

MORE PATIENTS. MORE PLACES.







More Patients. More Places.

Fisher & Paykel Healthcare Corporation Limited has consistently achieved strong revenue growth in our three core product areas of respiratory humidification systems, devices for the treatment of obstructive sleep apnea (OSA) and products used in neonatal care.

This growth stems from our vision to generate increased value for our shareholders by designing, developing, manufacturing, marketing and selling healthcare devices worldwide which improve patient care and outcomes.

This year we have made considerable progress in our aim to serve a much broader range of patient groups beyond our traditional intensive care market, particularly in areas such as non-invasive ventilation, oxygen therapy and humidity therapy.

In this annual report, we describe how we are reaching more patients in more places and discuss how our core product groups continue to perform strongly, growing value for shareholders as well as improving patient care.



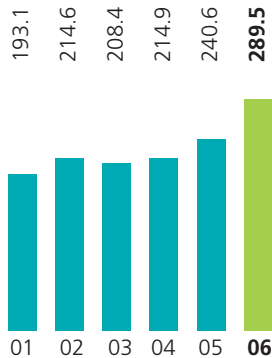
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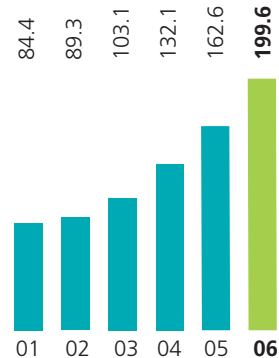
Results in brief

TRADING REVENUE*

NZ\$ MILLIONS

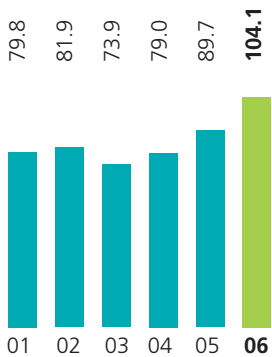


US\$ MILLIONS

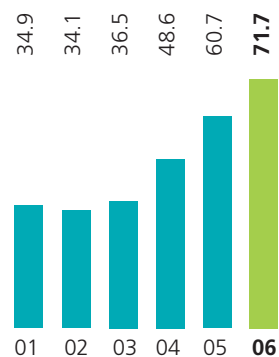


OPERATING PROFIT BEFORE ABNORMAL ITEMS*

NZ\$ MILLIONS

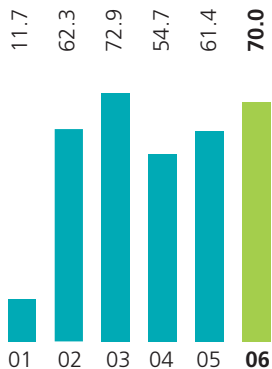


US\$ MILLIONS

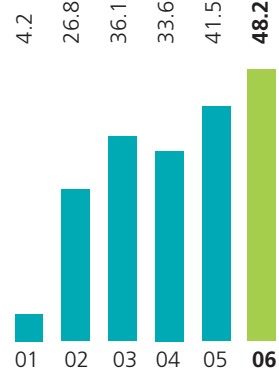


PROFIT AFTER TAXATION*

NZ\$ MILLIONS



US\$ MILLIONS



* FROM CONTINUING OPERATIONS

2006 Highlights

- Record trading revenue of NZ\$289.5 million
- 23% growth in trading revenue to US\$199.6 million
- 16% growth in operating profit to a record NZ\$104.1 million
- 14% growth in profit after tax to NZ\$70.0 million
- Operating margin of 35.9% for the year
- 34% growth in OSA product group revenue to US\$88.2 million
- 14% growth in respiratory humidification product group revenue to US\$90.0 million
- 24% growth in neonatal care product group revenue to US\$15.9 million
- Pre-tax return on average shareholders' equity of 53% in NZD
- Research and development investment of 6% of trading revenue
- Total dividend of NZD12.4 cents per share for the year, representing approximately 90% of full year after tax profit

Vision

Our purpose is to increase shareholder value by profitably designing, developing, manufacturing, marketing and selling healthcare devices worldwide which improve patient care and outcomes.

Values

Fundamental to our success are these basic values:

PATIENTS:

We will employ our research capabilities, technical skills and clinical partnerships to design and develop innovative products and therapies which assist healthcare professionals to provide the best possible patient care and outcomes.

CUSTOMERS:

Our goal is to be recognised by our customers as a high quality, innovative and efficient supplier. We will earn their respect as the best to do business with through our understanding of their current and future needs.

OUR PEOPLE:

We value our family of employees as essential to the success of our company. We aim to develop a long-term trusting relationship with each employee, providing for their welfare, wellbeing and safety, encouraging their contributions and assisting in their personal development and education. In all dealings we will be fair and consistent.

QUALITY IMPROVEMENT:

We believe in continuous improvement in everything we do, including our administration, marketing, sales, design, service, distribution and manufacturing. Continued innovation and improvement are critical to our ongoing growth.

SUPPLIERS:

We view suppliers of goods and services, with whom we wish to develop long-term trusting relationships, as an extension of our company. We expect our suppliers to embrace our quality improvement philosophy in their dealings with us.

SHAREHOLDERS:

We aim to be a company in whom our shareholders have trust and pride. We will keep our shareholders properly informed of our company's performance and prospects. We recognise the need to provide our shareholders with an excellent return on investment, consistent with long-term growth.

PLANNING:

All short-term decisions will be consistent with long-term objectives that balance the needs of our people, customers, suppliers and shareholders. Each year these objectives will be widely communicated within our company.

ENVIRONMENT:

Reflecting our commitment to minimise the impact of our operations on the environment, we aim to develop products and manufacturing processes which are as friendly to the environment as practicable.

SOCIETY:

We will conduct our business at all times in a fair, ethical, consistent and professional manner. We accept our responsibility to be a trustworthy community neighbour and will continue to support community affairs.

Chairman's Report



Gary Paykel – CHAIRMAN

For the financial year ended 31 March 2006, new products continued to contribute to growth in our core product groups of respiratory humidification, obstructive sleep apnea and neonatal care. This progress was an important contributor to the record operating profit achieved of NZ\$104.1 million.

Concurrently, we opened up new opportunities for growth by introducing products which can be used outside of the intensive care environment in hospitals, enabling us to contribute to improved care for more patients in more places.

Our trading revenue increased by 20% to NZ\$289.5 million, while our operating profit increased by 16% over the prior year to NZ\$104.1 million with an operating margin on trading revenue of 35.9%.

As an exporter, we earn a large proportion, approximately 65%, of our revenue in US dollars. In US dollar terms, trading revenue increased by 23% for the year to US\$199.6 million and our operating profit increased by 18% to US\$71.7 million compared with the prior year. Geographic contribution to revenues was North America 47%, Europe 29% and Asia Pacific and Other, 24%.

Profit after tax increased by 14% to NZ\$70.0 million, compared with NZ\$61.4 million for the prior year. This pleasing progress is reflected in the Directors' decision to increase our final dividend to NZD7.0 cents per share, carrying full imputation credit. Total dividends for the year, of NZD12.4 cents per share, are in line with our policy to distribute approximately 90% of our after tax profit to our shareholders.

As in prior years, each of our core product groups contributed to our sound performance.

Trading revenue from masks and flow generators grew 53% in our OSA product group, taking OSA trading revenue to US\$88.2 million, up 34% on the prior year.

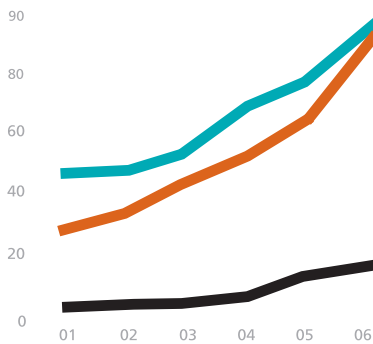
Respiratory humidification product group trading revenue increased by 14% to US\$90.0 million, a result driven by strong growth in volumes of breathing circuits and respiratory humidifier controllers.

Trading revenue in our neonatal care product group rose 24% to US\$15.9 million, another pleasing result.

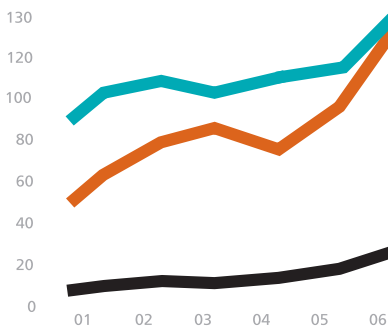
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REVENUE BY PRODUCT GROUP

US\$ MILLIONS



NZ\$ MILLIONS



■ RESPIRATORY HUMIDIFICATION PRODUCTS
■ OSA PRODUCTS
■ NEONATAL CARE AND PATIENT WARMING PRODUCTS

Increases in market share across all three product groups were important contributors to our revenue growth. Trading revenue also benefited from approximately NZ\$13.1 million in currency hedging gains on export sales to third party distributors, with total operating revenue benefiting from a further NZ\$34.9 million of hedging gains relating to sales made via foreign based subsidiaries.

Further analysis of our trading revenues illustrates the respective contribution made by each of our core product groups. Respiratory humidification sales represented 45% of trading revenue, while OSA accounted for 44%. Neonatal care represented 8% and distributed products represented 3%. Consumable products across all three product groups such as humidifier chambers, breathing circuits, masks and accessories, now account for 59% of trading revenue, up from 55% in the prior year.

Trading revenue from our core product groups, in US dollar terms, has grown at a compound annual rate of 21% over the past seven years as we have successfully introduced new products and the markets for these products have expanded.

Our products are sold in more than 90 international markets. As in previous years, we continue to invest in the expansion of our global sales network. Our experience confirms that the better our presence "on the ground" in each market, the better our ability to identify growth opportunities and form relationships which promote confidence in our company and its products that lead to increased sales. As a result, our selling, general and administrative (SG&A) expenses have increased to NZ\$81.7 million, a rise of 21% on the prior year. Excluding the effect of currency translations, SG&A expenses increased by approximately 25%.

With new products being an important driver of our annual revenue and earnings growth, we remain very committed to investing in research and development (R&D). Our R&D expenses represented 6% of trading revenue, increasing to NZ\$17.3 million compared to NZ\$16.2 million in the prior year. This investment was spread across all of our core product groups, as we continued to develop our product portfolio.

Our cash flows remain strong, with NZ\$96.5 million net cash generated from operating activities in the financial year, an increase of NZ\$24.3 million over the prior year.

Capital expenditure of NZ\$53.6 million included NZ\$38.9 million in payments related to the construction of the second manufacturing, R&D and administrative facility on our Auckland site. The majority of other capital expenditures related to the purchase of production tooling and equipment, computer equipment and software and patents.

Net cash used in financing activities of NZ\$50.7 million primarily related to payment of our interim and final dividends as well as the NZ\$5.1 million return of capital to shareholders through our on-market share buy-back programme. In total 1,649,902 shares were purchased during the year.

Once again, the quality of our results and our expectation of future growth are a direct result of the calibre of our people. We thank them all for their contribution and their loyalty. Their experience, knowledge and commitment to only the very best in research, development, manufacturing, marketing, sales and administration makes a very real difference to our ability to grow our markets and the value we create for our shareholders. We also greatly value our relationships with our customers, distributors, suppliers and clinical partners and thank them all for their support.

Gary Paykel CNZM
Chairman