Report from the Managing Director & Chief Executive Officer, **Lewis Gradon**

Our consistent long-term strategy has again delivered strong growth. Operating revenue grew 10% to $980.8 million and net profit after tax grew 12% to $190.2 million.

Operating revenue in our Hospital product group grew 14% to a record $572.1 million. This was driven largely by growth in new applications of 23%, which includes our Optiflow nasal high flow therapy, non-invasive ventilation and surgery products.

It was particularly pleasing to report growth of 27% in new applications in the second half as more hospitals and clinicians choose to use our Optiflow nasal high flow therapy to treat a broader range of patients with respiratory complications.

Revenue growth of 4% in our Homecare product group was not as strong as the previous few years, but we are pleased with the response to our most recently released mask, the F&P Brevida nasal pillows mask.

Our OSA masks incorporate market-leading technology and we look forward to expanding our innovative OSA mask range later this year.

Our products used in home respiratory support are growing well, although we are still at the very early stages of the product lifecycle. We are beginning to see clinical evidence supporting the use of Optiflow therapy in the home emerging with encouraging results.

About this report

This year we conducted a materiality assessment in which we asked a selection of our global internal and external stakeholders their views on various environmental, social and governance issues as they relate to Fisher & Paykel Healthcare. The resulting matrix is provided

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on page 11, and the top ranking issues have been used to determine the focus of this report.

The materiality assessment was a valuable process, and has contributed to our decision to combine our sustainability disclosures with this annual report, rather than produce it separately, as we have done for the past three years.

This approach reflects the holistic view we have of sustainability as a medical device manufacturer, providing technologies that advance patient care and outcomes. Sustainability is integral to the way we do business, and the value that we provide through the nature of the work we do every day.

It is our hope that by integrating this information, our stakeholders will be able to consider a fuller picture of how we create value for our customers, our communities and our people.

In the interests of being able to easily locate information, we have paired this report with an accompanying website: https://annualreport.fphcare.com.

Executive changes

As referred to in Tony Carter's report, our long-standing Chief Financial Officer, Tony Barclay, recently announced his retirement. Tony has been a key member of our leadership team for 22 years. He has been instrumental in the growth of the business, its financial performance and position. Over the years, he has worked closely with shareholders and the investment community, and is very highly regarded.

Tony retires at the end of May, but will remain in a consulting role to the business for a further 12 months. Andrea Blackie, who joined the business in January 2017, will take up the role of Acting Chief Financial Officer from 1 June 2018.

We have commenced a formal process to appoint Tony's successor and expect to make an announcement in the coming months. On behalf of the team, I would like to acknowledge Tony's outstanding contribution to the company. He will be greatly missed.

Changing clinical practice

One of the key drivers of our business is changing clinical practice. In order to achieve this, we work closely with customers and clinicians to develop products and therapies that can help deliver improved patient care.

On the Hospital side of our business, a paper was recently published of a large multi-centre randomised controlled trial on the use of nasal high flow therapy for infants with bronchiolitis. The study used our Optiflow Junior system, and found significant benefits of the therapy for pediatric patients requiring respiratory support. This study is an exciting addition to the influential and growing body of evidence showing the efficacy of nasal high flow therapy in both adult and paediatric populations.

In Homecare, two recent studies have also demonstrated the clinical efficacy of Optiflow nasal high flow therapy, this time in the home, using our myAirvo device.

Benefits included reduced hospital admissions, improved quality of life and reduced hypercapnia for patients with chronic obstructive pulmonary disease (COPD). It is expected that these studies will influence how patients with COPD are treated in the home in the future.

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It is exciting to see the research continuing to build, and the potential benefits this will bring to our patients. All of these studies are covered in further detail on pages 22-23.

Better products

Innovation in our research and development programme has always been very important to us. This year, we invested $94.7 million into R&D, which is 10% of our revenue.

It has been a busy year with global product launches. During the year we launched Optiflow Junior 2 in the US, Canada, Europe and India after its New Zealand and Australian release last year. Our F&P 950™ respiratory humidification system for adults has been released in New Zealand, Australia, the UK and Hong Kong, and the neonatal version is currently available in New Zealand and Australia, with the roll out to other countries expected over the coming year.

The Nivairo non-invasive hospital mask was introduced into the US in the second half of the financial year. The new SleepStyle continuous positive airway pressure (CPAP) device for OSA patients is available in New Zealand, Australia, Canada, the UK and Japan, among others.

All of these products have been extremely well received by customers and clinicians and we are pleased with the rate of adoption and are confident in their ability to generate long-term growth.

Currently, we are involved in ongoing legal proceedings with one of our OSA competitors, ResMed, for alleged patent infringement. This financial year, pre-tax net litigation related expenses of $15.6 million were incurred. Based on current legal proceedings, we expect to incur litigation related expenses at a similar run rate during the 2019 financial year.

Global reach

Globally, we continue to expand and strengthen our sales teams. Every year, we invest in developing and training our sales representatives so they are well equipped to explain the clinical advantages of our products and encourage a change in clinical practice. Building trusting relationships between our people and our customers is a critical part of our sales approach, right around the world. We now have almost 1,000 people in our sales, marketing and distribution teams in 37 countries.

Our ERP system continues to be rolled out globally, and is now in place in New Zealand, Mexico, and the majority of our offices in the Asia Pacific region. The new system has already proven beneficial, with global sales offices seeing improvements in stock management, demand planning and traceability across the supply chain.

Sustainable, profitable growth

With growing clinical evidence, continued investment in R&D and an expanding global sales team, we are well positioned to take advantage of the ample opportunities before us for continued, long-term growth. Our emphasis is on ensuring that we continue to grow in a profitable way that is sustainable for the long-term.

Gross margin and foreign currency

Our gross margin increased by 31 basis points to 66.3% in the 2018 financial year, largely due to product mix and our Mexican manufacturing facility. This is above our stated target of 65%. We expect to see gross margin stability in the 2019 financial year as most of the recent improvement factors have been substantially captured.

In terms of foreign currency, we experienced a tailwind to profit of approximately $1 million compared to the previous financial year. We took opportunities during the year to add to our hedging cover in many currencies, including the US dollar, Euro and Mexican peso. The most significant hedging added related to the Euro where conditions allowed us to add cover for the long-term as far forward as five years.

Our gearing has continued to improve and at the end of the year we had a net cash position of $49.9 million. This positions us well for the 2019 financial year where funds are required for the construction of the fourth building on our East Tamaki campus.

Outlook

At current exchange rates we expect full year operating revenue for the 2019 financial year to be approximately NZ$1.05 billion and net profit after tax to be approximately NZ$210 million.

In the 2018 financial year, we estimate that our medical devices and systems were used in the treatment of more than 13 million patients. This number grows every year, and is testament to the hard work and dedication of our skilled teams around the world. The care with which all of our 4,174 people approach their work is evidenced in the result we have announced today.

Our outlook is exciting and we are looking forward to another year of positive revenue and earnings growth. We are well positioned to meet the growing demand for our products from an increasing investment in healthcare across the globe.

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LEWIS GRADON, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER