News Release

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

FISHER & PAYKEL HEALTHCARE REPORTS RECORD HALF YEAR NET PROFIT, UP 34%

Auckland, New Zealand, 22 November 2013 - Fisher & Paykel Healthcare Corporation Limited (NZSX:FPH, ASX:FPH) today reported record net profit after tax of NZ$44.5 million for the six months ended 30 September 2013, an increase of 34% compared to the first half last year.

Operating revenue for the half year was a record NZ$303.9 million, 14% above the prior comparable period as a result of strong revenue growth in the company's two major product groups. Respiratory and acute care (RAC) product group operating revenue grew 15% to NZ$164.1 million and Obstructive Sleep Apnea (OSA) product group operating revenue grew 15% to NZ$131.2 million.

An interim dividend of 5.4 NZ cents per ordinary share, carrying full New Zealand imputation credit, will be paid on 19 December 2013.

"We are pleased with the record results achieved for the half year, with both of our major product groups delivering strong growth", commented Fisher & Paykel Healthcare's CEO, Mr Michael Daniell.

"This is a reflection of our strategy to increase the range of applications for our technologies and to extend the range of products we provide for use in the care of each patient. An increasing number of clinicians and homecare providers are now choosing our devices to help improve patient outcomes and efficiency of care.

"Robust growth in our RAC product group was driven by particularly strong demand for our respiratory systems which help to improve care and outcomes in non-invasive ventilation, oxygen therapy, humidity therapy and surgery. Growth in consumables revenue from those applications increased 29% in constant currency.

"The roll-out of our Eson nasal, Pilairo nasal pillows and Simplus full face masks was a key contributor to OSA mask constant currency revenue growth of 19%, compared to the first half last year. This month, we have introduced the Simplus and new Pilairo Q masks into the United States, with positive early acceptance by homecare providers and users.

"ICON+, our new flow generator range, was introduced into our major markets during the half and contributed to an encouraging 12% constant currency growth in total flow generator revenue in the second quarter".

Outlook for FY2014

"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 our underlying revenue growth to be robust for the remainder of the year, driven by growing demand for a broad range of new products and new applications for our products.

"We continue to expect net profit after tax to be in the range of NZ$90 million to NZ$95 million for the 2014 financial year, based on an exchange rate of 0.83 for the NZD:USD for the remainder of the year, despite exchange rates moving unfavourably since our last earnings guidance update in August. We expect operating revenue to be in the range of NZ$610 million to NZ$625 million", concluded Mr Daniell.

Dividend
The company's directors have approved an interim dividend for the financial year ending 31 March 2014 of 5.4 NZ cents per ordinary share (2013: 5.4 cents), carrying full New Zealand imputation credit. For New Zealand resident shareholders that results in a gross dividend of 7.5 cents per ordinary share. Eligible non-resident shareholders will receive a supplementary dividend of 0.953 NZ cents per ordinary share. The interim dividend will be paid on 19 December 2013, with a record date of 6 December 2013, and ex-dividend dates of 2 December 2013 for the ASX and 4 December 2013 for the NZSX.

Dividend Reinvestment Plan
The company offers a dividend reinvestment plan (DRP), under which eligible shareholders may elect to reinvest all or part of their cash dividends in additional shares. A 3% discount will be applied when determining the price per share of shares issued under the DRP and will be applied in respect of the 2014 interim dividend and future dividends, until such time as the directors determine otherwise.

Research and Development expenses
The company continued to expand its product and process research and development (R&D) activities, and current new product projects include masks, flow generators, humidifier systems and respiratory and acute care consumables.

R&D expenses increased by 21% over the prior comparable period to NZ$25.8 million, representing 8.5% of operating revenue. R&D expenses included depreciation and operating costs of NZ$0.9 million relating to the new building on the Auckland site, which will primarily accommodate future growth in R&D activities.

Selling, General and Administrative expenses
Selling, general and administrative (SG&A) expenses increased 12% to NZ$86.0 million, or 13% in constant currency, as the company continued to expand its international operations and sales teams.

Capacity Expansion
During the first half, the company invested NZ$18.4 million of capital expenditure, which included equipment for increased manufacturing capacity and new product tooling. In the first half last year, capital expenditure of NZ$40.9 million included NZ$27.4 million for construction of the third building on its Auckland site, which was completed in November 2012.

The ramp-up of manufacturing of consumable products at the company's facility in Tijuana, Mexico progressed as expected with an increasing quantity and range of the company's products now manufactured there.

Increased volume from the Mexico facility, coupled with lean manufacturing improvements at the company's Auckland facility and a positive product mix, contributed to a constant currency 357 bps increase in gross margin compared to the first half last year.

Foreign Exchange Hedging
To protect against exchange rate volatility, the company had in place at 30 September 2013 a mix of foreign exchange contracts and collar options, up to four years forward, with a face value of approximately NZ$430 million. These instruments hedge the company's net exposure. At the commencement of the second half, the company had in place for the year ended 31 March 2014 approximately 94% cover for the US dollar and approximately 91% cover for the Euro at average rates of approximately 0.77 US dollars and 0.47 Euros to the New Zealand dollar.

The company closed out foreign exchange contracts in the 2010 and 2012 financial years, which will contribute NZ$21.3 million in the 2014 financial year to operating profit but not to cash flow, as the cash was received in the 2010 and 2012 financial years. Those instruments were progressively replaced with new instruments that form part of the company's current foreign exchange hedging.

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 2013 and the comparative financial information for the six months ended 30 September 2012 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 financial performance without any distortion from changes in foreign exchange rates. The constant currency data excludes 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 financial performance without the impacts of spot foreign currency fluctuations and hedging results.

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 2014 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: 94752676.

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: 94752676.

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 8199 0299

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.

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

Unaudited Income Statements

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

	Six Months Ended 30 September		
	2012	**2013**	***% Change***
Operating revenue	266,940	303,917	*+14%*
Cost of sales	(121,982)	(126,328)	*+4%*
Gross profit	144,958	177,589	*+23%*
Gross margin	*54.3%*	*58.4%*	
Other income	1,200	1,200	
Selling, general and administrative expenses	(76,971)	(86,032)	*+12%*
Research and development expenses	(21,335)	(25,818)	*+21%*
Total operating expenses	(98,306)	(111,850)	*+14%*
Operating profit before financing costs	47,852	66,939	*+40%*
Operating margin	*17.9%*	*22.0%*	
Financing income	157	38	*-76%*
Financing expense	(1,667)	(3,841)	*+130%*
Exchange gain (loss) on foreign currency borrowings	861	(543)	*-163%*
Net financing (expense)	(649)	(4,346)	*+570%*
Profit before tax	47,203	62,593	*+33%*
Tax expense	(13,951)	(18,101)	*+30%*
Profit after tax	33,252	44,492	*+34%*
Basic earnings per share	6.2 cps	8.2 cps	*+32%*
Diluted earnings per share	6.0 cps	7.9 cps	*+32%*
Weighted average basic shares outstanding	534,016,461	544,626,558	
Weighted average diluted shares outstanding	555,427,041	564,578,936	

FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED AND SUBSIDIARIES

Unaudited Operating Revenue (In thousands of dollars)

	Six Months Ended 30 September					
	NZ dollars			US dollars		
	2012	2013	*% Change*	2012	2013	*% Change*
Respiratory and acute care products	142,938	164,090	*+15%*	114,293	132,864	*+16%*
OSA products	114,217	131,208	*+15%*	91,328	106,239	*+16%*
Core products sub-total	257,155	295,298	*+15%*	205,621	239,103	*+16%*
Distributed and other products	9,785	8,619	*-12%*	7,824	6,979	*-11%*
Total operating revenue	$266,940	$303,917	*+14%*	$213,445	$246,082	*+15%*

Unaudited Condensed Balance Sheets (In thousands of NZ dollars)

	As at 30 September	
	2012	2013
Cash and cash equivalents	5,055	6,846
Trade and other receivables	79,112	85,143
Inventories	94,346	100,303
Other current assets	32,377	34,617
Total current assets	210,890	226,909
Property, plant and equipment	339,324	351,205
Other non-current assets	62,782	48,260
Total assets	612,996	626,374
Current liabilities	160,109	94,449
Non-current liabilities	99,270	158,853
Shareholders' equity	353,617	373,072
Total liabilities and shareholders' equity	612,996	626,374

FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED AND SUBSIDIARIES

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

	Six Months Ended 30 September	
	2012	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	257,393	285,694
Interest received	156	18
Payments to suppliers and employees	(213,253)	(234,639)
Tax paid	(10,489)	(13,820)
Interest paid	(1,515)	(3,845)
Net cash flows from operations	32,292	33,408
CASH FLOWS (USED IN) INVESTING ACTIVITIES		
Net purchase of property, plant and equipment	(38,898)	(17,117)
Purchases of intangible assets	(2,018)	(1,328)
Net cash flows (used in) investing activities	(40,916)	(18,445)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Employee share purchase schemes	226	183
Issue of share capital	14,612	13,159
New borrowings	33,149	8,754
Repayment of borrowings	(5,223)	-
Dividends paid	(39,956)	(40,549)
Net cash flows from (used in) financing activities	2,808	(18,453)
Net (decrease) in cash	(5,816)	(3,490)
Opening cash	(8,405)	(9,427)
Effect of foreign exchange rates	418	(28)
Closing cash	(13,803)	(12,945)
RECONCILIATION OF CLOSING CASH		
Cash and cash equivalents	5,055	6,846
Bank overdrafts	(18,858)	(19,791)
Closing cash	(13,803)	(12,945)

FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED
AND SUBSIDIARIES

Unaudited Income Statements

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

	Six Months Ended 30 September		
	2012	**2013**	***% Change***
Operating revenue	213,445	246,082	*+15%*
Cost of sales	(97,537)	(102,288)	*+5%*
Gross profit	115,908	143,794	*+24%*
Gross margin	*54.3%*	*58.4%*	
Other income	960	972	
Selling, general and administrative expenses	(61,546)	(69,660)	*+13%*
Research and development expenses	(17,059)	(20,905)	*+23%*
Total operating expenses	(78,605)	(90,565)	*+15%*
Operating profit before financing costs	38,263	54,201	*+42%*
Operating margin	*17.9%*	*22.0%*	
Financing income	126	31	*-75%*
Financing expense	(1,333)	(3,110)	*+133%*
Exchange gain (loss) on foreign currency borrowings	688	(440)	*-164%*
Net financing (expense)	(519)	(3,519)	*+578%*
Profit before tax	37,744	50,682	*+34%*
Tax expense	(11,155)	(14,656)	*+31%*
Profit after tax	26,589	36,026	*+35%*
Basic earnings per share	5.0 cps	6.6 cps	*+32%*
Diluted earnings per share	4.8 cps	6.4 cps	*+33%*
Weighted average basic shares outstanding	534,016,461	544,626,558	
Weighted average diluted shares outstanding	555,427,041	564,578,936	

Half Year Results Commentary

Net profit after tax was NZ$44.5 million for the six months ended 30 September 2013, an increase of 34% compared to the prior corresponding period's NZ$33.3 million. In constant currency, operating profit increased *43%*.[1] The increase in the half year net profit after tax reflects revenue growth, gross margin expansion, disciplined control of expenses and other operational efficiencies.

Operating revenue was a record NZ$303.9 million, 14% above the prior half year, and *12%* in constant currency. The company's respiratory and acute care (RAC) product group operating revenue increased by *14*% and obstructive sleep apnea (OSA) product group revenue increased by *13*% 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 *29*% in the first half, in constant currency.

OSA mask constant currency revenue grew *19*% in the first half, reflecting the introduction of the new Simplus full face mask and continuation of strong growth in sales of Eson nasal and Pilairo nasal pillows masks. Total flow generator revenue growth was 4% in constant currency for the first half. Excluding the legacy SleepStyle flow generator range, constant currency flow generator revenue growth was *14*%.

The Company's financial statements for the six months ended 30 September 2013 and the comparative financial information for the six months ended 30 September 2012 have been prepared under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), Interpretations and other applicable FRS.

The directors have approved an interim dividend of NZ 5.4 cents per ordinary share carrying a full imputation credit of 2.1 cents per share. Eligible non-resident shareholders will receive a supplementary dividend of NZ 0.9529 cents per share. The interim dividend will be paid on 19 December 2013, with a record date of 6 December 2013 and an ex-dividend date of 2 December 2013 for the ASX and 4 December 2013 for the NZSX.

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.

In 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 continue to implement its foreign currency hedging policy as the company grows.

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 dividend payment for the first half at 5.4 cps equates to 66% of net profit after tax.

[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 2012 and 2013 in New Zealand dollars:

Income Statement	**Six months ended 30 September**	
	2012 NZ$000	**2013 NZ$000**
Operating revenue	**266,940**	**303,917**
Cost of sales	121,982	126,328
Gross profit	144,958	177,589
Gross margin	**54.3%**	**58.4%**
Other income	1,200	1,200
Selling, general and administrative expenses	76,971	86,032
Research and development expenses	21,335	25,818
Total operating expenses	98,306	111,850
Operating profit before financing costs	**47,852**	**66,939**
Operating margin	**17.9%**	**22.0%**
Net financing expense	649	4,346
Profit before tax	**47,203**	**62,593**
Tax expense	13,951	18,101
Profit after tax	**33,252**	**44,492**

Foreign Exchange Effects

The company is exposed to movements in foreign exchange rates, with approximately 50% of operating revenue generated in US dollars, 23% in Euros, 7% in Australian dollars, 5% in Japanese yen, 4% in British pounds, 4% in Canadian dollars, 2% in New Zealand dollars and 5% 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. The company's cost base is also becoming more diverse, as manufacturing output from Mexico has increased to 26% 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$31.1 million (2012: NZ$21.2 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 2012 and 2013 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**	
	2012	**2013**	**2012**	**2013**
USD	0.7996	0.8097	0.6818	0.6299
EUR	0.6313	0.6155	0.5118	0.5057

The effect of balance sheet translations of offshore assets and liabilities for the six months ended 30 September 2013 resulted in an increase in operating revenue of NZ$1.1 million (2012: a reduction of NZ$1.2 million) and an increase in operating profit of NZ$0.9 million (2012: a reduction of NZ$1.4 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 financial performance without the impacts of spot foreign currency fluctuations and hedging results and has been prepared on a consistent basis each half year.

Constant Currency Income Statements (Unaudited)	**Six months ended 30 Sep 2011 NZ$000**	**Six months ended 30 Sep 2012 NZ$000**	**Variation 2011 to 2012 %**	**Six months ended 30 Sep 2013 NZ$000**	**Variation 2012 to 2013 %**
Operating revenue	***219,262***	***236,656***	***+8***	***265,833***	***+12***
Cost of sales	*117,623*	*120,071*	*+2*	*125,385*	*+4*
Gross profit	*101,639*	*116,585*	*+15*	*140,448*	*+20*
Other income	*1,200*	*1,200*	-	*1,200*	-
Selling, general and administrative expenses	*68,918*	*74,301*	*+8*	*84,058*	*+13*
Research & development expenses	*19,850*	*21,335*	*+7*	*25,818*	*+21*
Total operating expenses	*88,768*	*95,636*	*+8*	*109,876*	*+15*
Operating profit	***14,071***	***22,149***	***+57***	***31,772***	***+43***
Financing expenses (net)	*2,336*	*1,455*	*-38*	*3,774*	*+159*
Profit before tax	***11,735***	***20,694***	***+76***	***27,998***	***+35***

The significant exchange rates used in the constant currency analysis, being the budget exchange rates for the year ending 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.

In constant currency, operating revenue increased by *12%* and operating profit increased by *43%* for the half year, due to positive contributions from Mexico manufacturing, operating leverage generated from disciplined expense control, other logistics benefits and from direct sales operations established over the past few years.

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**		
	2011	**2012**	**2013**
	NZ$000	**NZ$000**	**NZ$000**
Profit before tax (constant currency)	***11,735***	***20,694***	***27,998***
Spot exchange rate effect	6,759	5,866	3,164
Foreign exchange hedging result	22,150	21,212	31,084
Balance sheet revaluation	(295)	(569)	347
Profit before tax (as reported)	**40,349**	**47,203**	**62,593**

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 2013 with the corresponding period for the prior year:

- the movement in average daily spot exchange rates had an adverse impact of NZ$2.7m; and
- the benefit from the company's foreign exchange hedging activities was higher by NZ$9.9m.

Overall, the net favourable effect of movements in exchange rates and the hedging programme was NZ$8.1m, including the impact of balance sheet revaluations.

Operating revenue

Operating revenue increased by 14% to NZ$303.9 million for the six months ended 30 September 2013 from NZ$266.9 million for the six months ended 30 September 2012, 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 2012 and 2013:

Operating Revenue By Product Group	**Six months ended 30 September**	
	2012	**2013**
	NZ$000	**NZ$000**
RAC products	142,938	164,090
OSA products	114,217	131,208
Core products sub-total	257,155	295,298
Distributed and other products	9,785	8,619
Total	**266,940**	**303,917**

RAC product group operating revenue increased 15% to NZ$164.1 million and *14%* 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 *29%* for the six months ended 30 September 2013 and in total represented 40% 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 15% to NZ$131.2 million, and *13%* in constant currency, compared with the corresponding period last year.

Constant currency mask revenue grew *19%* for the six months, as the Eson and Pilairo masks continued to gain market share and with the introduction of the new Simplus full-face mask in selected markets. Total flow generator revenue growth improved to *4%* in constant currency for the first half. Excluding the legacy SleepStyle flow generator range, first half constant currency flow generator revenue growth was *14%*.

Sales of RAC products represented 54% of operating revenue for the six months ended 30 September 2012 and 2013. Sales of OSA products represented 43% of operating revenue for the six months ended 30 September 2012 and 2013. Sales of consumable and accessory products for core products accounted for approximately 76% and 78% of operating revenue for the six months ended 30 September 2012 and 2013 respectively.

The following table sets out operating revenue for each of our regional markets for the six months ended 30 September 2012 and 2013:

Operating Revenue By Region	**Six months ended 30 September**	
	2012 NZ$000	**2013 NZ$000**
North America	116,644	131,100
Europe	84,629	96,455
Asia Pacific	52,055	59,628
Other	13,612	16,734
Total	**266,940**	**303,917**

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

Expenses

A number of new products have been released this year, with more to follow during the remainder of the 2014 financial year.

Research and development (R&D) activities are primarily conducted in New Zealand. Research and development expenses were NZ$25.8 million for the six months ended 30 September 2013 compared to NZ$21.3 million in the prior corresponding period last year, an increase of 21%.

The increase was primarily 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. Costs related to the new building on the Auckland site, which will accommodate future increases in R&D activities, also contributed to R&D expense growth.

R&D expenses represented 8.5% of operating revenue for the six months ended 30 September 2013.

R&D expenses are expected to continue to increase broadly in line with constant currency revenue growth.

Selling, general and administrative (SG&A) expenses increased by 12% to NZ$86.0 million for the six months ended 30 September 2013 compared to NZ$77.0 million in the corresponding period last year. This increase was primarily attributable to an increase in global personnel to support our growing international sales and marketing activities.

In constant currency SG&A expenses increased by *13%* for the six months ended 30 September 2013.

Gross Profit

Gross profit increased to NZ$177.6 million, or 58.4% of operating revenue, for the six months ended 30 September 2013 from NZ$145.0 million, or 54.3% of operating revenue, in the prior corresponding period.

Constant currency gross margin percentage increased by *357 bps* 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.

Operating profit

Operating profit increased by 40% to NZ$66.9 million for the six months ended 30 September 2013 from NZ$47.9 million for the prior corresponding period.

In constant currency, operating profit increased by *43%.*

Balance Sheet

Gearing[2] at 30 September 2013 was 29.2%, higher than the 27.9% gearing at 31 March 2013, however lower than the 31.5% at 30 September 2012. The increase in gearing since 31 March 2013 is a result of slightly higher net debt level at 30 September 2013 post the payment of the final dividend in July 2013. Gearing is expected to reduce by the end of the financial year and track towards our target range over coming years.

The gearing figure remains above the target range of 5% to 15%. As previously noted the directors intend for the company to progressively move it's gearing into the target range, subject to exchange rate movements, profitability and dividend payout.

Funding

The company had total available committed debt funding of NZ$192 million as at 30 September 2013, of which approximately NZ$61 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 2013, the weighted average maturity of borrowing facilities is 2.7 years.

Debt maturity

The average maturity of the debt of NZ$126 million was 2.1 years and the currency split was 69% New Zealand dollars; 14% US dollars; 12% Euros; 3% Australian dollars and 2% Canadian dollars.

Interest rates

Approximately 67% of all borrowings were at fixed interest rates with an average duration of 5.3 years and an average rate of 5.5%. 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.

Interest coverage for the period was 15 times and the group remains in a sound financial position.

Cashflow

Cashflow from operations was NZ$33.4 million compared with NZ$32.3 million for the six months ended 30 September 2012. Reported growth in operating cashflow was impacted by the NZ$2.0 million of interest capitalised to the Paykel building project in the prior period and the timing of tax payments.

Capital expenditure for the period was NZ$18.4 million compared with NZ$40.9 million in the prior half year. The capital expenditure related predominantly to new product tooling and manufacturing equipment, whereas in the prior period NZ$27.4 million related to the Paykel building project.

Dividend

The directors have approved an interim dividend for the financial year ending 31 March 2014 of NZ5.4 cents per ordinary share (2013: NZ5.4 cents), and will be fully imputed at a rate of 28%.

The interim dividend will be paid on 19 December 2013, with a record date of 6 December 2013 and an ex-dividend date of 2 December 2013 for the ASX and 4 December 2013 for the NZSX.

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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).

Dividend reinvestment plan

The dividend reinvestment plan is being offered for this dividend payment. A 3% discount will be applied to shares issued under the plan.

Financial highlights

Unaudited	Six months ended 30 September	
	2012	2013
Pre-tax return on average shareholders' equity (annualised)	26.9%	33.6%
Earnings per share (cents)	6.2	8.2
Dividends (interim proposed) per share (cents)	5.4	5.4
Gearing	31.5%	29.2%
Interest cover (times)	18.3	15.4

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		
	2014	2015	2016	2017
USD % cover of expected exposure	93%	47%	9%	0%
USD average rate of cover	0.77	0.78	0.76	-
USD Close-out value to Income Statement (NZD000)[3]	$4,947	$0	$0	$0
EUR % cover of expected exposure	88%	63%	24%	4%
EUR average rate of cover	0.47	0.47	0.51	0.36

[3] Foreign currency hedging gains to be released to the Income Statement from the Cash Flow Reserve - Realised from previously monetised USD forward exchange contracts.