

Report from the Chairman of the Board, **Tony Carter**



The 2018 financial year was another positive year for our company. We delivered a record financial result of \$190.2 million net profit after tax, up 12% on the previous year. Revenue growth for the financial year was up 10% to \$980.8 million.

Our global team continues to grow to meet the increasing demands of the healthcare sector. We remain dedicated to producing high quality, innovative medical devices that assist healthcare providers to deliver outstanding patient care, help people recover sooner, and where possible, be treated in the home rather than the hospital.

As healthcare systems strive to balance the need to provide excellent patient care with the growing costs of caring for ageing and growing populations, we will continue to support them with our technology innovations.

Update on building programmes

We are making good progress with construction of the fourth building on our Auckland site. Earthworks are now complete and foundations have started. The new building will have a total gross floor area of 35,700m² and consist of a mix of R&D, pilot manufacturing and warehousing

areas. We are on track to have the building operational by 2020.

In Tijuana, Mexico, work continues on our second manufacturing facility. We expect the building to be completed before the end of 2018. We currently have more than 1,000 employees in Tijuana, and have been manufacturing in a leased facility there since 2010. The new building will be additional to the existing facility.

Your Board

During the year we were pleased to appoint Pip Greenwood as a non-executive director to replace long-serving director Lindsay Gillanders on his retirement from the Board.

Arthur Morris has indicated that he will not seek re-election to the Board at this year's annual shareholders' meeting and will therefore be retiring from the Board at the meeting. Arthur has served as a non-executive director for 10 years and we have greatly benefited from his clinical background.

We will shortly commence a process to find a replacement director with the necessary skills and experience to complement the other Board members and will provide an update in due course.

We continue to be a supporter of the New Zealand Future Directors' programme and our third participant, Rachael Newsome, completed her term with us in March 2018. We have commenced the process to find our fourth participant and believe that this is a valuable programme that not only provides benefit to the company, but also grows the pool of director talent.

Chief Financial Officer change

We announced recently that our Chief Financial Officer, Tony Barclay, has decided to retire. Tony has been a key member of the executive team for many years and the Board would like to acknowledge his significant contribution to the company's financial position, stability, success and growth during that time. We wish Tony all the best for his future.

We have commenced a formal process to appoint Tony's successor and expect to be able to update the market later this year. Tony has also agreed to remain in a consulting role for a 12 month period following his retirement to assist with the transition.

Culture

Fisher & Paykel Healthcare is one of New Zealand's foremost technology companies. Starting from small, humble beginnings, we have evolved into a truly global medical device leader, impacting the lives of many millions of people every year. Despite our global nature, we have retained a unique, collaborative and modest culture that is replicated in each of our international offices.

Last year, the company adopted a new tagline called 'care by design'. The speed and enthusiasm with which this has been adopted right across the business, irrespective of background, nationality or role, demonstrates how the principle of care, coupled with excellence in design, has resonated with the global team.

Every day our people recognise how important our products are to the people who rely on them for their care and wellbeing.

Protection of intellectual property

Fisher & Paykel Healthcare has invested consistently in research and development throughout our 49 year history, and our R&D team now sits at over 500 scientists, engineers and researchers.

Investing to protect the intellectual property we have built up over time is crucial, and occasionally that means we may become engaged in intellectual property legal proceedings.

As you may be aware, we are currently involved in litigation with ResMed, one of our competitors in the obstructive sleep apnea (OSA) market. We believe that it is in the best interests of the company to vigorously defend our IP rights.

An update on the status of the litigation is provided on page 65 of this annual report.

Dividend

The Board has approved an increased final dividend for the year of 12.5 cps. This takes the total dividend for the financial year to 21.25 cps, an increase of 9% on the previous year.

This equates to a dividend pay-out ratio of approximately 65% of net profit after tax for the year.

The dividend reinvestment plan (DRP) will again be offered, without discount, under which eligible shareholders may elect to reinvest all or part of their cash dividends in additional shares.

Outlook

We are pleased to deliver this strong result for the year, and, at current exchange rates, look forward to achieving a significant milestone of more than NZ\$1 billion in operating revenue in our 50th year of operation.

The care and dedication of our employees, right around the world, is evident in the good outcomes we have achieved this year.



TONY CARTER, CHAIRMAN