

Fisher & Paykel Appliances Holdings Limited

Annual Shareholders Meeting

Monday, 21 August 2006

Addresses by Chairman and Chief Executive Officer

Chairman's Address

During the year under review the Company generated \$1.2 billion in revenues, up 16% over the previous year. This was driven by Appliances sales, which exceeded a record \$1 billion.

Profit after taxation was \$63.9 million compared to \$68.6 million for the previous year. Despite this slight fall in profit, the Directors are confident about the Company's prospects and have maintained the dividend at 18 cents per share for the year ended 31 March 2006.

This increase in revenue reflects the continuing strong growth of Appliances, particularly in our offshore markets. The USA and Singapore both experienced record sales levels. New Zealand held the market share that was regained last year resulting in record sales. We are very comfortable with our distribution model in our home market.

The growth in the USA continued for both the Fisher & Paykel and DCS brands. The commitment to the USA over the past four years has resulted in this market developing to become our largest revenue generator.

The year under review had unprecedented economic conditions. Prices for raw materials such as steel and oil based plastics remained at record levels.

Rising domestic interest rates and an appreciating New Zealand dollar, which reached a 10-year high against the Australian dollar, compounded this situation.

Our strategic alliance with Whirlpool Corporation continues to progress. The sharing of selected technology continues to benefit both companies and we will shortly see the results of the partnership in the release of new products.

The supply of Fisher & Paykel manufactured motors from East Tamaki to Whirlpool's washer plant in the USA has commenced and we look forward to continuing growth.

The progress made with the distribution of the Whirlpool brand in both New Zealand and Singapore is pleasing and offers a complementary range of products to our own.

We have successfully relocated the Smart Drive® washer plant from Brisbane, Australia to Clyde, Ohio, USA. This puts into practice our philosophy of having small, efficient manufacturing facilities, close to our larger markets. Our

manufacturing facility in Clyde will be expanded later this year with the relocation of the Smart Load® dryer line and the motor line.

The Finance Group faced a challenging year. Rising interest rates and intense competition affected margins. Increased regulatory compliance and integration costs, together with additional provisioning against selected balance sheet receivables, also affected earnings.

The final phase of the systems integration, following the acquisition of the Farmers Finance business, has successfully been completed. The Finance Group is now a significant New Zealand financial institution with total assets of over \$780 million.

Recently there have been some well-publicised failures in the finance sector. We are satisfied with the quality of the Finance Group book and its risk profile. Credit policies are constantly under review and adjusted for changes in the economy and the performance of the book.

The Finance Group continues to maintain its own separate Board of Directors. This separate Board provides additional corporate governance over the affairs of the Finance Group and ensures Trust Deed and Prudential Policies are appropriately maintained.

As shareholders your interests are well represented by your Board, which has a wealth of commercial, technical and industry knowledge. The Company has become increasingly geographically spread with manufacturing plants in New Zealand, Australia, USA and now Italy. Internationalisation brings with it a raft of additional regulations that the Company has to comply with. Compliance is monitored by the Audit and Risk Committee, which is ably led by your Deputy Chairman, John Gilks. The Committee is also responsible for assisting the Board in overseeing all matters relating to the financial accounting and reporting of the Company. The Audit and Risk Committee met 5 times last year and is supported by a very active internal audit function.

In the Global environment in which the Company now operates, it is imperative that we remunerate our executive management competitively. This is the responsibility of the Remuneration Committee. The Remuneration Committee takes advice from outside agencies for all the countries in which we operate.

Your Board is committed to ensuring the Company adheres to best practice corporate governance standards. The Company's governance policies are set out in the Annual Report on pages 30 through to 34. As Chairman, I lead the review of the performance of the Board annually, in accordance with the Company's Performance Evaluation Policy and the Board Charter.

For the financial year ending 31 March 2008, the Group will report for the first time under New Zealand equivalents to International Financial Reporting Standards, or IFRS as it has come to be known,. Good progress is being made in implementing the new standards. We will provide a further update on progress in

the 2006/07 interim report together with an estimate of the implications that the new standards will have on results.

In June we purchased the Italian cookware company Elba, a wholly owned subsidiary of the De'Longhi organisation, for \$158 million. I was very pleased with the confidence displayed by both the investment community and retail shareholders in the equity raising to part fund the acquisition. This is a true vote of confidence in the Company, the Board and its growth strategy, for which I thank you.

CEO's Address

Since balance date we have continued to endure many challenges. At our last update we were expecting some relief in steel and plastics raw material pricing. Although this has occurred in some selected categories, overall commodity prices remain stubbornly high.

We have recently suffered unexpected price rises for compressors, within our contract period. Copper pricing has virtually doubled since March and under these exceptional circumstances suppliers sought to recover the copper component increase. Unfortunately, as all suppliers applied the increases, we were forced to accept.

All of these factors have continued to put pressure on margins and profitability. Pricing uncertainty for these commodities remains.

We have, however, enjoyed some recent relief with the New Zealand dollar. The easing of the currency, particularly against Australia, has offset some of the anxieties regarding high raw material costs. Due to the Company's hedging policy, the benefits of the lower NZD-AUD cross rate will not be materially realised until the second half. Our exposures against other major currencies remain relatively small.

The Finance Group similarly faces strong competition and difficult market trading conditions. Interest rates are unlikely to fall in the short term but the expected cost synergies and operating efficiencies, following the acquisition of Farmers Finance, are now starting to be realised.

I would now like to comment on the two business sectors separately.

Firstly, the Finance Group:

Since Balance Date the Finance Group has continued to deliver a satisfactory, on-budget, performance. This result is due to the investment put in over the past 12 months in completing the integration of the Farmers Finance business and the continuing development of our retail consumer credit business, where Q Card and Farmers Card are providing further growth opportunities. The flexibility and functionality of the Q Card product adds significant value to retailers and gives consumers special benefits and choices as to how they pay for the products they wish to buy.

With integration of the Farmers Finance business now completed, the F&P Finance team are operating as one company, expanding the financial products and services into new retailers. Examples include Dick Smith Electronics, Bunnings, Mitre 10, Michael Hill Jeweller, and Holiday Shoppe.

Interest cost is a very significant component of the Finance Group's business and since balance date the average cost of borrowing has continued to rise, placing increasing pressure on margins. However, operating efficiencies and synergies from the integration are helping to offset this margin erosion. Our cost down programmes within the Finance Group, as with Appliances, continue to play an important part in maintaining a satisfactory overall financial performance.

Funding the Finance Group business is a significant function and efficiently managing interest rate and liquidity risk is fundamental to achieving a stable and consistent return on our lending activities.

As part of our ongoing quality programme, we are currently reviewing all our existing Treasury Policies to ensure we effectively manage our financial risks as economic conditions change.

In July we successfully concluded the restructuring and re-launch of the Asset-Backed Capital Markets Programme for the securitisation of the Farmers Finance receivables. This is an A1+ Standard & Poors rated programme and represents the highest credit rating available for a programme of this type in the New Zealand market. In July an independent rating agency also reconfirmed the A-excellent ratings for our insurance businesses. These ratings confirm the Company's ongoing commitment to ensuring we have well-funded and structured entities and quality policies and procedures in place to support our finance and insurance businesses.

Investor support continues to be strong, reflecting the high standing and reputation that our Finance business has in the banking and retail debenture market. The diversity of the Finance Group's funding sources is a real strength with 1/3 being through retail debentures, and 2/3 from Bank wholesale facilities and institutional investors through the issuance of Commercial Paper.

The current economic climate is placing increasing pressure on domestic households, many of whom have increased their household debt through increased Bank mortgage lending. We continue to monitor and make changes to our credit acceptance criteria and collection strategies to reflect these changed levels of risk, and through dynamic methodologies, make timely additional provisions for those accounts where recovery may be in doubt.

The Finance Group continues to contribute an important level of earnings to the overall Fisher & Paykel Appliances Group. We are pleased with the performance of the Finance Group to date and are confident that a satisfactory performance will be achieved for the full year.

And now Appliances:

The New Zealand market remains steady, despite higher interest rates and a rising CPI. The market share gains that we achieved last year have been maintained and we expect to hold these.

As the sole local manufacturer, we believe after-sales service is a key marketing advantage that we can offer our consumers. Our Customer Care Centre offers 24 by 7 round the clock advice and after sales service that is truly world-class.

Fisher & Paykel Appliances was recently voted the third most trusted of any brand in New Zealand. I believe this is a position of strength that imported competitor brands cannot match. This strategic advantage will be further enhanced this year to reinforce our loyal support in this market.

The Australian market appears to have steadied. After operating in a declining economy last year, in which volumes were down by approximately 6%, sales in the first quarter of this year appear to have stabilised. We believe that the Australian market has bottomed out and we look forward to a stronger second half.

Competition, however, remains intense. Even given the ongoing worldwide raw material increases, retail pricing continues to be extremely aggressive.

In the USA growth has slowed. As our presence grows, so too does the attention of our competitors towards us. We have now become more than just nuisance value to other brands. They are increasingly targeting our brand in a true marketing sense. A softening in the overall market has also contributed to our slowed growth. Our Fisher & Paykel branded products are displayed in over 4,500 stores. Our distribution stretches the length and breadth of North America through seven distribution centres that also cater for sales and training.

The distribution of the DCS branded product is now settled. Since the acquisition of DCS, the USA team has worked hard to win back the confidence of the trade in our ability to be a reliable supplier. This has taken some time but we are now happy with the progress the brand has made, especially over the past six months.

Combined, DCS and Fisher & Paykel is placed as the number two brand in the high to ultra high end of the USA market, behind Sub Zero Wolf, but ahead of the likes of Viking and Miele.

Progress at the factory in Clyde, Ohio, is ahead of schedule. Since making its first washing machine in early February, the plant is now producing over 400 washers per day, each one for the North American market. This relocation has allowed us to reduce the lead-time to market and working capital. Further savings are expected to be realised as we switch sourcing to local suppliers.

We have also recently installed the first of our two motor lines. We are now producing motors for supply to Whirlpool as well as our own washer production

requirements from that facility. The second motor module will be shipped from Auckland in early September. Volumes are expected to ramp up during the second half of the financial year.

The Smart Load® dryer production line is currently being relocated. After being dismantled and sent from East Tamaki, it will arrive in Clyde next week. We expect the first USA manufactured products to be coming off the line within the next month.

Our growth in Singapore remains steady after the record sales of last year.

We have received good support from our Rest of World customers, particularly throughout Asia and the Pacific. The Middle East is showing encouraging signs for future growth, especially in the commercial arena.

Europe has been the area where we have been most active since balance date. Sales have been low over the past few years, as we have struggled with a suitable distribution format to allow us to go forward in this market. Not all of our New Zealand manufactured products fit European requirements. To develop a range of cooking models, and to supply these from our Dunedin plant half way around the world, would have been very costly, time consuming and resource hungry.

This issue was resolved by the purchase of the cookware manufacturer, Elba from the De'Longhi Group, in mid June. Elba, with a manufacturing facility located in the northern part of Italy, produces a range of European designed cooking products, suited for both the local European and UK markets. Elba already has in place a distribution model, which will give the Fisher & Paykel brand access to new distributors and retailers. Elba directly supplies some of the larger retail chains in the UK. I am pleased to say that these retailers are willing to support us with this acquisition. We see this as an ideal vehicle to gain further penetration, particularly for DishDrawer® product, into Europe and the UK.

Elba is a well run and profitable business. There are synergies that we can leverage between our three cooking plants – Elba in Italy, DCS in the USA and Range & Dishwasher in Dunedin, New Zealand. The rationalisation of parts, through common design and combined purchasing power of raw materials and components, are just two examples. These opportunities will take time to implement and the gains will be progressively realised over a 2-year period.

By identifying best practice within these 3 plants, further gains can be made.

The Elba acquisition offers Fisher & Paykel a tremendous opportunity. It has ready access to large European distributors and retailers. It also offers an introduction into new markets like South Africa and South America, markets we currently do not operate in. Elba brings to the table a range of European designed and featured products that will easily complement our own range in both local and overseas markets.

New product releases will offer increased sales opportunities later in the year. New products include the “Luna” gas cooktop. Luna was previewed at the Sydney Designex Show for architects and designers in April and the USA Kitchen and Bathroom Fair in Chicago a few weeks later. The overall concept and the new innovative features were received extremely well by both retailers and architects. This product was the standout product for both shows.

This heavily patented cooktop features trivets and a gas burner that rise and lower through the glass cooktop. This concept is a “world first”. Unlike conventional gas cooktops, it gives the user an easy clean surface as well as the convenience of a flat working area when not in use.

The Luna cooktop is planned to be released early next year.

Our second range of new models, due for release shortly, is our new automatic ice and water-providing refrigerator. Our competitors have for many years offered similar features in larger side-by-side refrigerators.

Our solution offers measured chilled water through the door, with an automatic icemaker in the freezer compartment. The benefit of having the icemaker in the freezer is that we are able to retain full refrigerator door capacity, something lost on competitor models. This concept enables us to offer this feature in smaller refrigerators than our competitors, opening up this category to a greater market audience.

Our third exciting product release is in laundry. Over the years we have been continually working towards more water efficient washing machines. The conservation of water is now paramount in many countries. In Australia State Governments are offering cash rebates of up to \$200 on selected washing machines that achieve water efficiency standards. This has resulted in a swing towards front-loading washer sales, particularly in Australia, over the past three years.

As a result of ongoing technical exchanges through our strategic alliance with Whirlpool, we are about to release Aqua Smart™, the worlds most water efficient top loading washing machine.

This breakthrough technology gives us the best of both worlds. A washer on par with many front loaders, in terms of water consumption, but still with the convenient features, that top loaders offer. This model will qualify for the Australian water rebates. Aqua Smart™ is due for release into the Australian and New Zealand markets in October.

These models, along with some Elba manufactured cookware, are available for viewing after the meeting at the rear of the room. Needless to say we are very excited as to the prospects these products offer Fisher & Paykel going forward.

I would now like to comment on the outlook for our Company.

Raw material prices have remained stubbornly high and indeed there have been further recent increases for some categories. Although we are covered with steel

contracts for some months out, indications are that the steel mills may seek price increases later in the year.

These factors have contributed to us implementing price increases in our three major markets of New Zealand, Australia and the USA. This will be put into place over the next few months.

Good progress has been made on Cost Out, but we need to accelerate our efforts if we are to expeditiously offset the full negative impact of the raw material price hikes.

These ongoing uncertainties have required us to continually review all procurement options, internally, within New Zealand and off shore. We currently make in-house, many plastic components for the finished products we produce. There is a growing opportunity to purchase some of these components cheaper, from emerging, low cost countries like China. We see China as a shopping warehouse, where we can purchase good quality components considerably cheaper than we can either make them ourselves, or purchase locally.

To facilitate this further, we will be opening a procurement office in China later this year. This will enable us to source local components and tooling at a considerable cost saving to the Company.

In addition to our normal Cost Out activities, which include switching material sources to low labour countries such as China, we are undertaking a full review of all parts of the business. We have already identified further opportunities to make significant savings, through improved design and labour efficiencies. Unfortunately the inevitable consequence of this is job losses. This financial year to date, we have retrenched 41 people in New Zealand at a one off cost of \$1.5 million. This structural review is ongoing. Because the final cost of the restructure has yet to be determined this will be treated as a one-off non-recurring cost and, as such, is excluded from the Company's earnings guidance. The company expects to counter this one-off restructuring cost by the profit on the sale of surplus land in Australia.

The synergies arising from the recent acquisition of the Italian cookware manufacturer, Elba, will be progressively realised over a two year period, commencing late in the second half. As previously advised, the Company is presently required to amortise the goodwill, which arose on this acquisition. This will amount to approximately \$4.1 million this financial year. However, from 1 April 2007 when the Company is required to adopt International Financial Reporting Standards, or IFRS, acquisition goodwill will not be routinely amortised. Instead, acquisition goodwill will be subject to an impairment test annually or whenever there is an indication of impairment. So, the \$4.1 million amortisation of goodwill will not arise next year and there is no expectation of any impairment either.

In the markets we have seen a softening in the USA for the overall category, which has impacted our own sales recently.

The Australian market has stabilised and we expect to see the normal seasonal lift in sales in the second half. In New Zealand we continue to hold market share. We expect, however, the overall market to decline.

Company wide our revenue year to date, in New Zealand dollar terms, is approximately 19% ahead of the same time last year. After eliminating currency effects, this percentage is approximately 10%. As is usual with this business, we are expecting a seasonal increase in sales in the second half as the Australasian markets strengthen.

Earnings from the Finance Group will remain under pressure, due to intense competition and lower net yields. Competition within the industry will continue to be strong and we expect interest rates to remain at current levels for the rest of the financial year. We are certainly not expecting any reduction in interest rates in the immediate future.

The Group's card products continue to expand across an increasing range and diversity of retailers providing opportunities for future growth. Now that the integration of the Farmers Finance business is complete, the Finance Group is operating as one company, with benefits from cost synergies and operational efficiencies being realised.

As the Chairman mentioned earlier, recent failures within the finance industry are causing concern and anxiety amongst investors. The Finance Group's strong financial position and historical earnings performance maintains a solid and sound reputation for ongoing funding from retail debentures, banks, and investors. I am pleased to report that support for our retail debentures remains very strong with continuing high levels of reinvestment.

Whilst trading will continue to be challenging, as the domestic economy softens in response to inflationary pressure and higher interest rates, we believe the Finance Group will again deliver a satisfactory result for the full year.

With all of these factors taken into account, the earnings guidance for the current year is now biased to the lower end of the previously announced earnings range of \$75 to \$80 million, before restructuring costs, and the projected profit on the sale of the surplus land. First half NPAT levels are expected to be lower than the previous corresponding period. However, at an Earnings Before Interest and Tax level, earnings for the first half are projected to be slightly up on the previous corresponding period.

Higher interest rates and the increased debt following the acquisition of Elba will substantially account for the significant increase in interest expense for the year.

Overall, we are excited with the position the Company currently holds. We feel we are poised to take advantage of a number of aspects of the business, culminating from the last 2-3 years of forward planning.

Our production facility in Clyde, USA, will shortly be housing Smart Drive® washers, Smart Load® dryers and two production lines for the Whirlpool motor contract. This will give us a great footprint in our largest market.

The acquisition of the Elba facility in Italy, strengthens our position for our push into the European market. This purchase, strategically, brings forward our plans in this market some years, giving us immediate access to new markets and customers, and a range of European designed and proved products. We also see great synergies with this facility and already have in place cost down initiatives, that will evolve over the next few years.

The setting up of a China procurement office later this year will also present substantial cost out opportunities. We see this as an initial step in securing contacts and knowledge, which will lead to further areas of savings.

Our line up of new products for release later this year is also very exciting. With these new product platforms, we are again reinforcing our name and brand image as one of world leading innovators. We have great faith in our future direction.

Before handing back to our Chairman, I must extend my thanks to our suppliers who provide us with both goods and services. The continued development of their products is an important element in assisting our development and growth. We look forward to extending these partnerships and forming new ones.

Our end customers play a very important role in our business. Without their support we are nothing. We strive to improve our levels of service and the quality of products we deliver. Our aim is not only to satisfy their needs, but to exceed them.

The business would not be what it is without committed and enthusiastic people. The past two years have been difficult and I would like to thank our staff for their dedication, time and effort. They exhibit devotion and a work ethic that makes this Company unique.

I would also like to thank our Shareholders for their continued, valued support. As always our aim is to deliver value to you by way of dividends and capital growth.

To my fellow Directors, thank you for your wise counsel and guidance. The year ahead offers considerable challenges, but also one of great opportunities.

Thank you.