growing

Interim Report 2018 | Care by design

For six months ended 30 September 2017

Fisher & Paykel HEALTHCARE

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Fisher&Paykel HEALTHCARE

Big achievements.

Yesterday to today.

We entered the respiratory care market in 1970 with the development of a unique humidifier system for critical care.

Through a commitment to innovation, doing the right thing and doing what's best for patients, we've continued to deliver sustainable year-on-year growth.

Today we employ over 4,000 people in 35 countries, contributing to the care of an estimated 12 million patients each year.

Bigger aspirations.

Today to tomorrow.

Our continued focus on innovation and patient care will underpin our continued growth over the next 20 years and beyond.

We are working on opportunities today that have the potential - over the short, medium and longer term - to allow us to support the care of over 50 million patients worldwide each year.

Contents

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.

This report is dated 21 November 2017 and is signed on behalf of Fisher & Paykel Healthcare Corporation Limited by Tony Carter, Chairman and Lewis Gradon, Managing Director and Chief Executive Officer.

TONY CARTER, CHAIRMAN

LEWIS GRADON, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Half year highlights

RECORD NET PROFIT AFTER TAX

$81.3m

RECORD OPERATING REVENUE
$458.4m

↑ 8%

RECORD HOSPITAL REVENUE
$262.5m

↑ 11%

OSA* MASK REVENUE GROWTH IN CONSTANT CURRENCY

↑ 8%

* Obstructive sleep apnea

NEW APPLICATIONS* CONSUMABLES REVENUE GROWTH IN CONSTANT CURRENCY

↑ 19%

* New applications: Non-invasive ventilation, hospital respiratory support and surgical humidification

INCREASED FULLY IMPUTED INTERIM DIVIDEND
8.75cps

↑ 6%

Business updates

+ CONTINUED

WITH THE ROLL OUT OF OUR NEW ENTERPRISE RESOURCE PLANNING SYSTEM IN JAPAN, CHINA, TAIWAN AND HONG KONG

+ AWARDED

NZ BEST DESIGN AWARDS FOR OUR OPTIFLOW JUNIOR 2, BREVIDA, ESON 2 AND SLEEPSTYLE PRODUCTS

+ FAREWELLED

LINDSAY GILLANDERS AS A NON-EXECUTIVE DIRECTOR ON THE BOARD AFTER 25 YEARS SERVICE

+ INCLUDED

IN THE DOW JONES SUSTAINABILITY ASIA PACIFIC INDEX AND THE DOW JONES SUSTAINABILITY AUSTRALIA INDEX FOR THE SECOND YEAR RUNNING

+ CONTINUED

OUR CONSISTENT GROWTH STRATEGY

+ WELCOMED

PIP GREENWOOD AS A NEW NON-EXECUTIVE DIRECTOR ON OUR BOARD

+ LAUNCHED

OUR NEW PRODUCTS, SLEEPSTYLE AND OPTIFLOW JUNIOR 2 IN AUSTRALASIA

+ BEGAN

PREPARATION FOR CONSTRUCTION ON OUR NEW FACILITIES IN NEW ZEALAND AND MEXICO

+ RECEIVED

FOREIGN TRADE ZONE LICENSE FOR OUR CALIFORNIAN DISTRIBUTION CENTRE

What we do

We design, manufacture and market products and systems for use in respiratory care, acute care, surgery and the treatment of obstructive sleep apnea.

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

Our products are categorised into two groups: Hospital and Homecare.

57%
OF OPERATING REVENUE

OPERATING REVENUE (1H18 $262.5M)
↑11%

1H18 CONSTANT CURRENCY REVENUE GROWTH
↑12%

Respiratory humidification and support

Our world-leading respiratory humidification products and systems are used in invasive and non-invasive ventilation and in nasal high flow therapy to provide warm, humidified air to patients in respiratory distress. Heated and humidified air can assist in maintaining the body's natural balance of heat and moisture in the airways, improve patient comfort and compliance, and deliver better therapy outcomes.

Surgical technologies

We offer surgical humidification products which have been shown to reduce certain complications associated with laparoscopic and open surgery.

42%
OF OPERATING REVENUE

OPERATING REVENUE (1H18 $191.3M)
↑4%

1H18 CONSTANT CURRENCY REVENUE GROWTH
↑5%

CPAP therapy/OSA

Patients suffering from obstructive sleep apnea (OSA) benefit from continuous positive airway pressure (CPAP) therapy, which is delivered through flow devices and facial masks. Our recently launched SleepStyle CPAP device offers many technological benefits for patients, and our market-leading masks are well known for their comfort, effective seal and easy use.

Home respiratory support

Our world-leading range of respiratory humidification products are also used to provide respiratory support in the home and for patients in long-term care. This enables patients to receive the benefits of our Optiflow nasal high flow therapy and ventilation outside of the hospital.

Sustainable growth through innovation

We are pleased to report our result for the first half of the 2018 financial year. Net profit after tax was up 4% for the half at NZ$81.3 million, and operating revenue was NZ$458.4 million, which is 8% above the first half last year.

Trading has been in-line with our expectations for the first half of this financial year, and our net profit after tax growth of 4% is impacted by the timing of patent litigation costs compared to the first half of the prior year. In the first half of 2017, we incurred one month's worth of patent litigation expenses (NZ$2.4M) as opposed to the 2018 financial year where we have had six months of these costs (NZ$12.2M). Our updated net profit after tax guidance for the full year of approximately NZ$185-190M includes anticipated litigation expenses.

Last financial year we estimated that our products were used in the treatment of more than 12 million patients. This is a number that continues to grow year on year, and we expect to see this growth pattern continue well into the future.

Product groups

Our business is structured in two parts: Hospital and Homecare. The Hospital side of our business includes products that are used in respiratory and acute care, and during surgery. Our systems in this product group are designed to help improve patient outcomes by reducing the likelihood of medical complications and the need to transition to more intensive settings. Cost savings for healthcare providers are often achieved through shorter lengths of stay, reduced infections and lower readmission rates.

In the first half of the financial year, the Hospital product group delivered 11% growth in operating revenue.

This growth is due largely to the positive response we have received to our Optiflow nasal high flow therapy system, which is becoming widely used around the world.

Our Homecare product group includes products and systems used to treat OSA and patients requiring respiratory support in the home. Products in this group include CPAP therapy devices and masks, flow generators, interfaces and data management technologies.

In the first half of the financial year, the Homecare product group delivered 4% growth in operating revenue. This result has been largely supported by a continuation of good growth in our OSA mask business, particularly from our new Brevida nasal pillows mask which has only been available in the US from March this year.

We see large and diverse opportunities for sustained and profitable long-term growth.

LEWIS GRADON
Managing Director and Chief Executive Officer

Innovation, caring for patients and producing quality products is the backbone for sustainable growth.

TONY CARTER
Chairman

Our approach

Our company is centred on innovation. Caring for the patient, and continuing to produce quality products that achieve better patient care, is a philosophy that drives all the teams within our business.

Continuing to innovate in a way that supports our customers is a competitive advantage and is crucial to achieving and extending our leading positions in the markets in which we operate. In the first half of the 2018 financial year, approximately 31% of our revenue was derived from products that had been introduced within the last five years.

We have a consistent growth strategy - designing better, more effective products to support improved patient outcomes, developing new therapies that change clinical practice and reduce costs to healthcare systems, extending our presence around the world, and ensuring that our growth is managed in a sustainable, profitable way.

Sustainable, profitable growth

We have a number of large opportunities for growth ahead of us. The first, currently significant opportunity is in hospital respiratory support, with our Airvo and Optiflow products for nasal high flow therapy. We estimate that our products are being used to treat more than two million patients each year out of more than 30 million patients admitted to hospital annually who could benefit from this therapy.

In the medium-term, we expect to see material revenue growth in our home respiratory segment. This involves patients with chronic respiratory conditions being treated in their homes with our Optiflow and myAirvo products. This part of our business is currently small, and we estimate that annually there are more than 10 million patients with chronic respiratory problems being treated in the hospital who could be effectively treated in the home. We are supporting the development of clinical evidence showing that use of our nasal high flow therapy in the home will result in improvements in quality of life and reduced hospital readmissions.

Over the next decade, we expect our surgical products to be a more material contributor to our overall business. Our Humigard system is used to warm and humidify the CO_2 that is used during laparoscopic and some open surgical procedures. This therapy has been shown to significantly reduce the risk of postoperative complications and their associated costs. Currently, we support around 40,000 patients in this product group, but estimate that this could extend to a potential 20 million patients annually.

It is clear that we have large and diverse opportunities available in the short, medium and long-term. We have a number of new products that will be released over the next few years and intend that these products, along with our consistent growth strategy, will support sustainable and profitable growth over the long-term.

Patent litigation update

There have been a number of developments over the past six months relating to the patent litigation that we are involved in with one of our competitors, ResMed. In Germany in October 2017 we were successful in having two proceedings brought by ResMed against us suspended. The same court ruled that a German utility model patent asserted by us against ResMed is not infringed, and we have appealed that decision. Within the last two weeks a UK court ruled that a patent asserted against us by ResMed was invalid. Subject to any appeal, this patent will therefore be revoked in the UK and we will be entitled to recover our legal costs of the proceedings from ResMed.

These recent decisions reinforce our confidence in our position and we are satisfied with progress so far. A further update on the patent litigation is included on page 25 of this report.

Board changes

This half year, long-serving director Lindsay Gillanders retired from the Board. We have benefited from Lindsay's vast expertise in legal and intellectual property matters as well as his international business experience, and would like to acknowledge his considerable contribution over the years.

In June, Pip Greenwood was appointed as a non-executive director of the Board. Pip is a board member and senior partner at Russell McVeagh, a leading New Zealand law firm. Pip's appointment in June gave us a seamless transition from Lindsay's retirement in August.

We also support the Future Directors' programme, and are pleased to announce that our current participant, Rachael Newsome, has extended her time with us from 12 to 18 months. Her term will now conclude at the end of March 2018. We value the perspective Rachael has brought to our Board meetings, and look forward to her input for another six months.

Dividend

The Board of Directors has approved an increased interim dividend of 8.75 cents per share for the six months to 30 September 2017. This is approximately 61% of net profit after tax. The interim dividend will be paid on 20 December 2017.

Summary

We are a world-class business headquartered in New Zealand, with an excellent and experienced management team with considerable global healthcare experience. Our focus is on growing organically by delivering excellent healthcare solutions for patients.

We have a long-standing aim to double our constant currency revenue every five to six years, which equates to a growth rate of more than 12% every year. Our performance this financial year to date, and the developing nature of the markets in which we operate, mean we remain confident that we are on track to continue delivering on this objective.

TONY CARTER, CHAIRMAN

LEWIS GRADON, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Our aspirations

We've established an enviable track record for delivering sustainable revenue growth.

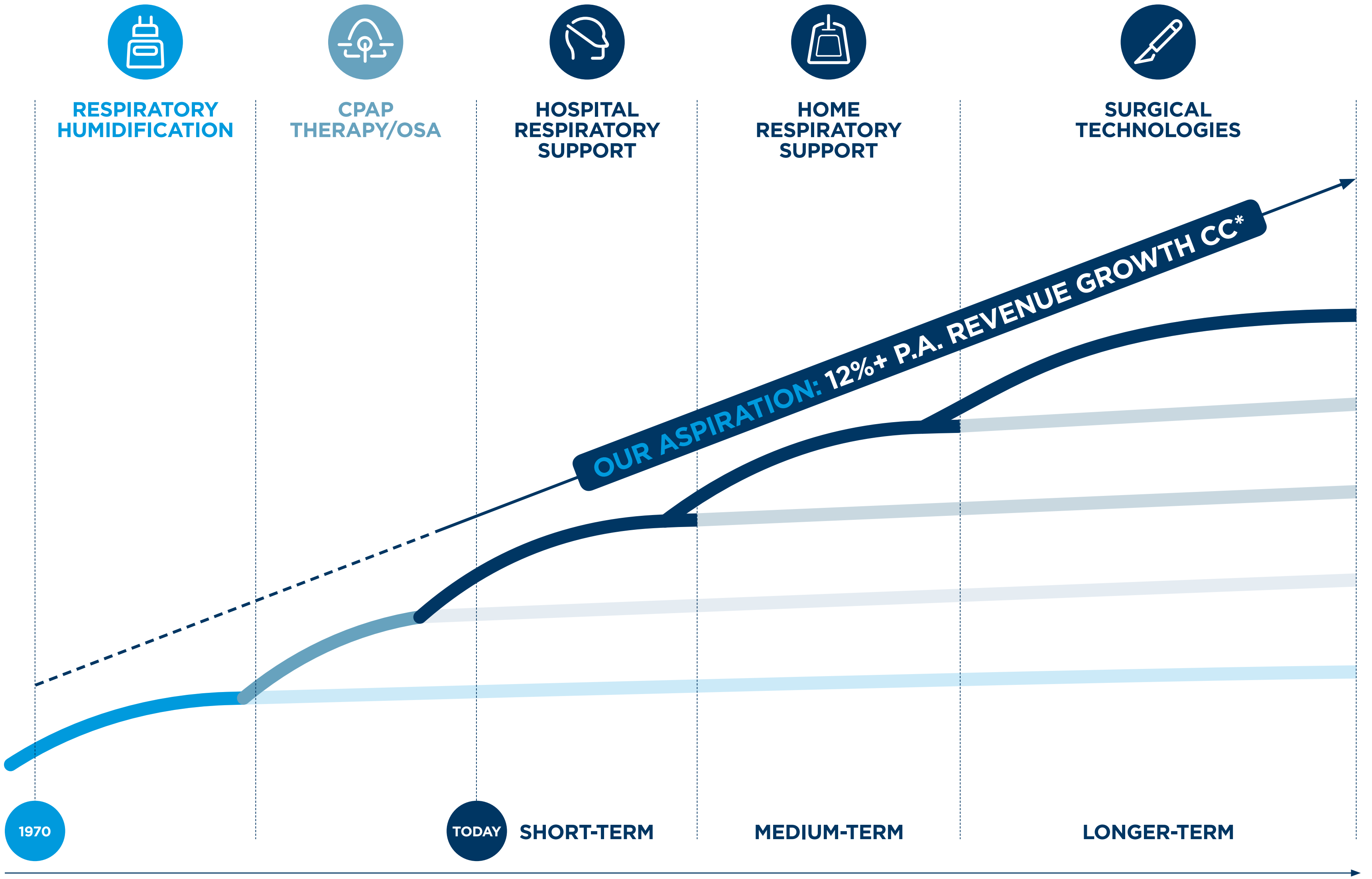
Through increasing our global reach, designing and making better products, changing clinical practice, and concentrating on a sustainable profit journey, we believe we can continue to maintain those growth rates over the long term.

In order to make a significant difference to global healthcare systems, we recognise the need to invest for long-term growth – in research, technology and the development of our employees. We have a responsibility to be a sustainable, long-term partner for the many patients, doctors, nurses, suppliers, investors, and other stakeholders who we affect every day.

Our aspiration over the long term is to deliver 12% revenue growth per year, or doubling our constant currency revenue every five to six years. How will we do this? Through building on what we know, leveraging our competitive advantages and bringing our care by design philosophy to everything we do.

Because at the end of the day, if we can do better for patients, then we do better for everyone.

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



*CONSTANT CURRENCY

Financials

Financial commentary

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 2018 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 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 2015 NZ$M	Six months ended 30 Sep 2016 NZ$M	Variation 2015 to 2016 %	Six months ended 30 Sep 2017 NZ$M	Variation 2016 to 2017 %
Operating revenue	**360.2**	**416.7**	**+16**	**451.4**	**+8**
Cost of sales	133.0	146.1	+10	156.2	+7
Gross profit	227.2	270.6	+19	295.2	+9
Gross Margin	**63.1%**	**64.9%**	**+186bps**	**65.4%**	**+47bps**
Other income	2.5	2.5	–	2.5	–
Selling, general and administrative expenses	107.6	126.6	+18	144.5	+14
Research & development expenses	35.8	41.6	+16	46.9	+13
Total operating expenses	143.4	168.2	+17	191.4	+14
Operating profit	**86.3**	**104.9**	**+22**	**106.3**	**+1**
Operating margin	**23.9%**	**25.2%**	**+121bps**	**23.5%**	**-162bps**
Financing expenses (net)	3.1	2.1	-32	0.9	-57
Profit before tax	**83.2**	**102.8**	**+24**	**105.4**	**+3**

The significant exchange rates used in the constant currency analysis, being the budget exchange rates for the year ending 31 March 2018, are USD 0.69, EUR 0.66, AUD 0.92, GBP 0.57, CAD 0.94, JPY 80 and MXN 13.50.

RECONCILIATION OF CONSTANT CURRENCY TO ACTUAL INCOME STATEMENTS (UNAUDITED)

	Six months ended 30 September		
	2015 NZ$M	2016 NZ$M	2017 NZ$M
Profit before tax (constant currency)	**83.2**	**102.8**	**105.4**
Spot exchange rate effect	0.2	3.5	(1.8)
Foreign exchange hedging result	(7.1)	9.7	10.4
Balance sheet revaluation	8.3	(4.8)	0.1
Profit before tax (as reported)	**84.6**	**111.2**	**114.1**

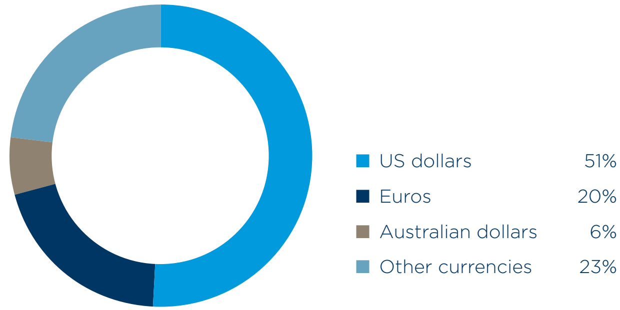
The reconciliation set out above illustrates that, when comparing the NZ dollar profit before tax shown in the actual income statement for the six months to 30 September 2017 with the corresponding period for the prior year:

- the movement in average daily spot exchange rates had an unfavourable impact of NZ$5.3 million; and
- the company's foreign exchange hedging activities had a favourable impact of NZ$0.7 million.

Overall, the net favourable effect of movements in exchange rates and the hedging programme was NZ$0.3 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, 20% in Euros, 6% in Australian dollars and 23% in other currencies.



In the current period the proportion of revenue which was generated in US dollars was 51% (52% last full year). This was mainly due to changes in the value of the US dollar compared to last year. The proportion of revenue from other currencies has remained relatively stable. The company's cost base continues to be increasingly diverse, as manufacturing output from Mexico has increased to 35% of total output.

On average over the reporting period the value of the New Zealand dollar against the currencies we are exposed to has generally moved unfavourably however US dollar hedges put in place in the 2015 calendar year have provided better protection than the prior comparative period. Average EUR conversion rates were unfavourable as measured against the prior comparative period during FY17 as we had delivered the last of the very favourable long-term EUR hedges put in place at the time of the Global Financial Crisis. As a net result a foreign exchange hedging gain of NZ$10.4 million (2016: NZ$9.7 million) to operating profit was recorded, being similar to the prior corresponding period.

The average daily spot rate and the average conversion 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 2016 and 2017 are set out in the table below:

	Average Daily Spot Rate		Average Conversion Exchange Rate	
	Six months ended 30 September		Six months ended 30 September	
	2016	2017	2016	2017
USD	0.7069	0.7178	0.6930	0.6832
EUR	0.6298	0.6310	0.5836	0.6056

The effect of balance sheet translations of offshore assets and liabilities for the six months ended 30 September 2017 resulted in an increase in operating revenue of NZ$0.6 million (2016: decrease of NZ$5.3 million) and an increase in profit before tax of NZ$0.1 million (2016: decrease of NZ$4.8 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:

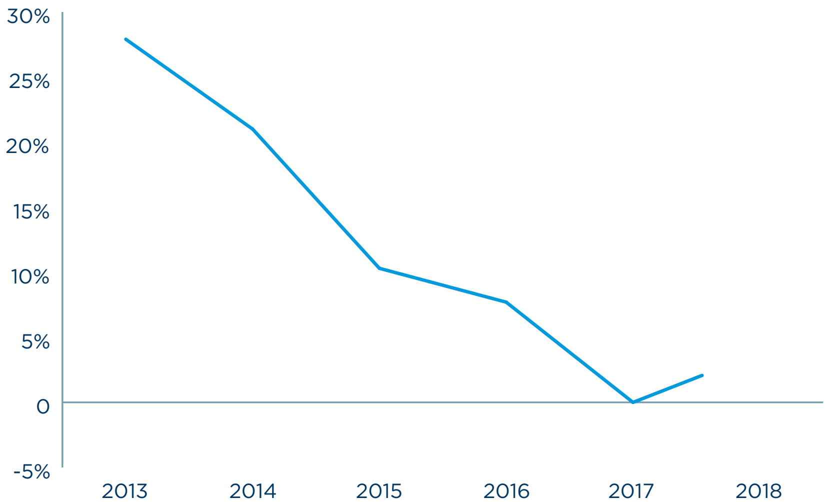
	FY18 2H	FY19	FY20	FY21	FY22	FY23
USD % cover of expected exposure	90%	70%	55%	20%	0%	0%
USD average rate of cover	0.678	0.673	0.658	0.627	NA	NA
EUR % cover of expected exposure	90%	70%	40%	20%	20%	20%
EUR average rate of cover	0.594	0.616	0.581	0.539	0.522	0.509

Hedging cover percentages have been rounded to the nearest 5%.

BALANCE SHEET

Gearing[1] at 30 September 2017 was 3.8%, higher than the 0.0% gearing at 31 March 2017. The increase in gearing since 31 March 2017 is a result of increased capital expenditure, principally land and buildings, and the increased FY17 final dividend paid in July. The gearing figure remains within the debt to debt plus equity target range of +5% to –5%.

Gearing[1]



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

FUNDING

The company had total available committed debt funding of NZ$255 million as at 30 September 2017, of which approximately NZ$182 million was undrawn, and cash on hand of NZ$59 million. Bank debt facilities provide all available funding. Over the next 12 months debt facilities totalling NZ$30 million will mature. As at 30 September 2017, the weighted average maturity of borrowing facilities was 2.4 years.

Debt maturity

The average maturity of the term borrowings of NZ$62 million was 3.2 years and the currency split was 71% US dollars; 20% Euros; 6% Australian dollars and 3% Canadian dollars (no NZD denominated term borrowings).

Interest rates

Approximately 74% of all borrowings were at fixed interest rates with an average duration of 3.0 years and an average rate of 2.9%. Inclusive of floating rate borrowings, the average interest rate on the debt is currently 2.7%. All interest rates are inclusive of margins but not fees.

Cash flow

Cash flow from operations was NZ$82.2 million compared with NZ$76.2 million for the six months ended 30 September 2016. The increase includes a benefit in the timing of tax payments.

Capital expenditure for the six months was NZ$51.6 million compared with NZ$30.4 million in the prior year. The capital expenditure related predominantly to new product tooling and manufacturing equipment as well as property and intangible costs. Property expenditure related to land acquisition costs in Tijuana, Mexico and early earthworks costs for the fourth building on our East Tamaki, Auckland campus, NZ$20.0 million in total. Due to the New Zealand and Mexico building programme we expect capital expenditure to be higher in the second half of the financial year with full year capital expenditure estimated to be NZ$130 million.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2017

	Notes	Unaudited 2016 NZ$M	Unaudited 2017 NZ$M
Operating revenue	3	425.2	458.4
Cost of sales		(149.3)	(155.7)
Gross profit		**275.9**	**302.7**
Other income		2.5	2.5
Selling, general and administrative expenses		(126.1)	(143.3)
Research and development expenses		(41.6)	(46.9)
Total operating expenses		**(167.7)**	**(190.2)**
Operating profit before financing costs		110.7	115.0
Financing income		0.1	0.7
Financing expense		(2.2)	(1.8)
Exchange gain on foreign currency borrowings		2.6	0.2
Net financing income (expense)		**0.5**	**(0.9)**
Profit before tax	4	111.2	114.1
Tax expense		(33.0)	(32.8)
Profit after tax		**78.2**	**81.3**
Basic earnings per share		13.8 cps	14.3 cps
Diluted earnings per share		13.6 cps	14.1 cps

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2017

	Unaudited 2016 NZ$M	Unaudited 2017 NZ$M
Profit after tax	**78.2**	**81.3**
Other comprehensive income		
Items that may subsequently be reclassified to profit or loss		
Hedging reserves		
Changes in fair value in hedging reserves	26.8	9.2
Transfers to profit before tax	(3.9)	(8.9)
Tax on changes in fair value and transfers to profit before tax	(6.4)	(0.1)
Other comprehensive income, net of tax	**16.5**	**0.2**
Total comprehensive income	**94.7**	**81.5**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2017

	Share capital NZ$M	Treasury shares NZ$M	Retained earnings NZ$M	Asset revaluation reserve NZ$M	Hedge reserves NZ$M	Share based payments reserves NZ$M	Total equity NZ$M
Balance at 31 March 2016 (audited)	**165.6**	**(2.4)**	**327.9**	**32.5**	**12.1**	**6.0**	**541.7**
Adjustment on adoption of NZ IFRS 9 (net of tax)	–	–	(2.8)	–	2.8	–	–
Total comprehensive income	–	–	**78.2**	–	**16.5**	–	**94.7**
Dividends paid	–	–	(56.4)	–	–	–	(56.4)
Issue of share capital	8.5	–	–	–	–	–	8.5
Share based payment transactions	1.8	–	–	–	–	(0.3)	1.5
Balance at 30 September 2016 (unaudited)	**175.9**	**(2.4)**	**346.9**	**32.5**	**31.4**	**5.7**	**590.0**
Balance at 31 March 2017 (audited)	**183.5**	**(1.7)**	**391.0**	**53.5**	**26.5**	**8.8**	**661.6**
Total comprehensive income	–	–	**81.3**	–	**0.2**	–	**81.5**
Dividends paid	–	–	(63.9)	–	–	–	(63.9)
Issue of share capital	7.7	–	–	–	–	–	7.7
Movement in treasury shares	–	(1.4)	–	–	–	–	(1.4)
Share based payment transactions	3.4	–	–	–	–	(1.7)	1.7
Balance at 30 September 2017 (unaudited)	**194.6**	**(3.1)**	**408.4**	**53.5**	**26.7**	**7.1**	**687.2**

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

CONSOLIDATED BALANCE SHEET
As at 30 September 2017

	Notes	Audited 31 March 2017 NZ$M	Unaudited 30 September 2017 NZ$M
ASSETS			
Current assets			
Cash and cash equivalents		61.3	59.5
Trade and other receivables		129.6	132.2
Inventories		135.0	145.7
Derivative financial instruments	6	21.2	20.4
Tax receivable		2.0	3.2
Total current assets		**349.1**	**361.0**
Non-current assets			
Derivative financial instruments	6	24.1	29.2
Other receivables		2.5	2.4
Property, plant and equipment		425.2	456.4
Intangible assets		44.5	47.9
Deferred tax asset		32.8	36.9
Total assets		**878.2**	**933.8**
LIABILITIES			
Current liabilities			
Interest-bearing liabilities		21.1	25.6
Trade and other payables		102.2	106.4
Provisions		4.0	4.1
Tax payable		14.7	10.7
Derivative financial instruments	6	3.6	5.8
Total current liabilities		**145.6**	**152.6**
Non-current liabilities			
Interest-bearing liabilities		39.9	60.3
Provisions		2.0	2.1
Other payables		8.6	9.0
Derivative financial instruments	6	5.1	6.9
Deferred tax liability		15.4	15.7
Total liabilities		**216.6**	**246.6**

	Notes	Audited 31 March 2017 NZ$M	Unaudited 30 September 2017 NZ$M
EQUITY			
Share capital		183.5	194.6
Treasury shares		(1.7)	(3.1)
Retained earnings		391.0	408.4
Asset revaluation reserve		53.5	53.5
Hedge reserves		26.5	26.7
Share based payments reserves		8.8	7.1
Total equity		**661.6**	**687.2**
Total liabilities and equity		**878.2**	**933.8**

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

On behalf of the Board
20 November 2017

Tony Carter
Chairman

Lewis Gradon
Managing Director and Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2017

	Unaudited 2016 NZ$M	Unaudited 2017 NZ$M
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	433.6	456.4
Grants received	2.2	2.2
Interest received	0.1	0.5
Payments to suppliers and employees	(307.7)	(333.4)
Tax paid	(49.9)	(42.3)
Interest paid	(2.1)	(1.2)
Net cash flows from operations	**76.2**	**82.2**
CASH FLOWS (USED IN) INVESTING ACTIVITIES		
Sales of property, plant and equipment	0.1	–
Purchases of property, plant and equipment	(22.7)	(44.1)
Purchases of intangible assets	(7.8)	(7.5)
Net cash flows (used in) investing activities	**(30.4)**	**(51.6)**
CASH FLOWS (USED IN) FINANCING ACTIVITIES		
Employee share purchase schemes	0.4	0.2
Issue of share capital	0.8	0.3
New borrowings	–	20.7
Repayment of borrowings	–	(3.6)
Dividends paid	(48.3)	(57.8)
Net cash flows (used in) financing activities	**(47.1)**	**(40.2)**
Net increase (decrease) in cash	(1.3)	(9.6)
Opening cash	2.5	45.6
Effect of foreign exchange rates	(0.7)	(0.2)
Closing cash	**0.5**	**35.8**
RECONCILIATION OF CLOSING CASH		
Cash and cash equivalents	18.0	59.5
Bank overdrafts	(17.5)	(23.7)
Closing cash	**0.5**	**35.8**

	Unaudited 2016 NZ$M	Unaudited 2017 NZ$M
CASH FLOW RECONCILIATION		
Profit after tax	78.2	81.3
Add (deduct) non-cash items:		
Depreciation of property, plant and equipment	15.5	18.4
Amortisation of intangibles	4.4	5.1
Movement in provisions	(0.2)	0.1
Movement in deferred tax assets / liabilities	4.4	(3.8)
Movement in working capital:		
Trade and other receivables	12.8	(2.4)
Inventories	(11.8)	(10.7)
Trade and other payables	(5.9)	(1.7)
Taxation payable / receivable	(19.2)	(5.2)
Foreign currency translation	(2.0)	(0.5)
Other	–	1.6
Net cash flows from operations	**76.2**	**82.2**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

1. GENERAL INFORMATION

Reporting entity

Fisher & Paykel Healthcare Corporation Limited (the "Company" or "Parent") together with its subsidiaries (the "Group") is a leading designer, manufacturer and marketer of medical device products and systems for use in 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 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 Securities Exchange (ASX).

Basis of preparation

These consolidated financial statements for the six months ended 30 September 2017 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting (NZ IAS 34) and International Accounting Standard 34: Interim Financial Reporting (IAS 34). The Company and Group are designated as profit-oriented entities for financial reporting purposes.

These consolidated 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 consolidated financial statements for the year ended 31 March 2017.

All accounting policies have been applied on a basis consistent with those used in the audited consolidated financial statements for the year ended 31 March 2017, as described in those annual financial statements. The Group has also been consistent in applying the judgements, estimates and assumptions adopted in the audited consolidated financial statements for the year ended 31 March 2017.

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

2. SIGNIFICANT TRANSACTIONS AND EVENTS FOR THE CURRENT PERIOD

The following significant transactions and events affected the financial performance and financial position of the Group for the six month period ended 30 September 2017:

Capital expenditure

On 2 May 2017 the acquisition of approximately 15 hectares of land in Tijuana, Mexico was completed at USD equivalent to NZ$19.6 million. In October 2017, the Group signed an agreement to construct the new Mexico manufacturing facility for USD equivalent to NZ$25.3 million. The land acquisition and construction will continue to be funded through existing debt facilities. Site works for a new building at our East Tamaki campus also commenced during the period.

Dividends

On 19 May 2017 the directors approved the payment of a fully imputed 2017 final dividend of $63.9 million (11.25 cents per share) which was paid on 7 July 2017. A supplementary dividend of $5.7 million (1.9853 cents per share) was also approved for eligible non-resident shareholders, for which the Group received an equivalent tax credit. 555,272 shares were issued under the Company's dividend reinvestment plan at an average price of $11.13 (2017: $9.36).

Share Capital

During the six months ended 30 September 2017, the Group issued 555,272 shares under the dividend reinvestment plan. 142,573 treasury shares were issued to employee share purchase plans and a further 2,151,927 shares were issued on exercise of share options and performance share rights.

Funding

During the period, the Group funded the acquisition of the Mexico land through existing debt facilities. The Company had total available committed debt funding of NZ$255 million as at 30 September 2017, of which approximately NZ$182 million was undrawn. Over the next 12 months debt facilities totalling NZ$30 million will mature. As at 30 September 2017, the weighted average maturity of borrowing facilities was 2.4 years.

Hedge reserves

As at 30 September $26.1 million of unrealised gains were held in the cash flow hedge reserve and $0.6 million of unrealised gains were held in the costs of hedging reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. OPERATING REVENUE

	Unaudited 30 September 2016 NZ$M	Unaudited 30 September 2017 NZ$M
Revenue before hedging:		
North America	199.4	206.7
Europe	118.5	127.6
Asia Pacific	80.1	92.2
Other	16.3	20.7
Total revenue before hedging	**414.3**	**447.2**
Foreign exchange gain on hedged sales	10.9	11.2
Total operating revenue	**425.2**	**458.4**

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 9.

Revenue by Product Group		
Hospital products	236.6	262.5
Homecare products	183.3	191.3
	419.9	453.8
Distributed and other products	5.3	4.6
Total operating revenue	**425.2**	**458.4**

4. EXPENSES

	Unaudited 30 September 2016 NZ$M	Unaudited 30 September 2017 NZ$M
Profit before tax includes the following expenses:		
Depreciation	15.5	18.4
Amortisation	4.4	5.1
Employee benefits expense	154.3	164.9
Rental and lease expense	4.9	4.9
Litigation expense	2.4	12.2

5. CONTINGENT LIABILITIES

Periodically the Group is party to litigation including product liability and patent claims.

ResMed Patent Litigation

United States

In August 2016, Fisher & Paykel Healthcare filed patent infringement proceedings in the US District Court for the Southern District of California seeking judgment that ResMed's AirSense 10 and AirCurve 10 range of flow generator products, ClimateLineAir heated air tubing, and water chambers for use with such flow generator products, as well as Swift LT and Swift FX masks infringe patents held by Fisher & Paykel Healthcare. ResMed responded that the patents asserted are not infringed and/or are invalid.

ResMed also filed a counterclaim in the US District Court for the Southern District of California seeking judgment that Fisher & Paykel Healthcare's Simplus and Eson range of masks used in the treatment of OSA infringe patents held by ResMed. Fisher & Paykel Healthcare responded that it does not infringe and/or the patents of ResMed are invalid.

Also in August 2016, ResMed requested that the US International Trade Commission (ITC) conduct an investigation into patent infringement allegations. Shortly before the start of the trial in May 2017, ResMed withdrew its complaint to the ITC. ResMed indicated at the time that it intended to file an additional ITC complaint but has not yet done so.

Both Fisher & Paykel Healthcare and ResMed have filed for inter partes review with the US Patent Trial and Appeal Board of the patents asserted by the other in the US.

Germany

ResMed initiated patent infringement proceedings in the Regional Court in Munich in relation to Fisher & Paykel Healthcare's Simplus and Eson range of masks. These proceedings are currently stayed pending the outcome of challenges to the validity of ResMed's patents that will be heard by the European Patent Office.

Fisher & Paykel Healthcare also filed patent infringement proceedings against ResMed in the Regional Court in Munich in relation to ResMed's AirSense 10 and AirCurve 10 range of flow generator products and Lumis series of non-invasive ventilators. One case is currently stayed pending the outcome of a validity challenge and one is awaiting its second hearing which has been scheduled for 2018. In a third case the court ruled that a German utility model patent was not infringed. Fisher & Paykel Healthcare has appealed that decision.

New Zealand

ResMed has initiated proceedings in the High Court of New Zealand in relation to Fisher & Paykel Healthcare's ICON CPAP device and Simplus and Eson range of masks. Fisher & Paykel Healthcare has filed a counterclaim in the High Court of New Zealand for non-infringement and revocation.

United Kingdom

In the United Kingdom Fisher & Paykel Healthcare sought a declaration of non-infringement and invalidity in the High Court of Justice Chancery Division Patents Court in respect of three patents asserted against Fisher & Paykel Healthcare in Germany. ResMed counterclaimed for infringement. Just before the trial was to start ResMed conceded to the revocation of two of its patents in the UK. The trial proceeded in relation to a third patent and the Court found that ResMed's patent was invalid in its entirety. Subject to any appeal, this patent will be revoked in the UK and Fisher & Paykel Healthcare is entitled to recover its legal costs of the proceedings from ResMed for an amount yet to be determined by the Court.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. CONTINGENT LIABILITIES CONTINUED

Impact

Both parties are seeking injunctions and damages in relation to the proceedings described on the previous page. As at the date of the issue of these financial statements, an estimate of the financial effect cannot be made.

Except as noted on the previous page, 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.

6. FINANCIAL INSTRUMENTS

Financial instruments are either carried at amortised cost, less any provision for impairment, or fair value. The carrying value of all financial assets and liabilities approximates fair value.

There have been no changes to the Group's hedging policy during the period. The Group enters into foreign currency option contracts or forward foreign currency contracts within policy parameters to manage the net risk associated with anticipated sales or costs. The Group generally applies hedge accounting to all derivative financial instruments.

All derivative financial instruments continue to be re-measured to their fair value. Derivatives continue to be classified as being within Level 2 of the fair value hierarchy and there were no changes in valuation techniques during the period.

The following table lists the Group's current contractual foreign exchange contracts.

	Audited 31 March 2017 NZ$M	Unaudited 30 September 2017 NZ$M
Contractual amounts of derivative financial instruments were as follows:		
Foreign currency forward contracts and options		
Purchase commitments forward exchange contracts	60.5	54.6
Sale commitments forward exchange contracts	582.1	700.2
Foreign currency borrowing forward exchange contracts	3.7	3.9
Collar option contracts – NZD call option purchased (i)	193.0	142.1
Collar option contracts – NZD call option sold (i)	214.1	157.8
Interest rate derivatives		
Interest rate swaps	54.0	67.0
Interest rate options	21.0	21.0

(i) Foreign currency contractual amounts are equal.

	Foreign currency	
	Audited 31 March 2017 M	Unaudited 30 September 2017 M
Sales Commitments		
United States dollars	US$309.0	US$315.5
European Union euros	€110.3	€120.8
Australian dollars	A$14.2	A$21.6
British pounds	£18.0	£21.0
Canadian dollars	C$13.0	C$24.1
Japanese yen	¥3,190.0	¥3,155.0
Chinese yuan	¥46.0	¥61.1
Korean won	₩3,746.2	₩5,934.0
Swedish kronor	kr16.5	kr42.5
Danish krone	kr0.0	kr3.0
Purchase Commitments		
Mexican pesos	MEX$815.5	MEX$723.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. CAPITAL EXPENDITURE COMMITMENTS

	Audited 31 March 2017 NZ$M	Unaudited 30 September 2017 NZ$M
Capital expenditure commitments contracted for but not recognised as at the reporting date:		
Within one year	34.8	10.9
Between one and two years	2.1	1.5
	36.9	**12.4**

8. 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.

9. SEGMENT INFORMATION

The Group's operating segments consist of New Zealand, North America, Europe and Asia Pacific. The composition of these segments is unchanged from the audited consolidated financial statements for the year ended 31 March 2017. Performance is measured based on segment operating profit, as the chief operating decision-maker believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within this industry.

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 in Note 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. SEGMENT INFORMATION CONTINUED

Operating Segments

	New Zealand NZ$M	North America NZ$M	Europe NZ$M	Asia-Pacific NZ$M	Eliminations NZ$M	Total NZ$M
30 September 2016 (Unaudited)						
Sales revenue – external	29.4	199.5	117.1	68.3	–	414.3
Sales revenue – internal	317.0	–	–	–	(317.0)	–
Foreign exchange gain on hedged sales	10.9	–	–	–	–	10.9
Total operating revenue	**357.3**	**199.5**	**117.1**	**68.3**	**(317.0)**	**425.2**
Other income	2.5	–	–	–	–	2.5
Depreciation and amortisation	17.9	1.3	0.4	0.3	–	19.9
Segment operating profit before financing costs	**113.8**	**2.5**	**0.6**	**3.5**	**(9.7)**	**110.7**
Financing income	1.3	–	–	–	(1.2)	0.1
Financing expense	(1.8)	(1.2)	(0.3)	(0.1)	1.2	(2.2)
Exchange gain (loss) on foreign currency borrowings	2.7	–	(0.1)	–	–	2.6
Segment net profit before tax	**116.0**	**1.3**	**0.2**	**3.4**	**(9.7)**	**111.2**
Segment assets	**768.4**	**134.2**	**110.1**	**57.9**	**(265.6)**	**805.0**
Segment capital expenditure	**26.2**	**3.6**	**0.1**	**0.6**	**–**	**30.5**
30 September 2017 (Unaudited)						
Sales revenue – external	35.2	206.7	126.6	78.7	–	447.2
Sales revenue – internal	330.7	–	–	–	(330.7)	–
Foreign exchange gain on hedged sales	11.2	–	–	–	–	11.2
Total operating revenue	**377.1**	**206.7**	**126.6**	**78.7**	**(330.7)**	**458.4**
Other income	2.5	–	–	–	–	2.5
Depreciation and amortisation	20.4	2.2	0.4	0.5	–	23.5
Segment operating profit before financing costs	**128.3**	**3.4**	**0.2**	**4.3**	**(21.2)**	**115.0**
Financing income	2.2	–	–	–	(1.5)	0.7
Financing expense	(1.7)	(1.2)	(0.3)	(0.1)	1.5	(1.8)
Exchange gain on foreign currency borrowings	0.2	–	–	–	–	0.2
Segment net profit before tax	**129.0**	**2.2**	**(0.1)**	**4.2**	**(21.2)**	**114.1**
Segment assets	**919.5**	**157.8**	**118.9**	**64.5**	**(326.9)**	**933.8**
Segment capital expenditure	**52.0**	**2.4**	**0.2**	**0.5**	**–**	**55.1**

10. SUBSEQUENT EVENTS

On 20 November 2017 the directors approved the payment of a fully imputed 2018 interim dividend of $49.9 million (8.75 cents per share) to be paid on 20 December 2017.

INDEPENDENT REVIEW REPORT

To the shareholders of Fisher & Paykel Healthcare Corporation Limited

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have reviewed the accompanying consolidated financial statements ("financial statements") of Fisher & Paykel Healthcare Corporation Limited ("the Company"), and its controlled entities ("the Group") on pages 20 to 28, which comprise the consolidated balance sheet as at 30 September 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period ended on that date, and selected explanatory notes.

Directors' responsibility for the financial statements

The Directors are responsible on behalf of the Group for the preparation and presentation 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 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 NZ IAS 34. As the auditors of the Group, 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) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of advisory, tax compliance, other assurance services and procedures for scrutineering the counting of votes at the Annual Shareholders' Meeting. The provision of these other services has not impaired our independence.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Group are not prepared, in all material respects, in accordance with NZ IAS 34.

Who we report to

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.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
20 November 2017

Auckland

Directory

DIRECTORS

Tony Carter	Chairman, Non-Executive, Independent
Lewis Gradon	Managing Director and Chief Executive Officer
Michael Daniell	Non-Executive
Pip Greenwood	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

Lewis Gradon	Managing Director and Chief Executive Officer
Paul Shearer	Senior Vice President – Sales & Marketing
Tony Barclay	Chief Financial Officer & Company Secretary
Debra Lumsden	Vice President Human Resources & Privacy Officer
Andrew Somervell	Vice President – Products & Technology
Brian Schultz	Vice President – Quality & Regulatory
Winston Fong	Vice President – Surgical Technologies
Jonti Rhodes	General Manager – Supply Chain
Nicholas Fourie	Vice President - Information & Communication Technology

REGISTERED OFFICES

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Australia:

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STOCK EXCHANGES

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

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

Fisher & Paykel
HEALTHCARE

www.fphcare.com