ADDRESS BY GARY PAYKEL CNZM
CHAIRMAN FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED
TO THE ANNUAL MEETING OF SHAREHOLDERS
AUGUST 12, 2004

This is a special year for us, for while Fisher & Paykel Healthcare is a relative youngster as a separate listed company, in 2004 we are celebrating the 70th anniversary of the founding of Fisher & Paykel, and almost 35 years since the development of our first medical product.

So when we talk about a history of innovation in our company, we are talking about 35 years of developing, manufacturing and selling healthcare devices which improve patient care and outcomes. We believe that's an achievement.

It is worthwhile pausing for a moment to reflect on our history. To my mind, it embodies the expression "start as you mean to go on". New Zealand in 1934 was a very different country to the one we know today. Exports were mainly the domain of the rural sector. We were between two wars and we were largely a protected market, and in fact in 1938, we had considerable import controls. Yet our founders, Woolf Fisher and Maurice Paykel, saw the need to offer innovative products, firstly imported, and eventually through development of truly local products, that could match and even outdo the best in the world.

Our founders set our culture and fostered it. When they saw the need and the opportunity to get into exporting in the 1960s, triggered by Britain's entry into the EEC, they also set the stage for establishment and growth of our healthcare business – a business which had the constant support of Maurice Paykel. As a result, our international focus has been embedded in our culture for most of our history and we have always geared ourselves towards international success.

A belief in innovation and in the ability of our products to compete in the international marketplace has underpinned our performance over the decades. Another important aspect of our culture has been the emphasis we have placed on our people. We began life as a family firm and that family extended to include our staff. That sense of belonging, of being part of the company's success, remains unchanged. Our people take enormous pride in developing products that help other people. They take special pride in achieving the breakthroughs that take patient care a step further.

We have always concentrated on creating an environment where our people have the tools, resources and freedom they need to be truly innovative in product development. That has enabled us to identify new market opportunities and expand our global sales and presence.

This year, we saw once again how this combination of experience and innovation increases value for our shareholders. In each of our core product groups, products new to the market and those already established, contributed to another year of record revenue of almost 215 million New Zealand dollars. New products also contributed to our increased operating profit of 79 million dollars.

In US dollar terms, our revenue increased by 28% and our operating profit by 33% compared with the prior year. As you know, this year saw the New Zealand dollar strengthen against the US dollar, and we faced a 24% appreciation in its average value.

The underlying strength of our business, and the strong contribution from new products enabled us to deliver an increased total dividend for the year of 52 cents per share, carrying full imputation credit – an excellent result.

What is especially pleasing is that new products made a very valuable contribution to our growth in each product group. We added 10 significant new products to our core product groups this year; an excellent achievement. These included a world first in our adult and neonatal dry tube breathing circuits, which Mike Daniell will describe in more detail shortly. We introduced three new masks into sleep apnea treatment, incorporating technology which achieves superior comfort and fit, and we introduced three new products in the neonatal group.

Strong growth in each of our product groups, both in revenue and breadth of products, illustrates the success of our strategies to increase the value we provide for each patient and to increase the range of patients we can serve.

Our ability to bring new products to market does not come about by accident. It requires investment. This year we increased once again our investment in research and development to ensure a continued flow of new products to our customers.

In addition to investing in research, we made two important decisions during the year – one to support our growth and one to support our community.

To accommodate growth beyond 2006, we have begun planning for the expansion of our manufacturing capacity. This will involve the construction of a second building on our Auckland site. Once planning is complete we'll announce more details.

The investment in our community is a 1 million dollar sponsorship, over 10 years, which is contributing to the development of a clinical education centre at the new Auckland City Hospital. The centre will be named the Fisher & Paykel Healthcare Clinical Education Centre and will serve as a world-class regional facility for clinical education, training and conferences. This sponsorship recognises the very close relationship we have with the medical community in Auckland and their contribution, through clinical trials, to our early product development, especially in respiratory humidification.

An important decision was made during the year which directly affected your company. That was the decision taken by Fisher & Paykel Appliances Holdings to sell its 19.34% shareholding in our company. It says a great deal about the market's confidence in us, that we had more than 40 existing and new institutional shareholders participate in the placement. It was a very positive outcome.

I would like to take this opportunity to update you on the share buy back programme which began in March this year. In all aspects of the business we are committed to maximising value for shareholders, and we initiated this programme following a detailed review of our capital management alternatives. Up until the end of July we have purchased 825,000 shares, at an average price of $12.41, representing 10.2 million NZ dollars in total.

Earlier this year we indicated that the board was looking at a proposal to subdivide our ordinary shares. Our proposed new constitution will enable us to do this should the board consider it to be beneficial to shareholders. We expect to make an announcement on this in September.

Your board is committed to maintaining the highest standard of corporate governance. You will have seen in the annual report, and on our website, an expanded discussion and disclosure of our governance policies and processes.

Your company is a successful, growing international company. Our products are sold in more than 90 countries. Of our 900 staff, 690 are located in New Zealand and 210 are located in another 15 countries around the world. Likewise our share register is international, with currently approximately 48% of our ownership in New Zealand, 29% Australia, 11% the United States and 12% in a number of other countries.

Since we began the review four and a half years ago, which led to the decision to separate the company, shareholders from the former Fisher & Paykel Industries have enjoyed a cumulative total return in New Zealand dollars of almost 250%. And over the last two years, shareholders in Fisher & Paykel Healthcare Corporation have seen a cumulative total return of 57%. We believe the company has continuing strong growth prospects ahead.

In closing, I would like to acknowledge the continued leadership of our CEO Mike Daniell and the commitment and ability shown by our worldwide team in the market, in the research laboratory and in manufacturing, administration and operations. They work in a number of focussed business units and their excellent relationships with our distributors, suppliers and customers contribute directly to our growth.

I would also like to thank our shareholders for your continued loyalty to us. We value this loyalty a great deal and it is our constant aim to reward it with continued strong performance.

ADDRESS BY MICHAEL DANIELL, CEO
FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED
TO THE ANNUAL MEETING OF SHAREHOLDERS
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A copy of the slide presentation will be available on the company's website at www.fphcare.com

SLIDE 1

Thank you Gary. Good afternoon ladies and gentlemen. It's again a pleasure to have the opportunity to discuss first hand with you our results for the past year and to update you on our progress so far this year.

Our growth strategy for creating value for our shareholders and our customers remains very consistent. We enhance and improve our product range by improving existing products, and by developing complementary new products and technologies. Through our clinical research and product development work, we increase the range of patients we can serve, by developing technologies for new medical applications.

And in our markets, we are increasingly putting our own people on the ground and strengthening our international sales networks to support our customers and to drive increased sales.

SLIDE 2

In our 2004 financial year which ended on 31 March, these strategies delivered clear results. Our operating revenue increased by 28% to 132 million US dollars. This translated to 215 million NZ dollars, up 3% on last year despite an average 24% appreciation of the NZ dollar.

Our operating profit, in New Zealand dollar terms, rose 7% to 79 million dollars. Our operating margin improved by 130 basis points to 36.8%, which we believe was an excellent result. We achieved a pre-tax return on average shareholders' equity of 42%.

To ensure we continue to grow our returns through our product range and our technologies, we increased our research and development investment to 6.6% of revenue.

SLIDE 3

We operate in three core product groups – respiratory humidification, obstructive sleep apnea and warming and neonatal care. Each of these groups performed well in the year, contributing to strong growth in our revenue.

If we look at the breakdown, it's clear that respiratory humidification, which represented 52% of our sales, is currently our largest product group. Its share of sales has increased from 49% last year, as a result of very strong growth in sales. The OSA group represented 37% of sales, and our final core product group of warming and neonatal care accounted for 7%.

SLIDE 4

Displayed now is a chart of our sales by region. North America continues to be our largest regional market, accounting for 44% of sales last year. Europe and Asia Pacific, increased to 30% and 22% of revenue respectively reflecting our growing presence in those regions.

SLIDE 5

Growing our sales network in key markets leads to growing sales. Considerable progress has been made this year. In Japan we have established a company and opened a sales and marketing support office in Tokyo. We are also targeting growth opportunities in China through an expanded marketing team, based in Guangzhou, and in India through our Bangalore office which supports our India distributor network. We have also recently appointed a product specialist in Dubai, to support growth in the Middle East and North Africa.

This builds on the work we did last year to expand our presence in Europe. We now have direct sales teams in the UK, Ireland, France, Belgium, the Netherlands, Germany, Austria, Italy and Spain, and we have plans to establish direct sales in Switzerland this year.

Slide 6

I'd like to turn now to a more detailed discussion of performance in our core product groups. Firstly respiratory humidification. These products are used in the care of patients who have conditions that interfere with normal breathing. Warming and moistening the gases used in ventilation therapy helps reduce adverse side effects and leads to better patient outcomes.

This is a market which we estimate is currently worth more than 330 million US dollars annually and is growing at a rate of around 5%. We're also seeking to further expand the size of our market opportunity by addressing a wider range of patient groups, both in the hospital and the home.

Slide 7

Our respiratory humidification product group revenue grew by 34% in US dollar terms, to 68 million US dollars. A contributor to this growth was sales related to SARS, which we estimate amounted to around 2 million US dollars in the first few months of the year. Excluding the SARS related sales and allowing for the effects of currency translation, we saw in this group strong underlying growth of 14% over the prior year's performance.

Much of this growth came from market share gains by our MR850 humidifier system, which in turn drove strong growth in both adult and neonatal breathing circuits. These consumables, along with chambers, provide an ongoing revenue stream following the sale of a system to a hospital.

SLIDE 8

To help drive future growth, we introduced a number of new consumable products during the year. One represents an important breakthrough. It incorporates a water vapour permeable breathing tube, which I will explain in more detail shortly.

We also introduced a non-invasive ventilation breathing circuit, flexible catheter mount and breathing circuit weaning kit. Also in consumables, our filter products are performing well and adding value per patient.

We see these products – and others in our pipeline – as having the potential to significantly increase the value of consumables we supply for each respiratory patient.

We have a lot of confidence in this segment and its ability to grow, supported by a continuation of strong underlying growth so far this year.

SLIDE 9

This breathing circuit incorporates our revolutionary dry tube technology and is an example of our innovation process at work. We introduced this circuit in March this year and we believe it is a world first. It allows water vapour, exhaled by patients on artificial ventilation, to evaporate into the surrounding air. This means that it does not condense into liquid which can build up in the breathing circuit or ventilator.

The circuit's patented design effectively makes it a closed system, so patients in hospitals have less exposure to sources of infection. The dry tube technology allows water to evaporate, but it doesn't allow pathogens to pass through.

SLIDE 10

We also have new humidifier systems in our development pipeline, consistent with our policy to keep on creating value through upgrading existing products and developing new technologies and applications for our products.

We have announced two projects which address new patient groups and markets, firstly a project to develop devices to help in the treatment of COPD, or chronic obstructive pulmonary disease and secondly, we have begun pilot marketing, in New Zealand and Australia, an innovative humidification system for use in the rapidly growing field of laparoscopic surgery.

SLIDE 11

Moving on now to our second largest product group. Obstructive Sleep Apnea is a disorder that disrupts a person's breathing during sleep and this is a rapidly growing market. OSA is associated with a number of health issues including stroke and heart disease. It is a condition where awareness is growing, leading to increased diagnosis rates and growing demand for our products.

SLIDE 12

In our OSA product group, total revenue from flow generators and masks grew 35% in US dollars for the year and 45% in the second half of the financial year. As a result, our total OSA product group revenue grew by 17% for the year.

As the number of patients diagnosed with OSA increases, the treatment market continues to grow rapidly. Our aim is to increase our share of this growing market through offering products which improve treatment and which enable OSA patients to continue to comfortably use their therapy each night,

Our HC221LE and the HC211 flow generators have been very well received by customers. These products include our patented ambient tracking technology, which ensures minimal condensation and avoids the potential of water in the tube affecting pressure delivery and efficacy. Ambient tracking also ensures maximum humidity, with attendant compliance benefits.

SLIDE 13

We have recently introduced two new masks which have received very favourable feedback. The first is our HC407 FlexiFit mask, which we introduced in March this year and the second, our HC431 full face mask introduced in May.

In mid January, we signed a shared primary purchasing agreement with Apria Healthcare Group, the United States' largest provider of home healthcare services with 455 stores.

We're seeing good growth from a wide range of customers, and we believe we're continuing to make strong market share gains with our key OSA products. For the first four months of this year, revenue growth rate for our flow generators and masks has increased from the 45% second half growth reported last year.

Slide 14

Our neonatal and patient warming product group was a very strong performer with revenue growth of 63% to almost 10 million US dollars. That came from a combination of very strong revenue growth from neonatal warmers, with a favourable price and customer mix, and also from neonatal breathing systems, which include our infant CPAP system and resuscitator.

Slide 15

Both the infant CPAP system and resuscitator are beginning to generate growing, ongoing consumable revenue. Our Neopuff infant resuscitator and our infant bubble CPAP system both contributed to this growth, and for the first four months of this year we have seen a continuation of strong underlying growth in the neonatal product group.

Slide 16

In patient warming, we have introduced a second generation patient warmer which incorporates technology for measuring and controlling infra red intensity, and offers a proprietary single use skin temperature sensor. The significance of this is that we now have a consumable item, linked to our patient warming system which has the potential to generate ongoing sales.

Slide 17

To wrap up, the 2004 financial year was again a strong year for our business with pleasing growth achieved in each of our core product groups.

Most importantly, we continued to invest in the R&D and sales activities that ultimately deliver our future growth. Our R&D expenditure grew 22% to 14.1 million NZ dollars during the year, representing 6.6% of revenue. We are already seeing a return on our ongoing investment with 10 significant new products released during the last year. And we have an extensive new product pipeline looking forward, which, for the current year, includes two new humidifier systems, two new flow generators and three new masks

We are proud of the results achieved this year and we aspire to exceed that performance in the current year, to celebrate our 70th anniversary.

As I've already indicated, the 2005 financial year has started very well, and we are now looking to achieve first half revenue growth of more than 20% in US dollars, generating revenue of between 72 and 74 million US dollars, or between 114 and 117 million NZ dollars for the first half. And we expect operating margin percentage to continue to be in the mid 30's range.

We appreciate the continued support of our shareholders and we will endeavour to reward that support with continued growth in our returns to you.

Thank you.