Interim Report 2016

Improving care and outcomes through inspired and world-leading healthcare solutions.

For six months ended 30 September 2015

Focus.

Fisher & Paykel HEALTHCARE

We are focused.
Because we care.

We know there's nothing more precious than human life whether it's seen in the special bond between mother and child, or the amazing way the human body works. That belief informs our commitment to designing innovative products and support systems that are focused on improving patient care and outcomes.

This focus on care shapes the way we partner with healthcare professionals, observing how they operate and designing solutions to make their everyday lives easier. And because others' lives depend on us, we do not compromise on product quality or the customer support we offer.

We also place great importance on understanding the needs and providing improved outcomes for our employees, shareholders, partners and communities.


Simply put, we focus on care.

This report is dated 26 November 2015 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 AND CHIEF EXECUTIVE OFFICER

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Constant currency information contained within this report is non-conforming financial information, as defined by the NZ Financial Markets Authority, and has been provided to assist users of financial information to better understand and assess the company's financial performance without the impacts of spot foreign currency fluctuations and hedging results and has been prepared on a consistent basis each financial year. A reconciliation between reported results and constant currency results is available on page 17 of this report. The company's constant currency income statement framework can be found on the company's website at www.fphcare.com/CCIS.

Our focus on our long-term strategy is delivering increasing returns and value for our shareholders.

Half year highlights

RECORD NET PROFIT AFTER TAX
$62.0m

↑27%

RECORD OPERATING REVENUE
$381.0m

↑20%

RECORD RAC* REVENUE
$199.6m

↑18%

RECORD OSA** REVENUE
$175.3m

↑23%

INCREASED FULLY IMPUTED INERIM DIVIDEND
6.7 cps

↑16%

* RAC: Respiratory and Acute Care/Hospital

** OSA: Obstructive Sleep Apnea/Homecare

KEY EVENTS

LAUNCHED A NUMBER OF NEW INNOVATIVE PRODUCTS
in our major product groups, Respiratory and Acute Care/ Hospital (RAC) and Obstructive Sleep Apnea/ Homecare (OSA).

TRANSITIONED RAC SALES
to our own team in the US.

WINNER OF SUPREME EXPORTER AWARD
at both the recent Air New Zealand Export Awards and at the American Chamber of Commerce Success and Innovation Awards.

SCOTT ST JOHN
appointed as director to replace retiring director, Roger France.

CEO MIKE DANIELL
announced his retirement with effect from the end of the current financial year.

LEWIS GRADON,
currently Senior Vice President of Products and Technology, announced as CEO designate.

CEO MIKE DANIELL
announced winner of Leadership Award at prestigious INFINZ event. Fisher & Paykel Healthcare wins Best Corporate Communicator Award.

2016 First half strategic progress

CONTINUOUS PRODUCT IMPROVEMENT

- Launched new range of products for use with AIRVO™ 2 nasal high flow system
- Introduced F&P Eson™ 2 nasal mask for the treatment of OSA
- Introduced F&P HumiGard™ SH870 surgical humidification system
- Significant pipeline of new products to be introduced over the next year

SERVE MORE PATIENT GROUPS

- Positive clinical trial outcomes involving our Optiflow™ therapy, showing benefits for a wide range of patients
- Growing body of clinical and economic evidence that surgical humidification provides significant benefit during surgical procedures
- Increased demand for our products in new applications, in both homecare and hospital settings

MORE PRODUCTS FOR EACH PATIENT

- 83% of revenue from the sales of recurring consumable and accessory products
- Continued to expand the range of products offered

INCREASE OUR INTERNATIONAL PRESENCE

- Transitioned to direct sales model in the US hospital market
- Doubled the size of the US hospital sales and support team
- Established expanded distribution centre in Kentucky, on the East Coast of the US
- Increased manufacturing output at our Tijuana, Mexico facility

MICHAEL DANIELL
Managing Director and Chief Executive Officer

TONY CARTER
Chairman

Half year review

The first six months of the 2016 financial year saw Fisher & Paykel Healthcare deliver another strong performance with record operating revenue of $381.0 million and a 27% increase in our net profit after tax to $62.0 million compared to the first half last year.

We reported very strong revenue growth for both our core product groups, and introduced several innovative new products. In line with our strategy to serve more patients, we continued to see strong demand for new applications of our respiratory products in the hospital setting, in areas such as non-invasive ventilation, Optiflow nasal high flow therapy and surgical humidification.

New products for use with the F&P AIRVO 2 system, which provides high flows of air/oxygen mixtures to patients using our Optiflow technology, have been well received by clinicians. These included new breathing tube technology, a range of comfortable, easy to fit Optiflow+ nasal interfaces and an uninterruptible power supply (UPS).

The UPS transport system allows delivery of Optiflow nasal high flow therapy "on the move" throughout hospitals and long-term care facilities.

It means that patients can stay on the same therapy and same equipment as they move from one care area to the next, for example from the emergency department to the ward, simplifying patient care and reducing workload and costs. We believe this will facilitate accelerated adoption of Optiflow nasal high flow therapy in additional areas of the hospital, including in general care areas and in the emergency department.

We also announced the F&P HumiGard SH870 System for the delivery of warm, humidified CO_2 during open and laparoscopic surgery. In recent years, mounting clinical evidence has demonstrated significant patient benefits from the use of humidification during surgery. We believe that this new HumiGard system will facilitate accelerated growth in the uptake of surgical humidification.

Meanwhile, sales of our very successful continuous positive airway pressure (CPAP) masks continued to grow in our OSA and Homecare category, with customers showing their preference for the comfort, ease of use and effectiveness provided by our masks.

The recent introduction of the F&P Eson 2 nasal mask builds on the success of the original F&P Eson mask. With more than 20 design improvements to further enhance comfort and ease of fitting, we expect the Eson 2 mask to be even more popular with sleep professionals and patients.

OPERATING REVENUE

$381m

↑27%

Our AIRVO and Optiflow technology is also being used in the home to assist in the treatment of chronic respiratory conditions such as chronic obstructive pulmonary disease (COPD). Chronic respiratory disease, primarily COPD, is the third leading cause of death in the US and approximately 15 million US adults have been diagnosed with COPD.*

The launch of new products, as well as increasing operating efficiencies and the manufacture of a growing number of our products at our Mexico facility, are all helping to increase our margins.

In early October we successfully transitioned our New Zealand businesses to a new enterprise resource planning (ERP) system, SAP.

The new ERP system will be rolled out to our overseas offices over the course of the next two to three years. The effective completion of this transition was due to the hard work of a large number of people and it will support and benefit the company as we continue to grow the business.

During the half, cash flow from operations reduced to $35.3 million, predominantly due to an increase in inventory that was built in preparation for the introduction of the new ERP system. We expect cash flow from operations to improve in the second half as we sell down this additional inventory.

International Presence

An important part of our strategy is for our own people to support our customers in markets around the world, and we are now located in 36 countries.

More than 98% of our sales are made internationally with North America, our largest region, accounting for 46% of revenue in the six month period.

Over the past few months we have transitioned to a new hospital sales model in the United States. We almost doubled the size of our hospital sales and support team in the US, established an expanded distribution centre in Kentucky and, in mid-July, transitioned sales responsibility from our previous distributor to our own team. RAC revenue growth in the first half was reduced as the previous distributor sold down inventory as part of the transition.

We are confident that this completely focused US hospital sales team will enable us to maximise growth opportunities in our largest market.

Dividend

Our directors have approved an increased interim dividend of 6.7 cents per share for the six months to 30 September 2016. This is equal to 61% of net profit after tax.

Board Changes

Earlier in the year, Roger France indicated his intention to retire from the board once a replacement director was appointed. We were pleased to welcome Scott St John to the board in October 2015. Scott is CEO of First NZ Capital and is also Pro Chancellor of the University of Auckland. He possesses a broad range of financial skills and experience that will strengthen and complement those of our board, and he will succeed Roger France as the Chair of the Audit & Risk Committee.

Roger will be retiring at the end of this calendar year. He has brought a wealth of valuable corporate and financial experience to the board and been an immense help to both the board and to the company's management team for the last seven years. His wisdom, good humour and expertise will be missed.

We are pleased to support the New Zealand Future Directors program, which provides talented executives the opportunity to observe and participate on a company board for a 12 month period. Our first participant, Franceska Banga, has now finished her term and we are looking to appoint another skilled executive seeking to gain governance experience.

Focus on Care is Key to Our Success

We have a long standing commitment to help improve care and outcomes for a growing number of patients, to deliver increasing returns for our shareholders and to reward and value our people.

For 45 years we have been helping to improve effectiveness and efficiency of care for patients, clinicians and healthcare organisations around the world.

Our commitment to improving care benefits millions of patients around the world each year, by providing medical devices that can substantially improve their health outcomes. In the past year alone, we estimate that was more than 10 million people.

Our innovative products can help transition and treat patients in less acute and therefore less expensive care settings, including the ability for many patients to be treated in the home rather than the hospital. Improved efficiency of care allows clinicians to provide care for more patients.

* Nicole M Kosacz, Antonello Punturieri et al. Chronic Obstructive Pulmonary Disease among Adults - United States 2011. US Centers for Disease Control and Prevention, 2012.

Demographics continue to drive growth in demand for healthcare services and support a positive long-term outlook for our company.

The requirement for more effective and efficient healthcare is increasing and Fisher & Paykel Healthcare is well placed to meet this need.

We are a global leader in the medical device markets we serve. We estimate there are currently potentially more than 100 million patients who could benefit from our technology each year. With changing demographics, this could grow to a potential 200 million patients per year in 10 to 15 years' time.

We look forward to delivering another strong result in the second half of the year as we continue to execute on our strategy, benefit from the focused sales model in the US hospital market and continue to build demand for our innovative medical devices.

TONY CARTER
Chairman

MICHAEL DANIELL
Managing Director and Chief Executive Officer

Continuing focus.

CEO Transition

As announced at our annual shareholders' meeting, our long-serving Managing Director and CEO, Mike Daniell, has advised that he will retire at the end of the current financial year. Mike has agreed to stay on as a non-executive director of Fisher & Paykel Healthcare, which will allow us to continue to benefit from his global medical device experience and extensive knowledge of the markets in which we operate. We will acknowledge Mike's contribution to the company in our next annual report.

The board was pleased to announce that Lewis Gradon has been selected to succeed Mike as CEO and Managing Director. Lewis has been with the company for 32 years and is currently Senior Vice President of Products and Technology. He has many years' experience in the medical device industry, a deep understanding of Fisher & Paykel Healthcare and has been an important contributor to the development and successful execution of our international growth strategy. We are confident that under Lewis' leadership the company will be well positioned for ongoing growth and we look forward to him assuming the CEO role next year.

LEWIS GRADON
Senior Vice President - Products & Technology
CEO Designate

Respiratory and Acute Care / Hospital (RAC)

FIRST HALF 2016
52% OF OPERATING REVENUE

Our heated humidifier and respiratory care systems play an important role in improving patient care and outcomes during treatment for a variety of medical conditions which interfere with normal respiration.

Our products are transforming how respiratory support is provided and as a result, we continue to see strong customer demand for our Optiflow and AIRVO systems.

Consumables revenue from new applications grew 22% in constant currency compared to the first half last year, and in total generated almost half of our RAC consumables revenue.

The potential for our Optiflow therapy is exciting. Our systems can deliver nasal high flow therapy in the full range of healthcare settings, from adult intensive care, to the respiratory ward, the emergency room, in neonatal care, in long-term care and into the home.

We will continue to innovate and identify new applications where our RAC products can be used to provide better patient care and outcomes, and to increase our share of the devices, consumables and accessories used in the treatment of each patient.

OPERATING REVENUE (HY16 $199.6M)

↑18%

CONSTANT CURRENCY REVENUE GROWTH

↑11%

The recently launched F&P Optiflow+ nasal cannula.

The F&P Eson 2 nasal mask with patented RollFit technology.

Obstructive Sleep Apnea / Homecare (OSA)

FIRST HALF 2016
46% OF OPERATING REVENUE

We are recognised as one of the world's leading innovators of CPAP systems for use in the treatment of obstructive sleep apnea. This is a condition which causes people to stop breathing for short periods of time, many times each night while they are asleep.

We are also seeing an increasing use of our technology and products in the home to assist in the treatment of chronic respiratory conditions such as chronic obstructive pulmonary disease.

Our products are designed to be easy to fit, comfortable to wear and simple to use to encourage ongoing use. Our masks, particularly the F&P Simplus full face mask and F&P Eson nasal mask, continue to gain share, and our mask revenue grew 25% in constant currency for the half year compared to the same period last year, well above market growth rates.

The launch of the Eson 2 nasal mask provides another reason for our customers to choose Fisher & Paykel Healthcare and we expect to see strong demand for this new mask.

OPERATING REVENUE (HY16 $175.3M)

↑23%

CONSTANT CURRENCY REVENUE GROWTH

↑14%

Financial commentary

Net profit after tax was a record NZ$62.0 million for the six months ended 30 September 2015, an increase of 27% compared to the prior corresponding period's NZ$48.9 million. The increase in the half year net profit after tax reflects revenue growth, further gross margin expansion, partially offset by an increase in selling, general and administration expenses associated with the change to a direct sales model for our hospital products in the US from July.

Operating revenue was a record NZ$381.0 million, 20% above the prior half year, and 12% growth in constant currency. The company's Respiratory and Acute Care/Hospital (RAC) product group operating revenue increased by 11% and Obstructive Sleep Apnea/Homecare (OSA product group revenue increased by 14% over the prior comparable period, in constant currency.

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 22% in the first half, in constant currency. RAC revenue growth was affected by the previously anticipated sell down of a former US distributor's inventory as the company transitioned hospital sales to the new distribution model.

OSA mask constant currency revenue grew 25% in the first half, reflecting strong demand for both Simplus and Eson masks. Total flow generator revenue growth in constant currency for the first half declined 14% compared to the prior comparable period.

Constant currency gross margin percentage increased by 348 basis points due to a number of factors, including positive RAC and OSA product mixes, and manufacturing improvements, including increased production in Mexico.

Research and development (R&D) activities are primarily conducted in New Zealand. R&D expenses totalled NZ$35.8 million for the six months ended 30 September 2015 compared to NZ$31.3 million in the prior corresponding period last year, growth of 14%. 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. R&D expenses represented 9.4% of operating revenue for the six months ended 30 September 2015.

Selling, general and administrative (SG&A) expenses increased by 24% to NZ$112.7 million for the six months ended 30 September 2015 compared to NZ$90.8 million in the corresponding period last year. This increase was primarily attributable to an increase in personnel to support our growing international sales and marketing activities, particularly in the US. The significant reduction in the value of the NZ dollar against most currencies in which our SG&A expenses are denominated also increased SG&A expenses in NZ dollars. SG&A expenses increased by 17%, in constant currency, for the six months ended 30 September 2015.

The company's financial statements for the six months ended 30 September 2015 and the comparative financial information for the six months ended 30 September 2014 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with NZ IAS 34 and IAS 34, *Interim Financial Reporting*.

The directors have approved an increased interim dividend of NZ 6.7 cents per ordinary share carrying a full imputation credit of 2.6056 cents per share. Eligible non resident shareholders will receive a supplementary dividend of NZ 1.1824 cents per share. The interim dividend will be paid on 23 December 2015, with a record date of 11 December 2015 and an ex-dividend date of 9 December 2015 for the NZSX and ASX.

The dividend payment for the first half of 6.7 cps equates to 61% of net profit after tax and represents an increase of 16%.

The company offers eligible shareholders the opportunity to receive ordinary shares rather than cash under the company's dividend reinvestment plan (DRP). 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 14 December 2015. No discount will apply to the DRP.

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 opposite provides estimated NZ dollar income statements for the relevant periods, which have all been restated at the budget foreign exchange rates for the 2016 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, and has been provided to assist users of financial information to better understand and assess the company's financial performance without the impacts of spot foreign currency fluctuations and hedging results and has been prepared on a consistent basis each half year. The company's constant currency income statement framework can be found on the company's website at www.fphcare.com/ccis.

Constant Currency Income Statements (Unaudited)	Six months ended 30 Sep 2013 NZ$000	Six months ended 30 Sep 2014 NZ$000	Variation 2013 to 2014 %	Six months ended 30 Sep 2015 NZ$000	Variation 2014 to 2015 %
Revenue	271,397	305,380	+13	342,909	+12
Cost of sales	128,658	130,575	+1	134,675	+3
Gross profit	142,739	174,805	+22	208,234	+19
Gross Margin	**52.6%**	**57.2%**	**+465bps**	**60.7%**	**+348bps**
Other income	1,200	2,500	+108	2,500	–
Selling, general and administrative expenses	82,889	89,022	+7	103,798	+17
Research & development expenses	25,818	31,338	+21	35,833	+14
Total operating expenses	108,707	120,360	+11	139,631	+16
Operating profit	**35,232**	**56,945**	**+62**	**71,103**	**+25**
Operating margin	**13.0%**	**18.6%**	**+567bps**	**20.7%**	**+209bps**
Financing expenses (net)	3,810	3,123	-18	3,056	-2
Profit before tax	31,422	53,822	+71	68,047	+26

The significant exchange rates used in the constant currency analysis, being the budget exchange rates for the year ending 31 March 2016, are USD 0.74, EUR 0.70, AUD 0.965, GBP 0.50, CAD 0.945, JPY 90 and MXN 11.25.

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

	Six months ended 30 September		
Reconciliation of Constant Currency to Actual Income Statements (Unaudited)	2013 NZ$000	2014 NZ$000	2015 NZ$000
Profit before tax (constant currency)	31,422	53,822	68,047
Spot exchange rate effect	(260)	(8,404)	15,332
Foreign exchange hedging result	31,084	18,046	(7,124)
Balance sheet revaluation	347	3,444	8,324
Profit before tax (as reported)	62,593	66,908	84,579

The reconciliation set out above illustrates that, when comparing the NZ dollar profit before tax shown in the actual income statement for the six months to 30 September 2015 with the corresponding period for the prior year:

- the movement in average daily spot exchange rates had a favourable impact of NZ$23.7 million; and
- the unfavourable impact from the company's foreign exchange hedging activities was higher by NZ$25.2 million.

Overall, the net favourable effect of movements in exchange rates and the hedging programme was NZ$3.4 million, including the impact of balance sheet revaluations.

Foreign Exchange Effects

The company is exposed to movements in foreign exchange rates, with approximately 51% of operating revenue generated in US dollars, 21% in Euros, 6% in Australian dollars, 5% in British pounds, 4% in Japanese yen, 3% in Canadian dollars, 2% in New Zealand dollars and 8% in other currencies.

As the number of direct sales operations increases, an increasing proportion of the company's revenue is generated in local currency which has reduced revenue exposure to the US dollar over recent periods. However, in the current period the proportion of revenue which was generated in US dollars has increased from 47% to 51%. This was mainly due to the increased value of the US dollar compared to the comparable period last year. The company's cost base continues to be increasingly diverse, as manufacturing output from Mexico has increased to 33% of consumables output.

The value of the New Zealand dollar depreciated significantly against most of the currencies in which the company receives revenue. As a result of this depreciation the company's hedges for the first half for most currencies were above the respective spot rates, although achieved rates were significantly better than the corresponding period last year. As a result of the significant depreciation of the NZ dollar, a foreign exchange hedging loss of NZ$7.1 million (2014: NZ$18.0 million gain) to operating profit was recorded.

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 six months ended 30 September 2014 and 2015 are set out in the table below:

	Average Daily Spot Rate		Average Effective Exchange Rate	
	Six months ended 30 September		Six months ended 30 September	
	2014	2015	2014	2015
USD	0.8519	0.6913	0.7969	0.7356
EUR	0.6319	0.6234	0.5147	0.5824

The effect of balance sheet translations of offshore assets and liabilities for the six months ended 30 September 2015 resulted in an increase in operating revenue of NZ$14.5 million (2014: NZ$5.4 million) and an increase in profit before tax of NZ$8.3 million (2014: NZ$3.6 million).

Foreign Exchange Hedging Position

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

	Six months to 31 March				Year to 31 March	
	2016	2017	2018	2019	2020	2021
USD % cover of expected exposure	93%	66%	33%	23%	21%	12%
USD average rate of cover	0.719	0.693	0.662	0.643	0.626	0.615
EUR % cover of expected exposure	94%	60%	22%	0%	0%	0%
EUR average rate of cover	0.579	0.577	0.585	NA	NA	NA

Balance Sheet

Gearing[1] at 30 September 2015 was 17.0%, lower than the 18.6% gearing at 30 September 2014, however higher than the 10.3% at 31 March 2015. The increase in gearing since 31 March 2015 is a result of an increase in working capital, principally inventory, to accommodate both the change in RAC distribution in the US and in preparation for the introduction of a new ERP system at the beginning of October 2015. We estimate that approximately 5 weeks of extra inventory to cover the ERP implementation was in the supply chain at 30 September 2015. We expect a substantial proportion of that inventory to have been sold through by year end.

The gearing figure remains above the debt to debt plus equity target range of +5% to -5%.

Funding

The company had total available committed debt funding of NZ$208 million as at 30 September 2015, of which approximately NZ$115 million was undrawn, and cash on hand of NZ$12 million. Bank debt facilities provide all available funding given the modest level of requirements. Over the next 12 months debt facilities totalling NZ$100 million will mature. New debt facilities totalling approximately NZ$100 million were entered into after 30 September 2015. As at 30 September 2015, the weighted average maturity of borrowing facilities was 1.6 years.

Debt maturity

The average maturity of the debt of NZ$88 million was 0.9 years and the currency split was 47% New Zealand dollars; 27% US dollars; 18% Euros; 4% Australian dollars and 2% Canadian dollars.

Interest rates

As at 31 March 2015 NZ dollar interest rate swaps with a face value of $91 million were de-designated as effective hedges due to the low likelihood that there will be an equivalent amount of NZ dollar debt on an ongoing basis. Through to 30 September 2015 $29.5 million of these de-designated interest rate swaps were either closed out or had expired leaving $61.5 million outstanding. An amount of $0.8 million ($0.5 million after tax) was included in financing expense in relation to these de-designated hedges during the period.

Exclusive of ineffective interest rate swaps, approximately 44% of all borrowings were at fixed interest rates with an average duration of 3.3 years and an average rate of 3.2%. Inclusive of floating rate borrowings, the average interest rate on the debt is currently 3.4%. All interest rates are inclusive of margins but not fees.

Cash flow

Cash flow from operations was NZ$35.2 million compared with NZ$55.9 million for the six months ended 30 September 2014. The decrease was mainly related to an increase in working capital, predominantly inventory. Inventory increased significantly through the first half in preparation for the introduction of the new ERP system in NZ in early October and to a lesser extent for the distribution change in the US.

In addition, tax paid for the period was significantly higher due to increased earnings and, to a lesser extent, the timing of payments in the prior half. We expect cash flow from operations to improve in the second half as we sell through the inventory built for the ERP introduction.

Capital expenditure for the period was NZ$36.2 million compared with NZ$25.5 million in the prior half year. The capital expenditure related predominantly to new product tooling and manufacturing equipment. The increase in intangible expenditure related to further implementation costs, NZ$8.1 million, for the ERP project.

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


PLAN
ACTUAL
NPT
NPT DETAILS
MODEL
QTY
CODE
MINS

Financial Statements.

INDEPENDENT REVIEW REPORT

To the shareholders of Fisher & Paykel Healthcare Corporation Limited

REPORT ON THE INTERIM FINANCIAL STATEMENTS

We have reviewed the interim condensed financial statements ("financial statements") of Fisher & Paykel Healthcare Corporation Limited (the "Company") and its controlled entities (the "Group") on pages 23 to 41 which comprise the consolidated balance sheet as at 30 September 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the period then ended , and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of these financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting ('NZ IAS 34') and for such internal controls as the directors determine are necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity ('NZ SRE 2410'). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with the NZ IAS 34. As the auditor of Fisher & Paykel Healthcare Corporation Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

We are independent of the Group. Other than in our capacity as auditors and providers of other assurance and advisory services we have no relationship with or interests in, the Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of Fisher & Paykel Healthcare Corporation Limited are not prepared, in all material respects, in accordance with NZ IAS 34.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders. Our review 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 our review 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 shareholders for our review procedures, for this report, or for the conclusion we have formed.

PricewaterhouseCoopers
26 November 2015

Auckland

CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited Six Months Ended 30 September 2014 NZ$000	Audited Year Ended 31 March 2015 NZ$000	Unaudited Six Months Ended 30 September 2015 NZ$000
Operating revenue	3	317,442	672,348	380,968
Cost of sales		(125,229)	(261,369)	(139,758)
Gross profit		**192,213**	**410,979**	**241,210**
Other income	4	2,500	5,000	2,500
Selling, general and administrative expenses		(90,752)	(180,909)	(112,675)
Research and development expenses		(31,338)	(64,987)	(35,833)
Total operating expenses		**(122,090)**	**(245,896)**	**(148,508)**
Operating profit before financing costs		72,623	170,083	95,202
Financing income		80	144	54
Financing expense		(3,159)	(9,329)	(3,251)
Exchange (loss) on foreign currency borrowings		(2,635)	(2,132)	(7,426)
Net financing (expense)		(5,714)	(11,317)	(10,623)
Profit before tax	5	66,909	158,766	84,579
Tax expense	6	(17,992)	(45,593)	(22,541)
Profit after tax		**48,917**	**113,173**	**62,038**
Basic earnings per share		8.8 cps	20.4 cps	11.1 cps
Diluted earnings per share		8.6 cps	19.9 cps	10.9 cps
Weighted average basic ordinary shares outstanding		553,644,907	555,542,677	559,068,535
Weighted average diluted ordinary shares outstanding		568,575,334	569,548,997	571,175,503

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six Months Ended 30 September 2014 NZ$000	Audited Year Ended 31 March 2015 NZ$000	Unaudited Six Months Ended 30 September 2015 NZ$000
Profit after tax	**48,917**	**113,173**	**62,038**
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Cash flow hedge reserve – unrealised			
Changes in fair value	(8,284)	12,211	(59,639)
Transfers to profit before tax	(20,244)	(29,746)	(10,880)
Tax on changes in fair value and transfers to profit before tax	7,988	4,910	19,745
Items that will not be reclassified to profit or loss			
Revaluation of land	–	8,359	–
Other comprehensive income, net of tax	**(20,540)**	**(4,266)**	**(50,774)**
Total comprehensive income	**28,377**	**108,907**	**11,264**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital NZ$000	Treasury shares NZ$000	Retained earnings NZ$000	Asset revaluation reserve NZ$000	Cash flow hedge reserve – unrealised NZ$000	Employee share entitlement reserve NZ$000	Employee share option reserve NZ$000	Total equity NZ$000
Unaudited								
Balance at 31 March 2014	**121,932**	**(1,559)**	**224,511**	**24,100**	**34,259**	**130**	**2,749**	**406,122**
Total comprehensive income	**–**	**–**	**48,917**	**–**	**(20,540)**	**–**	**–**	**28,377**
Dividends paid	–	–	(38,626)	–	–	–	–	(38,626)
Issue of share capital under dividend reinvestment plan	16,690	–	–	–	–	–	–	16,690
Issue of share capital	13	–	–	–	–	–	–	13
Movement in employee share entitlement reserve	–	–	–	–	–	70	–	70
Movement in employee share option reserve	–	–	–	–	–	–	(33)	(33)
Movement in treasury shares	–	5	–	–	–	–	–	5
Increase in share capital under share option schemes for employee services	1,632	–	–	–	–	–	–	1,632
Employee share scheme shares issued for employee services	2	–	–	–	–	–	–	2
Balance at 30 September 2014	**140,269**	**(1,554)**	**234,802**	**24,100**	**13,719**	**200**	**2,716**	**414,252**
Audited								
Balance at 31 March 2014	**121,932**	**(1,559)**	**224,511**	**24,100**	**34,259**	**130**	**2,749**	**406,122**
Total comprehensive income	**–**	**–**	**113,173**	**8,359**	**(12,625)**	**–**	**–**	**108,907**
Dividends paid	–	–	(70,913)	–	–	–	–	(70,913)
Issue of share capital under dividend reinvestment plan	23,012	–	–	–	–	–	–	23,012
Issue of share capital	1,580	–	–	–	–	–	–	1,580
Movement in employee share entitlement reserve	–	–	–	–	–	145	–	145
Movement in employee share option reserve	–	–	–	–	–	–	1,431	1,431
Movement in treasury shares	–	16	–	–	–	–	–	16
Increase in share capital under share option schemes for employee services	878	–	–	–	–	–	–	878
Employee share scheme shares issued for employee services	12	–	–	–	–	–	–	12
Balance at 31 March 2015	**147,414**	**(1,543)**	**266,771**	**32,459**	**21,634**	**275**	**4,180**	**471,190**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

	Share capital NZ$000	Treasury shares NZ$000	Retained earnings NZ$000	Asset revaluation reserve NZ$000	Cash flow hedge reserve – unrealised NZ$000	Employee share entitlement reserve NZ$000	Employee share option reserve NZ$000	Total equity NZ$000
Unaudited								
Total comprehensive income	**–**	**–**	**62,038**	**–**	**(50,774)**	**–**	**–**	**11,264**
Dividends paid	–	–	(44,652)	–	–	–	–	(44,652)
Issue of share capital under dividend reinvestment plan	7,648	–	–	–	–	–	–	7,648
Issue of share capital	29	–	–	–	–	–	–	29
Movement in employee share entitlement reserve	–	–	–	–	–	(131)	–	(131)
Movement in employee share option reserve	–	–	–	–	–	–	(135)	(135)
Movement in treasury shares	–	532	–	–	–	–	–	532
Increase in share capital under share option schemes for employee services	1,836	–	–	–	–	–	–	1,836
Employee share scheme shares issued for employee services	192	–	–	–	–	–	–	192
Balance at 30 September 2015	**157,119**	**(1,011)**	**284,157**	**32,459**	**(29,140)**	**144**	**4,045**	**447,773**

CONSOLIDATED BALANCE SHEET

	Notes	Unaudited 30 September 2014 NZ$000	Audited 31 March 2015 NZ$000	Unaudited 30 September 2015 NZ$000
ASSETS				
Current assets				
Cash and cash equivalents		6,882	13,621	12,075
Trade and other receivables		98,967	107,416	130,395
Inventories		100,415	96,143	127,222
Derivative financial instruments	10	16,942	24,240	7,035
Tax receivable		1,368	1,871	709
Total current assets		**224,574**	**243,291**	**277,436**
Non-current assets				
Property, plant and equipment		356,654	367,428	380,077
Intangible assets		13,309	22,430	30,653
Other receivables		1,366	3,372	2,189
Derivative financial instruments	10	10,777	13,364	3,507
Deferred tax asset	6	19,155	19,931	41,326
Total assets		**625,835**	**669,816**	**735,188**
LIABILITIES				
Current liabilities				
Interest-bearing liabilities	7	17,126	14,154	77,930
Trade and other payables		71,569	81,075	92,168
Provisions		2,956	2,614	3,550
Tax payable		8,648	14,198	14,792
Derivative financial instruments	10	4,832	5,073	31,163
Total current liabilities		**105,131**	**117,114**	**219,603**
Non-current liabilities				
Interest-bearing liabilities	7	81,306	51,342	31,517
Provisions		2,556	1,824	2,273
Other payables		5,519	6,349	6,584
Derivative financial instruments	10	3,824	6,324	27,310
Deferred tax liability	6	13,247	15,673	128
Total liabilities		**211,583**	**198,626**	**287,415**

CONSOLIDATED BALANCE SHEET (continued)

	Notes	Unaudited 30 September 2014 NZ$000	Audited 31 March 2015 NZ$000	Unaudited 30 September 2015 NZ$000
EQUITY				
Share capital		140,269	147,414	157,119
Treasury shares		(1,554)	(1,543)	(1,011)
Retained earnings		234,802	266,771	284,157
Asset revaluation reserve		24,100	32,459	32,459
Cash flow hedge reserve - unrealised		13,719	21,634	(29,140)
Employee share entitlement reserve		200	275	144
Employee share option reserve		2,716	4,180	4,045
Total equity		**414,252**	**471,190**	**447,773**
Total liabilities and equity		**625,835**	**669,816**	**735,188**

On behalf of the Board.

26 November 2015

Tony Carter
Chairman

Michael Daniell
Managing Director and Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Unaudited Six Months Ended 30 September 2014 NZ$000	Audited Year Ended 31 March 2015 NZ$000	Unaudited Six Months Ended 30 September 2015 NZ$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers		318,709	659,513	366,443
Grants received		2,250	4,750	2,250
Interest received		63	90	24
Payments to suppliers and employees		(239,477)	(467,300)	(291,768)
Tax paid		(22,405)	(44,274)	(39,413)
Interest paid		(3,202)	(5,947)	(2,338)
Net cash flows from operations		**55,938**	**146,832**	**35,198**
CASH FLOWS (USED IN) INVESTING ACTIVITIES				
Sales of property, plant and equipment		3	10	–
Purchases of property, plant and equipment		(20,532)	(39,271)	(25,607)
Purchases of intangible assets		(4,955)	(14,314)	(10,636)
Net cash flows (used in) investing activities		**(25,484)**	**(53,575)**	**(36,243)**
CASH FLOWS (USED IN) FINANCING ACTIVITIES				
Employee share purchase schemes		237	529	198
Issue of share capital		901	1,580	594
New borrowings		5,000	5,000	29,663
Repayment of borrowings		(19,742)	(50,207)	–
Dividends paid		(21,936)	(47,901)	(37,004)
Net cash flows (used in) financing activities		**(35,540)**	**(90,999)**	**(6,549)**
Net increase (decrease) in cash		(5,086)	2,258	(7,594)
Opening cash		(3,761)	(3,761)	(533)
Effect of foreign exchange rates		221	970	(1,061)
Closing cash		**(8,626)**	**(533)**	**(9,188)**
RECONCILIATION OF CLOSING CASH				
Cash and cash equivalents		6,882	13,621	12,075
Bank overdrafts	7	(15,508)	(14,154)	(21,263)
Closing cash		**(8,626)**	**(533)**	**(9,188)**

CASH FLOW RECONCILIATION

	Notes	Unaudited Six Months Ended 30 September 2014 NZ$000	Audited Year Ended 31 March 2015 NZ$000	Unaudited Six Months Ended 30 September 2015 NZ$000
Profit after tax		48,917	113,173	62,038
Add (deduct) non-cash items:				
Depreciation and writedown of property, plant and equipment to recoverable amount		13,917	27,943	14,399
Amortisation of intangibles		1,754	3,705	1,951
Accrued financing income / expense		(43)	(259)	138
Movement in provisions		(359)	(1,433)	1,385
Movement in deferred tax asset / liability		(4,282)	(5,710)	(17,195)
Movement in foreign currency option contracts time value		662	1,762	2,058
Movement in working capital:				
Trade and other receivables		(4,805)	(15,260)	(28,883)
Inventory		(5,940)	(1,668)	(31,079)
Trade and other payables		1,538	14,070	18,833
Provision for taxation		1,890	6,937	1,756
Foreign currency translation		2,689	3,572	9,797
Add non-Income Statement items:				
Monetised cash flow hedges		–	–	–
Net cash flows from operations		**55,938**	**146,832**	**35,198**

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 September 2015

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 consolidated interim financial statements were approved by the Board of Directors on 26 November 2015, and are not audited, but were reviewed by PwC in accordance with the New Zealand Standard on Review Engagements 2410.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These general purpose financial statements for the six months ended 30 September 2015 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with NZ IAS 34 and IAS 34, *Interim Financial Reporting*. The Company and Group are designated as profit-oriented entities for financial reporting purposes.

Statutory base

The Company is registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The Company is also listed on the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX).

These consolidated interim financial statements do not include all the notes normally included in an annual financial report. Accordingly, this report should be read in conjunction with the audited financial statements for the year ended 31 March 2015, which have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and NZ GAAP. The financial statements for the year ended 31 March 2015 also comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

All accounting policies have been applied on a basis consistent with those used in the audited financial statements for the year ended 31 March 2015, as described in those annual financial statements.

Standards, Interpretations and Amendments to Published Standards

There are no new standards or amendments to existing standards effective for the financial year ending 31 March 2016 which have or will have a 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. The specific features of NZ IFRS 9 were outlined in the annual report for the year ended 31 March 2015. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group intends to adopt NZ IFRS 9 for the first period beginning after its effective date and has yet to assess its full impact.

NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group intends to adopt NZ IFRS 15 for the first period beginning after its effective date and is currently assessing its full impact.

NOTES TO THE FINANCIAL STATEMENTS

3. OPERATING REVENUE

	Unaudited Six Months Ended 30 September 2014 NZ$000	Audited Year Ended 31 March 2015 NZ$000	Unaudited Six Months Ended 30 September 2015 NZ$000
Revenue before hedging:			
North America	128,965	289,514	182,445
Europe	95,489	202,234	114,011
Asia Pacific	59,103	121,237	72,096
Other	15,657	31,028	19,285
Total revenue before hedging	**299,214**	**644,013**	**387,837**
Foreign exchange gain (loss) on hedged sales	18,228	28,335	(6,869)
Total operating revenue	**317,442**	**672,348**	**380,968**

The breakdown of revenue before hedging presented above is based on the geographical location of the customer. This presentation is different to that shown in Note 12 as described in that note.

4. OTHER INCOME

	Unaudited Six Months Ended 30 September 2014 NZ$000	Audited Year Ended 31 March 2015 NZ$000	Unaudited Six Months Ended 30 September 2015 NZ$000
R&D growth grant	2,500	5,000	2,500

NOTES TO THE FINANCIAL STATEMENTS

5. EXPENSES

Profit before tax includes the following expenses:

	Unaudited Six Months Ended 30 September 2014 NZ$000	Audited Year Ended 31 March 2015 NZ$000	Unaudited Six Months Ended 30 September 2015 NZ$000
Depreciation	13,917	27,943	14,399
Amortisation	1,754	3,705	2,470
Employee benefits expense	118,073	237,442	139,751
Rental and lease expense	3,842	8,049	4,183

NOTES TO THE FINANCIAL STATEMENTS

6. INCOME TAX

	Unaudited 30 September 2014 NZ$000	Audited 31 March 2015 NZ$000	Unaudited 30 September 2015 NZ$000
TAX EXPENSE			
Profit before tax	**66,909**	**158,766**	**84,579**
Tax expense at the New Zealand rate of 28%	18,735	44,454	23,682
Adjustments to tax for:			
Non-assessable income	(72)	(283)	(141)
Non-deductible expenses	338	898	686
Foreign tax rates other than 28%	(188)	797	348
Effect of foreign currency translations	(819)	(50)	(2,034)
Other	(2)	(223)	–
Total tax expense	**17,992**	**45,593**	**22,541**
DEFERRED TAX ASSET/LIABILITY			
OPENING BALANCE			
Deferred tax asset	14,671	14,671	19,931
Deferred tax liability	(21,033)	(21,033)	(15,673)
	(6,362)	**(6,362)**	**4,258**
MOVEMENTS			
Credited / (charged) to the Income Statement	4,282	5,710	17,195
Credited / (charged) to Other Comprehensive Income	7,988	4,910	19,745
	12,270	**10,620**	**36,940**
CLOSING BALANCE			
Deferred tax asset	19,155	19,931	41,326
Deferred tax liability	(13,247)	(15,673)	(128)
	5,908	**4,258**	**41,198**

NOTES TO THE FINANCIAL STATEMENTS

7. INTEREST-BEARING LIABILITIES

	Unaudited 30 September 2014 NZ$000	Audited 31 March 2015 NZ$000	Unaudited 30 September 2015 NZ$000
CURRENT			
Bank overdrafts	15,508	14,154	21,263
Borrowings	1,618	–	56,667
	17,126	**14,154**	**77,930**
NON-CURRENT			
Borrowings	81,306	51,342	31,517
	81,306	**51,342**	**31,517**

8. CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure commitments contracted for but not recognised as at the reporting date:

	Unaudited 30 September 2014 NZ$000	Audited 31 March 2015 NZ$000	Unaudited 30 September 2015 NZ$000
Within one year	7,991	11,411	12,053
Between one and two years	–	194	–
	7,991	**11,605**	**12,053**

9. CONTINGENT LIABILITIES

In the ordinary course of business the Group is occasionally subject to product liability and patent claims. 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.

NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL INSTRUMENTS

Derivative Financial Instruments

	Unaudited 30 September 2014		Audited 31 March 2015		Unaudited 30 September 2015	
	Assets NZ$000	Liabilities NZ$000	Assets NZ$000	Liabilities NZ$000	Assets NZ$000	Liabilities NZ$000
CURRENT						
Foreign currency forward exchange contracts	16,194	3,140	21,614	2,943	6,897	21,978
Foreign currency option contracts	583	695	2,579	756	138	7,332
Interest rate swaps	165	997	47	1,374	–	1,853
	16,942	**4,832**	**24,240**	**5,073**	**7,035**	**31,163**
NON-CURRENT						
Foreign currency forward exchange contracts	10,388	880	12,213	1,457	3,195	15,378
Foreign currency option contracts	139	149	1,134	805	312	7,799
Interest rate swaps	250	2,795	17	4,062	–	4,133
	10,777	**3,824**	**13,364**	**6,324**	**3,507**	**27,310**

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

	Unaudited 30 September 2014 NZ$000	Audited 31 March 2015 NZ$000	Unaudited 30 September 2015 NZ$000
Purchase commitments forward exchange contracts	27,165	30,594	27,632
Sale commitments forward exchange contracts	288,666	350,147	472,096
Foreign currency borrowing forward exchange contracts	6,082	14,557	26,178
NZD call option contracts purchased	–	8,304	23,281
Collar option contracts – NZD call option purchased (i)	79,323	137,859	262,686
Collar option contracts – NZD call option sold (i)	85,405	153,304	287,981

(i) Foreign currency contractual amounts are equal.

NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL INSTRUMENTS (continued)

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

	Foreign Currency		
	Unaudited 30 September 2014 000s	Audited 31 March 2015 000s	Unaudited 30 September 2015 000s
United States dollars	US$109,500	US$205,750	US$323,550
European Union euros	€ 69,750	€ 76,150	€ 91,359
Australian dollars	A$7,650	A$4,700	A$6,150
British pounds	£12,750	£13,475	£19,500
Canadian dollars	C$10,600	C$5,450	C$14,400
Japanese yen	¥2,437,500	¥2,197,500	¥2,625,000
Chinese yuan	¥32,500	¥45,000	¥56,750
Korean won	₩2,092,613	₩2,479,504	₩1,839,678
Swedish kronor	kr6,000	kr0	kr23,750

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

	Foreign Currency		
	Unaudited 30 September 2014 000s	Audited 31 March 2015 000s	Unaudited 30 September 2015 000s
Mexican pesos	MEX$290,000	MEX$366,000	MEX$341,500

Contractual amounts of interest rate derivative contracts outstanding were as follows:

	Unaudited 30 September 2014 NZ$000	Audited 31 March 2015 NZ$000	Unaudited 30 September 2015 NZ$000
Interest rate swaps	126,684	121,324	97,071

The interest rate swaps have terms of up to 10 years.

NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL INSTRUMENTS (continued)

As at 31 March 2015 interest rate swaps with a face value of NZ$91 million were de-designated as effective hedges with the mark to market valuation of NZ$3,542,000 ($2,550,000 after tax) expensed to financing expense in the Income Statement. This action was taken due to uncertainty whether there would be an equivalent amount of NZ dollar debt on an ongoing basis. Prior to the de-designation the mark to market valuation of these interest rate swaps was held within the Cashflow Hedge Reserve, net of tax.

In the 6 months to 30 September 2015 interest rate swaps with a face value totalling NZ$29.5 million were either closed out or have expired, leaving swaps with a face value of $61.5M outstanding as ineffective hedges.

Interest rate swaps will expire from financial years 2016 through to 2024. Future changes in the mark to market valuation of these interest rate swaps will be expensed or credited to the Income Statement.

Financial instruments are measured at fair value using the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices 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 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

All the Group's financial instruments have been measured at the fair value measurement hierarchy of level 2 (2015: level 2)

Financial liabilities measured at amortised cost are fair valued using the contractual cashflows. The effects of discounting are generally insignificant.

Derivative liabilities designated in a hedging relationship:

- 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.

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 fair value of financial assets and liabilities approximates their carrying value.

NOTES TO THE FINANCIAL STATEMENTS

11. 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. Apart from directors' fees, key executive remuneration and dividends paid by the Group to its directors, there have been no related party transactions.

12. SEGMENT INFORMATION

The operating segments of the Group have been determined based on the components of the Group that the chief operating decision-maker (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. 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.

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 ultimately 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, Turkey and Russia, 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 the audited financial statements for the year ended 31 March 2015.

Information regarding the operations of each reportable segment is included below. Performance is measured based on segment operating profit. 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.

NOTES TO THE FINANCIAL STATEMENTS

12. SEGMENT INFORMATION (continued)

Operating Segments – 30 September 2014 (Unaudited)

	New Zealand NZ$000	North America NZ$000	Europe NZ$000	Asia–Pacific NZ$000	Eliminations NZ$000	Total NZ$000
Sales revenue – external	27,777	128,965	92,349	50,123	–	299,214
Sales revenue – internal	216,406	–	–	–	(216,406)	–
Foreign exchange gain on hedged sales	18,228	–	–	–	–	18,228
Total operating revenue	**262,411**	**128,965**	**92,349**	**50,123**	**(216,406)**	**317,442**
Other income	2,500	–	–	–	–	2,500
Depreciation and amortisation	14,802	173	295	401	–	15,671
Reportable segment operating profit before financing costs	**77,651**	**5,544**	**3,789**	**3,606**	**(17,967)**	**72,623**
Financing income	1,077	–	–	–	(997)	80
Financing expense	(2,983)	(705)	(319)	(149)	997	(3,159)
Exchange (loss) on foreign currency borrowings	(2,590)	–	(45)	–	–	(2,635)
Reportable segment assets	**591,773**	**81,279**	**84,007**	**36,684**	**(167,908)**	**625,835**
Reportable segment capital expenditure	**25,065**	**54**	**123**	**245**	**–**	**25,487**

Operating Segments – 30 September 2015 (Unaudited)

	New Zealand NZ$000	North America NZ$000	Europe NZ$000	Asia–Pacific NZ$000	Eliminations NZ$000	Total NZ$000
Sales revenue – external	32,667	182,445	112,389	60,336	–	387,837
Sales revenue – internal	321,831	–	–	–	(321,831)	–
Foreign exchange (loss) on hedged sales	(6,869)	–	–	–	–	(6,869)
Total operating revenue	**347,629**	**182,445**	**112,389**	**60,336**	**(321,831)**	**380,968**
Other income	2,500	–	–	–	–	2,500
Depreciation and amortisation	15,431	759	352	327	–	16,869
Reportable segment operating profit before financing costs	**120,185**	**17,805**	**9,160**	**3,697**	**(55,645)**	**95,202**
Financing income	1,295	–	–	–	(1,241)	54
Financing expense	(2,849)	(1,232)	(258)	(153)	1,241	(3,251)
Exchange (loss) on foreign currency borrowings	(7,077)	–	(349)	–	–	(7,426)
Reportable segment assets	**705,228**	**146,834**	**119,002**	**56,754**	**(292,630)**	**735,188**
Reportable segment capital expenditure	**35,342**	**410**	**153**	**338**	**–**	**36,243**

NOTES TO THE FINANCIAL STATEMENTS

12. 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. Segment revenue is based on product codes and customer types.

Product Group Information

	Unaudited Six Months Ended 30 September 2014 NZ$000	Unaudited Six Months Ended 30 September 2015 NZ$000
Respiratory & acute care / hospital	**169,131**	**199,625**
Obstructive sleep apnea / homecare	**142,626**	**175,312**
Core products subtotal	**311,757**	**374,937**
Distributed and other	**5,685**	**6,031**
Total revenue	317,442	380,968

Major Customer

The Group's distribution relationship with its major customer in the North America segment ended on 19 July 2015. Revenue from that customer therefore decreased to approximately $29.7 million (2015: $35.8 million) of the Group's total revenues.

13. SUBSEQUENT EVENTS

On 26 November 2015 the directors approved the payment of a fully imputed 2016 interim dividend of $37,644,644 (6.7 cents per share) to be paid on 23 December 2015.

Directory

DIRECTORS

Tony Carter	Chairman, Non-Executive, Independent
Michael Daniell	Managing Director and Chief Executive Officer
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
Scott St John	Non-Executive, Independent

EXECUTIVE MANAGEMENT TEAM

Michael Daniell	Managing Director and Chief Executive Officer
Lewis Gradon	Senior Vice-President – Products & Technology (MD/CEO designate)
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
Brian Schultz	Vice President – Quality & Regulatory

REGISTERED OFFICES

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Website:	www.fphcare.com
Email:	investor@fphcare.co.nz

Australia:

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Telephone:	+61 3 9879 5022
Postal address:	PO Box 167, Ringwood, Victoria 3134, Australia

STOCK EXCHANGES

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

SHARE REGISTRAR

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Link Market Services Limited

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Fisher&Paykel HEALTHCARE

Fisher & Paykel Healthcare is a world leader in medical devices and systems for use in repiratory care, acute care, surgery and in the treatment of obstructive sleep apnea.

Fisher & Paykel HEALTHCARE

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