

# Annual Report 2010

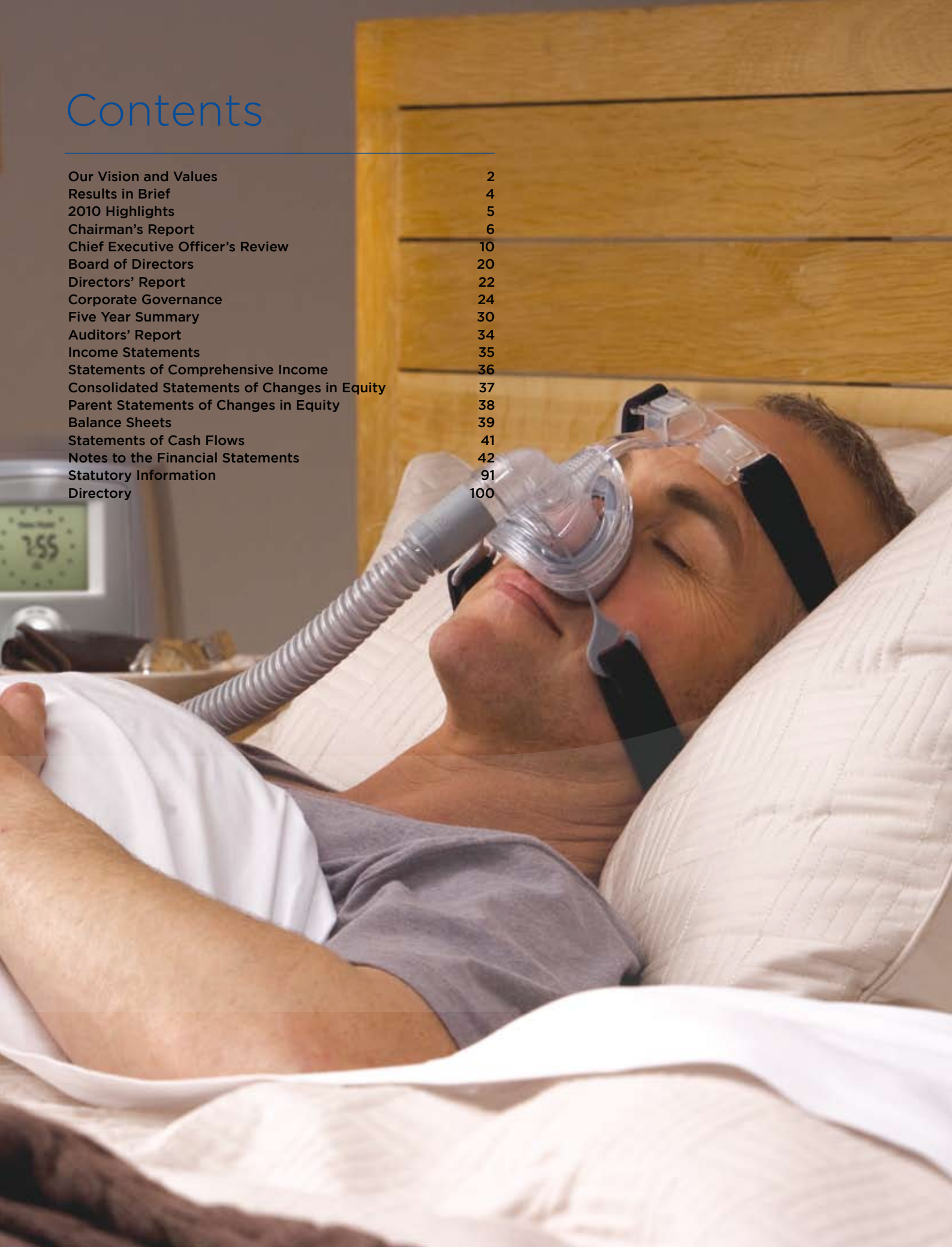
Generating value through innovation



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**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.

# 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.

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# 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

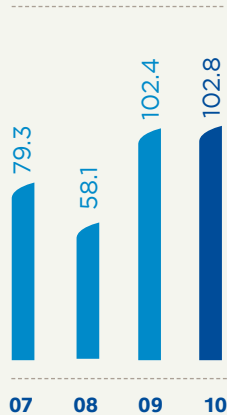
We will conduct our business at all times in a fair, ethical, consistent and professional manner. We accept our responsibility to be a trustworthy community neighbour and will continue to support community affairs.

# Results in Brief

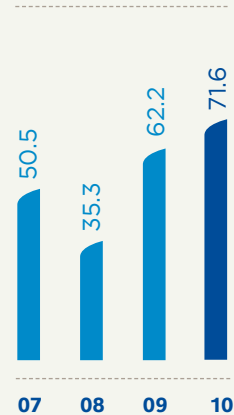
**Operating Revenue**  
NZ\$ MILLIONS



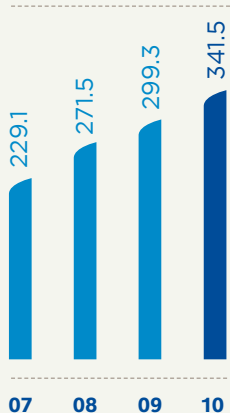
**Operating Profit**  
NZ\$ MILLIONS



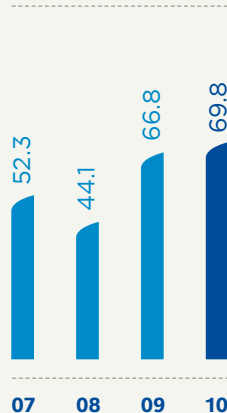
**Profit After Tax**  
NZ\$ MILLIONS



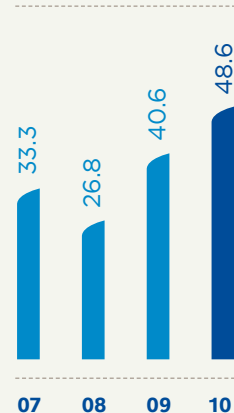
**Operating Revenue**  
US\$ MILLIONS



**Operating Profit**  
US\$ MILLIONS



**Profit After Tax**  
US\$ MILLIONS



## 2010 Highlights

**15% ↑**

increase in profit after tax to NZ\$71.6 million

**10% ↑**

growth in operating revenue to a record NZ\$503.3 million

**22% ↑**

growth in OSA product group revenue to US\$160.8 million

**11% ↑**

growth in respiratory and acute care product group revenue to US\$164.7 million

**43%**

pre-tax return on average NZ\$ shareholders' equity

**25% ↑**

growth in research and development to 7% of operating revenue

**NZ12.4 cents**

Total dividend of NZ12.4 cents per share for the year, fully imputed

# Chairman's Report

We have continued to make very encouraging progress in developing new opportunities for growth by expanding the range of applications for our medical devices and technologies. Demand for our humidification and breathing system technologies in our traditional hospital intensive care environment and for new applications has continued to increase. In our Obstructive Sleep Apnea (OSA) product group, we have recently begun to introduce our new ICON™ range of premium flow generators.



**GARY PAYKEL**  
CHAIRMAN

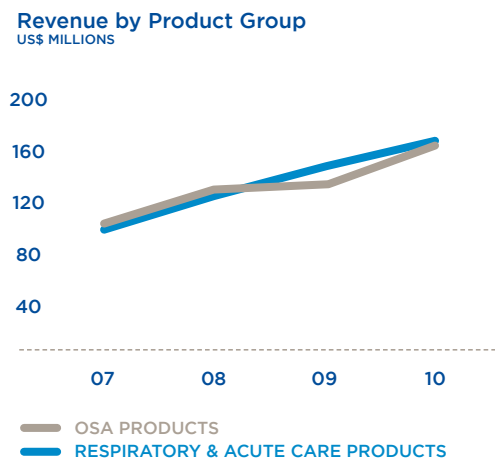
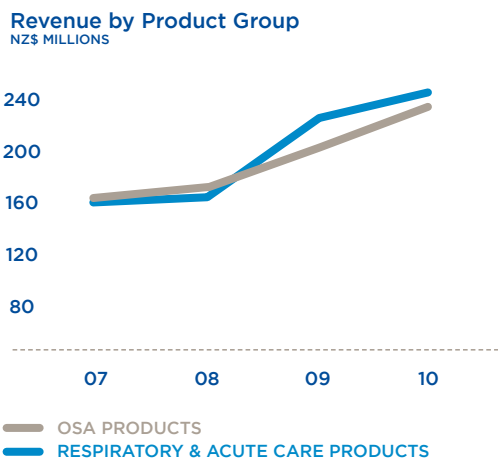
An increasing number of hospitals, physicians, nurses, therapists and homecare providers are choosing our devices to assist with treatment of their patients. Their support is reflected in the 10% growth in our operating revenue to a record NZ\$503.3 million for the year ended 31 March 2010.

We achieved a 15% increase in profit after tax to NZ\$71.6 million compared to NZ\$62.2 million for the prior year.

Your Directors approved a final dividend of NZ7.0 cents per share. Total dividends for the year were NZ12.4 cents per share, carrying full NZ imputation credit.

We have recently reviewed our capital structure and intend to progressively increase shareholders' funds, to ensure that we have capacity to continue to implement our foreign currency hedging policy as we grow.

A target debt to debt plus equity ratio of 5% to 15% (excluding unrealised financial instrument gains or losses) has been established. We expect that, subject to earnings performance, the dividend will be maintained in real terms until such time as the target capital structure is achieved. Longer term, we expect that a dividend payout ratio of greater than 60% will be appropriate to maintain target gearing.



Revenue growth was again a result of a strong contribution from our core product categories of respiratory and acute care and OSA, both of which we believe continue to achieve gains in market share.

OSA product group operating revenue increased by 22% to US\$160.8 million or 17% to NZ\$237.0 million, reflecting strong demand for our premium flow generators and masks. Respiratory and acute care product group operating revenue increased by 11% to US\$164.7 million or 7% to NZ\$242.4 million.

Respiratory and acute care products accounted for 48% of our total operating revenue, OSA products represented 47% and distributed and other products represented 5%. Recurring revenue from consumable and accessory products, such as humidifier chambers, breathing circuits and masks, accounted for more than 70% of total operating revenue.

We continue to invest in the expansion of our global sales network with our own people now located in 31 countries and our products sold in more than 120 countries. We have an increasing number of our own people supporting customers at a local level, working with clinicians and care providers, building relationships and identifying

An increasing number of hospitals, physicians, nurses, therapists and homecare providers are choosing our devices to assist with treatment of their patients.

growth opportunities.

As our business is international, we sell in a variety of currencies with a large proportion, approximately 57%, of our operating revenue generated in US dollars. Euros accounted for 23%, Australian dollars 6%, Canadian dollars 4%, UK pounds 4%, New Zealand dollars 1% and other currencies 5% of our operating revenue. Exchange rates between the New Zealand dollar and the other currencies we receive revenue in were again volatile during the year, with the New Zealand dollar appreciating substantially against the US dollar over the

## Chairman's Report (continued)

We continued to expand our operations and international sales activities.

year. Our hedging policy again served us well, with hedging gains contributing NZ\$28.7 million to operating profit.

The geographic contribution to revenue was North America 47%, Europe 32% and Asia Pacific and Other 21%.

Selling, general and administrative (SG&A) expenses were NZ\$137.5 million, an increase of 16% over the prior year (or 23% excluding the effect of currency translations) reflecting the increased number of sales, marketing and operations staff to support our growth. We also established new direct distribution and clinical sales support centres in Japan and Canada.

Our research and development (R&D) expenses increased 25% to NZ\$35.3 million compared to NZ\$28.3 million in the prior year and represented 7.0% of operating revenue. This investment ensured that we continued to expand the range of innovative medical devices that we provide to assist clinicians to improve patient care and outcomes.

Our R&D expenditure was directed to a broad range of projects in our core product groups, as we continued to develop our products and technology. New and improved products and processes, along with the development of new

medical applications for our technologies, are critical drivers of our annual revenue and earnings growth. We remain committed to expanding our R&D activities.

The net cash generated from operating activities in the financial year was NZ\$137.4 million. Operating cash flow was significantly stronger than the prior year due to the monetisation of US\$6 million of forward exchange contracts which resulted in a cash benefit of NZ\$32 million before tax and as a result of strong growth in earnings.

Our total capital expenditure was NZ\$48.3 million. We invested NZ\$26.9 million of capital expenditure in New Zealand. This included equipment for increased manufacturing capacity, new product tooling, replacement equipment and the initial site works for a new 31,000 m<sup>2</sup> building, which will provide increased office, research and development, laboratory, manufacturing and warehouse space. We also invested NZ\$19.9 million in establishing a manufacturing facility in Tijuana, Mexico which will primarily accommodate increased manufacturing capacity for our more established, high volume consumable products.

Net cash used in financing activities of NZ\$90.3 million primarily related to the payment of our interim and final dividends and the repayment of NZ\$29.7 million of debt. As at 31 March 2010, we had credit facilities in place that permit us to borrow up to the total of the equivalent of NZ\$186.0 million, denominated primarily in NZ dollars, US dollars and Euros.

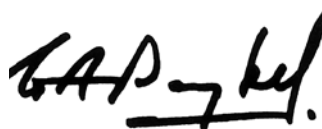
We operate in specialised international markets and, as Chairman, I believe that shareholder interests are well represented by your Board. We are fortunate in that we have a Board whose experience and knowledge spans marketing,

sales, finance, science, medicine, engineering, legal, quality, regulatory, and the many other demands of an international business.

Your Board is committed to ensuring that we adhere to best practice corporate governance standards and you will find our governance policies later in this Annual Report.

The experience, capabilities and commitment of our more than 2,300 people worldwide ensure we are able to offer innovative medical devices which can help to improve patient care and outcomes. Excellence in quality, research, development, manufacturing, marketing, sales, distribution and administration are fundamental to our ability to grow and to deliver the long-term growth in value expected by our shareholders.

The Board appreciates that our strong performance and our prospects for growth are a result of the combined efforts of our staff and the support we receive from our customers, distributors, suppliers and clinical partners. Our sincere thanks to them all.



**Gary Paykel**  
Chairman

