**ASX / MEDIA RELEASE**

**7 February 2012**

**COCHLEAR POSTS RECORD FIRST-HALF REVENUE; NEW IMPLANT RECIPIENTS AT ALL-TIME HIGH; RECALL COSTS FULLY EXPENSED**

- Total revenue up 3% to $387.5 million, with sales up 5% in constant currency
- Net Loss of $20.4 million after $100.5 million after-tax recall costs fully expensed
- Final dividend of $1.20 per share (60% franked), up 14% on the prior year
- Cochlear implant unit sales of 10,724 units: while this is down 9%, it excludes over 2,300 implant units shipped post recall and not recognised as revenue

| | H1 F12 $ million | H1 F11 $ million | Change | |
|---|---|---|---|---|
| Cochlear implant sales | 311.5 | 309.6 | ↑ | 1% |
| Bone Anchored Solutions (Baha) sales | 39.7 | 45.6 | ↓ | 13% |
| FX Contracts Gains | 36.3 | 21.9 | ↑ | 66% |
| Total revenue | 387.5 | 377.1 | ↑ | 3% |
| EBIT * | 108.7 | 121.1 | ↓ | 10% |
| Net Profit After Tax * | 80.1 | 87.2 | ↓ | 8% |
| Product Recall Costs, net of tax | 100.5 | - | | |
| Net (loss)/profit attributable to members | (20.4) | 87.2 | ↓ | 123% |
| Final dividend (payable 13/03/2012) | 120c | 105c | ↑ | 14% |
| Franking | 60% | 60% | | |
| Conduit Foreign Income | 40% | 40% | | |

*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**

Dr Roberts said, "It was a challenging first half, particularly given we recalled one of the components of our cochlear implant system. The recipients remain our top priority and this guided our action. Across the globe, the Cochlear team executed well in difficult circumstances, from manufacturing ramp-up and supply chain management, through to clinical support in the field.

"While the $20 million loss was disappointing, the recall costs have been quarantined and importantly, a record number of recipients received a cochlear implant in the first half.

"Providing the gift of hearing remains our mission."

## RESULTS REVIEW

### Total Revenue

Total revenues were $387.5 million, up 3%. Sales, excluding FX contracts, were $351.2 million, down 1%. In constant currency (that is restating F11 at F12 FX rates), H1 F12 sales were up 5% compared to H1 F11.

Cochlear implant (CI) sales, which included accessories and sound processor upgrades, were $311.5 million, up 1% in reported currency and up 7% in constant currency.

Cochlear implant unit sales were 10,724. While this was down 9% on H1 F11, it excludes over 2,300 units shipped post recall, but not recognised as revenue.

These were not recognised as revenue because they were offset against credit notes issued for return of unimplanted CI500 components as part of the recall.

Due to limited supply, these replacement units were essentially only shipped for scheduled surgeries, leading to clinic destocking. Our estimates are that the number of recipients receiving Nucleus cochlear implants for the half was at an all-time high.

Baha sales of $39.7 million were down 13% in reported currency and down 7% in constant currency. While there has been increased competition in the bone conduction segment, the recent release of the Nucleus Baha 3 Power has gone well.

Operationally, all regions grew:

- Americas sales of $149.0 million grew 1% in constant currency (down 8% in reported currency).
- EMEA (Europe, Middle East and Africa) sales of $142.5 million were up 8% in constant currency (up 4% in reported currency).
- Asia Pacific sales of $59.7 million were up 11% in constant currency (6% in reported currency).

**Expenses**

Selling, General and Admin expenses of $120.8 million were up 7% in reported currency and up 12% in constant currency and R&D was up 13% in reported currency and 14% in constant currency. The increases reflected targeted investments in marketing initiatives and further development work in R&D.

**Recall Costs**

On the 11th September 2011, the Company initiated a world-wide voluntary recall of its unimplanted Nucleus CI500 cochlear implant series.

An amount of $138.8 million before tax has been recognised as a charge to cost of sales, representing management's best estimates of probable costs based on current available data. This takes into account inventory write downs, property plant and equipment, intangible asset impairments and warranty and other costs.

**Cash Management**

Cash from operating activities of $67.4 million was down 26% on H1 F11.

Free cash flow was $70.8 million which excludes recall cash costs of $12.1 million. Free cash flow in H1 F11 was $67.3 million.

Trade receivables of $148.3 million fell 11% from June 2011 and debtors days were 78 days (June 2011, 74). Inventory fell 13% to $92.5 million over the June 2011 position.

Total net debt was $8.5 million. This equates to an operating net gearing ratio of 2% defined as (net debt/net debt plus equity). Banking facilities were increased by $50 million to $200 million. At 31st December 2011, the unused portion of the facility was $107.2 million (June 2011, $79.5 million).

**Dividends**

An interim partially franked dividend of $1.20 (franked to 60%) per share was declared and will be paid on 13th March 2012 based on a record date of 28th February 2012. The unfranked portion of the dividend has been declared Conduit Foreign Income. This is beneficial to overseas shareholders as no withholding tax applies to the dividend.

**Post Recall Operational Review**

Since the voluntary recall on 11th September 2011, the Company has continued to communicate with recipients, healthcare professionals and the market on information and observations regarding the investigation into the recall.

Our recipients remain our top priority and the Company has responded in an operationally disciplined and controlled manner to support our customers.

On the 7th February 2012 the Company provided a further update to healthcare professionals on the recall. This update in the form of a clinic letter has been lodged with the ASX and is available on the website at www.cochlear.com.

As at 31st January, the overall proportion of Nucleus CI500 series implants reported as failed was 2.4% of registered implants globally. The number of newly reported implant failures each month has decreased every month since October 2011.

After the recall, manufacturing switched production to CI24RE and CI422 (slim straight electrode) implants and was able to meet scheduled surgeries. These implants are fully compatible with the Nucleus 5 externals. By December, the weekly implant production levels were ahead of pre-recall levels. This agility and flexibility was possible following the investments and improvements Cochlear initiated in the manufacturing and supply chain areas over the last five years.

## Outlook

With the ongoing manufacturing ramp-up we do not anticipate we will be supply constrained in the second half of the year, as we were in the December quarter.

The fundamentals of the business remain positive and we remain committed to investments in the drivers supporting long term growth. These include investments in strengthening our geographical footprint; our online strategy; the Macquarie University Hearing Hub; and ongoing technologic innovation.

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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 F12 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.