Fisher & Paykel Healthcare

# NOTICE OF ANNUAL SHAREHOLDERS' MEETING 2017

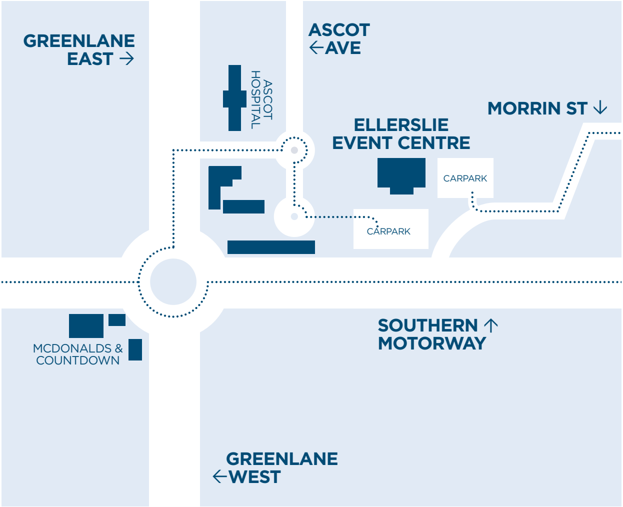
Fisher & Paykel HEALTHCARE

The Annual Shareholders' Meeting of Fisher & Paykel Healthcare Corporation Limited (NZBN 9429040719887 and ABN 69 098 026 281) will be held at the Newmarket Room, Ellerslie Event Centre, Auckland, New Zealand on Thursday, 24 August 2017 commencing at 2:00pm (NZST).

## IMPORTANT DATES

| | |
|---|---|
| **Record date for voting entitlements for the Annual Shareholders' Meeting** | 5.00pm, Tuesday 22 August 2017 |
| **Latest time for receipt of postal votes and proxies** | 2.00pm, Tuesday 22 August 2017 |
| **Annual Shareholders' Meeting** | 2.00pm, Thursday 24 August 2017 |

## HOW TO GET TO THE ELLERSLIE EVENT CENTRE



# BUSINESS

## A. CHAIRMAN'S ADDRESS

## B. MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S REVIEW

## C. FINANCIAL STATEMENTS

To receive and consider the financial statements and the auditor's report for the year ended 31 March 2017 as contained in the Company's 2017 annual report.

## D. RESOLUTIONS

To consider and, if thought appropriate, pass the following ordinary resolutions:

### Re-Election of Directors

(1) That Tony Carter, who retires by rotation and, being eligible, offers himself for re-election, be re-elected as a director of the Company.

(2) That Geraldine McBride, who retires by rotation and, being eligible, offers herself for re-election, be re-elected as a director of the Company.

(See Explanatory Note 1)

### Election of Director

(3) That Pip Greenwood, who, being eligible, offers herself for election, be appointed as a director of the Company.

(See Explanatory Note 2)

### Directors' Remuneration

(4) That the maximum aggregate annual remuneration payable to non-executive Directors be increased by NZ$100,000 from NZ$950,000 to NZ$1,050,000, such sum to be divided amongst the non-executive Directors in such a manner as the Directors see fit.

(See Explanatory Note 3)

### Auditor's Remuneration

(5) That the Directors be authorised to fix the fees and expenses of PricewaterhouseCoopers as the Company's auditor.

(See Explanatory Note 4)

### Long Term Variable Remuneration issued to the Managing Director and Chief Executive Officer

(6) That approval be given for the issue of up to 50,000 performance share rights under the Fisher & Paykel Healthcare Performance Share Rights Plan to Lewis Gradon, Managing Director and Chief Executive Officer of the Company.

(7) That approval be given for the issue of up to 150,000 options under the Fisher & Paykel Healthcare 2003 Share Option Plan to Lewis Gradon, Managing Director and Chief Executive Officer of the Company.

(See Explanatory Note 5)

## SHAREHOLDER QUESTIONS

Consideration of any shareholder questions raised during the meeting.

By Order of the Board of Directors

TONY CARTER, CHAIRMAN
7 JULY, 2017

# PROCEDURAL NOTES

## Persons entitled to vote

The persons who will be entitled to vote on the resolutions at the Annual Shareholders' Meeting are those persons who will be the shareholders of the Company at 5:00pm on Tuesday, 22 August 2017 (NZST).

## Casting a vote

The voting form enclosed with this notice allows you, or your proxy, to vote either for or against, or abstain from, each of the resolutions. Votes may be cast in any one of the following ways:

### Meeting attendance

Shareholder present at the Annual Shareholders' Meeting may cast their votes at the meeting.

### Online and postal voting

Shareholders may also directly cast a vote online at vote.linkmarketservices.com/FPH or by post by completing and lodging the enclosed voting form with the share registrar, Link Market Services Limited, in accordance with the instructions set out on the form not less than 48 hours before the time of the holding of the meeting (i.e. before 2.00pm on Tuesday 22 August 2017 (NZST)).

### Proxy

Shareholders may appoint a proxy to attend the Annual Shareholders' Meeting and vote in their place. A body corporate who is a shareholder may appoint a representative to attend on its behalf in the same manner as that in which it could appoint a proxy.

A proxy need not be a shareholder of the Company. A shareholder who wishes to do so may appoint the Chairman of the Meeting to act as proxy.

A proxy will vote as directed in the proxy form or, if voting is left to the proxy's discretion, then the proxy will decide how to vote on the resolutions. If the Chairman is appointed as proxy and the voting is left to his discretion, the Chairman intends to vote in favour of each of Resolutions (1) to (3) and Resolutions (5) to (7). The Chairman will abstain from voting on any discretionary proxies in respect of Resolution (4).

To appoint a proxy, the enclosed voting form must be completed and lodged with the share registrar, Link Market Services Limited, in accordance with the instructions set out on the form not less than 48 hours before the time of the holding of the meeting (i.e. before 2.00pm on Tuesday 22 August 2017 (NZST)).

## Voting Restrictions

The Company will disregard any votes cast on Resolution (4) by any Director and any of his or her associates (as defined in the NZX Main Board Listing Rules (**Listing Rules**)). The Company will also disregard any votes cast on Resolutions (6) and (7) by Lewis Gradon and any of his associates.

However, the Company need not disregard a vote cast on Resolutions (4), (6) or (7) if it is cast by any of the above people as proxy for a person who is entitled to vote, in accordance with an express direction on the voting form to vote for or against the applicable resolution.

## Resolutions

All of the resolutions contained in this Notice of Meeting must be passed by an ordinary resolution of shareholders, i.e., by a simple majority of the votes of those shareholders entitled to vote and voting on the resolution in person or by proxy.

## NZX

This Notice of Meeting has been approved by NZX Limited (**NZX**) in accordance with NZX Main Board Listing Rule 6.1.1. The NZX does not take any responsibility for any statement in this notice.

# EXPLANATORY NOTES

## EXPLANATORY NOTE 1 – RE-ELECTION OF DIRECTORS

Under Listing Rule 3.3.11 of the Listing Rules, and in accordance with the Company's constitution, one third of the Company's Directors retire by rotation at the Annual Shareholders' Meeting, and are eligible for re-election at that meeting. Those retiring by rotation are the Directors who have served longest as Directors since they were elected or last re-elected.

Tony Carter, Geraldine McBride and Lindsay Gillanders are the Directors retiring in 2017. Being eligible, both Tony Carter and Geraldine McBride offer themselves for re-election. Lindsay Gillanders has chosen not to seek re-election, and will therefore be retiring from the Board at the meeting. The Board has appointed Pip Greenwood as a Director to replace Mr Gillanders and a resolution to elect Ms Greenwood is also being put to shareholders (see Explanatory Note 2).

All directors standing for re-election do so with the support of the Board and are considered by the Board to be independent Directors. Biographical backgrounds of Mr Carter and Ms McBride are set out below.

**Tony Carter**

Mr Carter, the current Chair of the Board, is a highly respected director and sits on the Boards of a number of New Zealand companies. He was managing director of Foodstuffs New Zealand Limited for ten years, until his retirement in 2010. Mr Carter is also chairman of Air New Zealand Limited and Blues Management Limited, a director of Fletcher Building Limited, and ANZ Bank New Zealand Limited, and a trustee of the Maurice Carter Charitable Trust. Tony Carter has Masters degrees in Engineering.

### Geraldine McBride

Ms McBride has been involved in the technology industry for 29 years and has a wealth of global experience. She has held senior executive roles at SAP AG and Dell Inc, and is a former President of SAP North America. She is a current director of National Australia Bank and Sky Network Television Ltd, and the founder and CEO of MyWave – a global leader in the AI/Intelligent Assistant market. Geraldine McBride has a Bachelor's degree in Science – Zoology.

## EXPLANATORY NOTE 2 – ELECTION OF DIRECTOR

Under NZX Main Board Listing Rule 3.3.6 and in accordance with the Company's constitution, any Director appointed by the Board must retire from office at the next Annual Shareholders' Meeting of the Company, but is eligible for election at that meeting.

On 1 June 2017, Pip Greenwood was appointed by the Board as a Director of the Company. Accordingly Ms Greenwood retires and, being eligible, offers herself for election by shareholders at the Annual Shareholders' Meeting.

Ms Greenwood stands for election with the support of the Board and is considered by the Board to be an independent Director. A biographical background of Ms Greenwood is set out below.

### Pip Greenwood

Ms Greenwood is a leading figure in the field of commercial law in New Zealand and became a director of the Company in June 2017. She is also a board member and senior partner at the commercial law firm Russell McVeagh, with over ten years' experience on its board and has served as the firm's Board Chair. Ms Greenwood joined Russell McVeagh as a Partner in 2001 and has since advised on many of New Zealand's market-leading transactions that have changed the face of different industries. She served as a member of the New Zealand Takeovers Panel from 2007 to 2011 and is a current trustee of the Auckland Writers Festival and of the Halberg Endowment Fund. Ms Greenwood has a Bachelor of Laws.

## EXPLANATORY NOTE 3 – REMUNERATION OF DIRECTORS

Shareholders are being asked to approve an increase in the total amount available for payment of non-executive Directors' fees by NZ$100,000 from NZ$950,000 per annum to NZ$1,050,000 per annum. The Directors may determine the amount payable to each non-executive Director within the maximum aggregate amount being approved by shareholders. Fees paid to the Company's non-executive Directors for the year ended 31 March 2017 totalled NZ$896,230. A break-down of the fees paid to each Director for Board and Committee membership is set out in the Company's 2017 Annual Report, a copy of which is available on the Company's website (www.fphcare.co.nz/2017annualreport).

Shareholders last approved an increase in total annual remuneration for the Company's non-executive Directors in 2014, from $800,000 per annum to $950,000 per annum. Since that date:

- an additional non-executive Director was added to the Board (that is, when Michael Daniell transitioned to the role of non-executive Director following his retirement as the Company's Chief Executive Officer);
- the base fee paid to a non-executive Director has increased 6%;
- net profit after tax has increased at an annual compound growth rate of 20% from NZ$97.1 million for the year ended 31 March 2014 to NZ$169.2 million for the year ended 31 March 2017, and on 22 May 2017 the Company provided guidance that it expects to achieve approximately NZ$180 to NZ$190 million of net profit after tax in the 2018 financial year; and
- the Company has grown from one with a market capitalisation of approximately NZ$2.3 billion at 31 March 2014 to approximately NZ$5.5 billion at 31 March 2017.

The Board is conscious to ensure Directors' fees are set and managed in a manner which is fair, flexible and transparent. The Board has therefore engaged consultants Ernst & Young, who maintain a significant database of directors' fees information in New Zealand and Australia, for independent advice on the Company's current Directors' fees. Using this database, the Company's current fees were benchmarked against NZX companies of a similar size and scale to the Company. A summary of the Ernst & Young report is available on the Company's website (www.fphcare.co.nz/asm). The report indicates that the Company's current maximum available annual remuneration for non-executive Directors' is at the 25th percentile of the comparator group.

As a result of this benchmarking process and the Board's consultation with a number of shareholders, the Board determined to propose an increase in the total annual pool available for remunerating the Directors as set out above. The proposed increase in fees represents an increase of 3.39% per annum over the three-year period since the total Directors' remuneration was last approved by shareholders, and would place the Company between the 25th and median percentile of the comparator group. It is the Board's intention that this proposed increase will provide sufficient headroom to accommodate the remuneration of non-executive Directors for a minimum of three years.

For the voting exclusions applicable to this resolution, please refer to Procedural Notes included in this Notice of Meeting.

## EXPLANATORY NOTE 4 – AUDITOR'S REMUNERATION

As announced at last year's Annual Shareholders' Meeting, following a competitive process for the provision of external audit services to the Company and its subsidiaries, PWC were reappointed as the Company's auditor. Under section 207T of the Companies Act 1993, PWC is automatically reappointed as the auditor of the Company and this resolution authorises the Board to fix the fees and expenses of the auditor in accordance with section 207S of the Companies Act 1993.

## EXPLANATORY NOTE 5 – LONG TERM VARIABLE REMUNERATION ISSUED TO THE MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

### Introduction

The Board believes that the issue of equity based long-term remuneration instruments (**LTR Instruments**) will provide appropriate alignment of participating employees to grow the total shareholder return of the Company. The LTR Instruments also assist the Company to attract, motivate and retain key employees in an environment where such employees are in high demand both within New Zealand and internationally. LTR Instruments will be issued to employees as a long-term component of remuneration provided to employees in accordance with the Company's remuneration policy.

The Company's current long term variable remuneration arrangements for selected executives and managers comprise the issue of options under the Fisher & Paykel Healthcare 2003 Share Option Plan (the **Option Plan**) and the issue of performance share rights under the Fisher & Paykel Healthcare Performance Share Rights Plan (the **Share Rights Plan** and together with the Option Plan, the **Existing Plans**). Under the Option Plan, options will vest depending on share price performance relative to a cost of capital benchmark whereas under the Share Rights Plan, share rights vest depending on the achievement of a designated total shareholder return hurdle.

| SHARE RIGHTS | | | OPTIONS | |
|---|---|---|---|---|
| 2016 | | 2017 | 2016 | |
| Maximum Amount | Actual Amount Issued | Maximum Amount | Maximum Amount | Actual Amount Issued |
| 50,000 | 24,000 | 50,000 | 120,000 | 72,000 |

The Company also intends to offer a third long term variable remuneration scheme for other employees. The new scheme will offer securities to employees that are convertible into ordinary shares after certain periods (the **New Plan**, and together with the Existing Plans, **the Plans**). The Company is currently in the process of designing the New Plan, which is expected to be implemented in late 2017. The Company's intention is that LTR Instruments will be issued under the Existing Plans to selected executives and managers whereas under the New Plan LTR Instruments will be issued to other employees of the Company and its subsidiaries. If the New Plan is not implemented in 2017 then the Company intends to offer LTR Instruments to other employees under the Existing Plans for the current year.

Under the Existing Plans, the Board may issue LTR Instruments to executives, managers and other employees of the Company and its subsidiaries. Shareholder approval is being sought to issue up to 50,000 share rights under the Share Rights Plan, and up to 150,000 options under the Option Plan, to Lewis Gradon, the Managing Director and Chief Executive Officer of the Company. Mr Gradon's participation has been determined by criteria applying to employees generally under the Plans. Mr Gradon is the only Director eligible to participate in new grants under the Plans.

The below table compares the number of LTR Instruments proposed to be issued to Mr Gradon this year against the total maximum number proposed last year, as well as the total number of actual LTR Instruments issued to Mr Gradon last year.

| | | LTR INSTRUMENTS TOTAL | | |
|---|---|---|---|---|
| | 2017 | 2016 | | 2017 |
| | Maximum Amount | Maximum Amount | Actual Amount Issued | Maximum Amount |
| | 150,000 | 170,000 | 96,000 | 200,000 |

The Company also intends to issue, pursuant to NZX Main Board Listing Rule 7.3.6, up to 2,100,000 LTR Instruments in aggregate under the Plans (including the New Plan) to selected executives, managers and other employees of the Company and its subsidiaries. Together with the maximum number of LTR Instruments proposed to be issued to Mr Gradon, the Company therefore intends to issue no more than a maximum aggregate of 2,300,000 LTR Instruments to employees, including Mr Gradon, following the Annual Shareholders' Meeting. This is the same maximum aggregate number of LTR Instruments that was indicated would be issued at the Company's 2016 Annual Shareholders' Meeting and equates to the issue of LTR Instruments to acquire shares representing approximately 0.4% of the total ordinary shares on issue. If all 2,300,000 LTR Instruments were exercised for shares then shareholders would be diluted by this percentage amount. In 2016, the actual number of LTR Instruments issued was 1,542,212.

The Company intends to issue the LTR Instruments within six months of the date of the Annual Shareholders' Meeting.

The Board will review the operation of the Plans from time to time and consider whether it is in the Company's interest to make further grants of LTR Instruments under those plans.

For the voting exclusions applicable to this resolution, please refer to Procedural Notes included in this Notice of Meeting.

A summary of the key terms of the Existing Plans is set out below.

## Key Terms of the Share Rights Plan

The key terms of the Share Rights Plan are:

- No amount is payable by a participant for the grant of share rights.
- One share right gives the participant the potential to exercise that share right for one ordinary share in the Company at no cost.
- Whether (and how many) share rights become exercisable will depend on the Company's gross total shareholder return (**TSR**) performance

compared to the performance of the Dow Jones US Select Medical Equipment Total Return Index (**DJSMQDT**) in New Zealand dollars over the same period (the **Index return**).

- The Company's TSR will be calculated and compared against the Index return at the end of the following performance periods:
  - from the date of the grant of the share rights (the **Grant Date**) to the third anniversary of that date (the **First Performance Period**);
  - from the **Grant Date** to the fourth anniversary of that date (the **Second Performance Period**);
  - from the Grant Date to the fifth anniversary of that date (the **Final Performance Period**); and
  - if a person or group of persons acting in concert acquires 50% or more of the shares on issue prior to the fifth anniversary of the Grant Date (a **Change of Control**), from the Grant Date to the date on which that person or group of persons acquires at least 50% of the shares on issue (the **Takeover Performance Period**).
- Share rights will only become exercisable if the Company's TSR over the relevant performance period exceeds the Index return over the same period, measured in absolute terms. If at the end of the relevant performance period the Company's TSR performance over that period exceeds the Index return over the same period by less than 10%, measured in absolute terms, then between 50% and 100% of the share rights held by the participant, as determined on a straight line basis by the Company, become exercisable. If the Company's TSR over that performance period exceeds the Index return over the same period by 10% or more, measured in absolute terms, then all of the share rights will become exercisable as at the end of the relevant performance period.
- At the end of the First Performance Period, the Company will advise each participant whether any of their share rights are exercisable depending on the above methodology and if they are, the number of share rights which are exercisable. The participant may then choose to exercise any exercisable share rights or not.

- Exercisable share rights may only be exercised during the 20 business day period from the date that the participant is notified that the share rights have become exercisable following the end of the relevant performance period (the Exercise Period). The Board has discretion to extend an Exercise Period or set a new Exercise Period if the Exercise Period would otherwise fall outside of a permitted trading period under the Company's securities trading policy. If the participant chooses not to exercise any exercisable share rights (or no share rights are exercisable because the Company's TSR over the performance period has not exceeded the Index return over the same period), the process is repeated at the end of the Second Performance Period and, if necessary, at the end of the Final Performance Period. The process is also repeated if a Change of Control occurs, at the end of the Takeover Performance Period. At the end of the Exercise Period in respect of the Final Performance Period, any unexercised share rights and any share rights which are not capable of exercise will lapse.
- Unless otherwise determined by the Board, a participant's share rights will lapse on the first to occur of the following events:
  - the exercise of any of that participant's share rights within an Exercise Period;
  - 5pm on the last day of the Exercise Period in respect of the Final Performance Period;
  - in the case of share rights held by a participant who ceases to be employed because of serious illness, accident, permanent disablement, redundancy, death or after a person or group of persons acting in concert acquires 50% or more of the shares on issue, in each case after the third anniversary of the date of grant of the share rights, the last date of the Exercise Period in respect of the next performance period following the date of which the participant ceases to be employed; and
  - in the case of share rights held by a participant who ceases to be employed because of any other reason, the day on which that person ceases to be employed.

- Subject to any applicable Listing Rules, the Board is given discretion to adjust the terms of any share rights to achieve equivalent treatment as between the participants in the Share Rights Plan and the shareholders in the event of a change in the capital structure of the Company.
- The Company may amend the terms of the Share Rights Plan, subject to the consent of any adversely affected participant.
- Share rights are not transferable, other than to certain persons associated with an employee and approved by the Board, and do not participate in dividends or other distributions of the Company. Participants are not entitled to participate in new issues of the underlying securities (such as a rights issue or bonus issue) prior to exercising the share rights.
- Share rights will not be quoted on either the NZX Main Board or the ASX markets. So long as the Company remains listed on the NZX Main Board and/or the ASX markets it is intended that the shares issued on exercise of share rights will be quoted on the NZX Main Board and/or the ASX markets (as applicable).
- Ordinary shares issued or transferred on the exercise of share rights will be fully paid and rank equally with all other ordinary shares in the Company except for dividends declared or payable in respect of any period prior to the issue of the relevant shares.
- Further information about the Share Rights Plan, including a copy of the documentation giving effect to the plan, is available for review on the Company's website at https://www.fphcare.co.nz/investor/corporate-governance/long-term-incentive-plans/.

## Key Terms of the Option Plan

The key terms of the Option Plan are:

- No amount is payable for the grant of options.
- One option gives the participant the right to subscribe at the exercise price for one ordinary share in the Company subject to meeting the following exercise conditions:

  - the options granted under the Option Plan to a participant on a particular grant date may only be exercised at any time between the third anniversary of the grant date and the fifth anniversary of the grant date; and
  - the Company's share price on the NZX Main Board has, at any time on or after the third anniversary of the grant date, exceeded the "Escalated Price" (described below).
- Unless otherwise determined by the Board:
  - if the participant ceases employment with the Company due to serious illness, accident, permanent disablement, redundancy or after a person or group of persons acting in concert acquires 50% or more of the shares on issue, the participant will have one month to exercise all outstanding options;
  - in the event of the participant's death, the participant's executor will have three months to exercise all outstanding options; and
  - on termination of employment for any other reason all outstanding options held by the participant will expire.
- The exercise price of the options to be granted under the Option Plan following the Annual Shareholders' Meeting will be the volume weighted average price for a share on the NZX Main Board for the five business days prior to the grant date for the options.
- The Escalated Price is determined as follows:
  - As at each anniversary of the grant date up to and including the third anniversary of the grant date for an option, a "base price" will be calculated by:
  - increasing the last calculated base price (which as at the first anniversary of the grant date will be the exercise price of the option) by a percentage amount determined by the Board to represent the Company's cost of capital; and
  - reducing the resulting figure by the amount of any dividend paid by the Company in the 12 month period immediately preceding that anniversary.

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

- Subject to any applicable Listing Rules, the Board is given discretion to adjust the terms of any options (including the exercise price) to achieve equivalent treatment as between the participants in the Option Plan and the shareholders in the event of a change in the capital structure of the Company.
- The Company may amend the terms of the Option Plan, subject to the consent of any adversely affected participant.
- Options are not transferable, other than to certain persons associated with an employee, and do not participate in dividends or other distributions of the Company. Participants are not entitled to participate in new issues of the underlying securities (such as a rights issue or bonus issue) prior to exercising the options.
- Options will not be quoted on either the NZX Main Board or the ASX markets. So long as the Company remains listed on the NZX Main Board and/or the ASX markets it is intended that the shares issued on exercise of options will be quoted on the NZX Main Board and/or the ASX markets (as applicable).
- Ordinary shares issued or transferred on the exercise of options will be fully paid and rank equally with all other ordinary shares in the Company except for dividends declared or payable in respect of any period prior to the issue of the relevant shares.
- The Cancellation Offer facility approved by shareholders at the 2004 Annual Shareholders' Meeting (which allows optionholders to cancel vested options in consideration for shares of a value equal to the gain that the optionholders would receive if they exercised their options) applies to the options granted under the Option Plan.
- Further information about the Option Plan, including a copy of the documentation giving effect to the plan, is available for review on the Company's website at https://www.fphcare.co.nz/investor/corporate-governance/long-term-incentive-plans.