
HAEMONETICS®

2004 | Annual Report

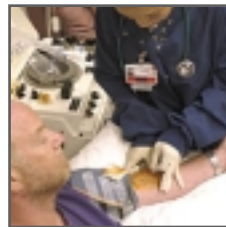
gaining *momentum*



leveraging *strengths*

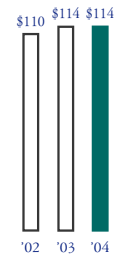
Haemonetics is the world's leading supplier of automated blood processing systems that support the ever-present demand for a safe, available supply of blood for patient transfusions and for use in pharmaceuticals. Our systems include medical devices, the consumables used with these devices, and the associated data management software. For more than thirty years, we have been innovators in our market. In that time, we have also earned a solid reputation for technical expertise, world-class quality and service, and operational excellence. Today, we employ 1,400 people worldwide and market our products in more than 50 countries.

product portfolios & markets

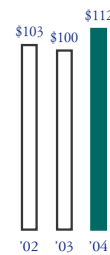


Donor Products

Plasma Disposable Sales
Dollars in millions



Blood Bank Disposable Sales
Dollars in millions

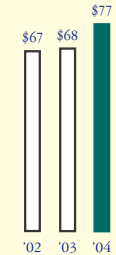


Red Cell Disposable Sales
Dollars in millions



Patient Products

Surgical Disposable Sales
Dollars in millions



The Technology

We market our donor products to blood and plasma collection agencies worldwide. Each system automates the collection of specific blood components (plasma, platelets, or red cells), but they all operate in the same way. Blood is collected from a donor and flows into a centrifuge bowl which separates the blood into its components. The desired component is directed into a collection bag, and the remaining blood parts are returned to the donor. This process occurs in a sterile, closed-circuit, consumable set attached to our device.

Plasma

Plasma is transfused to trauma or surgical patients. More often, though, plasma is used as a raw material by pharmaceutical companies to manufacture drugs like IVIG and Factor VIII.

Our PCS®2 system automates the collection of two units of plasma from one donor. Our technology improves customers' time and labor efficiencies, product yields, and donor safety. We also offer plasma customers data management software that automates their operations.

There remains increasing demand for plasma-derived pharmaceuticals, but there is still market volatility. For example, consolidation has resulted in many plasma collection centers (our customers) closing operations, and an oversupply of plasma has reduced the number of collections needed in the short term. However, we believe that supply will soon level with demand and that the collection industry will return to traditional growth rates of 2–4%.

Blood Bank

Platelets aid in clotting and are often transfused to cancer patients whose own platelets have been damaged by chemotherapy.

Our MCS® systems automate the collection of one to two “doses” of platelets from one donor. These “single donor platelets” benefit patients by minimizing exposure to certain transfusion risks. Our technology improves customers' efficiencies and product yields. It is the only technology portable enough for use on mobile blood drives. The platelet collection market is mature, and increased collection efficiencies may offset future increased platelet demand.

Detecting bacteria in platelets is a growing trend as bacterial contamination poses significant risks to patients. Bacterial detection may negatively affect platelet supplies as testing reduces the limited, five-day shelf life of platelets. Blood collectors may strategically turn to mobile platelet collection to increase supplies. Cost issues may also drive increased automated platelet collections.

Red Cell

Red blood cells are the most frequently transfused blood component and are often given to surgical and trauma patients or patients with anemia-related diseases.

Our MCS® systems automate the collection of two units of red cells from one donor. Our technology helps customers address operational challenges by improving efficiencies and yield while supporting regulatory compliance. Donors appreciate the ease of donation and the ability to help two patients with one donation.

Red cell shortages are a common problem plaguing healthcare systems. The ability to collect two units of red cells from one donor using our technology can have a significant positive effect on blood supplies. While our technology is taking hold in the U.S., automated collections with our system represent only 4% of the 15 million U.S. red cell collections done annually. Globally, this is a largely untapped market, and so we expect ongoing, significant revenue growth from this product.

The Technology

Transfusions replace blood lost during surgery or trauma. Our patient products salvage blood lost by the patient, so he can get back his own blood rather than receive a transfusion of unknown donor blood. We market our products to hospitals and service providers for different surgeries, but each product operates in the same way. Blood is suctioned from a wound site, collected in a centrifuge, and cleaned. The blood is transferred to a collection bag and made available for transfusion back to the patient. This process occurs in a sterile, closed-circuit, consumable set attached to our device.

Surgical

Our patient products are surgical blood salvage systems that can reduce or eliminate a patient's dependence on donated blood as this carries risks or the need for a patient to pre-donate his own blood before surgery. Blood shortages and rising blood prices have reinforced the benefits of surgical blood salvage.

Our Cell Saver® system is targeted to rapid and high volume blood loss surgeries. This is a mature market which is declining in the U.S. due to improved surgical techniques minimizing blood loss and new technology reducing the number of open heart surgeries.

Our OrthoPAT® system targets orthopedic surgeries with slower, lower volume blood loss that often occurs well after surgery. This is a large, exciting emerging market that we are only just beginning to penetrate. The OrthoPAT system was first to market, and we have no competition. OrthoPAT sales are driving patient business growth.

financial *highlights*

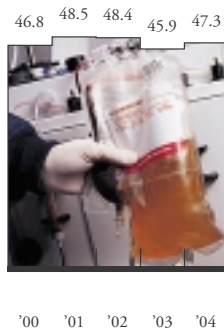
<i>\$ in millions, except share data</i>	2000	2001	2002	2003	2004
Net revenues	\$ 281	\$ 294	\$ 320	\$ 337	\$ 364
Gross profit	131	142	155	155	172
R&D expenses	15	19	20	20	18
Total operating expenses	111	129	118	117	126
Operating income	20	13	36	37	46
Net income	\$ 15	\$ 7	\$ 30	\$ 28	\$ 29
Net income per share (diluted)	\$0.58	\$0.28	\$1.11	\$1.13	\$1.19
Cash flow from operations	\$ 51	\$ 57	\$ 33	\$ 46	\$ 75
Invested cash	61	74	68	50	118
Debt	74	70	72	71	58

generating *positive* drop-through

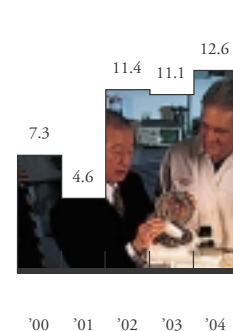
Revenue Growth
Percent Over Prior Year



Gross Margin
Percent of Sales




Operating Margin
Percent of Sales






Brad Nutter
President and CEO




Ronald A. Matricaria
Chairman of the Board

developing new *strategies*

To Our Shareholders, 2003 was a dynamic year for the financial community. Issues of transparency, governance, compensation, and financial reporting were brought into public debate. New regulations have raised the bar for reporting and accountability. Our goal at Haemonetics has always been to adhere to the very highest standards of corporate governance.

When we assumed our positions at the beginning of the year, we joined a company with strong fundamentals—a company with a thirty-year history of leading corporate governance practices, innovation, and the highest standard in financial reporting. Our commitment to this standard remains unchanged. With the year complete, we also remain convinced that Haemonetics' brand name, global market strength, and cash generating business model are tremendous assets that can be managed to deliver enhanced performance.

We marked this as a transition year, but also as a year that positioned your company for continued stability and increased shareholder value. We will not be satisfied until we have identified additional areas for future growth. However, we met some significant challenges in the year and are proud of our accomplishments:

- We implemented financial and operating processes that strengthened our businesses and enhanced our profitability.
- We gained share in many markets and across all product lines.
- We expanded our partnerships and product portfolio to boost sales.
- We reorganized the business to better respond to customers' needs and industry trends.
- We diversified and strengthened our leadership team.
- We commenced a rigorous strategic planning process to better identify growth opportunities.

Financial and Operating Progress

This year, we moved to annual guidance, recognizing that quarterly fluctuations cannot be planned with certainty. We met our guidance and reported improved profitability as we leveraged 8% sales growth into 11% gross profit growth and a 22% increase in operating income. We will continue to focus on creating positive “drop-through.”

Our consumables business model generates exceptionally strong cash flows. At year end, we had a cash balance of \$118 million, up from \$50 million in fiscal 2003, and a debt position of \$58 million, down from \$71 million in fiscal 2003. Cash flow from operations increased 60% over fiscal 2003 to \$75 million.

Market Share Gains

Many of our markets are mature and highly penetrated. Despite this, we identified opportunities for expansion, and our sales growth outpaced market growth.

The *Plasma* industry continues to consolidate and an oversupply of plasma remains. As a result, collections are declining, challenging our part of the industry—plasma *collection*. We also lost our largest plasma customer when it was acquired. The acquiring company failed to honor our supply contracts although these contracts were assumed in the purchase. We filed an arbitration claim to enforce the contracts, and we remain confident in the strength of our case.

Despite the declining market for plasma collections, our disposable sales remained level with fiscal 2003 at \$114 million. There is work to be done here, but we are encouraged by our ability to maintain sales in an adverse market. We believe that once the industry works through its excess plasma inventory, we are poised to return to historical low single digit growth. We remain focused on solidifying our position as the supplier of choice to plasma collection centers not owned by our competitor.

Our *Blood Bank* systems are sold in a mature market, but our disposables revenue increased to \$112 million, up 12% over fiscal 2003. We grew platelet collection share in Japan and Europe. We also identified Canada as a new growth market and signed a marketing agreement with Pall Corporation, giving us better access to Canadian blood collectors through Pall’s established distribution channel.

In the U.S. blood bank market, where our share is less than 10%, we are positioning for growth. Industry experts expect a new mandated test to decrease platelet supplies by 5–10%. To increase supplies, some blood collectors are adding platelet collection to community blood drives, and our technology is uniquely designed for this.

meeting commitments

Metric	FY04 Guidance	FY04 Actual
Revenue	+7-9%	+8%
Earnings per share	\$1.13 range	\$1.19
Gross profit margin	44-49%	47%
Operating margin	>11.1%	12.6%

Exciting growth continued in the *Red Cell* product line, an emerging market that we created. Global sales reached more than \$22 million, 44% over last year. Blood shortages and economics are driving demand for our technology in the U.S. as it enables blood centers to collect twice as much blood from many donors.

Almost 4% of the 15 million red cell units collected each year in the U.S. are now collected using our technology. This year, we added twelve new regions of the American Red Cross as customers, so we now have installed systems at more than 50% of their regions. Our systems are also used across the network of the second largest U.S. blood collector. In fiscal 2005, we will focus on partnering with our customers to accelerate adoption of our red cell technology.

Our *Surgical* disposables revenue was \$77 million, up 12% over fiscal 2003. Demand for our traditional Cell Saver products is under pressure because of advanced surgical techniques and a decline in open heart surgeries, and there is no market growth. Despite this trend, we gained some competitive accounts and increased market penetration.

Our newer OrthoPAT system is the first and only system designed for orthopedic surgical blood salvage. It is rapidly penetrating this large, untapped market. Disposables revenue was up 67% for the year. In fiscal 2004, we also renewed our agreement with Zimmer Holdings, our U.S. OrthoPAT marketing partner, for an additional five years. Zimmer remains a powerful U.S. marketing channel for us.

Expanded Product Portfolio

We expanded our product portfolio through partner marketing agreements. Two examples of this are:

- In Japan, we now sell a patient warming blanket manufactured by Arizant.
- In Europe, Latin America, and Africa, we now sell a platelet bacterial detection system.

These products complement our existing product families without requiring additional development resources. They are excellent extensions for growth.

Business Reorganization

A significant achievement was a business restructuring that expanded our customer base. Rather than viewing our customers as blood collectors or surgeons, we now define customers as the blood donor or surgical patient—the ultimate beneficiary of our products. As a result, we reorganized as two global product families—Donor and Patient.

The reorganization positioned us for increased efficiency, and we realized some expense reductions. More significantly, we've become more nimble and aggressive in approaching our broader markets.

making progress . . .

“*In all, we're pleased with the year's progress, but we are not satisfied. It is important to take the time necessary to review the business and to implement processes that are the foundation for the long-term growth of your company. We now have many of those processes in place.*”

—Brad Nutter
President and CEO



Strengthened Leadership

We continue to build a world-class leadership team, adding people whose strengths and backgrounds complement those of our existing team. Peter Allen and Brian Concannon joined us as Presidents over the Donor and Patient Divisions, respectively. Both have significant experience at large healthcare companies. William Still, formerly in business development at Advanced Respiratory Systems and St. Jude Medical, joined the Company as Vice President, Strategic Marketing and Business Development. Lawrence Best, Senior Vice President and Chief Financial Officer at Boston Scientific Corporation, joined our Board of Directors.

The Future—Haemonetics' Five-Year Strategic Plan

As a foundation to a five-year strategic planning exercise, we began a rigorous process to identify and leverage our core competencies to contribute significantly to revenue growth. We defined a core competency as a best in class, unique internal activity that can contribute significant value, is a competitive advantage, and is able to be leveraged to other market opportunities. The process began with an employee survey, netting thousands of responses. We tested and qualified this data, refining it to 25 strengths to analyze. Internal and external validation further distilled this list to three possible core competencies. These are:

- 1) A superior level of customer service—Despite competing against multi-billion dollar companies, we retain and gain market share because we do an excellent job of servicing our customers. For the fourth consecutive year, we have been awarded the NorthFace Scoreboard Award by our customers for world-class service.
- 2) Rigorous manufacturing process management and control—We have a workforce skilled in application problem solving. Using tools like six sigma and Total Quality of Management, we have developed a reputation for quality that is unsurpassed and delivers a real competitive advantage.
- 3) Robust software development for medical device applications—This stems from our Fifth Dimension Information Systems subsidiary which designs software for use by blood collectors and hospitals.

The core competency review dissected our business with great specificity. We now will validate that the above are, in fact, world class core competencies. After this, we will identify ways to leverage them in other therapeutic classes in the medical device market. This may include marketing partnerships and acquisitions, but our strategy will foremost consider the creation of shareholder value.

We are already operating with a strategic mission to make our traditional businesses more profitable. However, we are also working on a more comprehensive, five-year strategic plan. We look forward to reporting our future results to you.

In all, we're pleased with the year's progress, but we are not yet satisfied. It is important to continue to review the business and to implement processes as the foundation for the long-term growth of your company. We now have processes in place to identify thoughtful and responsible expansion opportunities.

We thank you, our shareholders, for your support and confidence. We faced serious challenges this year, and we are still in transition, but we are confident in the core competency review and excited about the direction our strategic plan gives. We also thank our customers for their patronage and our employees for their commitment to building a company that delivers long-term shareholder value.

QA

leading with a *strong team*

Q. *Haemonetics' financials were impacted by several factors in fiscal 2004. What were these?*

Five factors significantly impacted our P&L in fiscal 2004. First, we lost a major plasma customer when the acquiring company breached our supply contract resulting in a revenue loss for us of \$7 million. Second, we had a 53-week fiscal year as we adjusted our fiscal calendar resulting in a \$4.5 million sales benefit. Third, foreign exchange was favorable. Fourth, our income tax rate increased from 31% to 36%. Fifth, we reorganized the company. Disciplined expense management combined with the factors above still provided strong positive “drop-through.”



Brad Nutter
President and CEO

Q. *Haemonetics markets products in mature, slow growth markets. What is driving your revenue growth faster than market growth?*

Three factors enabled us to outpace market growth. First, our traditional businesses gained market share in some regions. Second, our OrthoPAT and red cell product lines, which address unmet market needs, grew more than 40%. Third, our emphasis on partnering added products to our offerings.

—Brad Nutter, *President and CEO*

Q. *You have \$118 million in cash on your balance sheet. How do you plan to use this cash?*

We are taking some cash to invest more in the business. We are poised to exploit market trends, and it is the right time to invest in R&D as well as sales and marketing. More importantly, though, we expect our Core Competency Review process will identify external areas for expansion. These may be marketing partnerships requiring no capital from us, but they may also be acquisitions that make strategic and financial sense. We will use our available cash to capitalize on these opportunities.

—Brad Nutter, President and CEO

Q. *The plasma industry has been volatile over the past few years. How has this affected Haemonetics?*

Demand for the plasma-derived drug IVIG (intravenous immunoglobulin) is growing 6–8% each year, driving plasma demand. Currently, there is a significant glut of source plasma in the market and consolidation continues among fractionators and plasma collectors, all resulting in plasma collection center closures and a reduction in plasma collections. All of this affects us negatively.

In fiscal 2004, plasma disposables revenue was level with fiscal 2003. It may take fractionators more than a year to work through excess inventories, and we expect lower levels of plasma collection during this time. Historically, though, the market has always rebounded, and we expect this cycle will eventually be followed by a cycle of increased plasma collections. On a positive note, on a comparable center basis in the U.S., our customers are collecting more plasma than the competition.

Q. *The platelet collection market is mature yet you showed strong growth in fiscal 2004. Why is that? Is it sustainable?*

More than 90% of our platelets sales are international, so foreign exchange had a positive impact on these revenues, but we also had sales successes. We implemented some technology enhancements in Europe which were well received and we gained modest market share in this region. We expect this trend to continue. In Japan, under Dr. Sakurada's leadership, opportunistic sales initiatives and our reputation for quality led to market share growing four points to an exceptional 76%. Going forward, Pete Allen sees opportunity in the U.S. where our share is less than 10%. Finally, we are enhancing our platelet collection platform which will advance our technology and help us retain and gain market share in the longer term.

Q. *Haemonetics has always been an innovator. What is the next product you expect to introduce?*

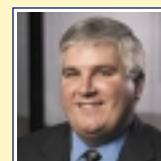
The next new product in our pipeline is the CardioPAT™ device. This is a perioperative surgical blood salvage device designed for use in cardiovascular surgeries with low to moderate blood loss. The device has a worldwide market potential of about \$100–\$120 million. We expect the CardioPAT device to be in limited market release later in fiscal 2005.



Pete Allen
President
DONOR DIVISION



Dr. Uli Eckert
President
EUROPE



Brian Concannon
President
PATIENT DIVISION

leading by *example*



From left to right:

Ronald A. Matricaria
Chairman

Brad Nutter
Director, President and CEO

Lisa Lopez
Board Secretary, General Counsel and
VP of Administration

Ronald Gelbman
Director

Harvey Klein, M.D.
Director

Yutaka Sakurada, Ph.D.
Director

Donna Williamson
Director

Benjamin Holmes
Director

Lawrence Best
Director



governing *responsibly*

The following are some examples of Haemonetics' corporate governance principles:

1. Directors

- A majority of our directors are independent
- We have three standing committees: Audit; Management Development and Compensation; and Nominating and Governance
- There are executive sessions of independent directors
- The Board conducts an annual performance review of itself, its committees, and our CEO
- The Board has an active role in our strategy
- Directors are encouraged to limit directorships to five
- Conflicts of interest are not allowed
- Our Audit Committee reviews earnings releases, earnings guidance, and Management's Discussion and Analysis

- Our Chairman and CEO positions are separate

2. Compensation

- We require shareholder approval of stock plans
- We will not reprice stock options
- We will not make loans to officers or directors
- We have stock ownership guidelines for directors and senior management

3. General

- We have adopted a code of business conduct
- We have adopted a shareholder rights plan

HAEMONETICS®

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