ASX / MEDIA RELEASE

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COCHLEAR ANNOUNCES RECORD FIRST HALF REVENUE AND UNIT SALES

- Record half year cochlear implant unit sales of 13,672 units, up 27%
- Total revenue up 1% to $391.7 million, with sales up 9% in constant currency
- Net profit after tax of $77.7 million, up from a $20.4 million loss
- Interim dividend of $1.25 per share (40% franked), up 4%

	H1 F13 $ million	H1 F12 $ million	Change	
Cochlear implant sales	**329.7**	**311.5**	↑	**6%**
Bone Anchored Solutions (Baha) sales	**38.5**	**39.7**	↓	**3%**
FX Contracts Gains	**23.5**	**36.3**	↓	**35%**
Total revenue	**391.7**	**387.5**	↑	**1%**
EBIT	**108.3**	**108.7***		**Flat**
Net Profit After Tax	**77.7**	**80.1***	↓	**3%**
Product Recall Costs, net of tax	**-**	**100.5**		
Net profit/(loss) attributable to members	**77.7**	**(20.4)**	↑	
Final dividend (payable 12 March 2013)	**125c**	**120c**	↑	**4%**
Franking	**40%**	**60%**		
Conduit Foreign Income	**30%**	**40%**		

*For H1 F12 these items exclude product recall expenses of $138.8 million before tax and $100.5 million after tax.

Commentary by Dr Chris Roberts, Cochlear CEO

According to Dr Roberts: “This is a pleasing result. Cochlear implant unit sales grew 27% on the previous corresponding period and 11% on the second half of fiscal 2012, confirming our market leadership position. Importantly, we maintained our EBIT margin at 28% despite challenges such as the ongoing appreciation of the Australian dollar.

“We maintained our commitment to research and development and remain excited about our product pipeline.

“Yet again, a record number of recipients received one of our implants. Our mission remains helping people hear and be heard, empowering them to connect with others and lead a full life.”

HALF YEAR RESULTS REVIEW

Total Revenue

Total revenues for H1 F13 were $391.7 million, up 1% on H1 F12. Sales, excluding FX contracts, were $368.2 million, up 5%. In constant currency (that is restating H1 F12 at H1 F13 FX rates), H1 F13 sales were up 9%.

Cochlear implant sales, which included accessories and sound processor upgrades, were $329.7 million, up 6% in reported currency and up 10% in constant currency.

Cochlear implant unit sales were 13,672, up 27%.

Bone Anchored Solutions sales of $38.5 million were down 3% in reported currency and unchanged in constant currency.

Regional performance:

- Americas sales of $150.4 million grew 1% in constant currency (up 1% in reported currency).
- EMEA (Europe, Middle East and Africa) sales of $140.1 million were up 7% in constant currency (down 2% in reported currency).
- Asia Pacific sales of $77.7 million were up 33% in constant currency (30% in reported currency).

Gross Margin

Cost of goods sold (COGS) of $104.8 million gave a COGS/sales margin of 28.5% compared with 28.8% for the previous financial year. This was despite the appreciating AUD, for example, the AUD appreciated 9% against the Euro.

Expenses

Selling, General and Administration expenses of $118.9 million were down 2% in reported currency and unchanged in constant currency. No addition has been made to the recall provision in H1 F13 and the CI500 implant failure rate continues to fall.

Investment in research and development of $59.9 million was up 3% in reported currency and 5% in constant currency.

EBIT to Revenue was 27.6%; the same as for F12 despite FX contracts down $12.8 million for the half.

Working Capital and Debt

Trade receivables of $171.4 million grew 18% from June 2012 and debtors' days were 81 days (June 2012, 73). Inventory grew 14% to $115.7 million over the June 2012 position.

Working Capital to sales of 26% compares with our longer term average of 25%.

Net debt was $72.5 million at 31st December 2012. At 31st December 2012, the unused portion of the facility was $60.3 million (June 2012, $128.0 million).

Dividends

An interim partially franked dividend of $1.25 (franked to 40%) per share was declared and will be paid on 12th March 2013 based on a record date of 27th February 2013.

Operational Review

New products continued to be introduced to markets as regulatory and reimbursement approvals were obtained as needed.

The Nucleus® CI422 implant with Slim Straight Electrode was released in Korea, Japan and India. Some clinics around the world now prefer this implant over other alternatives, confirming our strategy of providing choice through a portfolio of electrodes.

The Nucleus® CP802 Sound Processor was launched in selected countries in Asia.

For our Baha® systems, there was a controlled market release of a new hydroxyapatite abutment (BA400), materially reducing surgery times.

Internally, processes necessary to support the growing number of new customers, clinics and installed base continued to be a focus and further enhancements were made. Our Oracle ERP systems are being upgraded and the new release, R12 version, will go live in H2 F13.

Cochlear acquired intellectual property, fixed assets and inventory from Otologics LLC in Boulder, Colorado. This asset acquisition further augments Cochlear's acoustic implant capabilities, including the Codacs device.

Outlook

The building blocks underpinning Cochlear's long-term growth continue to strengthen. These include excellent technology partnerships; the developing Australian Hearing Hub at Macquarie University; a growing global footprint; sound financials; and a leading market share. These strengths, along with our ongoing investments in R&D and the clinical trends driving implant demand for people of all ages, give Cochlear great confidence in the Company's long-term, sustainable growth prospects.

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Non-IFRS financial measures

Given the significance of the product recall and fx movements the directors believe the presentation of non-IFRS financial measures is useful for the users of this document as they reflect the underlying financial performance of the business.

The non-IFRS financial measures included in this document have been calculated on the following basis:

- Excluding recall costs: IFRS measures adjusted for the costs of the product recall
- Constant currency: restatement of IFRS financial measures in comparative years using F13 FX rates
- Free cash flow: IFRS cash flow from operating and investing activities excluding interest and tax paid related to non-operating activities.

The above non-IFRS financial measures have not been subject to review or audit. However, KPMG have separately undertaken a set of procedures to agree the non-IFRS financial measures disclosed to the books and records of the consolidated entity.