



MICHAEL DANIELL
Managing Director and
Chief Executive Officer

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CHIEF EXECUTIVE OFFICER'S REVIEW

Our consistent growth strategy is to provide an increasing range of innovative products which can help to improve care and outcomes for patients in a variety of applications. Put simply: better care, for more patients in more places.

In the hospital, we have expanded our offering beyond intensive care ventilation with devices that can be used in non-invasive ventilation, oxygen therapy, humidity therapy and laparoscopic surgery. Over the past year we achieved very encouraging progress with revenue from those new applications growing 55%, in constant currency terms, and accounting for 25% of our respiratory and acute care consumables' operating revenue.

In the homecare setting, we continued to expand our range of devices for the treatment of OSA with the introduction of new premium flow generators and masks and our new AIRVO™ humidity therapy product range for patients with Chronic Obstructive Pulmonary Disease (COPD).

As always, we have a number of new products in development, which we believe will continue to expand our opportunities for growth.

Respiratory and Acute Care

Our heated humidifier systems play an important role in improving patient care in the treatment of a variety of medical conditions which interfere with normal respiration. Warming and moistening of the gases delivered through mechanical ventilation or oxygen therapy help to reproduce the normal functioning of the nose and upper airways and reduce airway moisture loss and the occurrence of adverse side effects.

Respiratory and acute care product group operating revenue grew 34% overall to NZ\$244.5 million. The devices we offer include humidifier controllers, chambers, breathing circuits (the tubing which conveys medical gases to and from the patient), filters, connectors and interfaces.

Our neonatal care devices include similar, baby-sized, respiratory systems as well as resuscitators and warmers. These devices are used to assist newborn babies (particularly those born prematurely) with breathing and temperature regulation.

We also offer a humidification system which humidifies the cold, dry carbon dioxide gas which is used to inflate the patient's abdomen during 'keyhole' or laparoscopic surgery.

We continued to achieve market share gains with our range of respiratory humidification system controllers, assisted by significant hospital Group Purchasing Organisation (GPO) related business in the USA. The increasing number of our humidification systems in use around the world generated continuing growth in adult and neonatal breathing system consumables.

Many of our customers chose to use more of our expanding range of respiratory care devices and the average value of humidifier and breathing system components we provide for each patient

continued to increase. Demand for our neonatal oxygen therapy systems and resuscitators also continued to grow strongly.

We have introduced our humidifier system for laparoscopic surgery to European markets following encouraging results from pilot marketing in New Zealand and Australia.

We have additional breathing system consumables under development, with the objective of enabling improved care for more patients and further increasing the value of the devices we offer for treating each patient.

Obstructive Sleep Apnea

Continuous positive airway pressure (CPAP) therapy is the most common treatment for OSA. CPAP therapy prevents the collapse and blockage of the patient's airway during periods of deep sleep and is delivered using an air flow generator, humidifier, tubing and mask.

Most people with OSA do not realise that they have a condition which causes excessive daytime fatigue, is associated with cardiovascular disease and strokes and is directly linked to hypertension. In fact, tens of millions of people worldwide who have untreated OSA stop breathing for short periods many times each night while they are asleep.

We estimate that the worldwide market for OSA treatment devices and consumables is now worth approximately US\$2.0 billion annually. Increasing diagnosis rates, better treatment devices and improving awareness of the condition are contributing to strong market growth. We have continued to grow strongly, with our broad range of CPAP masks and flow generators generating 23% growth in operating revenue to NZ\$202.6 million.

Consistent with the trend over the past few years, we saw a decline in volume of approximately 25%

in standalone CPAP humidification devices as our customers continued to move to integrated flow generator-humidifier systems.

Our innovative products are designed for ease of use and to help improve patient acceptance and compliance with CPAP therapy. Our nasal and full face masks incorporate our patented FlexiFit™ and Glider™ technologies which help make them comfortable and easy to fit. Our nasal pillows mask, the Opus360™, is extremely small, light and quiet and has been enthusiastically received by our customers.

Many of our CPAP flow generators incorporate our ThermoSmart™ humidification technology. ThermoSmart™ technology warms the tube which delivers air to the mask and allows much higher levels of humidification which can reduce the symptoms caused by airway drying. Our flow generators with ThermoSmart™ technology have been well received by patients, with positive reports of both increased comfort and acceptance.

In the United States, CMS (Centers for Medicare and Medicaid Services) has introduced a reimbursement rule that requires patients' compliance with their CPAP therapy to be recorded. During the year we introduced our SleepStyle™ Auto Flow generators with SensAwake™ and our SleepStyle™ 240 range. Both product ranges incorporate our SmartStick™ USB compliance and efficacy recording technology.

We also introduced two new masks, Zest™ and Forma™. The Zest™ nasal mask combines our new Easy-Clip silicone seal with our previously proven Glider™ and FlexiFit™ technology and is small and quiet and fits most patients straight out of the box. The Forma™ full face mask includes a new FlexiFoam™ cushion, which is soft and light and features active contouring that conforms naturally to the patient's face. We are very encouraged by customer response to the new masks and the sales achieved so far.

Research and Development

Investment in R&D is fundamental to developing devices which can improve patient care and outcomes and to increasing our opportunities for growth in the respiratory care, acute care and OSA markets. We regularly introduce innovative new products and technologies which have been developed through our technical expertise and clinical partnerships.

R&D Investment	2009	2008	2007
Investment in R&D	NZ\$28.3M	NZ\$24.1M	NZ\$20.7M
R&D as % of operating revenue	6.2%	6.7%	6.0%
R&D staff	253	240	225

Patents at 31 March

US granted	79	81	76
US applications pending	73	60	67
Rest of world granted	292	246	208
Rest of world applications pending	212	256	222

Over the year, we increased our R&D spending by 18% to NZ\$28.3 million, which represented 6.2% of operating revenue. This increase reflects the increased numbers of engineers, scientists, physiologists and other staff employed in product and process research and development activities across all of our core product groups.

During the year we introduced the new premium flow generator range which includes the SleepStyle™ 200 Auto series flow generators and our SleepStyle™ 240 range. The auto-adjusting flow generator range continuously monitors the OSA patient's breathing and applies sufficient pressure to prevent apneas occurring. It is also the first to incorporate our unique SensAwake™ technology, which senses when the patient is awake and promptly reduces the delivered pressure to make it easier to get back to sleep.

Product and clinical development was completed in our project to develop a system specifically designed to help treat patients with COPD. The new system, which was introduced first into New Zealand and Australia, combines technology from our OSA and intensive care humidification products. We originally designed the system solely for home use, but following positive feed back from hospitals, the design was extended to accommodate hospital use as well. Two models have been introduced, the AIRVO™ for hospital use and myAIRVO™ for home use.

Our new product development projects include new flow generators and consumables for both respiratory and OSA applications.

Sales and Marketing

Our own people are currently located in 26 of the 120 countries where our products are sold. The growing number of staff in these markets helps us to ensure that our product range is well supported and new additions to the range are quickly brought to the attention of health professionals and our customers.

At the same time, a local presence enables us to identify local needs and opportunities, while allowing us to build the good relationships that support our business growth.

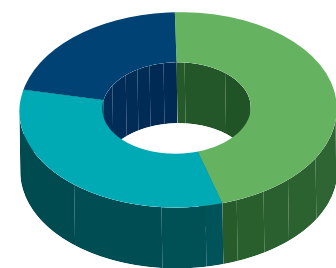
Our sales offices in the UK and Western Europe assist us to deal with the complexities of multiple languages, differing regulatory requirements and market preferences. We have sales offices and distribution centres in France, the UK, Germany and Sweden and sales teams located in Spain, Portugal, Italy, the Netherlands, Belgium, Ireland, Austria, Switzerland and Denmark.

In both India and China we have well-established distribution centres, which provide immediate access to our product range. Each of them serves very large and diverse population groups and supports our in-market distributors. We have an extensive network of distributors throughout the rest of Asia, who represent our products and are supported by our regional sales managers.

During the current year, we intend to invest significantly in expanding our sales and distribution operations, with plans to establish distribution and clinical sales support centres in four additional countries including Japan.

We have further expanded our US and Canadian sales teams to meet growing homecare provider demand and to support our partnership with Cardinal Health, a major provider of products and services to hospitals. Over the past few years Cardinal has secured a number of significant hospital GPO contracts.

REVENUE BY REGION



46%	NORTH AMERICA
33%	EUROPE
21%	ASIA PACIFIC AND OTHER

The investment made in strengthening our North American operations continues to contribute to increased sales in that market. Our US distribution centres in California and Kentucky ensure efficient delivery to our distributors and to the thousands of homecare providers we work with.

Australia and New Zealand are especially important markets for us as they are often the first countries to receive our new products, enabling us to gauge initial customer acceptance and to develop marketing material ready for worldwide release.

Quality, Regulatory, Manufacturing and Operations

Providing medical devices which are able to assist clinicians and caregivers to improve patient care and outcomes is fundamental to the success of our company. Our products are used in the treatment of millions of people around the world each year. We are continuously improving our products and the way in which they are manufactured so that we achieve the highest levels of quality and reliability.

With the healthcare device industry regulated worldwide, the ability to meet stringent standards is vital to ensuring market acceptance of our products. We assist our compliance with these standards by operating a quality management system certified to a range of international standards which apply to both our manufacturing facilities and our sales network.

We are required to comply with the United States Quality System Regulation and obtain clearance from the US Food and Drug Administration for new products prior to sale into the US. Underwriters Laboratories also carry out safety tests on products designed for the US market and certify our products' compliance with the IEC 60601-1 electrical safety standard. We are also required to comply with the European Medical Device Directive, incorporating the quality standard ISO13485.

During the year, we continued to invest in, and further develop, our quality management systems to ensure that our processes and procedures meet both our business needs and changing international regulatory requirements. Continuous improvement ensures that our products and services meet the highest possible quality standards and surpass our customers' expectations.

TÜV Group, a European notified body, audits our New Zealand facility annually. This is required to maintain the certification that allows us to place a CE mark on our products for entry into European Union markets and to meet Canadian, Japanese, Australian and other regulatory requirements.

Our facilities in Auckland incorporate controlled working environments for the manufacture and assembly of our products. Production quality is continuously monitored, with our products rigorously tested before final packaging.

We operate an integrated enterprise resource

planning system which is used for forecasting, scheduling, manufacturing, ordering components, processing orders and managing inventory. This system is used in all of our facilities and provides real time reporting of sales and assists with inventory management.

Over the year, we implemented design, purchasing and process improvements which will help offset cost increases and reduce our manufacturing costs. These improvements incorporated Lean Techniques and also included the automation of some processes using technology developed in-house. We are committed to Lean and automation as a means of improving health and safety, reducing costs, enhancing our production capability and improving the quality and consistency of our products.

Last year we indicated that we were beginning to plan for manufacturing expansion, both in New Zealand and offshore. We expect that we will need to double our total manufacturing capacity over the next five years.

We have completed our planning, and we have identified Tijuana, Mexico as a suitable location for an offshore manufacturing facility which is close to our major North American markets. This facility will provide shorter delivery times, reduced

freight and manufacturing costs and will provide increased geographic diversity.

Our intention is to establish capacity for manufacturing a portion of our more mature, high volume consumable items which will make way for new products and processes at our Auckland, New Zealand site. In the current year we expect to commit approximately NZ\$30 million of capital expenditure in New Zealand, which will include new product tooling, equipment for increased capacity and some replacement equipment and a further NZ\$18 million for Mexico.

Environment

We strive to live up to the commitment we make in our values 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.

Our environmental management system is certified to ISO14001, the international environmental management standard. We are audited against that standard and certified annually by the Swiss-based European notified body, Société Générale de Surveillance.

We continued to improve our recycling processes and our recycling of plastics, paper and metals



increased by 27% at our Auckland site. Over the year, we recycled approximately 50% of our waste material.

Landscaped settlement ponds take rainwater runoff from the buildings, car parks and surrounding roads on our 40 hectare site at East Tamaki, Auckland. These settlement ponds help to minimise undesirable sediment entering the nearby Tamaki River.

We again participated in the Investor Group on Climate Change Australia/New Zealand Carbon Disclosure Project.

Workplace Health and Safety

We are committed to providing our people with a healthy and safe working environment. We are certified to the New Zealand Accident Compensation Corporation's (ACC) Workplace Safety Programme at the tertiary level at our Auckland site. Our health and safety management system is audited annually by the ACC. To sustain tertiary certification, we have continued to improve our systems.

Our health and safety team is continually developing, with employee representatives undergoing training approved by the New Zealand Department of Labour. These initiatives represent a significant step towards achieving excellence in health and safety and also ensure that we meet our legal responsibilities.

Human Resources

Worldwide, we employ approximately 2,100 people, with 1,670 located in New Zealand and almost 420 located in 25 other countries. Our human resource strategy continues to be focused on attracting, retaining and developing our family of employees around the world. The quality of our past results and our expectation of further growth are a reflection of the calibre

of our people around the world. Our people are in diverse workplaces and social settings which contribute to the fabric of our organisation and we continue to support equal employment opportunities for all of our employees.

Our Vision and Values along with our philosophy of continuous improvement is applied to all human resource initiatives and provides ongoing development opportunities for employees. Over the year, we have continued to focus on initiatives that support our organisational capability and growth strategies.

Outlook

Our opportunities to expand in the respiratory care, acute care and OSA markets continue to be positive. We expect to continue to see an increasing contribution to growth from products for the treatment of patients in a range of additional applications which include non-invasive ventilation, oxygen therapy, humidity therapy, resuscitation and laparoscopic surgery. In addition, we believe that our broadening range of premium OSA treatment devices will continue to drive robust growth in that growing market.

The expertise and efforts of our capable teams around the world are reflected in our continuing growth and our encouraging results. Well deserved thanks to all of our people, to our Board, our customers, suppliers, clinical partners and distributors. Thanks also to our shareholders for your continued support and confidence in us.



Michael Daniell

Managing Director and Chief Executive Officer



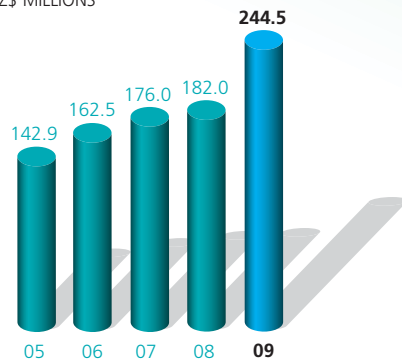
RESPIRATORY AND ACUTE CARE

KEY PRODUCTS

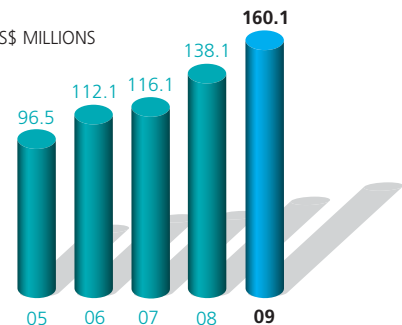
- MR850 Respiratory Humidifier
- MR810 Respiratory Humidifier
- MR880 Respiratory Humidifier
- HC550 Respiratory Humidifier
- MR860 Surgical Humidifier
- MR200 Series Respiratory Humidification Chambers
- Single Use Adult and Neonatal Breathing Circuits
- Single Use Non-Invasive Ventilation Mask range
- Single Use Range of Optiflow™ Oxygen Therapy Interfaces
- Neopuff™ Infant Resuscitator
- Infant Bubble CPAP System
- IW900 Series Infant Warmers

PRODUCT REVENUE*

NZ\$ MILLIONS



US\$ MILLIONS



* 2007 - 2009 results were prepared under NZ IFRS. Results from 2006 and prior years were prepared under previous NZ GAAP.

CASE STUDY – Nasal High Flow, a New Era in Respiratory Medicine

At Fisher & Paykel Healthcare, we are continuing to build on our reputation as world leaders in the field of respiratory humidification with Nasal High Flow (NHF™); a therapy developed utilising our unique Optiflow™ technology.

Traditionally, a patient requiring high flow oxygen therapy would be placed on a face mask. Unfortunately, face masks can often be uncomfortable; leading to a lack of patient tolerance, which can reduce treatment effectiveness and increase cost to the hospital.

NHF™ offers a solution by utilising a unique nasal cannula rather than a face mask, to deliver high gas flows; something that has long been considered impossible. Patients experience a much higher level of comfort, as well as the added benefits of being able to eat, drink and communicate without interrupting the delivery of the critical air and oxygen flow. For clinicians, this can mean more effective delivery of care and improved patient outcomes.

We believe that NHF™ has the potential to open up a new era in respiratory medicine, not unlike the introduction of non-invasive ventilation about 15 years ago. We see an opportunity to develop a market similar in size to our current invasive ventilation humidification market segment.



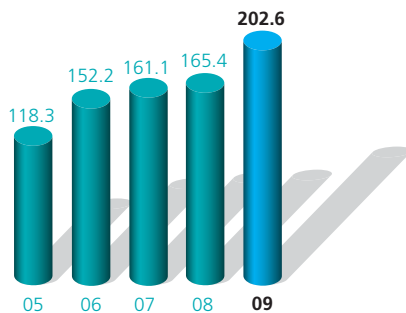
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KEY PRODUCTS

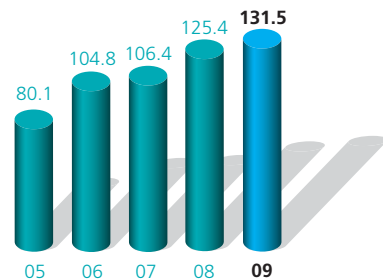
- SleepStyle™ 200 Series Flow Generators
- SleepStyle™ 200 Series Auto Flow Generators
- SleepStyle™ 240 Series Flow Generators
- SleepStyle™ 600 Series Flow Generators
- HC150 CPAP Heated Humidifier
- FlexiFit™ Nasal Mask Range
- FlexiFit™ Full Face Mask
- Zest™ Nasal Mask Range
- Forma™ Full Face Mask
- Opus360™ Nasal Pillows Mask
- Oracle™ 452 Oral Mask
- HC431NIV Full Face Mask
- HC407NIV Nasal Mask
- HC300 Series Chambers

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CASE STUDY – Zest™ Nasal Mask Range

Early acceptance and positive compliance to CPAP treatment of OSA benefits both the patient and healthcare provider. The correct choice of a CPAP interface is one of the crucial elements for treatment success and helps ensure the patient achieves improved quality of life and is a satisfied customer.

The design of the Zest™ Nasal Mask range was driven by comfort, seal and ease of use. With three sizes to choose from, fitting is made easy for almost all face shapes or sizes.

The new key performance feature of the Zest™ Nasal Mask range is the Easy-Clip Silicone Seal which simply unclips from the base for ease of cleaning and reliably clips back onto the base to ensure ongoing comfort and seal. Our proven mask technology, including the Glider™ strap and FlexiFit™ foam cushion, provide a foundation for this new mask range which is also lighter and more compact than its predecessors.

The introduction of the Zest™ Petite, Standard and Plus Nasal Masks extends our range of CPAP interfaces and offers new benefits to OSA patients and healthcare providers.



CASE STUDY – Daily Humidification Therapy

Monty, an 80 year-old male who suffers from a progressive respiratory disease, Chronic Obstructive Pulmonary Disease (COPD), has been using daily humidification therapy since 2003. Back then, Monty enrolled in a home humidification trial for COPD patients run by Professor Harry Rea of Middlemore Hospital. After the trial, Monty reported that the humidification had improved his quality of life with the most significant outcome being less daily sputum production. Monty's wife, Judy, confirmed that his night time coughing had dramatically reduced, which allowed both of them to get a better night's sleep.

As a result of the benefits received from humidification therapy, Monty has carried on using it daily since 2003 and believes it has slowed the progression of his respiratory disease. He points to his improved health stability by noting that between 2003 and mid-2008 he had no hospital respiratory admissions.

In 2005, Monty was prescribed Long Term Oxygen Therapy and now uses this 24 hours per day. While he is in bed he connects his oxygen supply to the oxygen inlet port of his Fisher & Paykel AIRVO™ humidifier to receive the combined benefit of oxygen therapy and humidification therapy while he sleeps.

