

News Release

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

FISHER & PAYKEL HEALTHCARE DELIVERS RECORD FULL YEAR RESULT, NET PROFIT UP 26%

Auckland, New Zealand, 23 May 2014 - Fisher & Paykel Healthcare Corporation Limited today announced record financial results for the financial year ended 31 March 2014.

The medical device manufacturer, which provides respiratory care systems and products for the treatment of obstructive sleep apnea, today reported record net profit after tax of NZ\$97.1 million for the full year, an increase of 26% over the prior year. Operating revenue was also a record, at NZ\$623.4 million, 12% above the prior year or 13% growth in constant currency.

Chief Executive Officer Michael Daniell said, "Our record results are very pleasing and they reflect that hospital clinicians and homecare providers are increasingly using our innovative products to help to improve care and outcomes. Our medical devices are designed to increase the effectiveness and efficiency of care and we estimate that our products were used in the treatment of more than 9 million patients during the year".

Both of the company's major product groups, respiratory and acute care (RAC) and obstructive sleep apnea (OSA), delivered record operating revenue results. RAC product group revenue grew 12% to NZ\$336.9 million, or 14% growth in constant currency, and OSA product group revenue grew 15% to NZ\$270.0 million, or 15% growth in constant currency. The company estimates that revenue growth was about double the market growth for both major product groups.

"Growth in our RAC product group was strong and we are particularly encouraged by the continuing robust revenue growth, 29% in constant currency, in new applications for our products outside our traditional invasive ventilation market.

"More and more customers around the world are choosing to use our Optiflow oxygen therapy system and respiratory humidification systems for patients who are receiving noninvasive ventilation, as they see the real benefits for their patients and healthcare systems.

"The roll-out over the year of new masks for the treatment of OSA has been a key contributor to the excellent growth in our OSA product group, with mask operating revenue growth increasing to 26% in the second half in constant currency.

"Our Eson, Pilairo Q and Simplus masks are designed for comfort, seal and ease of use and we have enjoyed a very positive response from our customers", said Mr Daniell.

The company's directors have approved a final dividend of 7.0 NZ cents per share for the financial year ended 31 March 2014, carrying full imputation credit. 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 2014 final dividend. A 3% discount will be applied when determining the price per share in respect of the 2014 final dividend.

A feature of the result was the ongoing substantial improvement in gross margin, 393 basis points in constant currency over the prior year, due to favourable product mix, new products, Lean manufacturing improvements, increased volume from the Mexico facility and supply chain efficiencies.

The company continued to grow its investment in research and development (R&D) with R&D expenses increasing by 18% to NZ\$54.1 million, representing 8.7% of operating revenue. “We have a number of exciting new products under development including masks, flow generators, humidifier systems and respiratory and acute care consumables”, said Mr Daniell.

Outlook for FY2015

“The number of patients who can benefit from our products is growing significantly, as a result of an aging demographic and increasing investment in healthcare in developing countries. We have a clear strategy to meet those needs by continually improving our products, serving more patient groups, extending our range of products and growing our international presence.

“The company continues to have favourable foreign exchange hedging in place although substantially less than in the 2014 financial year.

“At current exchange rates we anticipate an operating profit headwind of approximately NZ\$32 million in the 2015 financial year from both reduced hedging and less favourable spot rates. Despite the challenge of this large roll-off in hedging, we have momentum in both of our product groups and we believe that we can offset that headwind in the 2015 financial year.

“For the 2015 financial year, based on a NZD:USD exchange rate of 0.86 for the remainder of the year, we expect our operating revenue to be approximately NZ\$640 million and net profit after tax to be similar to FY2014.

“However, we again expect to deliver robust constant currency net profit growth of approximately 40% for the 2015 financial year”, concluded Mr Daniell.

Result highlights:

- 26% growth in net profit after tax to a record NZ\$97.1 million, 46% growth in constant currency.
- 12% growth in operating revenue to a record NZ\$623.4 million, 13% growth in constant currency.
- Double digit operating revenue growth in both of the company’s major product groups – Respiratory and acute care (RAC) 14%, Obstructive Sleep Apnea (OSA) 15% in constant currency.
- New RAC applications consumables revenue outside of invasive ventilation grew particularly strongly at 29% in constant currency.
- Strong performance from new OSA masks, Eson, Pilairo Q and Simplus, drove mask operating revenue growth of 23% in constant currency.
- Gross margin improvement of 327 basis points for the full year, 393 bps in constant currency.
- Fully imputed final dividend of 7.0 cps.
- Investment in R&D increased by 18% to NZ\$54.1 million, representing 8.7% of operating revenue.

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 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.

Full 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 year ended 31 March 2014 and the comparative financial information for the year ended 31 March 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 2014 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.

Full 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 NZST, 8:00am AEST (6:00pm USEDT) 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: 40710638.

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: 40710638.

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 9003 4211

Contact: Michael Daniell MD/CEO on +64 9 574 0161 or Tony Barclay CFO on +64 9 574 0119.

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

Condensed Income Statements

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

	Year Ended 31 March		%
	2013	2014	
Operating revenue	556,250	623,447	+12%
Cost of sales	(248,406)	(258,049)	+4%
Gross profit	307,844	365,398	+19%
Gross margin	55.3%	58.6%	
Other income	2,400	3,700	+54%
Selling, general and administrative expenses	(151,791)	(171,453)	+13%
Research and development expenses	(45,720)	(54,146)	+18%
Total operating expenses	(197,511)	(225,599)	+14%
Operating profit before financing costs	112,733	143,499	+27%
Operating margin	20.3%	23.0%	
Financing income	189	57	-70%
Financing expense	(4,903)	(7,780)	+59%
Exchange gain on foreign currency borrowings	1,367	888	-35%
Net financing (expense)	(3,347)	(6,835)	+104%
Profit before tax	109,386	136,664	+25%
Tax expense	(32,333)	(39,611)	+23%
Profit after tax	77,053	97,053	+26%
Basic earnings per share	14.3 cps	17.7 cps	
Diluted earnings per share	13.8 cps	17.4 cps	
Weighted average basic shares outstanding	537,560,800	547,094,526	
Weighted average diluted shares outstanding	559,097,010	557,553,102	

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

**Operating Revenue
(In thousands of dollars)**

Year Ended 31 March

	NZ dollars			US dollars		
	2013	2014	% Change	2013	2014	% Change
RAC products	301,503	336,851	+11.7%	245,544	276,529	+12.6%
OSA products	235,778	270,048	+14.5%	191,935	221,614	+15.5%
Core products sub-total	537,281	606,899	+13.0%	437,479	498,143	+13.9%
Distributed and other products	18,969	16,548	-12.8%	15,420	13,583	-11.9%
Total	\$556,250	\$623,447	+12.1%	\$452,899	\$511,726	+13.0%

	NZ dollars			US dollars		
	2013	2014	% Change	2013	2014	% Change
North America	241,123	261,620	+8.5%	196,323	214,665	+9.3%
Europe	181,422	211,861	+16.8%	147,718	174,001	+17.8%
Asia Pacific	106,637	118,869	+11.5%	86,824	97,563	+12.4%
Other	27,068	31,097	+14.9%	22,034	25,497	+15.7%
Total	\$556,250	\$623,447	+12.1%	\$452,899	\$511,726	+13.0%

**Condensed Balance Sheets
(In thousands of NZ dollars)**

As at 31 March

	2013	2014
Cash and cash equivalents	7,709	10,438
Trade and other receivables	81,560	93,363
Inventories	89,111	94,475
Other current assets	36,777	36,682
Total current assets	215,157	234,958
Property, plant and equipment	346,716	349,760
Other assets	56,724	45,607
Total assets	618,597	630,325
Current liabilities	91,068	128,790
Non-current liabilities	155,298	95,413
Shareholders' equity	372,231	406,122
Total liabilities and shareholders' equity	618,597	630,325

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

**Condensed Statements of Cash Flows
(In thousands of NZ dollars)**

	Year Ended 31 March	
	2013	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	537,230	591,674
Interest received	186	21
Payments to suppliers and employees	(420,596)	(452,009)
Taxation paid	(25,517)	(27,936)
Interest paid	(4,866)	(7,651)
Net cash flow from operations	<u>86,437</u>	<u>104,099</u>
CASH FLOWS (USED IN) INVESTING ACTIVITIES		
Net purchase of property, plant and equipment	(58,487)	(27,286)
Purchase of intangible assets	(3,489)	(4,574)
Net cash flow (used in) investing activities	<u>(61,976)</u>	<u>(31,860)</u>
CASH FLOWS (USED IN) FINANCING ACTIVITIES		
Employee share purchase schemes	555	299
Net issue (repurchase) of share capital	26,067	27,137
Borrowings, net	17,992	(22,062)
Dividends paid	(71,067)	(72,113)
Net cash flow (used in) financing activities	<u>(26,453)</u>	<u>(66,739)</u>
Net increase (decrease) in cash	(1,992)	5,500
Opening cash	(8,405)	(9,427)
Effect of foreign exchange rates	970	166
Closing cash	<u>(9,427)</u>	<u>(3,761)</u>
RECONCILIATION OF CLOSING CASH		
Cash and cash equivalents	7,709	10,438
Bank overdrafts	(17,136)	(14,199)
Closing cash	<u>(9,427)</u>	<u>(3,761)</u>

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

Condensed Income Statements

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

	Year Ended 31 March		%
	2013	2014	
Operating revenue	452,899	511,726	+13%
Cost of sales	(202,252)	(211,807)	+5%
Gross profit	250,647	299,919	+20%
Gross margin	55.3%	58.6%	
Other income	1,954	3,037	+55%
Selling, general and administrative expenses	(123,588)	(140,729)	+14%
Research and development expenses	(37,225)	(44,443)	+19%
Total operating expenses	(160,813)	(185,172)	+15%
Operating profit before financing costs	91,788	117,784	+28%
Operating margin	20.3%	23.0%	
Financing income	154	47	-69%
Financing expense	(3,992)	(6,386)	+60%
Exchange gain on foreign currency borrowings	1,113	729	-35%
Net financing (expense)	(2,725)	(5,610)	+106%
Profit before tax	89,063	112,174	+26%
Tax expense	(26,326)	(32,513)	+24%
Profit after tax	62,737	79,661	+27%
Basic earnings per share	11.7 cps	14.6 cps	
Diluted earnings per share	11.2 cps	14.3 cps	
Weighted average basic shares outstanding	537,560,800	547,094,526	
Weighted average diluted shares outstanding	559,097,010	557,553,102	

Full Year Results Commentary

Net profit after tax was NZ\$97.1 million for the year ended 31 March 2014, an increase of 26% compared to the prior year's NZ\$77.1 million. In constant currency, operating profit increased 46%.¹ The increase in the full year net profit after tax reflects revenue growth, further gross margin expansion and operational efficiencies.

Operating revenue was a record NZ\$623.4 million, 12% above the prior year, or 13% in constant currency. The company's respiratory and acute care product group (RAC) operating revenue increased by 14% and obstructive sleep apnea (OSA) product group revenue increased by 15% over the prior year, in constant currency.

The Company's financial statements for the year ended 31 March 2014 and the comparative financial information for the year ended 31 March 2013 have been prepared under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), Interpretations and other applicable FRS.

Second half results

For the second half, net profit after tax grew by 20% to NZ\$52.6 million and operating revenue grew 10% to NZ\$319.5 million. In constant currency, second half operating revenue increased by 14% and operating profit increased by 48%, primarily as a result of revenue growth, improved gross margins and operating efficiencies.

Respiratory and acute care product group (RAC) operating revenue grew 13% and Obstructive Sleep Apnea product group (OSA) operating revenue grew 17% in constant currency, compared to the prior year second half.

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 28% in the second half, in constant currency.

OSA mask constant currency revenue grew 26% in the second half, reflecting growth in Pilairo Q nasal pillows masks, Eson nasal masks and the full introduction of the Simplus full-face mask. Total flow generator revenue growth was 5% in constant currency for the second half. Excluding the legacy SleepStyle flow generator range, constant currency flow generator revenue growth was 11%.

Dividend

The directors have approved a final dividend of NZD 7.0 cents per ordinary share carrying a full imputation credit of 2.7222 cents per share. Eligible non-resident shareholders will receive a supplementary dividend of NZD 1.2353 cents per share. The final dividend will be paid on 4 July 2014, with a record date of 20 June 2014 and an ex-dividend date of 18 June 2014 for the NZSX and ASX.

The company offers eligible shareholders the opportunity to receive ordinary shares rather than cash under the Dividend Reinvestment Plan (DRP). The directors have maintained a discount on the DRP of 3% to encourage shareholders to take up the offer as part of the company's plan to build shareholders' funds. 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 23 June 2014.

In May 2010 the directors reviewed the company's capital structure and determined that the company needed to progressively increase its shareholders' funds, to ensure that it has capacity to implement its foreign currency hedging policy as the company grows.

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

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

The total dividend payment for the year at 12.4 cps equates of 71% of net profit after tax.

Financial Performance

The following table sets out the consolidated statement of financial performance for the years ended 31 March 2013 and 2014 in New Zealand dollars:

	Year ended 31 March	
	2013 NZ\$000's	2014 NZ\$000's
Operating revenue	556,250	623,447
Cost of sales	248,406	258,049
Gross profit	307,844	365,398
Gross margin	55.3%	58.6%
Other income	2,400	3,700
Selling, general and administrative expenses	151,791	171,453
Research and development expenses	45,720	54,146
Total operating expenses	197,511	225,599
Operating profit before financing costs	112,733	143,499
Operating margin	20.3%	23.0%
Net financing expense	3,347	6,835
Profit before tax	109,386	136,664
Tax expense	32,333	39,611
Profit after tax	77,053	97,053

Foreign Exchange Effects

The company is exposed to movements in foreign exchange rates, with approximately 48% of operating revenue generated in US dollars, 24% in Euros, 6% in Australian dollars, 5% in Japanese yen, 4% 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. In the current year the proportion of revenue which was generated in US dollars has reduced from 50% to 48%. The company's cost base is also becoming more diverse, as manufacturing output from Mexico increased to 26% of consumables output for the year.

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\$54.6 million (2013: NZ\$48.5 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 years ended 31 March 2013 and 2014 are set out in the table below:

	Average Daily Spot Rate		Average Effective Exchange Rate	
	Year ended 31 March		Year ended 31 March	
	2013	2014	2013	2014
USD	0.8142	0.8208	0.6801	0.6740
EUR	0.6324	0.6123	0.5077	0.4998

The effect of balance sheet translations of offshore assets and liabilities for the year ended 31 March 2014 resulted in a reduction in operating revenue of NZ\$2.2 million (2013: NZ\$2.7 million) and a reduction in operating profit of NZ\$2.7 million (2013: NZ\$2.8 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 2014 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 comparative financial performance without the impacts of spot foreign currency fluctuations and hedging results and has been prepared on a consistent basis each year.

Constant Currency Income Statements	Year ended 31 March 2012	Year ended 31 March 2013	Variation 2012 to 2013	Year ended 31 March 2014	Variation 2013 to 2014
	NZ\$000	NZ\$000	%	NZ\$000	%
Operating revenue	446,655	496,301	+11	562,977	+13
Cost of sales	234,879	245,071	+4	255,861	+4
Gross profit	211,776	251,230	+19	307,116	+22
Gross Margin	47.4%	50.6%	+319bps	54.6%	+393bps
Other income	2,400	2,400	-	3,700	+54
Selling, general and administrative expenses	136,296	148,698	+9	170,223	+14
Research & development expenses	41,988	45,720	+9	54,146	+18
Total operating expenses	178,284	194,418	+9	224,369	+15
Operating profit	35,892	59,212	+65	86,447	+46
Operating margin	8.0%	11.9%	+388bps	15.4%	+342bps
Financing expenses (net)	3,925	4,652	+19	7,727	+66
Profit before tax	31,967	54,560	+70	78,720	+44

The significant exchange rates used in the constant currency analysis, being the budget exchange rates for the for the year ended 31 March 2014, are USD 0.83, EUR 0.64, AUD 0.81, GBP 0.55, CAD 0.85, JPY 79 and MXN 10.60.

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

Reconciliation of Constant Currency to Actual Income Statements	Year ended 31 March		
	2012 NZ\$000	2013 NZ\$000	2014 NZ\$000
Profit before tax (constant currency)	31,967	54,560	78,720
Spot exchange rate effect	12,410	7,756	5,194
Foreign exchange hedging result	49,542	48,534	54,584
Balance sheet revaluation	(1,602)	(1,464)	(1,834)
Profit before tax (as reported)	92,317	109,386	136,664

The reconciliation set out above illustrates that, when comparing the NZ dollar profit before tax shown in the actual income statement for the year to 31 March 2014 with the prior year:

- the movement in average daily spot exchange rates had an adverse impact of NZ\$2.6m; and
- the benefit from the company's foreign exchange hedging activities was higher by NZ\$6.1m.
- Overall, the net positive effect of movements in exchange rates and the hedging programme was NZ\$3.1m, including the impact of balance sheet revaluations.

Operating revenue

Operating revenue increased by 12% to NZ\$623.4 million for the year ended 31 March 2014 from NZ\$556.3 million for the year ended 31 March 2013, principally due to increased sales volume from core products.

The following table sets out operating revenue by product group for the years ended 31 March 2013 and 2014:

	Year ended 31 March	
	2013 NZ\$000's	2014 NZ\$000's
RAC products	301,503	336,851
OSA products	235,778	270,048
Core products sub-total	537,281	606,899
Distributed and other products	18,969	16,548
Total	\$556,250	\$623,447

Underlying growth in demand for respiratory humidification systems was strong throughout the year. This resulted in total operating revenue of NZ\$336.9 million for the respiratory and acute care product group, growth of 12% in NZ dollars, and 14% in constant currency, compared with 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 29% for the year ended 31 March 2014 and in total represented 41% of respiratory and acute care consumables revenue.

In the respiratory and acute care group, underlying average sell prices were supported by some modest selling price increases.

OSA product group operating revenue increased 15% to NZ\$270.0 million, and 15% in constant currency for the year.

Constant currency mask revenue grew 23% for the year, as the Eson and Pilairo Q masks continued to gain market share and due to the introduction of the new Simplus full-face mask.

Sales of respiratory and acute care products represented 54% of operating revenue for the years ended 31 March 2013 and 2014. Sales of OSA products represented 42% and 43% of operating revenue for the years ended 31 March 2013 and 2014 respectively. Sales of consumable and accessory products for core products accounted for approximately 76% and 78% of operating revenue for the years ended 31 March 2013 and 2014 respectively.

Regional revenue

The following table sets out operating revenue for each of our regional markets for the year ended 31 March 2013 and 2014:

	Year ended 31 March	
	2013 NZ\$000's	2014 NZ\$000's
North America	241,123	261,620
Europe	181,422	211,861
Asia Pacific	106,637	118,869
Other	27,068	31,097
Total	\$556,250	\$623,447

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\$54.1 million for the year ended 31 March 2014 compared to NZ\$45.7 million in the prior year, growth of 18%. 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. The first full year of costs related to the Paykel building on the Auckland site, which will accommodate future increases in R&D activities, also contributed to R&D expense growth. Research and development expenses represented 8.7% of operating revenue for the year ended 31 March 2014.

Selling, general and administrative expenses increased by 13% to NZ\$171.5 million for the year ended 31 March 2014 compared to NZ\$151.8 million in the prior year. This increase was primarily attributable to an increase in personnel to support our growing international sales and marketing activities. In constant currency selling, general and administrative expenses increased by 14% for the year ended 31 March 2014.

Gross Profit

Gross profit increased to NZ\$365.4 million, or 58.6% of operating revenue, for the year ended 31 March 2014 from NZ\$307.8 million, or 55.3% of operating revenue, in the year ended 31 March 2013. Constant currency gross margin percentage increased by 393bps due to a number of factors, including positive RAC and OSA product mixes, logistics and manufacturing improvements, including the contribution from the Mexico manufacturing facility.

Operating profit

Operating profit increased by 27% to NZ\$143.5 million for the year ended 31 March 2014 from NZ\$112.7 million for the year ended 31 March 2013.

In constant currency, operating profit increased by 46%.

Balance Sheet

Gearing² at 31 March 2014 was 21.0%, compared to 27.9% gearing at 31 March 2013. The decrease in gearing relates to the increase in earnings coupled with lower capital expenditure following the completion of the Paykel building.

The gearing figure remains above the target range of 5% to 15%. As previously noted the directors intend to ensure that the company progressively moves its gearing into the target range, subject to exchange rate movements, profitability and dividend payout.

Funding

The company had total available committed debt funding of \$192 million as at 31 March 2014, of which approximately \$86 million was undrawn, and cash on hand of \$10 million. Bank debt facilities provide all available funding given the modest level of requirements. Over the next 12 months one \$30 million facility will mature. As at 31 March 2014, the weighted average maturity of borrowing facilities is 2.2 years.

Debt maturity

The average maturity of the debt of \$95 million was 1.6 years and the currency split was 61% New Zealand dollars; 18% US dollars; 15% Euros; 4% Australian dollars and 2% Canadian dollars.

Interest rates

Approximately 97% of all borrowings were at fixed interest rates with an average duration of 5.3 years and an average rate of 4.8%. Inclusive of floating rate borrowings the average interest rate on the debt is currently 4.8%. All interest rates are inclusive of margins but not fees.

Interest coverage for the period was 21 times and the group remains in a sound financial position.

Cashflow

Cashflow from operations was \$104.1 million compared with \$86.4 million for the year ended 31 March 2013. The increase was mainly related to improved performance and inventory cost improvements favourably impacting working capital.

Capital expenditure for the period was \$31.9 million compared with \$62.0 million in the prior year. The capital expenditure related predominantly to new product tooling and manufacturing equipment, whereas in the prior year NZ\$33.6 million related to the Paykel Building project.

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

Financial ratios

Unaudited	Year ended 31 March	
	2013	2014
Pre-tax return on average shareholders' equity (annualised)	30.4%	35.1%
Earnings per share (cents)	14.3	17.7
Dividends (interim plus final proposed) per share (cents)	12.4	12.4
Gearing	27.9%	21.0%
Interest cover (times)	18.6	21.0

Foreign Exchange Hedging Position

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

Unaudited	Year to 31 March		
	2015	2016	2017
USD % cover of expected exposure	53%	12%	0%
USD average rate of cover	0.78	0.77	-
EUR % cover of expected exposure	81%	38%	5%
EUR average rate of cover	0.50	0.53	0.41