processes.

However, the analysis also revealed some areas that are the expected byproducts of the diverse workforce that we have. The results indicated that the perceived lack of workplace flexibility, use of languages other than English, and the perception that ideas are not valued equally were seen as barriers to inclusion. We have commenced a formal root cause analysis process in order to identify appropriate actions for these findings.

#### Flexible Working Policy and Procedure

We understand that life can be busy, and commitments our people have outside of work can vary and change unexpectedly. Having a flexible working culture is becoming increasingly important to help attract the right people and ensure our people can contribute effectively over the long term. Our flexible working policy and procedure were updated this year to meet these changing needs.

### Attracting great talent

We work closely with universities, schools and community groups to attract the best graduates for our teams. Fisher & Paykel Healthcare has partnered with the Faculty of Engineering at the University of Auckland to help achieve their strategy of increasing the number of women studying engineering from 27% to 33% by 2020.

Our graduates participate in a 12-month programme that incorporates business awareness, mentorship, feedback sessions, internal and external training and team building events. For roles requiring more experience or specialised skills, we search across the global employment market through targeted recruitment campaigns. We take a proactive approach to finding people whose values match with ours.

As part of our 2019 diversity objectives, the vacancies filled by internal applicants and other applicant tracking metrics in New Zealand were monitored. Across the year, we observed a 32% increase in the number of vacancies filled internally compared to the previous year. This was the result of intentional effort to ensure that we were developing our current talent for progression where appropriate. We also continued to observe a consistently higher female conversion rate of applicants into new hires throughout the year. This improvement was the result of changes in recruitment practices to mitigate unconscious bias, including the introduction of video interviewing into our graduate recruitment process.

We will continue to track these metrics in order to improve our recruitment efforts.

## PEOPLE CONTINUED

The tables below outline the total number and rate of our new employee hires. Hire rate is calculated as the number of new hires in each category divided by the total number of employees in that category as at 31 March.

| | 2018 | | 2019 | |
|---|---|---|---|---|
| **Region** | **New employees** | **Hire rate** | **New employees** | **Hire rate** |
| New Zealand | 263 | 12% | 257 | 11% |
| Mexico | 413 | 41% | 382 | 34% |
| Rest of World | 181 | 20% | 186 | 19% |
| **Total** | **857** | **21%** | **825** | **19%** |

| | 2018 | | 2019 | |
|---|---|---|---|---|
| **Gender** | **New employees** | **Hire rate** | **New employees** | **Hire rate** |
| Women | 469 | 24% | 443 | 21% |
| Men | 388 | 18% | 382 | 17% |
| **Total** | **857** | **21%** | **825** | **19%** |

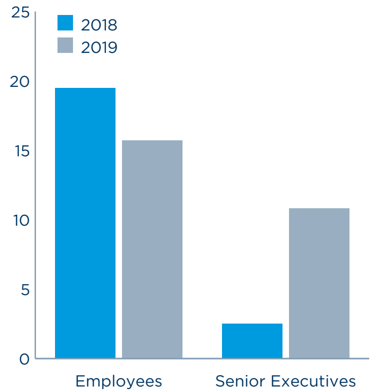
| | 2018 | | 2019 | |
|---|---|---|---|---|
| **Age group** | **New employees** | **Hire rate** | **New employees** | **Hire rate** |
| Under 30 years old | 432 | 43% | 461 | 40% |
| 30 – 50 years old | 390 | 16% | 348 | 14% |
| Over 50 years old | 35 | 5% | 16 | 2% |
| **Total** | **857** | **21%** | **825** | **19%** |

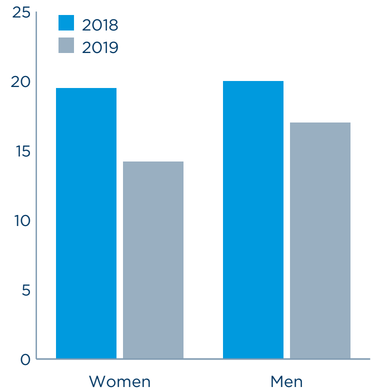
### Growing our talent

We aim to develop our people through work experience combined with coaching and learning. Our learning and development function runs development programmes for our people, supported where necessary by third party providers. Our programmes are designed for people at all levels within the organisation, including leadership training for those in management positions.

In New Zealand, we host a five day literacy and numeracy programme that aims to increase the capability and confidence of our manufacturing employees in communication, team work, continuous improvement and health and safety. Tailored for the specific needs of our employees and aligned with our company values, the programme has been running for three years and over 200 people have participated.

The figures below illustrate the average hours of training that employees in New Zealand have undertaken during the reporting period. There was an overall reduction in formal training in 2019 compared to previous years due to a move towards increased experiential and informal learning.




Our support processes for succession planning involves identifying experiences that employees require to develop the knowledge and skills for progression. This allows us to be deliberate in providing opportunities for our people through initiatives such as secondments, project assignments, job enrichment and enlargement.

As part of our 2019 diversity objectives, the gender promotion metric in New Zealand was monitored and reported quarterly. Across the year, we continued to see an equivalent overall promotion rate by gender in our salaried employees.

We also monitored the promotion rates across different job levels and observed that promotions for male employees were in higher job levels compared to promotions for female employees. To rectify this, we have initiated a pilot into the use of calibration criteria during the promotions process for some roles across the business with the aim of improving standardisation of our promotions criteria and reducing unconscious bias. The impact of this change will be monitored for effectiveness.

## PEOPLE CONTINUED

### Retaining our talent

We believe that maintaining a culture where teamwork, flexibility and diversity are valued will create an environment that will retain our people. We understand that people's needs and goals can be different, and we segment our employees and individualise retention interventions specific to their needs and in line with our culture.

As part of our 2019 diversity objectives, the global labour turnover was monitored and reported quarterly. We saw a reduction in employee turnover across our global workforce, contributed to by the significant reduction in turnover in Mexico. The female turnover rate reduced significantly, and reversed the trend seen in previous years, to be lower than the male turnover rate.

| | 2018 | | 2019 | |
|---|---|---|---|---|
| **Region** | **Number of Leavers** | **Turnover rate** | **Number of Leavers** | **Turnover rate** |
| New Zealand | 194 | 9% | 197 | 9% |
| Mexico | 359 | 36% | 243 | 22% |
| Rest of World | 118 | 13% | 139 | 15% |
| **Total** | **671** | **16%** | **579** | **13%** |

| | 2018 | | 2019 | |
|---|---|---|---|---|
| **Gender** | **Number of Leavers** | **Turnover rate** | **Number of Leavers** | **Turnover rate** |
| Women | 360 | 18% | 275 | 13% |
| Men | 311 | 14% | 304 | 14% |
| **Total** | **671** | **16%** | **579** | **13%** |

| | 2018 | | 2019 | |
|---|---|---|---|---|
| **Age group** | **Number of Leavers** | **Turnover rate** | **Number of Leavers** | **Turnover rate** |
| Under 30 years old | 338 | 33% | 225 | 20% |
| 30 – 50 years old | 307 | 13% | 304 | 12% |
| Over 50 years old | 26 | 4% | 50 | 7% |
| **Total** | **671** | **16%** | **579** | **13%** |

### Objectives for Diversity & Inclusion

The People and Remuneration Committee is responsible for overseeing the company's Diversity & Inclusion Policy. Each year, the People and Remuneration Committee review and report to the Board on the company's Diversity Policy, its diversity objectives and the company's achievement against its diversity objectives, including the representation of women at all levels of the organisation.

The company has appointed the Chief Executive Officer and Vice President – Human Resources as the company's Diversity Managers.

In order to continue to advance our progress with improving diversity and inclusion in the company, the following objectives are set for the 2020 financial year.

**OBJECTIVES FOR THE 2020 FINANCIAL YEAR:**

- Perform an ethnicity diagnostic of our operations in New Zealand.
- Monitor the impact and effectiveness of the updated Flexible Working Policy.
- Implement actions to address the findings related to inclusiveness from the MySay engagement survey.
- Establish a Diversity and Inclusion Committee.

# REMUNERATION

We are focused on attracting, motivating and retaining high quality employees who will enable us to achieve our short and long-term strategic objectives. We operate in international markets where substantial competition exists for skilled employees. Our ability to attract, motivate and retain capable people depends in large part upon the remuneration packages we offer.

This section describes how we remunerate our employees, Executive Management and non-executive directors.

## Employee Remuneration

Our salaried employee remuneration programme consists of a base salary, a component providing the potential for an annual bonus based on relevant company performance and, in certain countries, superannuation, insurance and the opportunity to purchase shares and/or receive share options.

Salaried employees receive base remuneration packages that are generally benchmarked against similar positions in companies of comparable size and complexity. The People and Remuneration Committee uses industry remuneration surveys, conducted by outside consultants in determining remuneration levels. Remuneration is generally reviewed annually with the amount of any increases determined by factors such as company performance, general economic conditions, marketplace remuneration trends and individual performance.

The table below describes the remuneration (inclusive of the value of other benefits) received by employees or former employees in 2019 totalling NZ$100,000 or more, presented in bands. We operate in a number of countries where remuneration market levels differ widely. The offshore remuneration amounts are converted into New Zealand dollars.

| Remuneration $ | Number of employees |
|---|---|
| 100,000 – 110,000 | 177 |
| 110,001 – 120,000 | 144 |
| 120,001 – 130,000 | 115 |
| 130,001 – 140,000 | 86 |
| 140,001 – 150,000 | 78 |
| 150,001 – 160,000 | 46 |
| 160,001 – 170,000 | 45 |
| 170,001 – 180,000 | 53 |
| 180,001 – 190,000 | 46 |
| 190,001 – 200,000 | 27 |
| 200,001 – 210,000 | 26 |
| 210,001 – 220,000 | 18 |
| 220,001 – 230,000 | 23 |

| Remuneration $ | Number of employees |
|---|---|
| 230,001 – 240,000 | 20 |
| 240,001 – 250,000 | 13 |
| 250,001 – 260,000 | 14 |
| 260,001 – 270,000 | 11 |
| 270,001 – 280,000 | 7 |
| 280,001 – 290,000 | 6 |
| 290,001 – 300,000 | 2 |
| 300,001 – 310,000 | 4 |
| 310,001 – 320,000 | 3 |
| 320,001 – 330,000 | 2 |
| 330,001 – 340,000 | 3 |
| 340,001 – 350,000 | 2 |
| 350,001 – 360,000 | 2 |

| Remuneration $ | Number of employees |
|---|---|
| 360,001 – 370,000 | 1 |
| 370,001 – 380,000 | 2 |
| 400,001 – 410,000 | 3 |
| 420,001 – 430,000 | 2 |
| 440,001 – 450,000 | 2 |
| 450,001 – 460,000 | 2 |
| 460,001 – 470,000 | 1 |
| 480,001 – 490,000 | 2 |
| 540,001 – 550,000 | 1 |
| 580,001 – 590,000 | 2 |

| Remuneration $ | Number of employees |
|---|---|
| 590,001 – 600,000 | 1 |
| 600,001 – 610,000 | 1 |
| 620,001 – 630,000 | 1 |
| 650,001 – 660,000 | 1 |
| 690,001 – 700,000 | 1 |
| 730,001 – 740,000 | 1 |
| 870,001 – 880,000 | 1 |
| 1,190,001 – 1,200,000 | 1 |
| 1,220,001 – 1,230,000 | 1 |
| 1,300,001 – 1,310,000 | 1 |

## Executive Management remuneration

The People and Remuneration Committee is responsible for reviewing the remuneration of Executive Management in consultation with the CEO.

The remuneration packages of the majority of Executive Management consist of a combination of a fixed remuneration package, an annual variable remuneration (AVR) component, a long term variable remuneration (LTVR) component, and the company-wide profit sharing bonus, as described further below.

The total remuneration earned by, or paid to, Executive Management is set out in note 18 of the financial statements.

### Fixed remuneration

All members of Executive Management receive a fixed remuneration component that is based on the scale and complexity of the role, market relativities, qualifications and experience, and performance. This also includes any KiwiSaver or other superannuation contribution. Other benefits, including life insurance, are also available to eligible Executive Management and are included in fixed remuneration.

## REMUNERATION CONTINUED

### Variable remuneration

The majority of Executive Management receive variable remuneration linked to performance each financial year.

| *Plan* | *Measures* |
|---|---|
| Annual Variable Remuneration (AVR) | The AVR component is designed to remunerate Executive Management relative to the company's annual financial performance and non-financial objectives.<br><br>Meeting both the financial and non-financial targets results in a payment of 100% of the AVR amount. The AVR payment amount is adjusted pro-rata, with each 1% above or below financial targets resulting in a 2% increase or decrease in payment. The maximum payment is 132% of the AVR amount at 20% over achievement. Should the financial measures in aggregate be underachieved by more than 10%, no AVR is payable.<br><br>The relative weighting of AVR measures and the target achieved in 2019 is set out below. |

| **Measures** | **Weighting** | **% of Target Achieved** |
|---|---|---|
| Constant currency operating profit | 45% | 102.9% |
| Constant currency revenue | 25% | 99.2% |
| Constant currency pre-tax operating cash flow | 10% | 102.2% |
| Non-financial measures | 20% | Variable |

| *Plan* | *Measures* |
|---|---|
| Long Term Variable Remuneration (LTVR) | LTVR components are designed to align Executive Management with shareholder interests over the longer term, and provide a longer term employee retention benefit.<br><br>The LTVR plans available to Executive Management are described below. Further information on these and other LTVR plans can be found in the "Long Term Variable Remuneration" section of our website. |
| | **Share Option Plan** – Options vest at any time between the third anniversary and the fifth anniversary of the grant date as long as the share price on the NZX has exceeded the escalated price. The escalated price is determined by a representative amount representing the company's cost of capital. |
| | **Performance Share Rights Plan** – PSRs become exercisable if the company's gross total shareholder return (TSR) exceeds the performance of the Dow Jones US Select Medical Equipment Total Return Index (DJSMDQT) over the same period. |
| | **Employee Share Purchase Plan** – Executive Management can choose to participate in this Plan up to the value of $2,340. Shares are issued at a discount of 20% of market price, on terms permitted by the plans in accordance with sections DC13 and 14 of the New Zealand Income Tax Act 2007, with no interest being charged on the loans. The qualifying period between grant and vesting date is 3 years. |

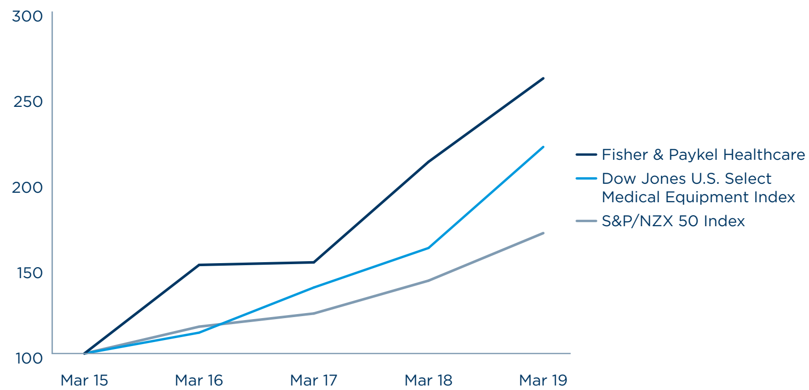
For employee share purchase plans or equity-based remuneration schemes operating with respect to company securities, no director or employee is permitted to enter into financial products or arrangements which operate to limit the economic risk of their vested or unvested entitlements.

### Profit-sharing bonus

As outlined in the 'People' section all our employees, including Executive Management, who have worked with us for more than 6 months are eligible to receive a profit-sharing bonus twice per year.

### 5-year summary of TSR performance

The chart below shows our TSR compared with the performance of DJSMDQT over the previous five years. For the past four years, our TSR performance has exceeded that of the DJSMDQT, and PSRs issued to Executive Management in these years have 100% vested.

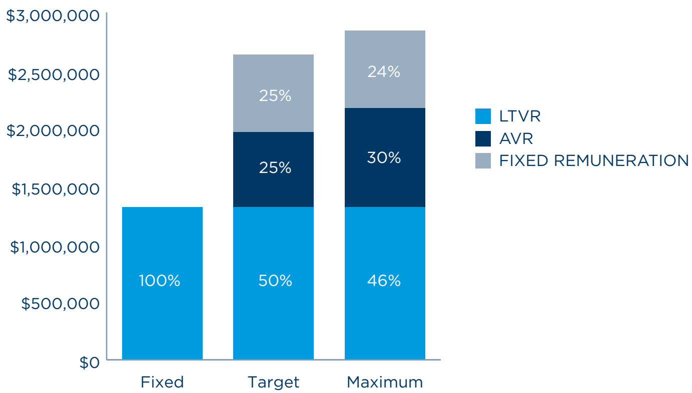



To enable better comparability of the relative shareholder return performance, the Dow Jones U.S. Select Medical Equipment Index closing prices have been converted to NZD at the daily closing rate quoted by the Reserve Bank of New Zealand.

## REMUNERATION CONTINUED

### CEO Remuneration

The CEO remuneration structure is consistent with the Executive Management remuneration structure described previously. The 2019 remuneration target and maximum remuneration mix is set out below.




| | Salary $ | Employer superannuation contribution $ | Fixed remuneration subtotal $ | AVR[1] $ | LTVR awarded[2] $ | Subtotal $ | Total remuneration (single figure) $ | % AVR against maximum $ |
|---|---|---|---|---|---|---|---|---|
| 2019 | 1,231,953 | 85,867 | 1,317,820 | 690,356 | 669,916 | 1,360,272 | 2,678,092 | 78% |
| 2018 | 992,639 | 74,690 | 1,067,329 | 629,253 | 616,327 | 1,245,580 | 2,312,909 | 80% |

[1] The 2019 AVR above was earned in the 31 March 2019 financial year, but will be paid in the 2020 financial year. The 2018 AVR was earned in the 31 March 2018 financial year but was paid in the 2019 financial year. AVR value includes the company-wide profit-sharing bonus.

[2] LTVR includes Options and PSRs awarded during the financial year. In 2019, Lewis Gradon was granted 32,466 PSRs and 100,313 share options. In 2018 Lewis Gradon was granted 40,598 PSRs and 111,364 share options. Share Option and PSR plans granted in the 2018 and 2019 financial years will vest, if the performance criteria is met, in the 2021 and 2022 financial years respectively. Details of the plans and valuation methodology is set out in Note 18 to the financial statements.

### AVR achieved in 2019

The AVR financial targets achieved are set out in the Executive Management section on the previous page. During 2019 the CEO achieved 100% of his non-financial measures. The AVR earned in 2019 is 49% of fixed remuneration.

### LTVR vested in 2019

The following long term incentives vested in 2019. These awards were granted to Lewis in his previous capacity as Senior VP, Products and Technology:

| Grant year | Securities | Performance period | Performance measure | Vesting outcome | Shares vested | Value on vesting $ |
|---|---|---|---|---|---|---|
| Financial year 2016 | PSR | September 2015 to September 2018 | Absolute TSR | 100% vested | 26,000 | 384,800[1] |
| | Share Options | September 2015 to September 2018 | Cost of capital escalated share price | 100% vested | 73,000 | 552,610[2] |

[1] Represents the NZX closing price of FPH Ordinary Shares on the vesting date multiplied by the number of PSRs vested

[2] Represents the difference between the exercise price and the NZX closing price of FPH ordinary shares on the vesting date, multiplied by the number of Share Options vested

**REMUNERATION** CONTINUED

## Non-executive directors' remuneration

### Remuneration strategy

The People and Remuneration Committee is responsible for establishing and monitoring remuneration policies and guidelines for directors which enable us to attract and retain directors who contribute to the successful governing of the business and create value for shareholders. We also take advice from independent consultants and take into account fees paid to directors of comparable companies in New Zealand and Australia as part of our assessment of the appropriate level of remuneration of directors. A summary of our independent consultants' remuneration report is available on our website.

The maximum total monetary sum payable by the company by way of directors' fees is $1,050,000 per annum as approved by shareholders at the 2017 Annual Shareholders' Meeting. Executive directors are not entitled to receive any remuneration solely in their capacity as directors of the Company.

Non-executive directors do not take a portion of their remuneration under an equity security plan but directors may hold shares in the company, details of which are set out on page 89 of this report. It is our policy to encourage directors to acquire shares on-market.

No non-executive director is entitled to receive a retirement payment.

### Remuneration

The total directors' fees received by non-executive directors in 2019, including a breakdown of Board fees and Committee fees, is set out below. The fees payable are determined based on the time commitment and responsibilities of each role.

| Director | Board Fees $ | Audit & Risk Committee $ | People and Remuneration Committee $ | Quality, Safety and Regulatory Committee $ | Travel allowance[1] $ | **Total remuneration $** |
|---|---|---|---|---|---|---|
| Tony Carter[2] | 224,700 | | | | | **224,700** |
| Michael Daniell | 98,850 | 16,850 | | | | **115,700** |
| Pip Greenwood | 98,850 | | 22,450* | | | **121,300** |
| Geraldine McBride | 98,850 | | | | | **98,850** |
| Neville Mitchell[3] | 38,054 | | | 6,487 | 8,161 | **52,702** |
| Arthur Morris[4] | 39,062 | | | 8,871* | | **47,933** |
| Donal O'Dwyer[5] | 98,850 | | 16,850 | 20,257* | 21,200 | **157,157** |
| Scott St John | 98,850 | 28,100* | 16,850 | | | **143,800** |
| **Total** | **796,065** | **44,950** | **56,150** | **35,615** | **29,361** | **962,141** |

* Designates Chair of Committee

1 Directors based in Australia are paid a travel allowance of $21,200 per year to attend Board meetings in New Zealand.

2 Tony Carter is the Board Chair. No additional fees are paid to the Board Chair for Committee roles.

3 Neville Mitchell's remuneration is set in NZD but paid in AUD at the prevailing exchange rate at the date of payment. Neville Mitchell joined the Board (and the QSR Committee) in November 2018.

4 Arthur Morris retired from the Board (and as Chair of the QSR Committee) in August 2018.

5 Donal O'Dwyer's remuneration is set in NZD but paid in AUD at the prevailing exchange rate at the date of payment. Donal O'Dwyer became the Chair of the QSR Committee in August 2018 when Arthur Morris retired.

# COMMUNITY AND ENVIRONMENT

We see looking after our wider community and the environment as inextricably linked to the way we do business. We know that strong financial performance cannot be achieved without it. And being financially successful means we can continue to be a major contributor to medical care, to our communities and economies through areas such as tax and employment.

## Community

We seek to build and nurture strong, lasting partnerships with local communities and organisations relevant to our company and people. Through a combination of financial and in-kind support, we have implemented and sponsored various community development programmes, particularly in the areas of healthcare, science and technology. As we continue to grow, our capacity to expand and enhance these important programmes will also increase.

We have established a corporate social responsibility (CSR) group in New Zealand, which promotes and assists in the coordination of CSR initiatives across the company. This group's purpose is to "build brighter and healthier communities through care and collaboration" and looks for opportunities to create common shared value in the areas of improving access to healthcare and the promotion of career pathways in Science, Technology, Engineering and Mathematics (STEM).

### Improving access to healthcare

*Middlemore myAirvo Project*

In partnership with our local hospital, Middlemore Hospital, we identified that there are a large number of people in our shared South Auckland community that suffer from COPD and are unable to afford ongoing treatment in the home. As a result, these people are frequently readmitted to hospital.

In a pilot project, Fisher & Paykel Healthcare donated 12 myAirvo devices and the required consumables for the life of each patient who is provided one of the myAirvo devices by Middlemore Hospital. In 2018, new research was published in the International Journal of COPD which demonstrated significant benefits of nasal high flow therapy for COPD patients using our myAirvo device.

The trial showed statistically significant results, with the primary outcome being a significant reduction in patients' exacerbation rate, or worsening of their condition for those being treated with nasal high flow therapy. The study also showed for those patients using the myAirvo, that all cause hospitalisation rates decreased over the course of the year, for those who followed the protocol.

*Access to healthcare in the Pacific Islands*

We partner with Take my Hands which is a social enterprise that collects usable medical equipment and resources that are no longer being used in New Zealand and redistributes them to organisations that work with those in need in the Pacific region. In particular, we provided engineering and research support in conducting a needs assessment for low resource healthcare settings in the Pacific Islands. Together with the University of Canterbury and Take my Hands, the partnership now aims to build biomedical technician capacity in the Pacific region.

*Cure Kids Partnership*

We partner with Cure Kids, New Zealand's largest funder of child health research, on two separate initiatives. The first is a project in Fiji where Cure Kids are piloting ways of improving the availability, affordability and clinical access of oxygen to save lives. Severe pneumonia in children and serious newborn illnesses, for which oxygen is a life-saving treatment, are leading causes of death in Fiji. For pneumonia, treating children with oxygen reduces death by 35%, yet many health facilities in Fiji don't have a reliable supply. The team are replacing oxygen cylinders in health centres – which are expensive, logistically difficult, and often result in unreliable oxygen supplies – with bedside oxygen concentrators, which produce oxygen from the ambient air. For health centres with unreliable power supplies, a custom-designed solar power system is installed to ensure that a 24/7 supply of oxygen is available for patients when needed. The programme trains health workers and biomedical engineering staff to ensure that the new solution translates into improved outcomes for patients.

The second initiative is a significant project that we hope will result in material improvements in the health and outcomes for children with respiratory illness in New Zealand. We look forward to sharing more details about this initiative with you in next year's report.

## COMMUNITY AND ENVIRONMENT CONTINUED

### Clinical and research support

We provide financial sponsorship of the Auckland-based Middlemore Hospital, Auckland City Hospital, and the Intensive Care Foundation in Australia.

Clinical studies are an important element in building confidence in the efficacy of our products, particularly in new clinical settings. We contribute product and funding to clinical research globally that validates improvements in patient care and outcomes. We work closely with clinicians and healthcare organisations to support these studies and identify ways in which our products can help them provide better healthcare solutions. As at 31 March 2019, the company was involved as official sponsors of 25 clinical trials globally. The company also provides product or funding support for a large number of other clinical trials that are conducted each year.

The company has recently partnered with the American Thoracic Society Foundation to make a US$100,000 research grant to advance research in respiratory support with nasal high flow in patients with COPD. The ATS Foundation/Fisher & Paykel Healthcare Research Award in Respiratory Support with nasal high flow was this year awarded to Spryidon Fortis, MD of the University of Iowa.

### STEM education and sponsorship

We run a comprehensive programme of educational events, where we visit local schools and universities to discuss career pathways in STEM. We also sponsor a range of events and organisations in the science and engineering fields. These have included the New Zealand Robotics Charitable Trust (Kiwibots), 'the Wonder Project', where we provide ambassadors to visit local schools to talk about STEM careers, and 'South Sci', mentoring of students undertaking scientific projects in local schools, as explained further below.

As previously noted, Fisher & Paykel Healthcare has partnered with the Faculty of Engineering at the University of Auckland to help achieve their goal of 33% women in their first-year student cohort by 2020.

*South Sci*

'South Sci' is a participatory science platform aimed at engaging youth with science and building relationships between local businesses, researchers, schools and youth. It is co-hosted by COMET Auckland and the STEM Alliance Aotearoa, and funded by the New Zealand Government's Ministry of Business, Innovation and Employment. The programme encourages community groups to put forward science topics of interest to them, and if accepted, provides funding and support to enable investigation of the project.

We have a number of scientists and engineers involved in the programme who have assisted with assessments of the community applications and providing advice on how project plans could be developed and budgeted.

One of the projects we are currently supporting is at Beachlands School who are researching the sleep habits of primary school kids and how to be activists for healthier sleep in their community.

It is hoped that our involvement in the programme will encourage local youth to engage with science and consider careers in science and engineering related fields.

### Sustainable Tax Strategy

We understand that collecting and paying tax is an important contribution to the economies, societies and communities in which we operate. In support of our overall business strategy and objectives, we pursue a tax strategy that is principled, transparent and sustainable in the long term. Our Group's tax contribution includes the payment of corporate income taxes, employment related taxes and other taxes that we pay or collect on behalf of governments. We support the OECD Business and Industry Advisory Committee (BIAC) Statement of Tax Principles for International Business and have endorsed these principles in our published Group Tax Strategy which was reviewed and approved by our Board in November 2018.

Our tax strategy sets out our approach to tax governance and tax management aligned to our conservative appetite for tax risk with the key purposes to ensure that we comply with all of our tax obligations, undertake all transactions with a business purpose considering all of our stakeholders and have an open and transparent relationship with tax authorities.

Our business model is centred in New Zealand and the functions, assets and risks of implementing our strategy mean that the majority of our taxes are paid in New Zealand. Most of our manufacturing activities and tangible assets are located in Auckland, and substantially all of our R&D is performed, and the associated intellectual property owned, in New Zealand.

**COMMUNITY AND ENVIRONMENT** CONTINUED

## Environment

We are committed to protecting the environment by maximising the efficient use of resources and minimising waste, to contribute to a sustainable society. Our commitment to the environment can be seen across our business, from the way our people work, to how we interact with distributors and suppliers.

### Environmental management systems

Our global teams have continued to perform strongly in external ISO14001 Environmental Management System audits, which confirm the day to day management of environmental risks and opportunities across our manufacturing sites in New Zealand and Mexico. We are audited annually against that standard and certified tri-annually by the Swiss-based European notified body, Société Générale de Surveillance.

Continuous improvement initiatives that form part of the environmental management system, included the installation of onsite electric vehicle chargers to facilitate the reduction in vehicle emissions related to our people commuting to work. We partnered with the Energy Efficiency & Conservation Authority and were awarded 50% funding towards this sustainability initiative, which will result in more than 45 EV chargers being available for employees and visitors at our Auckland campus.

### Eco-efficiency programme

As part of our eco-efficiency strategy, we have established collaborative teams working on a range of topics which include sustainable packaging, bioplastics and 3D printing recycling. Our teams also use environmental lifecycle assessment software, which will be an important tool to assist with ongoing continuous improvement.

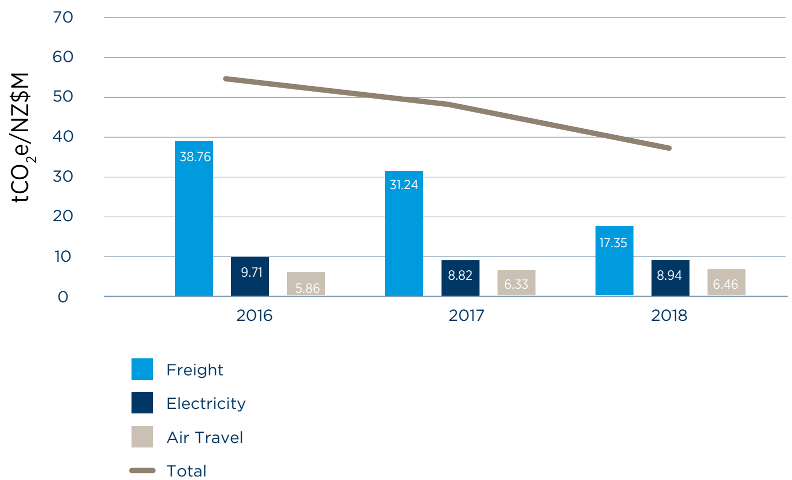
Global recycling capacity constraints, led by the change in recycling policies by the China "National Sword" policy continue to impact recycling performance, with 69% of our New Zealand waste stream recycled. This was a reduction from 74% during the prior year. Our teams continue to seek recycling solutions for the materials we use, and have been active in developing innovative recycling solutions with international recycling leaders.

### Carbon & energy programme

We meet the requirements of CEMARS (Certified Emissions Measurement and Reduction Scheme) certification having measured greenhouse gas emissions in accordance with ISO 14064-1:2006 and are committed to managing and reducing our impact in respect of the operational emissions of the organisation. Our teams have a strong focus on energy savings, which is the most efficient way to reduce emissions. Over the last five years, more than 3 GWh of electricity have been saved through a range of initiatives including LED light replacement, solar array installation (110kw) and optimisation of onsite systems.

Carbon emission intensity for our global operations ($tCO_2e$/NZ$M), reduced from 48.2 to 37.2 during FY18. CEMARS results for this year will be available during July 2019, and can be found on the sustainability section of our website. Further information on the CEMARS programme can be found on the CEMARS website www.enviro-mark.com.

### Carbon Emission Intensity



## COMMUNITY AND ENVIRONMENT CONTINUED

### Sustainability disclosure

We participate annually in a suite of sustainability disclosure programmes. During the last year, CDP (previously known as the Carbon Disclosure Project) announced that we scored a 'B' in their Climate Change disclosure initiative for 2018, which was the equal best score of all New Zealand based organisations. 2019 results will be made available later in 2019, with scores available on the CDP website.

Sustainability disclosures have also contributed to the organisation being included in the Dow Jones Sustainability and FTSE4good indices.

| Topic | Description of measure | Target | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Carbon Intensity | Operational emissions intensity ($tCO_2e/NZ\$M$) | Reduction of 5% per annum[1] | 48.2 | 37.2 | Annual CEMARS audit June 2019 |
| Recycling efficiency | % of waste recycled at our New Zealand campus | 75% | 86% recycled | 74% recycled[1] | 69% recycled[2] |
| Rainwater collected | $m^3$ of rainwater harvested at our New Zealand campus | | 2,936$m^3$ | 3,608 $m^3$ | 3,580 $m^3$ |
| CDP | CDP Climate Change[2] | | B | B | Assessed July 2019 |

Notes:
[1] Science Based Targets in line with IPCC (Intergovernmental Panel on Climate Change) guidance are under development.
[2] Recycling efficiency has been adversely impacted by global recycling capacity constraints driven largely by the China "National Sword" policy.

# GOVERNANCE

## Corporate Governance Statement

The Board and management of the company are committed to ensuring that the company adheres to best practice governance principles and maintains the highest ethical standards. The Board regularly reviews and assesses the company's governance structures to ensure that they are consistent, both in form and in substance, with best practice.

The company is listed on both the NZX and the ASX (Foreign Exempt Listing Category). Corporate governance principles and guidelines have been introduced in both countries. As at the date of this report, the company complies with all of the recommendations of the NZX Corporate Governance Code. In addition, although the company is not required to comply with the ASX Corporate Governance Council's Corporate Governance and Recommendations (ASX Principles) given its Foreign Exempt Listing on the ASX, the company considers its corporate governance practices and procedures substantially reflect the ASX Principles.

The full content of the company's corporate governance policies, practices and procedures can be found in the corporate governance section of the company's website – www.fphcare.com/corporategovernance.

## Ethical behaviour

As a business we are committed to doing the right thing. It is important to us and is what our customers, employees, and shareholders find compelling. We ensure we comply with our legal and ethical obligations throughout our business operations, from the way we source materials, design and manufacture our products, through to selling our products across the world.

We have policies and procedures in place to ensure we conduct our business in a legally, ethically, and socially responsible manner. These policies are available on our website, and summary information with respect to a number of our policies can also be found below.

### Codes of Conduct

We expect our employees and directors to maintain high ethical standards. A Code of Conduct for the company and a separate Directors' Code of Conduct set out these standards.

The Codes cover a range of areas relevant to legal and ethical behaviour, including competing fairly, health and safety, data protection and privacy, working with customers and suppliers, sanctions compliance, responsible marketing, financial records and reporting, continuous disclosure and insider trading, combating bribery and corruption and interactions with healthcare professionals. It also covers matters such as confidentiality, conflicts of interest, receipt of gifts, and corporate opportunities.

The Codes explain how an employee or director can report an actual or suspected breach of the Code. This is also detailed in our Speak Up (or whistle-blowing/protected disclosures) policy, which ensures employees know how to report potentially unethical or illegal behaviour or breaches of our Code of Conduct, without fear of retaliation or harassment.

We have developed e-training on the Code of Conduct, and in 2017 and 2018, this training was undertaken by employees globally. The e-training is part of induction for new employees. The Code of Conduct is also available on our internal intranet. New directors are provided a copy of the Director's Code of Conduct during their induction training.

We have an in-house legal team that provides advice and assistance to the business globally on how to comply with our various legal obligations, and engage external legal counsel to assist us as and when required.

We maintain a schedule for regularly reviewing and updating corporate governance policies and charters. The Code of Conduct was last reviewed on 29 March 2019.

### Securities Trading Policy and Guidelines

We are committed to ensuring our people are aware of their obligations when trading in or intending to trade in company Financial Products. Our Securities Trading Policy and Guidelines details our policy on, and rules for, all directors, officers, contractors or employees who intend to trade in company Financial Products. The Policy explains insider trading laws, and the legal and reputational risks of failing to comply with such laws. A copy of the Policy is available on our website.

### Supplier Code of Conduct

We are committed to building a supply chain structure that supports our approach to corporate social responsibility and sustainability. To ensure that our supply chain is transparent and coordinated across our wider supply chain network, an integrated ERP system in conjunction with our strong quality management system is utilised.

GOVERNANCE CONTINUED

Our Supplier Code of Conduct reflects our values and our expectations for the conduct of all suppliers, contractors and consultants, and their affiliates, who provide goods or services to our group of companies. We find business relationships are more productive and effective when they are built on trust, mutual respect and common values. As such, we seek relationships with suppliers who share a common commitment to:

1. Incorporate quality business processes within their day to day operation;
2. Conduct their business ethically and with integrity;
3. Comply with all laws and regulations;
4. Respect human and employee rights;
5. Promote and maintain a health and safety culture within their organisation;
6. Design for sustainability;
7. Monitor and minimise any negative impacts on the environment; and
8. Have systems in place to ensure business continuity, continuous improvement and protection of intellectual property.

Within our upstream supply chain, our active risk mitigation means we continuously monitor and partner with socially responsible organisations that believe in doing the right thing. We dual source both directly from our manufacturers, service providers and third parties all over the world within our key risk areas.

While materials are procured from all over the globe, a large portion of the externally procured materials originate from suppliers in Asia and North America. To support our suppliers and ensure transparency, we have local teams that enable us to personally interact and be present within our suppliers' operations on a regular basis. The local teams also organise visits from the New Zealand-based global procurement teams to enable mutual collaboration.

### Anti-bribery and corruption

In the course of our business we interact with a wide range of government officials and private sector individuals or businesses, including government regulators, inspection authorities and healthcare professionals.

We do not tolerate bribery, corruption, kickbacks or other types of improper benefits, whether committed by our own people or by anyone we deal with.

Most of the countries in which we operate have strict anti-bribery and corruption laws that apply to our interactions with public officials. Failing to comply with these laws could have serious consequences for us, both as individuals and as an organisation. In some cases, these consequences could include criminal charges. We have processes in place for assessing anti-bribery and corruption risk and implement measures to mitigate these risks.

Our Code of Conduct sets out our expectations for all employees in combatting bribery and corruption. We never offer or accept (or ask a third party to offer or accept) bribes, facilitation payments, secret commissions or kickbacks to or from any person. These rules apply to all our business activities, including any interactions we may have with government officials or with any private person or business, either locally or overseas.

The Code requires that where we suspect bribery or corruption, either by our own people or by any of our suppliers, customers or other business partners, we report it immediately. The Speak Up policy ensures that all employees know how to make such a report and can be confident that concerns will be taken seriously and investigated and will not result in retaliation or other harassment.

During the year ended 31 March 2019 the company is not aware of any instances of corruption or of incidents in which employees were dismissed or disciplined for corruption.

### Interactions with healthcare professionals

As we are a medical device business, we must comply with laws and regulations on interacting with healthcare professionals in various countries around the world. It is critical that our activities do not improperly influence the medical decisions of healthcare professionals or the purchasing decisions of entities that buy our products.

Our Policy on Interactions with Healthcare Professionals ensures that we act ethically and legally in our interactions with healthcare professionals, comply with all applicable laws, and do not provide improper benefits or inducements to healthcare professionals. We provide training to employees on this policy.

### Ethical research

*Clinical trials*

We have formal procedures in place to ensure that we adhere to the International Conference on Harmonisation Good Clinical Practice (GCP) standards during all clinical investigations we carry out. GCP standards cover the design, conduct, recruitment, recording and reporting of clinical investigations that involve the participation of human subjects.

Our procedures have also been compiled based on the ISO 14155:2011(E) standard for: Clinical investigation of medical devices for human subjects – Good clinical practice and the EU Medical Devices Directive.

These procedures are designed to ensure that the data and reported results of all clinical trials are credible and accurate and that the rights, integrity and confidentiality of trial participants are protected.

*Animal Ethics*

Regulatory bodies occasionally require biocompatibility testing of our medical device materials. This testing follows a risk management approach based on ISO 10993-1, Biological Evaluation of Medical Devices. ISO 10993-1 includes requirements for the wellbeing of animals and for minimising the number of animals involved, and tests are conducted in laboratories accredited to international standards (ISO 17025).

We may sometimes participate, observe or otherwise be involved in clinical studies which include animal testing.

We minimise this impact by ensuring these activities are approved by the relevant animal ethics committees and comply with applicable legislation. We support efforts to further reduce animal testing by funding and supporting research in sophisticated physiological computer models.

GOVERNANCE CONTINUED

## The Board

The Board plays a vital role in setting and overseeing our strategic direction and driving the business forward. Strong governance from a diverse and experienced Board ensures we can achieve our aims of improving patient care and outcomes through inspired and world leading healthcare solutions, thereby sustainably increasing shareholder value.

The biography of each Board member, including each director's skills, experience, expertise and term of office, is set out in the "Our Board" section of this report.

### Role of the Board

The Board is ultimately responsible for our strategic direction. The specific roles and responsibilities of the Board, and the Board's procedures, are set out in detail in our Board Charter, available on our website. In summary, the Board is elected by our shareholders to:

- establish our strategies and objectives;
- identify and manage risks;
- review and approve budgets and business plans;
- adopt our remuneration policy and other policies governing the way we operate our business; and
- provide governance of internal decision making and management.

The Board delegates management of the day-to-day affairs and responsibilities of the Company to the CEO and Executive Management to deliver the strategic direction and goals set by the Board. The specific responsibilities delegated to Executive Management are recorded in the Board Charter and the Delegation Policy. A summary of the Delegation Policy is available on our website.

The Board regularly reviews and assesses our governance structures, policies, and procedures to ensure these are in-line with international best practice and legal requirements. The Board Charter was last updated on 29 March 2019.

### Nomination and appointment of directors

The number of directors is determined by the Board, in accordance with the Company's constitution. The constitution requires that there are at least four directors, and no more than nine directors, and governs the process for the appointment and removal of directors. A director is appointed by ordinary resolution of the shareholders although the Board may fill a casual vacancy.

Under the NZX Listing Rules, a director must not hold office (without re-election) past the third annual meeting following the director's appointment or 3 years, whichever is longer. A director appointed by the Board must not hold office (without re-election) past the next annual meeting following the Director's appointment.

When searching for and nominating candidates to act as a director, the People and Remuneration Committee takes into account such factors as it deems appropriate, including diversity of gender, background, experience, and qualifications of the candidate, independence and the Board skills matrix. It may use external search firms to assist with locating possible candidates and gathering relevant information.

When considering the re-election of an existing director the People and Remuneration Committee will also consider the length of service of the director, and the director's performance on the Board to date. It is the Board's general expectation that a non-executive director will hold office for an aggregate period of approximately nine years (including re-elections).

We undertake a number of checks before appointing a director and putting forward to shareholders a candidate for election as a director, and ensure we provide shareholders with all relevant information to inform their decision on whether to elect or re-elect a director.

At the ASM on 23 August 2018, Arthur Morris retired from the Board and Scott St John and Michael Daniell retired by rotation and, being eligible, offered themselves for re-election and were re-elected to the Board. Neville Mitchell was appointed to the Board on 12 November 2018 and will stand for election at the ASM to be held on 28 August 2019.

Other procedures relating to the nomination and appointment of directors are outlined in the Appointment and Selection of New Directors Policy available on our website.

### Board diversity and skills matrix

At Board level, diversity allows the Company to benefit from a range of different perspectives, which leads to healthier debate and decision making. As we operate in specialised international markets, the Board believes that it is important to have a Board consisting of members with diverse backgrounds, experience and skills. The Board also believes that the tenure of each of its members is important as it seeks to balance independent, institutional knowledge gained through length of service and the importance of fresh perspectives in decision-making.

The following table summarises the current key skills and experience, and tenure of the Board.

| Skills and experience | Tony Carter | Lewis Gradon | Michael Daniell | Pip Greenwood | Geraldine McBride | Neville Mitchell | Donal O'Dwyer | Scott St John |
|---|---|---|---|---|---|---|---|---|
| Financial acumen | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Sales/Marketing | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ |
| Engineering/ Science/Technology/ Manufacturing | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | |
| Medicine/Medical Device | | ✓ | ✓ | ✓ | | ✓ | ✓ | |
| Legal/Regulatory | | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ |
| Governance | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| International Business Experience | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Tenure (years) | 8.5 | 3 | 17.5* | 2 | 5.5 | 0.5 | 6.5 | 3.5 |

* Michael Daniell was appointed as a non-executive director on 1 April 2016 following his retirement as Managing Director and CEO.

While some directors will have greater expertise in certain areas than others, the Board has determined the table above on the basis of directors who have at least the minimum required level of skill and experience in each area.

GOVERNANCE CONTINUED

### Written agreements with directors

Upon appointment, non-executive directors are issued a letter setting out the terms and conditions of their appointment. This includes information about their role and duties, time commitments, term of appointment, remuneration and insurance, access to information, and disclosure and compliance obligations. A copy of the standard form of this letter is available on our website. The CEO has an employment agreement setting out his roles and conditions of employment. Further information about the remuneration of directors is set out in the Remuneration section of this Report.

### Directors' and officers' insurance and indemnity

The Group has arranged, as provided for under the Company's Constitution, policies of directors' and officers' liability insurance which, with a Deed of Indemnity entered into with all directors, ensure that generally directors will incur no monetary loss as a result of actions undertaken by them as directors. Certain actions are specifically excluded, for example, the incurring of penalties and fines which may be imposed in respect of breaches of the law.

### Independence of directors

We are committed to ensuring that a majority of directors are independent of the Company, and do not have any interests, positions, associations or relationships which might interfere, or might be seen to interfere, with their ability to bring independent judgement to the issues before the Board.

The Board has regard to the factors described in the NZX Corporate Governance Code when assessing the independence of directors. After consideration of these factors, the company is of the view that:

1. No director is a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
2. Lewis Gradon is a director who is currently employed in an executive role by the company;
3. Michael Daniell is a director who was employed in an executive role by the company until 31 March 2016 and there has not been a period of at least three years between ceasing such employment and serving on the Board;
4. No director has been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with such service provider, within the last three years;
5. No director is a material supplier or customer of the company or other group member, or an officer of, or otherwise associated directly or indirectly with, a material supplier or customer;
6. No director has a material contractual relationship with the company or another group member other than as a director of the company;
7. No director has served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company; and
8. All directors are free from any interest or any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

Based on these assessments, the Board considers that as at 31 March 2019 a majority (six) of the directors are independent, namely Tony Carter (Chair), Pip Greenwood, Geraldine McBride, Neville Mitchell, Donal O'Dwyer and Scott St John, and that Michael Daniell and Lewis Gradon are not independent.

### Induction and continuing development of directors

A formal induction programme is available to new directors to ensure that they have a working knowledge of our business. The programme includes one-on-one meetings with management and a tour of our R&D and manufacturing facilities. All directors are regularly updated on relevant industry and company issues. From time to time the Board may also undertake educational trips to receive briefings from customers and visit operations of the company outside of New Zealand. There is an on-going programme of presentations to the Board by all business units.

All directors are members of the Institute of Directors (or overseas equivalent), and attend training sessions to remain current on their duties as directors. The company also arranges training for directors and management on specific issues as the need arises.

## Board performance

We have a Performance Evaluation Policy in place relating to the performance of the Board, the Board Committees and individual directors. A summary of the Performance Evaluation Policy is available on our website. The Performance Evaluation Policy, in accordance with the Board Charter, requires the Board to undertake a two-yearly performance evaluation of itself that:

- compares the performance of the Board with the requirements of its Charter;
- reviews the performance of the Board Committees;
- sets forth the goals and objectives of the company for the upcoming year; and
- effects any improvements to the Board Charter deemed necessary or appropriate.

The Board has engaged an external consulting company to facilitate the Board's performance evaluation during 2018.

Our Executive Management are also subject to regular performance reviews. The performance of senior executives is reviewed by the CEO who meets with each senior executive to discuss their performance, as measured against key performance targets (both financial and non-financial) previously established and agreed with that executive.

## Board Committees

The Board has three permanent Committees which support the Board by working with management on relevant issues at a suitably detailed level and then reporting back to the Board. These Committees and their members as at 31 March 2019 are:

- **Audit & Risk Committee**
  Members: Scott St John (Chair), Tony Carter and Michael Daniell
  All members are non-executive directors, and two of three (including the Chair) are independent.
- **People and Remuneration Committee**
  Members: Pip Greenwood (Chair), Tony Carter, Donal O'Dwyer and Scott St John
  All members are independent non-executive directors.
- **Quality, Safety and Regulatory Committee**
  Members: Donal O'Dwyer (Chair), Tony Carter and Neville Mitchell
  All members are independent non-executive directors.

Each Committee has a charter setting out its objectives, procedures, composition and responsibilities. A summary is set out below, and copies of these charters are available on our website. The Board may from time-to-time establish other Committees for specific purposes.

### *Audit & Risk Committee*

The primary function of the Audit & Risk Committee is to assist the Board in fulfilling its responsibilities relating to the company's risk management and internal control framework, the integrity of its financial reporting, and the company's internal and external auditing processes and activities. The Committee has an annual work plan and monthly reporting to the Board which enables it to properly and regularly inform the Board monthly on significant financial matters relating to the company.

Employees and external auditors are invited to attend meetings when it is considered appropriate by the Committee. The Committee, at least once per year, meets with the auditors without any representatives of management present and is encouraged to seek advice from external consultants or specialists where the Committee considers that necessary or desirable.

The Audit & Risk Committee closely monitors financial reporting risks in relation to the preparation of the financial statements. The Committee, with the assistance of management, works to ensure that the financial statements are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. As part of this process, before the company's financial statements are approved, the CEO and CFO are required to state in writing to the Board that, to the best of their knowledge, the company's financial reports present a true and fair view of the company's financial condition and operational results and are in accordance with the relevant accounting standards and those reports are founded on a sound system of risk management and internal control which is operating effectively.

### *People and Remuneration Committee*

The People and Remuneration Committee's role is to oversee and regulate remuneration and organisation matters of the company, including recommending the company's human resources strategy for directors and senior executives, reviewing remuneration and benefits policies, monitoring company performance against the Diversity & Inclusion Policy, and reviewing performance objectives and remuneration of the company's Chief Executive Officer and senior executives. It also seeks advice on and recommends director remuneration structure and recommends director appointments to the Board.

### *Quality, Safety and Regulatory Committee*

The Quality, Safety and Regulatory Committee addresses characteristics specific to the company's business. The objective and purpose of the Quality, Safety and Regulatory Committee is to assist the Board in fulfilling its responsibilities relating to the oversight of the company's quality management system, health and safety risk management system, and strategies, activities and policies regarding sustainability, corporate social responsibility and the environment. As part of the company's internal audit function, regular quality system specific internal audit reports are received by the Committee.

### *Board & Committee meetings*

Normally, the Board holds eight formal meetings a year. One of those meetings is typically focused on reviewing the company's annual business plan and budget, and at a separate meeting the long-term strategic plan is considered. The Board also meets with senior executives to consider matters of strategic importance. At the company's ASM held on 23 August 2018, all of the then-serving directors attended the meeting.

## GOVERNANCE CONTINUED

Committees generally meet three or four times per year, or as required to carry out their responsibilities. Details of attendance at Board and Committee meetings during the year ended 31 March 2019 are set out below:

| | Board | | Audit & Risk Committee | | People & Remuneration Committee | | Quality, Safety & Regulatory Committee | |
|---|---|---|---|---|---|---|---|---|
| | Eligible to attend | Attended | Eligible to attend | Attended | Eligible to attend | Attended | Eligible to attend | Attended |
| Tony Carter | 8 | 8 | 4 | 3 | 5 | 5 | 2 | 2 |
| Lewis Gradon | 8 | 8 | | | | | | |
| Michael Daniell | 8 | 8 | 4 | 4 | | | | |
| Pip Greenwood | 8 | 8 | | | 5 | 5 | | |
| Geraldine McBride | 8 | 8 | | | | | | |
| Neville Mitchell[1] | 3 | 3 | | | | | 1 | 1 |
| Arthur Morris[2] | 4 | 4 | | | | | | |
| Donal O'Dwyer | 8 | 8 | | | 5 | 5 | 2 | 2 |
| Scott St John | 8 | 8 | 4 | 4 | 5 | 5 | | |

[1] Neville Mitchell was appointed to the Board and Quality, Safety and Regulatory Committee in November 2018.

[2] Arthur Morris retired from the Board in August 2018.

### Takeover Protocol

The Board adopted a new Takeover Protocol in 2018 to assist the directors and management with the response to unexpected takeover activity. The Protocol summarises key aspects of takeover preparation, and sets out governance, conflict and communications protocols for takeover response. This Protocol provides that in the event of a takeover offer, the Board would establish an Independent Takeover Response Committee to manage its takeover response obligations.

### Company Secretary

The Company Secretary is responsible for supporting the proper functioning of the Board and ensuring the appropriate policies and procedures are followed. The Company Secretary reports directly to the Board, through the Chair, on all governance matters as outlined in the Board Charter.

### Disclosure of interests by directors

Directors' certificates to cover entries in the company's interests register in respect of remuneration, insurance, indemnities, dealing in the company's shares, and other interests have been disclosed as required by the Companies Act 1993.

*Directors' shareholdings*

Directors held interests in the following ordinary shares in the Company as at 31 March 2019:

| Name | Ownership | Ordinary Shares |
|---|---|---|
| Tony Carter | Beneficial | 76,101 |
| Lewis Gradon[1] | Beneficial | 603,502 |
| Michael Daniell[2] | Beneficial | 971,809 |
| Pip Greenwood | Beneficial | 3,800 |
| Arthur Morris | Beneficial | 29,915 |
| Neville Mitchell | Beneficial | 7,200 |
| Donal O'Dwyer | Beneficial | 68,569 |
| Scott St John | Beneficial | 13,457 |

[1] Lewis Gradon also had a beneficial interest in 326,677 options issued under the 2003 Share Option Plan and a beneficial interest in 97,064 performance share rights issued under the PSR Plan.

[2] Michael Daniell also had a beneficial interest in 40,000 options issued under the 2003 Share Option Plan.

## GOVERNANCE CONTINUED

*Share dealings by directors*

In accordance with the Companies Act 1993 and the Financial Markets Conduct Act 2013, the Board has received disclosures from the directors named below of acquisitions or dispositions of relevant interests (as defined in the Financial Markets Conduct Act 2013) in the company between 1 April 2018 and 31 March 2019, and details of those dealings were entered in the company's interests register.

| Name | Transaction | Number of shares | Price per share | Date |
|---|---|---|---|---|
| Tony Carter | Share purchases under DRP[1] | 40 | $14.8773 | 6 Jul 2018 |
| | | 540 | $15.0455 | 6 Jul 2018 |
| | | 38 | $12.3105 | 21 Dec 2018 |
| | | 521 | $12.2575 | 21 Dec 2018 |
| Lewis Gradon | Share sales | 9,000 | $14.3933 | 11 Jun 2018 |
| | | 12,000 | $14.5369 | 13 Jun 2018 |
| | | 18,000 | $15.0846 | 24 Sep 2018 |
| | Share issue for cancellation of 80,000 options | 53,891 | $14.9526 | 15 Jun 2018 |
| | Granted 32,466 PSRs | – | – | 13 Sep 2018 |
| | Granted 100,313 options | – | – | 13 Sep 2018 |
| | Exercise of 26,000 PSRs | 26,000 | $15.2500 | 21 Sep 2018 |
| | Share issue for cancellation of 30,000 options | 15,825 | $15.2500 | 21 Sep 2018 |
| Michael Daniell | Share sales | 25,000 | $13.7896 | 6 Jun 2018 |
| | | 25,000 | $14.3734 | 7 Jun 2018 |
| | | 5,229 | $15.0724 | 26 Jun 2018 |
| | | 44,771 | $15.1835 | 27 Jun 2018 |
| | | 30,000 | $15.1250 | 18 Sep 2018 |
| | | 10,000 | $15.0400 | 11 Mar 2019 |
| | | 10,000 | $15.0500 | 12 Mar 2019 |
| | Share issue for cancellation of 150,000 options | 101,335 | $14.8900 | 19 Jun 2018 |
| | Exercise of 30,000 PSRs | 30,000 | $15.0900 | 17 Sep 2018 |
| | Share issue for cancellation of 40,000 options | 20,882 | $14.8300 | 12 Mar 2019 |

| Name | Transaction | Number of shares | Price per share | Date |
|---|---|---|---|---|
| Arthur Morris | Share purchases under DRP[1] | 73 | $15.0849 | 6 Jul 2018 |
| | | 155 | $15.0090 | 6 Jul 2018 |
| | | 71 | $12.2559 | 21 Dec 2018 |
| | | 149 | $12.2560 | 21 Dec 2018 |
| Donal O'Dwyer | Share purchases under DRP[1] | 561 | $15.0328 | 6 Jul 2018 |
| | | 541 | $12.2559 | 21 Dec 2018 |
| Scott St John | Share purchases under DRP[1] | 102 | $15.1170 | 6 Jul 2018 |
| | | 99 | $12.2420 | 21 Dec 2018 |

[1] DRP means the company's dividend reinvestment plan. For more information see https://www.fphcare.co.nz/drp.

## GOVERNANCE CONTINUED

*General disclosure of interests by directors*

In accordance with Section 140(2) of the Companies Act 1993, the directors named below have made a general disclosure of interest by a general notice disclosed to the Board and entered in the company's interests register. General notices given by directors which remain current as at 31 March 2019 are as follows:

| Name | Entity | Relationship |
| --- | --- | --- |
| Tony Carter | Air New Zealand Limited | Chair |
| | Fletcher Building Limited<br>Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited<br>ANZ Bank New Zealand Limited | Director |
| | Loughborough Investments Limited<br>Avonhead Mall Limited | Director & Shareholder |
| | Antony Carter Family Trust No 2<br>Foodstuffs Auckland Perpetuation Trust<br>Foodstuffs Auckland Protection Trust<br>Maurice Carter Charitable Trust<br>Tony and Frances Carter Family Trust | Trustee |
| | Capital Solutions Limited<br>Capital Training Limited | Advisor |
| | Independent Selection Panel of Fonterra Co-op Group Limited | Member |
| Lewis Gradon | Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited<br>Other Group entities listed in the 'Subsidiary Company Directors' section of this Report | Director |
| Michael Daniell | Medical Technologies Centre of Research Excellence | Chair |
| | Tait Limited<br>Tait International Limited<br>MRCF Pty Limited<br>MRCF IIF GP Pty Limited | Director |
| | Council of the University of Auckland | Council Member |
| Pip Greenwood | Russell McVeagh | Partner |
| | Westpac New Zealand Limited<br>Spark New Zealand Limited | Director |
| | Auckland Writers Festival Trust<br>Rakino Trust<br>Theresa Gattung Investment Trust<br>Milbrook 7th Trust<br>Oriental Trust<br>Portia Trust | Trustee |

| Name | Entity | Relationship |
| --- | --- | --- |
| Geraldine McBride | National Australia Bank Limited<br>Sky Network Television Limited<br>MyWave Holdings Limited | Director |
| Neville Mitchell | Sonic Healthcare Limited<br>Osprey Medical<br>Q'Biotics Limited | Director |
| | Board of Taxation<br>South East Sydney Local Health District | Board Member |
| Arthur Morris (retired) | Mercy Healthcare Auckland Limited<br>Southern Cross Hospitals Limited | Director |
| | Auckland School of Medicine Foundation<br>Southern Cross Health Trust | Trustee |
| Donal O'Dwyer | Cochlear Limited<br>Mesoblast Limited<br>NIB Holdings Limited | Director |
| | Nyxoah SA (by virtue of directorship of Cochlear) | Shareholder |
| Scott St John | Te Awanga Terraces Limited | Director & Shareholder |
| | Fonterra Cooperative Group Limited<br>Hutton Wilson Nominees Limited<br>Captain Cook Nominees Limited<br>NEXT Foundation<br>Mercury NZ Limited | Director |
| | St John Family Trust<br>Macleod Trust | Beneficiary & Trustee |
| | Council of the University of Auckland | Chancellor |
| | Butland Medical Foundation | Trustee |

## Reporting & disclosure

We are committed to the promotion of investor confidence by ensuring that the trading of our shares takes place in an efficient, competitive and informed market. We believe that evenly balanced disclosure is fundamental to building shareholder value and earning the trust of employees, customers, suppliers, communities and shareholders.

### Continuous disclosure

Our Market Disclosure Policy establishes our disclosure policies for meeting our continuous disclosure obligations. A summary of the Market Disclosure Policy is available on our website. This explains the respective roles of directors, officers and employees in complying with continuous disclosure obligations, confidentiality of information, external communications with analysts and shareholders, and responding to rumours and market speculation.

The Disclosure Committee, comprising the CEO, CFO and VP – Corporate, and the Disclosure Officer, the VP – Corporate or alternatively the General Counsel NZ, are responsible for administering compliance with our Market Disclosure Policy, including continuous disclosure obligations. Market disclosure requires the approval of either the Board or the Disclosure Committee, depending on the circumstances. The Market Disclosure Policy was last updated on 29 March 2019.

### Company policies

We have policies and procedures in place to ensure we conduct our business with integrity, and in a legally, ethically, and socially responsible manner. Key governance documents including our Codes of Conduct, Securities Trading Policy and Guidelines, Board and Committee Charters, Diversity Policy, Remuneration Policy, and Market Disclosure Policy are available on our website.

### Financial reporting

We are committed to reporting our financial information in an objective, balanced, and clear manner. Financial results are reported in this annual report in accordance with the New Zealand equivalent of International Financial Reporting Standards. This annual report includes detailed financial commentary and notes to the financial statements which explain any changes to financial reporting.

This annual report also includes the Chair's comments on strategic progress and the CEO's report summarises performance and progress towards our strategic objectives. It explains how we deliver value for shareholders and key performance indicators such as revenue, profit, constancy currency information, dividend growth and gearing, are used to link results to our strategy.

We ensure that financial information reported in investor material for roadshows, company overviews, and other documents is portrayed in an accurate, fair, and understandable format.

### Other reporting

We are also committed to transparent reporting of non-financial objectives, such as environmental, social, and governance (ESG) factors, as well as risk, health & safety, and business strategy. Our annual report references the guidelines and principles set out by the Global Reporting Initiative (GRI), and a GRI referenced content index, based on the 2016 standards.

## Auditors

### External audit

The Audit & Risk Committee has oversight responsibility for our external audit arrangements. The Board has adopted the External Financial Auditors Independence Policy which complements the Audit & Risk Committee Charter by outlining the requirements for the provision of services by any external auditor we engage. The purpose of the Policy is to ensure that our external auditor carries out its function independently and without impairment, safeguarding the reliability and credibility of external financial reporting.

The External Financial Auditors Independence Policy establishes a framework for the selection and appointment of external auditors, outlines the services which may be ordinarily performed, may be performed with approval of the Audit & Risk Committee, or must not be performed by external auditors, and the responsibilities of external auditors.

The Policy requires the CFO to report at each Audit & Risk Committee meeting any work (audit and non-audit) conducted by the external auditor, including the fees paid to the external auditors for non-audit services. Procedures for communication between the Audit & Risk Committee, Board, senior management, and the external auditors are set out in the Audit & Risk Committee Charter.

The Audit & Risk Committee is responsible for monitoring performance and independence of the external auditors. The Policy requires the external auditor to report to the Audit & Risk Committee annually in writing, confirming that they are independent and disclosing all relationships that may bear on independence. Under the Audit & Risk Committee Charter, the Audit & Risk Committee is responsible for recommending appropriate action to the Board in response to this report.

The Board requires our external financial auditors to attend the ASM each year to answer any question from shareholders relating to the audit for that financial year.

The Audit & Risk Committee Charter and the External Financial Auditors Independence Policy can be found on our website.

### Internal audit

Internal audit is a key component of our objective-centric risk management approach. In addition to internal mechanisms, including self-assessments and internal reviews, the Board engages external advisors to carry out internal audit functions on various parts of the business as needed. The focus is to assist the business with the evaluation of the effectiveness of key risk management control.

# RISK MANAGEMENT

In working to achieve our purpose of improving care and outcomes through inspired and world-leading healthcare solutions, it is our responsibility to understand and manage the risks faced across our entire organisation.

The purpose of designing, implementing and maintaining an effective, structured approach to risk management is to help improve the quality of decisions the business makes in the pursuit of achieving our growth objective of providing an expanding range of innovative medical devices that improve patient care and outcomes.

## Components of our risk management approach

Our business risk management approach is derived from ISO 31000 Risk Management – Principles and Guidelines and enhanced to focus on Fisher & Paykel Healthcare's key strategic objectives. For product risk, ISO 14971 Medical Devices Application of Risk Management is the standard we follow specific to medical device design and manufacturing. For health and safety, our focus is on the implementation of global health, safety and wellbeing standards that are aligned with ISO 45001 and a greater emphasis on the effective management of critical risks.

The diagram below provides a high-level summary of our risk management approach:


Through this approach to risk management, we can:

- Ensure prompt resolution of internally identified risk to compliance with laws and regulations to maintain the provision of quality products, protect patient safety and ensure appropriate relationships with customers and stakeholders;
- Enable improved decision making, planning and prioritisation through a structured understanding of opportunities and threats to strategic objectives; and
- Support value creation by enabling management to deal effectively with future events that create uncertainty, pose a significant risk or opportunity and to respond in a prompt, efficient and effective manner.

While no risk management system can ever be fool proof, our goal is to make sure that material risks are appropriately identified and managed within acceptable levels.

Examples of activities to identify and mitigate our material risks are described below.

### Business Risk Management

As part of our annual business planning process we piloted an analysis of risk to strategies. The purpose of this approach is to generate better quality information on risks and opportunities to our strategies and help managers make the best possible decisions regarding strategy execution.

We also revised our approach to analysing the macro and industry risks that we face as a medical device manufacturer selling product globally. A quantitative risk analysis has been completed using the inputs gathered during a discovery process which involved interviews with employees across the business. The modelling approach used is a simulation which generates a probability distribution curve plotting the likelihood of risks exceeding certain amounts. This approach provides greater insights over single point estimates by showing not only what could happen, but how likely each outcome is.

### Product quality and safety

Ensuring patient safety and the quality of our products is a key priority. We establish processes that effectively manage risk and drive continuous improvement in product quality throughout the lifecycle of our products.

We have introduced proactive quality control mechanisms within our manufacturing operations. Through the use of data collection and statistical analysis, we are improving the control of our manufacturing processes, with the aim of being able to intervene and correct a process prior to product quality being compromised. This approach is providing further assurance that our customers and patients receive high quality products that are safe and effective.

### Health, safety and wellbeing

We are committed to ensuring the health, safety, and wellbeing of our people. To do so, we continue to drive performance improvement across our global operations through the ongoing development and implementation of global health, safety and wellbeing management systems and processes which are aligned with ISO 45001:2018.

Targeted interventions to prevent high frequency/low consequence musculoskeletal injuries have been particularly effective during the past financial year as illustrated by the significant improvement in our 'lag' performance indicators, the Total Recordable Injury Frequency Rate (TRIFR) and the Lost Time Injury Frequency Rate (LTIFR), as shown in the 'Health and safety data' section on the following page.

In addition, we have placed greater emphasis on the effective management of the critical risks common across our global operations; i.e. low frequency/very high consequence risks with the potential to result in a fatality, serious injury or illness. In the past year, subject matter expert groups were assembled from across our operations globally to establish critical risk standards. Regular monitoring of the implementation of these critical risk standards will become an important 'lead' performance indicator for us.

The improvements to our health, safety and wellbeing risk management systems and performance indicators will provide a safer and healthier work environment for our people.

**RISK MANAGEMENT** CONTINUED

## Material business risks and strategies to mitigate

After completing the risk management processes outlined on the previous page, and in line with the materiality assessment in the 'Materiality' section of this Report, we have identified and described a selection of key business risks, and strategies to mitigate these, in the table below.

| Area | Principal risk | Strategies to mitigate |
|---|---|---|
| Product quality and patient safety | Patients are harmed as a result of using our products | We operate a worldwide quality management system related to the design, testing and manufacture of our products. Furthermore, we foster an organisational culture of product safety and continuous improvement. |
| Market access | Maintaining regulatory compliance is required to market and sell our products in certain countries | We have a regulatory affairs processes for obtaining and maintaining product licenses, as well as a quality management system that ensures compliance with applicable regulatory requirements.<br>We have monitoring steps in place to evaluate the effectiveness of our programmes, and our executive management team conducts regular management reviews. |
| Health and safety | Work related injuries | Our focus is on the implementation of global health, safety and wellbeing standards that are aligned with ISO 45001 and a greater emphasis on the effective management of critical risks.<br>We design and implement preventative and recovery risk controls for critical health, safety and wellbeing risks across our global business.<br>Our health, safety and wellbeing progress is reported regularly to the Board and to the Quality, Safety and Regulatory Committee three times a year. |
| Intellectual Property | Third parties asserting IP rights against us | We have a comprehensive patent portfolio across our technologies and we actively and robustly manage IP litigation risk. As part of our product development phase we conduct freedom to operate searches during product design. We monitor competitor patent filings and take action as required. |
| Sustainable profitable growth | Foreign exchange losses | Currency risk is hedged in accordance with the Board approved hedging policy. The hedging policy aims to manage the impact of short-term fluctuations on our cash flow. Longer term, we use derivative financial instruments to hedge exposures over future years. A diversity of currency exposures also provides natural hedges. |
| Business continuity | Continuity and quality of supply | To ensure risk is managed within our global supply chain, we actively monitor our end to end processes and systems through an internal risk management process and implement actions to prevent disruption. We utilise a business impact analysis to identify, understand and quantify the impact of a material disruption to a key facility, location, supplier or business process. This approach enables us to prioritise the most significant potential exposures to the business. |
| Cyber security and data protection | Cyber security attack resulting in disruption to operations and data breach. | To manage our risk and protect the data entrusted to us, we are constantly reviewing and improving our control mechanisms to ensure we can proactively respond to developing cyber threats. As a result, we have been increasing our use of independent reviews to test and identify potential risks to ensure we focus on the right cyber risks. |

## Governance of risk

Our Board is dedicated and fully committed to its role of ensuring quality, safety, compliance and effective risk management. The Board provides oversight of senior leadership's management of risk, meets regularly with key risk management functional leaders and receives regular reports from senior representatives on material risk and mitigation strategies.

The Audit & Risk Committee reports to and assists the Board by reviewing and ensuring our risk management processes (excluding any risks related to quality, safety and regulatory functions) can provide reliable information to the Board on the status of major risks that could impact on the achievement of our objectives.

The Quality, Safety & Regulatory Committee reports to and assists the Board by reviewing our quality, health and safety and regulatory risk management approach to ensure effective mechanisms and internal controls are in place to identify and manage areas of material risk and maintain compliance with applicable regulations.

## Health and safety data

| | Global | | |
|---|---|---|---|
| Injury rates[1] | 2017 | 2018 | 2019 |
| TRIFR | 5.62 | 7.79 | 2.33 |
| LTIFR | 1.62 | 4.82 | 0.47 |

| | New Zealand | | Mexico | | Rest of World | |
|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| **Injury rates (per million hours worked)** | | | | | | |
| TRIFR | 12.35 | 4.33 | 1.42 | 0.00 | 4.48 | 0.52 |
| LTIFR | 7.36 | 0.68 | 1.42 | 0.00 | 2.80 | 0.52 |
| **Severity** | | | | | | |
| Fatality | 0 | 0 | 0 | 0 | 0 | 0 |
| Serious injury | 0 | 1 | 0 | 0 | 0 | 0 |
| Lost time injury | 30 | 3 | 3 | 0 | 6 | 1 |
| Medical treatment injury | 6 | 4 | 0 | 0 | 1 | 0 |
| Restricted work injury | 16 | 12 | 0 | 0 | 1 | 0 |
| First aid injury | 235 | 213 | 0 | 28 | 6 | 8 |
| Pain and discomfort | 88 | 136 | 2 | 26 | 6 | 8 |

1 We have reviewed our health, safety and wellbeing performance reporting processes and lag indicator (LTI, MTI, RWI) definitions to align with internationally recognised standards. As a result, our TRIFR and LTIFR more accurately reflect our current safety performance.

# SHAREHOLDER AND COMPANY INFORMATION

The company has in place an investor relations programme to facilitate effective two-way communication with investors. We aim to build strong relationships with our shareholders and investors based on integrity, transparency, and trust. Our intention is to provide shareholders with all relevant information about the company to enable them to actively engage with us and exercise their rights as shareholders in an informed manner.

## Shareholder communications

Our Shareholder Communication Policy facilitates communication with shareholders through written and electronic means, and by facilitating shareholder access to directors, Executive Management and our auditors. A copy of our Shareholder Communication Policy is available on our website.

We communicate with shareholders through the following channels:

- investor section of our website;
- Annual Report;
- Interim Report;
- ASM;
- webcasts;
- regular disclosures on company performance and news; and
- disclosure of presentations provided to analysts and investors during regular briefings, meetings and roadshows.

### Our Website

The company's website is frequently the first port of call for shareholders and therefore is a core component of our Shareholder Communications Policy. We include on our website a range of information relevant to shareholders and others concerning the operation of the company.

We make available a webcast of our ASM and management presentations of financial results. Webcast details will be published on the NZX and ASX before the event so that shareholders and other interested parties may participate.

The company encourages shareholders to receive their shareholder communications electronically to help reduce our environmental footprint and costs.

### Direct communication

Shareholders may, at any time, direct questions or requests for information to directors or management by contacting Marcus Driller, our VP Corporate and Company Secretary, at marcus.driller@fphcare.co.nz or +64 27 578 9663.

We have a modern communication framework in place so shareholders can receive communications in a manner that best suits them. We provide shareholders with the option to receive communications from, and send communications to, us and our share registrar electronically. Commencing in 2018, we have offered shareholders the ability to attend our ASM digitally, ask questions through a virtual tool, and to vote electronically or using an app.

### ASM and shareholder voting

Our ASM is currently held in Auckland, New Zealand, as the Board believes this location best facilitates attendance by shareholders. Our next ASM is scheduled to be held at the Paykel Building, Fisher & Paykel Healthcare, 15 Maurice Paykel Place, East Tamaki, Auckland, New Zealand on Wednesday, 28 August 2019 at 2pm (NZST).

Shareholders can also attend remotely using a virtual tool. Notice of the ASM is released to the NZX and ASX, and posted on our website, at least 20 working days prior to the meeting. We encourage active participation by shareholders at the ASM and shareholders may present questions in person or digitally to engage with the Board and executive leadership and ask questions.

Shareholders have the right to vote on major decisions which may change the nature of the company. Each shareholder has one vote per ordinary share they own in the company, equally with other shareholders, and may vote at a meeting in person, or by proxy, representative or attorney. We offer an electronic voting facility to allow shareholders to vote ahead of the meeting without having to attend or appoint a proxy, and we also allow voting through an app.

## Share information

### Stock exchange listing requirements

The company's shares were listed on the NZX Main Board on 14 November 2001 and on the ASX on 21 November 2001. On 20 June 2016 the company changed its admission category to an ASX Foreign Exempt Listing. As part of this change, the company is still required to comply with the NZX Listing Rules but is not required to comply with many of the ASX listing rules. For the purposes of ASX Listing Rule 1.15.3, the company confirms that it has complied with the NZX listing rules during the year ended 31 March 2019.

Neither the NZX nor the ASX has taken any disciplinary action against the company during the year ended 31 March 2019. In particular, there was no exercise of powers by the NZX under NZX Listing Rule 9.9.3.

## SHAREHOLDER AND COMPANY INFORMATION CONTINUED

### Current on-market share buyback

There is no current on-market buy-back of the company's ordinary shares and during the year ended 31 March 2019 none of the company's ordinary shares were purchased on-market under or for the purposes of an employee incentive scheme or to satisfy the entitlements of holders of options or other rights to acquire ordinary shares granted under an employee incentive scheme. The company does not have any restricted securities or securities subject to voluntary escrow on issue.

### Incorporation and limitations on the acquisition of shares

The company is incorporated in New Zealand and is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001. In general, securities in the company are freely transferable and the only significant restrictions or limitations in relation to the acquisition of securities are those imposed by the New Zealand Takeovers Code, the Overseas Investment Act 2005 (NZ), and the Commerce Act 1986 (NZ). The company does not impose additional ownership restrictions.

### Credit rating

The company does not currently have an external credit rating status.

### Current NZX waivers

No waivers were sought from or granted under either of the NZX or ASX Listing Rules within the 12 month period preceding the balance date of the company. During the same period the company relied on the following waivers previously granted by the NZX to issue options under its share option plans, PSRs under its PSR plan and shares under its share purchase plans:

(1) waiver from NZX Main Board Listing Rule 7.1.10 and 7.1.16 in respect of the issue of options under the company's share options plans (granted 19 August 2011);

(2) waiver from NZX Main Board Listing Rule 7.1.10, 7.1.16 and 8.1.7 in respect of the company's performance share rights plan (granted 7 August 2012).

### Distribution of shareholders and holdings

The Company only has one class of shares on issue, ordinary shares, each conferring to the registered holder the right to one vote on any resolution, and these shares are listed on the NZX and ASX. There are no other classes of equity security currently on issue. The total number of ordinary shares of the company on issue at 31 March 2019 was 573,708,739 ordinary shares.

The distribution of shareholdings as at 31 March 2019 was as shown in the table below:

| Size of shareholding | Number of holders | % | Number of ordinary shares | % |
|---|---|---|---|---|
| 1 to 1,000 | 7,916 | 36.3 | 3,567,608 | 0.6 |
| 1,001 to 5,000 | 9,777 | 44.8 | 23,723,754 | 4.1 |
| 5,001 to 10,000 | 2,386 | 10.9 | 16,963,847 | 3.0 |
| 10,001 to 50,000 | 1,546 | 7.1 | 29,062,338 | 5.1 |
| 50,001 to 100,000 | 86 | 0.4 | 5,980,651 | 1.0 |
| 100,001 and over | 102 | 0.5 | 494,410,541 | 86.2 |
| **Total** | **21,813** | **100.0** | **573,708,739** | **100.0** |

The employee share options, rights and PSRs on issue to employees are disclosed in Note 18 of the Financial Statements. There are no voting rights attaching to share options, rights, or PSRs.

### Substantial product holders

According to company records and notices given under the Financial Markets Conduct Act 2013 the substantial product holders in ordinary shares (being the only class of quoted voting products) of the company as at 31 March 2019, were as follows:

| Substantial Product Holder | Date of notice | Number of ordinary shares held as at date of notice | Holding as a % of total ordinary shares on issue as at 31 March |
|---|---|---|---|
| BlackRock, Inc and related bodies corporate | 21 March 2019 | 28,725,458 | 5.007% |
| The Vanguard Group, Inc | 18 December 2018 | 30,145,141 | 5.254% |
| The Capital Group Companies, Inc | 15 June 2018 | 29,329,458 | 5.112% |

## SHAREHOLDER AND COMPANY INFORMATION CONTINUED

### Principal shareholders

The names and holdings of the twenty largest registered shareholders in the company as at 31 March 2019 were:

| Shareholder[1] | Ordinary Shares | % |
|---|---|---|
| HSBC Nominees (New Zealand) Limited | 71,736,515 | 12.5 |
| JPMORGAN Chase Bank | 60,286,151 | 10.5 |
| HSBC Nominees (New Zealand) Limited | 59,413,263 | 10.4 |
| HSBC Custody Nominees (Australia) Limited | 52,906,329 | 9.2 |
| Citibank Nominees (NZ) Ltd | 33,353,537 | 5.8 |
| J P Morgan Nominees Australia Pty Limited | 30,293,331 | 5.3 |
| Tea Custodians Limited | 13,085,129 | 2.3 |
| New Zealand Superannuation Fund Nominees Limited | 12,950,583 | 2.3 |
| Accident Compensation Corporation | 12,540,052 | 2.2 |
| Citicorp Nominees Pty Limited | 12,369,954 | 2.2 |
| National Nominees Limited | 11,005,850 | 1.9 |
| Cogent Nominees Limited | 9,176,607 | 1.6 |
| Custodial Services Limited | 8,441,641 | 1.5 |
| FNZ Custodians Limited | 8,092,342 | 1.4 |
| Custodial Services Limited | 6,593,628 | 1.2 |
| National Nominees New Zealand Limited | 6,523,207 | 1.1 |
| Premier Nominees Limited | 5,849,663 | 1.0 |
| BNP Paribas Noms Pty Ltd | 5,572,039 | 1.0 |
| BNP Paribas Nominees NZ Limited | 5,355,664 | 0.9 |
| JBWERE (NZ) Nominees Limited | 4,128,067 | 0.7 |

[1] In the above table, the shareholding of New Zealand Central Securities Depository Limited (NZCSD) has been re-allocated to the underlying beneficial owners.

## Other Group information

### Principal activities

The Company is a world-leading designer, manufacturer and marketer of products and systems for use in respiratory care, acute care, surgery and the treatment of obstructive sleep apnea. There were no significant changes to the state of affairs of the Company or to the nature of the Company's (or its subsidiaries') principal activities during the year ended 31 March 2019.

### Use of company information

We did not receive any notices from directors requesting to use company information received in their capacity as directors which would not otherwise have been available to them.

### Donations

Please refer to Note 5 of the Financial Statements for the Group's donations in the financial year to 31 March 2019.

### Entries recorded in the interests register

Except for disclosures made elsewhere in this Report, there have been no entries in the Company's interests register made during the year ended 31 March 2019.

*Other subsidiary company information*

No entries were made in the interests register of any subsidiary during the year ended 31 March 2019.

No employee of the Group who is appointed as a director of a Group entity receives or retains any remuneration or other benefits in his or her capacity as a director. The remuneration and other benefits of Group employees and former employees totalling $100,000 or more during the year ended 31 March 2019 are included in the relevant bandings for remuneration disclosed in the 'Employee Remuneration' section of this Report.

During the year ended 31 March 2019, all directors of subsidiaries were full-time employees of the Group, with the exception of:

a. Tony Carter who is a director of Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited.

b. Lawrence Gibbons who is a director of Fisher & Paykel Healthcare S.A. de C.V. (Mexico).

c. Alex Koshy who was a director of Fisher & Paykel Healthcare India Private Limited (India) until 19 January 2019.

Tony Carter and Lawrence Gibbons do not receive any remuneration or other benefits for their roles as directors of the above subsidiaries. Alex Koshy received $8,510 for his role as a director of Fisher & Paykel Healthcare India Private Limited.

## SHAREHOLDER AND COMPANY INFORMATION CONTINUED

### Group structure

All subsidiary companies in the Group are ultimately 100% owned by the Company. The Group structure and the persons who held office as directors of subsidiary companies at 31 March 2019 are detailed below:

| Entities | Directors |
|---|---|
| **Fisher & Paykel Healthcare Corporation Limited* Owns:** | |
| Fisher & Paykel Healthcare Limited (NZ)*[1] | Lewis Gradon, Paul Shearer, Andrew Somervell |
| Fisher & Paykel Healthcare Treasury Limited (NZ)*[1] | Lewis Gradon, Paul Shearer, Andrew Somervell |
| Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited (NZ)[1] | Tony Carter, Lewis Gradon |
| Fisher & Paykel Healthcare Asia Limited (NZ)[1] | Lewis Gradon, Paul Shearer, Andrew Somervell |
| Fisher & Paykel Healthcare Americas Investments Limited (NZ)[1] | Lewis Gradon, Paul Shearer, Andrew Somervell |
| Fisher & Paykel Healthcare Pty Limited (Australia) | Lewis Gradon, Paul Shearer, David Boyle, Graham Gourd |
| Fisher & Paykel Healthcare Limited (UK) | Lewis Gradon, Paul Shearer, Nicholas Connolly, Patrick McSweeny |
| Fisher & Paykel Holdings Inc. (USA)[1] | Lewis Gradon, Paul Shearer, Andrew Somervell |
| Fisher & Paykel do Brasil Ltda (Brazil) | Brazilian law does not require directors. Decision making authority lies with the directors of its shareholders. |
| Fisher & Paykel Healthcare (Guangzhou) Limited (China) | Lewis Gradon, Paul Shearer, David Boyle, Zhiping Hou |
| Fisher & Paykel Healthcare Limited (Canada) | Lewis Gradon, Paul Shearer, Justin Callahan |
| **Fisher & Paykel Healthcare Limited* (NZ) Owns:** | |
| Fisher & Paykel Healthcare Properties Limited (NZ)*[1] | Lewis Gradon, Paul Shearer, Andrew Somervell |
| **Fisher & Paykel Healthcare Asia Limited (NZ) Owns:** | |
| Fisher & Paykel Healthcare Asia Investments Limited (NZ)[1] | Lewis Gradon, Paul Shearer, Andrew Somervell |

| Entities | Directors |
|---|---|
| **Fisher & Paykel Healthcare Asia Investments Limited (NZ) Owns:** | |
| Fisher & Paykel Healthcare India Private Limited (India)[2] | Lewis Gradon, Paul Shearer, David Boyle, Chris Kamolins |
| Fisher & Paykel Healthcare K.K. (Japan) | Lewis Gradon, Paul Shearer, Hideo Goto |
| Fisher & Paykel Healthcare Limited (Hong Kong) | Lewis Gradon, Paul Shearer, David Boyle, Zhiping Hou |
| **Fisher & Paykel Healthcare Americas Investments Limited (NZ) Owns:** | |
| Fisher & Paykel Healthcare S.A. de C.V. (Mexico) | Lewis Gradon, Andrew Somervell, Lawrence Gibbons |
| Fisher & Paykel Healthcare Colombia S.A.S (Colombia) | Legal Representatives: Bryan Peterson, James Tuck |
| Fisher & Paykel Healthcare Mexico S.A. de C.V. (Mexico) | Lewis Gradon, Paul Shearer, Bryan Peterson |
| Fisher & Paykel Healthcare Properties S.A. de C.V. (Mexico)[1] | Lewis Gradon, Andrew Somervell, Jonathan Rhodes |
| **Fisher & Paykel Healthcare Limited (UK) Owns:** | |
| Fisher & Paykel Healthcare SAS (France) | Lewis Gradon, Paul Shearer, Patrick McSweeny, Ian Hopkinson |
| Fisher & Paykel Holdings GmbH (Germany) | Ian Hopkinson, Patrick McSweeny, Kerstin Bille |
| Fisher & Paykel Healthcare AB (Sweden) | Lewis Gradon, Paul Shearer, Patrick McSweeny, Ian Hopkinson |
| Fisher Paykel Sağlık Ürünleri Ticaret Limited Şirketi (Turkey) | Lewis Gradon, Paul Shearer, Patrick McSweeny |
| Limited Liability Company Fisher & Paykel Healthcare (Russia) | Lewis Gradon, Paul Shearer, Bryan Peterson, Anatoly Filippov |
| **Fisher & Paykel Holdings Inc. (USA) Owns:** | |
| Fisher & Paykel Healthcare Inc. (USA) | Lewis Gradon, Paul Shearer, Justin Callahan |
| Fisher & Paykel Healthcare Distribution Inc. (USA) | Lewis Gradon |

* Companies Operating Under a Negative Pledge Deed

1 Tony Barclay retired as a director of these subsidiaries effective 31 May 2018

2 Alex Koshy retired as a director of this subsidiary effective 19 January 2019

# FIVE YEAR SUMMARY

For the years ended 31 March
All figures in NZ$M (except as otherwise stated)

| | | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| **FINANCIAL PERFORMANCE** | Sales revenue | 644.0 | 818.5 | 869.5 | 964.5 | 1,072.1 |
| | Foreign exchange gain (loss) on hedged sales | 28.3 | (3.0) | 24.9 | 16.3 | (1.7) |
| | **Total operating revenue** | **672.3** | **815.5** | **894.4** | **980.8** | **1,070.4** |
| | Gross profit | 410.9 | 521.7 | 590.4 | 650.4 | 715.8 |
| | Gross margin | 61.1% | 64.0% | 66.0% | 66.3% | 66.9% |
| | Other income | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| | SG&A expenses | (180.9) | (242.3) | (269.3) | (290.9) | (327.8) |
| | R&D expenses | (65.0) | (73.3) | (86.0) | (94.7) | (100.4) |
| | **Total operating expenses** | **(245.9)** | **(315.6)** | **(355.3)** | **(385.6)** | **(428.2)** |
| | Operating profit before financing costs | 170.0 | 211.1 | 240.1 | 269.8 | 292.6 |
| | Operating margin | 25.3% | 25.9% | 26.8% | 27.5% | 27.3% |
| | Net financing expense | (11.3) | (10.3) | (1.6) | (2.0) | (1.4) |
| | Tax expense | (45.5) | (57.4) | (69.3) | (77.6) | (82.0) |
| | **Profit after tax** | **113.2** | **143.4** | **169.2** | **190.2** | **209.2** |
| **REVENUE** | North America | 290.7 | 385.9 | 433.0 | 458.5 | 501.5 |
| **By Region and product group** | Europe | 223.4 | 253.7 | 272.0 | 297.6 | 314.6 |
| | Asia Pacific | 127.2 | 142.6 | 154.8 | 181.0 | 208.1 |
| | Other | 31.0 | 33.3 | 34.6 | 43.7 | 46.2 |
| | Hospital products | 357.2 | 436.3 | 500.4 | 572.1 | 642.3 |
| | Homecare products | 302.0 | 365.8 | 381.5 | 398.1 | 421.4 |
| | Core products subtotal | 659.2 | 802.1 | 881.9 | 970.2 | 1,063.7 |
| | Distributed and other products | 13.1 | 13.4 | 12.5 | 10.6 | 6.7 |
| | **Total operating revenue** | **672.3** | **815.5** | **894.4** | **980.8** | **1,070.4** |
| **Growth Rates Reported** | Revenue | 8% | 21% | 10% | 10% | 9% |
| | Gross Profit | 12% | 27% | 13% | 10% | 10% |
| | R&D expenses | 20% | 13% | 17% | 10% | 6% |
| | Net Profit after tax | 17% | 27% | 18% | 12% | 10% |
| **Growth Rates in Constant Currency (1)** | Revenue | 13% | 13% | 14% | 9% | 8% |
| | Gross Profit | 22% | 19% | 17% | 9% | 9% |
| | Net Profit Before tax | 55% | 18% | 21% | 12% | 9% |
| | R&D expenses | 20% | 13% | 17% | 10% | 6% |

(1) Constant Currency (CC) removes the impact of exchange rate movements. This approach is used to assess the Group's underlying comparative financial performance without any distortion from changes in foreign exchange rates. A full reconciliation for the most recent 3 years and basis of preparation is set out on page 36. The 2015, 2016 and 2017 growth rates in constant currency have been sourced from the 2016 and 2017 annual reports respectively.

## FIVE YEAR SUMMARY CONTINUED

For the years ended 31 March
All figures in NZ$M (except as otherwise stated)

| | | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| **FINANCIAL POSITION** | Property, plant and equipment | 367.4 | 389.6 | 425.2 | 476.4 | 601.4 |
| | Total assets | 669.8 | 766.8 | 878.2 | 1,025.1 | 1,206.7 |
| | Total liabilities | (198.6) | (225.1) | (216.6) | (263.7) | (293.5) |
| | Shareholders' equity | 471.2 | 541.7 | 661.6 | 761.4 | 913.2 |
| | Return on assets (%) | 24.4% | 28.0% | 29.0% | 28.1% | 26.1% |
| | Return on equity (%) | 36.2% | 39.7% | 39.6% | 37.6% | 34.8% |
| | Net Debt (including short-term investments) | 51.9 | 44.4 | (0.2) | (49.9) | (54.4) |
| | Gearing Ratio (1) | 10.3% | 7.7% | 0.0% | -7.3% | -6.7% |
| **DIVIDENDS AND EARNINGS PER SHARE (CENTS PER SHARE)** | Basic shares outstanding at 31 March | 557,940,257 | 563,841,265 | 567,686,436 | 571,230,264 | 573,708,739 |
| | Dividends declared | | | | | |
| | Interim | 5.80 | 6.70 | 8.25 | 8.75 | 9.75 |
| | Final (2) | 8.00 | 10.00 | 11.25 | 12.50 | 13.50 |
| | Total ordinary dividends | 13.80 | 16.70 | 19.50 | 21.25 | 23.25 |
| | Basic earnings per share | 20.4 | 25.6 | 29.9 | 33.4 | 36.5 |
| | Diluted earnings per share | 19.9 | 25.1 | 29.5 | 33.0 | 36.2 |
| **CASH FLOWS** | Net cash flow from operating activities | 146.8 | 144.6 | 193.6 | 247.8 | 253.3 |
| | Free cash flow (3) | 92.0 | 77.1 | 130.6 | 149.3 | 120.0 |
| | Dividends paid | (47.9) | (68.2) | (89.4) | (102.5) | (114.6) |
| **CAPITAL EXPENDITURE** | Plant and equipment | 38.1 | 46.3 | 44.1 | 41.8 | 41.4 |
| | Land and buildings | 1.2 | 1.7 | 3.8 | 41.4 | 74.0 |
| | Intangible assets | 14.3 | 17.7 | 15.1 | 15.5 | 17.9 |
| | Total | 53.6 | 65.7 | 63.0 | 98.7 | 133.3 |
| | Plant & equipment capital expenditure : depreciation ratio | 1.4 | 1.6 | 1.5 | 1.3 | 1.3 |

(1) Net interest-bearing debt (debt less cash and cash equivalents and short-term investments) to net interest bearing debt and equity (less hedging reserves).

(2) Final dividend is paid in the following financial year.

(3) Free cash flow represents net cash flows from operating activities less capital expenditure.

## FIVE YEAR SUMMARY CONTINUED

For the years ended 31 March
All figures in NZ$M (except as otherwise stated)

| | | | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|
| **PATENT PORTFOLIO NUMBERS** | US patents | | 118 | 138 | 161 | 186 | 222 |
| | US patent applications (includes PCTs) (1) | | 287 | 329 | 357 | 385 | 427 |
| | Non-US patents | | 496 | 559 | 714 | 870 | 988 |
| | Non-US patent applications (excludes PCTs) (1) | | 410 | 582 | 732 | 912 | 1,080 |
| **PEOPLE NUMBERS** | People numbers (2) | | 3,151 | 3,587 | 4,112 | 4,174 | 4,547 |
| | By function: | | | | | | |
| | R&D | | 433 | 509 | 563 | 572 | 581 |
| | Manufacturing and operations | | 1,818 | 1,992 | 2,405 | 2,386 | 2,680 |
| | Sales, marketing and distribution | | 738 | 907 | 948 | 994 | 1,047 |
| | Management and administration | | 162 | 179 | 196 | 222 | 239 |
| | By region: | | | | | | |
| | New Zealand | | 1,943 | 2,142 | 2,307 | 2,258 | 2,416 |
| | North America | | 751 | 922 | 1,231 | 1,314 | 1,493 |
| | Europe | | 221 | 258 | 271 | 294 | 303 |
| | Rest of World | | 236 | 265 | 303 | 308 | 335 |
| **EXCHANGE RATES NZ$ 1 =** | **AVERAGE DAILY SPOT RATES** | USD | 0.8098 | 0.6786 | 0.7090 | 0.7148 | 0.6811 |
| | **AVERAGE CONVERSION RATES (3)** | USD | 0.7896 | 0.7235 | 0.6957 | 0.6823 | 0.6804 |
| | | EUR | 0.5259 | 0.5794 | 0.5935 | 0.5999 | 0.6039 |
| | | GBP | 0.4953 | 0.4718 | 0.4812 | 0.5018 | 0.5105 |
| | | AUD | 0.8583 | 0.9000 | 0.9143 | 0.9246 | 0.9163 |
| | | CAD | 0.8130 | 0.8720 | 0.8787 | 0.9218 | 0.8973 |
| | | JPY | 68.27 | 68.38 | 69.67 | 72.34 | 73.21 |
| | | MXN | 10.68 | 10.71 | 12.09 | 12.62 | 13.24 |

(1) PCTs (Patent Cooperation Treaty) are unified patent applications across a number of jurisdictions.

(2) People numbers are represented as full time equivalents.

(3) Actual exchange rates achieved in delivering or purchasing net foreign currency in relation to the Group's exposures. The average rate includes hedged, spot and close-out transactions in each year.

## GLOSSARY

| | |
|---|---|
| ASM | Annual Shareholders' Meeting |
| ASX | Australian Stock Exchange |
| AUD | Australian Dollar |
| AVR | Annual Variable Remuneration |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| CODM | Chief Operating Decision Maker |
| Company | means Fisher & Paykel Healthcare Corporation Limited |
| Constant Currency | is our way to measure performance of the company without any distortion from changes in foreign exchange rates |
| CPS | cents per share |
| CSR | Corporate Social Responsibility |
| DJSMDQT | Dow Jones US Select Medical Equipment Total Return Index |
| DRP | the Company's Dividend Reinvestment Plan |
| EBITDA | Earnings before interest, tax, depreciation and amortisation |
| ERP | Enterprise Resource Planning which is software used to track information across all departments and business functions |
| ESG | Environmental, Social and Governance |
| ESR | Employee Share Right |
| Executive Management | the Executive Management team as set out on pages 32 and 33 |
| FDA | United States Food & Drug Administration |
| FMA | Financial Markets Authority |
| FTE | Full Time Equivalent |
| FY | Financial Year |
| GRI | Global Reporting Initiative |
| Group | means Fisher & Paykel Healthcare Corporation Limited together with its subsidiaries |
| GST | Goods and Services Tax |
| IFRS | International Financial Reporting Standards |
| IP | Intellectual Property |
| IPR | Inter Partes Review which is a procedure for challenging the validity of a US patent before the US Patent Trial and Appeal Board |
| LTIFR | Lost Time Injury Frequency Rate |
| LTVR | Long Term Variable Remuneration |
| MSCI | Morgan Stanley Capital International |
| Net Debt | Debt less cash and cash equivalents and short-term investments |
| NZ GAAP | New Zealand Generally Accepted Accounting Practice |
| NZ IAS | New Zealand International Accounting Standards |
| NZ IFRS | New Zealand Equivalents to International Financial Reporting Standards |
| NZD | New Zealand Dollar |
| NZX | New Zealand Stock Exchange |
| OECD | Organisation for Economic Cooperation and Development |
| OEM | Original Equipment Manufacturer |
| PCT | Patent Cooperation Treaty |
| PSR | Performance Share Right |
| PTAB | United States Patent Trial and Appeal Board |
| QSR | Quality, Safety & Regulatory |
| R&D | Research and Development |
| SDG | Sustainable Development Goal |
| SG&A | Sales, General and Administrative |
| STEM | Science, Technology, Engineering and Mathematics |
| TRIFR | Total Recordable Injury Frequency Rate |
| TSR | Total Shareholder Return |
| UN | United Nations |
| USD | United States Dollar |
| US ITC | United States International Trade Commission |
| VP | Vice President |

### Key medical terms used throughout this Report

| | |
|---|---|
| COPD | Chronic Obstructive Pulmonary Disease |
| CPAP | Continuous Positive Airway Pressure |
| GCP | Good Clinical Practice |
| ICU | Intensive Care Unit |
| NICU | Neonatal intensive care unit |
| OSA | Obstructive Sleep Apnea |

## GRI CONTENT INDEX

| Disclosure | Description | Location/Response |
|---|---|---|
| **GRI 102 General Disclosures** | | |
| 102-1 | Name of the organisation | Cover |
| 102-2 | Activities, brands, products, and services | Annual Report: pp. 20–21 |
| 102-3 | Location of headquarters | Inside back cover |
| 102-4 | Location of operations | Annual Report: p. 7 |
| 102-5 | Ownership and legal form | Annual Report: pp. 44, 96 and 97 |
| 102-6 | Markets served | Annual Report: p. 7 |
| 102-7 | Scale of the organisation | Annual Report: pp. 14 and 99–101 |
| 102-8 | Information on employees and other workers | Annual Report: pp. 71–75 |
| 102-9 | Supply chain | Annual Report: p. 84 |
| 102-10 | Significant changes to the organisation and its supply chain | None, other than the opening of our second manufacturing facility in Tijuana as described on page 15 of this Annual Report. |
| 102-11 | Precautionary Principle or approach | We support a precautionary approach towards environmental management. While we see little apparent risk for our own operations, we do see an opportunity to help our customers manage this risk through effective product lifecycle management and sustainable design. |
| 102-12 | External initiatives | Business and Industry Advisory Committee (BIAC) Statement of Tax Principles for International Business<br>UN Declaration on Human Rights<br>ILO Declaration on Fundamental Principles and Rights at Work |

| Disclosure | Description | Location/Response |
|---|---|---|
| 102-13 | Membership of associations | • American Association of Homecare<br>• American Association of Respiratory Care<br>• American Chamber of Commerce<br>• Association for Anaesthetic and Respiratory Device Suppliers<br>• Australasian Investor Relations Association<br>• Australasian Sleep Association<br>• Australian College of Critical Care Nurses<br>• Business New Zealand<br>• Colorectal Society of Australia and New Zealand<br>• Diversity Works<br>• Employers and Manufacturers Association<br>• Guangdong Investment Promotion Association in China<br>• International Electrotechnical Commission /Technical Committee 62<br>• International Organisation for Standardisation / Technical Committee 121<br>• Japan Association of Health Industry Distributors<br>• Japan Association of Medical Devices Industries<br>• Latin America New Zealand Business Council<br>• Medical Technology Association New Zealand<br>• National Association for Medical Direction of Respiratory Care<br>• Sleep Health Foundation<br>• Sustainable Business Network<br>• Taipei Medical Instruments Commercial Association<br>• The Japan Fair Trade Council of the Medical Devices Industry |
| **Strategy** | | |
| 102-14 | Statement from senior decision maker | Annual Report: pp. 14–19 |
| **Ethics and integrity** | | |
| 102-16 | Values, principles, standards, and norms of behaviour | Code of Conduct available online at www.fphcare.co.nz/corporategovernance |
| **Governance** | | |
| 102-18 | Governance structure | Annual Report: pp. 84–92 |

## GRI CONTENT INDEX CONTINUED

| Disclosure | Description | Location/Response |
|---|---|---|
| **Stakeholder engagement** | | |
| 102-40 | List of stakeholder groups | Annual Report: p. 10 |
| 102-41 | Collective bargaining agreements | Annual Report: p. 71 |
| 102-42 | Identifying and selecting stakeholders | Annual Report: p. 10 |
| 102-43 | Approach to stakeholder engagement | Annual Report: p. 10 |
| 102-44 | Key topics and concerns raised | Annual Report: pp. 10–11 |
| **Reporting practice** | | |
| 102-45 | Entities included in the consolidated financial statements | Annual Report: p 98 |
| 102-46 | Defining report content and topic Boundaries | Annual Report: pp. 10–11 |
| 102-47 | List of material topics | Annual Report: pp. 10–11 |
| 102-48 | Re-statements of information | No restatements |
| 102-49 | Changes in reporting | No significant changes from previous reporting periods. |
| 102-50 | Reporting period | Cover |
| 102-51 | Date of most recent report | Annual Report: p. 4 |
| 102-52 | Reporting cycle | Annual reporting cycle |
| 102-53 | Contact point for questions regarding the report | investor@fphcare.co.nz |
| 102-54 | Claims of reporting in accordance with the GRI Standards | Annual Report: p. 10 |
| 102-55 | GRI content index | Annual Report: pp. 103–104 |
| 102-56 | External assurance | No external assurance for non-financial disclosures<br>External assurance for financial statements (See Annual Report: pp. 67–69) |

### SPECIFIC STANDARD DISCLOSURES

| Disclosure | Description | Location/Response |
|---|---|---|
| **GRI 200 Economic standard series** | | |
| GRI 103 | Management approach 2019 | Annual Report: pp. 16–19, 28 |
| GRI 201: Economic performance | | |
| 201-1 | Direct economic value generated and distributed | Annual Report: pp. 34–69 |
| **GRI 205: Anti-corruption** | | |
| GRI 103 | Management approach 2019 | Annual Report: pp. 84–85 |
| 205-3 | Confirmed incidents of corruption and actions taken | Annual Report: p. 85 |
| **GRI 400 Social standard series** | | |
| **GRI 401: Employment** | | |
| GRI 103 | Management approach 2019 | Annual Report: pp. 71–75 |
| 401-1 | New employee hires and employee turnover | Annual Report: pp. 71–75 |
| **GRI 403: Occupational health and safety** | | |
| GRI 103 | Management approach 2019 | Annual Report: pp. 93–94 |
| 403-2 | Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities | Annual Report: p. 94 |
| **GRI 404: Training and education** | | |
| GRI 103 | Management approach 2019 | Annual Report: p. 74 |
| 404-1 | Average hours of training per year per employee | Annual Report: p. 74 |
| **GRI 416: Customer Health and Safety** | | |
| GRI 103 | Management approach 2019 | Annual Report: p. 93 |
| 416-2 | Incidents of non-compliance concerning the health and safety impacts of products and services | No instances of non-compliance with regulations resulting in a fine, penalty or warning. |
| **GRI 418: Customer Privacy** | | |
| GRI 103 | Management approach 2019 | www.fphcare.com/privacy |
| 418-1 | Substantiated complaints concerning breaches of customer privacy and losses of customer data | No substantiated complaints received concerning breaches of customer privacy. |

# DIRECTORY

## DIRECTORY

**In New Zealand:**

The details of the company's principal administrative and registered office are:

Physical address: 15 Maurice Paykel Place, East Tamaki,
Auckland 2013, New Zealand

Telephone: +64 9 574 0100

Facsimile: +64 9 574 0158

Postal address: PO Box 14348, Panmure,
Auckland 1741, New Zealand

Internet address: www.fphcare.com

Email: investor@fphcare.co.nz

**In Australia:**

The details of the company's registered office are:

Physical address: 19-31 King Street, Nunawading,
Melbourne, Victoria 3131, Australia

Telephone: +61 3 9871 4900

Postal address: PO Box 159, Mitcham,
Victoria 3132, Australia

## SHARE REGISTER

**In New Zealand:**

Link Market Services Limited

Physical address: Level 11, Deloitte Centre,
80 Queen Street, Auckland 1010, New Zealand

Postal address: PO Box 91976,
Auckland 1142, New Zealand

Facsimile: +64 9 375 5990

Investor enquiries: +64 9 375 5998

Internet address: www.linkmarketservices.co.nz

Email: enquiries@linkmarketservices.co.nz

**In Australia:**

Link Market Services Limited

Physical address: Level 12, 680 George Street,
Sydney, NSW 2000, Australia

Postal address: Locked Bag A14,
Sydney South, NSW 1235, Australia

Facsimile: +61 2 9287 0303

Investor enquiries: +61 2 8280 7111

Internet address: www.linkmarketservices.com.au

Email: registrars@linkmarketservices.com.au

Fisher & Paykel Healthcare is a world leader in medical devices and systems for use in respiratory care, acute care, surgery and in the treatment of obstructive sleep apnea.

Fisher & Paykel HEALTHCARE