2014
ANNUAL REPORT

Fisher & Paykel
HEALTHCARE

FISHER & PAYKEL HEALTHCARE IS A WORLD LEADER IN MEDICAL DEVICES AND SYSTEMS FOR USE IN RESPIRATORY CARE AND ACUTE CARE (RAC), AND IN THE TREATMENT OF OBSTRUCTIVE SLEEP APNEA (OSA).

We estimate that our products and devices are used in the treatment of more than nine million patients each year. While in some cases this may help provide life-saving treatment in acute care, for others it results in a dramatic improvement in their lifestyle and health through treatment of their OSA.

CONTENTS

All references in this Annual Report to constant currency amounts or percentages are stated in italics. A constant currency analysis can be found on page 25 of this Annual Report.

KEY DATES

4 July 2014
Full Year Dividend Payment

20 August 2014
Annual Shareholders' Meeting

30 September 2014
Financial Half Year End

20 November 2014*
Half Year Results Announcement

18 December 2014+
Interim Dividend Payment

31 March 2015
Financial Year End

**Proposed date*
+Dividends subject to Board determination

This report is dated 23 May 2014 and is signed on behalf of Fisher & Paykel Healthcare Corporation Limited by Tony Carter, Chairman and Michael Daniell, Managing Director and Chief Executive Officer.

TONY CARTER | Chairman

MICHAEL DANIELL | Managing Director & Chief Executive Officer

OUR SUCCESS IS BUILT ON OUR ABILITY TO CREATE INNOVATIVE PRODUCTS **WHICH CAN IMPROVE PATIENT CARE AND OUTCOMES**

THE FUTURE OF SUSTAINABLE HEALTHCARE RELIES ON MORE EFFECTIVE SOLUTIONS AND MORE EFFICIENT CARE. MEDICAL DEVICES THAT HELP IMPROVE CARE AND OUTCOMES ARE AN ESSENTIAL INGREDIENT.

We live in a world where healthcare costs are increasing at a rapid rate. In the United States, our biggest market, healthcare spend per person is over US$8,500 every year.

With an ageing population and increasingly successful healthcare practices improving longevity, the burden of healthcare cost is potentially unsustainable.

The sector is seeking new and better ways to deliver efficient and effective solutions.

Effectiveness may be simply defined as helping patients ‘get better quicker’.

Efficiency is about helping clinicians care for more patients.

The more intensive the care, the more staff required for care and the more costly the treatment. That’s why we are focused on developing healthcare solutions, based on world-changing innovation, that demonstrably improve patient care and outcomes.

In doing so, we help to deliver a more efficient and effective healthcare service the world over.

OUR BUSINESS

9 million+
PATIENTS TREATED DURING THE YEAR USING OUR MEDICAL DEVICES

123
COUNTRIES WHERE OUR PRODUCTS WERE SOLD DURING THE YEAR

3,000+
EMPLOYEES GLOBALLY

34
COUNTRIES WHERE OUR PEOPLE ARE LOCATED

200+
DISTRIBUTORS WORLDWIDE

US$5 billion+
POTENTIAL MARKET SIZE

2,700+
TOTAL RANGE OF PRODUCTS, ACCESSORIES AND PARTS

Our products are sold in more than 120 countries around the world. While North America and Europe remain our largest markets, we are also experiencing excellent growth in markets such as Japan, South Korea, India, China and Brazil.

TOMOYUKI SAKURAGI

PRODUCT SPECIALIST
JAPAN SALES OFFICE

We are global: we are an international business and a leader in our field.

From our early beginnings we have thought and acted global. Today, we have many thousands of customers and millions of people using our products around the world.

We manufacture in Mexico and New Zealand, our biggest market is the United States and our research and development is carried out in New Zealand.

Our brand is known and respected in markets from Asia Pacific to Europe, North America and beyond. We have an enviable reputation and our products and technologies are world class.

Our people are located around the world. They are diverse in ethnicity, gender, age and range of talents. This diversity enriches our business.

While we were founded in New Zealand, the world is our opportunity and is where we continue to grow and succeed.

Fisher & Paykel Healthcare – A Global Business.

ABBY ARULANDU

PRODUCT DEVELOPMENT ENGINEER
CPAP ELECTRONICS DEVELOPMENT
OSA PRODUCT GROUP

We are game changers: we apply fresh thinking and innovative solutions to develop better products, processes and practices.

Ours is a business born of innovation and inventive thinking.

We are committed to exploring new ways for delivering real and substantial improvement in our chosen areas of healthcare.

Our teams love a challenge and are dedicated to developing and delivering innovations to our customers. Our products are unique, often ground breaking and world class.

Our motivation comes from knowing we can make a real difference to the lives of our users.

Fisher & Paykel Healthcare – Game Changers.

2014 BUSINESS HIGHLIGHTS

MAY 2013

Launch of ICON+ flow generator range.

JUNE 2013

Optiflow Junior, a new nasal cannula designed specifically for infant and pediatric patients, wins silver medal at the internationally prestigious Medical Design Excellence Awards.

JULY 2013

Geraldine McBride appointed as an independent director.

AUGUST 2013

Awarded NZ Exporter of the Year in the American Chamber of Commerce DHL Express Success & Innovation Awards.

SEPTEMBER 2013

Launch of the ultra-quiet F&P Pilairo™ Q nasal pillows mask for the treatment of OSA.

OCTOBER 2013

F&P Simplus full face mask wins double design awards at the New Zealand BEST Awards (The Designers Institute).

NOVEMBER 2013

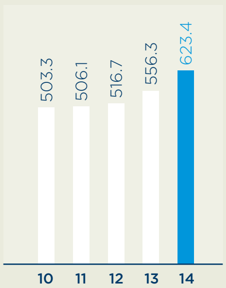
Named Company of the Year and CEO Michael Daniell receives Executive of the Year at Deloitte/Management Magazine Top 200 Management Awards.

FEBRUARY 2014

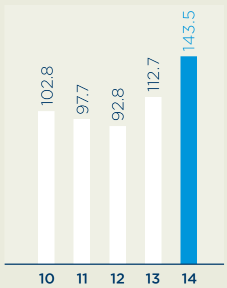
Announced expansion of Tijuana, Mexico manufacturing facility to ensure anticipated demand can be met.

RESULTS IN BRIEF

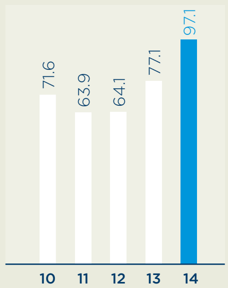
OPERATING REVENUE
NZ$ MILLIONS



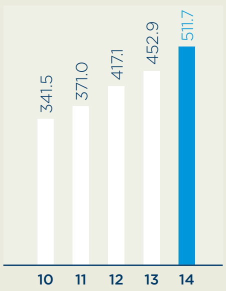
OPERATING PROFIT
NZ$ MILLIONS



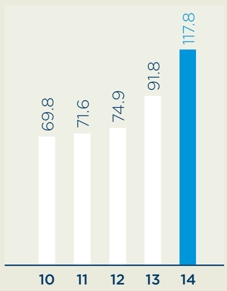
PROFIT AFTER TAX*
NZ$ MILLIONS



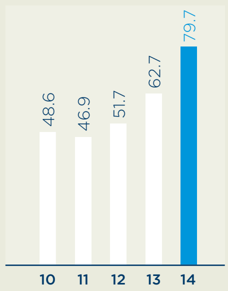
OPERATING REVENUE
US$ MILLIONS



OPERATING PROFIT
US$ MILLIONS



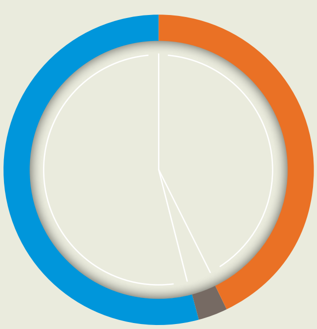
PROFIT AFTER TAX*
US$ MILLIONS



** Prior to one-off non-cash deferred tax charges (2011)*

REVENUE BY PRODUCT GROUP

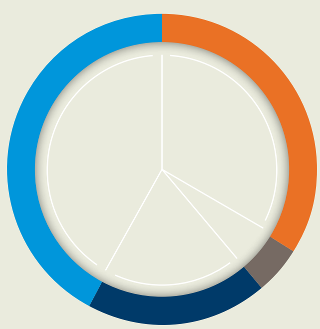
12 MONTHS TO 31 MARCH 2014



RESPIRATORY & ACUTE CARE	54%
OBSTRUCTIVE SLEEP APNEA	43%
DISTRIBUTED & OTHER	3%

REVENUE BY REGION

12 MONTHS TO 31 MARCH 2014



NORTH AMERICA	42%
EUROPE	34%
ASIA-PACIFIC	19%
OTHER	5%

NZ$ 97.1M

↑26%

RECORD NET PROFIT AFTER TAX

NZ$623.4M

↑12%

RECORD OPERATING REVENUE

12.4cps

TOTAL DIVIDEND FOR THE YEAR FULLY IMPUTED

NZ$54m

SPEND ON R&D (8.7% OF OPERATING REVENUE)

327
basis points

GROSS MARGIN IMPROVEMENT

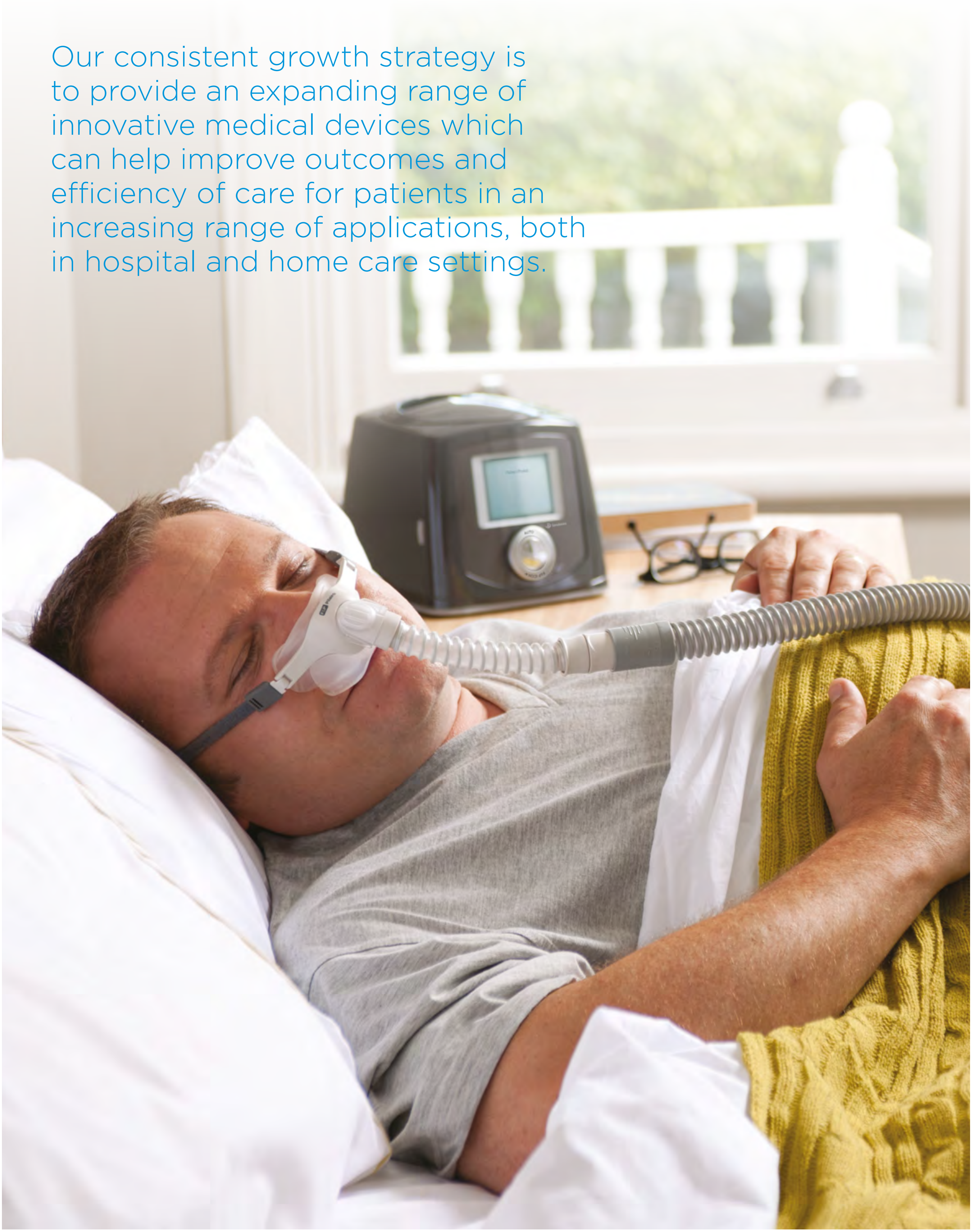
↑12%

RAC GROWTH

↑15%

OSA GROWTH

Our consistent growth strategy is to provide an expanding range of innovative medical devices which can help improve outcomes and efficiency of care for patients in an increasing range of applications, both in hospital and home care settings.



OUR STRATEGIC PILLARS

CONTINUOUS PRODUCT IMPROVEMENT

Continually develop new products and improve existing products to provide better care and patient outcomes

Innovation is at the heart of our success and underpins all we do. To achieve improved care and outcomes for patients we are continually innovating and looking for ways to develop more efficient and effective products and technologies.

New products can take a number of years to develop, and we have multiple products in our development pipeline at any one time.

We are one of New Zealand's largest employers of engineers and our 403 R&D staff have a deep understanding of the needs of our customers.

Our quality management system is certified to a range of international standards and we continually invest in and update these systems. We have a dedicated team of people ensuring our products meet and exceed the highest possible standards and expectations.

SERVE MORE PATIENT GROUPS

Increase the number of patients who may benefit from our products outside of the traditional invasive ventilation market

New respiratory care applications – in non-invasive ventilation, oxygen therapy, humidity therapy and surgery – are becoming increasingly important in driving RAC revenue. The opportunities to grow our presence in these markets is significant.

We are constantly looking to identify new patient groups who may benefit from our technologies. In some cases, this may be through the tailoring of an existing product, in others it may be using our technologies in a new and innovative manner.

MORE PRODUCTS FOR EACH PATIENT

Extend the range of products we provide for use in the care and treatment of each patient

The number of patients we can treat is increasing, and our objective is to extend the range of our products used in the patient care continuum.

The number of patients requiring respiratory care is increasing. This is in part due to the ageing population, with older people more likely to need respiratory support and acute care. We estimate that Chronic Obstructive Pulmonary Disease (COPD) affects more than 100 million people. In addition, demand for neonatal products is increasing with more premature babies being born and requiring medical intervention.

In OSA, the vast majority of sufferers have yet to be diagnosed. We supply the full range of equipment and technologies required for effective treatment and management of OSA.

INCREASE OUR INTERNATIONAL PRESENCE

Expand the global market for our products, place our own people supporting our own products in markets around the world, and build our global network of distributors

Our products are now sold in 123 countries, with our own sales teams in 34 countries and distribution partnerships in a further 89 countries.

Due to the specialised nature of our products, we believe it is important to have highly trained professional sales people marketing our products to clinicians and healthcare providers.

CHAIRMAN'S REPORT

TONY CARTER
CHAIRMAN

The 2014 financial year was yet another period of excellent growth for the company. We reported record operating revenue of $623.4 million, 12% above the prior year (*13%* in constant currency). This was driven by growth in both of our core product groups – respiratory and acute care and obstructive sleep apnea.

Net profit after tax of $97.1 million was also a record and an increase of 26% on the previous year.

During the year our products were sold in 123 countries around the world, with direct sales operations in 27 of those markets. Approximately 99% of our operating revenue is derived from outside New Zealand and therefore our performance has been and continues to be influenced by the very high value of the New Zealand dollar against just about every other major currency.

To offset this impact and support our earnings growth, we have implemented a number of strategies to expand our gross margin. These include increasing manufacturing capacity in Mexico, introducing premium, higher margin products and increasing the efficiency of our operations. This has resulted in excellent gross margin improvement, with an increase of *393* basis points over the previous year.

We continued to have substantial foreign exchange hedging in place for the 2014 financial year, which both contributed to earnings, as we accommodate current exchange rates, and supported rapid expansion of our sales operations and research and development (R&D) programme.

We were honoured to receive several design and product awards, as well as Company of the Year at the 2013 Deloitte/Management Magazine Top 200 Awards. Our Managing Director Mike Daniell was named Executive of the Year at the same awards. These awards are an acknowledgement of the contributions of every member of the Fisher & Paykel Healthcare team worldwide. On behalf of the Board, I would like to thank all of our staff for their efforts and acknowledge the essential role they have played in our success.

DIVIDEND

For the 2014 financial year, the directors announced a final dividend of 7.0 cents per share (cps), taking the full year dividend to 12.4 cps. This equates to 70% of net profit after tax, compared to 86% the previous year.

The final dividend will be paid on 4 July 2014 and carries full imputation credit. For New Zealand resident shareholders, that results in a gross dividend of 9.7 NZ cps. Eligible non-resident shareholders will receive a supplementary dividend of 1.2 NZ cps.

The Dividend Reinvestment Plan (DRP) is again being offered for this dividend payment, under which eligible shareholders may elect to reinvest all or part of their cash dividends in additional shares. For the 2014 interim dividend payment, 63% of eligible shareholders participated in the DRP.

We expect to maintain the current dividend level, subject to earnings performance, until such time as our target debt to debt plus equity ratio of 5% to 15% is achieved. The Board believes that ratio will provide the capacity to continue to implement our foreign exchange hedging policy as we grow. Longer term, we expect that a dividend pay-out ratio of greater than 60% of net profit after tax will be appropriate.

YOUR BOARD

We have undertaken a significant refresh of the Board over the last five years, with four out of our seven directors appointed since 2009. We were pleased to welcome Geraldine McBride, as our latest independent director, to the Board in August 2013. Geraldine has a wealth of global business experience from a career spanning 28 years in the technology industry.

We recognise and respect diversity at Fisher & Paykel Healthcare. At Board level, we believe diversity allows us to benefit from a range of different perspectives, which leads to more healthy debate and decision making. While all Board appointments are based on merit, diversity, including gender diversity, is also taken into account.

All our Board members have a variety of skills which add value and complement other directors. This allows us to engage in robust debate and discussion around the performance and strategy of the company, to ensure Fisher & Paykel Healthcare remains a world leader in its field.

LOOKING FORWARD

Our consistent growth strategy has seen our operating revenue climb from NZ$119 million 15 years ago to NZ$623 million in 2014. This is an excellent track record with an average compound annual growth rate of 12% per annum over this period. In US dollars, the currency in which we make about half our sales, operating revenue has grown from US$62 million to US$512 million, a compound annual growth rate of 15%.

> We are on track to achieve our strategic goals:
> To double our constant currency revenue every 5 to 6 years
> To become a NZ$1 billion (operating revenue) company

Healthcare expenditure continues to grow with an ageing population, new technologies and demand for better care increasing the pressure on healthcare dollars.

Our products help to increase the efficiency and effectiveness of care. While they may be only a small fraction of the cost of a patient's treatment, they can have a major impact on the overall cost.

For this reason, we are enjoying increasing demand from clinicians and healthcare providers around the world. We estimate that more than 9 million people around the world benefited from our products over the past year.

The markets in which we operate continue to grow and we are well positioned to remain a provider of choice. Despite the reduction in favourable foreign currency hedging, which will impact in the 2015 financial year, we are expecting another successful year of growth for Fisher & Paykel Healthcare.

TONY CARTER
Chairman

Our strategic GOALS

DOUBLE OUR CONSTANT CURRENCY REVENUE EVERY 5 TO 6 YEARS

BECOME A NZ $1 BILLION OPERATING REVENUE COMPANY

CHIEF EXECUTIVE OFFICER'S REPORT

MICHAEL DANIELL

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

We made very encouraging progress during the 2014 financial year and continued our long term trend of record revenue each year. Both our product groups delivered their strongest results yet, with RAC revenue of NZ$336.9 million, up *14%* in constant currency, and OSA revenue of NZ$270.0 million, up *15%* in constant currency.

> Our success comes from delivering the world new, better, more effective and more efficient healthcare solutions.

RESPIRATORY AND ACUTE CARE

RAC growth for the year was mostly driven by demand for our products which are used outside of our traditional invasive ventilation application.

Fisher & Paykel Healthcare has led the way in respiratory humidification technologies, starting from 1970 when we successfully introduced our first heated humidifier to the market.

While initially we provided devices for use in invasive ventilation, over the past decade we have expanded our offering to other clinical applications where our technologies and products can aid in patient care, from premature babies to adults. These include non-invasive ventilation, oxygen therapy, humidity therapy and surgery.

Revenue from these new applications is growing very strongly and they accounted for more than 40% of our RAC revenue in the past year.

OBSTRUCTIVE SLEEP APNEA

We entered the OSA market with our first flow generators and masks less than 15 years ago. Since then, we have steadily grown our market share and are now recognised as a leader in this area.

We delivered constant currency revenue growth of approximately *15%* last year, compared to an estimated global OSA market growth of approximately 5% to 8%.

Positive acceptance of our new masks by both homecare providers and users was the major driver of revenue growth for our OSA product group. We also introduced our ICON+ flow generator range, with new features that simplify set-up and use.

The majority of people who suffer from OSA have yet to be diagnosed. We believe there are at least 50 million people worldwide with OSA and we estimate that only about 25% have been diagnosed so far.

OPERATIONAL PERFORMANCE

We have made excellent progress in expanding our gross margins. We have increased efficiencies through lean manufacturing, are growing volume at our facility in Mexico, and our new products and applications generate improved margins.

As we announced in February 2014, we are expanding the manufacturing area at our Mexico facility. The NZ$4 million fit-out will increase the Mexico facility manufacturing area by two thirds and will accommodate the installation of additional manufacturing equipment over the next three years, for products such as breathing systems and masks.

We expect the plant to be manufacturing approximately half of the company's consumable product volume within three years.

This expansion was bought forward to ensure we can meet the anticipated demand as a result of strong customer acceptance of products such as our new masks and Optiflow oxygen therapy system.

> Revenue growth plus gross margin increase resulted in strong earnings growth.

We continued to invest in our global sales teams and sales, general and administrative (SG&A) expenses grew 13% during the year. Research and development (R&D) activity also increased and a number of new products were launched in the year, with a strong development pipeline in place. R&D expenses grew 18% to $54.1 million for the year (8.7% of revenue) and included the first full year of costs relating to the Paykel Building, which will accommodate future increases in R&D activity.

Both SG&A and R&D expenses grew above underlying revenue growth, as we took advantage of favourable hedging during the year. We expect SG&A growth to be slower in the 2015 financial year which will help to accommodate the reduction in hedging gains.

STRATEGIC PROGRESS

Continuous Product Improvement

We have more than 400 engineers and scientists working in our R&D teams. We are continually looking to improve on existing products and to develop new products which can help to provide better patient care and outcomes.

During the year, we launched a number of new products including the Simplus full face and Pilairo Q nasal pillows masks for OSA. We also launched the ICON+ flow generator range, which offers a more simplified user experience and smart clinical technologies, as well as maximising comfort and efficacy.

In RAC, we have seen very good acceptance of Optiflow Junior and our range of Evaqua 2 breathing circuits.

Demand for our AIRVO flow generator, which is used to deliver Optiflow therapy in both the hospital and the home, was also strong and, during the year, we completed the introduction of AIRVO 2 which incorporates a number of improvements.

Serve More Patient Groups

Our traditional market in RAC has been heated humidification devices for invasive ventilation. Over the past few years, we have expanded our product range to help other patients who may benefit from our products.

Our strong growth in respiratory care indicates that we are increasingly serving those additional patient groups. We are seeing particularly strong growth in the use of our products in oxygen therapy, with our Optiflow and AIRVO systems driving growth in this area.

In the 2014 financial year, 41% of our RAC consumables revenue was from non-traditional applications with revenue growth of *29%* in constant currency in those applications. The proportion of RAC consumables revenue from non-traditional applications was up from 37% the previous year and we expect the proportion to steadily increase over future years.

More Products for Each Patient

We have an opportunity to extend the range of products we provide for use in the care and treatment of each patient.

Our focus for 2015

MAINTAIN AND GROW OUR MARKET LEADERSHIP IN RESPIRATORY HUMIDIFICATION

CONTINUE TO GROW THE MARKET FOR OUR OPTIFLOW OXYGEN THERAPY SYSTEM AND HUMIDIFICATION IN NON-INVASIVE VENTILATION

INCREASE OUR MARKET SHARE IN OSA PRODUCTS

CONTINUE TO INNOVATE AND DEVELOP NEW PRODUCTS

CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

We are expanding our range of products and are increasingly providing devices which can be used across the continuum of care, from the intensive care unit to the general hospital ward and in surgery, sub-acute care, long term care and home settings.

Increase our International Presence

We are a global business and our products are used in more than 120 countries. Our growth strategy remains to expand the global market for our innovative products, increase the number of our people supporting our customers and distributors around the world, and build our global network of distributors.

We now have our own sales teams in 34 countries, with strong distributor partnerships in a further 89 countries.

We have achieved excellent results from our most recently established sales operations in Japan and South Korea during FY14, and also welcomed new employees in sales support roles in Colombia and Indonesia.

LOOKING FORWARD

We expect to again deliver robust constant currency net profit growth for the 2015 financial year.

Fundamentally, our strategy is about improving effectiveness and efficiency of patient care. We often receive a premium for our products because, while they may account for only a small percentage of the total cost of treating a patient, they can have a significant impact on the overall cost of care, for example by transitioning patients to lower intensity care settings or to their home.

Healthcare providers are increasingly focused on improving patient outcomes.
For example, in the United States later this year Medicare will begin to penalise hospitals for excessive chronic respiratory patient readmissions. We believe that this will support demand for our products, which can help to improve care in the home for patients with chronic respiratory disease.

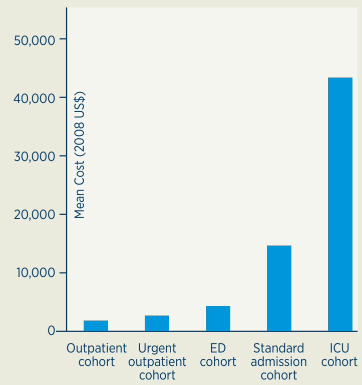
We estimate that our products were used in the treatment of over 9 million people over the past year. We expect that number to steadily grow as our devices are chosen to assist in the treatment of patients across our broad range of clinical and homecare applications.

We have a clear strategy to meet the demands of these caregivers and patients by continually improving our products, serving more patient groups, extending our range of products and growing our international presence.

MICHAEL DANIELL
Managing Director & Chief Executive Officer

LOWER CARE INTENSITY = LOWER COST

Mean Annual COPD-Related Medical, Pharmacy, and Total Costs by Care Intensity Cohort



Source: Anand A Dalal, Laura Christensen, Fang Liu, and Aylin A Riedel. Direct costs of chronic obstructive pulmonary disease among managed care patients. Int J Chron Obstruct Pulmon Dis. 2010; 5: 241-249.


We have a clear strategy to meet the demands of these patients by continually improving our products.

RESPIRATORY & ACUTE CARE (RAC)

OUR HEATED HUMIDIFIER AND RESPIRATORY CARE SYSTEMS PLAY AN IMPORTANT ROLE IN IMPROVING PATIENT CARE IN THE TREATMENT OF A VARIETY OF MEDICAL CONDITIONS WHICH INTERFERE WITH NORMAL RESPIRATION.

Humidity is critical to human respiratory health and well-being. Our respiratory devices incorporate patented and other proprietary technologies, and are designed to overcome many of the challenges of effectively creating, controlling and delivering gases to a patient's airway at close to physiologically normal levels of temperature and humidity.

Our products assist with invasive mechanical ventilation, non-invasive ventilation (NIV), oxygen therapy, humidity therapy, resuscitation and surgical procedures for patients ranging from premature babies to adults.

THE OPPORTUNITY

- To provide a greater share of the devices used by each patient
- To identify new applications where our products can be used

OUR CUSTOMERS

Clinical and medical professionals involved in the care of patients requiring respiratory support.

TAKING RESPIRATORY AND SURGICAL CARE TO NEW LEVELS

Our products are now used in a range of applications.

EVAQUA 2
Invasive Ventilation

FREEMOTION
Noninvasive Ventilation

OPTIFLOW™
Oxygen Therapy

AIRVO 2
Humidity Therapy

EVAQUA 2
Neonatal Invasive Ventilation

BUBBLE CPAP
Neonatal Noninvasive Ventilation

OPTIFLOW JUNIOR
Neonatal Oxygen Therapy

HUMIGARD
Surgical Humidification

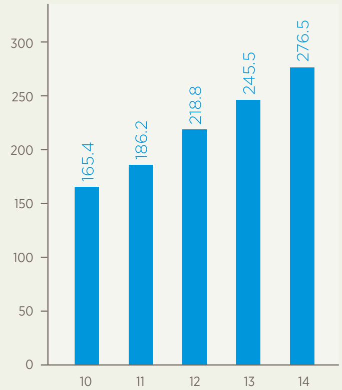
FY14 PERFORMANCE AND HIGHLIGHTS

OPERATING REVENUE

NZ$336.9m

US$276.5m

US$ MILLIONS



ANNUAL GROWTH IN OPERATING REVENUE

+14%
CONSTANT CURRENCY

HIGHLIGHTS

STRONG CUSTOMER DEMAND FOR OPTIFLOW JUNIOR AND EVAQUA 2 BREATHING CIRCUIT

Completed introduction of AIRVO 2
FLOW GENERATOR-HUMIDIFIER

Strong growth
IN USE OF PRODUCTS IN SURGERY

41%
OF RAC REVENUE FROM NON-TRADITIONAL APPLICATIONS

CONTINUED TO EXPAND RANGE OF PRODUCTS AND CONSUMABLES AVAILABLE IN RAC

OUR OPTIFLOW SYSTEM - RESPIRATORY SUPPORT, AIRWAY HYDRATION AND COMFORT

SUHINA KAUR

CLINICAL RESEARCH ASSOCIATE NEONATAL AND PEDIATRIC CARE, RAC PRODUCT GROUP

We are partners: together, we work with clinicians to improve patient outcomes.

Understanding the needs of patients and clinicians is fundamental to providing innovative devices that can improve care and outcomes.

Clinical partnerships are essential to our success.

We listen. We observe. We innovate. We carefully trial in clinical settings.

Our brand and products are trusted by clinical experts and healthcare providers around the world.

Fisher & Paykel Healthcare – Improving Care and Outcomes.

OBSTRUCTIVE SLEEP APNEA (OSA)

OSA IS A RESULT OF THE TEMPORARY CLOSURE OF THE AIRWAY DURING SLEEP AS MUSCLES RELAX AND THE AIRWAY COLLAPSES. THE PERSON STOPS BREATHING, SOMETIMES FOR MORE THAN A MINUTE.

OSA can greatly impair the quality of sleep, leading to fatigue. It is also associated with diabetes, depression, hypertension, heart attack and stroke.

Continuous Positive Airway Pressure (CPAP) is the most common form of treatment for OSA. A mask is worn at night, attached to a small, quiet device, which generates airflow and creates enough pressure to keep the airway open.

The key to successful treatment of OSA is patient compliance with the CPAP therapy. Our products are designed to be easy to fit, comfortable to wear and simple to use so as to promote ongoing use.

THE OPPORTUNITY

- Potentially 50-60 million affected worldwide; approximately 25% diagnosed so far.
- Estimated US$2.5 billion+ worldwide market, growing approximately 6–8%.

OUR CUSTOMERS

Healthcare providers looking for products which will allow them to set up and support OSA patients as efficiently as possible.

LEADING THE WAY IN TREATING OSA

Fisher & Paykel Healthcare is recognised as one of the world's leading innovators and providers of CPAP solutions which include masks, flow generators and data management technologies.

Our nasal and full face masks incorporate our patented technologies which help make them comfortable, easier to fit and efficient.

Our flow generators are stylish, smart and simple.
They efficiently integrate with our data management technologies which provide a full range of data transfer and compliance reporting options to assist with monitoring and encouraging patient compliance with their CPAP therapy.

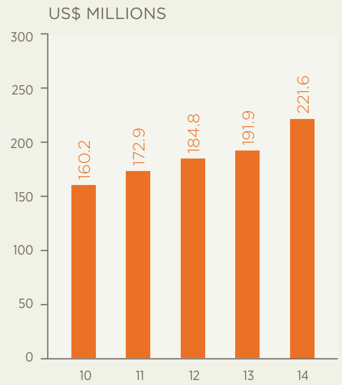
THE F&P ICON+ WITH SENSAWAKE TECHNOLOGY

FY14 PERFORMANCE AND HIGHLIGHTS

OPERATING REVENUE

NZ$270.0m

US$221.6m



ANNUAL GROWTH IN OPERATING REVENUE

+15%
CONSTANT CURRENCY

HIGHLIGHTS

Launch of ICON+
FLOW GENERATOR RANGE

Launch of Pilairo Q
NASAL PILLOW MASK

Launch of Simplus
FULL FACE MASK

+23%
CONSTANT CURRENCY GROWTH IN MASKS

OUR REVOLUTIONARY SIMPLUS FULL FACE MASK AND ICON+ FLOW GENERATOR

ADRIAN TIDMAN

OSA SUFFERER

We are life savers: our end goal is to improve people's lives and create better patient outcomes.

It is not just the people using our products who benefit; it is also those closest to them.

Improvements in quality of life can be dramatic and life-changing.

Falling asleep at the wheel with his wife in the car – not just once, but twice – was the wakeup call for one OSA sufferer.

After years of daytime fatigue and nights of snoring, Adrian was finally diagnosed with obstructive sleep apnea.

A CPAP machine is now a very important part of Adrian's life. He describes himself as 'raring to go again'.

His friends and family comment that it's great to see him not falling asleep every few minutes. His wife loves the quieter nights without the snoring. His children appreciate the energy their dad has again.

Fisher & Paykel Healthcare – Changing Lives.

OUR BOARD

TONY CARTER

MICHAEL DANIELL

ROGER FRANCE

LINDSAY GILLANDERS

GERALDINE MCBRIDE

ARTHUR MORRIS

DONAL O'DWYER

TONY CARTER

BOARD RESPONSIBILITIES Independent Chairman since April 2012, Chair Remuneration & Human Resources Committee, Chair Nomination Committee, Member Audit & Risk Committee and Member Quality, Safety & Regulatory Committee

TERM OF OFFICE Appointed December 2010, last re-elected 19 August 2011

Tony served as Managing Director of Foodstuffs New Zealand Limited from 2001 to 2010. He is Chairman of Air New Zealand Limited and Blues Management Limited, a director of Fletcher Building Limited and ANZ Bank New Zealand Limited and is a trustee of the Maurice Carter Charitable Trust. Master of Engineering, Master of Philosophy.

MICHAEL DANIELL

BOARD RESPONSIBILITIES Managing Director

TERM OF OFFICE Appointed November 2001, last re-elected 22 August 2013

Michael became Managing Director and Chief Executive Officer in November 2001. He served as the General Manager of Fisher & Paykel's healthcare business from May 1990 until November 2001. From 1979 until May 1990, Michael held various positions in the business, including product design engineer and technical manager. He has more than 35 years of international healthcare business experience. Michael is also a member of the University of Auckland Council. **Bachelor of Engineering (Hons).**

ROGER FRANCE

BOARD RESPONSIBILITIES Independent Director, Chair Audit & Risk Committee, Member Remuneration & Human Resources Committee and Member Nomination Committee

TERM OF OFFICE Appointed February 2009, last re-elected 22 August 2012

Roger was a partner at PricewaterhouseCoopers for over 15 years. He was previously the Chief Financial Officer of Allied Farmers Cooperative Limited and Freightways Holdings Limited, and Managing Partner of Coopers & Lybrand in Auckland. As well as being a director of Fisher & Paykel Healthcare, Roger is Chairman of Tappenden Holdings Limited, a director of Air New Zealand Limited and Orion Corporation Limited, and a trustee of the University of Auckland Foundation and the Dilworth Trust Board. **Bachelor of Commerce, Fellow of NZ Institute of Chartered Accountants, Fellow of the Institute of Directors in New Zealand.**

LINDSAY GILLANDERS

BOARD RESPONSIBILITIES Independent Director, Member Audit & Risk Committee

TERM OF OFFICE Appointed May 1992, last re-elected 19 August 2011

Until November 2001, Lindsay was responsible for Fisher & Paykel's legal, regulatory, compliance and intellectual property rights, and he worked on major commercial agreements including acquisitions and divestments by both the appliances and healthcare businesses. Lindsay also serves as Chairman of Auckland Packaging Company and as a director of Rangatira Limited. **Bachelor of Law (Hons).**

GERALDINE MCBRIDE

BOARD RESPONSIBILITIES Independent Director, Member Remuneration & Human Resources Committee and Member Nomination Committee

TERM OF OFFICE Appointed August 2013, last re-elected 27 August 2013

Geraldine is co-founder of MyWave, a cloud-based consumer to enterprise social commerce business. Geraldine served as a senior executive of SAP AG and Dell Inc with her most recent role being President of SAP North America. Her successful career spans 28 years in the technology industry gaining a wealth of global experience. Her global contributions to technology and communications were recognised with a KEA World Class New Zealand Award in 2013. Geraldine also serves as a director of Sky Network Television Limited and National Australia Bank Limited. **Bachelor of Science (Zoology).**

ARTHUR MORRIS

BOARD RESPONSIBILITIES Independent Director, Chair Quality, Safety & Regulatory Committee

TERM OF OFFICE Appointed February 2008, last re-elected 22 August 2012

Dr Arthur Morris is a fellow of the Royal Australasian College of Pathologists, the Australasian Society for Microbiology and the Infectious Diseases Society of America. He trained in Dunedin, Invercargill and Auckland before spending three years at Duke University Medical Centre, North Carolina, USA. Arthur served as Chief Executive Officer of Diagnostic Medlab Limited from 2005 until 2013. **Bachelor of Science – Microbiology (Hons), Bachelor of Medicine, Doctorate in Medicine.**

DONAL O'DWYER

BOARD RESPONSIBILITIES Independent Director, Member Quality, Safety & Regulatory Committee

TERM OF OFFICE Appointed December 2012, last re-elected 27 August 2013

Donal is an Australian resident, and has 30 years' experience working in the healthcare sector. He has previously served as president (Europe) for Cordis Cardiology, the cardiology division of Johnson & Johnson's Cordis Corporation, and from 2000 to 2003 as its worldwide president. Prior to joining Cordis, Donal worked for 12 years with Baxter Healthcare, rising to president of the Cardiovascular Group. Donal is also Chairman of Atcor Medical Pty Limited and a director of Cochlear Limited and Mesoblast Limited. **Bachelor of Engineering, Master of Business Administration.**

OUR EXECUTIVE MANAGEMENT TEAM

MICHAEL DANIELL
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

LEWIS GRADON
SENIOR VICE PRESIDENT PRODUCTS & TECHNOLOGY

PAUL SHEARER
SENIOR VICE PRESIDENT SALES & MARKETING

TONY BARCLAY
CHIEF FINANCIAL OFFICER & COMPANY SECRETARY

DEBORAH BAILEY
VICE PRESIDENT HUMAN RESOURCES

WINSTON FONG
VICE PRESIDENT INFORMATION & COMMUNICATION TECHNOLOGY

PAUL ANDREASSI
VICE PRESIDENT QUALITY & REGULATORY

MAKING A POSITIVE CONTRIBUTION

At Fisher & Paykel Healthcare we believe we have a responsibility to make a contribution beyond the boundaries of our business. Our goal is to have a positive impact on the people, places and communities we engage with.

OUR PEOPLE

Our family of employees are essential to the success of our company and we aim to build long term trusting relationships with each employee. During the year, we continued to invest in targeted recruitment initiatives to attract talented people to the company. Our global workforce grew by 9%.

We provide a healthy and safe working environment. We adopt a collaborative approach with our employees to ensure that we continue to build a strong culture of health and safety.

We look for opportunities to assist their personal development and education. We promote learning and invest into training and development opportunities for our people around the world. We rolled out our Engage and Develop programme, where managers and employees work in partnership to identify and meet the development goals and ambitions of each individual.

We share the success of our business with our employees. We offer a discounted Share Purchase Plan for employees in eligible countries. We provide employees in eligible countries with a profit sharing bonus.

OUR COMMUNITIES

We aim to be a trustworthy community neighbour and we continue to support our communities. We carefully consider our surroundings when building new facilities to ensure they enhance rather than detract from the environment.

We support initiatives that encourage learning and the development of knowledge in science, technology, engineering and healthcare. For the sixth year, we provided support for the NZ VEX Robotics Competition, which seeks to increase student interest and involvement in science, technology, engineering and mathematics.

OUR END USERS

We have a genuine and real care for the wellbeing of the end user. Our goal is to improve people's lives by providing innovative products which deliver better health outcomes. We estimate that more than 9 million people benefit from our products each year. Through our products, we are creating healthier communities across the world.

We are constantly aware of the needs of our users, whether in the hospital or in the home. Our comprehensive and rigorous R&D programmes develop a deep understanding of patient and caregiver needs.

THE ENVIRONMENT

We recognise the importance of reducing our impact on the environment. Our New Zealand site has ISO14001 certification, the international environmental management standard. We are progressing through a three year journey towards Certified Emissions Measurement and Reduction Scheme (CEMARS) certification. Our base year greenhouse gas emissions have been certified to part 7.3.1 of ISO 14064-1:2006 and we have an emissions management reduction plan in place. Performance against this plan is monitored quarterly.

We aim to develop products and manufacturing processes which are as friendly to the environment as possible. We continue to recycle approximately 90% of our waste and are actively engaged in energy management monitoring and optimisation projects. Our Mexico manufacturing facility's proximity to our major markets means a decrease in carbon emissions.

OUR STAKEHOLDERS

We seek to engage with our stakeholders. We engage with our stakeholders to achieve our common goal – more efficient and effective healthcare solutions, that provide better outcomes for patients and reduce the overall cost of care.

Clinical partnerships are integral to our business and we reciprocate with our support. We support a wide range of clinical research programmes. We provide financial support to ICU and high dependency care units in hospitals close to our R&D campus. We provide access to new and innovative products, which can be used and evaluated in clinical environments.

Our success comes from delivering the world new, better, more effective and more efficient healthcare solutions.

FINANCIAL REVIEW

Net profit after tax was NZ$97.1 million for the year ended 31 March 2014, an increase of 26% compared to the prior year's NZ$77.1 million. In constant currency, operating profit increased *46%*. The increase in the full year net profit after tax reflects revenue growth, further gross margin expansion and operational efficiencies.

Operating revenue was a record NZ$623.4 million, 12% above the prior year, or *13%* in constant currency. The company's respiratory and acute care (RAC) product group operating revenue increased by *14%* and obstructive sleep apnea (OSA) product group revenue increased by *15%* over the prior year, in constant currency.

The company's financial statements for the year ended 31 March 2014 and the comparative financial information for the year ended 31 March 2013 have been prepared under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), Interpretations and other applicable FRS.

SECOND HALF RESULTS

For the second half, net profit after tax grew by 20% to NZ$52.6 million and operating revenue grew 10% to NZ$319.5 million. In constant currency, second half operating revenue increased by *14%* and operating profit increased by *48%*, primarily as a result of revenue growth, improved gross margins and operating efficiencies.

RAC operating revenue grew *13%* and OSA operating revenue grew *17%* in constant currency, compared to the prior year second half.

Strong growth in the RAC product group was driven by increasing acceptance of products which are used in applications outside of intensive care ventilation, including non-invasive ventilation, oxygen therapy and humidity therapy. Consumables revenue from those new applications increased *27%* in the second half, in constant currency.

OSA mask constant currency revenue grew *26%* in the second half, reflecting growth in Pilairo Q nasal pillows masks, Eson nasal masks and the full introduction of the Simplus full face mask. Total flow generator revenue growth was *5%* in constant currency for the second half. Excluding the legacy SleepStyle flow generator range, constant currency flow generator revenue growth was *11%*.

DIVIDEND

The directors have approved a final dividend of NZD 7.0 cents per ordinary share carrying a full imputation credit of NZD 2.7222 cents per share. Eligible non-resident shareholders will receive a supplementary dividend of NZD 1.2353 cents per share. The final dividend will be paid on 4 July 2014, with a record date of 20 June 2014 and an ex-dividend date of 18 June 2014 for the NZSX and ASX.

The company offers eligible shareholders the opportunity to receive ordinary shares rather than cash under the Dividend Reinvestment Plan (DRP). The directors have maintained a discount on the DRP of 3% to encourage shareholders to take up the offer as part of the company's plan to build shareholders' funds. Shareholders who have not yet elected to participate in the DRP will need to provide a Participation Notice to the company's share registrar by 23 June 2014.

In May 2010 the directors reviewed the company's capital structure and determined that the company needed to progressively increase its shareholders' funds, to ensure that it has capacity to implement its foreign currency hedging policy as the company grows.

A target debt to debt plus equity ratio of 5% to 15% (excluding unrealised financial instrument gains or losses) was established. The directors expect that, subject to earnings performance, the dividend will be maintained until such time as the target capital structure is achieved. Longer term, the directors expect that a dividend payout ratio of greater than 60% will be appropriate to maintain target gearing.

The total dividend payment for the year at 12.4 cps equates to 70% of net profit after tax.

FINANCIAL REVIEW CONTINUED

FINANCIAL PERFORMANCE

The following table sets out the consolidated statement of financial performance for the years ended 31 March 2013 and 2014 in New Zealand dollars:

	YEAR ENDED 31 MARCH	
	2013 NZ$000'S	2014 NZ$000'S
Operating revenue	**556,250**	**623,447**
Cost of sales	248,406	258,049
Gross profit	307,844	365,398
Gross margin	**55.3%**	**58.6%**
Other income	2,400	3,700
Selling, general and administrative expenses	151,791	171,453
Research and development expenses	45,720	54,146
Total operating expenses	197,511	225,599
Operating profit before financing costs	**112,733**	**143,499**
Operating margin	**20.3%**	**23.0%**
Net financing expense	3,347	6,835
Profit before tax	**109,386**	**136,664**
Tax expense	32,333	39,611
Profit after tax	**77,053**	**97,053**

FOREIGN EXCHANGE EFFECTS

The company is exposed to movements in foreign exchange rates, with approximately 48% of operating revenue generated in US dollars, 24% in Euros, 6% in Australian dollars, 5% in Japanese yen, 4% in British pounds, 4% in Canadian dollars, 2% in New Zealand dollars and 7% in other currencies.

As the number of direct sales operations increases, an increasing proportion of the company's revenue is generated in local currencies, reducing operating revenue exposure to the US dollar. In the current year the proportion of revenue which was generated in US dollars has reduced from 50% to 48%. The company's cost base is also becoming more diverse, as manufacturing output from Mexico increased to 26% of consumables output for the year.

By historical standards the New Zealand dollar remained elevated against most of the currencies in which the company receives revenue. Foreign exchange hedging gains contributed NZ$54.6 million (2013: NZ$48.5 million) to operating profit.

The average daily spot rate and the average effective exchange rate (i.e. the accounting rate, incorporating the benefit of forward exchange contracts entered into by the company in respect of the relevant financial year) of the main foreign currency exposures for the years ended 31 March 2013 and 2014 are set out in the table below:

	AVERAGE DAILY SPOT RATE YEAR ENDED 31 MARCH		AVERAGE EFFECTIVE EXCHANGE RATE YEAR ENDED 31 MARCH	
	2013	2014	2013	2014
USD	0.8142	0.8208	0.6801	0.6740
EUR	0.6324	0.6123	0.5077	0.4998

The effect of balance sheet translations of offshore assets and liabilities for the year ended 31 March 2014 resulted in a reduction in operating revenue of NZ$2.2 million (2013: NZ$2.7 million) and a reduction in operating profit of NZ$2.7 million (2013: NZ$2.8 million).

CONSTANT CURRENCY ANALYSIS

A constant currency income statement is prepared each month to enable the Board and management to monitor and assess the company's underlying comparative financial performance without any distortion from changes in foreign exchange rates. The table below provides estimated NZ dollar income statements for the relevant periods, which have all been restated at the budget foreign exchange rates for the 2014 financial year but after excluding 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. It has been provided to assist users of financial information to better understand and assess the company's comparative financial performance without the impacts of spot foreign currency fluctuations and hedging results and has been prepared on a consistent basis each year.

Constant Currency Income Statements	YEAR ENDED 31 MARCH 2012	YEAR ENDED 31 MARCH 2013	VARIATION 2012 TO 2013	YEAR ENDED 31 MARCH 2014	VARIATION 2013 TO 2014
	NZ$000	NZ$000	%	NZ$000	%
Operating revenue	***446,655***	***496,301***	***+11***	***562,977***	***+13***
Cost of sales	*234,879*	*245,071*	*+4*	*255,861*	*+4*
Gross profit	*211,776*	*251,230*	*+19*	*307,116*	*+22*
Gross margin	***47.4%***	***50.6%***	***+319 bps***	***54.6%***	***+393 bps***
Other income	*2,400*	*2,400*	–	*3,700*	*+54*
Selling, general & administrative expenses	*136,296*	*148,698*	*+9*	*170,223*	*+14*
Research & development expenses	*41,988*	*45,720*	*+9*	*54,146*	*+18*
Total operating expenses	*178,284*	*194,418*	*+9*	*224,369*	*+15*
Operating profit	***35,892***	***59,212***	***+65***	***86,447***	***+46***
Operating margin	***8.0%***	***11.9%***	***+388 bps***	***15.4%***	***+342 bps***
Financing expenses (net)	*3,925*	*4,652*	*+19*	*7,727*	*+66*
Profit before tax	***31,967***	***54,560***	***+70***	***78,720***	***+44***

The significant exchange rates used in the constant currency analysis, being the budget exchange rates for the year ended 31 March 2014, are USD 0.83, EUR 0.64, AUD 0.81, GBP 0.55, CAD 0.85, JPY 79 and MXN 10.60.

A reconciliation of the constant currency income statements on the previous page to the actual income statements for each year is provided below.

Reconciliation of Constant Currency to Actual Income Statements	YEAR ENDED 31 MARCH 2012 NZ$000	2013 NZ$000	2014 NZ$000
Profit before tax (constant currency)	***31,967***	***54,560***	***78,720***
Spot exchange rate effect	12,410	7,756	5,194
Foreign exchange hedging result	49,542	48,534	54,584
Balance sheet revaluation	(1,602)	(1,464)	(1,834)
Profit before tax (as reported)	**92,317**	**109,386**	**136,664**

The reconciliation set out above illustrates that, when comparing the NZ dollar profit before tax shown in the actual income statement for the year to 31 March 2014 with the prior year:

- the movement in average daily spot exchange rates had an adverse impact of NZ$2.6m;
- the benefit from the company's foreign exchange hedging activities was higher by NZ$6.1m; and
- overall, the net positive effect of movements in exchange rates and the hedging programme was NZ$3.1m, including the impact of balance sheet revaluations.

FINANCIAL REVIEW CONTINUED

OPERATING REVENUE

Operating revenue increased by 12% to NZ$623.4 million for the year ended 31 March 2014 from NZ$556.3 million for the year ended 31 March 2013, principally due to increased sales volume from core products.

The following table sets out operating revenue by product group for the years ended 31 March 2013 and 2014:

	YEAR ENDED 31 MARCH	
	2013 NZ$000'S	2014 NZ$000'S
RAC products	301,503	336,851
OSA products	235,778	270,048
Core products sub-total	537,281	606,899
Distributed and other products	18,969	16,548
Total	**$556,250**	**$623,447**

Underlying growth in demand for respiratory humidification systems was strong throughout the year. This resulted in total operating revenue of NZ$336.9 million for the RAC product group, growth of 12% in NZ dollars, and *14%* in constant currency, compared with last year.

Expansion of the application of products and technologies to the care of patients beyond the company's traditional invasive ventilation market continued, with an increasing proportion of consumables revenue coming from devices used in non-invasive ventilation, oxygen therapy, humidity therapy and surgery. Constant currency revenue for these new applications grew *29%* for the year ended 31 March 2014 and in total represented 41% of respiratory and acute care consumables revenue.

In the RAC group, underlying average sell prices were supported by some modest selling price increases.

OSA product group operating revenue increased 15% to NZ$270.0 million, and *15%* in constant currency for the year.

Constant currency mask revenue grew *23%* for the year, as the Eson and Pilairo Q masks continued to gain market share and due to the introduction of the new Simplus full face mask.

Sales of RAC products represented 54% of operating revenue for the years ended 31 March 2013 and 2014. Sales of OSA products represented 42% and 43% of operating revenue for the years ended 31 March 2013 and 2014 respectively. Sales of consumable and accessory products for core products accounted for approximately 76% and 79% of operating revenue for the years ended 31 March 2013 and 2014 respectively.

REGIONAL REVENUE

The following table sets out operating revenue for each of our regional markets for the year ended 31 March 2013 and 2014:

	YEAR ENDED 31 MARCH	
	2013 NZ$000'S	2014 NZ$000'S
North America	241,123	261,620
Europe	181,422	211,861
Asia Pacific	106,637	118,869
Other	27,068	31,097
Total	**$556,250**	**$623,447**

The breakdown of revenue presented above is based on the geographical location of the customer and is inclusive of foreign exchange gains.

GROSS PROFIT

Gross profit increased to NZ$365.4 million, or 58.6% of operating revenue, for the year ended 31 March 2014 from NZ$307.8 million, or 55.3% of operating revenue, in the year ended 31 March 2013. Constant currency gross margin percentage increased by *393 bps* due to a number of factors, including positive RAC and OSA product mixes, and logistics and manufacturing improvements, including the contribution from the Mexico manufacturing facility.

EXPENSES

Research and development activities are primarily conducted in New Zealand. Research and development expenses totalled NZ$54.1 million for the year ended 31 March 2014 compared to NZ$45.7 million in the prior year, growth of 18%. The increase was attributable to increases in R&D personnel and costs in connection with the continuing expansion of product and process development activities for the RAC and OSA product groups. The first full year of costs related to the Paykel building on the Auckland site, which will accommodate future increases in R&D activities, also contributed to R&D expense growth. Research and development expenses represented 8.7% of operating revenue for the year ended 31 March 2014.

Selling, general and administrative expenses increased by 13% to NZ$171.5 million for the year ended 31 March 2014 compared to NZ$151.8 million in the prior year. This increase was primarily attributable to an increase in personnel to support our growing international sales and marketing activities. In constant currency, selling, general and administrative expenses increased by *14%* for the year ended 31 March 2014.

OPERATING PROFIT

Operating profit increased by 27% to NZ$143.5 million for the year ended 31 March 2014 from NZ$112.7 million for the year ended 31 March 2013.

In constant currency, operating profit increased by *46%*.

BALANCE SHEET

Gearing[1] at 31 March 2014 was 21.0%, compared to 27.9% at 31 March 2013. The decrease in gearing relates to the increase in earnings coupled with lower capital expenditure following the completion of the Paykel building.

The gearing figure remains above the target range of 5% to 15%. As previously noted the directors intend to ensure that the company progressively moves its gearing into the target range, subject to exchange rate movements, profitability and dividend payout.

FUNDING

The company had total available committed debt funding of $192 million as at 31 March 2014, of which approximately $86 million was undrawn, and cash on hand of $10 million. Bank debt facilities provide all available funding given the modest level of requirements. Over the next 12 months one $30 million facility will mature. As at 31 March 2014, the weighted average maturity of borrowing facilities is 2.2 years.

DEBT MATURITY

The average maturity of the debt of $95 million was 1.6 years, and the currency split was 61% New Zealand dollars, 18% US dollars, 15% Euros, 4% Australian dollars and 2% Canadian dollars.

INTEREST RATES

Approximately 97% of all borrowings were at fixed interest rates with an average duration of 5.3 years and an average rate of 4.8%. Inclusive of floating rate borrowings the average interest rate on the debt is currently 4.8%. All interest rates are inclusive of margins but not fees.

Interest coverage for the period was 21 times and the group remains in a sound financial position.

[1] *Net interest-bearing debt (debt less cash and cash equivalents) to net interest-bearing debt and equity (less cash flow hedge reserve – unrealised).*

FINANCIAL REVIEW CONTINUED

CASHFLOW

Cashflow from operations was $104.1 million compared with $86.4 million for the year ended 31 March 2013. The increase was mainly related to improved performance and inventory cost improvements favourably impacting working capital.

Capital expenditure for the period was $31.9 million compared with $62.0 million in the prior year. The capital expenditure related predominantly to new product tooling and manufacturing equipment, whereas in the prior year NZ$33.6 million related to the Paykel building project.

FINANCIAL RATIOS

Unaudited	YEAR ENDED 31 MARCH	
	2013	2014
Pre-tax return on average shareholders' equity (annualised)	30.4%	35.1%
Earnings per share (cents)	14.3	17.7
Dividends (interim plus final proposed) per share (cents)	12.4	12.4
Gearing	27.9%	21.0%
Interest cover (times)	18.6	21.0

FOREIGN EXCHANGE HEDGING POSITION

The hedging position for our main exposures, the US dollar and Euro, as at the date of this report is:

Unaudited	YEAR TO 31 MARCH		
	2015	2016	2017
USD % cover of expected exposure	53%	12%	0%
USD average rate of cover	0.78	0.77	–
EUR % cover of expected exposure	81%	38%	5%
EUR average rate of cover	0.50	0.53	0.41

FINANCIAL INFORMATION

FIVE YEAR FINANCIAL SUMMARY (NZ$)

FOR THE YEARS ENDED 31 MARCH

	2010 NZ$000	2011 NZ$000	2012 NZ$000	2013 NZ$000	2014 NZ$000
				(EXCEPT AS OTHERWISE STATED)	
FINANCIAL PERFORMANCE					
Sales revenue	474,755	467,680	466,726	507,250	568,602
Foreign exchange gain on hedged sales	28,567	38,394	49,962	49,000	54,845
Total operating revenue	**503,322**	**506,074**	**516,688**	**556,250**	**623,447**
Cost of sales	(231,939)	(228,372)	(241,651)	(248,406)	(258,049)
Gross profit	271,383	277,702	275,037	307,844	365,398
Gross margin	53.9%	54.9%	53.2%	55.3%	58.6%
Other income	4,269	1,200	2,400	2,400	3,700
Selling, general and administrative expenses	(137,541)	(141,882)	(142,644)	(151,791)	(171,453)
Research and development expenses	(35,272)	(39,277)	(41,988)	(45,720)	(54,146)
Total operating expenses	**(172,813)**	**(181,159)**	**(184,632)**	**(197,511)**	**(225,599)**
Operating profit before financing costs	102,839	97,743	92,805	112,733	143,499
Operating margin	20.4%	19.3%	18.0%	20.3%	23.0%
Net financing (expense)	3,976	(4,929)	(488)	(3,347)	(6,835)
Profit before tax	106,815	92,814	92,317	109,386	136,664
Tax expense	(35,184)	(28,868)	(28,207)	(32,333)	(39,611)
Profit after tax*	**71,631**	**63,946**	**64,110**	**77,053**	**97,053**
Revenue by region:					
North America	234,035	233,706	230,563	241,123	261,620
Europe	161,723	159,438	170,355	181,422	211,861
Asia Pacific	81,404	90,115	92,981	106,637	118,869
Other	26,160	22,815	22,789	27,068	31,097
Total	**503,322**	**506,074**	**516,688**	**556,250**	**623,447**
Revenue by product group:					
Respiratory & acute care	243,357	254,181	271,036	301,503	336,851
Obstructive sleep apnea	236,074	235,776	228,899	235,778	270,048
Core products subtotal	479,431	489,957	499,935	537,281	606,899
Distributed and other	23,891	16,117	16,753	18,969	16,548
Total	**503,322**	**506,074**	**516,688**	**556,250**	**623,447**
FINANCIAL POSITION					
Tangible assets	387,288	422,064	481,759	528,253	551,551
Intangible assets	87,771	95,544	90,295	90,344	78,774
Total assets	475,059	517,608	572,054	618,597	630,325
Liabilities	(181,895)	(204,317)	(223,902)	(246,366)	(224,203)
Shareholders' equity	**293,164**	**313,291**	**348,152**	**372,231**	**406,122**
Net tangible asset backing (cents per share)	57.1	62.7	67.2	69.1	73.0
Pre-tax return on average total assets percentage	24.0%	18.7%	16.9%	18.4%	21.9%
Pre-tax return on average equity percentage	42.9%	30.6%	27.9%	30.4%	35.1%
CASH FLOWS					
Net cash flow from operating activities	137,449	71,053	93,883	86,437	104,099
Net cash flow (used in) investing activities	(48,189)	(43,237)	(67,475)	(61,976)	(31,860)
Net cash flow (used in) financing activities	(90,275)	(37,485)	(24,552)	(26,453)	(66,739)
SHARES OUTSTANDING					
Weighted basic average shares outstanding	511,251,159	517,154,550	525,706,219	537,560,800	547,094,526
Weighted diluted average shares outstanding	529,793,292	536,265,092	546,509,548	559,097,010	557,553,102
Basic shares outstanding at end of the year	512,304,851	520,453,173	530,053,399	542,612,236	551,110,270

* Prior to one-off non-cash deferred tax charges of $11.5 m (2011)

FIVE YEAR FINANCIAL SUMMARY (NZ$)

FOR THE YEARS ENDED 31 MARCH

	2010 NZ$000	2011 NZ$000	2012 NZ$000	2013 NZ$000	2014 NZ$000
				(EXCEPT AS OTHERWISE STATED)	
DIVIDENDS AND EARNINGS PER SHARE (CENTS PER SHARE)					
Dividends paid:					
Final (i)	7.0	7.0	7.0	7.0	7.0
Interim	5.4	5.4	5.4	5.4	5.4
Total ordinary dividends	12.4	12.4	12.4	12.4	12.4
Basic earnings per share	14.0	10.2	12.2	14.3	17.7
Diluted earnings per share	13.5	9.8	11.7	13.8	17.4
(i) Final dividend relates to the prior financial year.					
PATENTS					
Number of United States patents	82	92	98	107	111
Number of United States patent applications (includes PCTs*)	87	100	107	159	220
Number of non-United States patents	333	366	413	442	459
Number of non-United States patent applications (excludes PCTs*)	200	196	189	260	306
RESEARCH AND DEVELOPMENT					
Research and development expenditure	35,272	39,277	41,988	45,720	54,146
Percentage of operating revenue	7.0%	7.8%	8.1%	8.2%	8.7%
CAPITAL EXPENDITURE					
Operational	43,006	25,290	16,761	24,725	23,961
Land and buildings	2,743	15,491	48,150	33,821	3,344
Total	45,749	40,781	64,911	58,546	27,305
Capital expenditure : depreciation ratio	2.9	2.0	3.2	2.5	1.0
NUMBER OF EMPLOYEES					
By function:					
Research and development	295	322	325	359	403
Manufacturing and operations	1,371	1,426	1,544	1,641	1,743
Sales, marketing and distribution	562	595	616	645	727
Management and administration	113	105	107	113	139
Total	2,341	2,448	2,592	2,758	3,012
By region:					
New Zealand	1,818	1,666	1,718	1,753	1,904
North America	208	441	519	627	681
Europe	182	197	202	205	217
Rest of World	133	144	153	173	210
Total	2,341	2,448	2,592	2,758	3,012
AVERAGE DAILY SPOT EXCHANGE RATES (NZ$1 =)**					
USD	0.6785	0.7330	0.8072	0.8142	0.8208
AVERAGE EFFECTIVE EXCHANGE RATES (NZ$1 =)***					
USD	0.6041	0.6192	0.6641	0.6801	0.6740
EUR	0.4523	0.4808	0.4823	0.5077	0.4998
GBP	0.3919	0.4668	0.4787	0.4975	0.5153
AUD	0.7923	0.7960	0.7851	0.7855	0.8205
CAD	0.7042	0.6954	0.7206	0.7325	0.7637
JPY	63.9026	59.0184	59.3760	58.3516	64.9652
MXN		9.3216	9.6811	10.1535	10.1436

* PCTs (Patent Cooperation Treaty) are unified patent applications across a number of jurisdictions.
** Exchange rates used for the translation of NZD financial results to USD.
*** 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.

FIVE YEAR FINANCIAL SUMMARY (US$)

FOR THE YEARS ENDED 31 MARCH

	2010 US$000	2011 US$000	2012 US$000	2013 US$000	2014 US$000
				(EXCEPT AS OTHERWISE STATED)	
FINANCIAL PERFORMANCE					
Sales revenue	322,121	342,809	376,741	413,003	466,709
Foreign exchange gain on hedged sales	19,383	28,143	40,329	39,896	45,017
Total operating revenue	**341,504**	**370,952**	**417,070**	**452,899**	**511,726**
Cost of sales	(157,371)	(167,397)	(195,061)	(202,252)	(211,807)
Gross profit	184,133	203,555	222,009	250,647	299,919
Gross margin	53.9%	54.9%	53.2%	55.3%	58.6%
Other income	2,897	880	1,937	1,954	3,037
Selling, general and administrative expenses	(93,322)	(104,000)	(115,142)	(123,588)	(140,729)
Research and development expenses	(23,932)	(28,790)	(33,893)	(37,225)	(44,443)
Total operating expenses	**(117,254)**	**(132,790)**	**(149,035)**	**(160,813)**	**(185,172)**
Operating profit before financing costs	69,776	71,645	74,911	91,788	117,784
Operating margin	20.4%	19.3%	18.0%	20.3%	23.0%
Net financing (expense)	2,698	(3,613)	(394)	(2,725)	(5,610)
Profit before tax	72,474	68,032	74,517	89,063	112,174
Tax expense	(23,872)	(21,160)	(22,769)	(26,326)	(32,513)
Profit after tax *	**48,602**	**46,872**	**51,748**	**62,737**	**79,661**
Revenue by region:					
North America	158,822	171,275	186,137	196,323	214,665
Europe	109,749	116,958	137,538	147,718	174,001
Asia Pacific	55,177	66,076	75,031	86,824	97,563
Other	17,755	16,643	18,364	22,034	25,497
Total	**341,503**	**370,952**	**417,070**	**452,899**	**511,726**
Revenue by product group:					
Respiratory & acute care	165,373	186,245	218,805	245,544	276,529
Obstructive sleep apnea	160,193	172,886	184,748	191,935	221,614
Core products subtotal	325,566	359,131	403,553	437,479	498,143
Distributed and other	15,937	11,821	13,517	15,420	13,583
Total	**341,503**	**370,952**	**417,070**	**452,899**	**511,726**
FINANCIAL POSITION					
Tangible assets	275,207	321,402	394,416	432,481	477,809
Intangible assets	62,370	72,757	73,925	73,965	68,242
Total assets	337,577	394,159	468,341	506,446	546,051
Liabilities	(129,255)	(155,587)	(183,309)	(201,700)	(194,227)
Shareholders' equity	**208,322**	**238,572**	**285,032**	**304,746**	**351,824**
Net tangible asset backing (cents per share)	40.6	47.7	55.0	56.6	63.2
Pre-tax return on average total assets percentage	25.5%	18.6%	17.3%	18.3%	21.3%
Pre-tax return on average equity percentage	44.9%	30.4%	28.5%	30.2%	34.2%
CASH FLOWS					
Net cash flow from operating activities	93,259	52,082	75,782	70,377	85,444
Net cash flow (used in) investing activities	(32,696)	(31,693)	(54,466)	(50,461)	(26,151)
Net cash flow (used in) financing activities	(61,252)	(27,477)	(19,818)	(21,538)	(54,779)
SHARES OUTSTANDING					
Weighted basic average shares outstanding	511,251,159	517,154,550	525,706,219	537,560,800	547,094,526
Weighted diluted average shares outstanding	529,793,292	536,265,092	546,509,548	559,097,010	557,553,102
Basic shares outstanding at end of the year	512,304,851	520,453,173	530,053,399	542,612,236	551,110,270

* Prior to one-off non-cash deferred tax charges of $8.4 m (2011)

FIVE YEAR FINANCIAL SUMMARY (US$)

FOR THE YEARS ENDED 31 MARCH

	2010 US$000	2011 US$000	2012 US$000	2013 US$000	2014 US$000
					(EXCEPT AS OTHERWISE STATED)
DIVIDENDS AND EARNINGS PER SHARE (CENTS PER SHARE)					
Dividends paid:					
Final (i)	4.7	5.1	5.7	5.7	5.7
Interim	3.7	4.0	4.4	4.4	4.4
Total ordinary dividends	8.4	9.1	10.1	10.1	10.1
Basic earnings per share	9.5	7.4	9.8	11.6	14.6
Diluted earnings per share	9.2	7.2	9.4	11.2	14.3
(i) Final dividend relates to the prior financial year.					
PATENTS					
Number of United States patents	82	92	98	107	111
Number of United States patent applications (includes PCTs*)	87	100	107	159	220
Number of non-United States patents	333	366	413	442	459
Number of non-United States patent applications (excludes PCTs*)	200	196	189	260	306
RESEARCH AND DEVELOPMENT					
Research and development expenditure	23,932	28,790	33,893	37,225	44,443
Percentage of operating revenue	7.0%	7.8%	8.1%	8.2%	8.7%
CAPITAL EXPENDITURE					
Operational	29,180	18,538	13,529	20,131	19,667
Land and buildings	1,861	11,355	38,867	27,537	2,745
Total	31,041	29,893	52,396	47,668	22,412
Capital expenditure : depreciation ratio	2.9	2.0	3.2	2.5	1.0
NUMBER OF EMPLOYEES					
By function:					
Research and development	295	322	325	359	403
Manufacturing and operations	1,371	1,426	1,544	1,641	1,743
Sales, marketing and distribution	562	595	616	645	727
Management and administration	113	105	107	113	139
Total	2,341	2,448	2,592	2,758	3,012
By region:					
New Zealand	1,818	1,666	1,718	1,753	1,904
North America	208	441	519	627	681
Europe	182	197	202	205	217
Rest of World	133	144	153	173	210
Total	2,341	2,448	2,592	2,758	3,012
AVERAGE DAILY SPOT EXCHANGE RATES (US$1 =)**					
NZD	1.4738	1.3643	1.2389	1.2282	1.2183
AVERAGE EFFECTIVE EXCHANGE RATES (US$1 =)***					
NZD	1.6554	1.6150	1.5058	1.4704	1.4837

* PCTs (Patent Cooperation Treaty) are unified patent applications across a number of jurisdictions.
** Exchange rates used for the translation of NZD financial results to USD.
*** Actual exchange rates achieved in delivering net USD in relation to the Group's exposures.
The average rate includes hedged, spot and close-out transactions in each year.

pwc

Independent Auditors' Report

to the shareholders of Fisher & Paykel Healthcare Corporation Limited

Report on the Financial Statements

We have audited the financial statements of Fisher & Paykel Healthcare Corporation Limited ("the Company") on pages 36 to 90, which comprise the balance sheets as at 31 March 2014, the income statements, statements of comprehensive income and statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 March 2014 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, Fisher & Paykel Healthcare Corporation Limited or any of its subsidiaries other than in our capacities as auditors and providers of advisory, tax and other assurance services. These services have not impaired our independence as auditors of the Company and the Group.

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Independent Auditors' Report

Fisher & Paykel Healthcare Corporation Limited

Opinion

In our opinion, the financial statements on pages 36 to 90:

(i) comply with generally accepted accounting practice in New Zealand; and

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 31 March 2014, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2014:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' 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 for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants — Auckland

23 May 2014

INCOME STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

PARENT 2013 NZ$000	PARENT 2014 NZ$000		NOTES	CONSOLIDATED 2013 NZ$000	CONSOLIDATED 2014 NZ$000
64,969	**72,615**	**Operating revenue**	4	**556,250**	**623,447**
		Cost of sales		(248,406)	(258,049)
64,969	72,615	Gross profit		307,844	365,398
		Other income	5	2,400	3,700
(1,388)	(1,390)	Selling, general and administrative expenses		(151,791)	(171,453)
		Research and development expenses		(45,720)	(54,146)
(1,388)	**(1,390)**	**Total operating expenses**		**(197,511)**	**(225,599)**
63,581	**71,225**	**Operating profit before financing costs**		**112,733**	**143,499**
		Financing income		189	57
		Financing expense		(4,903)	(7,780)
		Exchange gain on foreign currency borrowings		1,367	888
–	**–**	**Net financing (expense)**		**(3,347)**	**(6,835)**
63,581	**71,225**	**Profit before tax**	5,7	**109,386**	**136,664**
(2,055)	(2,628)	Tax expense	7	(32,333)	(39,611)
61,526	**68,597**	**Profit after tax**		**77,053**	**97,053**
		Basic earnings per share	22	14.3 cps	17.7 cps
		Diluted earnings per share	22	13.8 cps	17.4 cps
		Weighted average basic ordinary shares	22	537,560,800	547,094,526
		Weighted average diluted ordinary shares	22	559,097,010	557,553,102

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

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2014

PARENT 2013 NZ$000	PARENT 2014 NZ$000		NOTES	CONSOLIDATED 2013 NZ$000	CONSOLIDATED 2014 NZ$000
61,526	**68,597**	**Profit after tax**		**77,053**	**97,053**
		Other comprehensive income			
		Items that may subsequently be reclassified to profit or loss			
		Cash flow hedge reserve – unrealised			
		Changes in fair value	21	20,478	19,312
		Transfers to profit before tax	21	(23,418)	(32,965)
		Tax on changes in fair value and transfers to profit before tax	16,21	823	3,823
		Cash flow hedge reserve – realised			
		Transfers to profit before tax	11,21	(17,781)	(21,291)
		Tax on transfers to profit before tax	12,21	5,249	5,987
–	**–**	**Other comprehensive income for the year, net of tax**		**(14,649)**	**(25,134)**
61,526	**68,597**	**Total comprehensive income for the year**		**62,404**	**71,919**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2014

	NOTES	SHARE CAPITAL NZ$000	TREASURY SHARES NZ$000	RETAINED EARNINGS NZ$000	ASSET REVALUATION RESERVE NZ$000	CASH FLOW HEDGE RESERVE – UNREALISED NZ$000	CASH FLOW HEDGE RESERVE – REALISED NZ$000	EMPLOYEE SHARE ENTITLEMENT RESERVE NZ$000	EMPLOYEE SHARE OPTION RESERVE NZ$000	TOTAL EQUITY NZ$000
Balance at 31 March 2012		**65,351**	**(2,046)**	**184,026**	**24,100**	**46,206**	**27,836**	**292**	**2,387**	**348,152**
Total comprehensive income		**–**	**–**	**77,053**	**–**	**(2,117)**	**(12,532)**	**–**	**–**	**62,404**
Dividends paid	21	–	–	(66,161)	–	–	–	–	–	(66,161)
Issue of share capital under dividend reinvestment plan	20	25,996	–	–	–	–	–	–	–	25,996
Issue of share capital	20	516	–	–	–	–	–	–	–	516
Movement in employee share entitlement reserve	21	–	–	–	–	–	–	(89)	–	(89)
Movement in employee share option reserve	21	–	–	–	–	–	–	–	(50)	(50)
Movement in treasury shares	21	–	511	–	–	–	–	–	–	511
Increase in share capital under share option schemes for employee services	20	813	–	–	–	–	–	–	–	813
Employee share scheme shares issued for employee services	20	139	–	–	–	–	–	–	–	139
Unclaimed dividends	21	–	–	–	–	–	–	–	–	–
Balance at 31 March 2013		**92,815**	**(1,535)**	**194,918**	**24,100**	**44,089**	**15,304**	**203**	**2,337**	**372,231**
Total comprehensive income		**–**	**–**	**97,053**	**–**	**(9,830)**	**(15,304)**	**–**	**–**	**71,919**
Dividends paid	21	–	–	(67,518)	–	–	–	–	–	(67,518)
Issue of share capital under dividend reinvestment plan	20	26,783	–	–	–	–	–	–	–	26,783
Issue of share capital	20	1,046	–	–	–	–	–	–	–	1,046
Movement in employee share entitlement reserve	21	–	–	–	–	–	–	(73)	–	(73)
Movement in employee share option reserve	21	–	–	–	–	–	–	–	412	412
Movement in treasury shares	21	–	(24)	–	–	–	–	–	–	(24)
Increase in share capital under share option schemes for employee services	20	987	–	–	–	–	–	–	–	987
Employee share scheme shares issued for employee services	20	301	–	–	–	–	–	–	–	301
Unclaimed dividends	21	–	–	58	–	–	–	–	–	58
Balance at 31 March 2014		**121,932**	**(1,559)**	**224,511**	**24,100**	**34,259**	**–**	**130**	**2,749**	**406,122**

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

PARENT STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2014

	NOTES	SHARE CAPITAL NZ$000	TREASURY SHARES NZ$000	RETAINED EARNINGS NZ$000	EMPLOYEE SHARE ENTITLEMENT RESERVE NZ$000	EMPLOYEE SHARE OPTION RESERVE NZ$000	TOTAL EQUITY NZ$000
Balance at 31 March 2012		**65,351**	**(2,046)**	**93,385**	**292**	**2,387**	**159,369**
Total comprehensive income		**–**	**–**	**61,526**	**–**	**–**	**61,526**
Dividends paid	21	–	–	(66,161)	–	–	(66,161)
Issue of share capital under dividend reinvestment plan	20	25,996	–	–	–	–	25,996
Issue of share capital	20	516	–	–	–	–	516
Movement in employee share entitlement reserve	21	–	–	–	(89)	–	(89)
Movement in employee share option reserve	21	–	–	–	–	(50)	(50)
Movement in treasury shares	21	–	511	–	–	–	511
Increase in share capital under share option schemes for employee services	20	813	–	–	–	–	813
Employee share scheme shares issued for employee services	20	139	–	–	–	–	139
Unclaimed dividends	21	–	–	–	–	–	–
Balance at 31 March 2013		**92,815**	**(1,535)**	**88,750**	**203**	**2,337**	**182,570**
Total comprehensive income and expenses for the year		**–**	**–**	**68,597**	**–**	**–**	**68,597**
Dividends paid	21	–	–	(67,518)	–	–	(67,518)
Issue of share capital under dividend reinvestment plan	20	26,783	–	–	–	–	26,783
Issue of share capital	20	1,046	–	–	–	–	1,046
Movement in employee share entitlement reserve	21	–	–	–	(73)	–	(73)
Movement in employee share option reserve	21	–	–	–	–	412	412
Movement in treasury shares	21	–	(24)	–	–	–	(24)
Increase in share capital under share option schemes for employee services	20	987	–	–	–	–	987
Employee share scheme shares issued for employee services	20	301	–	–	–	–	301
Unclaimed dividends	21	–	–	58	–	–	58
Balance at 31 March 2014		**121,932**	**(1,559)**	**89,887**	**130**	**2,749**	**213,139**

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

BALANCE SHEETS

AS AT 31 MARCH 2014

PARENT				CONSOLIDATED	
2013 NZ$000	2014 NZ$000		NOTES	2013 NZ$000	2014 NZ$000
		ASSETS			
		Current assets			
		Cash and cash equivalents	8	7,709	10,438
43	48	Trade and other receivables	9	81,560	93,363
		Inventories	10	89,111	94,475
		Derivative financial instruments	11	35,348	35,332
2,849	2,041	Tax receivable	12	1,429	1,350
151,454	182,557	Intergroup advances	25		
154,346	**184,646**	**Total current assets**		**215,157**	**234,958**
		Non-current assets			
		Property, plant and equipment	13	346,716	349,760
		Intangible assets	14	8,626	10,405
28,855	28,950	Investments in subsidiaries	15		
		Other receivables	9	1,728	2,165
		Derivative financial instruments	11	34,723	18,366
102	26	Deferred tax asset	16	11,647	14,671
183,303	**213,622**	**Total assets**		**618,597**	**630,325**
		LIABILITIES			
		Current liabilities			
		Interest-bearing liabilities	17	17,136	45,786
364	390	Trade and other payables	18	64,490	71,261
		Provisions	19	2,960	3,388
		Tax payable	12	4,575	6,740
		Derivative financial instruments	11	1,907	1,615
364	**390**	**Total current liabilities**		**91,068**	**128,790**
		Non-current liabilities			
		Interest-bearing liabilities	17	117,389	63,570
		Provisions	19	2,401	2,483
369	93	Other payables	18	6,123	4,899
		Derivative financial instruments	11	6,258	3,428
		Deferred tax liability	16	23,127	21,033
733	**483**	**Total liabilities**		**246,366**	**224,203**

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

BALANCE SHEETS (CONTINUED)

AS AT 31 MARCH 2014

PARENT				CONSOLIDATED	
2013 NZ$000	2014 NZ$000		NOTES	2013 NZ$000	2014 NZ$000
		EQUITY			
92,815	121,932	Share capital	20	92,815	121,932
(1,535)	(1,559)	Treasury shares	20, 21	(1,535)	(1,559)
88,750	89,887	Retained earnings	21	194,918	224,511
		Asset revaluation reserve	21	24,100	24,100
		Cash flow hedge reserve – unrealised	21	44,089	34,259
		Cash flow hedge reserve – realised	21	15,304	–
203	130	Employee share entitlement reserve	21	203	130
2,337	2,749	Employee share option reserve	21	2,337	2,749
182,570	**213,139**	**Total equity**		**372,231**	**406,122**
183,303	**213,622**	**Total liabilities and equity**		**618,597**	**630,325**

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

On behalf of the Board
23 May 2014

Tony Carter
Chairman

Michael Daniell
Managing Director and Chief Executive Officer

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2014

PARENT 2013 NZ$000	PARENT 2014 NZ$000		NOTES	CONSOLIDATED 2013 NZ$000	CONSOLIDATED 2014 NZ$000
		CASH FLOWS FROM OPERATING ACTIVITIES			
		Receipts from customers		537,230	591,674
56,249	61,851	Dividends received			
8,720	10,764	Interest received		186	21
(1,317)	(1,671)	Payments to suppliers and employees		(420,596)	(452,009)
		Tax paid		(25,517)	(27,936)
		Interest paid		(4,866)	(7,651)
63,652	**70,944**	**Net cash flows from operations**	26	**86,437**	**104,099**
		CASH FLOWS (USED IN) INVESTING ACTIVITIES			
		Sales of property, plant and equipment		59	19
		Purchases of property, plant and equipment		(58,546)	(27,305)
		Purchases of intangible assets		(3,489)	(4,574)
		Net cash flows (used in) investing activities		**(61,976)**	**(31,860)**
		CASH FLOWS (USED IN) FINANCING ACTIVITIES			
		Employee share purchase schemes		555	299
25,996	26,783	Issue of share capital under dividend reinvestment plan		25,996	26,782
71	354	Issue of share capital		71	355
		New borrowings		86,559	8,754
		Repayment of borrowings		(68,567)	(30,816)
(18,652)	(25,968)	Intercompany borrowings			
(66,161)	(67,518)	Dividends paid		(66,161)	(67,518)
(4,906)	(4,595)	Supplementary dividends paid to overseas shareholders		(4,906)	(4,595)
(63,652)	**(70,944)**	**Net cash flows (used in) financing activities**		**(26,453)**	**(66,739)**
		Net increase (decrease) in cash		(1,992)	5,500
		Opening cash		(8,405)	(9,427)
		Effect of foreign exchange rates		970	166
		Closing cash		**(9,427)**	**(3,761)**
		RECONCILIATION OF CLOSING CASH			
		Cash and cash equivalents	8	7,709	10,438
		Bank overdrafts	17	(17,136)	(14,199)
		Closing cash		**(9,427)**	**(3,761)**

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

CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

1. GENERAL INFORMATION

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 respiratory care, acute care and the treatment of obstructive sleep apnea. 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 Group and Parent financial statements (collectively "Financial Statements") were approved for issue by the Board of Directors on 23 May 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements for the year ended 31 March 2014 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), Interpretations and other applicable FRS. The financial statements also comply with International Financial Reporting Standards (IFRS) and IFRIC interpretations as issued by IASB.

a. Basis of preparation of financial statements

The significant accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the periods presented, unless otherwise stated.

The reporting currency used in the preparation of these consolidated financial statements is New Zealand dollars, rounded where necessary to the nearest thousand dollars.

Entities reporting

The financial statements are the consolidated financial statements of the Group, comprising the Company and its subsidiaries. The Company and its subsidiaries are designated as profit-oriented entities for financial reporting purposes. The financial statements of the Parent are for the Company as a separate legal entity. Where subsidiaries have a balance date other than 31 March (refer Note 15) results for the year ended 31 March are included in the consolidated financial statements of the Group. Statutory audits are conducted for these subsidiaries at their respective balance dates.

Statutory base

The Company is registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978 and the Financial Reporting Act 1993. The Company is also listed on the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX). The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Historical cost convention

These 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.

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.

Judgements

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are some transactions for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such matters are finalised. Refer further detail in Notes 7, 12 and 16.

Estimates

Fair value of derivative financial instruments

The Group holds significant amounts of derivatives which are hedge accounted. The estimation of fair values is determined in accordance with the accounting policy stated in Note 2(m), and discussed in Note 3(a) iv.

Revaluation of land

The Group holds land which is measured at fair value as disclosed in Note 13 and in accordance with the accounting policy stated in Note 2(o). The key assumptions related to the land revaluation are disclosed in Note 13.

b. Principles of consolidation

Subsidiaries

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.

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is an aggregate of the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired the difference is recognised directly in the Income Statement.

Intercompany transactions and 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 Company.

Investments

Investments in subsidiary companies are valued at cost in the Parent's financial statements.

c. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). For the purposes of NZ IFRS 8 the CODM is a group comprising the Board of Directors (which includes the Chief Executive Officer), Senior Vice-President – Products and Technology, Senior Vice-President – Sales and Marketing and Chief Financial Officer. This has been determined on the basis that it is this group which determines the allocation of the resources to segments and assesses their performance.

d. Foreign currency translation

Functional and 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 Company operates ("the functional currency"). The Group operates as one integrated business. The financial statements are presented in New Zealand dollars, which is the Company's and its subsidiaries' functional currency. The Company's and Group's presentation currency is New Zealand dollars.

Transactions and balances

Foreign currency transactions are translated into the functional currency using either the exchange rates prevailing at the dates of the transactions or at rates that approximate the actual 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

e. Revenue recognition

Revenue includes the fair value of the consideration received or receivable for the sale of products, net of sales taxes and other indirect taxes, rebates and discounts and after eliminating sales within the Group. Revenue is recognised when the amount of revenue can be reliably measured, when it is probable that future economic benefits will accrue to the Group, and when the following criteria are met:

Sale of products

Sales of products are recognised in accordance with the terms of sale when title has been transferred and the benefits of ownership and risk pass to the customer.

Financing income

Financing income is recognised on a time-proportion basis using the effective interest method.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Government grants

Government grants are recognised at fair value in the Income Statement over the same periods as the costs for which the grants are intended to compensate. Government grants are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

f. Goods and Services Tax (GST)

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

g. Current and deferred income tax

The tax expense or tax income for the period is the tax payable or receivable on the current period's taxable income based on the income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and changes to any unused tax losses.

Current tax balances are calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

h. Leases

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.

i. Impairment of non-financial assets

Assets that have an indefinite useful life 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. An impairment loss is recognised as an expense for the amount by which the asset's carrying amount exceeds its recoverable amount. 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). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

j. 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.

k. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade receivable balances are reviewed on an ongoing basis. Debts known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between an asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Income Statement within selling, general and administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling, general and administrative expenses in the Income Statement

l. Inventories

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. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes financing costs.

m. Derivatives

The Group generally applies hedge accounting to derivative financial instruments. 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 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).

The Group documents at the inception of the transaction 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.

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.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Any ineffective portion is recognised immediately in the Income Statement.

Amounts accumulated via other comprehensive income are recycled in the Income Statement in the period when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred via other comprehensive income are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. In the case of a hedging instrument sold, any cumulative gain or loss is recorded in the Cash Flow Hedge Reserve – Realised. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

Derivatives that do not qualify for hedge accounting

Certain derivative instruments may not qualify for hedge accounting and hedge accounting may not be adopted for certain derivative instruments. Changes in the fair value of these derivative instruments are recognised immediately in the Income Statement.

n. Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets, except for those assets with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those assets with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise cash and cash equivalents, and trade and other receivables in the Balance Sheet.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the Income Statement. They are subsequently carried at fair value. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Income Statement within operating profit in the period in which they arise.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 9.

o. Property, plant and equipment

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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably. All repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated economic useful lives, as follows:

Buildings – structure	25 – 50 years
Buildings – fit-out and other	3 – 50 years
Leasehold improvements	2 – 20 years
Plant and equipment	3 – 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are recognised in the Income Statement.

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.

p. Intangible assets

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 written off immediately to the Income Statement.

Software costs

Software costs have a finite useful life. Software costs are capitalised and amortised over the useful economic life of 3 to 10 years.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Separately recognised goodwill is not amortised, instead it is tested annually for impairment or immediately if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

q. Trade and other payables

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.

r. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, and the difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest rate method.

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.

s. Financing expense

Financing expense comprises interest expense on interest-bearing liabilities calculated using the effective interest rate method, and other associated borrowing costs.

Financing expenses directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

t. Provisions

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. Provisions are not recognised for future operating losses.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

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

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

u. Share capital

Ordinary shares are classified as capital.

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.

v. Employee benefits

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 in other payables 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.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits 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.

Equity-settled 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 Plan and the Share Rights Plan assists the Company 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 under the Option Plan and Share Rights plan as a long-term component of remuneration in accordance with the Company's remuneration policy.

Details of the Option and Share Rights issues are described in Note 23.

Employee option plans

The Employee Share Option Plans allow Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense in the Income Statement with a corresponding increase in the employee share option reserve. The fair value is measured at grant date and spread over the vesting periods, which are the periods over which all of the specified vesting conditions are to be satisfied. The fair value of the options granted before the 2013 financial year were measured using the Binomial Options Pricing Model, taking into account the terms and conditions upon which the options are granted. The fair value of the options granted after the 2013 financial year has been independently assessed using Monte Carlo Simulation, taking into account the terms and conditions upon which the options are granted. The change from the Binomial Option Pricing Model to Monte Carlo Simulation was necessitated by the change in the terms of the option plan. When options are exercised the amount in the share option reserve relating to those options, together with the exercise price paid by the employee, is transferred to share capital. When any vested options lapse, upon employee termination or unexercised options reaching maturity, the amount in the share option reserve relating to those options is also transferred to share capital.

Employee performance share rights plan

The Employee Performance Share Rights Plan allows Group employees to acquire shares in the Company. The fair value of Performance Share Rights (PSR) granted is recognised as an employee expense in the Income Statement with a corresponding increase in the employee share entitlement reserve. The fair value is measured at grant date and spread over the vesting periods. The fair value of the PSRs granted is independently assessed using Monte Carlo Simulation, taking into account the terms and conditions upon which the PSRs are granted. When PSRs are exercised the amount in the share entitlement reserve relating to those PSRs is transferred to share capital. When any vested PSRs lapse, upon employee termination or unexercised PSRs reaching maturity, the amount in the share entitlement reserve relating to those PSRs is also transferred to share capital.

Employee share plans

The Employee Share Ownership Plans allow Group employees to acquire shares of the Company. The fair value of the employee benefit received is recognised as an employee expense in the Income Statement with a corresponding increase in the employee share entitlement reserve. The fair value is measured at grant date and spread over the vesting periods. The fair value of the employee benefit has been assessed as being equal to the discount provided on issue of the shares.

Interest-free loans are provided to employees in some jurisdictions to assist the employees to purchase the shares. The fair value of the interest-free component of the loan (i.e. the benefit the employee receives) is recognised as an employee expense in the Income Statement with a corresponding financing income amount in the Income Statement. The fair value is measured at grant date and spread over the vesting periods. The fair value of the benefit provided to employees has been assessed by discounting the payments on the interest-free loan at the estimated pre-tax financing rate of the employees.

Superannuation plans

Companies within the Group contribute to defined contribution and defined benefit superannuation plans for the benefit of employees. Defined contribution plans receive fixed contributions from the Group, and the Group's legal and constructive obligation is limited to these contributions. Defined benefit superannuation plans provide defined lump sum benefits based on years of service and final average salary.

Defined contribution

Contributions to defined contribution superannuation plans are recognised as an expense in the Income Statement as they become payable.

Defined benefit

A liability or asset in respect of defined benefit superannuation plans is recognised in either other payables or other receivables and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund as at the reporting date, calculated by independent actuaries using the projected unit credit method. 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 maturity and currency that match, as closely as possible, the estimated future cash outflows. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in retained earnings as incurred.

Past service costs are recognised immediately in profit or loss.

Future taxes that are funded by the Group and are part of the provision of the existing benefit obligation are taken into account in measuring the net liability or asset.

w. Reserves

Nature and purpose of reserves

(i) Asset revaluation reserve

Refer Note 2(o).

(ii) Cash flow hedge reserve – unrealised

The cash flow hedge reserve – unrealised is used to record gains or losses on hedging instruments in forward foreign currency cash flow hedges that are recognised directly in equity. Amounts are recycled to the Income Statement when the associated hedged transactions affect the Income Statement.

(iii) Cash flow hedge reserve – realised

The cash flow hedge reserve – realised is used to record gains or losses on hedging instruments in forward foreign currency cash flow hedges that have been closed out (monetised) and are recognised directly in equity while the cash flow being hedged remains. Amounts are recycled to the Income Statement when the associated hedged transactions affect the Income Statement.

(iv) Employee share entitlement reserve

The employee share entitlement reserve is used to recognise the fair value of shares granted but not vested. Amounts are transferred to share capital when the shares vest to the employee.

(v) Employee share option reserve

The employee share option reserve is used to recognise the fair value of options and PSRs granted but not exercised or lapsed. Amounts are transferred to share capital when the vested options or PSRs are exercised by the employee or lapse upon expiry.

(vi) Treasury shares

The treasury shares reserve is used to recognise those shares held and controlled by Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

x. Dividends

Provision is made for the amount of any dividend declared and approved on or before the reporting date but not distributed at reporting date

y. Earnings per share

Basic earnings per share is computed by dividing net earnings by the weighted average number of ordinary shares outstanding during each period.

Diluted earnings per share is calculated by using the weighted average number of ordinary shares outstanding during each period, adjusted to include the potentially dilutive effect if share options, securities or other contracts to issue ordinary shares were exercised or converted into shares.

z. Research & 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.

aa. Advertising and sales promotion costs

All advertising and sales promotion costs are expensed as incurred.

ab. Statements of cash flows

The following are the definitions of the terms used in the Statements of Cash Flows:

(i) Cash comprises cash and bank balances.

(ii) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, intangible assets and investments.

(iii) Financing activities are those activities which result in changes in the size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid are included in financing activities.

(iv) Operating activities include all transactions and other events that are not investing or financing activities.

Cash flows from short-term borrowings, being durations of 3 months or less, are disclosed net, due to their short-term maturities and the volume of transactions involved.

ac. 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.

ad. Changes to accounting policies

There have been no changes in accounting policies.

ae. Standards, Interpretations and Amendments to Published Standards

The following new accounting standards and amendments to existing standards have been adopted by the Group in the year ended 31 March 2014:

- **NZ IAS 1, *(amendment),*** requires profit or loss and other comprehensive income (OCI) to be presented either in a single continuous statement or in two separate but consecutive statements. There is little noticeable change from the previous requirements. However the format of the OCI section is required to be changed to separately group items that might be recycled from items that will not be recycled to profit or loss. The changes have not affected the measurement of net profit or earnings per share; however they have changed the way items of OCI are presented.
- **XRB A1, *'Accounting Standards Framework (For-profit Entities Update)'*** establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Group is a Tier 1 reporting entity. There is no impact on the current or prior year financial statements.
- **NZ IFRS 10, *'Consolidated Financial Statements',*** builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. The application of this standard has had no material impact on the Group.
- **NZ IFRS 12, *'Disclosure of Interests in Other Entities',*** is a new standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. The application of this standard by the Group has had no material impact on the Group.
- **NZ IFRS 13, *'Fair Value Measurement',*** defines fair value, sets out a single NZ IFRS framework for measuring fair value and requires disclosures about fair value measurements. NZ IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of NZ IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). The Group has complied with the requirements of NZ IFRS 13 as set out in Note 3.
- **Revised NZ IAS 19, *'Employee Benefits',*** requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that was included in the Income Statement. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets. The application of this standard has had no material impact on the Group.
- **Revised NZ IAS 27, *'Separate Financial Statements',*** is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. The application of this standard by the Group has had no material impact on the Group.

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

- **NZ IFRS 9, *'Financial instruments',*** addresses the classification, measurement and recognition of financial assets and financial liabilities. NZ IFRS 9 was issued in December 2013. It replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments and hedge accounting. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. The Group is yet to assess NZ IFRS 9's full impact. The Group will also consider the impact of the remaining phases of NZ IFRS 9 when completed by the External Reporting Board.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

3. 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 Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and options, and interest rate swaps and swaptions to manage certain risk exposures.

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.

The Parent is not directly exposed to any significant financial risk.

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, European Union euro, British pound, Australian dollar, Japanese yen, Canadian dollar 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. Refer to Notes 9 and 18 for receivables and payables denominated in foreign currencies.

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 denominated principally in US dollars, European Union euros, British pounds, Australian dollars, Japanese yen, Canadian dollars and Mexican pesos. The terms of the foreign currency option contracts and the forward foreign currency contracts generally do not exceed five years. However, with Board approval, the foreign currency option contracts and the forward foreign currency contracts may have terms of up to ten 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.

Refer to Note 11 for notional principal amounts and valuations of foreign exchange contracts and options outstanding at balance date. A sensitivity analysis of foreign exchange risk on the Group's financial assets and liabilities is provided in the table at Note 3 a (v).

(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 swaptions. Interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Interest rate swaptions 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 are accounted for as cash flow hedges and management may also designate interest rate swaptions as cash flow hedges.

Refer to Note 11 for notional principal amounts and valuations of interest rate swaps and swaptions outstanding at balance date. A sensitivity analysis of interest rate risk on the Group's financial assets and liabilities is provided in the table at Note 3 a (v). Refer to Note 17 for further details of the Group's borrowings.

(iv) 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).

Derivatives have all been determined to be within level 2 of the fair value hierarchy. See note 13 for disclosures of the land that is measured at fair value.

All the Group's financial instruments held at fair value have been measured at the fair value measurement hierarchy of level 2 (2013: level 2), as all significant inputs required to ascertain the fair value are observable (refer Note 2(m)). Financial liabilities measured at amortised cost are fair valued using the contractual cashflows. The effects of discounting are generally insignificant as estimated future interest rates approximate discount rates.

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

- Foreign currency forward exchange contracts and option contracts have been fair valued using forward exchange rates and option volatilities that are quoted in active markets
- Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are generally insignificant.

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

All financial assets other than derivatives are classified as loans and receivables. All financial liabilities other than derivatives are classified as measured at amortised cost. The carrying value of financial assets and liabilites other than derivatives approximates their fair value.

(v) 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 (2013: +/-10%). The Group's primary foreign currency exposure is the New Zealand dollar 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 (2013: +/-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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Amounts are shown net of income tax. All variables other than the applicable interest rates and exchange rates are held constant. The tables assume a 10% (2013: 10%) movement in the New Zealand dollar against all currencies.

CONSOLIDATED 2013	CARRYING AMOUNT NZ$000	INTEREST RATE RISK -1% INCOME STATEMENT NZ$000	INTEREST RATE RISK -1% OCI NZ$000	INTEREST RATE RISK +1% INCOME STATEMENT NZ$000	INTEREST RATE RISK +1% OCI NZ$000	FOREIGN EXCHANGE RISK -10% INCOME STATEMENT NZ$000	FOREIGN EXCHANGE RISK -10% OCI NZ$000	FOREIGN EXCHANGE RISK +10% INCOME STATEMENT NZ$000	FOREIGN EXCHANGE RISK +10% OCI NZ$000
Derivative Financial Instruments	61,906	(802)	(2,866)	802	2,702	(3,019)	(19,159)	1,924	17,208
Other Financial Assets:									
Cash and cash equivalents	7,709	(1)	–	3	–	602	–	(542)	–
Trade receivables	72,884	–	–	–	–	5,626	–	(5,064)	–
Other Financial Liabilities:									
Trade and other payables	38,767	–	–	–	–	(1,577)	–	1,752	–
Interest-bearing liabilities	134,525	918	–	(918)	–	(3,868)	–	4,298	–
Total increase/(decrease)		**115**	**(2,866)**	**(113)**	**2,702**	**(2,236)**	**(19,159)**	**2,368**	**17,208**

CONSOLIDATED 2014	CARRYING AMOUNT NZ$000	INTEREST RATE RISK -1% INCOME STATEMENT NZ$000	INTEREST RATE RISK -1% OCI NZ$000	INTEREST RATE RISK +1% INCOME STATEMENT NZ$000	INTEREST RATE RISK +1% OCI NZ$000	FOREIGN EXCHANGE RISK -10% INCOME STATEMENT NZ$000	FOREIGN EXCHANGE RISK -10% OCI NZ$000	FOREIGN EXCHANGE RISK +10% INCOME STATEMENT NZ$000	FOREIGN EXCHANGE RISK +10% OCI NZ$000
Derivative Financial Instruments	48,655	(686)	(4,066)	686	3,987	(1,234)	(16,815)	(28)	15,965
Other Financial Assets:									
Cash and cash equivalents	10,438	–	–	5	–	812	–	(731)	–
Trade receivables	84,747	–	–	–	–	6,538	–	(5,885)	–
Other Financial Liabilities:									
Trade and other payables	45,033	–	–	–	–	(1,916)	–	2,129	–
Interest-bearing liabilities	109,356	779	–	(779)	–	(3,613)	–	4,015	–
Total increase/(decrease)		**93**	**(4,066)**	**(88)**	**3,987**	**587**	**(16,815)**	**(500)**	**15,965**

PARENT 2013	CARRYING AMOUNT NZ$000	INTEREST RATE RISK -1% INCOME STATEMENT NZ$000	INTEREST RATE RISK -1% OCI NZ$000	INTEREST RATE RISK +1% INCOME STATEMENT NZ$000	INTEREST RATE RISK +1% OCI NZ$000	FOREIGN EXCHANGE RISK -15% INCOME STATEMENT NZ$000	FOREIGN EXCHANGE RISK -15% OCI NZ$000	FOREIGN EXCHANGE RISK +15% INCOME STATEMENT NZ$000	FOREIGN EXCHANGE RISK +15% OCI NZ$000
Other Financial Assets:									
Intergroup advances	151,454	(1,090)	–	1,090	–	–	–	–	–
Total increase/(decrease)		**(1,090)**	**–**	**1,090**	**–**	**–**	**–**	**–**	**–**

PARENT 2014	CARRYING AMOUNT NZ$000	INTEREST RATE RISK -1% INCOME STATEMENT NZ$000	INTEREST RATE RISK -1% OCI NZ$000	INTEREST RATE RISK +1% INCOME STATEMENT NZ$000	INTEREST RATE RISK +1% OCI NZ$000	FOREIGN EXCHANGE RISK -10% INCOME STATEMENT NZ$000	FOREIGN EXCHANGE RISK -10% OCI NZ$000	FOREIGN EXCHANGE RISK +10% INCOME STATEMENT NZ$000	FOREIGN EXCHANGE RISK +10% OCI NZ$000
Other Financial Assets:									
Intergroup advances	182,557	(1,314)	–	1,314	–	–	–	–	–
Total increase/(decrease)		**(1,314)**	**–**	**1,314**	**–**	**–**	**–**	**–**	**–**

For the effect on profit a positive number represents an increase to net profit after tax and a negative number represents a decrease to net profit after tax. For the effect on equity a positive number represents an increase in equity and a negative number represents a decrease in equity.

b. Credit risk

Credit risk is managed on a Group basis. Other than only operating in the medical devices industry, the Group has 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. If customers are independently rated, these ratings are used. If there is no independent rating, management assesses the credit quality of the customer taking into account the customer's financial position, past experience and other factors. The Group holds no collateral over its trade receivables.

Derivative counterparties, cash transactions and cash at banks 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.

The Group's exposure to credit risk for trade receivables as at 31 March by geographic region is as follows:

	2013 NZ$000	2014 NZ$000
North America	29,847	32,963
Europe	25,591	32,830
Asia Pacific	14,711	15,938
Other	4,229	3,930
Provision for doubtful trade receivables	(1,494)	(914)
Total	**72,884**	**84,747**

The maximum potential exposure to credit risk is:

	2013 NZ$000	2014 NZ$000
Cash and cash equivalents	7,709	10,438
Trade receivables	72,884	84,747
Derivative financial instruments	70,071	53,698
Total	**150,664**	**148,883**

The Parent's exposure to credit risk relates to inter-group balances only. See Note 9 and 11 for further disclosure on credit risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Liquidity risk

Management monitors rolling forecasts of the Group's liquidity position on the basis of expected cash flow. See Note 17 for details of available facilities.

The Parent's liquidity risk exposure is not significant other than in relation to its obligations under the Negative Pledge Deed. The maximum exposure, if demanded immediately, under this deed is $102,355,000 (2013: $127,472,000). Management consider the net exposure to the Parent under this deed is minimal, as the exposure is offset by the Parent's right to control and call on the subsidiaries' assets.

The tables below analyse the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

AS AT 31 MARCH 2013	< 1 YEAR NZ$000	1–2 YEARS NZ$000	2–5 YEARS NZ$000	> 5 YEARS NZ$000	TOTAL NZ$000
Bank overdrafts	17,136	–	–	–	**17,136**
Trade and other payables	38,767	–	–	–	**38,767**
Borrowings	5,861	67,112	56,190	–	**129,163**
AS AT 31 MARCH 2014					
Bank overdrafts	14,199	–	–	–	**14,199**
Trade and other payables	44,343	–	–	–	**44,343**
Borrowings	35,396	31,166	35,160	–	**101,722**

The Group enters into forward exchange contracts to manage the risk associated with foreign currency denominated receivables and also to manage the purchase of foreign currency denominated inventory and capital items. The Group enters into interest rate swaps to manage interest rate risk.

The tables below analyse the Group's derivative financial instruments into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. They are expected to occur and impact the Income Statement at various dates between balance date and the following 10 years:

AS AT 31 MARCH 2013	< 1 YEAR NZ$000	1–2 YEARS NZ$000	2–5 YEARS NZ$000	> 5 YEARS NZ$000	TOTAL NZ$000	CARRYING AMOUNT NZ$000
Gross Settled Derivatives						
Forward foreign exchange contracts						
Inflow	205,700	93,463	50,729	–	349,892	
Outflow	(172,933)	(70,360)	(38,365)	–	(281,658)	
Net inflow	**32,767**	**23,103**	**12,364**	**–**	**68,234**	**65,776**
*Foreign currency option contracts**						
Inflow	–	–	–	–	–	
Outflow	–	–	–	–	–	
Net inflow	**–**	**–**	**–**	**–**	**–**	**3,272**
Net Settled Derivatives						
Interest rate swaps**						
Net inflow (outflow)	**(2,161)**	**(1,700)**	**(3,713)**	**(675)**	**(8,249)**	**(7,142)**

* There are no contractual cash flows in relation to foreign currency option contracts.

** The amounts expected to be receivable in relation to the interest rate swaps have been estimated using forward interest rates applicable at the reporting date.

AS AT 31 MARCH 2014	< 1 YEAR NZ$000	1–2 YEARS NZ$000	2–5 YEARS NZ$000	> 5 YEARS NZ$000	TOTAL NZ$000	CARRYING AMOUNT NZ$000
Gross Settled Derivatives						
Forward foreign exchange contracts						
Inflow	178,815	64,287	26,266	–	269,368	
Outflow	(148,429)	(54,549)	(19,921)	–	(222,899)	
Net inflow	**30,386**	**9,738**	**6,345**	**–**	**46,469**	**44,845**
*Foreign currency option contracts**						
Inflow	–	–	–	–	–	
Outflow	–	–	–	–	–	
Net inflow	**–**	**–**	**–**	**–**	**–**	**6,227**
Net Settled Derivatives						
Interest rate swaps**						
Net inflow (outflow)	**(1,474)**	**(881)**	**(788)**	**696**	**(2,447)**	**(2,417)**

* There are no contractual cash flows in relation to foreign currency option contracts.

** The amounts expected to be receivable in relation to the interest rate swaps have been estimated using forward interest rates applicable at the reporting date.

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 the best possible capital structure, and reduces the cost of capital. Group capital consists of share capital, other reserves and retained earnings. 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 has been no change in Group policies or objectives in relation to capital risk management since the prior year.

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 (refer Note 17 for a listing of the principal covenants). 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.

4. OPERATING REVENUE

PARENT 2013 NZ$000	PARENT 2014 NZ$000		CONSOLIDATED 2013 NZ$000	CONSOLIDATED 2014 NZ$000
		Sales revenue	507,250	568,602
		Foreign exchange gain on hedged sales	49,000	54,845
56,249	61,851	Dividends		
8,720	10,764	Interest income on intergroup advances		
64,969	**72,615**	**Total operating revenue**	**556,250**	**623,447**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

5. NET OPERATING PROFIT

PARENT			CONSOLIDATED	
2013 NZ$000	2014 NZ$000		2013 NZ$000	2014 NZ$000
63,581	**71,225**	**Profit before tax**	**109,386**	**136,664**
		After charging the following specific expenses:		
		Auditors' fees:		
		Statutory audit	772	921
		Auditor's half year review	49	49
		Accounting standards advice	7	10
		Remuneration committee advisory services	55	2
		ERP upgrade project advisory services	–	77
		Risk management advisory services	29	75
		Treasury risk management advice	19	38
		Tax compliance fees	53	70
		Total auditors' fees	984	1,242
		Donations	7	5
		Depreciation:		
		Buildings – structure	1,227	1,871
		Buildings – fit-out and other	3,378	4,801
		Leasehold improvements	77	171
		Plant and equipment	19,031	19,901
		Total depreciation	23,713	26,744
		Inventory written off (net)	1,709	(383)
		Rental expense	3,945	4,131
		Operating leases	3,622	3,911
		Amortisation:		
		Patents and trademarks	1,244	1,371
		Software	1,299	1,518
		Other	150	260
		Total amortisation	2,693	3,149
		Trade receivables written off	448	1,341
683	779	Directors' fees paid	683	779
–	279	Directors' retirement fees paid	–	279
3	(273)	Movement in accrual for directors' retirement fees	3	(273)
		After crediting the following specific income:		
		Technology development grant	2,400	1,200
		R&D growth grant	–	2,500

Technology development grant

This government grant reimbursed 20 per cent of eligible expenditure on the Group's R&D programme, up to a maximum of $2.4 million a year (excluding GST). The Group qualified for this grant as its average annual R&D intensity (eligible R&D expenditure divided by revenue) was at least five per cent and average annual revenues exceeded $3 million a year during the period covered by the grant. The grant was awarded for the three years ended 30 September 2013.

R&D growth grant

This government grant reimburses 20 per cent of eligible expenditure on the Group's R&D programme, up to a maximum of $5.0 million a year (excluding GST). The grant has been awarded for the three years ending 30 September 2016.

6. EMPLOYEE BENEFITS

PARENT 2013 NZ$000	PARENT 2014 NZ$000		NOTES	CONSOLIDATED 2013 NZ$000	CONSOLIDATED 2014 NZ$000
		Wages and salaries		185,047	199,590
		Other employment costs		10,929	12,577
		Employer contributions defined contribution superannuation plans inclusive of tax		5,725	5,373
		Employer contributions defined benefit superannuation plans inclusive of tax		10	10
		Movement in liability for long service leave		537	(551)
		Employee share purchase plans – discount on issue	23	137	124
		Employee share purchase plans – interest free loan	23	39	33
		Employee stock purchase plans	23	6	6
		Employee share option plans	23	594	864
		Employee performance share right plans	23	169	535
				203,193	**218,561**

7. TAX EXPENSE

PARENT 2013 NZ$000	PARENT 2014 NZ$000		CONSOLIDATED 2013 NZ$000	CONSOLIDATED 2014 NZ$000
63,581	**71,225**	**Profit before tax**	**109,386**	**136,664**
17,803	19,943	Tax expense at the New Zealand rate of 28%	30,628	38,266
		Adjustments to taxation for:		
(15,750)	(17,318)	Non-assessable income	(133)	12
4	6	Non-deductible expenses	697	1,093
		Tax at 30% on previously monetised financial instruments	271	26
		Foreign rates other than 28%	447	244
		Effect of foreign currency translations	308	288
(2)	(3)	Other	115	(318)
2,055	**2,628**	**Total tax expense**	**32,333**	**39,611**
		This is represented by:		
2,055	2,552	Current tax	34,661	40,906
–	76	Deferred tax	(2,328)	(1,295)
2,055	**2,628**	**Tax expense**	**32,333**	**39,611**
3.2%	3.7%	Effective tax rate	29.6%	29.0%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

8. CASH AND CASH EQUIVALENTS

PARENT			CONSOLIDATED	
2013 NZ$000	2014 NZ$000		2013 NZ$000	2014 NZ$000
		Cash at bank – New Zealand dollar balances	–	57
		Cash at bank – foreign currency balances	7,636	10,194
		Cash on hand	73	187
			7,709	**10,438**

9. TRADE AND OTHER RECEIVABLES

PARENT			CONSOLIDATED	
2013 NZ$000	2014 NZ$000		2013 NZ$000	2014 NZ$000
		Current		
		Trade receivables	74,378	85,661
		Less provision for doubtful trade receivables	(1,494)	(914)
			72,884	84,747
43	43	Other receivables	8,676	8,616
43	**43**		**81,560**	**93,363**
		Non-Current		
		Other receivables	1,728	2,165
			1,728	**2,165**
		Foreign currency risk		
		The carrying amounts of the Group's trade receivables are denominated in the following currencies:		
		New Zealand dollars	956	1,159
		United States dollars	32,612	34,688
		European Union euros	19,743	26,151
		Australian dollars	4,662	4,414
		British pounds	3,042	3,219
		Canadian dollars	3,789	4,290
		Japanese yen	6,779	7,642
		Korean won	667	743
		Turkish lira	405	849
		Other currencies	1,723	2,506
			74,378	**85,661**

The Parent has no trade receivables.

Ageing of trade receivables beyond normal terms

The ageing analysis of consolidated trade receivables beyond normal terms is as follows:

	1–30 DAYS NZ$000	31–60 DAYS NZ$000	61–90 DAYS NZ$000	90+ DAYS NZ$000	TOTAL NZ$000
Past due but not considered impaired					
31 March 2013	11,174	1,532	613	591	13,910
31 March 2014	9,383	2,982	399	559	13,323
Past due and considered impaired					
31 March 2013	43	598	257	596	1,494
31 March 2014	8	306	66	534	914

	CONSOLIDATED	
	2013 NZ$000	2014 NZ$000
Movements in the provision for doubtful trade receivables are as follows:		
Balance at beginning of the year	1,066	1,494
Additional provision recognised	913	773
Foreign exchange translation	(37)	(12)
Trade receivables written off during the year as uncollectable	(448)	(1,341)
Balance at end of the year	**1,494**	**914**

The creation and release of the provision for impaired trade receivables has been included in Selling, General and Administrative expenses in the Income Statement. Amounts charged to the allowance account are generally written off when there is no expectation of further recovery. The individually impaired trade receivables relate mainly to customers which are in difficult economic situations.

	CONSOLIDATED	
	2013	2014
Customer and receivable concentration		
Five largest customers' proportion of the Group's:		
Operating revenue	21.1%	20.9%
Trade receivables	14.0%	12.4%

There is no history of default in relation to these customers.

Fair value

Carrying amounts of trade receivables are equivalent to their fair values.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

10. INVENTORIES

PARENT 2013 NZ$000	PARENT 2014 NZ$000		CONSOLIDATED 2013 NZ$000	CONSOLIDATED 2014 NZ$000
		Materials	19,139	22,477
		Finished products	75,112	78,183
		Provision for obsolescence	(5,140)	(6,185)
			89,111	**94,475**

Inventory provisions are provided at year end for stock obsolescence.

11. DERIVATIVE FINANCIAL INSTRUMENTS

	CONSOLIDATED 2013 NZ$000 ASSETS	CONSOLIDATED 2013 NZ$000 LIABILITIES	CONSOLIDATED 2014 NZ$000 ASSETS	CONSOLIDATED 2014 NZ$000 LIABILITIES
Current				
Foreign currency forward exchange contracts – cash flow hedges	32,382	226	30,513	736
Foreign currency forward exchange contracts – not hedge accounted	154	–	174	–
Foreign currency option contracts – cash flow hedges	2,457	–	4,197	–
Foreign currency option contracts – time value	323	–	257	1
Interest rate swaps – cash flow hedges	32	1,681	191	878
	35,348	**1,907**	**35,332**	**1,615**
Non-Current				
Foreign currency forward exchange contracts – cash flow hedges	34,157	691	15,555	922
Foreign currency forward exchange contracts – not hedge accounted	–	–	260	–
Foreign currency option contracts – cash flow hedges	333	–	1,390	–
Foreign currency option contracts – time value	160	–	384	–
Interest rate swaps – cash flow hedges	73	5,567	777	2,506
	34,723	**6,258**	**18,366**	**3,428**

Refer to Note 3(a)iv for information on the calculation of fair values.

The Parent has no derivative financial instruments.

Cash flows relating to cash flow hedges are expected to occur as follows:

AS AT 31 MARCH 2013	< 1 YEAR	1–2 YEARS	2–5 YEARS	> 5 YEARS
Foreign exchange derivative instruments inflows	175,038	93,463	48,622	–
Foreign exchange derivative instruments outflows	(142,428)	(70,360)	(36,295)	–
Interest rate derivative instruments net (outflows)	(2,161)	(1,700)	(3,713)	(675)
AS AT 31 MARCH 2014				
Foreign exchange derivative instruments inflows	171,971	62,180	26,266	–
Foreign exchange derivative instruments outflows	(141,756)	(52,715)	(19,921)	–
Interest rate derivative instruments net inflows (outflows)	(1,474)	(881)	(788)	696

Contractual amounts of forward exchange and option contracts outstanding were as follows:

	2013 NZ$000	2014 NZ$000
Purchase commitments forward exchange contracts	19,879	27,450
Sale commitments forward exchange contracts	298,015	234,666
Foreign currency borrowing forward exchange contracts	32,769	8,951
NZD call option contracts purchased	–	–
Collar option contracts – NZD call options purchased (i)	64,134	94,542
Collar option contracts – NZD put options sold (i)	68,654	102,023

(i) Foreign currency contractual amounts are equal.

Foreign currency contractual amounts hedged in relation to sales commitments were as follows:

FOREIGN CURRENCY	2013 000s	2014 000s
United States dollars	US$103,250	US$84,250
European Union euros	€62,280	€66,950
Australian dollars	A$12,750	A$6,500
British pounds	£2,275	£10,500
Canadian dollars	C$11,850	C$6,650
Japanese yen	¥2,212,500	¥2,170,000
Chinese yuan	¥17,000	¥25,000
Korean won	₩0	₩1,632,738

During the 2010 and 2012 financial year forward exchange contracts with foreign currency contractual amounts totalling US$100 million were monetised (closed out) with the NZ dollar benefit of $56,077,000 ($39,739,000 after tax) held within Cash Flow Hedge Reserve – Realised, on the Balance Sheet. The benefit remains within Cash Flow Hedge Reserve – Realised, until the original forecast transactions occur relating to the forward exchange contracts monetised.

During the 2014 financial year a benefit of $21,291,000 (2013: $17,781,000), or $15,304,000 (2013: $12,532,000) after tax was released to the Income Statement and included as part of the foreign exchange gain on hedged sales within revenue.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

11. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency contractual amounts hedged in relation to purchase commitments were as follows:

FOREIGN CURRENCY	2013 000	2014 000
Mexican pesos	MEX $202,579	MEX $293,000
Contractual amounts of interest rate derivative contracts outstanding were as follows:	NZ$000	NZ$000
Interest rate swaps	112,782	115,772

Interest rate swaps will expire from financial years 2015 through to 2024.

Credit Risk
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.

12. CURRENT TAX

PARENT 2013 NZ$000	PARENT 2014 NZ$000		CONSOLIDATED 2013 NZ$000	CONSOLIDATED 2014 NZ$000
		Balance at beginning of the year		
		Tax payable	(4,515)	(4,575)
4,076	2,849	Tax receivable	506	1,429
4,076	**2,849**		**(4,009)**	**(3,146)**
		Movements		
(2,055)	(2,552)	Current portion of tax expense	(34,661)	(40,906)
		Tax expense recognised on previously monetised financial instruments	5,249	5,987
		Tax paid	25,601	27,994
828	1,744	Supplementary dividend tax credit	4,906	4,595
		Other movements	(232)	86
(1,227)	(808)		863	(2,244)
		Balance at end of the year		
		Tax payable	(4,575)	(6,740)
2,849	2,041	Tax receivable	1,429	1,350
2,849	**2,041**		**(3,146)**	**(5,390)**

A pre-tax gain of $56,077,000 was realised from US dollar forward exchange contracts monetised during the 2010 and 2012 financial years. This gave rise to a total tax liability of $16,338,000, of which $6,794,000 related to the 2012 financial year. The tax expense was recorded in the Income Statement during the 2012–2014 financial years, based on the original maturity dates of the forward exchange contracts. Of this tax expense $5,987,000 (2013: $5,249,000) has been recorded in the current year.

13. PROPERTY, PLANT AND EQUIPMENT

	LAND		BUILDINGS		LEASEHOLD	PLANT &	CAPITAL PROJECTS		TOTAL
	COST	REVALUATION	STRUCTURE	FIT OUT/OTHER	IMPROVEMENTS	EQUIPMENT	BUILDINGS	OTHER	
	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000
Cost and revaluation									
Balance at 31 March 2012	63,400	24,100	49,475	62,886	1,555	158,160	60,817	18,267	438,660
Additions	750	–	–	200	62	1,377	34,600	21,876	58,865
Transfers	–	–	32,819	62,337	10	20,881	(95,162)	(20,885)	–
Disposals	–	–	–	(131)	(18)	(3,422)	–	–	(3,571)
Balance at 31 March 2013	**64,150**	**24,100**	**82,294**	**125,292**	**1,609**	**176,996**	**255**	**19,258**	**493,954**
Additions	–	–	–	(48)	288	3,104	2,656	23,817	29,817
Transfers	(934)	–	7,957	(4,438)	20	21,140	(2,604)	(21,141)	–
Disposals	–	–	–	(792)	(20)	(3,299)	–	–	(4,111)
Balance at 31 March 2014	**63,216**	**24,100**	**90,251**	**120,014**	**1,897**	**197,941**	**307**	**21,934**	**519,660**
Depreciation and impairment losses									
Balance at 31 March 2012	–	–	7,862	34,855	998	83,314	–	–	127,029
Depreciation charge for the year	–	–	1,227	3,378	77	19,031	–	–	23,713
Disposals	–	–	–	(131)	(18)	(3,355)	–	–	(3,504)
Balance at 31 March 2013	**–**	**–**	**9,089**	**38,102**	**1,057**	**98,990**	**–**	**–**	**147,238**
Depreciation charge for the year	–	–	1,871	4,801	171	19,901	–	–	26,744
Disposals	–	–	–	(792)	(20)	(3,270)	–	–	(4,082)
Balance at 31 March 2014	**–**	**–**	**10,960**	**42,111**	**1,208**	**115,621**	**–**	**–**	**169,900**
Carrying amounts									
At 31 March 2012	63,400	24,100	41,613	28,031	557	74,846	60,817	18,267	311,631
At 31 March 2013	64,150	24,100	73,205	87,190	552	78,006	255	19,258	346,716
At 31 March 2014	**63,126**	**24,100**	**79,291**	**77,903**	**689**	**82,320**	**307**	**21,934**	**349,760**

Land and Buildings

The independent valuation of land and buildings, excluding capital projects and leasehold improvements, conducted by Darroch Limited as at 31 March 2013 was $251.0 million.

Land revaluation

The Group's policy requires that a formal external valuation of land is carried out every three years. Darroch Limited valued the land with an effective date of 31 March 2012 on the basis of comparable market transactions on arms length terms, with reference to the land's best use and highest value, based on the capitalisation of an appropriate current market rental subject to a notional lease for a period of 12 years with three yearly rent reviews to market and on normal net commercial terms as found in a standard Auckland District Law Society Deed of Lease. The change in value from the 2009 valuation, being an increment of $13.25 million, was included in Other Comprehensive Income for the 2012 year and added to the Asset Revaluation Reserve in Equity. The aggregate land revaluation amount and Asset Revaluation Reserve total $24.1 million. The Directors remain comfortable that the valuation performed in March 2012 is materially consistent with the carrying value of the land at 31 March 2014, based on freely available market information and discussion with valuation professionals.

As described in Note 3 a. (iv) land is considered to be a level 3 asset within the fair value hierarchy for valuation purposes.

Parent

The Parent holds no property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

14. INTANGIBLE ASSETS

	SOFTWARE NZ$000	PATENTS & TRADEMARKS & APPLICATIONS NZ$000	OTHER NZ$000	GOODWILL NZ$000	TOTAL NZ$000
Cost					
Balance at 31 March 2012	9,824	12,136	–	3,853	25,813
Additions	1,473	2,356	644	420	4,893
Disposals	(405)	(5)	–	–	(410)
Balance at 31 March 2013	**10,892**	**14,487**	**644**	**4,273**	**30,296**
Additions	1,912	3,013	5	–	4,930
Disposals	(437)	(94)	–	–	(531)
Balance at 31 March 2014	**12,367**	**17,406**	**649**	**4,273**	**34,695**
Amortisation and impairment losses					
Balance at 31 March 2012	7,444	9,120	–	2,823	19,387
Amortisation for the year	1,299	1,244	150	–	2,693
Disposals	(405)	(5)	–	–	(410)
Balance at 31 March 2013	**8,338**	**10,359**	**150**	**2,823**	**21,670**
Amortisation for the year	1,518	1,371	260	–	3,149
Disposals	(435)	(94)	–	–	(529)
Balance at 31 March 2014	**9,421**	**11,636**	**410**	**2,823**	**24,290**
Carrying amounts					
At 31 March 2012	2,380	3,016	–	1,030	6,426
At 31 March 2013	2,554	4,128	494	1,450	8,626
At 31 March 2014	**2,946**	**5,770**	**239**	**1,450**	**10,405**

The Parent holds no intangible assets.

Impairment tests for goodwill

Residual goodwill relating to the acquisition of distribution businesses in Germany and South Korea is assessed annually for impairment, based on value-in-use calculations. The calculations support the carrying amount of the recorded goodwill. The Board believes that any reasonably possible change in the key assumptions used in the calculations would not cause the carrying amount to exceed its recoverable amount.

15. INVESTMENTS IN SUBSIDIARIES

PARENT 2013 NZ$000	PARENT 2014 NZ$000	
28,855	**28,950**	**Investments in subsidiaries**

The Parent's investment in subsidiaries comprises ordinary shares held at cost.

The Parent has the following subsidiaries:

PRINCIPAL SUBSIDIARIES	COUNTRY OF INCORPORATION	INTEREST HELD BY GROUP 2013	INTEREST HELD BY GROUP 2014	PRINCIPAL ACTIVITIES
*Fisher & Paykel Healthcare Limited	NZ	100%	100%	Manufacture & Distribution of Healthcare Products
*Fisher & Paykel Healthcare Properties Limited	NZ	100%	100%	Property Owning Company
*Fisher & Paykel Healthcare Treasury Limited	NZ	100%	100%	Treasury Management
Fisher & Paykel Healthcare Asia Limited	NZ	100%	100%	Distribution of Healthcare Products
Fisher & Paykel Healthcare Asia Investments Limited	NZ	100%	100%	Non-Trading Holding Company
Fisher & Paykel Healthcare Americas Investments Limited	NZ	100%	100%	Non-Trading Holding Company
Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited	NZ	100%	100%	Employee Share Purchase Trustee Company
*Fisher & Paykel Healthcare Pty Limited	Australia	100%	100%	Distribution of Healthcare Products
Fisher & Paykel do Brasil Ltda	Brazil	100%	100%	Marketing Support
Fisher & Paykel Healthcare Limited	Canada	100%	100%	Distribution of Healthcare Products
Fisher & Paykel Healthcare (Guangzhou) Limited	China	100%	100%	Distribution of Healthcare Products
Fisher & Paykel Healthcare SAS	France	100%	100%	Distribution of Healthcare Products
Fisher & Paykel Healthcare GmbH & Co KG	Germany	100%	100%	Distribution of Healthcare Products
Fisher & Paykel Holdings GmbH	Germany	100%	100%	Non-Trading Holding Company
Fisher & Paykel Verwaltungsgesellschaft GmbH	Germany	100%	100%	Non-Trading Holding Company
Fisher & Paykel Healthcare Limited	Hong Kong	100%	100%	Distribution of Healthcare Products
Fisher & Paykel Healthcare India Private Limited	India	100%	100%	Distribution of Healthcare Products
Fisher & Paykel Healthcare K.K.	Japan	100%	100%	Distribution of Healthcare Products
Fisher & Paykel Healthcare S.A. de C.V.	Mexico	100%	100%	Manufacture of Healthcare Products
Fisher & Paykel Healthcare AB	Sweden	100%	100%	Distribution of Healthcare Products
Fisher Paykel Saglik Urunleri Ticaret Limited Sirketi	Turkey	100%	100%	Distribution of Healthcare Products
Fisher & Paykel Healthcare Limited	UK	100%	100%	Distribution of Healthcare Products
Fisher & Paykel Healthcare Inc.	USA	100%	100%	Distribution of Healthcare Products
Fisher & Paykel Holdings Inc.	USA	100%	100%	Non-Trading Holding Company

All subsidiaries have a balance date of 31 March with the exception of Fisher & Paykel do Brasil Ltda, Fisher & Paykel Healthcare (Guangzhou) Limited and Fisher & Paykel Healthcare S.A. de C.V. which have a balance date of 31 December as required by local statutes.

The proportion of voting rights in the subsidiaries held by the Parent does not differ from the proportion of ordinary shares held.

* Fisher & Paykel Healthcare Corporation Limited together with those above companies marked with an asterisk are the companies in the Negative Pledge Deed (refer Note 17).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

16. DEFERRED TAX ASSET / LIABILITY

PARENT 2013 NZ$000	PARENT 2014 NZ$000		CONSOLIDATED 2013 NZ$000	CONSOLIDATED 2014 NZ$000
		Balance at beginning of the year		
102	102	Deferred tax asset	9,656	11,647
		Deferred tax liability	(24,287)	(23,127)
		Movements		
		Credited (charged) to the Income Statements:		
–	(76)	Provisions and accruals	2,422	3,152
		Depreciation	(353)	(1,898)
		Amortisation	159	115
		Other	100	(74)
–	(76)		2,328	1,295
		Credited (charged) to Other Comprehensive Income:		
		Deferred tax on cash flow hedge reserve movements	823	3,823
			823	3,823
		Balance at end of the year		
102	26	Deferred tax asset	11,647	14,671
		Deferred tax liability	(23,127)	(21,033)
102	**26**		**(11,480)**	**(6,362)**
		The balance comprises temporary differences attributable to:		
102	26	Provisions and accruals	17,579	20,731
		Depreciation	(13,999)	(15,897)
		Amortisation	1,678	1,793
		Other	408	334
		Cash flow hedges	(17,146)	(13,323)
102	**26**		**(11,480)**	**(6,362)**
		Timing of usage		
		The amount of the deferred tax asset expected to be used:		
		Within one year	11,728	14,798
102	26	After one year	(81)	(127)
102	**26**		**11,647**	**14,671**
		The amount of the deferred tax liability expected to be used:		
		Within one year	(3,699)	6,097
		After one year	(19,428)	(27,130)
			(23,127)	**(21,033)**

17. INTEREST-BEARING LIABILITIES

PARENT 2013 NZ$000	PARENT 2014 NZ$000		CONSOLIDATED 2013 NZ$000	CONSOLIDATED 2014 NZ$000
		Current		
		Bank overdrafts	17,136	14,199
		Borrowings	–	31,587
			17,136	**45,786**
		Non-Current		
		Borrowings	117,389	63,570
			117,389	**63,570**
		Foreign currency risk		
		The carrying amounts of the Group's bank overdrafts are denominated in the following currencies:		
		United States dollars	2,871	1,156
		European Union euros	5,770	4,564
		Australian dollars	559	969
		British pounds	1,158	1,313
		Swedish krona	923	353
		Japanese yen	5,052	5,621
		Korean won	551	–
		Other currencies	252	223
			17,136	**14,199**
		The carrying amounts of the Group's borrowings are denominated in the following currencies:		
		New Zealand dollars	79,583	58,032
		United States dollars	17,919	17,315
		European Union euros	13,779	14,285
		Australian dollars	4,108	3,525
		Canadian dollars	2,000	2,000
			117,389	**95,157**
		Borrowings due for repayment		
		Current	**–**	**31,587**
		Between one and two years	62,889	29,000
		Between two and three years	54,500	34,570
		Between three and four years		
		Between four and five years		
		Non-Current	**117,389**	**63,570**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

17. INTEREST-BEARING LIABILITIES (CONTINUED)

These borrowings have been aged in accordance with the expiry dates of the facilities. At year end the weighted average interest rate is 4.8% (2013: 5.0%)

A Negative Pledge Deed has been executed, and certain of the Group's bankers have been provided undertakings under this Deed. The companies in the Group providing the undertakings under the Negative Pledge Deed are listed in Note 15. The negative pledge includes the covenant that security can be given only in limited circumstances.

The principal covenants of the negative pledge are that:

(a) the interest cover ratio for the Group shall not be less than 3 times;

(b) the net tangible assets of the Group shall not be less than $150 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 3 (d).

	CONSOLIDATED	
	2013 NZ$000	2014 NZ$000
Unused lines of credit		
Bank overdraft facilities	11,844	13,921
Borrowing facilities	64,142	86,430
	75,986	**100,351**

Fair value
Carrying amounts of interest-bearing liabilities are equivalent to their fair values.

18. TRADE AND OTHER PAYABLES

PARENT			CONSOLIDATED	
2013 NZ$000	2014 NZ$000		2013 NZ$000	2014 NZ$000
		Current		
		Trade payables	21,139	23,221
		Employee entitlements	25,723	26,918
364	390	Other payables and accruals	17,628	21,122
364	**390**		**64,490**	**71,261**
		Non-Current		
		Employee entitlements	4,523	3,652
369	93	Other payables and accruals	1,600	1,247
369	**93**		**6,123**	**4,899**
733	**483**	**Total trade and other payables**	**70,613**	**76,160**
		Foreign currency risk		
		The carrying amounts of the Group's trade and other payables are denominated in the following currencies:		
733	483	New Zealand dollars	39,560	40,485
		United States dollars	12,078	13,849
		European Union euros	9,039	9,620
		Australian dollars	2,012	2,209
		British pounds	1,838	1,941
		Japanese yen	1,573	1,838
		Mexican pesos	1,531	2,455
		Other currencies	2,982	3,763
733	**483**		**70,613**	**76,160**

Fair value
Carrying amounts of trade and other payables are equivalent to their fair values.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

19. PROVISIONS

PARENT			CONSOLIDATED	
2013 NZ$000	2014 NZ$000		2013 NZ$000	2014 NZ$000
		Current		
		Warranty provision:		
		Balance at beginning of the year	2,580	2,960
		Current year provision	5,853	6,252
		Warranty expenses incurred	(5,473)	(5,824)
		Balance at end of the year	**2,960**	**3,388**
		Non-Current		
		Warranty provision:		
		Balance at beginning of the year	1,851	2,401
		Current year provision	550	82
		Warranty expenses incurred		
		Balance at end of the year	**2,401**	**2,483**

Provision for warranty covers the obligations for the unexpired warranty periods for products, based on recent historical costs incurred on warranty exposure. Current 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.

The total provision of $5,871,000 is expected to be fully utilised during the 2015 and 2016 financial years.

20. SHARE CAPITAL

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

PARENT 2013 NZ$000	PARENT 2014 NZ$000		CONSOLIDATED 2013 NZ$000	CONSOLIDATED 2014 NZ$000
65,351	92,815	Share capital at beginning of the year	65,351	92,815
25,996	26,783	Issue of share capital under dividend reinvestment plan (i)	25,996	26,783
516	1,046	Issue of share capital	516	1,046
813	987	Increase in share capital under share option schemes for employee services	813	987
139	301	Employee share scheme shares issued for employee services	139	301
92,815	121,932	Share capital at end of the year	92,815	121,932
(1,535)	(1,559)	Less accounted for as treasury shares	(1,535)	(1,559)
91,280	**120,373**		**91,280**	**120,373**
		Number of authorised shares		
530,053,399	542,612,236	Number of shares on issue at beginning of the year	530,053,399	542,612,236
		Shares issued:		
12,218,223	7,651,826	Dividend reinvestment plan (i)	12,218,223	7,651,826
340,614	244,430	Employee share purchase schemes	340,614	244,430
–	93,134	Exercise of share options	–	93,134
–	508,644	Exercise of share options under cancellation facility	–	508,644
542,612,236	551,110,270	Total number of shares on issue	542,612,236	551,110,270
(810,720)	(692,861)	Less accounted for as treasury shares	(810,720)	(692,861)
541,801,516	**550,417,409**		**541,801,516**	**550,417,409**

(i) 7,651,826 (2013: 12,218,223) shares were issued under the Company's dividend reinvestment plan at an average price of $3.50 (2013: $2.13) per share.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

21. RESERVES

PARENT			CONSOLIDATED	
2013 NZ$000	2014 NZ$000		2013 NZ$000	2014 NZ$000
		Retained earnings		
93,385	88,750	Balance at beginning of the year	184,026	194,918
61,526	68,597	Profit after taxation	77,053	97,053
		Dividends: (i)		
(37,104)	(37,983)	Final 2013 (2012)	(37,104)	(37,983)
(29,057)	(29,535)	Interim 2014 (2013)	(29,057)	(29,535)
–	58	Unclaimed dividends	–	58
88,750	**89,887**	**Balance at end of the year**	**194,918**	**224,511**
		Asset revaluation reserve		
		Balance at beginning of the year	24,100	24,100
		Balance at end of the year	**24,100**	**24,100**
		Cash flow hedge reserve – unrealised (ii)		
		Balance at beginning of the year	46,206	44,089
		Revaluation of derivative financial instruments	20,478	19,312
		Transfers to profit before tax	(23,418)	(32,965)
		Tax on changes in fair value and transfers to profit before tax	823	3,823
		Balance at end of the year	**44,089**	**34,259**
		Cash flow hedge reserve – realised (ii)		
		Balance at beginning of the year	27,836	15,304
		Transfers to profit before tax	(17,781)	(21,291)
		Tax on transfers to profit before tax	5,249	5,987
		Balance at end of the year	**15,304**	**–**
		Employee share entitlement reserve		
292	203	Balance at beginning of the year	292	203
137	124	Employee expense for the year	137	124
(226)	(197)	Transfer to share capital on vesting of shares to employees	(226)	(197)
203	**130**	**Balance at end of the year**	**203**	**130**
		Employee share option reserve		
2,387	2,337	Balance at beginning of the year	2,387	2,337
763	1,399	Employee expense for the year	763	1,399
(813)	(987)	Transfer to share capital on exercise or lapse of vested options	(813)	(987)
2,337	**2,749**	**Balance at end of the year**	**2,337**	**2,749**
		Treasury shares		
(2,046)	(1,535)	Balance at beginning of the year	(2,046)	(1,535)
(527)	(809)	Treasury shares issued to employee share purchase plans	(527)	(809)
1,038	785	Shares transferred to employees	1,038	785
(1,535)	**(1,559)**	**Balance at end of the year**	**(1,535)**	**(1,559)**

(i) Supplementary dividends of $4,595,000 were paid (2013: $4,906,000). All dividends are recognised as distributions to shareholders.

(ii) There was no ineffectiveness in relation to cash flow hedges.

22. EARNINGS PER SHARE

	CONSOLIDATED	
	2013 NZ$000	2014 NZ$000
Basic		
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.		
Profit after tax	77,053	97,053
Weighted average number of ordinary shares (000s)	537,561	547,095
Basic earnings per share (cents per share)	14.3 cps	17.7 cps
Diluted		
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 are convertible into the Company's shares, and are therefore considered dilutive securities for diluted earnings per share.		
Profit after tax	77,053	97,053
Weighted average number of ordinary shares (000s)	537,561	547,095
Adjustment for share options and PSRs (000s)	21,536	10,458
Weighted average number of ordinary shares for diluted earnings per share (000s)	559,097	557,553
Diluted earnings per share (cents per share)	13.8 cps	17.4 cps

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

23. SHARE-BASED PAYMENTS

Details of the accounting for the various plans is described in Note 2 (v).

Employee share option plans

Options are granted to selected employees pursuant to share option plans. 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 granted before the 2013 financial year vest in three equal annual instalments commencing no earlier than the second anniversary of the grant date as long as the employee remains in the service of the Group. The exercise price of these options is determined as follows:

- A base price will be established on or around the grant date being the volume weighted average price for a share on the NZSX for the 5 business days prior to the grant date; and
- As at each anniversary of the grant date a new base price will be calculated by:
  - increasing the last calculated base price by a percentage amount determined by the Board, based on independent advice, to represent the Company's cost of capital; and
  - reducing the resulting figure by the amount of any dividend paid by the Company in respect of a share in the 12 month period immediately preceding that anniversary.

The exercise price for the one-third of options that become exercisable on the second anniversary of the grant date shall be the base price calculated as at the second anniversary of the grant date.

The exercise price for the one-third of options that become exercisable on the third anniversary of the grant date shall be the base price calculated as at the third anniversary of the grant date.

The exercise price for the one-third of options that become exercisable on the fourth anniversary of the grant date shall be the base price calculated as at the fourth anniversary of the grant date.

Options granted in the 2013 financial year and later vest at any time between the third anniversary of the grant date and the fifth anniversary of the grant date as long as the Company's share price on the NZSX has, at any time on or after the third anniversary of the grant date, exceeded the "escalated price" and as long as the employee remains in the service of the Group.

The exercise price of these options will be the volume weighted average price for a share on the NZSX for the 5 business days prior to the grant date for the options.

The escalated price is determined as follows:

As at each anniversary of the grant date up to and including the third anniversary of the grant date for an option, a "base price" will be calculated by:

- increasing the last calculated base price (which as at the first anniversary of the grant date will be the exercise price of the option) by a percentage amount determined by the Board to represent the Company's cost of capital; and
- reducing the resulting figure by the amount of any dividend paid by the Company in respect of a share in the 12 month period immediately preceding that anniversary.

The escalated price will be the base price determined as at the third anniversary of the grant date in accordance with the above.

All unexercised options expire on the fifth anniversary of the grant date. Options also become exercisable if a person, or a group of persons acting in concert, acquires more than half of the Company's outstanding ordinary shares. On leaving employment due to serious illness, accident, permanent disablement, redundancy or other circumstances as determined by the Company's Board, the employees will have three months to exercise all outstanding options. On leaving employment upon death the employees' executor will have three months to exercise all outstanding options. On a termination of employment for any other reason all outstanding vested and unvested options will lapse. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

As at 31 March 2014 options had been granted to 380 employees (2013: 352). Options granted to employees have no voting rights until they have been exercised and ordinary shares have been issued.

Movements in the number of share options outstanding and their exercise prices are as follows:

YEAR OF ISSUE

31 MARCH 2013	2008(ii)	2009(iii)	2010(iv)	2011(v)	2012(vi)	2013(vii)	TOTAL
Balance at beginning of the year	3,442,700	3,608,800	3,736,300	4,547,500	4,893,950	–	**20,229,250**
Granted during the year	–	–	–	–	–	3,816,650	**3,816,650**
Exercised during the year (viii)	–	–	–	–	–	–	**–**
Lapsed during the year (ix)	(3,442,700)	(115,400)	(135,700)	(192,050)	(193,000)	(121,000)	**(4,199,850)**
Balance at end of the year	**–**	**3,493,400**	**3,600,600**	**4,355,450**	**4,700,950**	**3,695,650**	**19,846,050**

YEAR OF ISSUE

31 MARCH 2014	2009(ii)	2010(iii)	2011(iv)	2012(v)	2013(vi)	2014(vii)	TOTAL
Balance at beginning of the year	3,493,400	3,600,600	4,355,450	4,700,950	3,695,650	–	**19,846,050**
Granted during the year	–	–	–	–	–	2,188,630	**2,188,630**
Exercised during the year (viii)	(1,134,037)	(752,679)	(1,085,680)	(634,936)	–	–	**(3,607,332)**
Lapsed during the year (ix)	(2,359,363)	(74,133)	(53,166)	(85,000)	(75,100)	(29,400)	**(2,676,162)**
Balance at end of the year	**–**	**2,773,788**	**3,216,604**	**3,981,014**	**3,620,550**	**2,159,230**	**15,751,186**

(i) Options expired December 2012 at exercise prices of $3.71, $3.95 and $4.19 per option.

(ii) Options expired September 2013 at exercise prices of $3.48, $3.68 and $3.88 per option.

(iii) Options expiring September 2014 at exercise prices of $3.68, $3.88 and $4.09 per option.

(iv) Options expiring September 2015 at exercise prices of $3.21 and $3.37 per option. Further exercise prices based on future costs of capital and dividends using a base price of $2.91 per option.

(v) Options expiring September 2016 at exercise price of $2.29 per option. Further exercise prices based on future costs of capital and dividends using a base price of $2.15 per option.

(vi) Options expiring August 2017 at an exercise price of $2.06 per option.

(vii) Options expiring September 2018 at an exercise price of $3.57 per option.

(viii) The number of options exercised during the year also includes any options cancelled under the cancellation facility. The cancellation facility allows optionholders to cancel their options and receive in return ordinary shares equal in value to the gain on the options.

(ix) The number of options that lapsed during the year includes options held by employees at resignation and options that lapsed upon expiry.

Out of the 15,751,186 outstanding options (2013: 19,846,050 options), 5,262,740 options (2013: 7,154,534 options) were exercisable.

Options exercised in 2014 resulted in 93,134 shares (2013: nil) being issued at a weighted average exercise price of $3.14 each. The related weighted average price at the time of exercise was $3.63.

Total options cancelled in 2014 of 3,514,198 (2013: nil) resulted in 508,597 shares (2013: nil) being issued at a weighted average exercise price of $3.29. The related weighted average price at the time of exercise was $3.85.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

23. SHARE-BASED PAYMENTS (CONTINUED)

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

			NUMBER OF SHARE OPTIONS	
FINANCIAL YEAR	EXPIRY	EXERCISE PRICE	2013	2014
2014	September 2013	Variable (i)	3,493,400	–
2015	September 2014	Variable (ii)	3,600,600	2,773,788
2016	September 2015	Variable (iii)	4,355,450	3,216,604
2017	September 2016	Variable (iv)	4,700,950	3,981,014
2018	August 2017	\$2.06 (v)	3,695,650	3,620,550
2019	September 2018	\$3.57 (vi)	–	2,159,230
			19,846,050	**15,751,186**

(i) Options expired September 2013 at exercise prices of \$3.48, \$3.68 and \$3.88 per option.

(ii) Options expiring September 2014 at exercise prices of \$3.68, \$3.88 and \$4.09 per option.

(iii) Options expiring September 2015 at exercise prices of \$3.21 and \$3.37 per option. Further exercise prices based on future costs of capital and dividends using a base price of \$2.91 per option.

(iv) Options expiring September 2016 at exercise price of \$2.29 per option. Further exercise prices based on future costs of capital and dividends using a base price of \$2.15 per option.

(v) Options expiring August 2017 at an exercise price of \$2.06 per option.

(vi) Options expiring September 2018 at an exercise price of \$3.57 per option.

The fair value of options granted during the period determined using Monte Carlo simulation was \$0.77 (2013: \$0.30) per option or \$1,685,000 (2013: \$1,145,000) in aggregate.

The significant inputs into the model were:

	2013	2014
Share price at grant date	\$2.11	\$3.69
Exercise price at grant date	\$2.06	\$3.57
Expected/historical share price volatility	25.0%	25.0%
Dividends expected over option life (cents)	62.0	62.0
Option life (years)	5	5
Risk free interest rate	2.98%	4.04%
Cost of equity	8.70%	8.50%

The expected price volatility is derived by analysing the historical volatility over the most recent historical period corresponding to the term of the option.

	2013	2014
Total amount expensed in year for employee share option plans	\$594,000	\$864,000

Employee performance share rights plan

PSRs are granted to selected employees pursuant to the performance share rights plan. 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 (DJSMQDT) in New Zealand dollars over the same period. If the Company's TSR performance exceeds that of the DJSMQDT 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 the service of the Group. 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.

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

PSRs also become exercisable, subject to the Company TSR performance exceeding that of the DJSMQDT, if a person, or a group of persons acting in concert, acquires more than half of the Company's outstanding ordinary shares. On leaving employment due to death, serious illness, accident, permanent disablement, redundancy or other circumstances as determined by the Company's Board, the employees or, if applicable, the employees' executors may be able to exercise the PSRs. On a termination of employment for any other reason all outstanding PSRs will lapse.

As at 31 March 2014 PSRs had been granted to 327 employees (2013: 258). PSRs granted to employees have no voting rights until they have been exercised and ordinary shares issued.

Movements in the number of PSRs outstanding are as follows:

YEAR OF ISSUE	2013	2014	TOTAL
As at beginning of the year	600,240	–	600,240
Granted during the year	–	588,070	588,070
Vested during the year	–	–	–
Lapsed due to resignation	(14,700)	(8,840)	(23,540)
As at end of the year	**585,540**	**579,230**	**1,164,770**

There is no nominal value for the PSRs.

PSRs outstanding at the end of the year have the following vesting dates:

		NUMBER OF PSRS	
FINANCIAL YEAR	EXPIRY	2013	2014
2018	August 2017	600,240	585,540
2019	September 2018	–	579,230
		600,240	**1,164,770**

The fair value of PSRs granted during the period using Monte Carlo simulation was $2.36 (2013: $1.44) per PSR or $1,388,000 (2013: $898,000) in aggregate.

The significant inputs into the model were:

	2013	2014
Share price at grant date	$2.11	$3.69
NZD/USD exchange rate of grant date	0.8017	0.7805
5 yr NZD risk free rate	3.00%	4.04%
5 yr USD risk free rate	0.66%	1.54%
Expected/historical share price volatility	25.0%	25.0%
Expected/historical NZD/USD volatility	14.0%	13.5%
Expected/historical DJSMDQT index volatility	18.0%	16.0%

	2013	2014
Total amount expensed in year for employee performance share rights plan	$169,000	$535,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

23. SHARE-BASED PAYMENTS (CONTINUED)

Employee share purchase plans

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. All New Zealand and Australian full time employees are eligible to participate after a qualifying period. The qualifying period between grant and vesting date is 3 years. Dividends paid during the qualifying period on shares allocated to employees under the plans are paid to the employees. Voting rights on the shares are exercisable by the Trustees under the plans.

692,861 shares (2013: 810,720) are held by the Trustees of the plan, being 0.1% (2013: 0.1%) of the Company's issued and paid up capital. As at 31 March 2014, all shares were allocated to employees (2013: 40,615 unallocated). Once vested an employee participant may elect to transfer the shares into their own name after which the shares are freely transferable.

All shares are allocated to employees at the time of issue, on the condition that should they leave employment before the qualifying period ends, their shares will be repurchased by the Trustees at the lesser of market price and the price at which the shares were originally allocated to the employee, subject to repayment of the original loan.

Any such repurchased shares are held by the Trustees for allocation to future plans. Trustees of the Employee Share Purchase plans are appointed by the Company.

At 31 March 2014 the total receivable owing from employees was $1,156,000 (2013: $689,000).

Movements in the number of shares outstanding and their related weighted average issue prices are as follows:

	2013		2014	
	PRICE*	NUMBER	PRICE*	NUMBER
As at beginning of the year	$2.45	754,450	$1.88	770,105
Granted during the year	$1.51	422,291	$3.21	301,709
Vested during the year	$2.59	(348,100)	$2.30	(340,395)
Lapsed due to resignation	$2.23	(58,536)	$1.86	(38,558)
As at end of the year	**$1.88**	**770,105**	**$2.25**	**692,861**

*Weighted average

Shares outstanding at the end of the year have the following vesting dates and issue prices:

		ISSUE PRICE*		SHARES	
FINANCIAL YEAR	VESTING	2013	2014	2013	2014
2013	August 2012	$2.61	–	896	–
2014	December 2013 and March 2014	$2.30	$2.31	358,395	2,024
2015	Not applicable				
2016	August 2015	$1.51	$1.51	410,814	389,128
2017	February and March 2016	–	$3.21	–	301,709
				770,105	**692,861**

*Weighted average

The fair value of shares granted during each period is determined as being the discount on issue and the present value of the interest free loan to the employee and is $351,000 (2013: $302,000).

	2013	2014
Total amount expensed in year for employee share purchase plans		
– Discount on issue	$137,000	$124,000
– Interest free loan	$39,000	$33,000

Employee stock purchase plan

Shares are issued at a discount of 15% being the lower of the market price at the date of issue or the market price at the beginning of the annual offering period in accordance with section 423 of the US Internal Revenue Code, as amended. All North American employees working more than 20 hours per week are eligible after a qualifying period. Employees make regular payroll contributions to the plan with shares being issued to employees quarterly to the value of their accumulated contributions to the plan.

All shares are allocated to employees at the time of issue and vest immediately.

Shares issued in 2014 totalled 21,894 (2013: 17,928).

	2013	2014
Total amount expensed in year for employee stock purchase plans	$6,000	$6,000

24. RETIREMENT BENEFIT OBLIGATIONS

PARENT			CONSOLIDATED	
2013 NZ$000	2014 NZ$000		2013 NZ$000	2014 NZ$000
		Balance Sheet obligations for:		
		Pension benefits asset	718	1,007
		Pension benefits liability	57	–
		Income Statement (credit) charge:		
		Pension benefits	(221)	16

All qualifying New Zealand based employees of the Group plus employees in certain other countries are entitled to superannuation benefits from the Group's defined contribution superannuation plans on retirement, disability, death or resignation. In addition to these plans, 2 (2013: 2) New Zealand based employees have benefits on a defined benefit basis such that should their account balances under the plan at the time a benefit is payable be below the defined benefit level, the Company makes a special contribution. The defined benefit arrangements provide a top up lump sum benefit based on years of membership and final average salary.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

25. RELATED PARTY TRANSACTIONS

During the period the Group has not entered into any material contracts involving related parties or directors' interests. No amounts owed by related parties have been written off or forgiven during the period.

During the period the Company advanced and repaid loans to its subsidiaries by way of internal current accounts. In presenting the financial statements of the Group, the effect of transactions and balances between fellow subsidiaries and those with the Parent have been eliminated. All transactions with related parties were in the normal course of business and provided on the terms below.

The Parent entered into certain transactions with its subsidiaries as follows:

Material amounts outstanding between the Parent and its subsidiaries at year end were:

- Loans from the Parent to subsidiaries $182,557,000 (2013: $151,454,000).

These unsecured advances represent funding even though they are for no fixed term, are repayable on demand and bear interest at 8.27% (2013: 7.93%)

Material transactions between the Parent and its subsidiaries were:

- Interest charged in respect of the loans to subsidiaries of $10,764,000 (2013: $8,720,000).
- Dividends received from subsidiaries $61,851,000 (2013: $56,249,000).
- Payments from subsidiaries to Parent for options, performance share rights and shares issued to employees $1,529,000 (2013: $906,000).
- Proceeds from employee share purchase plans in respect of vested shares paid to the Parent from its subsidiaries $825,000 (2013: $930,000).

These amounts are not outstanding at balance date.

(a) Key Management and Director Compensation

Key management and director compensation for the years ended 31 March 2013 and 2014 is set out below. The key management personnel includes the Chief Executive Officer and those employees who report directly to the CEO.

PARENT			CONSOLIDATED	
2013 NZ$000	2014 NZ$000		2013 NZ$000	2014 NZ$000
		Short-term benefits		
		Salaries and other short-term benefits	5,106	5,252
683	779	Directors' fees paid	683	779
–	279	Director's retirement fee paid	–	279
3	(273)	Movement in accrual for Directors' retirement fees	3	(273)
686	785	Total short-term benefits	5,792	6,037
		Post-employment benefits		
		Employer contributions to defined contribution superannuation plans	171	97
		Share-based benefits		
		Employee share purchase plans	2	2
		Employee share option plans	138	225
		Employee performance share right plans	38	127
–	–	Total share-based benefits	178	354
686	**785**	**Total compensation**	**6,141**	**6,488**

The amounts of key management and director compensation outstanding as at balance date are $1,679,000 (2013: $2,023,000) for the Group and $93,000 (2013: $366,000) for the Parent.

(b) Other Transactions with Key Management and Directors or Entities related to them

There have been no other material transactions with key management and Directors or entities related to them during the period.

26. CASH FLOW RECONCILIATIONS

PARENT 2013 NZ$000	PARENT 2014 NZ$000		CONSOLIDATED 2013 NZ$000	CONSOLIDATED 2014 NZ$000
61,526	**68,597**	**Profit after tax**	**77,053**	**97,053**
		Add (deduct) non-cash items:		
		Depreciation and writedown of property, plant and equipment to recoverable amount	23,713	26,744
		Cash flow hedge gain from monetised instruments, net of tax	(12,532)	(15,304)
		Amortisation of intangibles	2,693	3,149
		Accrued financing income / expense	161	(125)
		Movement in provisions	930	510
–	(76)	Movement in deferred tax asset / liability	(2,328)	(1,295)
		Movement in foreign currency option contracts time value	(914)	96
		Movement in working capital:		
–	(5)	Trade and other receivables	(4,349)	(12,240)
		Inventory	(4,681)	(5,364)
40	(250)	Trade and other payables	2,872	4,811
3,679	3,787	Provision for taxation net of supplementary dividend paid	4,043	6,897
(1,593)	(1,109)	Intercompany advances in relation to operating cashflows		
		Foreign currency translation	(224)	(833)
63,652	**70,944**	**Net cash flows from operations**	**86,437**	**104,099**

27. IMPUTATION CREDITS

PARENT 2013 NZ$000	PARENT 2014 NZ$000		CONSOLIDATED 2013 NZ$000	CONSOLIDATED 2014 NZ$000
104	42	New Zealand imputation credits available for use in subsequent reporting periods	2,196	3,035
104	42		2,196	3,035
4,992	4,992	Australian franking credits available for use in subsequent reporting periods	5,090	5,802
4,992	4,992		5,090	5,802

The above amounts represent the balance of the imputation and franking accounts as at the end of the reporting period.

The consolidated amounts include imputation and franking credits that would be available to the parent entity if subsidiaries paid dividends.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

28. CONTINGENT LIABILITIES

Periodically the Group is party to litigation including product liability and patent claims. To date such claims have been few in number and, when required, have been expensed or covered by our insurance. The Directors are unaware of the existence of any claim or other contingencies that would have a material impact on the operations of the Group.

The Parent has a contingent liability relating to guarantees of all subsidiary company indebtedness (refer Note 17). The guarantee has not been recognised as there is no reasonable likelihood of liability arising.

29. COMMITMENTS

PARENT			CONSOLIDATED	
2013 NZ$000	2014 NZ$000		2013 NZ$000	2014 NZ$000
		Capital expenditure commitments contracted for but not recognised as at the reporting date:		
		Within one year	2,519	3,749
		Between one and two years	–	–
		Between two and five years	–	–
			2,519	**3,749**
		Gross commitments under non-cancellable operating leases:		
		Within one year	4,625	4,989
		Between one and two years	4,033	3,318
		Between two and five years	3,804	3,731
		Over five years	2,234	1,348
			14,696	**13,386**

Operating lease commitments relate mainly to building leases. There are no renewal options or options to purchase in respect of leases of plant and equipment.

30. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

PARENT				CONSOLIDATED			
LOANS AND RECEIVABLES NZ$000	OTHER FINANCIAL ASSETS NZ$000	TOTAL NZ$000		LOANS AND RECEIVABLES NZ$000	ASSETS AT FAIR VALUE THROUGH THE PROFIT AND LOSS NZ$000	DERIVATIVES USED FOR HEDGING NZ$000	TOTAL NZ$000
			31 March 2013				
			Assets as per Balance Sheets				
			Cash and cash equivalents	7,709	–	–	7,709
			Trade receivables	72,884	–	–	72,884
			Derivative financial instruments	–	637	69,434	70,071
151,454	–	151,454	Intergroup advances				
151,454	**–**	**151,454**	**Total**	**80,593**	**637**	**69,434**	**150,664**

NZ$000	NZ$000	NZ$000		LIABILITIES AT FAIR VALUE THROUGH THE PROFIT AND LOSS NZ$000	DERIVATIVES USED FOR HEDGING NZ$000	OTHER FINANCIAL LIABILITIES MEASURED AT AMORTISED COST NZ$000	TOTAL NZ$000
			31 March 2013				
			Liabilities as per Balance Sheets				
			Interest-bearing liabilities	–	–	134,525	134,525
			Trade and other payables	–	–	38,767	38,767
			Derivative financial instruments	–	8,165	–	8,165
			Total	**–**	**8,165**	**173,292**	**181,457**

LOANS AND RECEIVABLES NZ$000	OTHER FINANCIAL ASSETS NZ$000	TOTAL NZ$000		LOANS AND RECEIVABLES NZ$000	ASSETS AT FAIR VALUE THROUGH THE PROFIT AND LOSS NZ$000	DERIVATIVES USED FOR HEDGING NZ$000	TOTAL NZ$000
			31 March 2014				
			Assets as per Balance Sheets				
			Cash and cash equivalents	10,438	–	–	10,438
			Trade receivables	84,747	–	–	84,747
			Derivative financial instruments	–	1,075	52,624	53,699
182,557	–	182,557	Intergroup advances				
182,557	**–**	**182,557**	**Total**	**95,185**	**1,075**	**52,624**	**148,884**

NZ$000	NZ$000	NZ$000		LIABILITIES AT FAIR VALUE THROUGH THE PROFIT AND LOSS NZ$000	DERIVATIVES USED FOR HEDGING NZ$000	OTHER FINANCIAL LIABILITIES MEASURED AT AMORTISED COST NZ$000	TOTAL NZ$000
			31 March 2014				
			Liabilities as per Balance Sheets				
			Interest-bearing liabilities	–	–	109,356	109,356
			Trade and other payables	–	–	44,343	44,343
			Derivative financial instruments	1	5,042	–	5,043
			Total	**1**	**5,042**	**153,699**	**158,742**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

31. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

PARENT 2013 NZ$000	PARENT 2014 NZ$000		CONSOLIDATED 2013 NZ$000	CONSOLIDATED 2014 NZ$000
		Fair value gains		
		Foreign exchange forward contracts	154	434
			154	**434**
		Fair value losses		
		Foreign exchange forward contracts	–	–
			–	**–**

Changes in fair values of foreign exchange contracts which have not been hedge accounted are recorded within the foreign exchange gain on hedged sales, being a component of operating revenue in the Income Statement.

32. SEGMENT INFORMATION

The operating segments of the Group have been determined based on the components of the Group that the CODM monitors in making decisions about operating matters. These components have been identified on the basis of internal reports that the CODM reviews regularly in order to allocate resources and to assess the performance of the Group.

The Group has four operating segments reportable under NZ IFRS 8, as described below, which are the Group's strategic business units or groupings of business units. All other operating segments have been included in 'New Zealand segments'.

The strategic business units all offer the same products, being medical device products and systems for use in respiratory and acute care and the treatment of obstructive sleep apnea. Products are sold in over 120 countries worldwide through the Group's distribution subsidiaries, third party distributors and original equipment manufacturers (OEMs), with these sales being managed geographically from New Zealand and other locations worldwide. It is the management of these worldwide sales relationships that forms the basis for the Group's reportable segments. The following summary describes the operations in each of the Group's reportable segments:

1) **New Zealand.** Includes all activities controlled by entities or employees based in New Zealand, principally research and development, manufacturing, marketing, sales and distribution and administration. The research and development activity relates to New Zealand. The manufacturing activity principally relates to New Zealand, however the Mexico manufacturing activity is also included in this segment as the Mexico facility is managed by New Zealand-based employees. The sales and distribution activity principally relates to New Zealand, Latin America, Africa, the Middle East and other countries in Asia not included in 4) below. Also included are sales made to countries within Europe and Asia-Pacific where the management of the sale is from New Zealand.
2) **North America.** Includes all activities controlled by entities or employees based in the United States of America and Canada, principally sales, distribution and administration activities.
3) **Europe.** Includes all activities controlled by entities or employees based in the United Kingdom, France, Germany, Sweden and Turkey, principally sales, distribution and administration activities. These sales and distribution hubs also distribute product into neighbouring European countries.
4) **Asia-Pacific.** Includes all activities controlled by entities or employees based in Australia, Japan, India, China, South Korea, Taiwan and Hong Kong, principally sales, distribution and administration activities.

All minor or other activities have been included in the New Zealand segment as they are controlled by New Zealand entities or employees.

There are varying levels of integration between these geographical segments. This integration includes transfers of finished product, principally from New Zealand to other segments, and shared costs. The accounting policies of the reportable segments are the same as described in Note 2.

Information regarding the operations of each reportable segment is included below. Performance is measured based on segment operating profit or EBIT. Segment profit is used to measure performance as the CODM believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within this industry. Inter-segment pricing is determined on an arm's length basis.

Operating Segments 31 MARCH 2013	NEW ZEALAND NZ$000	NORTH AMERICA NZ$000	EUROPE NZ$000	ASIA- PACIFIC NZ$000	ELIMINATIONS NZ$000	TOTAL NZ$000
Sales revenue – external	56,765	217,180	150,386	82,919	–	507,250
Sales revenue – internal	327,088	–	–	–	(327,088)	–
Foreign exchange gain on hedged sales	49,000	–	–	–	–	49,000
Total operating revenue	**432,853**	**217,180**	**150,386**	**82,919**	**(327,088)**	**556,250**
Other income	2,400	–	–	–	–	2,400
Depreciation and amortisation	25,019	359	387	641	–	26,406
Reportable segment operating profit before financing costs	**106,842**	**4,720**	**9,291**	**4,257**	**(12,377)**	**112,733**
Financing income	2,378	5	2	5	(2,201)	189
Financing expense	(4,378)	(1,685)	(637)	(404)	2,201	(4,903)
Exchange gain (loss) on foreign currency borrowings	1,387	–	(20)	–	–	1,367
Reportable segment assets	**586,733**	**66,805**	**62,569**	**32,515**	**(130,025)**	**618,597**
Reportable segment capital expenditure	**59,969**	**269**	**246**	**1,551**	**–**	**62,035**

Operating Segments 31 MARCH 2014	NEW ZEALAND NZ$000	NORTH AMERICA NZ$000	EUROPE NZ$000	ASIA-PACIFIC NZ$000	ELIMINATIONS NZ$000	TOTAL NZ$000
Sales revenue – external	57,125	235,432	183,698	92,347	–	568,602
Sales revenue – internal	368,700	–	–	–	(368,700)	–
Foreign exchange gain on hedged sales	54,845	–	–	–	–	54,845
Total operating revenue	**480,670**	**235,432**	**183,698**	**92,347**	**(368,700)**	**623,447**
Other income	3,700	–	–	–	–	3,700
Depreciation and amortisation	28,234	333	482	844	–	29,893
Reportable segment operating profit before financing costs	**135,055**	**5,452**	**11,676**	**3,777**	**(12,461)**	**143,499**
Financing income	2,285	2	1	4	(2,235)	57
Financing expense	(7,010)	(1,999)	(675)	(331)	2,235	(7,780)
Exchange gain (loss) on foreign currency borrowings	1,055	–	(167)	–	–	888
Reportable segment assets	**365,642**	**843**	**2,630**	**2,252**	**(9,037)**	**362,330**
Reportable segment capital expenditure	**30,562**	**292**	**343**	**682**	**–**	**31,879**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2014

32. SEGMENT INFORMATION (CONTINUED)

Product Segments

The Group's products and systems are for use in respiratory care, acute care and the treatment of obstructive sleep apnea and are sold in over 120 countries worldwide. Revenues are managed on a regional basis, but a split by product group is set out below. Assets are not split by product group.

Product Group Information

	YEAR ENDED 31 MARCH 2013 NZ$000	YEAR ENDED 31 MARCH 2014 NZ$000
Respiratory & acute care	301,503	336,851
Obstructive sleep apnea	235,778	270,048
Core products subtotal	537,281	606,899
Distributed and other	18,969	16,548
Total revenue	**556,250**	**623,447**

Major Customer

Revenues from one customer of the North America segment (being a distributor) represent approximately $73.3 million (2013: $67.1 million) of the Group's total revenues.

33. SIGNIFICANT EVENTS AFTER BALANCE DATE

On 23 May 2014 the directors approved the payment of a fully imputed 2014 final dividend of $38,579,911 (7.0 cents per share) to be paid on 4 July 2014.

CORPORATE GOVERNANCE STATEMENT

The Board and management of Fisher & Paykel Healthcare 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 New Zealand and Australian stock exchanges. Corporate governance principles and guidelines have been introduced in both countries. These include the Australian Securities Exchange (ASX) Corporate Governance Council Corporate Governance Principles and Recommendations 2nd edition, the New Zealand Stock Exchange Listing Rules relating to corporate governance, the NZX Corporate Governance Best Practice Code, and the New Zealand Securities Commission Corporate Governance Principles and Guidelines (collectively, the Principles). The company recognises that the ASX Corporate Governance Council has recently released the third edition of its Governance Principles and Recommendations which take effect for a company's first full financial year commencing on or after 1 July 2014. The company is in the process of reviewing the new principles and recommendations contained in the third edition and will be in a position to report against these updated principles and recommendations in its 2015 annual report. The Governance Manual for the company consists of various charters and policies. The Board considers that the company's corporate governance practices and procedures substantially reflect the Principles. In this Corporate Governance Statement, we report on how the company has followed the recommendations set out in the Principles.

The full content of the company's corporate governance policies, practices and procedures can be found on the corporate governance section of the company's website – www.fphcare.co.nz/corporategovernance (the "Company's Website").

CODE OF CONDUCT (ETHICS)

The company expects its employees and directors to maintain high ethical standards. A Code of Business Ethics for the company and a separate Directors' Code of Conduct set out these standards.

Both codes address, amongst other things:

- conflicts of interest;
- receipt of gifts;
- corporate opportunities;
- confidentiality;
- expected behaviours;
- reporting issues regarding breaches of the codes, legal obligations and other policies of the company; and
- obligations for a director to act in good faith and in what the director believes to be the best interests of the company.

The Code of Business Ethics requires employees to act in the best interests of the company at all times and to not accept from, or offer to, anyone, bribes or improper inducements.

The Company also has a policy that it does not make corporate level political donations.

The full content of the company's Code of Business Ethics and Code of Conduct for Directors can be found on the Company's Website.

RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

The business and affairs of the company are managed under the direction of the Board of Directors. At a general level, the Board is elected by shareholders to:

- establish the company's objectives;
- develop major strategies for achieving the company's objectives
- manage risks;
- determine the overall policy framework within which the business of the company is conducted; and
- monitor management's performance with respect to these matters.

The Board Charter regulates internal Board procedure and describes the Board's specific role and responsibilities. The Board delegates management of the day-to-day affairs and responsibilities of the company to the executive team under the leadership of the Chief Executive Officer to deliver the strategic direction and goals determined by the Board.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

THE BOARD

Board Composition

At present, there are seven directors on the Board. Six out of the seven directors are non-executive directors. Michael Daniell, the Managing Director and Chief Executive Officer, is the only executive director on the Board. The Chairman of the Board is Tony Carter.

The biography of each Board member, including each director's skills, experience, expertise and the term of office held by each director at the date of this Annual Report, is set out in the "Our Board" section of this Annual Report.

Independence of Directors

The factors that the company takes into account when assessing the independence of its directors are set out in the Board Charter, a copy of which is available on the Company's Website. No quantitative materiality thresholds have been adopted by the company because it was considered more appropriate to determine independence on a case by case basis.

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) Michael Daniell is a director who, within the last three years, has been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment.
3) 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.
4) 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.
5) No director has a material contractual relationship with the company or another group member other than as a director of the company and in the case of Michael Daniell only, as an employee of the company or another group member.
6) 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. In this context, the Board specifically confirms that it has unanimously endorsed Lindsay Gillanders' position as a valued independent director of the company.
7) 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 company considers that, as at 31 March 2014, six of the seven current directors are independent directors, namely Tony Carter, Roger France, Lindsay Gillanders, Geraldine McBride, Arthur Morris and Donal O'Dwyer.

Committees

Specific responsibilities are delegated to the Audit & Risk Committee, the Remuneration and Human Resources Committee, the Nomination Committee and the Quality, Safety and Regulatory Committee. These Board committees support the Board by working with management on relevant issues at a suitably detailed level and then reporting back to the Board. Each of these committees has a charter setting out the committee's objectives, procedures, composition and responsibilities. Copies of these charters are available on the Company's Website.

Audit & Risk Committee

The primary function of the Audit & Risk Committee is to assist the Board in fulfilling its oversight responsibilities relating to the company's risk management and internal control framework, the integrity of its financial reporting and the company's auditing processes and activities. Six meetings of the Audit & Risk Committee were held during the financial year ended 31 March 2014.

Under the Audit & Risk Committee Charter, the Committee must be comprised of non-executive directors, the majority of whom must be independent. Further, the Chair of the Committee must be an independent director and cannot be the Chairman of the Board.

The current members of the Audit & Risk Committee are Roger France (Chairman), Tony Carter and Lindsay Gillanders and their qualifications are specified in the "Our Board" section of this Annual Report. All members of the Audit & Risk Committee are independent non-executive directors.

Remuneration and Human Resources Committee

The Remuneration and Human Resources Committee's role is to oversee and regulate remuneration and organisation matters of the company including, remuneration and benefits policies; performance objectives and remuneration of the company's senior executives; succession planning and associated management development for the chief executive and senior executives. The current members of the Remuneration and Human Resources Committee are Tony Carter (Chairman), Roger France and Geraldine McBride. All members of the Remuneration and Human Resources Committee are independent directors.

Nomination Committee

The procedure for the appointment and removal of directors is ultimately governed by the company's constitution. A director is appointed by ordinary resolution of the shareholders although the Board may fill a casual vacancy.

The Board has delegated to the Nomination Committee the responsibility for recommending candidates to be nominated as a director and candidates for the committees. When recommending candidates to act as director, the Nomination Committee takes into account such factors as it deems appropriate, including the diversity of background, experience and qualifications of the candidate.

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 seeks to have experience and knowledge which spans marketing, sales, finance, science, medicine, engineering, legal and/or regulatory to meet the demands of an international business.

The current members of the Nomination Committee are Tony Carter (Chairman), Roger France and Geraldine McBride. All members of the Nomination Committee are independent directors.

Quality, Safety and Regulatory Committee

The Quality, Safety and Regulatory Committee's role is to assist the Board in fulfilling its responsibilities relating to the company's health and safety risk management system and oversight of the company's quality management system.

The current members of the Quality, Safety and Regulatory Committee are Arthur Morris (Chairman), Tony Carter and Donal O'Dwyer. All members of the Quality, Safety and Regulatory Committee are independent directors.

	BOARD		AUDIT & RISK COMMITTEE		REMUNERATION & HUMAN RESOURCES COMMITTEE		NOMINATION COMMITTEE		QUALITY, SAFETY & REGULATORY COMMITTEE	
	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED
Tony Carter	10	10	6	6	3	3	2	2	3	3
Michael Daniell	10	10								
Nigel Evans	4	4	1	1						
Roger France	10	10	6	6	3	3	2	2		
Lindsay Gillanders	10	9	5	4	2	2	1	1		
Geraldine McBride	7	7			1	1	1	1		
Arthur Morris	10	10							3	3
Donal O'Dwyer	10	9							3	3
Gary Paykel	4	3								

Board Processes

The Board held 10 meetings during the year ended 31 March 2014. The table above shows attendance at the Board and committee meetings.

There is no formal procedure agreed by the Board to allow directors to take independent professional advice at the expense of the company. However, if circumstances arose where a director needed to obtain independent advice, that director would, as a matter of practice, be at liberty to seek such advice at the expense of the company.

At the company's Annual Meeting of Shareholders held on 27 August 2013, all of the then-serving directors attended the meeting.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

DIRECTORS' REMUNERATION

The Remuneration and Human Resources Committee is responsible for establishing and monitoring remuneration policies and guidelines for directors which enable the company to attract, retain and reward directors who will contribute to the successful governing of the company and create value for shareholders.

The company also takes advice from independent consultants, and takes into account fees paid to directors of comparable companies in New Zealand and Australia as part of its assessment of the appropriate level of remuneration of directors.

Non-executive directors received the following directors' fees from the company in the year ended 31 March 2014:

	NZ$
Tony Carter	194,963
Nigel Evans	42,054
Roger France	119,558
Lindsay Gillanders	98,774
Geraldine McBride	64,500
Arthur Morris	104,688
Donal O'Dwyer	120,278
Gary Paykel	34,604
	$779,419

The maximum total monetary sum payable by the company by way of directors' fees is $800,000 per annum as approved by shareholders at the 2007 annual shareholders' meeting. At the company's 2014 annual shareholders' meeting, a resolution will be put to shareholders to increase the maximum aggregate amount of remuneration payable by the company to non-executive directors (in their capacity as directors) by $150,000 per annum, from $800,000 per annum to $950,000 per annum.

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 in the "Directors' Shareholdings" section of this Annual Report. It is the company's policy to encourage directors to acquire shares on-market.

No non-executive director is entitled to receive a retirement payment unless eligibility for such payment has been agreed by shareholders and publicly disclosed during his or her term of Board service or such retirement payment is within the limits prescribed by the NZX Main Board Listing Rules.

On the retirement of a director, the NZX Main Board Listing Rules allow for a discretionary payment by way of lump sum or pension to that director, provided that the total amount of the payment does not exceed that director's total remuneration in their capacity as a director in any three years chosen by the company, and the director was in office on or before 1 May 2004 and has continued to hold office since that date. Any payments made will be within the limits prescribed by the NZX Main Board Listing Rules, subject to the discretion of the Board, and will take into account a range of factors, including the director's length of service. The retiring director does not participate in discussions concerning any retirement payment to be made to them.

As approved at the 2004 annual meeting of shareholders, the Board has resolved that it will not pay any future retirement benefits to non-executive directors other than, at the Board's discretion, a retirement allowance of one year's directors' fees to each non-executive director in office at the time of the 2004 shareholders' meeting, such amount being equal to the average of the annual fees paid to that director in any three years prior to that director's retirement or cessation of office, and payable on retirement or cessation of office.

Upon their retirement from the Board on 27 August 2013, Gary Paykel received a retirement allowance of $179,850 and Nigel Evans received a retirement allowance of $99,550 (in addition to the directors' fees paid to them for the year ended 31 March 2014 as set out above). Both Gary Paykel and Nigel Evans were directors of the company at the time of the 2004 annual shareholders' meeting.

A non-executive director's retirement allowance of NZ$92,545 has been provided for by the company as at 31 March 2014 in relation to Lindsay Gillanders.

Michael Daniell, acting in his capacity as an employee of the company, received fixed remuneration (inclusive of the value of benefits) in the year ended 31 March 2014 of $970,646.

In addition to this fixed remuneration, Michael Daniell also received performance-based at-risk components, both paid out and accrued, of $602,562. On 4 September 2013, Michael Daniell was also issued 200,000 options with a fair value of $154,000 and 30,000 performance share rights with a fair value of $70,800. The options and performance share rights were valued using Monte Carlo simulation (the assumptions for these calculations are included in Note 23 of the Financial Statements).

Michael Daniell, in his capacity as an executive director, does not receive remuneration as a director of the company or any subsidiary company. No employee of the company or its subsidiaries receives or retains any remuneration or other benefits in their capacity as a director.

SENIOR MANAGEMENT REMUNERATION

The Remuneration and Human Resources Committee is responsible for reviewing the remuneration of the company's senior management in consultation with the Managing Director of the company.

The remuneration packages of senior management consist of a mixture of a base remuneration package, the company-wide profit sharing bonus, a variable remuneration component based on relevant performance measures, participation in the company's employee share purchase plan, share options plan and performance share rights plan.

The remuneration policy for senior management is designed to attract, reward and retain high quality employees who will enable the company to achieve its short and long term objectives. The policy includes providing performance incentives which allow executives to share in the long term success of the company and share option and performance share rights plans intended to encourage the retention of senior management and increase the commonality between the interests of management and shareholders.

A general and wider disclosure of senior management remuneration is included in the "Employee Remuneration" section set out in the Shareholder Information section of this Annual Report, where the company has disclosed remuneration (inclusive of the value of other benefits) received by employees or former employees of the company or its subsidiaries in the relevant bandings of employee remuneration exceeding $100,000 received in the year ended 31 March 2014.

PERFORMANCE EVALUATION

The Board has a policy in place relating to the performance evaluation of the Board, the Board's committees, individual directors and senior executives. During the year ended 31 March 2014, performance evaluations took place in relation to the Board, the Board's committees, individual directors and senior executives in accordance with the company's policies. A summary of the company's Performance Evaluation Policy is available on the Company's Website.

The Board Charter requires the Board to undertake an annual performance evaluation of itself that:

- compares the performance of the Board with the requirements of its Charter;
- reviews the performance of the Board's 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

RISK MANAGEMENT

The company has a number of risk management policies for the oversight and management of financial and non-financial material business risks, as well as related internal compliance systems that are designed to:

- optimise the return to, and protect the interests of, stakeholders;
- safeguard the company's assets and maintain its reputation;
- improve the company's operating performance; and
- fulfil the company's strategic objectives.

A summary of the company's Risk Management Policy is available on the Company's Website. The Board ultimately has responsibility for internal compliance and control. At least four times a year the Audit & Risk Committee receives an internal audit report. In addition, an annual internal audit plan is presented to and approved by the Audit & Risk Committee.

The Audit & Risk Committee in conjunction with management regularly reports to the Board on the effectiveness of the company's management of its material business risks and whether the risk management framework and systems of internal compliance and control are operating efficiently and effectively in all material respects.

As the company is not registered under the Corporations Act 2001 (Commonwealth) or a disclosing entity incorporated or formed in Australia for the purposes of that Act, the Chief Executive Officer and Chief Financial Officer are not required to provide a declaration to the Board with respect to the company's financial statements under section 295A of the Act. However, the Audit & Risk Committee closely monitors financial reporting risks in relation to the preparation of the financial statements. The Audit & Risk 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. The Audit & Risk Committee regularly reports to the Board in this regard.

POLICIES

The company has in place a number of policies including those covering external financial auditors, remuneration, market disclosure, communication with shareholders, diversity, share trading, human resources and health and safety. Further information with respect to a number of these policies appears below.

Trading by Company Directors and Officers Policy

The Trading by Company Directors and Officers Policy identifies circumstances where directors and officers are permitted to trade, or prohibited from trading, company shares. The company is committed to complying with legal and statutory requirements with respect to ensuring directors and officers do not trade company shares while in possession of inside information.

With respect to 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.

A summary of the Trading by Company Directors and Officers Policy is available on the Company's Website.

Market Disclosure Policy

The company is committed to the promotion of investor confidence by ensuring that the trading of company shares takes place in an efficient, competitive and informed market. The company's Market Disclosure Policy establishes the company's disclosure policies for meeting the continuous disclosure requirements of both the NZX Main Board and the ASX. A summary of the Market Disclosure Policy is available on the Company's Website.

Shareholder Communication Policy

The aim of the company's communication arrangements is to provide shareholders with information about the company and to enable shareholders to actively engage with the company and exercise their rights as shareholders in an informed manner. The company's Shareholder Communication Policy facilitates communication with shareholders through written and electronic communication, and by facilitating shareholder access to directors, management and the company's auditors.

A summary of the Shareholder Communication Policy is available on the Company's Website.

Diversity Policy

The company is committed to providing equal employment opportunities and as such, has a workforce consisting of many individuals with diverse skills, values, backgrounds, ethnicity and experiences. The company ensures that its selection processes for recruitment and employee development opportunities are free from bias and are based on merit.

The company has appointed the Vice President – Human Resources as the Diversity Manager. The Diversity Manager has reviewed existing recruitment processes and practices to ensure that they are free from any discrimination.

The Board has delegated to the Remuneration and Human Resources Committee the responsibility for oversight of the company's Diversity Policy. On an annual basis, the Remuneration and Human Resources Committee will 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 Board has conducted its annual assessment of its diversity objectives and the company's progress towards achieving these objectives. The company reports that during the year under review:

- the company has implemented its Code of Ethics awareness programme globally. This awareness programme includes a section covering appropriate practices and policies relating to diversity and Equal Employment Opportunities;
- the company has continued to monitor its policies and practices to ensure that they are free from bias; and
- the company's employee recruitment and selection team has included a female member, wherever practical.

The company will continue to monitor its policies and practices to ensure that they are free from bias, will train new employees in its Code of Ethics awareness program and the company's employee recruitment and selection team will continue to include a female member, wherever practical.

The Board has set a new objective that it will implement a diversity and inclusion module in its leadership program for managers. The program will educate the company's managers on the importance of creating a diverse and inclusive environment. The program will be designed to assist all employees regardless of gender, marital status, religious belief, colour, race, ethic or national origin, disability, age, political opinion, family status or sexual orientation.

The table below shows the respective proportions of men and women on the board, in senior executive positions and across the whole organisation as at 31 March 2013 and 31 March 2014:

	2013 WOMEN	2013 MEN	2014 WOMEN	2014 MEN
Board	0%	100%	14%	86%
Senior executives	14%	86%	17%	83%
All employees	46%	54%	45%	55%

"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.

The company's Diversity Policy was reviewed during the year and is available on the Company's Website.

SHAREHOLDER INFORMATION

PRINCIPAL ACTIVITIES

Fisher & Paykel Healthcare Corporation Limited is a world leading designer, manufacturer and marketer of products and systems for use in respiratory care, acute care 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 principal activities during the financial year.

STOCK EXCHANGE LISTINGS

The company's shares were listed on the NZX Main Board on 14 November 2001.

The company's shares were listed on the ASX on 21 November 2001.

There is no current on-market buy-back of the Company's ordinary shares.

The Company does not have any restricted securities or securities subject to voluntary escrow on issue.

SHARE ISSUES

During the year ended 31 March 2014:

- 7,651,826 shares were issued under the company's dividend reinvestment plan;
- 244,430 shares were issued under approved employee share purchase schemes;
- 93,134 shares were issued under employee share option plans upon the exercise of previously granted share options;
- 508,644 shares were issued under employee share option plans using the Cancellation Offer Facility as approved by shareholders on 12 August 2004;
- 2,188,630 share options were issued under an employee share option plan; and
- 588,070 performance share rights were issued under a performance share rights plan.

DIRECTORS

During the twelve months to 31 March 2014:

- Geraldine McBride was appointed as an additional non-executive director by the directors effective on 1 August 2013; and
- at the company's annual shareholders' meeting on 27 August 2013 Gary Paykel and Nigel Evans retired by rotation and decided not to offer themselves for re-election;
- at the company's annual shareholders' meeting on 27 August 2013 Donal O'Dwyer and Geraldine McBride offered themselves for election and were elected.

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.

DISCIPLINARY ACTION TAKEN BY THE NZX OR THE ASX

Neither the NZX nor the ASX has taken any disciplinary action against the company during the financial year ended 31 March 2014.

ENTRIES RECORDED IN THE INTERESTS REGISTER

Except for disclosures made elsewhere in this Annual Report, there have been no entries in the company's interests register made during the year ended 31 March 2014.

No entries were made in the interests register of any subsidiary of the company during the year ended 31 March 2014.

CREDIT RATING

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

ANNUAL SHAREHOLDERS' MEETING

The company's 2014 annual shareholders' meeting will be held at the Guineas Ballroom, Ellerslie Event Centre, Auckland, New Zealand on Wednesday 20 August 2014 commencing at 2.00pm.

EMPLOYEE REMUNERATION

The Group operates in a number of countries where remuneration market levels differ widely. The offshore remuneration amounts are converted into New Zealand dollars. Of the employees noted in the table below 53% are employed by the Group outside New Zealand. During the year a number of employees or former employees of the Group, not being directors of the Company, received remuneration and other benefits that exceeded NZ$100,000 in value as follows:

REMUNERATION $	NUMBER OF EMPLOYEES
100,000 – 110,000	110
110,001 – 120,000	82
120,001 – 130,000	73
130,001 – 140,000	61
140,001 – 150,000	37
150,001 – 160,000	31
160,001 – 170,000	15
170,001 – 180,000	15
180,001 – 190,000	10
190,001 – 200,000	10
200,001 – 210,000	12
210,001 – 220,000	6
220,001 – 230,000	7
230,001 – 240,000	1
240,001 – 250,000	6
250,001 – 260,000	4
260,001 – 270,000	1
270,001 – 280,000	1
280,001 – 290,000	3
290,001 – 300,000	3
300,001 – 310,000	1
320,001 – 330,000	1
340,001 – 350,000	1
350,001 – 360,000	1
370,001 – 380,000	1
380,001 – 390,000	1
410,001 – 420,000	1
460,001 – 470,000	1
490,001 – 500,000	1
570,001 – 580,000	1
620,001 – 630,000	1
700,001 – 710,000	1
760,001 – 770,000	1
870,001 – 880,000	1
900,001 – 910,000	1
Total	**503**

SHAREHOLDER INFORMATION (CONTINUED)

CORPORATIONS ACT 2001 (COMMONWEALTH) DISCLOSURES

The Board is not aware of any matter or circumstance that has occurred since the end of the financial year that has significantly affected or may significantly affect the operations of the company, the results of these operations or the state of affairs or the company in subsequent financial years.

The company's operations are not subject to a significant Australian environmental regulation under any law of the Commonwealth of Australia or of any State or Territory of Australia, however the Board believes that the company has adequate systems in place to manage its environmental obligations.

DISTRIBUTION OF SHAREHOLDERS AND HOLDINGS

SIZE OF SHAREHOLDING	NUMBER OF HOLDERS	%	NUMBER OF ORDINARY SHARES	%
1 to 1,000	3,813	19.69	2,016,452	0.37
1,001 to 5,000	9,701	50.09	25,319,616	4.59
5,001 to 10,000	3,180	16.42	23,106,102	4.19
10,001 to 50,000	2,409	12.44	45,889,706	8.33
50,001 to 100,000	136	0.70	9,596,106	1.74
100,001 and over	127	0.66	445,213,608	80.78
Total	19,366	100.00	551,141,590	100.00

The details set out above were as at 23 May 2014.

As disclosed in Note 23 of the Financial Statements, there were 15,751,186 options on issue to 380 employees and 1,164,770 performance share rights on issue to 327 employees as at 31 March 2014. The company only has one class of shares on issue, ordinary shares, and these shares are listed on the NZX Main Board and ASX.

There are no other classes of equity security currently on issue. The company's ordinary shares each carry a right to vote on any resolution at a meeting of shareholders. Holders of ordinary shares may vote at a meeting in person, or by proxy, representative or attorney. Voting may be conducted by voice, by show of hands, or poll. There are no voting rights attaching to options or performance share rights.

There were 76 shareholders holding less than a marketable parcel, as defined by ASX Listing Rules, of the company's ordinary shares, based on the market price as at 23 May 2014.

LIMITATIONS ON THE ACQUISITION OF SHARES

The company is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 (Commonwealth) dealing with the acquisition of shares (i.e. substantial holdings and takeovers).

Limitations on the acquisition of the securities imposed by the jurisdiction in which the company is incorporated (New Zealand) are:

(a) 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 New Zealand laws relating to takeovers, overseas investment and competition.

(b) The New Zealand Takeovers Code creates a general rule under which the acquisition of 20% or more of the voting rights in the company or the increase of an existing holding of 20% or more of the voting rights of the company can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90% or more of the shares of the company.

(c) The New Zealand Overseas Investment Act 2005 and Overseas Investment Regulations 2005 regulate certain investments in New Zealand by overseas persons. In general terms, the consent of the New Zealand Overseas Investment Office is likely to be required where an overseas person acquires shares in the company that amount to 25% or more of the shares issued by the company, or if the overseas person already holds 25% or more, the acquisition increases that holding.

(d) The New Zealand Commerce Act 1986 is likely to prevent a person from acquiring shares in the company if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in the market.

CURRENT NZX WAIVERS

No waivers were sought from either of the NZX Main Board or ASX Listing Rules within the 12 month period preceding the date two months before the date of this Annual Report. During the same period the company relied on the following three waivers previously granted by the NZX to issue options under its share option plans, performance share rights under its performance share rights plan and shares under its share purchase plans:

(1) waiver from NZSX 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 NZSX 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); and

(3) waiver from NZSX Listing Rule 8.1.4 in respect of the issue of shares under the company's share purchase plan (granted 29 October 2007).

SUBSTANTIAL SECURITY HOLDERS

According to notices given under the Securities Markets Act 1988, the substantial security holders in ordinary shares (being the only class of listed voting securities) of the company and their relevant interests according to the substantial security holder file as at 23 May 2014, were as follows:

SUBSTANTIAL SECURITY HOLDER	DATE OF NOTICE	NUMBER OF ORDINARY SHARES	% OF ORDINARY SHARES ON ISSUE AS AT 23 MAY 2014
The Capital Group Companies Inc	19 February 2014	35,608,934	6.46%

The total number of ordinary shares (being the only class of listed voting securities) on issue in the company as at 23 May 2014 was 551,141,590.

SHAREHOLDER INFORMATION (CONTINUED)

PRINCIPAL SHAREHOLDERS

The names and holdings of the twenty largest registered shareholders in the company as at 23 May 2014 were:

SHAREHOLDER	ORDINARY SHARES	%
New Zealand Central Securities Depository Limited	302,245,363	54.84
National Nominees Limited	26,585,471	4.82
J P Morgan Nominees Australia Limited	13,733,614	2.49
Custodial Services Limited	12,153,804	2.21
FNZ Custodians Limited	12,053,763	2.19
HSBC Custody Nominees (Australia) Limited	8,549,960	1.55
Custodial Services Limited	4,593,805	0.83
Investment Custodial Services Limited	4,463,292	0.81
Masfen Securities Limited	4,308,805	0.78
Custodial Services Limited	3,570,695	0.65
Custodial Services Limited	3,456,258	0.63
Citicorp Nominees Pty Limited	3,441,959	0.62
Investment Custodial Services Limited	2,570,143	0.47
New Zealand Depository Nominee Limited	2,548,634	0.46
Custodial Services Limited	2,103,953	0.38
RBC Investor Services Australia Nominees Pty Limited	2,021,872	0.37
Superlife Trustee Nominees Limited	1,772,999	0.32
BNP Paribas Nominees Pty Ltd	1,618,647	0.29
FNZ Custodians Limited	1,591,121	0.29
Woolf Fisher Trust Inc	1,542,415	0.28

As at 23 May 2014, the ten largest shareholdings in the company held through NZCSD were as follows:

SHAREHOLDER	ORDINARY SHARES	%
JPMorgan Chase Bank	67,522,622	12.25
HSBC Nominees (New Zealand) Limited	42,520,359	7.71
Tea Custodians Limited	36,135,968	6.56
Citibank Nominees (NZ) Limited	25,757,034	4.67
Cogent Nominees Limited	22,727,098	4.12
Accident Compensation Corporation	21,878,629	3.97
New Zealand Superannuation Fund Nominees Limited	16,850,584	3.06
National Nominees New Zealand Limited	15,463,821	2.81
HSBC Nominees (New Zealand) Limited	14,673,215	2.66
Premier Nominees Limited	9,494,931	1.72

DIRECTORS' SHAREHOLDINGS

Directors held interests in the following ordinary shares in the company as at 31 March 2014:

NAME	OWNERSHIP	ORDINARY SHARES
Tony Carter	Beneficial	67,651
	Non beneficial	650,176
Michael Daniell*	Beneficial	760,647
	Non beneficial	650,176
Roger France	Beneficial	39,480
Lindsay Gillanders	Beneficial	514,415
Arthur Morris	Beneficial	8,785
Donal O'Dwyer	Beneficial	53,202

* Michael Daniell also had a beneficial interest in 960,000 options issued under the 2003 Share Option Plan and a beneficial interest in 60,000 performance share rights issued under the Performance Share Rights Plan.

SHAREHOLDER INFORMATION (CONTINUED)

SHARE DEALINGS BY DIRECTORS

In accordance with Section 148(2) of the Companies Act 1993, the Board has received disclosures from the directors named below of acquisitions or dispositions of relevant interests in the company between 1 April 2013 and 31 March 2014, and details of those dealings were entered in the company's interests register. The particulars of such disclosures are:

Tony Carter

- is a director of Loughborough Investments Limited which was issued with:
  (a) 1,197 ordinary shares, valued at $3.3132 per share, on 5 July 2013 under the company's dividend reinvestment plan; and
  (b) 844 ordinary shares, valued at $3.6927 per share, on 19 December 2013 under the company's dividend reinvestment plan.
- is a trustee and beneficiary of the Antony Carter Family Trust No 2 which was issued with:
  (a) 91 ordinary shares, valued at $3.3132 per share, on 5 July 2013 under the company's dividend reinvestment plan; and
  (b) 64 ordinary shares, valued at $3.6927 per share, on 19 December 2013 under the company's dividend reinvestment plan.
- as director of Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited (the trustee company of the company's Employee Share Purchase Scheme), acquired and disposed of shares pursuant to the company's Employee Share Purchase Scheme.

Michael Daniell

- is a trustee of the Daniell Family Trust which was issued with 14,421 ordinary shares, valued at $3.3132 per share, on 5 July 2013 under the company's dividend reinvestment plan.
- had 106,667 options lapse on 3 September 2013.
- cancelled 53,333 options and in return was issued 2,497 ordinary shares on 3 September 2013 at $3.6509 per share.
- was granted 200,000 options on 4 September 2013 for nil consideration, convertible into 200,000 shares in accordance with the terms of the 2003 Share Option Plan.
- was issued with 30,000 performance share rights on 4 September 2013 for nil consideration in accordance with the Performance Share Rights Plan.
- as director of Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited (the trustee company of the company's Employee Share Purchase Scheme), acquired and disposed of shares pursuant to the company's Employee Share Purchase Scheme.

Nigel Evans

- was issued with 417 ordinary shares, valued at $3.3132 per share, on 5 July 2013 under the company's dividend reinvestment plan.

Arthur Morris

- is a trustee and beneficiary of the Niloc Trust which was issued with:
  (a) 167 ordinary shares, valued at $3.3132 per share, on 5 July 2013 under the company's dividend reinvestment plan.
  (b) 118 ordinary shares, valued at $3.6927 per share, on 19 December 2013 under the company's dividend reinvestment plan.

Donal O'Dwyer

- is a trustee and beneficiary of the Dundrum Super Fund which was issued with:
  (a) 1,085 ordinary shares, valued at $3.3132 per share, on 5 July 2013 under the company's dividend reinvestment plan.
  (b) 767 ordinary shares, valued at $3.6927 per share, on 19 December 2013 under the company's dividend reinvestment plan.

Gary Paykel

- Is a trustee and beneficiary of the ANDSAR Family Trust which disposed of:
  (a) 80,000 ordinary shares, at an average price of $3.5500, on 28 August 2013; and
  (b) 370,000 ordinary shares, at an average price of $3.5343, on 29 August 2013.

STATUTORY DISCLOSURE

Subsidiary Company Directors

Section 211(2) of the Companies Act 1993 requires the company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by directors and former directors, and particulars of entries in the interests registers made during the year ended 31 March 2014.

Other than Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited, of which Tony Carter is a director, no subsidiary has directors who are not full-time employees of the Group.

The remuneration and other benefits of such employees (received as employees) totalling $100,000 or more during the year ended 31 March 2014 are included in the relevant bandings for remuneration disclosed on page 99 of this Annual Report.

No employee of the Fisher & Paykel Healthcare Group appointed as a director of Fisher & Paykel Healthcare Corporation Limited or its subsidiaries receives or retains any remuneration or other benefits in their capacity as a director.

The persons who held office as directors of subsidiary companies at 31 March 2014 are as follows:

Fisher & Paykel Healthcare Limited (NZ)

Michael Daniell, Lewis Gradon, Paul Shearer, Tony Barclay

Fisher & Paykel Healthcare Properties Limited (NZ)

Michael Daniell, Lewis Gradon, Paul Shearer, Tony Barclay

Fisher & Paykel Healthcare Treasury Limited (NZ)

Michael Daniell, Lewis Gradon, Paul Shearer, Tony Barclay

Fisher & Paykel Healthcare Asia Limited (NZ)

Michael Daniell, Lewis Gradon, Paul Shearer, Tony Barclay

Fisher & Paykel Healthcare Asia Investments Limited (NZ)

Michael Daniell, Lewis Gradon, Paul Shearer, Tony Barclay

Fisher & Paykel Healthcare Americas Investments Limited (NZ)

Michael Daniell, Lewis Gradon, Paul Shearer, Tony Barclay

Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited (NZ)

Tony Carter, Michael Daniell, Tony Barclay

Fisher & Paykel Healthcare Pty Limited (Australia)

Michael Daniell, Lewis Gradon, Paul Shearer, David Boyle

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 Limited (Canada)

Michael Daniell, Paul Shearer, Justin Callahan

Fisher & Paykel Healthcare (Guangzhou) Limited (China)

Michael Daniell, Paul Shearer, David Boyle, Zhiping Hou

Fisher & Paykel Healthcare SAS (France)

Michael Daniell, Paul Shearer, Patrick McSweeny, Ian Hopkinson

Fisher & Paykel Holdings GmbH (Germany)

Ian Hopkinson

Fisher & Paykel Healthcare GmbH & Co KG (Germany)

Ian Hopkinson, Peter Spoljaric

Fisher & Paykel Verwaltungsgesellschaft GmbH (Germany)

Ian Hopkinson, Peter Spoljaric

Fisher & Paykel Healthcare Limited (Hong Kong)

Michael Daniell, Paul Shearer, David Boyle, Zhiping Hou

Fisher & Paykel Healthcare India Private Limited (India)

Michael Daniell, David Boyle, Paul Shearer, Thekkanathu Paily Bastin

Fisher & Paykel Healthcare K.K. (Japan)

Michael Daniell, Paul Shearer, Hideo Goto

Fisher & Paykel Healthcare S.A. de C.V. (Mexico)

Michael Daniell, Lewis Gradon, Lawrence Gibbons

Fisher & Paykel Healthcare AB (Sweden)

Michael Daniell, Paul Shearer, Patrick McSweeny, Ian Hopkinson

Fisher Paykel Sağlık Ürünleri Ticaret Limited Şirketi (Turkey)

Michael Daniell, Paul Shearer

Fisher & Paykel Healthcare Limited (UK)

Michael Daniell, Paul Shearer, Nicholas Connolly, Patrick McSweeny

Fisher & Paykel Holdings Inc. (USA)

Michael Daniell, Paul Shearer, Tony Barclay

Fisher & Paykel Healthcare Inc. (USA)

Michael Daniell, Paul Shearer, Justin Callahan

The following persons ceased to hold office as directors of subsidiary companies during the year ended 31 March 2014:

Fisher Paykel Sağlık Ürünleri Ticaret Limited Şirketi (Turkey)

Ömer Ahmet Başaran

SHAREHOLDER INFORMATION (CONTINUED)

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 2014 are as follows:

Tony Carter

Chairman of:
Blues Management Limited
Air New Zealand Limited

A director of:
Fletcher Building Limited
ANZ Bank New Zealand Limited
Loughborough Investments Limited
Avonhead Mall Limited
Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited

A shareholder of:
Loughborough Investments Limited
Avonhead Mall Limited

A trustee of:
Antony Carter Family Trust No 2
Foodstuffs Auckland Perpetuation Trust
Foodstuffs Auckland Protection Trust
Maurice Carter Charitable Trust
Tony and Frances Carter Family Trust

Advisor to:
Capital Solutions Limited

Michael Daniell

A director of:
Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited

A member of:
Council of the University of Auckland

Roger France

Chairman of:
Tappenden Holdings Limited

A director of:
Air New Zealand Limited
Tappenden Management Limited
Orion Corporation Limited

A trustee of:
Dilworth Trust Board
The University of Auckland Foundation

Lindsay Gillanders

Chairman of:
Auckland Packaging Company Limited

A director of:
LRS Management Limited
Rangatira Limited

Geraldine McBride

A director of:
National Australia Bank Limited
Sky Network Television Limited
MyWave Holdings Limited

Donal O'Dwyer

Chairman of:
Atcor Medical Pty Limited

A director of:
Cochlear Limited
Mesoblast Limited

The following details included in the company's interests register as at 31 March 2013 have been removed as at 31 March 2014:

- Tony Carter is no longer co-chairman of the New Zealand Initiative Limited
- Roger France is no longer a member of the Council of the University of Auckland
- Arthur Morris is no longer Chairman of DNA Diagnostics Limited or CEO of Diagnostic Medlab Limited

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, ensures 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.

USE OF COMPANY INFORMATION

There were no notices from directors of the company requesting to use company information received in their capacity as directors which would not otherwise have been available to them.

SHAREHOLDER INFORMATION (CONTINUED)

GROUP STRUCTURE

FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED* OWNS:

- Fisher & Paykel Healthcare Limited (NZ)*
- Fisher & Paykel Healthcare Pty Limited (Australia)*
- Fisher & Paykel Healthcare Treasury Limited (NZ)*
- Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited (NZ)
- Fisher & Paykel Healthcare Limited (UK)
- Fisher & Paykel Holdings Inc. (USA)
- Fisher & Paykel do Brasil Ltda (Brazil)
- Fisher & Paykel Healthcare (Guangzhou) Limited (China)
- Fisher & Paykel Healthcare Asia Limited (NZ)
- Fisher & Paykel Healthcare Americas Investments Limited (NZ)
- Fisher & Paykel Healthcare Limited (Canada)

FISHER & PAYKEL HEALTHCARE LIMITED* (NZ) OWNS:

- Fisher & Paykel Healthcare Properties Limited (NZ)*

FISHER & PAYKEL HEALTHCARE ASIA LIMITED (NZ) OWNS:

- Fisher & Paykel Healthcare Asia Investments Limited (NZ)

FISHER & PAYKEL HEALTHCARE ASIA INVESTMENTS LIMITED (NZ) OWNS:

- Fisher & Paykel Healthcare India Private Limited (India)
- Fisher & Paykel Healthcare K.K. (Japan)
- Fisher & Paykel Healthcare Limited (Hong Kong)

FISHER & PAYKEL HEALTHCARE AMERICAS INVESTMENTS LIMITED (NZ) OWNS:

- Fisher & Paykel Healthcare S.A. de C.V. (Mexico)

FISHER & PAYKEL HEALTHCARE LIMITED (UK) OWNS:

- Fisher & Paykel Healthcare SAS (France)
- Fisher & Paykel Holdings GmbH (Germany)
- Fisher & Paykel Healthcare AB (Sweden)
- Fisher Paykel Sağlık Ürünleri Ticaret Limited Şirketi (Turkey)

FISHER & PAYKEL HOLDINGS GMBH (GERMANY) OWNS:

- Fisher & Paykel Healthcare GmbH & Co KG (Germany)
- Fisher & Paykel Verwaltungsgesellschaft GmbH (Germany)

FISHER & PAYKEL HOLDINGS INC. (USA) OWNS:

- Fisher & Paykel Healthcare Inc. (USA)

* Companies Operating Under a Negative Pledge Deed

DIRECTORS' DETAILS

The persons holding office as directors of Fisher & Paykel Healthcare Corporation Limited at any time during, or since the end of, the year ended 31 March 2014 are as follows:

Tony Carter	Chairman, Non-Executive, Independent
Michael Daniell	Managing Director and Chief Executive Officer
Nigel Evans	Non-Executive, Independent
Roger France	Non-Executive, Independent
Lindsay Gillanders	Non-Executive, Independent
Geraldine McBride	Non-Executive, Independent
Arthur Morris	Non-Executive, Independent
Donal O'Dwyer	Non-Executive, Independent
Gary Paykel	Non-Executive, Independent

EXECUTIVES' DETAILS

Michael Daniell	Managing Director and Chief Executive Officer
Lewis Gradon	Senior Vice President – Products & Technology
Paul Shearer	Senior Vice President – Sales & Marketing
Tony Barclay	Chief Financial Officer and Company Secretary
Deborah Bailey	Vice President – Human Resources
Winston Fong	Vice President – Information & Communication Technology
Paul Andreassi	Vice President – Quality & Regulatory

DIRECTORY

The details of the company's principal administrative and registered office in New Zealand are:

Physical address:	15 Maurice Paykel Place, East Tamaki, Auckland 1061, 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

The details of the company's registered office in Australia are:

Physical address:	36–40 New Street, Ringwood, Victoria 3134, Australia
Telephone:	+61 3 9879 5022
Facsimile:	+61 3 9879 5232
Postal address:	PO Box 167, Ringwood, Victoria 3134, Australia

SHARE REGISTRAR

In New Zealand:

Link Market Services Limited

Physical address:	Level 7, Zurich House, 21 Queen Street, Auckland, 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:	operations@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

STOCK EXCHANGES

The Company's ordinary shares are listed on the NZX Main Board and the ASX.

INCORPORATION

The Company was incorporated in New Zealand.

GLOSSARY

Constant Currency	is a way to measure performance of a company without any distortion from changes in foreign exchange rates
COPD	Chronic Obstructive Pulmonary Disease
CPAP	Continuous Positive Airway Pressure
DRP	Dividend Reinvestment Plan
FDA	United States Food & Drug Administration
HR	Human Resources
OSA	Obstructive Sleep Apnea
R&D	Research and Development
RAC	Respiratory and Acute Care
SG&A	Sales, General and Administrative
QS&R	Quality, Safety & Regulatory

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