

Chief Executive Officer's Review

Our consistent growth strategy is to provide an expanding range of innovative medical devices which can help to improve care and outcomes for patients in an increasing range of applications.



MICHAEL DANIELL
MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER

In homecare, we have continued to develop and expand our range of devices for the treatment of OSA with the Australasian introduction of our new ICON™ flow generator range and the continuing international roll-out of our AIRVO™ humidity therapy product range for patients with Chronic Obstructive Pulmonary Disease (COPD).

In the hospital setting, as well as heated humidification systems for use in intensive care ventilation, we offer 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 accounting for 27% of our respiratory and acute care consumables operating revenue.

We have a number of new medical devices 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, oxygen therapy or humidity 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.

For the year ended 31 March 2010, our respiratory and acute care product group operating revenue grew 11% to US\$164.7 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.

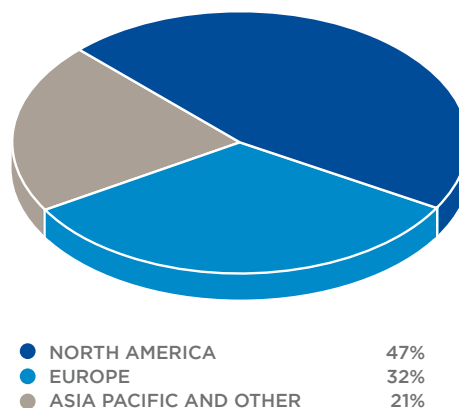
We continued to experience strong demand for our range of respiratory humidification system controllers, and the increasing number of our humidification systems in use around the world generated continuing growth in adult and neonatal breathing system consumables.

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.

In February, *Respiratory Medicine* published a study¹

1. Rea H, et al. The clinical utility of long-term humidification therapy in chronic airway disease. *Respiratory Medicine* (2010) 104, 525-533.

Revenue by Region



which concluded that humidity therapy almost halved the number of exacerbation days for the COPD patients studied, as well as improving their lung function and quality of life.

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

Chief Executive Officer's Review (continued)

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 more than 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 increasing operating revenue by 22% to US\$160.8 million or 17% to NZ\$237.0 million.

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™, FlexiFoam™ and Glider™ technologies which help to make them comfortable and easy to fit. Our nasal pillows mask, the Opus360™, is extremely small, light and quiet.

In the last quarter of the 2010 financial year, we began to introduce our new ICON™ flow generator range, initially into New Zealand and Australia. The ICON™ product range integrates our leading technologies into stylish, compact and intelligent devices to deliver a better night's sleep for OSA patients. The ICON™ also includes a digital clock, alarm and music playing capabilities to enhance patient adaptation to CPAP therapy.

ICON™ combines both exceptional style and technology to fit unobtrusively into the home setting, has a very small footprint and incorporates our innovative technologies, including SmartStick™, ThermoSmart™ and SensAwake™.

The product range spans three models: Auto, Premo and Novo. The Auto detects interruptions to normal breathing and provides the appropriate positive airway pressure to meet the breath-by-breath needs of the

patient with full efficacy and compliance reporting. The Premo model provides fixed pressure therapy with efficacy and compliance reporting, while the Novo provides basic compliance reporting.

The ICON™ range also includes our InfoSmart™ technologies, which will provide a full range of communication and compliance reporting options.

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	2010	2009	2008
Investment in R&D	NZ\$35.3m	NZ\$28.3m	NZ\$24.1m
R&D as a % of operating revenue	7.0%	6.2%	6.7%
R&D staff	295	253	240
Patents at 31 March			
US granted	82	79	81
US applications pending (incl. PCTs*)	87	78	66
Rest of world granted	333	292	246
Rest of world applications pending (excl. PCTs*)	200	207	250

* PCTs (Patent Cooperation Treaty) are unified patent applications across a number of jurisdictions.

Over the year we increased our R&D spending by 25% to NZ\$35.3 million, which represented 7.0% of operating revenue. This increase primarily reflects the increased numbers of engineers, scientists,

physiologists and other staff employed in product and process research and development activities across our core product groups.

After more than three years of research and development, the ICON™ flow generator product range was introduced to our customers in New Zealand and Australia and work continued to ready the product range for introduction in Europe, North America and the rest of our international markets this calendar year.

Our current new product development projects include new humidifier systems, flow generators and consumables in our respiratory, acute care and OSA product groups.

SALES AND MARKETING

Our own people are currently located in 31 of the more than 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 invested significantly in expanding our sales and distribution operations, establishing distribution and clinical sales support centres in Japan, Canada and Taiwan.

We have further expanded our US and Canadian sales teams to meet growing homecare provider demand and to support our partnership with CareFusion, our US hospital distributor. Over the past three years, CareFusion has secured and maintained a number of significant hospital group purchasing organisation contracts which include our humidifier systems.

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 our success. 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.

Chief Executive Officer's Review (continued)

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 ISO13485 quality standard.

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 and Mexico facilities 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 and Mexico 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, 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.

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 New Zealand site environmental management system is certified to ISO14001, the international environmental management standard since 1999. We are audited annually against that standard and certified tri-annually by the Swiss-based European notified body, Société Générale de Surveillance.

We continued to improve our recycling processes and had, over the year, 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.

Our new Mexico manufacturing facility is now operational and is expected to provide long-term benefits for us. Its proximity to our major markets not only means lower transport costs but also a decrease in air emissions as long distance transport of products from our New Zealand facility is reduced.

As part of our continuous effort to contribute our share in responding to climate change, we are currently completing an emissions inventory report to measure the carbon emissions of our New Zealand facility and establish reduction programmes, as required.

It is also our future intention to include our global operations activities in the measurement, with the objective of achieving an overall reduction of greenhouse gas emissions.

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

WORKPLACE HEALTH AND SAFETY

We are committed to providing all of our employees with a healthy and safe working environment. We continue to focus on achieving excellence in health and safety initiatives and work with local authorities and organisations as required. By adopting a philosophy of health and safety being the responsibility of all employees and by focussing on continuous improvement, we enjoy an environment that promotes active participation in our various health and safety programmes.

HUMAN RESOURCES

Worldwide, we employ approximately 2,350 people, with approximately 1,800 located in New Zealand and more than 500 located in 30 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, are applied to all human resource initiatives and provide 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 range of premium OSA treatment devices will continue to drive robust growth in that growing market.

The efforts and expertise of our dedicated teams around the world are reflected in our continuing growth. Sincere thanks to all of them and also to our Board, our customers, suppliers, clinical partners, distributors and our shareholders for their continued support and confidence in us.



Michael Daniell

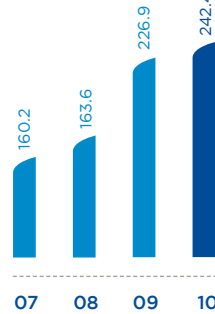
Managing Director and Chief Executive Officer

Respiratory and Acute Care

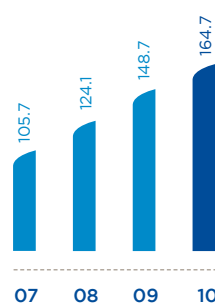
KEY PRODUCTS

- MR850 Respiratory Humidifier system
- MR810 Respiratory Humidifier system
- MR880 Respiratory Humidifier system
- HC550 Respiratory Humidifier system
- MR860 Surgical Humidifier system
- Single Use 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
- AIRVO™ Humidifier with Flow Generator

Product Revenue
NZ\$ MILLIONS



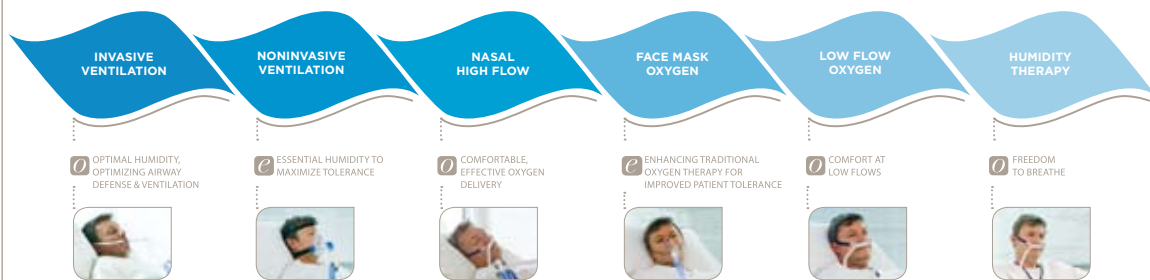
Product Revenue
US\$ MILLIONS



CASE STUDY

Utilising the F&P Respiratory Care Continuum – A child's story

F&P ADULT RESPIRATORY CARE CONTINUUM™



Patients in hospital requiring respiratory assistance often transition between several respiratory therapies. We provide a portfolio of products that span those respiratory therapies. We call it the F&P Respiratory Care Continuum.

The story below highlights how a US hospital utilised this care continuum to react to the changing respiratory needs of a child with Cystic Fibrosis.

Tom was a five year old boy who had been admitted into the Paediatric Intensive Care Unit with severe pneumonia and an exacerbation of Cystic Fibrosis.

*He was initially placed on **Face Mask Oxygen** therapy but deteriorated very quickly and required more flow and more oxygen via the mask. Tom's condition became more critical, so he was prescribed a more intensive therapy - pressure support with **Non-invasive Ventilation**. Tom had difficulty tolerating the mask, as is often the case, and was at risk of requiring **Invasive Ventilation** (where a breathing tube is inserted into the airway).*

Patients with Cystic Fibrosis generally do not do well with invasive ventilation so this was to be avoided if at all possible.

*The decision was then made to move Tom from Non-invasive Ventilation (because he could not tolerate the therapy any longer) to **Nasal High Flow** provided by our Optiflow™ nasal cannula and humidification system.*

*At this stage, Tom's condition quickly turned around. His breathing became more regular and he was able to remain adequately oxygenated. Over the following 10 days, the amount of flow and oxygen Tom needed reduced to a point where he was placed on **Low Flow Oxygen** therapy.*

This was a fantastic result for a very unwell child.

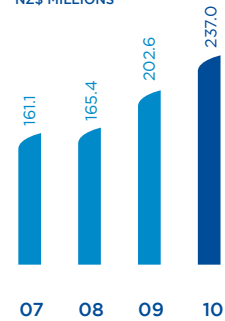
Tom's story illustrates a patient's progression through the various therapies supported by the F&P Respiratory Care Continuum. Our product offering enables easy, cost effective transition between therapies, as a patient's condition deteriorates or improves.

OSA

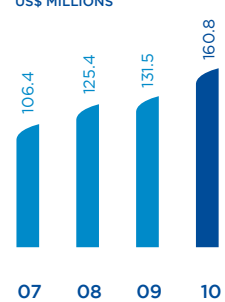
KEY PRODUCTS

- ICON™ Auto Flow Generator
- ICON™ Premo Flow Generator
- ICON™ Novo Flow Generator
- SleepStyle™ 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
- Forma™ NIV Full Face Mask
- HC407 NIV Nasal Mask
- HC300 Series Humidification Chambers

Product Revenue
NZ\$ MILLIONS



Product Revenue
US\$ MILLIONS



CASE STUDY

F&P ICON™ Designed for life

The F&P ICON™ has been designed from the outside in to answer the call for a contemporary, compact CPAP that blends seamlessly into any bedroom environment, helping to break down some of the traditional resistance associated with CPAP therapy. Inside the F&P ICON™ is a comprehensive set of our leading edge technologies, including ThermoSmart™ humidification, SensAwake™ pressure relief and SmartStick™ USB technology. These technologies are integrated into one stylish solution to deliver new levels of therapy, while effectively meeting the business needs of our customers.

The ICON™ family consists of three models: Auto, Premo and Novo. The Auto detects interruptions to normal breathing and provides the appropriate positive airway pressure to meet the breath-by-breath needs of the patient while incorporating full efficacy and compliance reporting. The Auto also offers our unique SensAwake™ technology which allows

CPAP to be delivered only when it is truly needed, during sleep. The Premo model provides fixed pressure therapy with efficacy and compliance reporting, while the Novo provides basic compliance reporting.

The F&P ICON™ also includes InfoSmart™ technologies, that provide a range of communication and reporting options to suit the patient management preferences of individual medical practices.

In addition, the F&P ICON™ offers a range of features to complement traditional CPAP therapy as well as everyday life. An AlarmTunes™ function allows the patient to customise their morning wake-up call by uploading songs onto their SmartStick™ and the SmartDial™ allows for simple and intuitive one-touch menu navigation.

More than just a traditional CPAP device, the F&P ICON™ represents a significant step forward in the treatment of OSA.

