Financials

FINANCIAL COMMENTARY

CONSTANT CURRENCY ANALYSIS

A constant currency income statement is prepared each month to enable the Board and management to monitor and assess the company's underlying comparative financial performance without any distortion from changes in foreign exchange rates. The table below provides estimated New Zealand dollar income statements for the relevant periods, which have all been restated at the budget foreign exchange rates for the 2018 financial year but after excluding the impact of movements in foreign exchange rates, hedging results and balance sheet translations. This constant currency analysis is non–conforming financial information, as defined by the NZ Financial Markets Authority, and has been provided to assist users of financial information to better understand and assess the company's financial performance without the impacts of spot foreign currency fluctuations and hedging results and has been prepared on a consistent basis each year.

The company's constant currency income statement framework can be found on the company's website at www.fphcare.com/ccis.

CONSTANT CURRENCY INCOME STATEMENTS

	Year ended 31 March 2016 NZ$M	Year ended 31 March 2017 NZ$M	Variation 2016 to 2017 %	Year ended 31 March 2018 NZ$M	Variation 2017 to 2018 %
Operating revenue	**774.3**	**880.8**	**+14**	**958.0**	**+9**
Cost of sales	285.6	305.6	+7	329.1	+8
Gross profit	488.7	575.2	+18	628.9	+9
Gross Margin	**63.1%**	**65.3%**	**+219bps**	**65.6%**	**+34bps**
Other income	5.0	5.0	–	5.0	–
Selling, general and administrative expenses	233.4	272.4	+17	290.3	+7
Research & development expenses	73.3	86.0	+17	94.7	+10
Total operating expenses	306.7	358.4	+17	385.0	+7
Operating profit	**187.0**	**221.8**	**+19**	**248.9**	**+12**
Operating margin	**24.2%**	**25.2%**	**+103bps**	**26.0%**	**+80bps**
Financing expenses (net)	6.0	3.1	-48	2.1	-32
Profit before tax	**181.0**	**218.7**	**+21**	**246.8**	**+13**

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

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

RECONCILIATION OF CONSTANT CURRENCY TO ACTUAL INCOME STATEMENTS

	Year ended 31 March		
	2016 NZ$M	2017 NZ$M	2018 NZ$M
Profit before tax (constant currency)	**181.0**	**218.7**	**246.8**
Spot exchange rate effect	20.0	0.4	5.6
Foreign exchange hedging result	(4.0)	22.1	14.7
Balance sheet revaluation	3.8	(2.7)	0.7
Profit before tax (as reported)	**200.8**	**238.5**	**267.8**

The reconciliation set out above illustrates that, when comparing the New Zealand dollar profit before tax shown in the actual income statement for the year to 31 March 2018 with the corresponding period for the prior year:

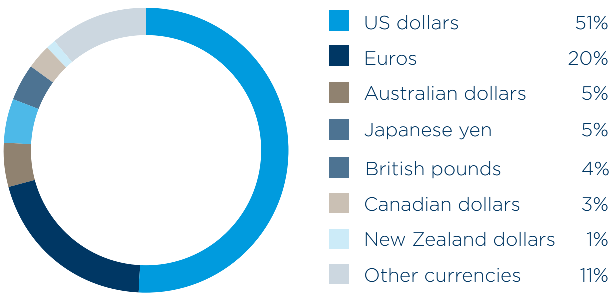
- the movement in average daily spot exchange rates had a favourable impact of NZ$5.2 million; and
- the result of the company's foreign exchange hedging activities was lower by NZ$7.4 million.

Overall, the net favourable effect of movements in exchange rates and the hedging programme was NZ$1.2 million, including the impact of balance sheet revaluations.

FINANCIAL COMMENTARY CONTINUED

FOREIGN EXCHANGE EFFECTS

The company is exposed to movements in foreign exchange rates, with approximately 51% of operating revenue generated in US dollars, 20% in Euros, 5% in Australian dollars, 5% in Japanese yen, 4% in British pounds, 3% in Canadian dollars, 1% in New Zealand dollars and 11% in other currencies.



Compared to the prior year, the proportion of revenue which was generated in US dollars has reduced slightly to 51% from 52% which reflected no substantial changes in the company's operations. The company's cost base continued to be increasingly diverse, although manufacturing output from Mexico remained steady at 34% of total output.

On average over the reporting period there were opposing movements in relation to our largest exposures, with the Euro strengthening and the US dollar weakening against the New Zealand dollar. Previously placed US dollar hedges protected our US dollar receipts and resulted in an improved conversion rate compared to the prior year. With regard to our Euro conversion rate our very favourable hedging ended in the prior year so that even though the Euro spot rate moved in our favour our conversion rate deteriorated a little against the prior year. This drop in the Euro spot rate has, however, enabled us to top up our Euro cover for future years, specifically FY21 through FY23 at rates significantly below current levels.

The hedging policy again served us well during the year, which resulted in a foreign exchange hedging gain of NZ$14.7 million (2017: NZ$22.1 million) to operating profit.

The average daily spot rate and the average conversion exchange rate (i.e. the accounting rate, incorporating the benefit of forward exchange contracts entered into by the company in respect of the relevant financial year) of the main foreign currency exposures for the years ended 31 March 2017 and 2018 are set out in the table opposite.

	Average daily spot rate		Average conversion exchange rate	
	Year ended 31 March		Year ended 31 March	
	2017	2018	2017	2018
USD	0.7090	0.7148	0.6957	0.6823
EUR	0.6467	0.6115	0.5935	0.5999

The effect of balance sheet translations of offshore assets and liabilities for the year ended 31 March 2018 resulted in an increase in operating revenue of NZ$1.8 million (2017: NZ$3.7 million decrease) and an increase in profit before tax of NZ$0.5 million (2017: NZ$2.0 million decrease).

Foreign exchange hedging position

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

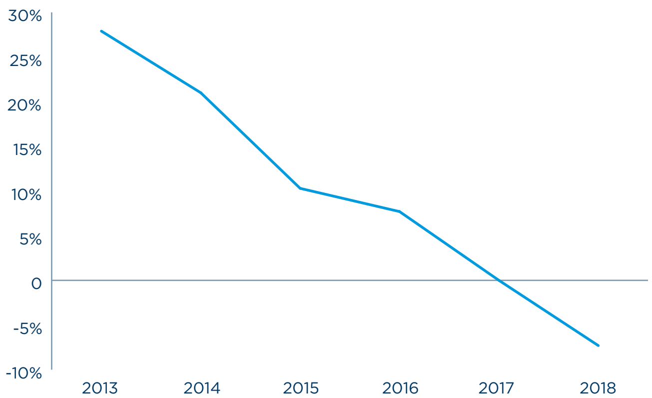
	Year to 31 March				
	2019	2020	2021	2022	2023
USD % cover of expected exposure	70%	55%	20%	0%	0%
USD average rate of cover	0.675	0.659	0.628	–	–
EUR % cover of expected exposure	80%	55%	25%	25%	25%
EUR average rate of cover	0.608	0.575	0.536	0.519	0.507

FINANCIAL COMMENTARY CONTINUED

BALANCE SHEET

Gearing[1] at 31 March 2018 was -7.3%, lower than the 0.0% gearing at 31 March 2017. The decrease in gearing since 31 March 2017 was a result of strong operating cash flow, generated from improved earnings, assisted by the timing of capital expenditure. Gearing is below the debt to debt plus equity target range of +5% to –5%, however is forecast to be back within the target range by 31 March 2019 due to the significant building programme in New Zealand and Mexico.

Gearing[1]



FUNDING

The company had total available committed debt funding of NZ$225 million as at 31 March 2018, of which approximately NZ$165 million was undrawn, and cash and short-term investments on hand of NZ$132 million. Bank debt facilities provide all available funding. Over the next 12 months debt facilities totalling NZ$30 million will mature. As at 31 March 2018 the weighted average maturity of borrowing facilities was 2.3 years.

Debt maturity

The average maturity of the debt of NZ$66 million was 2.7 years and the currency split was 79% US dollars; 13% Euros; 5% Australian dollars and 3% Canadian dollars (with no New Zealand dollar denominated debt).

Interest rates

Approximately 84% of all borrowings were at fixed interest rates with an average duration of 2.7 years and an average rate of 2.4%. Inclusive of floating rate borrowings, the average interest rate on debt was 2.4%. All interest rates are inclusive of margins but not fees.

Cash flow

Cash flow from operating activities was NZ$247.8 million compared with NZ$193.6 million for the year ended 31 March 2017. The increase in cash flow from operating activities was at a faster pace than earnings growth. The main reason for this was that working capital, in particular inventory, did not grow as fast as earnings. The increase also included a benefit in the timing of tax payments.

Capital expenditure for the year was NZ$98.7 million compared with NZ$63 million in the prior year. The increase in capital expenditure related predominantly to new building projects, both in New Zealand and Mexico, of NZ$41.4 million with the balance being product tooling and manufacturing equipment costs. Intangible capital expenditure related predominantly to patent acquisition costs as well as ERP implementation costs of NZ$4.1 million.

1. Net interest-bearing debt (debt less cash and cash equivalents and short-term investments) to net interest-bearing debt and equity (less hedging reserves). Gearing ratios have been calculated at 31 March of each financial year.

FIVE YEAR FINANCIAL SUMMARY
For the years ended 31 March

	2014 NZ$M	2015 NZ$M	2016 NZ$M	2017 NZ$M	2018 NZ$M (except as otherwise stated)
FINANCIAL PERFORMANCE					
Sales revenue	568.6	644.0	818.5	869.5	964.5
Foreign exchange gain (loss) on hedged sales	54.8	28.3	(3.0)	24.9	16.3
Total operating revenue	**623.4**	**672.3**	**815.5**	**894.4**	**980.8**
Cost of sales	(258.0)	(261.4)	(293.8)	(304.0)	(330.4)
Gross profit	365.4	410.9	521.7	590.4	650.4
Gross margin	58.6%	61.1%	64.0%	66.0%	66.3%
Other income	3.7	5.0	5.0	5.0	5.0
Selling, general and administrative expenses	(171.5)	(180.9)	(242.3)	(269.3)	(290.9)
Research and development expenses	(54.1)	(65.0)	(73.3)	(86.0)	(94.7)
Total operating expenses	**(225.6)**	**(245.9)**	**(315.6)**	**(355.3)**	**(385.6)**
Operating profit before financing costs	143.5	170.0	211.1	240.1	269.8
Operating margin	23.0%	25.3%	25.9%	26.8%	27.5%
Net financing expense	(6.8)	(11.3)	(10.3)	(1.6)	(2.0)
Profit before tax	136.7	158.7	200.8	238.5	267.8
Tax expense	(39.6)	(45.5)	(57.4)	(69.3)	(77.6)
Profit after tax	**97.1**	**113.2**	**143.4**	**169.2**	**190.2**
Revenue by region:					
North America	261.6	290.7	385.9	433.0	458.5
Europe	211.8	223.4	253.7	272.0	297.6
Asia Pacific	118.9	127.2	142.6	154.8	181.0
Other	31.1	31.0	33.3	34.6	43.7
Total	**623.4**	**672.3**	**815.5**	**894.4**	**980.8**
Revenue by product group:					
Hospital products	336.9	357.2	436.3	500.4	572.1
Homecare products	270.0	302.0	365.8	381.5	398.1
Core products subtotal	606.9	659.2	802.1	881.9	970.2
Distributed and other products	16.5	13.1	13.4	12.5	10.6
Total	**623.4**	**672.3**	**815.5**	**894.4**	**980.8**

FIVE YEAR FINANCIAL SUMMARY CONTINUED

For the years ended 31 March

	2014 NZ$M	2015 NZ$M	2016 NZ$M	2017 NZ$M	2018 NZ$M
					(except as otherwise stated)
FINANCIAL POSITION					
Tangible assets	551.5	589.8	667.5	755.5	884.3
Intangible assets	78.8	80.0	99.3	122.7	140.8
Total assets	630.3	669.8	766.8	878.2	1,025.1
Liabilities	(224.2)	(198.6)	(225.1)	(216.6)	(263.7)
Shareholders' equity	**406.1**	**471.2**	**541.7**	**661.6**	**761.4**
Net tangible asset backing (cents per share)	73.0	79.7	86.3	105.6	121.4
Pre-tax return on average total assets percentage	21.9%	24.4%	28.0%	29.0%	28.1%
Pre-tax return on average equity percentage	35.1%	36.2%	39.7%	39.6%	37.6%
CASH FLOWS					
Net cash flow from operating activities	99.5	146.8	144.6	193.6	247.8
Net cash flow from investing activities	(31.9)	(53.6)	(65.7)	(62.9)	(198.5)
Net cash flow from financing activities	(62.1)	(91.0)	(74.7)	(87.8)	(79.1)
SHARES OUTSTANDING					
Weighted average basic shares outstanding	547,094,526	555,542,677	561,036,045	566,124,701	570,023,436
Weighted average diluted shares outstanding	565,973,595	569,548,997	572,037,753	574,339,178	576,449,637
Basic shares outstanding at end of the year	551,110,270	557,940,257	563,841,265	567,686,436	571,230,264
DIVIDENDS AND EARNINGS PER SHARE (CENTS PER SHARE)					
Dividends paid:					
Final (i)	7.00	7.00	8.00	10.00	11.25
Interim	5.40	5.80	6.70	8.25	8.75
Total ordinary dividends	12.40	12.80	14.70	18.25	20.00
Basic earnings per share	17.7	20.4	25.6	29.9	33.4
Diluted earnings per share	17.1	19.9	25.1	29.5	33.0

(i) Final dividend relates to the prior financial year.

FIVE YEAR FINANCIAL SUMMARY CONTINUED

For the years ended 31 March

	2014 NZ$M	2015 NZ$M	2016 NZ$M	2017 NZ$M	2018 NZ$M (except as otherwise stated)
PATENTS					
Number of United States patents	111	118	138	161	186
Number of United States patent applications (includes PCTs(i))	220	287	329	357	385
Number of non-United States patents	459	496	559	714	870
Number of non-United States patent applications (excludes PCTs(i))	306	410	582	732	912
RESEARCH AND DEVELOPMENT					
Research and development expenditure	54.1	65.0	73.3	86.0	94.7
Percentage of operating revenue	8.7%	9.7%	9.0%	9.6%	9.7%
CAPITAL EXPENDITURE					
Operational	24.0	38.1	46.3	44.1	41.8
Land and buildings	3.3	1.2	1.7	3.8	41.4
Total	27.3	39.3	48.0	47.9	83.2
Capital expenditure : depreciation ratio	1.0	1.4	1.6	1.5	2.4
NUMBER OF EMPLOYEES					
By function:					
Research and development	403	433	509	563	572
Manufacturing and operations	1,743	1,818	1,992	2,405	2,386
Sales, marketing and distribution	727	738	907	948	994
Management and administration	139	162	179	196	222
Total	3,012	3,151	3,587	4,112	4,174
By region:					
New Zealand	1,904	1,943	2,142	2,307	2,258
North America	681	751	922	1,231	1,314
Europe	217	221	258	271	294
Rest of World	210	236	265	303	308
Total	3,012	3,151	3,587	4,112	4,174

(i) PCTs (Patent Cooperation Treaty) are unified patent applications across a number of jurisdictions

FIVE YEAR FINANCIAL SUMMARY CONTINUED
For the years ended 31 March

	2014	2015	2016	2017	2018
AVERAGE DAILY SPOT EXCHANGE RATES (NZ$1 =)					
USD	0.8208	0.8098	0.6786	0.7090	0.7148
AVERAGE CONVERSION EXCHANGE RATES (NZ$1 =)(ii)					
USD	0.6740	0.7896	0.7235	0.6957	0.6823
EUR	0.4998	0.5259	0.5794	0.5935	0.5999
GBP	0.5153	0.4953	0.4718	0.4812	0.5018
AUD	0.8205	0.8583	0.9000	0.9143	0.9246
CAD	0.7637	0.8130	0.8720	0.8787	0.9218
JPY	64.97	68.27	68.38	69.67	72.34
MXN	10.14	10.68	10.71	12.09	12.62

(ii) Actual exchange rates achieved in delivering or purchasing net foreign currency in relation to the Group's exposures. The average rate includes hedged and spot transactions in each year.

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2018

	Notes	2017 NZ$M	2018 NZ$M
Operating revenue	4	**894.4**	**980.8**
Cost of sales		(304.0)	(330.4)
Gross profit		590.4	650.4
Other income	5	5.0	5.0
Selling, general and administrative expenses		(269.3)	(290.9)
Research and development expenses		(86.0)	(94.7)
Total operating expenses		**(355.3)**	**(385.6)**
Operating profit before financing costs		**240.1**	**269.8**
Financing income		0.4	1.6
Financing expense		(3.5)	(3.7)
Exchange gain on foreign currency borrowings		1.5	0.1
Net financing expense		**(1.6)**	**(2.0)**
Profit before tax	5,11	**238.5**	**267.8**
Tax expense	11	(69.3)	(77.6)
Profit after tax		**169.2**	**190.2**
Basic earnings per share	16	29.9 cps	33.4 cps
Diluted earnings per share	16	29.5 cps	33.0 cps

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2018

	Notes	2017 NZ$M	2018 NZ$M
Profit after tax		**169.2**	**190.2**
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Hedging reserves			
Changes in fair value in hedging reserves		21.3	22.7
Transfers to profit before tax		(5.2)	(17.6)
Tax on changes in fair value and transfers to profit before tax	11	(4.5)	(1.4)
Items that will not be reclassified to profit or loss			
Revaluation of land	9	21.0	–
Other comprehensive income for the year, net of tax		**32.6**	**3.7**
Total comprehensive income for the year		**201.8**	**193.9**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2018

	Notes	Share capital NZ$M	Treasury shares NZ$M	Retained earnings NZ$M	Reserves NZ$M	Total equity NZ$M
Balance at 31 March 2016		**165.6**	**(2.4)**	**327.9**	**50.6**	**541.7**
Adjustment on adoption of NZ IFRS 9 (net of tax)		–	–	(2.8)	2.8	–
Total comprehensive income		**–**	**–**	**169.2**	**32.6**	**201.8**
Dividends paid	17	–	–	(103.3)	–	(103.3)
Issue of share capital under dividend reinvestment plan	15	13.9	–	–	–	13.9
Issue of share capital	15	0.8	–	–	–	0.8
Movement in share based payments reserve	17	–	–	–	2.8	2.8
Movement in treasury shares	15	–	0.7	–	–	0.7
Increase in share capital under share based payment schemes for employee services	15	3.2	–	–	–	3.2
Balance at 31 March 2017		**183.5**	**(1.7)**	**391.0**	**88.8**	**661.6**
Total comprehensive income		**–**	**–**	**190.2**	**3.7**	**193.9**
Dividends paid	17	–	–	(113.9)	–	(113.9)
Issue of share capital under dividend reinvestment plan	15	11.4	–	–	–	11.4
Issue of share capital	15	0.5	–	–	–	0.5
Movement in share based payments reserve	17	–	–	–	3.2	3.2
Movement in treasury shares	15	–	(1.3)	–	–	(1.3)
Increase in share capital under share based payment schemes for employee services	15	6.0	–	–	–	6.0
Balance at 31 March 2018		**201.4**	**(3.0)**	**467.3**	**95.7**	**761.4**

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

CONSOLIDATED BALANCE SHEET
As at 31 March 2018

	Notes	2017 NZ$M	2018 NZ$M
ASSETS			
Current assets			
Cash and cash equivalents		61.3	31.9
Short-term investments		–	100.4
Trade and other receivables	7	129.6	146.0
Inventories	8	135.0	125.4
Derivative financial instruments	6	21.2	18.8
Tax receivable		2.0	1.7
Total current assets		**349.1**	**424.2**
Non-current assets			
Derivative financial instruments	6	24.1	36.9
Other receivables		2.4	2.5
Property, plant and equipment	9	425.2	476.4
Intangible assets	10	44.5	50.4
Deferred tax assets	11	32.9	34.7
Total assets		**878.2**	**1,025.1**
LIABILITIES			
Current liabilities			
Interest-bearing liabilities	12	21.1	29.9
Trade and other payables	13	103.0	112.8
Provisions	14	3.2	4.7
Tax payable		14.7	22.0
Derivative financial instruments	6	3.6	9.0
Total current liabilities		**145.6**	**178.4**
Non-current liabilities			
Interest-bearing liabilities	12	39.9	52.5
Provisions	14	2.0	2.1
Other payables	13	8.6	8.6
Derivative financial instruments	6	5.1	4.9
Deferred tax liabilities	11	15.4	17.2
Total liabilities		**216.6**	**263.7**

	Notes	2017 NZ$M	2018 NZ$M
EQUITY			
Share capital	15	183.5	201.4
Treasury shares	15	(1.7)	(3.0)
Retained earnings		391.0	467.3
Reserves	17	88.8	95.7
Total equity		**661.6**	**761.4**
Total liabilities and equity		**878.2**	**1,025.1**

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

On behalf of the Board
25 May 2018

Tony Carter
Chairman

Lewis Gradon
Managing Director and
Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2018

	Notes	2017 NZ$M	2018 NZ$M
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		897.3	968.6
Grants received		5.0	5.0
Interest received		0.2	1.0
Payments to suppliers and employees		(627.4)	(654.9)
Tax paid		(74.6)	(69.1)
Interest paid		(6.9)	(2.8)
Net cash flows from operating activities		**193.6**	**247.8**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of short-term investments		–	(100.0)
Sales of property, plant and equipment		0.1	0.2
Purchases of property, plant and equipment		(47.9)	(83.2)
Purchases of intangible assets		(15.1)	(15.5)
Net cash flows from investing activities		**(62.9)**	**(198.5)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Employee share purchase schemes		0.8	0.9
Issue of share capital		0.8	0.9
New borrowings		–	31.4
Repayment of borrowings		–	(9.8)
Dividends paid		(89.4)	(102.5)
Net cash flows from financing activities		**(87.8)**	**(79.1)**
Net increase (decrease) in cash		42.9	(29.8)
Opening cash		2.5	45.6
Effect of foreign exchange rates		0.2	–
Closing cash		**45.6**	**15.8**
RECONCILIATION OF CLOSING CASH			
Cash and cash equivalents		61.3	31.9
Bank overdrafts	12	(15.7)	(16.1)
Closing cash		**45.6**	**15.8**

	2017 NZ$M	2018 NZ$M
CASH FLOW RECONCILIATION		
Profit after tax	**169.2**	**190.2**
Add (deduct) non-cash items:		
Depreciation of property, plant and equipment	32.2	35.0
Amortisation of intangibles	6.9	9.6
Share based payments	4.1	4.9
Movement in provisions	(0.3)	1.6
Movement in deferred tax assets / liabilities	(2.1)	0.5
Movement in working capital:		
Trade and other receivables	4.3	(16.4)
Inventories	(14.0)	9.6
Trade and other payables	2.0	6.6
Taxation payable / receivable	(4.6)	7.1
Foreign currency translation	(5.2)	(0.8)
Other	1.1	(0.1)
Net cash flows from operating activities	**193.6**	**247.8**

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

Notes to the Financial Statements

CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

1. REPORTING ENTITY

Fisher & Paykel Healthcare Corporation Limited (the "Company" or "Parent") together with its subsidiaries (the "Group") is a leading designer, manufacturer and marketer of medical device products and systems for use in respiratory care, acute care, surgery and in 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 financial statements were approved for issue by the Board of Directors on 25 May 2018.

2. BASIS OF PREPARATION AND PRINCIPLES OF CONSOLIDATION

Statement of compliance and measurement base

The Company is registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The Company is listed on the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX). The consolidated financial statements have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013.

These consolidated financial statements for the year ended 31 March 2018 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS). The Group is a for-profit entity for the purposes of complying with NZ GAAP.

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

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at balance date and the results of all subsidiaries for the year then ended. All subsidiaries are 100% owned within the Group.

Intercompany transactions and balances and unrealised gains on transactions between subsidiary companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Significant accounting policies

Accounting policies are disclosed in each of the applicable notes to the financial statements and are designated with an AP symbol.

Historical cost convention

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss and/or other comprehensive income, and the revaluation of land.

Foreign currency

Functional and presentation currency

The consolidated financial statements are presented in New Zealand dollars, which is the Group's presentation currency. Items included in the financial statements of each of the subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The Group operates as one integrated business, and the functional currency of all global operations is New Zealand dollars, with the exception of Fisher & Paykel Healthcare Mexico Properties S.A. de C.V ("Mexico Properties") which was established for the purpose of holding the Group's property in Mexico. The functional currency of Mexico Properties is Mexican pesos.

The results and financial position of entities that have a different functional currency are translated to New Zealand dollars as follows: assets and liabilities are translated at the exchange rate at balance date and Income Statement items are translated at the average exchange rates for the year. Exchange differences are recognised in other comprehensive income as a currency translation reserve movement.

Transactions and balances

Foreign currency transactions are translated into the relevant functional currency at the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The Directors regularly review all accounting policies and areas of judgement in presenting the financial statements. Significant estimates are disclosed in each of the applicable notes to the financial statements and are designated with an E symbol.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

3. SIGNIFICANT TRANSACTIONS AND EVENTS IN THE FINANCIAL YEAR
The following significant transactions and events affected the financial performance and financial position of the Group for the year ended 31 March 2018:

Capital expenditure
During the year the acquisition of approximately 15 hectares of land in Tijuana, Mexico was completed at a cost of NZ$21.1 million. During the year, we signed agreements to construct the new Mexico manufacturing facility and campus infrastructure for the equivalent of NZ$28.9 million. As at 31 March $19.7 million of capital commitments related to our Mexico expansion project. The project will continue to be funded through existing debt facilities.

In December, a building construction contract was signed for a fourth building on our Auckland, New Zealand campus. Capital commitments at 31 March include $126.4 million related to this project. To date, spending on this project totals $10.3 million. The building is expected to be operational in 2020.

Litigation
There have been a number of developments over the past year relating to our patent litigation. We have incurred intellectual property litigation expenses of $15.6 million (2017: $20.7 million) which is net of $3 million of costs recovered in relation to legal proceedings in Europe. An update on our patent litigation is included in Note 19 of the financial statements.

Short-term investments
During the year, the Group has invested available cash on hand of $100 million in short-term investments. These investments have maturities between 90 and 182 days and are with banking institutions that have a long term credit rating of Standard & Poors' A- and above. The assets in short term investments as at 31 March 2018 were invested at an average rate of 3.04%.

These funds will be held on deposit and used to partially fund the construction of the fourth building on our Auckland, New Zealand campus.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

4. OPERATING REVENUE

	2017 NZ$M	2018 NZ$M
Sales revenue	869.5	964.5
Foreign exchange gain on hedged sales	24.9	16.3
Total operating revenue	**894.4**	**980.8**
Revenue by Product Group		
Hospital products	500.4	572.1
Homecare products	381.5	398.1
	881.9	970.2
Distributed and other products	12.5	10.6
Total operating revenue	**894.4**	**980.8**

AP

Revenue includes the fair value of the consideration received or receivable for the sale of products, net of sales taxes and other indirect taxes, rebates and discounts and after eliminating sales within the Group. Revenue is recognised when the amount of revenue can be reliably measured, when it is probable that future economic benefits will accrue to the Group, and in accordance with the terms of sale when title has been transferred and the benefits of ownership and risk pass to the customer.

5. OPERATING PROFIT

	2017 NZ$M	2018 NZ$M
Profit before tax is after charging the following specific expenses:		
Auditors' fees:		
Statutory audit and half year review	0.9	1.0
Other assurance and audit related services	–	0.1
Total audit and other assurance services	0.9	1.1
Other services	0.2	0.1
Total fees paid to auditors	**1.1**	**1.2**
Donations	0.1	0.2
Inventory written off (net)	3.5	6.3
Rental and lease expense	10.5	11.2
Intellectual property litigation expense (net – refer Note 19)	20.7	15.6

Other fees paid to auditors

Other assurance and audit related services of $60,000 (2017: $39,000) include assurance procedures in relation to compliance with the constant currency framework, assessment of eligible expenditure for the purposes of the research and development grant and scrutineering the counting of votes at the Annual Shareholders Meeting.

Other services includes accounting standards advice, risk management advice, treasury risk management advice, remuneration committee advice as well as tax compliance.

	2017	2018
Profit before tax is after crediting the following specific income:		
Research and development growth grant	5.0	5.0

AP

Government Grants

Government Grants are recognised in the Income Statement over the same period that the related costs are expensed. Government Grants are recognised when there is reasonable assurance the Group will comply with the conditions attaching to the grants.

Research and development growth grant

The Callaghan Growth Grant provides reimbursement for eligible research and development 'R&D' expenditure up to a maximum of $5.0 million per annum (excluding GST). The three year term of the Callaghan Growth Grant concluded on 30 September 2016 and the Group was granted an extension for a further two year period to 30 September 2018.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

6. DERIVATIVE FINANCIAL INSTRUMENTS

	2017		2018	
	Assets NZ$M	Liabilities NZ$M	Assets NZ$M	Liabilities NZ$M
CURRENT				
Foreign currency forward exchange contracts – cash flow hedges	14.5	3.0	14.4	8.6
Foreign currency forward exchange contracts – not hedge accounted	–	0.1	–	–
Foreign currency option contracts – cash flow hedges	5.8	–	4.0	0.2
Foreign currency option contracts – time value	0.7	–	0.1	0.1
Interest rate swaps – cash flow hedges	0.1	0.5	0.1	0.1
Interest rate options – cash flow hedges	0.1	–	0.2	–
	21.2	**3.6**	**18.8**	**9.0**
NON-CURRENT				
Foreign currency forward exchange contracts – cash flow hedges	14.1	4.7	27.0	4.7
Foreign currency option contracts – cash flow hedges	7.9	–	8.4	–
Foreign currency option contracts – time value	1.5	–	0.6	–
Interest rate swaps – cash flow hedges	0.4	0.4	0.6	0.2
Interest rate options – cash flow hedges	0.2	–	0.3	–
	24.1	**5.1**	**36.9**	**4.9**

AP

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group generally applies hedge accounting to all derivative financial instruments.

The Group designates certain derivatives as either (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges) or (2) hedges of highly probable forecast transactions (cash flow hedges). At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. The Group also documents their assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items. Any ineffective portion is recognised immediately in the Income Statement. Derivatives that are designated as hedges will be classified as non-current if they have maturities greater than 12 months after the balance sheet date.

Some components of hedge accounted derivatives are excluded from the designated risk. Cash flow hedges include only the intrinsic value of options. Time value on options is excluded from the hedge designation and is marked to market through Other Comprehensive Income and accumulated within a separate component of equity (‘the Costs of Hedging Reserve’ within ‘Hedging Reserves’) until such time as the related hedge accounted cash flows affect profit or loss. At this stage the cumulative amount is reclassified to profit or loss.

Master netting arrangements
The Group enters into derivative transactions under the International Swaps and Derivatives Association (ISDA) master agreements. The ISDA agreements do not meet the criteria for offsetting derivatives in the balance sheet. Netting arrangements are only enforceable upon early termination, for example, on occurrence of a credit default.

Refer to Note 22 for information on the calculation of fair values and maturity of undiscounted cash flows for these financial instruments.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

6. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED
Contractual amounts of derivative financial instruments were as follows:

	2017 NZ$M	2018 NZ$M
Foreign currency forward contracts and options		
Sale commitments forward exchange contracts	582.1	879.3
Purchase commitments forward exchange contracts	60.5	60.7
Foreign currency borrowing forward exchange contracts	3.7	8.5
Collar option contracts – NZD call options purchased (i)	193.0	113.7
Collar option contracts – NZD put options sold (i)	214.1	125.5
Interest rate derivatives		
Interest rate swaps	53.7	42.1
Interest rate options	21.4	20.7

(i) Foreign currency contractual amounts of put and call options are equal.

Undiscounted foreign currency contractual amounts for outstanding hedges were as follows:

	Foreign Currency	
	2017 M	2018 M
Sale commitments		
United States dollars	US$309.0	US$294.5
European Union euros	€110.3	€210.7
Australian dollars	A$14.2	A$19.6
British pounds	£18.0	£21.5
Canadian dollars	C$13.0	C$21.0
Swedish kronor	kr16.5	kr38.3
Japanese yen	¥3,190.0	¥3,670.0
Chinese yuan	¥46.0	¥82.5
Korean won	₩3,746.2	₩8,553.7
Danish krone	–	kr4.5
Purchase commitments		
Mexican pesos	MEX$815.5	MEX$855.5

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

7. TRADE AND OTHER RECEIVABLES

	2017 NZ$M	2018 NZ$M
CURRENT		
Trade receivables	116.5	128.3
Provision for doubtful trade receivables	(1.1)	(0.5)
	115.4	127.8
Other receivables	14.2	18.2
	129.6	**146.0**

AP

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Bad debts are written off when they are considered to have become uncollectable.

Trade receivables credit risk

As at balance date 86% of trade receivables were current (2017: 87%) with less than 1% (2017: 2%) more than 90 days past due. The total provision for doubtful debts covers the majority of these past due balances.

Customer and receivable concentration

	2017	2018
Five largest customers' proportion of the Group's:		
Operating revenue	19.8%	17.5%
Trade receivables	16.2%	12.9%

There is no history of default in relation to these customers. Further information about the credit quality and the Group's exposure to credit risk can be found in Note 22.

8. INVENTORIES

	2017 NZ$M	2018 NZ$M
Materials	35.6	32.6
Finished products	110.2	103.1
Provision for obsolete inventories	(10.8)	(10.3)
	135.0	**125.4**

AP

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the first-in, first-out (FIFO) method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

9. PROPERTY, PLANT AND EQUIPMENT

AP

Land is measured at fair value, based on periodic but at least triennial valuations by external independent valuers less any impairment losses recognised after the date of the revaluation. Valuations are performed with sufficient regularity to ensure that the fair value does not differ materially from its carrying amount.

All other property, plant and equipment is stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. This cost includes labour attributable to bringing the assets to the location and working condition for its intended use.

Depreciation is generally calculated using the straight line method and is expensed over the estimated useful lives. Depreciation methods, residual values and useful lives are reassessed at each reporting date. Estimated useful lives are as follows:

Buildings – structure	25 – 50 years
Buildings – fit-out and other	3 – 50 years
Plant and equipment	3 – 15 years

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Revaluations of land

Any revaluation increment is credited to the asset revaluation reserve included in equity, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in the Income Statement, in which case the increment is recognised in the Income Statement.

Any revaluation decrement is recognised in the Income Statement, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset. Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

E

Land revaluation

New Zealand

The New Zealand land holding was valued by Jones Lang LaSalle (JLL), with an effective date of 31 March 2017 in accordance with the Australia and New Zealand Property Institute Valuation Standards and the provisions of NZ IAS 16 'Property, Plant and Equipment' and NZ IFRS 13 'Fair Value Measurement'. The valuation was performed using a comparable sales comparison methodology based on average prices per square metre of $311 for land that has improvements and $305 for undeveloped land.

The change in value from the 2015 valuation, being an increment of $21.0 million, was included in other comprehensive income for the 2017 year and added to the asset revaluation reserve in equity.

The independent valuation of the New Zealand land and buildings, excluding capital projects and leasehold improvements, conducted by JLL as at 31 March 2017 was $295.8 million.

The historical cost of the land at the East Tamaki campus is $63.5 million (2017: $63.5 million).

Mexico

During the year the acquisition of approximately 15 hectares of land in Tijuana, Mexico was completed at a cost of NZ$21.1 million.

As described in Note 22 land in Mexico and New Zealand is considered to be a level 3 asset within the fair value hierarchy for valuation purposes. There are certain estimates associated with determining fair value, with the significant input being comparable land sales information per square metre. The Directors consider that the carrying value of the land at 31 March 2018 remains consistent with the current market value, based on freely available market information and discussion with valuation professionals.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

9. PROPERTY, PLANT AND EQUIPMENT CONTINUED

	Land	Buildings		Plant & equipment	Capital projects		Total
	Fair Value	Structure	Fit out and other		Buildings (i)	Other	
	NZ$M	NZ$M	NZ$M	NZ$M	NZ$M	NZ$M	NZ$M
Cost and revaluation							
Balance at 31 March 2016	95.7	89.4	127.4	235.7	0.6	57.0	605.8
Revaluation	21.0	–	–	–	–	–	21.0
Additions	0.3	–	0.8	25.3	3.3	17.2	46.9
Transfers	–	0.1	0.5	24.0	(0.6)	(24.0)	–
Disposals	–	–	–	(4.5)	–	–	(4.5)
Balance at 31 March 2017	**117.0**	**89.5**	**128.7**	**280.5**	**3.3**	**50.2**	**669.2**
Additions	19.9	–	1.1	8.4	20.5	36.2	86.1
Transfers	1.2	–	1.9	30.8	(1.0)	(32.9)	–
Disposals	–	–	–	(36.0)	–	–	(36.0)
Foreign exchange differences	0.1	–	–	–	–	–	0.1
Balance at 31 March 2018	**138.2**	**89.5**	**131.7**	**283.7**	**22.8**	**53.5**	**719.4**
Depreciation and impairment losses							
Balance at 31 March 2016	–	14.5	52.2	149.4	–	–	216.1
Depreciation charge for the year	–	1.8	6.1	24.3	–	–	32.2
Disposals	–	–	–	(4.3)	–	–	(4.3)
Balance at 31 March 2017	**–**	**16.3**	**58.3**	**169.4**	**–**	**–**	**244.0**
Depreciation charge for the year	–	1.8	6.5	26.7	–	–	35.0
Disposals	–	–	–	(36.0)	–	–	(36.0)
Balance at 31 March 2018	**–**	**18.1**	**64.8**	**160.1**	**–**	**–**	**243.0**
Carrying amounts							
At 31 March 2016	95.7	74.9	75.2	86.3	0.6	57.0	389.7
At 31 March 2017	117.0	73.2	70.4	111.1	3.3	50.2	425.2
At 31 March 2018	**138.2**	**71.4**	**66.9**	**123.6**	**22.8**	**53.5**	**476.4**

(i) Includes land improvement projects in progress

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

10. INTANGIBLE ASSETS

	Software	Patents, trademarks & applications	Other	ERP project in progress	Total
	NZ$M	NZ$M	NZ$M	NZ$M	NZ$M
Cost					
Balance at 31 March 2016	35.6	26.3	5.0	1.3	68.2
Additions	7.0	7.7	–	1.0	15.7
Transfers	2.0	–	–	(2.0)	–
Disposals	(0.2)	–	–	–	(0.2)
Balance at 31 March 2017	**44.4**	**34.0**	**5.0**	**0.3**	**83.7**
Additions	4.4	8.0	–	3.2	15.6
Transfers	0.3	–	–	(0.3)	–
Disposals	(0.9)	–	–	–	(0.9)
Balance at 31 March 2018	**48.2**	**42.0**	**5.0**	**3.2**	**98.4**
Amortisation and impairment losses					
Balance at 31 March 2016	13.6	15.3	3.6	–	32.5
Amortisation for the year	3.3	3.6	–	–	6.9
Disposals	(0.2)	–	–	–	(0.2)
Balance at 31 March 2017	**16.7**	**18.9**	**3.6**	**–**	**39.2**
Amortisation for the year	3.6	6.0	–	–	9.6
Disposals	(0.8)	–	–	–	(0.8)
Balance at 31 March 2018	**19.5**	**24.9**	**3.6**	**–**	**48.0**
Carrying amounts					
At 31 March 2016	22.0	11.0	1.4	1.3	35.7
At 31 March 2017	27.7	15.1	1.4	0.3	44.5
At 31 March 2018	**28.7**	**17.1**	**1.4**	**3.2**	**50.4**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

AP

Software: Acquired computer software licences are initially capitalised at cost, which includes the purchase price and other directly attributable cost of preparing the asset for its intended use including employee costs. Direct expenditure, which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured, is added to the original cost of the software. Software costs are amortised over the useful economic life of 3 to 15 years.

Patents and trademarks: Patents and trademarks have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of patents and trademarks over their anticipated useful lives of 5 to 15 years. In the event of a patent being superseded or a trademark registration is not continued or renewed, the unamortised costs are expensed immediately.

The ERP implementation project is being capitalised in stages as each implementation is undertaken. As each implementation is completed its costs are transferred from ERP project in progress to Software.

11. INCOME TAX

INCOME TAX EXPENSE

	2017 NZ$M	2018 NZ$M
Profit before tax	**238.5**	**267.8**
Tax expense at the New Zealand rate of 28%	66.8	75.0
Adjustments to tax:		
Non-assessable income	(0.4)	(0.4)
Non-deductible expenses	1.3	1.7
Foreign rates other than 28%	0.9	1.1
Effect of foreign currency translations	0.6	(0.1)
Prior period under provision	0.1	0.3
Tax expense	**69.3**	**77.6**
This is represented by:		
Current tax	70.8	77.1
Deferred tax	(1.5)	0.5
Tax expense	**69.3**	**77.6**
Effective tax rate	29.1%	29.0%

IMPUTATION CREDITS

	M	M
New Zealand imputation credits available for use in subsequent reporting periods	NZ$70.5	NZ$92.5
Australian franking credits available for use in subsequent reporting periods	A$7.5	A$8.3

AP

Tax expense comprises current and deferred tax. Tax expense is recognised in the Income Statement except to the extent that it relates to items recognised outside of the Income Statement, in which case it is recognised in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance date. It also includes any adjustment to tax payable in respect of previous financial years.

Deferred tax arises due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for tax purposes.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by balance date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

11. INCOME TAX CONTINUED

DEFERRED TAX

	Provisions and accruals	Property, plant and equipment	Intangibles	Financial instruments	Other	Total
	NZ$M	NZ$M	NZ$M	NZ$M	NZ$M	NZ$M
Balance at 31 March 2016	37.8	(17.6)	4.3	(4.7)	(0.2)	19.6
Amounts recognised in other comprehensive income	–	–	–	(4.5)	–	(4.5)
Amounts recognised directly in equity	–	–	–	–	0.9	0.9
Amounts recognised in the Income Statement	4.5	(1.0)	(2.6)	0.3	0.3	1.5
Balance at 31 March 2017	**42.3**	**(18.6)**	**1.7**	**(8.9)**	**1.0**	**17.5**
Amounts recognised in other comprehensive income	–	–	–	(1.4)	–	(1.4)
Amounts recognised directly in equity	–	–	–	–	1.9	1.9
Amounts recognised in the Income Statement	2.4	(0.6)	(1.9)	(0.6)	0.2	(0.5)
Balance at 31 March 2018	**44.7**	**(19.2)**	**(0.2)**	**(10.9)**	**3.1**	**17.5**

Deferred tax assets and liabilities are offset within the Balance Sheet where they relate to income taxes levied by the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

12. INTEREST-BEARING LIABILITIES

	2017 NZ$M	2018 NZ$M
CURRENT		
Bank overdrafts	15.7	16.1
Borrowings	5.4	13.8
	21.1	**29.9**
NON-CURRENT		
Borrowings expiring		
Between one and two years	8.4	–
Between two and three years	3.0	52.5
Between three and four years	28.5	–
Between four and five years	–	–
	39.9	**52.5**

AP

Borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, borrowings are measured at amortised cost, applying the effective interest rate method. Financing expenses directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing facilities

Borrowings have been aged in accordance with the expiry dates of the facilities as there are no required principal payments before the expiry of each facility. At balance date the weighted average interest rate is 2.4% (2017: 2.8%).

Key lenders to the Group are Debt Certificate Holders under the Negative Pledge Deed. In April 2017, an amended Negative Pledge Deed was executed. The negative pledge includes the covenant that security can be given only in limited circumstances.

The companies in the Group providing the undertakings under the amended Negative Pledge Deed are:

Fisher & Paykel Healthcare Corporation Limited

Fisher & Paykel Healthcare Limited

Fisher & Paykel Healthcare Treasury Limited

Fisher & Paykel Healthcare Properties Limited

The principal covenants of the negative pledge are that:

(a) the interest cover ratio for the Group shall not be less than 3 times earnings before interest, tax, depreciation and amortisation (EBITDA);

(b) the net tangible assets of the Group shall not be less than $200 million; and

(c) the total tangible assets of the Guaranteeing Group shall constitute at least 80% of the total tangible assets of the Group.

Refer to Note 22 (d) for further information on these covenants.

	2017 NZ$M	2018 NZ$M
Unused lines of credit		
Bank overdraft facilities	23.6	26.8
Borrowing facilities	150.5	138.5
	174.1	**165.3**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

13. TRADE AND OTHER PAYABLES

	2017 NZ$M	2018 NZ$M
CURRENT		
Trade payables	29.3	32.7
Employee entitlements	39.4	43.4
Other payables and accruals	34.3	36.7
	103.0	**112.8**
NON-CURRENT		
Employee entitlements	7.1	8.0
Other payables and accruals	1.5	0.6
	8.6	**8.6**

AP

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Refer to Note 18 for further details of employee entitlements and benefits.

14. PROVISIONS

	2017 NZ$M	2018 NZ$M
Warranty provision		
CURRENT		
Balance at beginning of the year	3.9	3.2
Current year provision	4.4	8.6
Warranty expenses incurred	(5.1)	(7.1)
Balance at end of the year	**3.2**	**4.7**
NON-CURRENT		
Balance at beginning of the year	2.4	2.0
Current year provision	(0.4)	0.1
Warranty expenses incurred	–	–
Balance at end of the year	**2.0**	**2.1**

AP

Provisions are recognised where the Group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Warranty

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

As the provision for warranty is based on historical warranty rates, the actual future warranty claims experienced by the Group may be different to that of the past. Factors that could impact the provision for warranty include the success of the Group's quality system, as well as future parts and labour costs. Where the Group is aware of specific product warranty issues these are included in the provision.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

15. SHARE CAPITAL

	2017 NZ$M	2018 NZ$M
Share capital at beginning of the year	165.6	183.5
Issue of share capital under dividend reinvestment plan (i)	13.9	11.4
Issue of share capital	0.8	0.5
Increase in share capital under share based payment schemes for employee services	3.2	6.0
Share capital at end of the year	183.5	201.4
Less treasury shares (ii)	(1.7)	(3.0)
	181.8	**198.4**

Number of issued shares

	2017	2018
Number of shares on issue at beginning of the year	563,841,265	567,686,436
Shares issued:		
Dividend reinvestment plan (i)	1,478,690	946,443
Employee share purchase schemes	–	182,982
Exercise of share options	296,540	138,619
Exercise of share options under cancellation facility	1,502,991	1,727,514
Exercise of performance share rights	566,950	548,270
Number of shares on issue at end of the year	567,686,436	571,230,264
Less treasury shares (ii)	(310,176)	(425,725)
	567,376,260	**570,804,539**

AP

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction. Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equityholders until the shares are cancelled or reissued.

Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equityholders.

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

(i) 946,443 (2017: 1,478,690) shares were issued under the Company's dividend reinvestment plan at an average price of $12.05 (2017: $9.36) per share.

(ii) The treasury shares are used to recognise those shares held and controlled by Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited.

16. EARNINGS PER SHARE

	2017 NZ$M	2018 NZ$M
Profit after tax	**169.2**	**190.2**
Weighted average number of ordinary shares	566,124,701	570,023,436
Adjustment for share options and PSRs	8,214,477	6,426,201
Weighted average number of ordinary shares for diluted earnings per share	574,339,178	576,449,637
Basic earnings per share (cents per share)	29.9 cps	33.4 cps
Diluted earnings per share (cents per share)	29.5 cps	33.0 cps

AP

Basic earnings per share is calculated by dividing the profit after tax of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Options and Performance Share Rights (PSRs) are convertible into the Company's shares, and are therefore considered dilutive securities for diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

17. RESERVES

	2017 NZ$M	2018 NZ$M
Hedging reserves	26.5	30.2
Asset revaluation reserve	53.5	53.5
Share based payments reserves	8.8	12.0
Foreign currency translation reserve	–	–
Total reserves	**88.8**	**95.7**

Nature and purpose of reserves

Hedging reserves

Cash flow hedge reserve: This reserve is used to record unrealised gains or losses on hedging instruments that are recognised directly in equity.

Costs of hedging reserve: This reserve contains the cumulative net change in the time value on currency options which are excluded from hedge designations of foreign currency risk.

Amounts are recycled to the Income Statement when the associated hedged transactions affect the Income Statement.

Asset revaluation reserve

The asset revaluation reserve relates to the revaluation of land. For details refer to Note 9.

Share based payments reserves

Employee share option reserve: This reserve is used to recognise the fair value of options and performance share rights granted but not exercised or lapsed. Tax deductions in excess of the cumulative share based payment expense are recognised in equity.

Amounts are transferred to share capital (including income tax benefits) when the vested options or performance share rights are exercised by the employee or lapse upon expiry.

Employee share entitlement reserve: This reserve is used to recognize the fair value of shares granted but not vested. Amounts are transferred to share capital when the shares vest to the employee.

Foreign currency translation reserve

The foreign currency translation reserve contains foreign exchange differences arising on consolidation of assets and liabilities of overseas entities with a functional currency other than New Zealand dollars.

Dividends

All dividends are recognised as distributions to shareholders.

During the year, supplementary dividends of $10.7 million were paid to non resident shareholders (2017: $9.5 million), for which the Group received a foreign tax credit entitlement. The foreign tax credit entitlement is presented net of income taxes paid within the Cash Flow Statement.

	Cents per share	NZ$M
Dividends		
2016 final	10.00	56.5
2017 interim	8.25	46.8
31 March 2017	**18.25**	**103.3**
2017 final	11.25	64.0
2018 interim	8.75	49.9
31 March 2018	**20.00**	**113.9**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

18. EMPLOYEE BENEFITS

	2017 NZ$M	2018 NZ$M
Wages and salaries	273.5	302.7
Other employment costs	13.7	15.2
Employer contributions to defined contribution superannuation plans inclusive of tax	7.0	8.4
Equity settled share based payment expense	4.1	4.9
Movement in liability for long service leave	1.2	0.7
	299.5	**331.9**

AP

Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave are recognised within employee entitlements in respect of employees' services up to the reporting date, and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Equity settled share based payments
The fair value (at grant date) of performance share rights (PSRs) and options granted to employees is recognised as an employee expense in the Income Statement over the vesting period with a corresponding increase in the employee share based payment reserve. When options or PSRs are exercised, the amount in the share based payment reserve relating to those options, together with the option exercise price paid by the employee, is transferred to share capital. When any vested options or PSRs lapse, upon employee termination or unexercised options reaching maturity, the amount in the share based payment reserve relating to those options or PSRs is also transferred to share capital.

Long service leave
The liability for long service leave is recognised in employee entitlements in trade and other payables and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

a) Employee share based compensation
The Board believes that the issue of a combination of options and share rights broadly in equal value proportions provides appropriate incentive for participating employees to grow the total shareholder return of the Company. The combination of the Option Plan and the Share Rights Plan assists the Group to attract, motivate and retain key employees in an environment where such employees are in high demand both within New Zealand and internationally. Options and share rights are issued to employees under the Option Plan and Share Rights Plan as a long-term component of remuneration in accordance with the Group's remuneration policy. Details of the Option and Share Rights issues are described below.

(i) Employee option plans

The Employee Share Option Plans allow Group employees to acquire shares of the Company. One option gives the employee the right to subscribe for one ordinary share in the Company subject to meeting the vesting conditions. No amount is payable for the grant of options.

Options vest at any time between the third and the fifth anniversary of the grant date, as long as the Company's share price on the NZX has, at any time on or after the third anniversary, exceeded the "escalated price" and as long as the employee remains in the service of the Group. This "escalated price" is determined using a base price established on or around the grant date being the volume weighted average price for a share on the NZX for the 5 business days prior to the grant date; and

- increasing the last calculated base price each year by a percentage determined by the Board, based on independent advice, to represent the Company's cost of capital; and
- reducing the resulting figure by any dividend paid by the Company in respect of a share in the 12 month period immediately preceding that anniversary.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

18. EMPLOYEE BENEFITS CONTINUED

(ii) Employee performance share rights plan

The Employee Performance Share Rights (PSR) Plan allows Group employees to acquire shares of the Company. One share right gives the employee the potential to exercise a share right for an ordinary share in the Company at no cost. Share rights become exercisable if the Company's gross total shareholder return (TSR) performance exceeds the performance of the Dow Jones US Select Medical Equipment Total Return Index (DJSMQDT) in New Zealand dollars over the same period. If the Company's TSR performance exceeds that of the DJSMQDT at either of the third, fourth or fifth anniversary of the grant date of the PSRs, some or all of the PSRs become exercisable as long as the employee remains in the service of the Group. Where an employee has exercised a portion of their PSRs before the fifth anniversary of the grant date, the remaining PSRs lapse at the time that portion has been exercised.

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

PSRs and options granted to employees have no voting rights until they have been exercised and ordinary shares issued.

(iii) Other Employee share and stock purchase plans

All New Zealand and Australian full time employees are eligible, after a qualifying period, to participate in the Employee Share Purchase Plans, which operate in accordance with sections DC13 and 14 of the New Zealand Income Tax Act 2007, with no interest being charged on the loans, and shares issued at a discount of 20% of market price. The qualifying period between grant and vesting date is 3 years, at which point the shares are transferred to the employees and become freely transferable. 425,725 shares (2017: 310,176) are held by the Trustees of the plans, being 0.1% (2017: 0.1%) of the Company's issued and paid up capital. At 31 March 2018 the total receivable owing from employees was $1.4 million (2017: $0.7 million).

North American employees working more than 20 hours per week, in accordance with section 423 of the US Internal Revenue Code, as amended are eligible to participate in an Employee Stock Purchase Plan. Shares under this Plan are issued at a discount of 15%, are allocated to employees at the time of issue and vest immediately. Shares issued under this plan in 2018 totalled 40,409 shares (2017: nil).

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

	2017		2018	
	Performance Share Rights	Options	Performance Share Rights	Options
Number outstanding				
As at beginning of the year	1,612,560	7,508,036	1,410,109	6,326,248
Granted during the year	401,605	1,236,607	408,183	1,119,685
Exercised during the year	(566,950)	(2,308,366)	(548,270)	(2,527,553)
Lapsed during the year	(37,106)	(110,029)	(38,709)	(90,392)
As at end of the year	**1,410,109**	**6,326,248**	**1,231,313**	**4,827,988**
Exercisable at year end	2,530	2,404,570	1,480	1,299,717
Number of employees holding employee share options and PSRs	521	521	503	503
Weighted average exercisable price	–	$5.56	–	$8.16
Weighted average contractual life (months)	40	30	41	33
Fair value of share options or rights granted during the year (NZ$M)	2.5	2.5	3.2	3.0
Fair value of share options or rights granted during the year ($ per share)	$6.25	$2.03	$7.72	$2.72

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

18. EMPLOYEE BENEFITS CONTINUED

Key inputs and assumptions

	2017	2018
Performance Share Rights		
Share price at grant date	$9.85	$12.13
NZD/USD exchange rate of grant date	0.7340	0.7260
5 year NZD risk free rate	1.79%	2.47%
5 year USD risk free rate	1.53%	1.76%
Expected/historical share price volatility	27.00%	27.00%
Expected/historical NZD/USD volatility	13.00%	12.00%
Expected/historical DJSMDQT index volatility	15.00%	14.00%
Employee Option Plans		
Share price at grant date	$9.85	$12.13
Exercise price at grant date	$9.82	$11.81
Expected/historical share price volatility	27.00%	27.00%
Dividend yield	2.18%	1.55%
Option life (years)	5	5
Risk free interest rate	1.79%	2.47%
Cost of equity	8.10%	8.60%

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

b) Key management and director compensation

	2017 NZ$M	2018 NZ$M
Short term benefits	5.5	6.6
Directors fees	0.9	1.0
Share based benefits	1.0	1.1
Employer contributions to defined contribution superannuation plans	0.2	0.2
	7.6	**8.9**

Key management personnel includes the Chief Executive Officer and direct reports. The amounts of key management and director compensation outstanding as at balance date are $2.5 million (2017: $1.6 million).

The table excludes any dividends received on the Company's shares held by the Directors or key management personnel.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

19. CONTINGENT LIABILITIES

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Contingent liabilities are subject to uncertainty or cannot be reliably measured and are not provided for. Disclosures as to the nature of any contingent liabilities are set out below. Judgements and estimates are applied to determine the probability that an outflow of resources will be required to settle an obligation. These are made based on a review of the facts and circumstances surrounding the event and advice from both internal and external parties.

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

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

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

Both Fisher & Paykel Healthcare and ResMed have filed for inter partes review (IPR) with the US Patent Trial and Appeal Board (PTAB) of the patents asserted by the other in the US. The PTAB has issued decisions in respect of a number of the patents in dispute, invalidating some of the patent claims asserted by each party and upholding others. Several decisions on IPRs filed by Fisher & Paykel Healthcare against ResMed patents are still pending. A number of the decisions issued by the PTAB have been appealed by the parties to the US Court of Appeals for the Federal Circuit.

Germany: ResMed initiated patent infringement proceedings in the Regional Court in Munich in relation to Fisher & Paykel Healthcare's Simplus and Eson range of masks. Two of these proceedings are currently stayed pending the outcome of challenges to the validity of ResMed's patents that will be heard by the European Patent Office. The third will be heard by the Regional Court in Munich in late 2018.

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

New Zealand: In August 2016, ResMed initiated proceedings in the High Court of New Zealand in relation to Fisher & Paykel Healthcare's ICON CPAP device and Simplus, Eson and Eson 2 masks. Fisher & Paykel Healthcare responded that the patents asserted are not infringed and has filed a counterclaim in the High Court of New Zealand that the asserted patents are invalid and should be revoked. In March 2018, ResMed narrowed its claims, dropping the infringement case against the ICON CPAP device and the Eson mask.

United Kingdom: In the United Kingdom Fisher & Paykel Healthcare sought a declaration of non-infringement and invalidity in the High Court of Justice Chancery Division Patents Court in respect of three patents asserted against Fisher & Paykel Healthcare in Germany. ResMed counterclaimed for infringement. In November 2017, just before the trial was to start, ResMed conceded to the revocation of two of its patents in the UK. The trial proceeded in relation to a third patent and the Court found that ResMed's patent was invalid in its entirety. This patent has consequently been revoked in the UK.

Australia: In December 2017, Fisher & Paykel Healthcare initiated proceedings against ResMed in the Federal Court of Australia in relation to ResMed's AirSense 10, AirCurve 10, S9 and S9 VPAP flow generators, Lumis non-invasive ventilators, ClimateLine and ClimateLineAir heated air tubing and HumidAir heated humidifier. ResMed responded that the patents asserted are not infringed and has filed a counterclaim in the Federal Court of Australia that the asserted patents are invalid and should be revoked.

20. COMMITMENTS

	2017 NZ$M	2018 NZ$M
Capital expenditure commitments contracted for but not recognised as at the reporting date		
Within one year	34.8	99.1
Between one and two years	2.1	50.3
Between two and five years	–	2.1
	36.9	**151.5**
Gross commitments under non-cancellable operating leases		
Within one year	8.1	8.8
Between one and two years	7.1	6.7
Between two and five years	10.7	7.2
Over five years	0.9	–
	26.8	**22.7**

Leases

AP

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight line basis over the period of the lease.

Operating lease commitments relate mainly to building leases. Certain building leases give the Group the right to renew the lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

21. SEGMENT INFORMATION

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). For the purposes of NZ IFRS 8 'Operating Segments' the CODM is a group comprising the Board of Directors (which includes the Chief Executive Officer), 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 operating segments of the Group have been determined based on the components of the Group that the CODM monitors in making decisions about operating matters. These components have been identified on the basis of internal reports that the CODM reviews regularly in order to allocate resources and to assess the performance of the Group.

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

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

1) **New Zealand.** Includes all activities controlled by entities or employees based in New Zealand, principally research and development, manufacturing, marketing, sales and distribution and administration. The research and development activity relates to New Zealand. The manufacturing activity principally relates to New Zealand, however the Mexico manufacturing activity is also included in this segment as the Mexico facility is managed by New Zealand-based employees. In addition to the manufacturing activity, the new properties company located in Mexico is also included in the New Zealand segment. The sales and distribution activity principally relates to New Zealand, Latin America, Africa, the Middle East and other countries in Asia not included in 4) below. Also included are sales made to countries within Europe and Asia-Pacific where the management of the sale is from New Zealand.

2) **North America.** Includes all activities controlled by entities or employees based in the United States of America and Canada, principally sales, distribution and administration activities.

3) **Europe.** Includes all activities controlled by entities or employees based in the United Kingdom, France, Germany, Sweden, Turkey and Russia, principally sales, distribution and administration activities. These sales and distribution hubs also distribute product into neighbouring European countries.

4) **Asia Pacific.** Includes all activities controlled by entities or employees based in Australia, Japan, India, China, South Korea, Taiwan and Hong Kong, principally sales, distribution and administration activities.

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

There are varying levels of integration between these geographical segments. This integration includes transfers of finished product, principally from the New Zealand segment to other segments, and shared costs.

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

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 in Note 4. Assets are not split by product group.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

21. SEGMENT INFORMATION CONTINUED

Operating Segments

	New Zealand NZ$M	North America NZ$M	Europe NZ$M	Asia Pacific NZ$M	Eliminations NZ$M	Total NZ$M
2017						
Sales revenue – external	59.2	427.5	245.8	137.0	–	869.5
Sales revenue – internal	648.0	–	–	–	(648.0)	–
Foreign exchange gain on hedged sales	24.9	–	–	–	–	24.9
Total operating revenue	**732.1**	**427.5**	**245.8**	**137.0**	**(648.0)**	**894.4**
Other income	5.0	–	–	–	–	5.0
Depreciation and amortisation	35.7	3.2	0.9	0.8	(1.5)	39.1
Segment operating profit before financing costs	**235.8**	**11.7**	**7.6**	**6.8**	**(21.8)**	**240.1**
Financing income	2.8	–	–	–	(2.4)	0.4
Financing expense	(2.4)	(2.6)	(0.6)	(0.3)	2.4	(3.5)
Exchange gain (loss) on foreign currency borrowings	1.8	–	(0.3)	–	–	1.5
Segment net profit before tax	**238.0**	**9.1**	**6.7**	**6.5**	**(21.8)**	**238.5**
Segment assets	**841.0**	**148.3**	**104.8**	**63.3**	**(279.2)**	**878.2**
Segment capital expenditure	**58.7**	**1.8**	**1.3**	**1.2**	**–**	**63.0**
2018						
Sales revenue – external	70.1	448.0	282.2	164.2	–	964.5
Sales revenue – internal	671.1	–	–	–	(671.1)	–
Foreign exchange gain on hedged sales	16.3	–	–	–	–	16.3
Total operating revenue	**757.5**	**448.0**	**282.2**	**164.2**	**(671.1)**	**980.8**
Other income	5.0	–	–	–	–	5.0
Depreciation and amortisation	41.2	4.8	0.9	0.9	(3.2)	44.6
Segment operating profit before financing costs	**245.0**	**12.3**	**10.5**	**10.7**	**(8.7)**	**269.8**
Financing income	4.8	–	–	–	(3.2)	1.6
Financing expense	(3.3)	(2.7)	(0.6)	(0.3)	3.2	(3.7)
Exchange gain (loss) on foreign currency borrowings	0.2	–	(0.1)	–	–	0.1
Segment net profit before tax	**246.7**	**9.6**	**9.8**	**10.4**	**(8.7)**	**267.8**
Segment assets	**1,004.4**	**143.1**	**120.1**	**71.7**	**(314.2)**	**1,025.1**
Segment capital expenditure	**96.6**	**0.7**	**0.4**	**1.0**	**–**	**98.7**

NOTES TO THE FINANCIAL STATEMENTS
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22. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Board of Directors has approved policies and guidelines for the Group that identify and evaluate risks and authorise various financial instruments to manage financial risks. These policies and guidelines are reviewed regularly.

a. Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro, British pound, Australian dollar, Japanese yen, Canadian dollar and Mexican peso.

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The purpose of the Group's foreign currency risk management activities is to protect the Group from exchange rate volatility with respect to New Zealand dollar net cash movements resulting from the sale of products in foreign currencies to foreign customers, and the purchase of raw materials in foreign currencies from foreign and domestic suppliers. The Group enters into foreign currency option contracts and forward foreign currency contracts within policy parameters to manage the risk associated with anticipated sales or costs. The terms of the foreign currency option contracts and the forward foreign currency contracts generally do not exceed five years. However, with Board approval, the foreign currency option contracts and the forward foreign currency contracts may have terms of up to ten years.

Foreign exchange contracts and options in relation to sales are designated at the Group level as hedges of foreign exchange risk on specific forecast foreign currency denominated sales.

Major capital expenditure in foreign currency may be hedged with forward exchange contracts and options and may be designated as hedges.

Balance sheet foreign exchange risk arising from net assets held by the Group may be hedged either by debt in the relevant currency, foreign currency swaps or by foreign currency option contracts and forward foreign currency contracts.

(ii) Price risk

The Group has no material exposure to price risk.

(iii) Interest rate risk

The Group's main interest rate risk arises from floating rate borrowings drawn under bank debt facilities. When deemed appropriate, the Group manages floating interest rate risk by using floating-to-fixed interest rate swaps and interest rate options. Interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Interest rate options give the right, but not the obligation, to enter into an interest rate swap at a fixed rate at a future date. Under the Group Treasury policy, the mix between economically fixed and floating debt is reviewed on a regular basis. Interest rate swaps and options are accounted for as cash flow hedges.

The carrying amounts of significant financial assets and liabilities are denominated in the following foreign currencies:

	NZD NZ$M	USD NZ$M	EUR NZ$M	JPY NZ$M	AUD NZ$M	CAD NZ$M	GBP NZ$M	MXN NZ$M	Other NZ$M	Total NZ$M
2017										
Cash	48.2	5.0	1.9	0.1	0.4	0.6	–	1.0	4.1	61.3
Trade receivables	1.5	55.0	27.0	11.6	5.5	5.2	3.6	–	7.1	116.5
Trade and other payables	(27.9)	(15.4)	(6.3)	(1.9)	(2.9)	(0.7)	(2.4)	(3.9)	(3.7)	(65.1)
Bank overdraft	–	(2.1)	(4.2)	(6.3)	(0.7)	–	(2.1)	–	(0.3)	(15.7)
Borrowings	–	(28.5)	(11.4)	–	(3.6)	(1.8)	–	–	–	(45.3)
	21.8	**14.0**	**7.0**	**3.5**	**(1.3)**	**3.3**	**(0.9)**	**(2.9)**	**7.2**	**51.7**
2018										
Cash	12.7	11.6	2.1	0.2	–	0.4	–	1.5	3.4	31.9
Short term investments	100.4	–	–	–	–	–	–	–	–	100.4
Trade receivables	1.4	53.3	31.7	14.3	6.9	5.5	5.2	–	10.0	128.3
Trade and other payables	(25.3)	(20.5)	(8.5)	(1.6)	(3.1)	(0.5)	(2.9)	(4.0)	(3.6)	(70.0)
Bank overdraft	–	(2.7)	(4.0)	(6.2)	(0.7)	(0.2)	(1.0)	–	(1.3)	(16.1)
Borrowings	–	(52.5)	(8.5)	–	(3.5)	(1.8)	–	–	–	(66.3)
	89.2	**(10.8)**	**12.8**	**6.7**	**(0.4)**	**3.4**	**1.3**	**(2.5)**	**8.5**	**108.2**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

22. FINANCIAL RISK MANAGEMENT CONTINUED

Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk and foreign exchange risk.

A sensitivity of +/-10% for foreign exchange risk has been selected (2017: +/-10%). The Group's primary foreign currency exposure is the New Zealand dollar versus the US dollar, with other currencies as discussed above forming the balance of the exposure. The Group believes that an overall sensitivity of +/-10% is reasonably possible given the exchange rate volatility observed on a historical basis for the preceding 5 year period with a higher weighting given to exchange rate volatility over the preceding year and the range of market expectations for potential future movements. A sensitivity of +/-1% has been selected for interest rate risk (2017: +/-1%). This sensitivity is based on reasonably possible changes over a financial year using the observed range of historical data for the preceding 5 year period.

All variables other than the applicable interest rates and exchange rates are held constant.

	2017		2018	
	NZ$M	NZ$M	NZ$M	NZ$M
	-1%	+ 1%	-1%	+ 1%
Interest rate change				
Impact on net profit after tax	(0.2)	0.2	(0.6)	0.6
Impact on hedging reserves (within equity)	(1.8)	1.8	(1.9)	2.0
	(2.0)	**2.0**	**(2.5)**	**2.6**
	-10%	+ 10%	-10%	+ 10%
Foreign exchange rate change				
Impact on net profit after tax	3.0	(2.7)	0.8	(0.7)
Impact on hedging reserves (within equity)	(49.1)	42.2	(63.3)	52.7
	(46.1)	**39.5**	**(62.5)**	**52.0**

Fair value estimation

NZ IFRS 13 for financial assets and liabilities measured at fair value requires disclosure of the fair value measurements by level from the following fair value hierarchy:

- Level 1 – Quoted price (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – Inputs, other than quoted price included within level 1, that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3 – Inputs for assets and liabilities that are not based on observable market data (that is, unobservable inputs).

All the Group's financial instruments held at fair value have been measured at the fair value measurement hierarchy of level 2 (2017: level 2), as all significant inputs required to ascertain the fair value are observable.

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

- Foreign currency forward exchange contracts have been fair valued using quoted forward exchange rates and discounted using yield curves from quoted interest rates that match the maturity dates of the contracts.
- Foreign currency option contracts have been fair valued using observable option volatilities, and quoted forward exchange and interest rates that match the maturity dates of the contracts.
- Interest rate swaps are fair valued by discounting the future interest and principal cash flows using current market interest rates that match the maturity dates of the contracts

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

Refer to Note 9 for further information about land that is measured at fair value including a summary of the valuation techniques used.

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. Financial liabilities measured at amortised cost are fair valued using the contractual cash flows. The carrying value of financial assets and liabilities other than derivatives approximates their fair value. In considering the fair value of interest bearing assets and liabilities the estimated future interest rates approximate the discount rates used in a fair value assessment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

22. FINANCIAL RISK MANAGEMENT CONTINUED

b. Liquidity risk

Management monitors rolling forecasts of the Group's liquidity position on the basis of expected cash flow. The table below set out the contractual, undiscounted cash flows for non-derivative financial liabilities and derivative financial instruments.

	< 1 year NZ$M	1–2 years NZ$M	2–3 years NZ$M	5+ years NZ$M	Contractual cash flows NZ$M	Consolidated Balance Sheet NZ$M
2017						
Bank overdrafts	15.7	–	–	–	15.7	15.7
Trade and other payables	64.2	–	–	–	64.2	64.2
Borrowings	6.6	12.4	29.1	–	48.1	45.3
Total non-derivative financial liabilities	**86.5**	**12.4**	**29.1**	**–**	**128.0**	**125.2**
Foreign currency forward exchange contracts						
— Inflow	331.2	209.7	101.8	–	642.7	
— Outflow	(319.5)	(205.1)	(96.5)	–	(621.1)	
	11.7	4.6	5.3	–	21.6	20.8
Foreign currency option contracts						
— Inflow	–	–	–	–	–	
— Outflow	–	–	–	–	–	
	–	–	–	–	–	15.9
Interest rate derivative instruments net inflows (outflows) (i)	(0.5)	(0.2)	(0.1)	0.2	(0.6)	(0.1)
Total derivative financial instruments	**11.2**	**4.4**	**5.2**	**0.2**	**21.0**	**36.6**
2018						
Bank overdrafts	16.1	–	–	–	16.1	16.1
Trade and other payables	70.0	–	–	–	70.0	70.0
Borrowings	15.3	1.3	53.4	–	70.0	66.3
Total non-derivative financial liabilities	**101.4**	**1.3**	**53.4**	**–**	**156.1**	**152.4**
Foreign currency forward exchange contracts						
— Inflow	407.5	289.0	244.3	–	940.8	
— Outflow	(400.6)	(277.9)	(230.6)	–	(909.1)	
	6.9	11.1	13.7	–	31.7	28.0
Foreign currency option contracts						
— Inflow	–	–	–	–	–	
— Outflow	–	–	–	–	–	
	–	–	–	–	–	12.8
Interest rate derivative instruments net inflows (outflows) (i)	(0.1)	–	0.3	0.1	0.3	0.9
Total derivative financial instruments	**6.8**	**11.1**	**14.0**	**0.1**	**32.0**	**41.7**

(i) Interest rate swaps derivative cash flows are estimated using forward interest rates at reporting date.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2018

22. FINANCIAL RISK MANAGEMENT CONTINUED

c. Credit risk

The Group incurs credit risk in respect of trade receivables, financial instruments, cash and cash equivalents and short-term investments in the normal course of business. The maximum exposure to credit risk is represented by the carrying value of these financial assets. Credit risk is managed on a Group basis with no significant concentration of credit risk.

The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. There are no significant trade receivable balances relating to customers who have previously defaulted on amounts due to the Group.

Derivative counterparties, cash transactions, cash at banks and short-term investments are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution according to the credit rating of the financial institution concerned. Over 97% of cash and short term investments (2017: 95%) is held with counterparties with credit rating of Standard and Poors' A- and above.

The Group's exposure to credit risk from derivative financial instruments is limited because it does not expect non-performance of the obligation contained therein due to the credit rating of the financial institutions concerned. The Group does not require collateral or other security to support derivative financial instruments.

d. Capital risk management

The main objective of capital risk management is to ensure the Group operates as a going concern, meets debts as they fall due, maintains an appropriate capital structure, and manages the cost of capital. Group capital comprises all components of equity. To maintain or alter the capital structure the Group has the ability to review the size of the dividends paid to shareholders, return capital or issue new shares, reduce or increase debt or sell assets.

There are a number of external bank covenants in place relating to debt facilities. These covenants are calculated monthly and reported to the banks semi-annually. The principal covenants relating to capital management are the interest cover ratio, the net tangible assets minimum requirement and total tangible assets ratio. The consequences of a breach of these covenants would depend on the nature of the breach, but could range from an instigation of an event of review, to a demand for repayment. There have been no breaches of these covenants or events of review for the current or prior period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

23. SIGNIFICANT EVENTS AFTER BALANCE DATE

On 25 May 2018 the directors approved the payment of a fully imputed 2018 final dividend of $71.4 million (12.5 cents per share) to be paid on 6 July 2018. A supplementary dividend of 2.2059 cents per share was also approved for eligible non-resident shareholders.

24. OTHER ACCOUNTING POLICIES

a. Changes to accounting policies

There have been no changes in accounting policies.

Where necessary comparative information has been reclassified to achieve consistency in disclosure with the current period.

b. Standards, Interpretations and Amendments to Published Standards

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

NZ IFRS 15, 'Revenue from Contracts with Customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction Contracts' and related interpretations. The standard is effective for the Group from 1 April 2018.

Management has assessed the effects of applying the new standard through the detailed assessment of significant and more complex contracts across the Group. The assessment identified minor differences between the current recognition of certain aspects of the Group's contracts and their recognition under NZ IFRS 15. The impact of these differences on the 2018 financial year has been assessed and is not material. The differences are also not expected to have a material impact on the Group in the foreseeable future.

The majority of revenue earned by the Group is derived from the satisfaction of a single performance obligation for each contract which is the sale of products. This revenue has historically been recognised at the time legal title of the products passes to the customer. The detailed assessment of contracts performed by Management has determined that the customer obtains control of products at the same time as legal title passes to the customer. In relation to the contract price, the detailed assessment performed by Management has not identified any material changes under NZ IFRS 15 to the accounting for rebates, discounts, or any other items of variable consideration.

NZ IFRS 16, 'Leases', has not been early adopted. The current accounting model for leases required a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets. The standard becomes effective for periods beginning after 1 January 2019. Lease commitments as set out in Note 20 predominantly relate leased properties outside New Zealand that are expected to be brought onto the balance sheet. The adoption is not expected to have a significant impact on the Income Statement.

There are no other new standards or amendments to existing standards effective for the financial year ended 31 March 2018 which have or will have a material impact on the Group.

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c. Impairment of non-financial assets

Assets that have an indefinite useful life or are under development are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

d. Goods and Services Tax (GST)

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

e. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within current interest-bearing liabilities on the Balance Sheet.

f. Short-term investments

Short-term investments includes all other current investments that do not meet the definition of Cash and cash equivalents. The Group's balance is made up of deposits with financial institutions with maturities at the date of acquisition between 90 and 182 days.

g. Research and development

Research expenditure is expensed as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the Group are recognised as intangible assets only when all the following criteria are met: it is technically feasible to complete the product so that it will be available for use or sale; management intends to complete the product and use or sell it; there is an ability to use or sell the product; it can be demonstrated that the product will generate future economic benefits; adequate technical, financial and other resources to complete the development and to use or sell the product are available; and the expenditure attributable to the product during its development can be reliably measured and is material. Directly attributable costs capitalised as part of the product would include employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs recognised as an asset are amortised over their estimated useful lives.

h. Financial guarantee contracts

A financial guarantee contract is a contract that requires a company within the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due. Financial guarantee contracts are initially recognised at fair value. Financial guarantees are subsequently measured at the greater of the initial recognition amount less amounts recognised as income or the estimated amount expected to have to be paid to a holder for a loss incurred.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Fisher & Paykel Healthcare Corporation Limited

The consolidated financial statements comprise:

- the consolidated balance sheet as at 31 March 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

OUR OPINION

In our opinion, the consolidated financial statements of Fisher & Paykel Healthcare Corporation Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of *Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of accounting standards advice, risk management advice, treasury risk management advice, tax compliance, scrutineering the counting of votes at the Annual Shareholders Meeting, and other assurance services in relation to constant currency disclosures and the assessment of eligible expenditure for the purposes of the research & development growth grant. The provision of these other services has not impaired our independence as auditor of the Group.

OUR AUDIT APPROACH

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall group materiality: $13 million, which represents 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

We have determined that there are two key audit matters:

- Legal proceedings with ResMed
- Revenue recognition

INDEPENDENT AUDITOR'S REPORT

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Our Group audit scope focused on the major operating subsidiaries which were selected based on their contribution to the Group's revenue or profit before tax. In aggregate, the subsidiaries selected contributed 84% of the Group's revenue and 93% of the Group's profit before tax.

Audits of each subsidiary are performed at a materiality level calculated by reference to a proportion of Group materiality appropriate to the relative scale of the business concerned.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Legal proceedings with ResMed	
As described in Note 19, the Group is involved in patent litigation with ResMed. There are a number of ongoing related proceedings in multiple jurisdictions. This was an area of audit focus because the estimation of any likely financial reporting impact or potential outcome requires significant judgement due to the uncertainties associated with the litigation process. There is also a heightened risk that the associated disclosures may not be adequate. For proceedings where there has been no determination, no amount has been recorded in the financial statements for any potential asset or liability arising from the litigation process.	To understand the status of the litigation with ResMed across all jurisdictions we performed the following audit procedures: • We held discussions with senior management and in-house legal counsel. • We read external legal advice received by the Group in relation to ongoing litigation. • We examined legal expenses incurred during the year to obtain an understanding of the status of proceedings through the costs incurred with external legal counsel. • We communicated directly with external legal advisors to ensure that our understanding of the ongoing litigation was complete and that our understanding of the fact pattern for each of the proceedings was accurate. We reviewed the accuracy and adequacy of the disclosure in Note 19 based on the understanding obtained from the procedures described above. Based on the work performed, management's judgement in relation to the likely outcome of ongoing litigation was consistent with the results of the audit procedures we performed.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Revenue recognition The Group's revenue primarily consists of the sale of goods which totalled $964.5 million in the year to 31 March 2018, as outlined in Note 4. There is complexity involved in the recognition of revenue as the Group's products are sold to customers in multiple territories with differing terms in the sales contracts. In addition, there is potential for management to manually intervene in the timing of the recognition of revenue.	Our audit procedures included evaluating the processes and controls in place over the recording of sales revenue. We utilised data assurance techniques to match cash received during the year to invoices issued to customers. For revenue transactions that were not completely settled via the receipt of cash or were not a receivable at balance date we obtained evidence that the transactions were valid and recognised in the correct financial year. For a sample of transactions within accounts receivable at balance date we obtained either a confirmation of the amount owing from the customer, or evidence that the amount owing was received by the Group subsequent to year end. We also utilised data assurance techniques to identify journal entries posted to revenue during the year and obtained evidence that any significant journals were appropriate and recorded in the correct period. We defined the time period, both before and after 31 March 2018, where there was a heightened risk of error in relation to the timing of recognition of sales transactions. This involved determining the potential time difference between when revenue is recognised in the accounting system, and when revenue should be recognised according to the range of applicable sales terms in the respective contracts. For a sample of transactions recognised within the defined time period we confirmed that the date on which revenue was recognised was appropriate by examining the associated invoice, the terms of the sales contract, and the relevant delivery documentation. We believe that the procedures performed responded to the heightened risk and no exceptions were identified.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:
https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

WHO WE REPORT TO

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Jonathan Skilton.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountant

Auckland

25 May 2018