

# Interim Report 2014

FOR SIX MONTHS ENDED  
30 SEPTEMBER 2013



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## GROWTH STRATEGY

Develop and provide an expanding range of innovative medical devices which can help to improve care and outcomes for patients in an increasing range of applications, both in hospital and homecare settings.

**Continuous Product Improvement**



**Serve More Patient Groups**



**More Products for Each Patient**



**Increase Our International Presence**



## OUR BUSINESS

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

- **US\$5 billion+ potential market size**
- **7 million+ patients treated every year using our medical devices**
- **Our products are sold in over 120 countries**
- **Our people are located in 33 countries**
- **2,900 employees globally**
- **100+ distributors worldwide**
- **Strong focus on innovation and R&D**
- **Included in the NZX10, NZX20 and NZX50 Indices**

*ICON+, our new flow generator range, and Simplus, our new full face mask. Both products have now been introduced into our major markets.*

# SUMMARY OF SIX MONTH PERIOD

FOR SIX MONTHS ENDED 30 SEPTEMBER 2013

At the core of our success is our ability to develop innovative products that help provide more effective and efficient care and improve patient outcomes. The growing acceptance and demand for our products around the world is reflected in the record results achieved for the 2014 half year.

- Launch of new Simplus full face mask. Simplus wins Gold and Purple pins at NZ Best Design Awards
- Launch of new ICON+ flow generator range for the treatment of obstructive sleep apnea into major markets
- Launch of new Pilairo Q nasal pillows mask
- Increasing acceptance of Respiratory and Acute Care (RAC) products for use in broader respiratory care applications
- Increasing revenue from RAC consumables
- Strong demand for new innovative Obstructive Sleep Apnea (OSA) products
- Continuing cost efficiencies from increasing production volumes at Mexico facility and lean manufacturing practices at Auckland facility
- Increased investment into R&D personnel and resources
- Continued investment into growing sales teams and international presence
- Geraldine McBride appointed as an independent director and elected by shareholders at the August Annual Shareholders' Meeting
- Gary Paykel and Nigel Evans retired from the board at the August Annual Shareholders' Meeting
- Awarded Exporter of the Year at the NZ American Chamber of Commerce DHL Express Success & Innovation Awards
- Optiflow Junior received silver award at US Medical Design Excellence Awards

*myAIRVO 2 humidifier with integrated flow generator which has been shown to improve quality of life for people with chronic obstructive pulmonary disease.*



Record profit after tax

**\$44.5m**  
↑ **34%**

Record operating revenue

**\$303.9m**  
↑ **14%**

RAC operating revenue

**\$164.1m**  
↑ **15%**

OSA operating revenue

**\$131.2m**  
↑ **15%**

Fully imputed interim dividend

**NZ5.4cps**

# SUMMARY OF FINANCIAL RESULTS

## CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

### SIX MONTHS ENDED 30 SEPTEMBER

	2012 NZ\$000	2013 NZ\$000
<b>Operating revenue</b>	<b>266,940</b>	<b>303,917</b>
Cost of sales	121,982	126,328
Gross profit	144,958	177,589
<b>Gross margin</b>	<b>54.3%</b>	<b>58.4%</b>
Other income	1,200	1,200
Selling, general and administrative expenses	76,971	86,032
Research and development expenses	21,335	25,818
Total operating expenses	98,306	111,850
<b>Operating profit before financing costs</b>	<b>47,852</b>	<b>66,939</b>
<b>Operating margin</b>	<b>17.9%</b>	<b>22.0%</b>
Net financing expense	649	4,346
<b>Profit before tax</b>	<b>47,203</b>	<b>62,593</b>
Tax expense	13,951	18,101
<b>Profit after tax</b>	<b>33,252</b>	<b>44,492</b>

## OTHER FINANCIAL HIGHLIGHTS (UNAUDITED)

Pre-tax return on average shareholders' equity (annualised)	26.9%	33.6%
Earnings per share (cents)	6.2	8.2
Dividends (interim proposed) per share (cents)	5.4	5.4
Gearing	31.5%	29.2%
Interest cover (times)	18.3	15.4

## Fisher & Paykel Healthcare Corporation Limited reported record net profit after tax of NZ\$44.5 million for the six months ended 30 September 2013, an increase of 34% compared to the first half last year.

Respiratory and acute care (RAC) product group operating revenue grew 15% to NZ\$164.1 million and Obstructive Sleep Apnea (OSA) product group operating revenue grew 15% to NZ\$131.2 million.

Research and development (R&D) expenses increased by 21% over the prior comparable period to NZ\$25.8 million, representing 8.5% of operating revenue. R&D expenses included depreciation and operating costs of NZ\$0.9 million relating to the new building on the Auckland site, which will primarily accommodate future growth in R&D activities.

Selling, general and administrative (SG&A) expenses increased 12% to NZ\$86.0 million, or 13% in constant currency<sup>1</sup>, as the company continued to expand its international operations and sales teams. This increase was primarily attributable to an increase in global personnel to support our growing international sales and marketing activities.

During the first half, the company invested NZ\$18.4 million of capital expenditure, which included equipment for increased manufacturing capacity and new product tooling. In the first half last year, capital expenditure of NZ\$40.9 million included NZ\$27.4 million for construction of the third building on its Auckland site, which was completed in November 2012.

Increased volume from the Mexico facility, coupled with lean manufacturing improvements at the company's Auckland facility and

a positive product mix, contributed to a constant currency 357 bps increase in gross margin compared to the first half last year.

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**Operating profit increased by 40% to NZ\$66.9 million. In constant currency, operating profit increased by 43%.**

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By historical standards, the New Zealand dollar remained elevated against most of the currencies in which the company receives revenue. Foreign exchange hedging gains contributed NZ\$31.1 million (2013: NZ\$21.2 million) to operating profit.

To protect against exchange rate volatility, the company had in place at 30 September 2013 a mix of foreign exchange contracts and collar options, up to four years forward, with a face value of approximately NZ\$430 million. These instruments hedge the company's net exposure. At the commencement of the second half, the company had in place for the year ended 31 March 2014 approximately 94% cover for the US dollar and approximately 91% cover for the Euro at average rates of approximately 0.77 US dollars and 0.47 Euros to the New Zealand dollar.

<sup>1</sup> 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. For clarity, all references to constant currency amounts or percentages are stated in italics.

# SIX MONTH REVIEW

CHAIRMAN, TONY CARTER AND MANAGING DIRECTOR  
AND CHIEF EXECUTIVE OFFICER, MICHAEL DANIELL



From left:  
Michael Daniell  
and Tony Carter

**We are very pleased with the record results achieved for the half year period, with both of our major product groups delivering strong revenue growth.**

The record results are a reflection of our strategy to provide an increasing range of innovative medical products across an expanding range of applications. An increasing number of healthcare clinicians and homecare providers are now choosing our technologies to achieve better outcomes for their patients.

## RESPIRATORY AND ACUTE CARE (RAC)

RAC operating revenue \$164.1 million, up 15% on the previous first half year, providing 54% of total revenue. Constant currency RAC revenue increased 14%.

Robust growth in our RAC product group was driven by continuing demand in our traditional invasive ventilation market, and particularly strong growth from new clinical applications.

We continued to expand the application of our products and technologies to the care of patients in areas beyond our traditional invasive ventilation market, with an increasing proportion of consumables revenue coming from devices used in noninvasive ventilation, oxygen therapy, humidity therapy and surgery.

Consumables revenue generated from these new applications increased by 29%<sup>2</sup>, in line with our strategy to extend the range of products we provide for use in the care of each patient.

An increasing emphasis by health systems on improving patient outcomes and efficiency of care should support growth in demand

for our products. For example, in the United States, next year Medicare will begin to penalise hospitals for excessive chronic respiratory patient readmissions. We believe that this will increase prescription of our myAIRVO 2 device, which can help to improve care in the home for patients with chronic respiratory disease.

## OBSTRUCTIVE SLEEP APNEA (OSA)

OSA operating revenue \$131.2 million, up 15% on the previous first half year, providing 43% of total revenue. Constant currency OSA revenue increased 13%.

The rollout of a number of new, innovative products in the last 18 months was a key contributor to revenue growth in the OSA product group, compared to the first half last year.

Constant currency mask revenue grew 19% for the six months, as the Eson and Pilairo masks continued to gain market share and with the introduction of the new Simplus full face mask in selected markets. In November we introduced the Simplus and the new Pilairo Q masks into the United States and have been pleased with their rapid acceptance in this market by homecare providers and users.

ICON+, our new flow generator range, was introduced into our major markets during the half and contributed to an encouraging 12% constant currency revenue growth in total flow generator revenue in the second quarter.

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At the core of our success is our ability to develop innovative products that help provide more effective and efficient care and improve patient outcomes.

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The growing acceptance and demand for our products around the world is reflected in our record results. We continued to expand our product and process research and development (R&D) activities during the six months and current projects include OSA masks and flow generators, humidifier systems and RAC consumables. R&D remains an essential ingredient in our success and we are well resourced for future growth in this area.

Our international footprint continued to strengthen as we expanded our international sales operations during the six months.

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Our largest market remains North America at 43% of total revenue, followed by Europe at 32% and Asia Pacific at 20%.

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We also expanded our manufacturing capacity, investing into new equipment and new product tooling. Production of consumable products at our Mexico facility increased as planned and this, coupled with lean manufacturing improvements at our Auckland facility and a positive product mix, led to a strong improvement in gross margins for the period.

## DIVIDEND

The company's directors approved an interim dividend for the financial year ending 31 March 2014 of 5.4 NZ cents per ordinary share (2013: 5.4 cents), carrying full New Zealand imputation credit. For New Zealand resident shareholders that results in a gross dividend of 7.5 cents per ordinary share. Eligible non-resident shareholders receive a supplementary dividend of 0.953 NZ cents per ordinary share.

The company offers a dividend reinvestment plan (DRP), under which eligible shareholders may elect to reinvest all or part of their cash dividends in additional shares. A 3% discount will be applied when

determining the price per share of shares issued under the DRP for the 2014 interim and all future dividends, until such time as the directors determine otherwise.

## OUTLOOK FOR FY2014

Our strategic direction remains clear as we focus on developing innovative products, increasing the number of patients who can benefit from our products, extending our range of products and growing our international presence.

We expect underlying revenue growth to be robust for the remainder of the year, driven by growing demand for a broad range of new products and new applications for our products.

The majority of our products are sold offshore and therefore our results are influenced by exchange rate fluctuations. The New Zealand dollar continues to be at a relatively high level against the major currencies we sell in. We are offsetting this with underlying gross margin expansion due to increased Mexico manufacturing, operating efficiencies and higher margin new products and applications.

For the 2014 year, we expect net profit after tax to be in the range of NZ\$90 million to NZ\$95 million based on an exchange rate of 0.83 for the NZD:USD for the remainder of the year. We expect operating revenue to be in the range of NZ\$610 million to NZ\$625 million.

Fisher & Paykel Healthcare remains on track to deliver earnings and market share growth in the full 2014 financial year, as we continue to build on our positioning as a leading provider of innovative medical devices.




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TONY CARTER  
Chairman




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MICHAEL DANIELL  
Managing Director and  
Chief Executive Officer

# Financial Information



# Half Year Results Commentary

Net profit after tax was NZ\$44.5 million for the six months ended 30 September 2013, an increase of 34% compared to the prior corresponding period's NZ\$33.3 million. In constant currency, operating profit increased 43%. The increase in the half year net profit after tax reflects revenue growth, gross margin expansion, disciplined control of expenses and other operational efficiencies.

Operating revenue was a record NZ\$303.9 million, 14% above the prior half year, and 12% in constant currency. The company's respiratory and acute care (RAC) product group operating revenue increased by 14% and obstructive sleep apnea (OSA) product group revenue increased by 13% 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 noninvasive ventilation, oxygen therapy and humidity therapy. Consumables revenue from those new applications increased 29% in the first half, in constant currency.

OSA mask constant currency revenue grew 19% in the first half, reflecting the introduction of the new Simplus full face mask and continuation of strong growth in sales of Eson nasal and Pilairo nasal pillows masks. Total flow generator revenue growth was 4% in constant currency for the first half. Excluding the legacy SleepStyle flow generator range, constant currency flow generator revenue growth was 14%.

The company's financial statements for the six months ended 30 September 2013 and the comparative financial information for the six months ended 30 September 2012 have been prepared under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), Interpretations and other applicable FRS.

The directors have approved an interim dividend of NZ 5.4 cents per ordinary share carrying a full imputation credit of 2.1

cents per share. Eligible non resident shareholders will receive a supplementary dividend of NZ 0.9529 cents per share. The interim dividend will be paid on 19 December 2013, with a record date of 6 December 2013 and an ex dividend date of 2 December 2013 for the ASX and 4 December 2013 for the NZSX.

The company offers eligible shareholders the opportunity to receive ordinary shares rather than cash under the Dividend Reinvestment Plan (DRP). The directors have maintained a discount on the DRP of 3% to encourage shareholders to take up the offer as part of the company's plan to build shareholders' funds.

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

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

The dividend payment for the first half at 5.4 cps equates to 66% of net profit after tax.

## Half Year Results Commentary continued

### FINANCIAL PERFORMANCE

The following table sets out the consolidated statement of financial performance for the six months ended 30 September 2012 and 2013 in New Zealand dollars:

INCOME STATEMENT	SIX MONTHS ENDED 30 SEPTEMBER	
	2012 NZ\$000	2013 NZ\$000
<b>Operating revenue</b>	<b>266,940</b>	<b>303,917</b>
Cost of sales	121,982	126,328
Gross profit	144,958	177,589
<b>Gross margin</b>	<b>54.3%</b>	<b>58.4%</b>
Other income	1,200	1,200
Selling, general and administrative expenses	76,971	86,032
Research and development expenses	21,335	25,818
Total operating expenses	98,306	111,850
<b>Operating profit before financing costs</b>	<b>47,852</b>	<b>66,939</b>
<b>Operating margin</b>	<b>17.9%</b>	<b>22.0%</b>
Net financing expense	649	4,346
<b>Profit before tax</b>	<b>47,203</b>	<b>62,593</b>
Tax expense	13,951	18,101
<b>Profit after tax</b>	<b>33,252</b>	<b>44,492</b>

### FOREIGN EXCHANGE EFFECTS

The company is exposed to movements in foreign exchange rates, with approximately 50% of operating revenue generated in US dollars, 23% in Euros, 7% in Australian dollars, 5% in Japanese yen, 4% in British pounds, 4% in Canadian dollars, 2% in New Zealand dollars and 5% in other currencies.

As the number of direct sales operations increases, an increasing proportion of the company's revenue is generated in local currencies, reducing operating revenue exposure to the US dollar over recent periods. The company's cost base is also becoming more diverse, as manufacturing output from Mexico has increased to 26% of consumables output.

By historical standards the New Zealand dollar remained elevated against most of the currencies in which the company receives revenue. Foreign exchange hedging gains contributed NZ\$31.1 million (2013: NZ\$21.2 million) to operating profit.

The average daily spot rate and the average effective exchange rate (i.e. the accounting rate, incorporating the benefit of forward exchange contracts entered into by the company in respect of the relevant financial year) of the main foreign currency exposures for the six months ended 30 September 2012 and 2013 are set out in the table below:

	AVERAGE DAILY SPOT RATE SIX MONTHS ENDED 30 SEPTEMBER		AVERAGE EFFECTIVE EXCHANGE RATE SIX MONTHS ENDED 30 SEPTEMBER	
	2012	2013	2012	2013
USD	0.7996	0.8097	0.6818	0.6299
EUR	0.6313	0.6155	0.5118	0.5057

The effect of balance sheet translations of offshore assets and liabilities for the six months ended 30 September 2013 resulted in an increase in operating revenue of NZ\$1.1 million (2013: a reduction of NZ\$1.2 million) and an increase in operating profit of NZ\$0.9 million (2013: a reduction of NZ\$1.4 million).

## CONSTANT CURRENCY ANALYSIS

A constant currency income statement is prepared each month to enable the board and management to monitor and assess the company's underlying comparative financial performance without any distortion from changes in foreign exchange rates. The table below provides estimated NZ dollar income statements for the relevant periods, which have all been restated at the budget foreign exchange rates for the 2014 financial year but after excluding the impact of movements in foreign exchange rates, hedging results and balance sheet translations.

This constant currency analysis is non-conforming financial information, as defined by the NZ Financial Markets Authority, 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.

CONSTANT CURRENCY INCOME STATEMENTS  (UNAUDITED)	SIX MONTHS ENDED 30 SEPTEMBER 2011 NZ\$000	SIX MONTHS ENDED 30 SEPTEMBER 2012 NZ\$000	VARIATION 2011 TO 2012 %	SIX MONTHS ENDED 30 SEPTEMBER 2013 NZ\$000	VARIATION 2012 TO 2013 %
	<b>Operating revenue</b>	<b>219,262</b>	<b>236,656</b>	<b>+8</b>	<b>265,833</b>
Cost of sales	117,623	120,071	+2	125,385	+4
Gross profit	101,639	116,585	+15	140,448	+20
Other income	1,200	1,200	-	1,200	-
Selling, general and administrative expenses	68,918	74,301	+8	84,058	+13
Research & development expenses	19,850	21,335	+7	25,818	+21
Total operating expenses	88,768	95,636	+8	109,876	+15
<b>Operating profit</b>	<b>14,071</b>	<b>22,149</b>	<b>+57</b>	<b>31,772</b>	<b>+43</b>
Financing expenses (net)	2,336	1,455	-38	3,774	+159
<b>Profit before tax</b>	<b>11,735</b>	<b>20,694</b>	<b>+76</b>	<b>27,998</b>	<b>+35</b>

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

## Half Year Results Commentary continued

In constant currency, operating revenue increased by 12% and operating profit increased by 43% for the half year, due to positive contributions from Mexico manufacturing, operating leverage generated from disciplined expense control, other logistics benefits and from direct sales operations established over the past few years.

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

RECONCILIATION OF CONSTANT CURRENCY TO ACTUAL INCOME STATEMENTS (UNAUDITED)	SIX MONTHS ENDED 30 SEPTEMBER		
	2011 NZ\$000	2012 NZ\$000	2013 NZ\$000
<b>Profit before tax (constant currency)</b>	<b>11,735</b>	<b>20,694</b>	<b>27,998</b>
Spot exchange rate effect	6,759	5,866	3,164
Foreign exchange hedging result	22,150	21,212	31,084
Balance sheet revaluation	(295)	(569)	347
<b>Profit before tax (as reported)</b>	<b>40,349</b>	<b>47,203</b>	<b>62,593</b>

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 2013 with the corresponding period for the prior year:

- the movement in average daily spot exchange rates had an adverse impact of NZ\$2.7m; and
- the benefit from the company's foreign exchange hedging activities was higher by NZ\$9.9m.

Overall, the net favourable effect of movements in exchange rates and the hedging programme was NZ\$8.1m, including the impact of balance sheet revaluations.

### OPERATING REVENUE

Operating revenue increased by 14% to NZ\$303.9 million for the six months ended 30 September 2013 from NZ\$266.9 million for the six months ended 30 September 2012, principally due to increased sales volume from our core products.

The following table sets out operating revenue by product group for the six months ended 30 September 2012 and 2013:

OPERATING REVENUE BY PRODUCT GROUP	SIX MONTHS ENDED 30 SEPTEMBER	
	2012 NZ\$000	2013 NZ\$000
RAC products	142,938	164,090
OSA products	114,217	131,208
Core products sub-total	257,155	295,298
Distributed and other products	9,785	8,619
<b>Total</b>	<b>266,940</b>	<b>303,917</b>

RAC product group operating revenue increased 15% to NZ\$164.1 million and 14% in constant currency, compared with the corresponding period last year.

Expansion of the application of products and technologies to the care of patients beyond the company's traditional invasive ventilation market continued, with an increasing proportion of consumables revenue coming from devices used in noninvasive ventilation, oxygen therapy, humidity therapy and surgery. Constant currency revenue for these new applications grew 29% for the six months ended 30 September 2013 and in total represented 40% of RAC consumables revenue.

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

OSA product group operating revenue increased 15% to NZ\$131.2 million, and 13% in constant currency, compared with the corresponding period last year.

Constant currency mask revenue grew 19% for the six months, as the Eson and Pilairo masks continued to gain market share and with the introduction of the new Simplus full-face mask in selected markets. Total flow generator revenue growth improved to 4% in constant currency for the first half. Excluding the legacy SleepStyle flow generator range, first half constant currency flow generator revenue growth was 14%.

Sales of RAC products represented 54% of operating revenue for the six months ended 30 September 2012 and 2013. Sales of OSA products represented 43% of operating revenue for the six months ended 30 September 2012 and 2013. Sales of consumable and accessory products for core products accounted for approximately 76% and 78% of operating revenue for the six months ended 30 September 2012 and 2013 respectively.

The following table sets out operating revenue for each of our regional markets for the six months ended 30 September 2012 and 2013:

OPERATING REVENUE BY REGION	SIX MONTHS ENDED 30 SEPTEMBER	
	2012 NZ\$000	2013 NZ\$000
North America	116,644	131,100
Europe	84,629	96,455
Asia Pacific	52,055	59,628
Other	13,612	16,734
<b>Total</b>	<b>266,940</b>	<b>303,917</b>

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

## EXPENSES

A number of new products have been released this year, with more to follow during the remainder of the 2014 financial year.

Research and development (R&D) activities are primarily conducted in New Zealand. Research and development expenses were NZ\$25.8 million for the six months ended 30 September 2013 compared to NZ\$21.3 million in the prior corresponding period last year, an increase of 21%.

The increase was primarily 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. Costs related to the new building on the Auckland site, which will accommodate future increases in R&D activities, also contributed to R&D expense growth.

R&D expenses represented 8.5% of operating revenue for the six months ended 30 September 2013.

R&D expenses are expected to continue to increase broadly in line with constant currency revenue growth.

## Half Year Results Commentary continued

Selling, general and administrative (SG&A) expenses increased by 12% to NZ\$86.0 million for the six months ended 30 September 2013 compared to NZ\$77.0 million in the corresponding period last year. This increase was primarily attributable to an increase in global personnel to support our growing international sales and marketing activities.

In constant currency, SG&A expenses increased by 13% for the six months ended 30 September 2013.

### GROSS PROFIT

Gross profit increased to NZ\$177.6 million, or 58.4% of operating revenue, for the six months ended 30 September 2013 from NZ\$145.0 million, or 54.3% of operating revenue, in the prior corresponding period.

Constant currency gross margin percentage increased by 357 *bps* due to a number of factors, including positive RAC and OSA product mixes, logistics and manufacturing improvements, including the contribution from our Mexico manufacturing facility.

### OPERATING PROFIT

Operating profit increased by 40% to NZ\$66.9 million for the six months ended 30 September 2013 from NZ\$47.9 million for the prior corresponding period.

In constant currency, operating profit increased by 43%.

### BALANCE SHEET

Gearing<sup>3</sup> at 30 September 2013 was 29.2%, higher than the 27.9% gearing at 31 March 2013, however lower than the 31.5% at 30 September 2012. The increase in gearing since 31 March 2013 is a result of slightly higher net debt level at 30 September 2013 post the payment of the final dividend in July 2013. Gearing is expected to reduce by the end of the financial year and track towards our target range over coming years.

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

### FUNDING

The company had total available committed debt funding of NZ\$192 million as at 30 September 2013, of which approximately NZ\$61 million was undrawn, and cash on hand of NZ\$7 million. Bank debt facilities provide all available funding given the modest level of requirements. Over the next 12 months no debt facilities will mature. As at 30 September 2013, the weighted average maturity of borrowing facilities is 2.7 years.

### DEBT MATURITY

The average maturity of the debt of NZ\$126 million was 2.1 years and the currency split was 69% New Zealand dollars; 14% US dollars; 12% Euros; 3% Australian dollars and 2% Canadian dollars.

### INTEREST RATES

Approximately 67% of all borrowings were at fixed interest rates with an average duration of 5.3 years and an average rate of 5.5%. Inclusive of floating rate borrowings the average interest rate on the debt is currently 4.9%. All interest rates are inclusive of margins but not fees.

Interest coverage for the period was 15 times and the group remains in a sound financial position.

<sup>3</sup> Net interest-bearing debt (debt less cash and cash equivalents) to net interest-bearing debt and equity (less cash flow hedge reserve - unrealised).

## CASHFLOW

Cashflow from operations was NZ\$33.4 million compared with NZ\$32.3 million for the six months ended 30 September 2012. Reported growth in operating cashflow was impacted by the NZ\$2.0 million of interest capitalised to the Paykel building project in the prior period and the timing of tax payments.

Capital expenditure for the period was NZ\$18.4 million compared with NZ\$40.9 million in the prior half year. The capital expenditure related predominantly to new product tooling and manufacturing equipment, whereas in the prior period NZ\$27.4 million related to the Paykel building project.

## DIVIDEND

The directors have approved an interim dividend for the financial year ending 31 March 2014 of NZ5.4 cents per ordinary share (2013: NZ5.4 cents), and will be fully imputed at a rate of 28%.

The interim dividend will be paid on 19 December 2013, with a record date of 6 December 2013 and an ex dividend date of 2 December 2013 for the ASX and 4 December 2013 for the NZSX.

## DIVIDEND REINVESTMENT PLAN

The dividend reinvestment plan is being offered for this dividend payment. A 3% discount will be applied to shares issued under the plan.

## FINANCIAL HIGHLIGHTS

UNAUDITED	SIX MONTHS ENDED 30 SEPTEMBER	
	2012	2013
Pre-tax return on average shareholders' equity (annualised)	26.9%	33.6%
Earnings per share (cents)	6.2	8.2
Dividends (interim proposed) per share (cents)	5.4	5.4
Gearing	31.5%	29.2%
Interest cover (times)	18.3	15.4

## 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	
	2014	2015	2016	2017
USD % cover of expected exposure	93%	47%	9%	0%
USD average rate of cover	0.77	0.78	0.76	–
USD Close out value to Income Statement NZD000 <sup>4</sup>	\$4,947	\$0	\$0	\$0
EUR % cover of expected exposure	88%	63%	24%	4%
EUR average rate of cover	0.47	0.47	0.51	0.36

<sup>4</sup> Foreign currency hedging gains to be released to the Income Statement from the Cash Flow Reserve - Realised from previously monetised USD forward exchange contracts.



## ***Independent Accountants' 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 16 to 32, which comprise the consolidated balance sheet as at 30 September 2013, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement 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 Interim Financial Statements***

The Company's Directors are responsible for the preparation and presentation of the financial statements that present fairly the financial position of the Group as at 30 September 2013, and its financial performance and cash flows for the period ended on that date.

### ***Accountants' Responsibility***

We are responsible for reviewing the financial statements presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the financial statements do not present fairly the matters to which they relate.

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Group for the period ended 30 September 2013 in accordance with the Review Engagement Standards issued in New Zealand.

We have no relationship with, or interests in, Fisher & Paykel Healthcare Corporation Limited other than in our capacities as accountants conducting this review, auditors and providers of assurance and advisory services. These services have not impaired our independence as accountants of the Group.





## ***Independent Accountants' Report***

Fisher & Paykel Healthcare Corporation Limited

### ***Opinion***

Based on our review, nothing has come to our attention that causes us to believe that the financial statements which have been prepared in accordance with International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting do not present fairly the financial position of the Group as at 30 September 2013 and its financial performance and cash flows for the period ended on that date.

### ***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 an accountants' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, for our review procedures, for this report or for the opinions we have formed.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script.

Chartered Accountants  
22 November 2013

Auckland

## Consolidated Income Statement

		UNAUDITED SIX MONTHS ENDED 30 SEPTEMBER 2012 NZ\$000	AUDITED YEAR ENDED 31 MARCH 2013 NZ\$000	UNAUDITED SIX MONTHS ENDED 30 SEPTEMBER 2013 NZ\$000
	NOTES			
<b>Operating revenue</b>	3	<b>266,940</b>	<b>556,250</b>	<b>303,917</b>
Cost of sales		(121,982)	(248,406)	(126,328)
Gross profit		144,958	307,844	177,589
Other income	4	1,200	2,400	1,200
Selling, general and administrative expenses		(76,971)	(151,791)	(86,032)
Research and development expenses		(21,335)	(45,720)	(25,818)
Total operating expenses		(98,306)	(197,511)	(111,850)
<b>Operating profit before financing costs</b>		<b>47,852</b>	<b>112,733</b>	<b>66,939</b>
Financing income		157	189	38
Financing expense		(1,667)	(4,903)	(3,841)
Exchange gain (loss) on foreign currency borrowings		861	1,367	(543)
<b>Net financing (expense)</b>		<b>(649)</b>	<b>(3,347)</b>	<b>(4,346)</b>
<b>Profit before tax</b>	5	<b>47,203</b>	<b>109,386</b>	<b>62,593</b>
Tax expense	6	(13,951)	(32,333)	(18,101)
<b>Profit after tax</b>		<b>33,252</b>	<b>77,053</b>	<b>44,492</b>
Basic earnings per share		6.2 cps	14.3 cps	8.2 cps
Diluted earnings per share		6.0 cps	13.8 cps	7.9 cps
Weighted average basic ordinary shares outstanding		534,016,461	537,560,800	544,626,558
Weighted average diluted ordinary shares outstanding		555,427,041	559,097,010	564,578,936

## Consolidated Statement of Comprehensive Income

	UNAUDITED SIX MONTHS ENDED 30 SEPTEMBER 2012 NZ\$000	AUDITED YEAR ENDED 31 MARCH 2013 NZ\$000	UNAUDITED SIX MONTHS ENDED 30 SEPTEMBER 2013 NZ\$000
<b>Profit after tax</b>	<b>33,252</b>	<b>77,053</b>	<b>44,492</b>
<b>Other comprehensive income</b>			
Items that may subsequently be reclassified to profit or loss			
Cash flow hedge reserve – unrealised			
Changes in fair value	11,062	20,478	5,967
Transfers to profit before tax	(12,369)	(23,418)	(16,424)
Tax on changes in fair value and transfers to profit before tax	366	823	2,928
Cash flow hedge reserve – realised			
Transfers to profit before tax	(7,851)	(17,781)	(16,343)
Tax on transfers to profit before tax	2,355	5,249	4,588
<b>Other comprehensive income, net of tax</b>	<b>(6,437)</b>	<b>(14,649)</b>	<b>(19,284)</b>
<b>Total comprehensive income</b>	<b>26,815</b>	<b>62,404</b>	<b>25,208</b>

## Consolidated Statement of Changes in Equity

	SHARE CAPITAL	TREASURY SHARES	RETAINED EARNINGS	ASSET REVALUATION RESERVE	CASH FLOW HEDGE RESERVE UNREALISED	CASH FLOW HEDGE RESERVE REALISED	EMPLOYEE SHARE ENTITLEMENT RESERVE	EMPLOYEE SHARE OPTION RESERVE	TOTAL EQUITY
	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
<b>Unaudited</b>									
<b>Balance at 31 March 2012</b>	<b>65,351</b>	<b>(2,046)</b>	<b>184,026</b>	<b>24,100</b>	<b>46,206</b>	<b>27,836</b>	<b>292</b>	<b>2,387</b>	<b>348,152</b>
<b>Total comprehensive income</b>	-	-	<b>33,252</b>	-	<b>(941)</b>	<b>(5,496)</b>	-	-	<b>26,815</b>
Dividends paid	-	-	(37,103)	-	-	-	-	-	(37,103)
Issue of share capital under dividend reinvestment plan	14,612	-	-	-	-	-	-	-	14,612
Issue of share capital	128	-	-	-	-	-	-	-	128
Movement in employee share entitlement reserve	-	-	-	-	-	-	(149)	-	(149)
Movement in employee share option reserve	-	-	-	-	-	-	-	201	201
Movement in treasury shares	-	474	-	-	-	-	-	-	474
Increase in share capital under share option schemes for employee services	-	-	-	-	-	-	-	-	-
Employee share scheme shares issued for employee services	487	-	-	-	-	-	-	-	487
<b>Balance at 30 September 2012</b>	<b>80,578</b>	<b>(1,572)</b>	<b>180,175</b>	<b>24,100</b>	<b>45,265</b>	<b>22,340</b>	<b>143</b>	<b>2,588</b>	<b>353,617</b>

## Consolidated Statement of Changes in Equity continued

	SHARE CAPITAL	TREASURY SHARES	RETAINED EARNINGS	ASSET REVALUATION RESERVE	CASH FLOW HEDGE RESERVE UNREALISED	CASH FLOW HEDGE RESERVE REALISED	EMPLOYEE SHARE ENTITLEMENT RESERVE	EMPLOYEE SHARE OPTION RESERVE	TOTAL EQUITY
	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
<b>Audited</b>									
<b>Balance at 31 March 2012</b>	<b>65,351</b>	<b>(2,046)</b>	<b>184,026</b>	<b>24,100</b>	<b>46,206</b>	<b>27,836</b>	<b>292</b>	<b>2,387</b>	<b>348,152</b>
<b>Total comprehensive income</b>	–	–	<b>77,053</b>	–	<b>(2,117)</b>	<b>(12,532)</b>	–	–	<b>62,404</b>
Dividends paid	–	–	(66,161)	–	–	–	–	–	(66,161)
Issue of share capital under dividend reinvestment plan	25,996	–	–	–	–	–	–	–	25,996
Issue of share capital	516	–	–	–	–	–	–	–	516
Movement in employee share entitlement reserve	–	–	–	–	–	–	(89)	–	(89)
Movement in employee share option reserve	–	–	–	–	–	–	–	(50)	(50)
Movement in treasury shares	–	511	–	–	–	–	–	–	511
Increase in share capital under share option schemes for employee services	813	–	–	–	–	–	–	–	813
Employee share scheme shares issued for employee services	139	–	–	–	–	–	–	–	139
<b>Balance at 31 March 2013</b>	<b>92,815</b>	<b>(1,535)</b>	<b>194,918</b>	<b>24,100</b>	<b>44,089</b>	<b>15,304</b>	<b>203</b>	<b>2,337</b>	<b>372,231</b>
<b>Unaudited</b>									
<b>Total comprehensive income</b>	–	–	<b>44,492</b>	–	<b>(7,529)</b>	<b>(11,755)</b>	–	–	<b>25,208</b>
Dividends paid	–	–	(37,983)	–	–	–	–	–	(37,983)
Issue of share capital under dividend reinvestment plan	12,862	–	–	–	–	–	–	–	12,862
Issue of share capital	29	–	–	–	–	–	–	–	29
Movement in employee share entitlement reserve	–	–	–	–	–	–	62	–	62
Movement in employee share option reserve	–	–	–	–	–	–	–	(337)	(337)
Movement in treasury shares	–	3	–	–	–	–	–	–	3
Increase in share capital under share option schemes for employee services	997	–	–	–	–	–	–	–	997
Employee share scheme shares issued for employee services	–	–	–	–	–	–	–	–	–
<b>Balance at 30 September 2013</b>	<b>106,703</b>	<b>(1,532)</b>	<b>201,427</b>	<b>24,100</b>	<b>36,560</b>	<b>3,549</b>	<b>265</b>	<b>2,000</b>	<b>373,072</b>

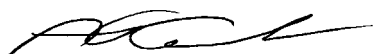
## Consolidated Balance Sheet

		UNAUDITED 30 SEPTEMBER 2012 NZ\$000	AUDITED 31 MARCH 2013 NZ\$000	UNAUDITED 30 SEPTEMBER 2013 NZ\$000
	NOTES			
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		5,055	7,709	6,846
Trade and other receivables		79,112	81,560	85,143
Inventories		94,346	89,111	100,303
Derivative financial instruments	13	32,169	35,348	34,199
Tax receivable		208	1,429	418
<b>Total current assets</b>		<b>210,890</b>	<b>215,157</b>	<b>226,909</b>
<b>Non-current assets</b>				
Property, plant and equipment		339,324	346,716	351,205
Intangible assets		7,917	8,626	8,990
Other receivables		1,471	1,728	1,649
Derivative financial instruments	13	42,800	34,723	23,360
Deferred tax asset	8	10,594	11,647	14,261
<b>Total assets</b>		<b>612,996</b>	<b>618,597</b>	<b>626,374</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Interest-bearing liabilities	7	89,178	17,136	19,791
Trade and other payables		61,521	64,490	65,430
Provisions		2,461	2,960	2,929
Tax payable		4,367	4,575	4,436
Derivative financial instruments	13	2,582	1,907	1,863
<b>Total current liabilities</b>		<b>160,109</b>	<b>91,068</b>	<b>94,449</b>
<b>Non-current liabilities</b>				
Interest-bearing liabilities	7	57,369	117,389	126,012
Provisions		2,295	2,401	2,801
Other payables		7,257	6,123	5,854
Derivative financial instruments	13	8,309	6,258	4,008
Deferred tax liability	8	24,040	23,127	20,178
<b>Total liabilities</b>		<b>259,379</b>	<b>246,366</b>	<b>253,302</b>

## Consolidated Balance Sheet continued

		UNAUDITED 30 SEPTEMBER 2012 NZ\$000	AUDITED 31 MARCH 2013 NZ\$000	UNAUDITED 30 SEPTEMBER 2013 NZ\$000
	NOTES			
<b>EQUITY</b>				
Share capital		80,578	92,815	106,703
Treasury shares		(1,572)	(1,535)	(1,532)
Retained earnings		180,175	194,918	201,427
Asset revaluation reserve		24,100	24,100	24,100
Cash flow hedge reserve – unrealised		45,265	44,089	36,560
Cash flow hedge reserve – realised	13	22,340	15,304	3,549
Employee share entitlement reserve		143	203	265
Employee share option reserve		2,588	2,337	2,000
<b>Total equity</b>		<b>353,617</b>	<b>372,231</b>	<b>373,072</b>
<b>Total liabilities and equity</b>		<b>612,996</b>	<b>618,597</b>	<b>626,374</b>

On behalf of the Board  
22 November 2013



**TONY CARTER**  
CHAIRMAN



**MICHAEL DANIELL**  
MANAGING DIRECTOR AND  
CHIEF EXECUTIVE OFFICER

## Consolidated Statement of Cash Flows

		UNAUDITED SIX MONTHS ENDED 30 SEPTEMBER 2012 NZ\$000	AUDITED YEAR ENDED 31 MARCH 2013 NZ\$000	UNAUDITED SIX MONTHS ENDED 30 SEPTEMBER 2013 NZ\$000
	NOTES			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers		257,393	537,230	285,694
Interest received		156	186	18
Payments to suppliers and employees		(213,253)	(420,596)	(234,639)
Tax paid		(10,489)	(25,517)	(13,820)
Interest paid		(1,515)	(4,866)	(3,845)
<b>Net cash flows from operations</b>	12	<b>32,292</b>	<b>86,437</b>	<b>33,408</b>
<b>CASH FLOWS (USED IN) INVESTING ACTIVITIES</b>				
Sales of property, plant and equipment		24	59	19
Purchases of property, plant and equipment		(38,922)	(58,546)	(17,136)
Purchases of intangible assets		(2,018)	(3,489)	(1,328)
<b>Net cash flows (used in) investing activities</b>		<b>(40,916)</b>	<b>(61,976)</b>	<b>(18,445)</b>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>				
Employee share purchase schemes		226	555	183
Issue of share capital under dividend reinvestment plan		14,612	25,996	12,862
Issue of share capital		-	71	297
New borrowings		33,149	86,559	8,754
Repayment of borrowings		(5,223)	(68,567)	-
Dividends paid		(37,104)	(66,161)	(37,983)
Supplementary dividends paid to overseas shareholders		(2,852)	(4,906)	(2,566)
<b>Net cash flows from (used in) financing activities</b>		<b>2,808</b>	<b>(26,453)</b>	<b>(18,453)</b>
Net increase (decrease) in cash		(5,816)	(1,992)	(3,490)
Opening cash		(8,405)	(8,405)	(9,427)
Effect of foreign exchange rates		418	970	(28)
<b>Closing cash</b>		<b>(13,803)</b>	<b>(9,427)</b>	<b>(12,945)</b>
<b>RECONCILIATION OF CLOSING CASH</b>				
Cash and cash equivalents		5,055	7,709	6,846
Bank overdrafts	7	(18,858)	(17,136)	(19,791)
		<b>(13,803)</b>	<b>(9,427)</b>	<b>(12,945)</b>



# Notes to the Financial Statements

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

## 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 for issue by the Board of Directors on 22 November 2013, and have been reviewed, not audited.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These general purpose financial statements for the six months ended 30 September 2013 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 issuer in terms of the Securities Act 1978 and the Financial Reporting Act 1993. The Company is also listed on the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX).

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 2013, which have been prepared in accordance with the 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 2013, as described in those annual financial statements.

The following new accounting standards and amendments to existing standards have been adopted by the Group in the six months ended 30 September 2013:

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

## Notes to the Financial Statements continued

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

	UNAUDITED SIX MONTHS ENDED 30 SEPTEMBER 2012 NZ\$000	AUDITED YEAR ENDED 31 MARCH 2013 NZ\$000	UNAUDITED SIX MONTHS ENDED 30 SEPTEMBER 2013 NZ\$000
<b>3. OPERATING REVENUE</b>			
Revenue before hedging:			
North America	106,463	217,180	113,750
Europe	75,672	162,502	88,104
Asia Pacific	50,926	103,244	56,542
Other	12,400	24,324	14,384
Total revenue before hedging	245,461	507,250	272,780
Foreign exchange gain on hedged sales	21,479	49,000	31,137
<b>Total operating revenue</b>	<b>266,940</b>	<b>556,250</b>	<b>303,917</b>
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 15 as described in that note.			
<b>4. OTHER INCOME</b>			
Technology development grant	1,200	2,400	1,200
<b>5. EXPENSES</b>			
Profit before tax includes the following expenses:			
Depreciation	12,171	23,713	13,643
Amortisation:			
Patents and trademarks	562	1,244	686
Software	663	1,299	736
Other	–	150	133
Total amortisation	1,225	2,693	1,555
Employee benefits expense	98,070	203,193	103,964
Rental expense	1,961	3,945	1,978
Trade receivables written off	101	448	638

	UNAUDITED SIX MONTHS ENDED 30 SEPTEMBER 2012 NZ\$000	AUDITED YEAR ENDED 31 MARCH 2013 NZ\$000	UNAUDITED SIX MONTHS ENDED 30 SEPTEMBER 2013 NZ\$000
<b>6. TAX EXPENSE</b>			
<b>Profit before tax</b>	<b>47,203</b>	<b>109,386</b>	<b>62,593</b>
Tax expense at the New Zealand rate of 28%	13,217	30,628	17,526
Adjustments to tax for:			
Non-assessable income	(49)	(133)	(158)
Non-deductible expenses	335	697	445
Tax at 30% on previously monetised financial instruments	156	271	12
Foreign tax rates other than 28%	191	447	318
Effect of foreign currency translations	101	308	(47)
Other	–	115	5
<b>Total tax expense</b>	<b>13,951</b>	<b>32,333</b>	<b>18,101</b>

# Notes to the Financial Statements continued

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

	UNAUDITED 30 SEPTEMBER 2012 NZ\$000	AUDITED 31 MARCH 2013 NZ\$000	UNAUDITED 30 SEPTEMBER 2013 NZ\$000
<b>7. INTEREST-BEARING LIABILITIES</b>			
<b>CURRENT</b>			
Bank overdrafts	18,858	17,136	19,791
Borrowings	70,320	–	–
	<b>89,178</b>	<b>17,136</b>	<b>19,791</b>
<b>NON-CURRENT</b>			
Borrowings	57,369	117,389	126,012
	<b>57,369</b>	<b>117,389</b>	<b>126,012</b>
<b>8. DEFERRED TAX ASSET/LIABILITY</b>			
<b>OPENING BALANCE</b>			
Deferred tax asset	9,656	9,656	11,647
Deferred tax liability	(24,287)	(24,287)	(23,127)
	<b>(14,631)</b>	<b>(14,631)</b>	<b>(11,480)</b>
<b>MOVEMENTS</b>			
Credited / (charged) to the Income Statement	819	2,328	2,635
Credited / (charged) to Other Comprehensive Income	366	823	2,928
	<b>1,185</b>	<b>3,151</b>	<b>5,563</b>
<b>CLOSING BALANCE</b>			
Deferred tax asset	10,594	11,647	14,261
Deferred tax liability	(24,040)	(23,127)	(20,178)
	<b>(13,446)</b>	<b>(11,480)</b>	<b>(5,917)</b>
<b>9. CAPITAL EXPENDITURE COMMITMENTS</b>			
Capital expenditure commitments contracted for but not recognised as at the reporting date:			
Within one year	11,603	2,519	4,163
Between one and two years	801	–	–
Between two and five years			
	<b>12,404</b>	<b>2,519</b>	<b>4,163</b>

Capital expenditure commitments were significantly larger in the prior year as a result of the commitment to the third building on the East Tamaki site, as announced in December 2010.

	UNAUDITED 30 SEPTEMBER 2012 NZ\$000	AUDITED 31 MARCH 2013 NZ\$000	UNAUDITED 30 SEPTEMBER 2013 NZ\$000
<b>10. OPERATING LEASE COMMITMENTS</b>			
Gross commitments under non-cancellable operating leases:			
Within one year	4,276	4,625	4,852
Between one and two years	3,468	4,033	3,422
Between two and five years	3,706	3,804	4,258
Over five years	2,666	2,234	1,830
	<b>14,116</b>	<b>14,696</b>	<b>14,362</b>

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

## 11. CONTINGENT LIABILITIES

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

	UNAUDITED SIX MONTHS ENDED 30 SEPTEMBER 2012 NZ\$000	AUDITED YEAR ENDED 31 MARCH 2013 NZ\$000	UNAUDITED SIX MONTHS ENDED 30 SEPTEMBER 2013 NZ\$000
<b>12. CASH FLOW RECONCILIATIONS</b>			
<b>Profit after tax</b>	<b>33,252</b>	<b>77,053</b>	<b>44,492</b>
Add (deduct) non-cash items:			
Depreciation and writedown of property, plant and equipment to recoverable amount	12,171	23,713	13,643
Cash flow hedge gain from monetised instruments, net of tax	(5,496)	(12,532)	(11,755)
Amortisation of intangibles	1,225	2,693	1,555
Accrued financing income / expense	214	161	32
Movement in provisions	325	930	369
Movement in deferred tax asset / liability	(819)	(2,328)	(2,635)
Movement in foreign currency option contracts time value	(624)	(914)	442
Movement in working capital:			
Trade and other receivables	(1,644)	(4,349)	(3,504)
Inventory	(9,916)	(4,681)	(11,192)
Trade and other payables	736	2,872	(693)
Provision for tax net of supplementary dividend paid	3,002	4,043	3,438
Foreign currency translation	(134)	(224)	(784)
Add non-Income Statement items:			
Monetised cash flow hedges	-	-	-
<b>Net cash flows from operations</b>	<b>32,292</b>	<b>86,437</b>	<b>33,408</b>

# Notes to the Financial Statements continued

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

	UNAUDITED 30 SEPTEMBER 2012		AUDITED 31 MARCH 2013		UNAUDITED 30 SEPTEMBER 2013	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES	ASSETS	LIABILITIES
	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
<b>13. FINANCIAL INSTRUMENTS</b>						
<b>Derivative Financial Instruments</b>						
<b>CURRENT</b>						
Foreign currency forward exchange contracts	29,253	464	32,536	226	31,536	764
Foreign currency option contracts	2,905	–	2,780	–	2,498	59
Interest rate swaps	11	2,118	32	1,681	165	1,040
	<b>32,169</b>	<b>2,582</b>	<b>35,348</b>	<b>1,907</b>	<b>34,199</b>	<b>1,863</b>
<b>NON-CURRENT</b>						
Foreign currency forward exchange contracts	41,587	1,595	34,157	691	21,263	835
Foreign currency option contracts	1,166	–	493	–	1,229	–
Interest rate swaps	47	6,714	73	5,567	868	3,173
	<b>42,800</b>	<b>8,309</b>	<b>34,723</b>	<b>6,258</b>	<b>23,360</b>	<b>4,008</b>

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

	UNAUDITED	AUDITED	UNAUDITED
	30 SEPTEMBER	31 MARCH	30 SEPTEMBER
	2012	2013	2013
	NZ\$000	NZ\$000	NZ\$000
Purchase commitments forward exchange contracts	22,124	19,879	18,405
Sale commitments forward exchange contracts	368,948	298,015	300,191
Foreign currency borrowing forward exchange contracts	15,211	32,769	15,052
NZD call option contracts purchased	–	–	–
Collar option contracts - NZD call option purchased (i)	57,837	64,134	105,365
Collar option contracts - NZD call option sold (i)	63,016	68,654	113,349

(i) Foreign currency contractual amounts are equal.

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

	FOREIGN CURRENCY		
	UNAUDITED	AUDITED	UNAUDITED
	30 SEPTEMBER	31 MARCH	30 SEPTEMBER
	2012	2013	2013
	000s	000s	000s
United States dollars	US\$127,500	US\$103,250	US\$127,500
European Union euros	€66,535	€62,280	€65,740
Australian dollars	A\$12,450	A\$12,750	A\$10,100
British pounds	£4,400	£2,275	£9,025
Canadian dollars	C\$16,250	C\$11,850	C\$12,850
Japanese yen	¥2,435,000	¥2,212,500	¥2,350,000
Chinese yuan	¥20,000	¥17,000	¥26,500
Korean won	₩0	₩0	₩2,503,425
Swedish kronor	kr0	kr0	kr5,500

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

During the first half of the 2014 financial year a benefit of \$16,343,000 (2013: \$7,851,000), or \$11,755,000 (2013: \$5,496,000) after tax was released to the Income Statement and included as part of the foreign exchange gain on hedged sales within revenue.

A further benefit of \$4,947,000 (\$3,549,000 after tax) will be released to the Income Statement in the second half of the 2014 financial year.

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

	FOREIGN CURRENCY		
	UNAUDITED	AUDITED	UNAUDITED
	30 SEPTEMBER	31 MARCH	30 SEPTEMBER
	2012	2013	2013
	000s	000s	000s
Mexican pesos	Mex\$223,579	Mex\$202,579	Mex\$189,049

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

	FOREIGN CURRENCY		
	UNAUDITED	AUDITED	UNAUDITED
	30 SEPTEMBER	31 MARCH	30 SEPTEMBER
	2012	2013	2013
	NZ\$000	NZ\$000	NZ\$000
Interest rate swaps	131,281	112,782	152,244

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

# Notes to the Financial Statements continued

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

## 13. FINANCIAL INSTRUMENTS (CONTINUED)

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 (2013: 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.

	UNAUDITED 30 SEPTEMBER 2012 NZ\$000	AUDITED 31 MARCH 2013 NZ\$000	UNAUDITED 30 SEPTEMBER 2013 NZ\$000
Cash and cash equivalents	5,055	7,709	6,846
Trade and other receivables	79,112	81,560	85,143
<b>Total loans and receivables</b>	<b>84,167</b>	<b>89,269</b>	<b>91,989</b>
Bank overdrafts	18,858	17,136	19,791
Trade and other payables	68,778	70,613	71,284
Borrowings	127,689	117,389	126,012
<b>Financial liabilities measured at amortised cost</b>	<b>215,325</b>	<b>205,138</b>	<b>217,087</b>

## 14. 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.

## 15. 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 and Turkey, principally sales, distribution and administration activities. These sales and distribution hubs also distribute product into neighbouring European countries.
- 4) **Asia-Pacific.** Includes all activities controlled by entities or employees based in Australia, Japan, India, China, South Korea, Taiwan and Hong Kong, principally sales, distribution and administration activities.

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

There are varying levels of integration between these geographical segments. This integration includes transfers of finished product, principally from New Zealand to other segments, and shared costs. The accounting policies of the reportable segments are the same as described in the audited financial statements for the year ended 31 March 2013.

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.

	NEW ZEALAND NZ\$000	NORTH AMERICA NZ\$000	EUROPE NZ\$000	ASIA- PACIFIC NZ\$000	ELIMIN- ATIONS NZ\$000	TOTAL NZ\$000
<b>Operating Segments - 30 September 2012 (Unaudited)</b>						
Sales revenue - external	27,924	106,463	70,715	40,359	-	245,461
Sales revenue - internal	161,155	-	-	-	(161,155)	-
Foreign exchange gain on hedged sales	21,479	-	-	-	-	21,479
<b>Total operating revenue</b>	<b>210,558</b>	<b>106,463</b>	<b>70,715</b>	<b>40,359</b>	<b>161,155)</b>	<b>266,940</b>
Other income	1,200	-	-	-	-	1,200
Depreciation and amortisation	12,860	205	207	124	-	13,396
<b>Reportable segment operating profit before financing costs</b>	<b>46,554</b>	<b>3,311</b>	<b>2,611</b>	<b>1,851</b>	<b>(6,475)</b>	<b>47,852</b>
Financing income	1,266	-	-	1	(1,110)	157
Financing expense	(1,376)	(851)	(345)	(205)	1,110	(1,667)
Exchange gain on foreign currency borrowings	861	-	-	-	-	861
<b>Reportable segment assets</b>	<b>570,263</b>	<b>64,596</b>	<b>59,032</b>	<b>30,757</b>	<b>(111,652)</b>	<b>612,996</b>
<b>Reportable segment capital expenditure</b>	<b>39,444</b>	<b>66</b>	<b>71</b>	<b>1,359</b>	<b>-</b>	<b>40,940</b>

# Notes to the Financial Statements continued

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

## 15. SEGMENT INFORMATION (CONTINUED)

	NEW ZEALAND NZ\$000	NORTH AMERICA NZ\$000	EUROPE NZ\$000	ASIA- PACIFIC NZ\$000	ELIMIN- ATIONS NZ\$000	TOTAL NZ\$000
<b>Operating Segments – 30 September 2013 (Unaudited)</b>						
Sales revenue – external	28,975	113,750	84,012	46,043	–	272,780
Sales revenue – internal	173,906	–	–	–	(173,906)	–
Foreign exchange gain on hedged sales	31,137	–	–	–	–	31,137
<b>Total operating revenue</b>	<b>234,018</b>	<b>113,750</b>	<b>84,012</b>	<b>46,043</b>	<b>(173,906)</b>	<b>303,917</b>
Other income	1,200	–	–	–	–	1,200
Depreciation and amortisation	14,469	159	196	374	–	15,198
<b>Reportable segment operating profit before financing costs</b>	<b>65,750</b>	<b>2,533</b>	<b>7,542</b>	<b>1,395</b>	<b>(10,281)</b>	<b>66,939</b>
Financing income	1,204	–	–	–	(1,166)	38
Financing expense	(3,620)	(883)	(336)	(168)	1,166	(3,841)
Exchange gain on foreign currency borrowings	(543)	–	–	–	–	(543)
<b>Reportable segment assets</b>	<b>582,012</b>	<b>66,865</b>	<b>70,875</b>	<b>32,055</b>	<b>(125,433)</b>	<b>626,374</b>
<b>Reportable segment capital expenditure</b>	<b>17,767</b>	<b>100</b>	<b>201</b>	<b>396</b>	<b>–</b>	<b>18,464</b>

### 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.

### Product Group Information

	UNAUDITED SIX MONTHS ENDED 30 SEPTEMBER 2012 NZ\$000	UNAUDITED SIX MONTHS ENDED 30 SEPTEMBER 2013 NZ\$000
Respiratory & acute care	142,938	164,090
Obstructive sleep apnea	114,217	131,208
Core products subtotal	257,155	295,298
Distributed and other	9,785	8,619
<b>Total revenue</b>	<b>266,940</b>	<b>303,917</b>

### Major Customer

Revenues from one customer of the North America segment (being its distributor to US hospitals) represents approximately \$34.1 million (2013: \$30.2 million) of the Group's total revenues.

## 16. SUBSEQUENT EVENTS

On 22 November 2013 the directors approved the payment of a fully imputed 2014 interim dividend of \$29,533,580 (5.4 cents per share) to be paid on 19 December 2013.

# Directory

## DIRECTORS' DETAILS

The persons holding office as directors of Fisher & Paykel Healthcare Corporation Limited at any time during, or since the end of, the six months ended 30 September 2013 are as follows:

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

During the six months to 30 September 2013:

- At the Board meeting held on 27 June 2013 Geraldine McBride was appointed to the Board in accordance with the company's constitution with effect from 1 August 2013.
- At the Annual Meeting of Shareholders on 27 August 2013 Gary Paykel and Nigel Evans retired by rotation in accordance with the company's constitution, and did not offer themselves for re-election.
- At the Annual Meeting of Shareholders on 27 August 2013 Donal O'Dwyer offered himself for election to the Board and was elected.
- At the Annual Meeting of Shareholders on 27 August 2013 Geraldine McBride offered herself for election to the Board and was elected.

## EXECUTIVE MANAGEMENT TEAM

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

## REGISTERED OFFICES

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

Physical address:	15 Maurice Paykel Place, East Tamaki, Auckland 2013, New Zealand
Telephone:	+64 9 574 0100
Facsimile:	+64 9 574 0158
Postal address:	PO Box 14348, Panmure, Auckland 1741, New Zealand
Internet address:	www.fphcare.com
Email:	investor@fphcare.co.nz

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

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

## STOCK EXCHANGES

The Company's ordinary shares are listed on the NZSX and the ASX.

## SHARE REGISTRAR

### In New Zealand:

Link Market Services Limited	
Physical address:	Level 7, Zurich House, 21 Queen Street, Auckland 1010, New Zealand
Postal address:	PO Box 91976, Auckland 1142, New Zealand
Facsimile:	+64 9 375 5990
Investor enquiries:	+64 9 375 5998
Internet address:	www.linkmarketservices.co.nz
Email:	enquiries@linkmarketservices.co.nz

### In Australia:

Link Market Services Limited	
Physical address:	Level 12, 680 George Street, Sydney, NSW 2000, Australia
Postal address:	Locked Bag A14, Sydney South, NSW 1235, Australia
Facsimile:	+61 2 9287 0303
Investor enquiries:	+61 2 8280 7111
Internet address:	www.linkmarketservices.com.au
Email:	registrars@linkmarketservices.com.au

## INCORPORATION

The Company was incorporated in Auckland, New Zealand.

[www.fphcare.com](http://www.fphcare.com)

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HEALTHCARE