

Annual Report 2007

Improving Care
and Outcomes

Fisher & Paykel
HEALTHCARE





Fisher & Paykel

HEALTHCARE

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Improving Care and Outcomes

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

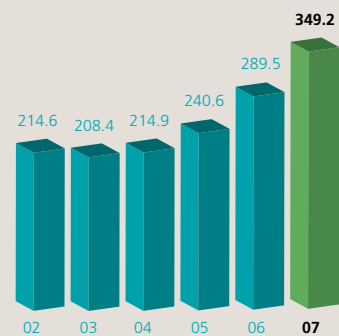
This growth stems from our vision to generate increased value for our shareholders by designing, developing, manufacturing, marketing and selling healthcare devices worldwide which improve patient care and outcomes.

We continued to make considerable progress in our objective to provide innovative medical devices which can assist to improve care and outcomes for an increasing number of patients in an expanding range of settings, which include home care, adult and neonatal intensive care and respiratory care.

Results in Brief

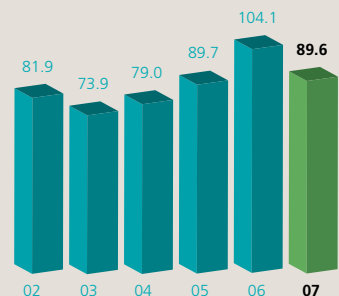
Trading Revenue*

NZ\$ MILLIONS



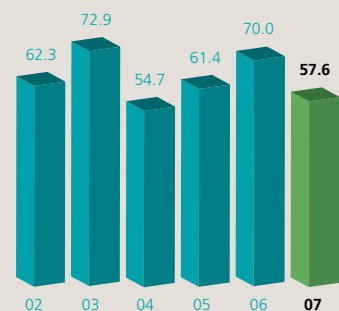
Operating Profit Before Abnormal Items*

NZ\$ MILLIONS



Profit After Taxation*

NZ\$ MILLIONS



* FROM CONTINUING OPERATIONS

2007 Highlights

21% growth in trading revenue to a record NZ\$349.2 million

27% growth in OSA product group revenue to NZ\$162.1 million

15% growth in respiratory humidification product group revenue to NZ\$150.2 million

25% growth in neonatal care product group revenue to NZ\$26.8 million

NZ\$89.6 million operating profit

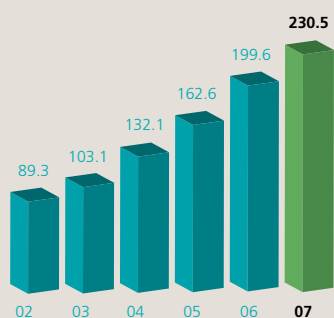
NZ\$57.6 million profit after tax

Pre-tax return on average shareholders' equity of 44%

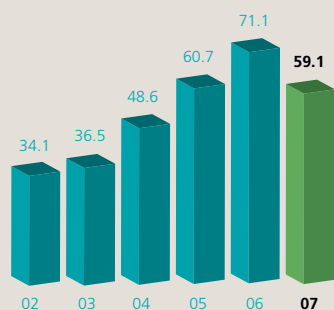
Research and development investment of 5.8% of trading revenue

Total dividend of NZD12.4 cents per share for the year

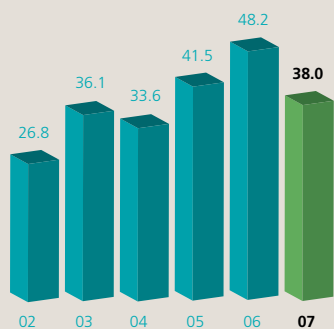
US\$ MILLIONS



US\$ MILLIONS



US\$ MILLIONS



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.



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.

Around the world more and more hospitals, physicians, nurses, therapists and homecare providers are choosing our devices to assist with treatment of their patients.



GARY PAYKEL
Chairman

Chairman's Report

Our healthcare business began, more than 35 years ago, as a result of a pioneering doctor's desire to improve outcomes for ventilated patients under his care. Since those early beginnings we have continued with a vision of providing innovative medical devices that can assist clinicians to improve patient care and outcomes.

Around the world more and more hospitals, physicians, nurses, therapists and homecare providers are choosing our devices to assist with treatment of their patients. Their support is reflected in our 21% growth in trading revenue to a record NZ\$349.2 million for the year ended 31 March 2007.

We made encouraging progress in developing new opportunities for growth with new products introduced in our OSA product group and in expanding the range of applications for our humidification and breathing system technologies outside of our traditional hospital intensive care environment.

As an exporter, we earned a large proportion, approximately 62%, of our trading revenue in US dollars. Euros accounted for 20%, UK pounds 6%, Australian dollars 7% and New Zealand dollars 1% of our trading revenue. Exchange rates between the New Zealand dollar and other currencies were very volatile during the year. In constant currency terms, trading revenue increased by a pleasing 19% compared to the prior year. Geographic contribution to revenue was North America 49%, Europe 31% and Asia Pacific and Other, 20%.

We achieved an operating profit of NZ\$89.6 million compared to NZ\$104.1 million for the prior year. Net foreign exchange hedging gains contributed NZ\$7.9 million to operating profit compared to NZ\$41.3 million last year. Profit after tax for the year was NZ\$57.6 million.

Your directors approved a final dividend of NZD7.0 cents per share, carrying full imputation credit taking total dividends for the year to NZD12.4 cents per share.

Revenue growth was again a result of a strong contribution from each of our core product groups which we believe all achieved encouraging market share gains.

The OSA product group continued to make the largest contribution to growth with trading revenue from masks and flow generators up 34%, taking total OSA trading revenue to NZ\$162.1 million, up 27% on the prior year.

Strong growth in volumes of breathing circuits and respiratory humidifier controllers in our respiratory humidification product group generated a trading revenue increase of 15% to NZ\$150.2 million.

Trading revenue in our neonatal care product group rose 25% to NZ\$26.8 million reflecting particularly rapid growth in demand for our neonatal breathing systems and resuscitators.

Foreign exchange hedging gains on export sales to third party distributors contributed approximately NZ\$1.3 million to trading revenue, with total operating revenue benefiting from a further NZ\$7.2 million of hedging gains relating to sales made to subsidiaries outside New Zealand. These gains were considerably less than last year, when the gains were respectively NZ\$13.1 million and NZ\$34.9 million.

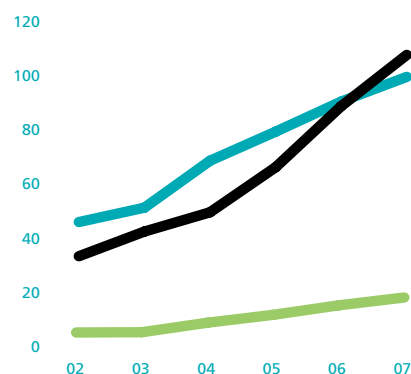
Of our total trading revenue, OSA accounted for 46%, respiratory humidification represented 43%, neonatal care represented 8% and distributed and other products represented 3%. Consumable and

accessory products across all three product groups such as humidifier chambers, breathing circuits and masks accounted for approximately 66% of core products trading revenue, up from 59% in the prior year.

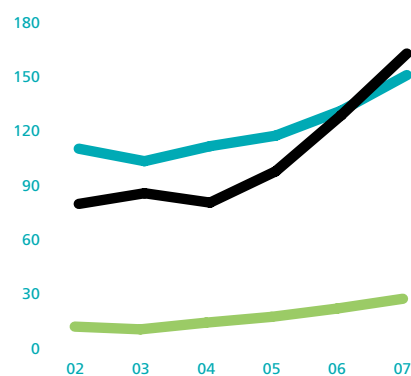
Trading revenue from our core product groups, in US dollar terms, has grown at a compound annual rate of 20% over the past seven years as we have successfully introduced new products, additional devices for use with each patient, and the markets for our products have expanded.

Revenue By Product Group

US\$ MILLIONS



NZ\$ MILLIONS



■ OSA PRODUCTS
■ RESPIRATORY HUMIDIFICATION PRODUCTS
■ NEONATAL CARE PRODUCTS

We continue to invest in the expansion of our global sales network with our products now sold in more than 110 countries. With an increasing number of our own people supporting customers at a local level, our experience confirms that the better our presence in each market, the better our ability to inform customers, build relationships and identify growth opportunities.

Our selling, general and administrative (SG&A) expenses were NZ\$97.6 million, an increase of 19% over the prior year. Excluding the effect of currency translations, SG&A expenses increased by approximately 15%. The increase was primarily due to an increase in our sales, marketing and operations staff to support our growth.

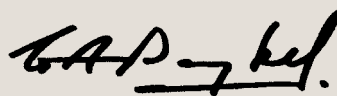
Our research and development (R&D) expenses represented 5.8% of trading revenue, an increase of 16% to NZ\$20.2 million compared to NZ\$17.3 million in the prior year. This investment was spread across all of our core product groups, as we continued to develop our products and technology. New and improved products and processes, along with development of new applications for our technologies, are critical drivers of our annual revenue and earnings growth. We remain committed to investing in R&D.

Our cash flow remained strong, with NZ\$56.3 million net cash generated from operating activities in the financial year. Operating cash flow was lower than the prior year primarily as a result of less favourable foreign exchange hedging gains.

Capital expenditure of NZ\$28.7 million included NZ\$11.6 million in payments related to the completion 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\$48.0 million primarily related to payment of our interim and final dividends. With regard to our on-market share buy-back programme, as at 31 March 2007, NZ\$12.2 million remained of the NZ\$27.5 million originally allocated to the buy-back.

The experience, capabilities and commitment of our 1,650 people worldwide to excellence in quality, research, development, manufacturing, marketing, sales and administration underpin our ability to grow. This in turn enables us to deliver the long term growth in value expected by our shareholders. We again thank them all for their contribution and their loyalty. Our people are also responsible for the valued relationships we have with our customers, distributors, suppliers and clinical partners. We thank them too for their ongoing support.



Gary Paykel CNZM
Chairman

