Fisher & Paykel HEALTHCARE

## News Release

STOCK EXCHANGE LISTINGS: NEW ZEALAND (FPH), AUSTRALIA (FPH)

**FISHER & PAYKEL HEALTHCARE REPORTS RECORD HALF YEAR NET PROFIT, UP 10%**

Auckland, New Zealand, 20 November 2014 - Fisher & Paykel Healthcare Corporation Limited today announced record net profit after tax of NZ$48.9 million for the half year, an increase of 10% over the first half last year.

Operating revenue was a record, at NZ$317.4 million, 4% above the prior comparable period or 12% growth in constant currency. Operating profit increased by 8% to NZ$72.6 million. Constant currency operating profit grew an outstanding 64%.

This record result reflects robust revenue growth in both product groups, further gross margin expansion and other operational efficiencies, offset by a reduction in foreign exchange hedging gains.

The company's directors have approved an increased interim dividend of 5.8 cents per ordinary share (2014: 5.4 cps).

Chief Executive Officer Michael Daniell said, "We are very pleased with the record results achieved in the first half as we continued to gain market share across the broad range of applications for our products."

Respiratory and acute care (RAC) product group operating revenue grew 6% to NZ$173.7 million, or 13% growth in constant currency, for the half. Operating revenue in the obstructive sleep apnea (OSA) product group grew 5% to NZ$138.1 million or 15% in constant currency, for the half. The proportion of the company's revenue generated from recurring items, such as consumables and accessories, continued to increase and accounted for 80% of core operating revenue.

"Our devices are helping doctors, nurses and respiratory therapists to improve the effectiveness and efficiency of care being delivered. In a hospital setting, the more intensive the care, the more staff required for care and the more costly the treatment. In the homecare setting, compliance with therapy is essential for a positive health outcome.

"Our innovative products are designed to encourage patient compliance and reduce the escalation of care, delivering significant cost savings to hospitals and healthcare systems around the world.

"We were particularly pleased with the robust revenue growth, 26% in constant currency, generated from new applications for our RAC products outside our traditional invasive ventilation market. These include oxygen therapy, non-invasive ventilation, humidity therapy, and surgery.

"Our range of masks used in the treatment of OSA continue to take market share. They have been a key contributor to the excellent growth in our OSA product group, with mask constant currency revenue up 20%", commented Mr Daniell.

A feature of the result was the ongoing substantial improvement in gross margin, which was 457 basis points in constant currency over the first half last year, due to favourable product mix, logistics and manufacturing improvements and increased volume from the company's Mexico manufacturing facility.

The company also continued to grow its investment in research and development (R&D) with R&D expenses increasing by 21% to NZ$31.3 million, representing 9.9% of operating revenue for the half.

“We currently have an extensive product development pipeline and expect to release, over the next 12 to 18 months, the largest number of new products in our history. This will include new humidifier controllers, flow generators, masks and consumables” said Mr Daniell.

The increased interim dividend of 5.8 cps, carrying full New Zealand imputation credit, will be paid on 19 December 2014. The dividend reinvestment plan, under which eligible shareholders can elect to reinvest all or part of their cash dividends in additional shares, will again be made available in respect of the 2015 interim dividend. However, as the company is approaching its target gearing ratio, the directors have determined that the DRP will be offered without a discount in respect of the 2015 interim dividend payment.

**Outlook for FY2015**

“Our strategic direction remains consistent as we focus on developing innovative products, increasing the number of patients who can benefit from our products, extending our range of products and growing our international presence.

“We expect total core product group constant currency revenue growth to continue in the mid-teens for the remainder of the 2015 financial year. At current exchange rates (NZD:USD = 0.79, NZD:EUR = 0.63) we expect full year operating revenue to be approximately NZ$660 million and net profit after tax to be approximately NZ$105 million to NZ$110 million”, concluded Mr Daniell.

**Result highlights for the first half**

- 10% growth in net profit after tax to a record NZ$48.9 million.
- Operating profit increased by 8% to NZ$72.6 million, 64% growth in constant currency.
- Increase in the interim dividend to 5.8 cps (2014: 5.4 cps).
- 4% growth in operating revenue to a record NZ$317.4 million, 12% growth in constant currency.
- 6% growth in RAC operating revenue, 13% growth in constant currency.
- New applications consumables operating revenue grew 26% in constant currency, accounting for almost 45% of our RAC consumables revenue.
- 5% growth in OSA operating revenue, 15% growth in constant currency.
- Continued strong performance from OSA masks, 20% revenue growth in constant currency.
- Investment in R&D increased by 21% to NZ$31.3 million, representing 9.9% of operating revenue.
- Selling, general and administrative expenses increased 5% to NZ$90.8 million, 9% growth in constant currency.

**About Fisher & Paykel Healthcare**

Fisher & Paykel Healthcare is a leading designer, manufacturer and marketer of products and systems for use in respiratory care, acute care, surgery and the treatment of obstructive sleep apnea. The company’s products are sold in over 120 countries worldwide. For more information about the company, visit our website www.fphcare.com.

Ends

Contact: Marcus Driller, Investor Relations & Corporate Affairs Manager on +64 9 574 0110.

**Financial Statements and Commentary**
Attached to this news release are condensed NZ dollar financial statements and commentary. For convenience the income statement has been translated into US dollars. The US dollar financial statement is non-conforming financial information, as defined by the NZ Financial Markets Authority.

The company's financial statements for the six months ended 30 September 2014 and the comparative financial information for the six months ended 30 September 2013 have been prepared under the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

A constant currency analysis is also included. A constant currency income statement is prepared each month to enable the board and management to monitor and assess the company's underlying comparative financial performance without any distortion from changes in foreign exchange rates.  The constant currency data provided is an estimate of the changes in the main income statement items after excluding the impact of movements in foreign exchange rates, hedging results and balance sheet translations. The data is based on the NZ dollar income statements for the relevant periods which have all been restated at the budget foreign exchange rates for the 2015 financial year.

The constant currency analysis is non-conforming financial information, as defined by the NZ Financial Markets Authority, and has been provided to assist users of financial information to better understand and track the company's comparative financial performance without the impacts of spot foreign currency fluctuations and hedging results and has been prepared on a consistent basis each year. The company's constant currency income statement framework can be found on the company's website at www.fphcare.com/ccis.

**Half Year Results Conference Call**
Fisher & Paykel Healthcare will host a conference call today to review the results and to discuss the outlook for the 2015 financial year. The conference call is scheduled to begin at 10:00am NZDT, 8:00am AEDT (4:00pm USEST) and will be broadcast simultaneously over the Internet.

To listen to the webcast, access the company's website at www.fphcare.com/investor. Please allow extra time prior to the webcast to visit the site and download the streaming media software if required. An online archive of the event will be available approximately two hours after the webcast and will remain on the site for two weeks.

To attend the conference call, participants will need to dial in to one of the numbers below at least 5 minutes prior to the scheduled call time and identify yourself to the operator. When prompted, please quote the conference code of: 31140272.

| | | | |
|---|---|---|---|
| New Zealand Toll Free | 0800 446 046 | USA Toll Free | 1800 742 9301 |
| Australia Toll Free | 1800 725 000 | Hong Kong Toll Free | 800 906 648 |
| United Kingdom Toll Free | 0808 234 1369 | International | +61 2 8373 3610 |

An audio replay of the conference call will be available approximately 2 hours after the call and will be accessible for two weeks by dialing one of the numbers below. When prompted please enter the conference code of: 31140272.

| | | | |
|---|---|---|---|
| New Zealand Toll Free | 0800 453 213 | USA Toll Free | 1855 452 5696 |
| Australia Toll Free | 1800 153 898 | Hong Kong Toll Free | 800 963 117 |
| United Kingdom Toll Free | 0808 234 0072 | International | +61 2 900 34211 |

## FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED
## AND SUBSIDIARIES

### Unaudited Income Statements

### (In thousands of NZ dollars, except per share data)

| | Six Months Ended 30 September | | |
|---|---|---|---|
| | **2013** | **2014** | ***% Change*** |
| Operating revenue | 303,917 | 317,442 | *+4%* |
| Cost of sales | (126,328) | (125,229) | *-1%* |
| Gross profit | 177,589 | 192,213 | *+8%* |
| Gross margin | *58.4%* | *60.6%* | |
| Other income | 1,200 | 2,500 | |
| Selling, general and administrative expenses | (86,032) | (90,752) | *+5%* |
| Research and development expenses | (25,818) | (31,338) | *+21%* |
| Total operating expenses | (111,850) | (122,090) | *+9%* |
| Operating profit before financing costs | 66,939 | 72,623 | *+8%* |
| Operating margin | *22.0%* | *22.9%* | |
| Financing income | 38 | 80 | *+111%* |
| Financing expense | (3,841) | (3,159) | *-18%* |
| Exchange (loss) on foreign currency borrowings | (543) | (2,635) | *+385%* |
| Net financing (expense) | (4,346) | (5,714) | *+31%* |
| Profit before tax | 62,593 | 66,909 | *+7%* |
| Tax expense | (18,101) | (17,992) | *-1%* |
| Profit after tax | 44,492 | 48,917 | *+10%* |
| | | | |
| Basic earnings per share | 8.2 cps | 8.8 cps | *+7%* |
| Diluted earnings per share | 7.9 cps | 8.6 cps | *+9%* |
| Weighted average basic shares outstanding | 544,626,558 | 553,644,907 | |
| Weighted average diluted shares outstanding | 564,578,936 | 568,575,334 | |

**FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED**
**AND SUBSIDIARIES**

## Unaudited Operating Revenue
## (In thousands of dollars)

| | Six Months Ended 30 September | | | | | |
|---|---|---|---|---|---|---|
| | NZ dollars | | | US dollars | | |
| | 2013 | 2014 | *% Change* | 2013 | 2014 | *% Change* |
| Respiratory and acute care products | 164,090 | 173,693 | *+6%* | 132,864 | 147,969 | *+11%* |
| OSA products | 131,208 | 138,064 | *+5%* | 106,239 | 117,617 | *+11%* |
| Core products sub-total | 295,298 | 311,757 | *+6%* | 239,103 | 265,586 | *+11%* |
| Distributed and other products | 8,619 | 5,685 | *-34%* | 6,979 | 4,843 | *-31%* |
| Total operating revenue | $303,917 | $317,442 | *+4%* | $246,082 | $270,429 | *+10%* |

## Unaudited Condensed Balance Sheets
## (In thousands of NZ dollars)

| | As at 30 September | |
|---|---|---|
| | 2013 | 2014 |
| Cash and cash equivalents | 6,846 | 6,882 |
| Trade and other receivables | 85,143 | 98,967 |
| Inventories | 100,303 | 100,415 |
| Other current assets | 34,617 | 18,310 |
| Total current assets | 226,909 | 224,574 |
| Property, plant and equipment | 351,205 | 356,654 |
| Other non-current assets | 48,260 | 44,607 |
| Total assets | 626,374 | 625,835 |
| Current liabilities | 94,449 | 105,131 |
| Non-current liabilities | 158,853 | 106,452 |
| Shareholders’ equity | 373,072 | 414,252 |
| Total liabilities and shareholders’ equity | 626,374 | 625,835 |

## FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED AND SUBSIDIARIES

### Unaudited Condensed Statements of Cash Flows
### (In thousands of NZ dollars)

| | Six Months Ended 30 September | |
|---|---|---|
| | 2013 | 2014 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers | 285,694 | 318,709 |
| Grants received | 1,320 | 2,250 |
| Interest received | 18 | 63 |
| Payments to suppliers and employees | (235,959) | (239,477) |
| Tax paid | (13,820) | (19,724) |
| Interest paid | (3,845) | (3,202) |
| Net cash flows from operations | 33,408 | 58,619 |
| **CASH FLOWS (USED IN) INVESTING ACTIVITIES** | | |
| Net purchase of property, plant and equipment | (17,117) | (20,529) |
| Purchases of intangible assets | (1,328) | (4,955) |
| Net cash flows (used in) investing activities | (18,445) | (25,484) |
| **CASH FLOWS (USED IN) FINANCING ACTIVITIES** | | |
| Employee share purchase schemes | 183 | 237 |
| Issue of share capital | 13,159 | 17,591 |
| New borrowings | 8,754 | 5,000 |
| Repayment of borrowings | - | (19,742) |
| Dividends paid | (40,549) | (41,307) |
| Net cash flows (used in) financing activities | (18,453) | (38,221) |
| Net (decrease) in cash | (3,490) | (5,086) |
| Opening cash | (9,427) | (3,761) |
| Effect of foreign exchange rates | (28) | 221 |
| Closing cash | (12,945) | (8,626) |
| **RECONCILIATION OF CLOSING CASH** | | |
| Cash and cash equivalents | 6,846 | 6,882 |
| Bank overdrafts | (19,791) | (15,508) |
| Closing cash | (12,945) | (8,626) |

## FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED
## AND SUBSIDIARIES

### Unaudited Income Statements

### (In thousands of US dollars, except per share data)

| | Six Months Ended 30 September | | |
|---|---|---|---|
| | **2013** | **2014** | ***% Change*** |
| Operating revenue | 246,082 | 270,429 | *+10%* |
| Cost of sales | (102,288) | (106,683) | *+4%* |
| Gross profit | 143,794 | 163,746 | *+14%* |
| Gross margin | *58.4%* | *60.6%* | |
| Other income | 972 | 2,130 | |
| Selling, general and administrative expenses | (69,660) | (77,312) | *+11%* |
| Research and development expenses | (20,905) | (26,697) | *+28%* |
| Total operating expenses | (90,565) | (104,009) | *+15%* |
| Operating profit before financing costs | 54,201 | 61,867 | *+14%* |
| Operating margin | *22.0%* | *22.9%* | |
| Financing income | 31 | 68 | *+119%* |
| Financing expense | (3,110) | (2,691) | *-13%* |
| Exchange (loss) on foreign currency borrowings | (440) | (2,245) | *+410%* |
| Net financing (expense) | (3,519) | (4,868) | *+38%* |
| Profit before tax | 50,682 | 56,999 | *+12%* |
| Tax expense | (14,656) | (15,327) | *+5%* |
| Profit after tax | 36,026 | 41,672 | *+16%* |
| | | | |
| Basic earnings per share | 6.6 cps | 7.5 cps | *+14%* |
| Diluted earnings per share | 6.4 cps | 7.3 cps | *+14%* |
| Weighted average basic shares outstanding | 544,626,558 | 553,644,907 | |
| Weighted average diluted shares outstanding | 564,578,936 | 568,575,334 | |

## Half Year Results Commentary

Net profit after tax was NZ$48.9 million for the six months ended 30 September 2014, an increase of 10% compared to the prior corresponding period's NZ$44.5 million. In constant currency, operating profit increased *64%*.[1] The increase in the half year net profit after tax reflects revenue growth, further gross margin expansion and other operational efficiencies, partially offset by a reduction in foreign exchange hedging gains.

Operating revenue was a record NZ$317.4 million, 4% above the prior half year, and *12%* growth in constant currency. The company's respiratory and acute care (RAC) product group operating revenue increased by *13*% and obstructive sleep apnea (OSA) product group revenue increased by *15*% over the prior comparable period, in constant currency.

Strong growth in the RAC product group was driven by increasing acceptance of products which are used in applications outside of intensive care ventilation, including non-invasive ventilation, oxygen therapy and humidity therapy. Consumables revenue from those new applications increased *26*% in the first half, in constant currency.

OSA mask constant currency revenue grew *20%* in the first half, reflecting strong demand for new masks introduced during the prior year. Total flow generator revenue growth was *8%* in constant currency for the first half.

The company's financial statements for the six months ended 30 September 2014 and the comparative financial information for the six months ended 30 September 2013 have been prepared under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), Interpretations and other applicable FRS.

The company's debt to debt plus equity ratio of 18.6% is nearing the target range of 5% to 15% (excluding unrealised financial instrument gains or losses) which was established in May 2010 following a review of the company's capital structure. The directors believe that it is therefore now appropriate to increase the interim dividend and remove the discount from the Dividend Reinvestment Plan (DRP).

The directors have approved an increased interim dividend of NZ 5.8 cents per ordinary share carrying a full imputation credit of 2.2556 cents per share. Eligible non-resident shareholders will receive a supplementary dividend of NZ 1.0235 cents per share. The interim dividend will be paid on 19 December 2014, with a record date of 5 December 2014 and an ex-dividend date of 3 December 2014 for the NZSX and ASX.

The dividend payment for the first half at 5.8 cps equates to 66% of net profit after tax.

The company offers eligible shareholders the opportunity to receive ordinary shares rather than cash under the DRP. Shareholders who have not yet elected to participate in the DRP will need to provide a Participation Notice to the Company's Share Registrar by 8 December 2014. No discount will apply to the DRP.

[1] For clarity, all references to constant currency amounts or percentages are stated in italics.

**Financial Performance**
The following table sets out the consolidated statement of financial performance for the six months ended 30 September 2013 and 2014 in New Zealand dollars:

| **Income Statement** | **Six months ended 30 September** | |
|---|---|---|
| | **2013 NZ$000** | **2014 NZ$000** |
| **Operating revenue** | **303,917** | **317,442** |
| Cost of sales | 126,328 | 125,229 |
| Gross profit | 177,589 | 192,213 |
| **Gross margin** | **58.4%** | **60.6%** |
| Other income | 1,200 | 2,500 |
| Selling, general and administrative expenses | 86,032 | 90,752 |
| Research and development expenses | 25,818 | 31,338 |
| Total operating expenses | 111,850 | 122,090 |
| **Operating profit before financing costs** | **66,939** | **72,623** |
| **Operating margin** | **22.0%** | **22.9%** |
| Net financing expense | 4,346 | 5,714 |
| **Profit before tax** | **62,593** | **66,909** |
| Tax expense | 18,101 | 17,992 |
| **Profit after tax** | **44,492** | **48,917** |

**Foreign Exchange Effects**

The company is exposed to movements in foreign exchange rates, with approximately 47% of operating revenue generated in US dollars, 24% in Euros, 6% in Australian dollars, 5% in Japanese yen, 5% in British pounds, 4% in Canadian dollars, 2% in New Zealand dollars and 7% in other currencies.

As the number of direct sales operations increases, an increasing proportion of the company's revenue is generated in local currencies, reducing operating revenue exposure to the US dollar over recent periods. In the current period the proportion of revenue which was generated in US dollars has reduced from 48% to 47%.The company's cost base is also becoming more diverse, as manufacturing output from Mexico has increased to 27% of consumables output.

By historical standards the New Zealand dollar remained elevated against most of the currencies in which the company receives revenue. Foreign exchange hedging gains contributed NZ$18.0 million (2013: NZ$31.1 million) to operating profit.

The average daily spot rate and the average effective exchange rate (i.e. the accounting rate, incorporating the benefit of forward exchange contracts entered into by the company in respect of the relevant financial year) of the main foreign currency exposures for the six months ended 30 September 2013 and 2014 are set out in the table below:

| | Average Daily Spot Rate | | Average Effective Exchange Rate | |
|---|---|---|---|---|
| | Six months ended 30 September | | Six months ended 30 September | |
| | 2013 | 2014 | 2013 | 2014 |
| USD | 0.8097 | 0.8519 | 0.6299 | 0.7969 |
| EUR | 0.6155 | 0.6319 | 0.5057 | 0.5147 |

The effect of balance sheet translations of offshore assets and liabilities for the six months ended 30 September 2014 resulted in an increase in operating revenue of NZ$5.4 million (2013: NZ$1.1 million) and an increase in profit before tax of NZ$3.6 million (2013: NZ$0.3 million).

**Constant Currency Analysis**

A constant currency income statement is prepared each month to enable the board and management to monitor and assess the company's underlying comparative financial performance without any distortion from changes in foreign exchange rates. The table below provides estimated NZ dollar income statements for the relevant periods, which have all been restated at the budget foreign exchange rates for the 2015 financial year but after excluding the impact of movements in foreign exchange rates, hedging results and balance sheet translations.

This constant currency analysis is non-conforming financial information, as defined by the NZ Financial Markets Authority, and has been provided to assist users of financial information to better understand and assess the company's financial performance without the impacts of spot foreign currency fluctuations and hedging results and has been prepared on a consistent basis each half year. The company's constant currency income statement framework can be found on the company's website at www.fphcare.com/CCIS .

| Constant Currency Income Statements (Unaudited) | Six months ended 30 Sep 2012 NZ$000 | Six months ended 30 Sep 2013 NZ$000 | Variation 2012 to 2013 % | Six months ended 30 Sep 2014 NZ$000 | Variation 2013 to 2014 % |
|---|---|---|---|---|---|
| **Operating revenue** | ***232,242*** | ***261,415*** | ***+13*** | ***293,974*** | ***+12*** |
| Cost of sales | *118,592* | *124,229* | *+5* | *126,277* | *+2* |
| Gross profit | *113,650* | *137,186* | *+21* | *167,697* | *+22* |
| **Gross Margin** | ***48.9%*** | ***52.5%*** | ***+354bps*** | ***57.0%*** | ***+457bps*** |
| Other income | *1,200* | *1,200* | - | *2,500* | *+108* |
| Selling, general and administrative expenses | *73,185* | *82,784* | *+13* | *90,020* | *+9* |
| Research & development expenses | *21,335* | *25,818* | *+21* | *31,338* | *+21* |
| Total operating expenses | *94,520* | *108,602* | *+15* | *121,358* | *+12* |
| **Operating profit** | ***20,330*** | ***29,784*** | ***+47*** | ***48,839*** | ***+64*** |
| **Operating margin** | ***8.8%*** | ***11.4%*** | ***+264bps*** | ***16.6%*** | ***+522bps*** |
| Financing expenses (net) | *1,417* | *3,745* | *+164* | *3,080* | *-18* |
| **Profit before tax** | ***18,913*** | ***26,039*** | ***+38*** | ***45,759*** | ***+76*** |

The significant exchange rates used in the constant currency analysis, being the budget exchange rates for the year ending 31 March 2015, are USD 0.85, EUR 0.615, AUD 0.945, GBP 0.50, CAD 0.925, JPY 88 and MXN 11.0.

A reconciliation of the constant currency income statements above to the actual income statements for half year is provided below.

| Reconciliation of Constant Currency to Actual Income Statements (Unaudited) | Six months ended 30 September | | |
|---|---|---|---|
| | 2012 NZ$000 | 2013 NZ$000 | 2014 NZ$000 |
| **Profit before tax (constant currency)** | ***18,913*** | ***26,039*** | ***45,759*** |
| Spot exchange rate effect | 7,647 | 5,123 | (456) |
| Foreign exchange hedging result | 21,212 | 31,084 | 18,046 |
| Balance sheet revaluation | (569) | 347 | 3,560 |
| **Profit before tax (as reported)** | **47,203** | **62,593** | **66,909** |

The reconciliation set out above illustrates that, when comparing the NZ dollar profit before tax shown in the actual income statement for the six months to 30 September 2014 with the corresponding period for the prior year:

- the movement in average daily spot exchange rates had an adverse impact of NZ$5.6m; and
- the benefit from the company's foreign exchange hedging activities was lower by NZ$13.0m.

Overall, the net unfavourable effect of movements in exchange rates and the hedging programme was NZ$15.4m, including the impact of balance sheet revaluations.

**Operating revenue**

Operating revenue increased by 4% to NZ$317.4 million for the six months ended 30 September 2014 from NZ$303.9 million for the six months ended 30 September 2013, principally due to increased sales volume from our core products.

The following table sets out operating revenue by product group for the six months ended 30 September 2013 and 2014:

| Operating Revenue By Product Group | Six months ended 30 September | |
|---|---|---|
| | 2013 NZ$000 | 2014 NZ$000 |
| RAC products | 164,090 | 173,693 |
| OSA products | 131,208 | 138,064 |
| Core products sub-total | 295,298 | 311,757 |
| Distributed and other products | 8,619 | 5,685 |
| **Total** | **303,917** | **317,442** |

RAC product group operating revenue increased 6% to NZ$173.7 million and *13%* in constant currency, compared with the corresponding period last year.

Expansion of the application of products and technologies to the care of patients beyond the company's traditional invasive ventilation market continued, with an increasing proportion of consumables revenue coming from devices used in non-invasive ventilation, oxygen therapy, humidity therapy and surgery. Constant currency revenue for these new applications grew *26%* for the six months ended 30 September 2014 and in total represented 45% of RAC consumables revenue.

In the RAC product group, underlying average sell prices were supported by some modest selling price increases.

OSA product group operating revenue increased 5% to NZ$138.1 million, and *15%* in constant currency, compared with the corresponding period last year.

Constant currency mask revenue grew *20%* for the six months, due to growth in demand for new masks introduced in the prior year.

Sales of RAC products represented 55% of operating revenue for the six months ended 30 September 2014 compared to 54% for the prior corresponding period. Sales of OSA products represented 43% of operating revenue for the six months ended 30 September 2013 and 2014. Sales of consumable and accessory products for core products accounted for approximately 78% and 80% of operating revenue for the six months ended 30 September 2013 and 2014 respectively.

**Regional revenue**

The following table sets out operating revenue for each of our regional markets for the six months ended 30 September 2013 and 2014:

| **Operating Revenue By Region** | **Six months ended 30 September** | |
|---|---|---|
| | **2013 NZ$000** | **2014 NZ$000** |
| North America | 131,100 | 133,111 |
| Europe | 96,455 | 106,149 |
| Asia Pacific | 59,628 | 62,127 |
| Other | 16,734 | 16,055 |
| **Total** | **303,917** | **317,442** |

The breakdown of revenue presented above is based on the geographical location of the customer and is inclusive of foreign exchange gains.

**Expenses**

Research and development activities are primarily conducted in New Zealand. Research and development expenses totalled NZ$31.3 million for the six months ended 30 September 2014 compared to NZ$25.8 million in the prior corresponding period last year, growth of 21%. The increase was attributable to increases in R&D personnel and costs in connection with the continuing expansion of product and process development activities for the RAC and OSA product groups. Research and development expenses represented 9.9% of operating revenue for the six months ended 30 September 2014.

Selling, general and administrative expenses increased by 5% to NZ$90.8 million for the six months ended 30 September 2014 compared to NZ$86.0 million in the corresponding period last year. This increase was primarily attributable to an increase in personnel to support our growing international sales and marketing activities. Selling, general and administrative expenses increased by *9%,* in constant currency, for the six months ended 30 September 2014.

**Gross Profit**

Constant currency gross margin percentage increased by *457 basis points* due to a number of factors, including positive RAC and OSA product mixes, logistics and manufacturing improvements, including the contribution from our Mexico manufacturing facility. We expect the constant currency gross margin percentage increase to be closer to *300 basis points* for the full year as we lap a number of successful product introductions in the second half.

**Operating profit**

Operating profit increased by 8% to NZ$72.6 million for the six months ended 30 September 2014 from NZ$66.9 million for the prior corresponding period.

In constant currency, operating profit increased by *64%.*

**Balance Sheet**

Gearing[2] at 30 September 2014 was 18.6%, lower than the 21.0% gearing at 31 March 2014, and also lower than the 29.2% at 30 September 2013. The decrease in gearing since 31 March 2014 is a result of the lower net debt level at 30 September 2014 as operating cashflow has improved and capital expenditure has moderated in comparison to previous years.

The gearing figure remains above the target range of 5% to 15%. Approximately four years ago the directors put in place plans for the company to progressively move it's gearing into the target range, subject to exchange rate movements, profitability and dividend payout. Gearing is expected to reduce by the end of the financial year to be within our target range.

**Funding**

The company had total available committed debt funding of NZ$197 million as at 30 September 2014, of which approximately NZ$104 million was undrawn, and cash on hand of NZ$7 million. Bank debt facilities provide all available funding given the modest level of requirements. Over the next 12 months no debt facilities will mature. As at 30 September 2014, the weighted average maturity of borrowing facilities is 2.0 years.

**Debt maturity**

The average maturity of the debt of NZ$83 million was 1.9 years and the currency split was 53% New Zealand dollars; 23% US dollars; 18% Euros; 4% Australian dollars and 2% Canadian dollars.

**Interest rates**

Approximately 98% of all borrowings were at fixed interest rates with an average duration of 3.7 years and an average rate of 4.9%. Inclusive of floating rate borrowings the average interest rate on the debt is currently 4.9%. All interest rates are inclusive of margins but not fees.

**Cashflow**

Cashflow from operations was NZ$58.6 million compared with NZ$33.4 million for the six months ended 30 September 2013. The increase was mainly related to improved receipts from customers reflecting higher sales and improvements in gross margin.

Capital expenditure for the period was NZ$25.5 million compared with NZ$18.4 million in the prior half year. The capital expenditure related predominantly to new product tooling and manufacturing equipment. The increase in intangible expenditure related to costs for an ERP project the Company is undertaking to position itself for future growth.

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[2]Net interest-bearing debt (debt less cash and cash equivalents) to net interest-bearing debt and equity (less cash flow hedge reserve - unrealised).

**Financial highlights**

| Unaudited | Six months ended 30 September | |
|---|---|---|
| | **2013** | **2014** |
| Pre-tax return on average shareholders' equity (annualised) | 33.6% | 32.6% |
| Earnings per share (cents) | 8.3 | 8.8 |
| Dividends (interim proposed) per share (cents) | 5.4 | 5.8 |
| Gearing | 29.2% | 18.6% |

**Foreign Exchange Hedging Position**

The hedging position for our main exposures, the US dollar and Euro, as at the date of this report is:

| | Six months to 31 March | Year to 31 March | | |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| USD % cover of expected exposure | 95% | 42% | 15% | 0% |
| USD average rate of cover | 0.80 | 0.77 | 0.74 | - |
| EUR % cover of expected exposure | 96% | 68% | 30% | 0% |
| EUR average rate of cover | 0.53 | 0.56 | 0.55 | - |