

Cochlear Limited

Results for the full year ended 30 June 2012 (F12)



Chris Roberts, CEO

Neville Mitchell, CFO

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Cochlear Overview

- Cochlear Limited (ASX:COH) is the global leader in implantable devices (e.g. cochlear implants) for the hearing impaired
- ~ 2,500 employees
- Direct operations in 20+ countries, and products sold in 100+ countries
- Fundamentals of the business remain positive
 - Large unmet clinical need
 - Excellent clinical outcomes
 - Established reimbursement
 - Strong competitive position
 - Opportunities for sustainable growth



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F12: A Review

- Unimplanted CI500 series implants recalled Sep 2011 with significant financial expense (\$138.8 million pre-tax provision)

However

- Implant component of Nucleus cochlear implant system immediately switched to functionally equivalent CI24RE implant
- Market share loss minimal
- Concomitant investment in growth initiatives
- Positioned for growth in F13 and beyond

Cochlear Implant



Sound Processor



Remote Assistant



Programming Software.
Custom Sound™



Cochlear Implant



Sound Processor



Remote Assistant



Programming Software.
Custom Sound™



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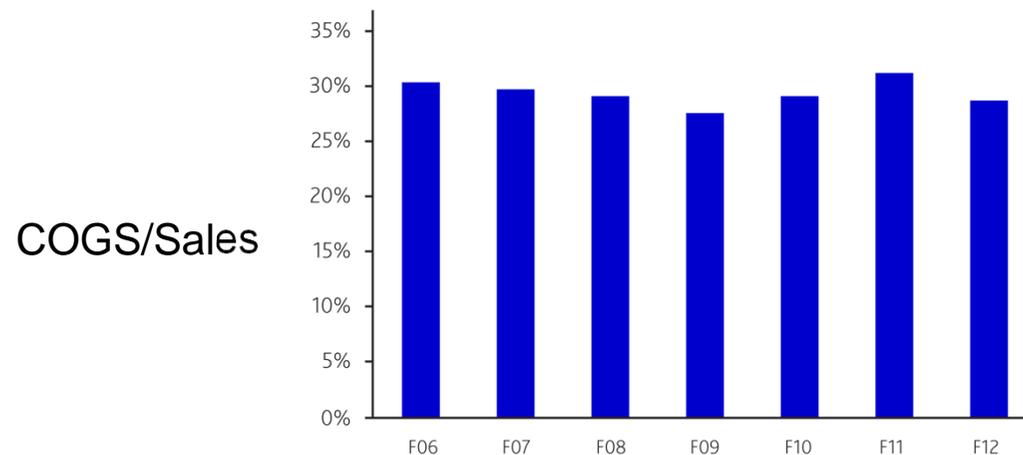
CI500 Series Recall – Current Status

1. As at 31st July 2012, the proportion of registered CI500 implants that had failed was 4.2%
2. Newly reported failures reducing, e.g. July failures approximately one third of peak month (October 2011).
3. Implant failure mode remains consistent: loss of hermeticity causing malfunction of specific electronic components (typically 1 of 4 diodes) such that device shuts down.
4. Have been notified by a number of regulatory authorities including FDA and European Competent Authorities that all necessary actions associated with the return of unimplanted CI500 series devices have been completed.



Nucleus CI24RE Implant

- Switching to CI24RE implant has been successful because
 - No compromise in hearing performance (functionally equivalent)
 - Excellent reputation and reliability of the CI24RE
 - Nucleus 5 externals set new benchmarks
 - Manufacturing ramp up and supply chain management well executed
 - Extensive field support

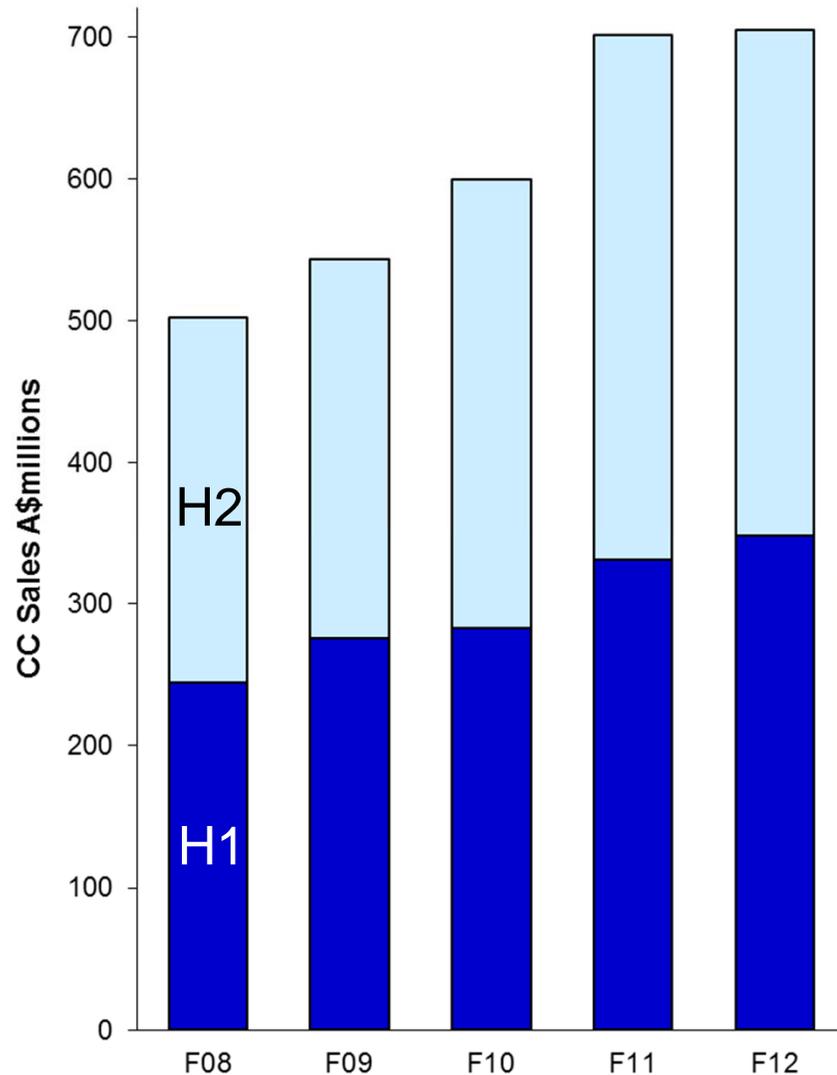


Cochlear: Financial Results for F12

	F12 \$m	F11 \$m	% Change
Cochlear Implant Sales	626.7	648.0	↓3 %
Bone Anchored Solutions (Baha) Sales	77.9	84.2	↓7 %
FX Contracts Gains	74.4	77.4	↓4 %
Total Revenue	779.0	809.6	↓4 %
EBIT *	215.3	242.7	↓11 %
Net profit after tax *	158.1	180.1	↓12 %
Product Recall Costs, net of tax	101.3	-	
Net profit attributable to members	56.8	180.1	↓68 %

* These items exclude product recall expenses of \$138.8 million before tax

Cochlear: Sales in Constant Currency (CC)



- Total revenues of \$779.0 million, down 4%
- Sales up 1% in constant currency (prior periods restated at F12 rates)



Nucleus CI422
Slim Straight Electrode



Baha 3 Power System

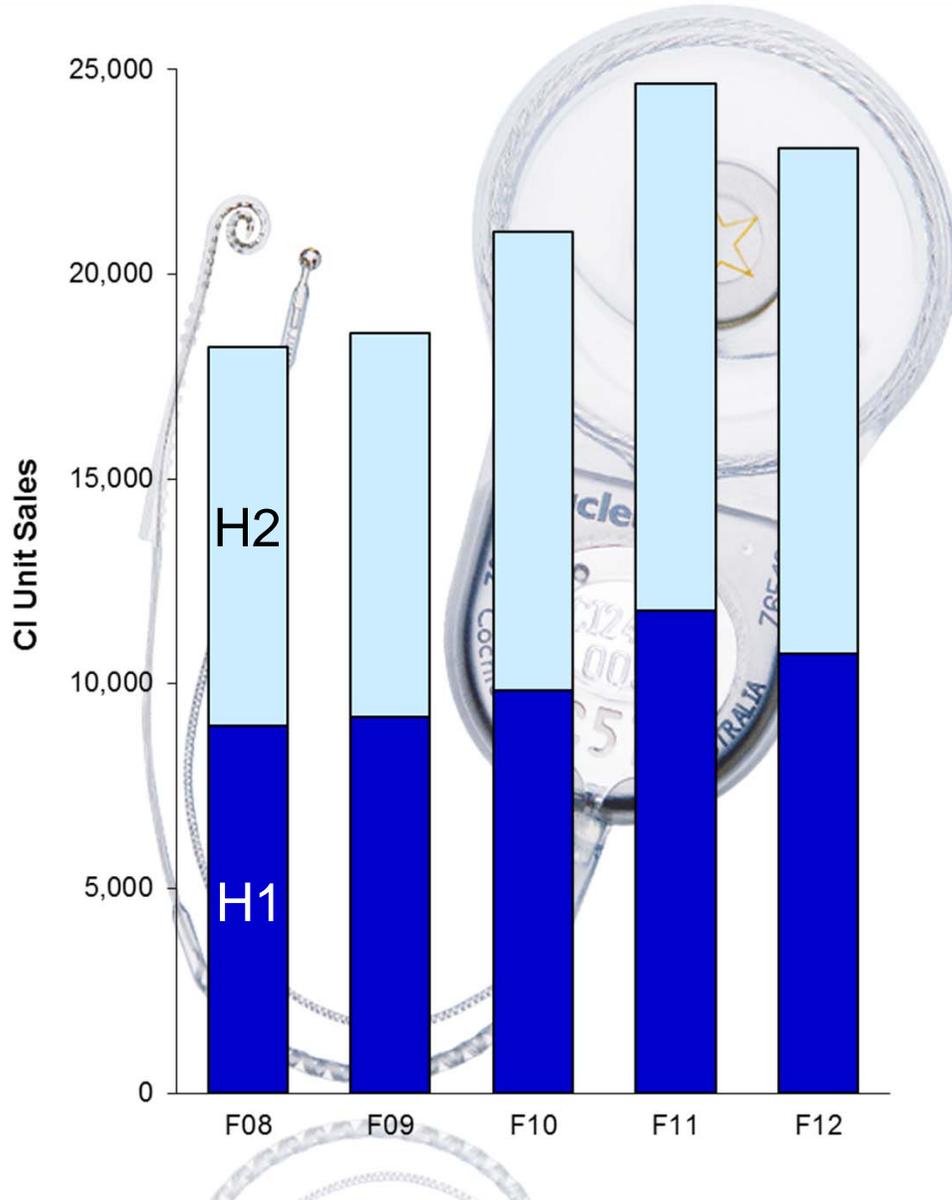


Nucleus 5 for
N24 recipients

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Cochlear: Cochlear Implant (CI) Unit Sales

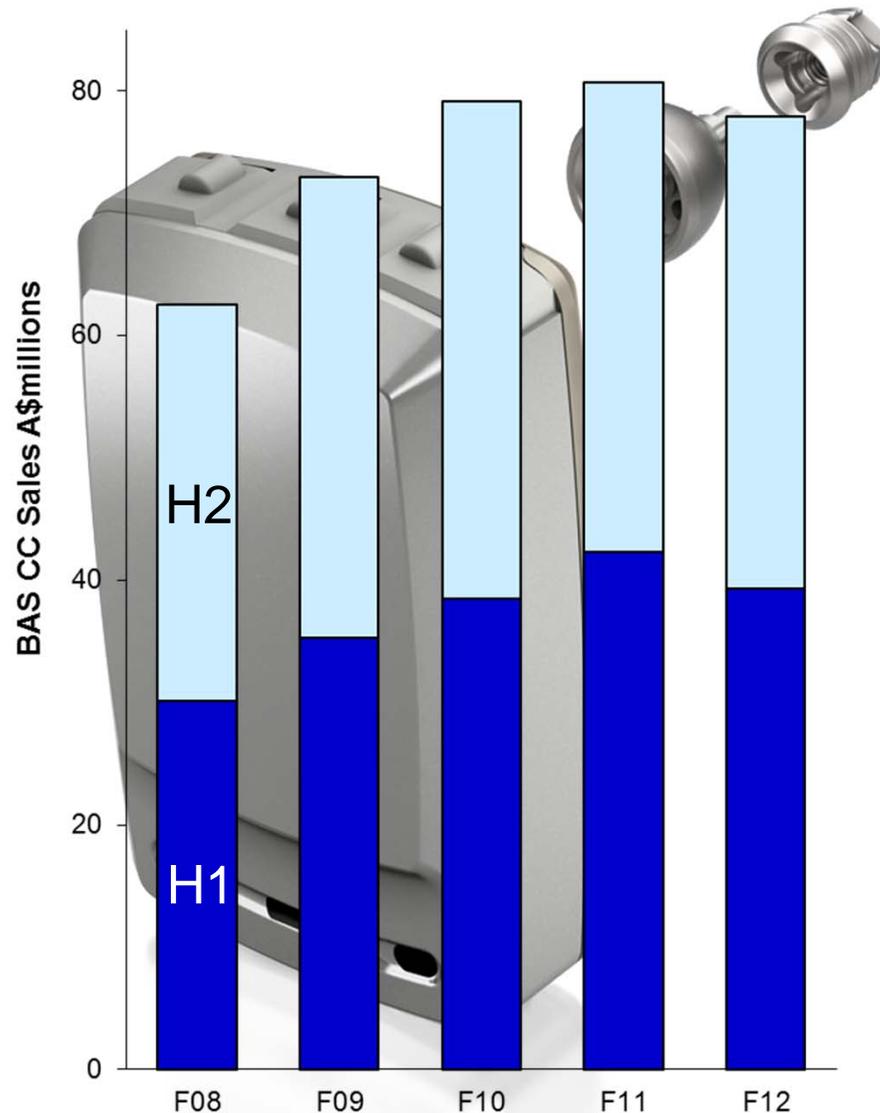


- F12 CI unit sales down 6% to 23,087 units
- No donation or tender CI unit sales in Mainland China for F12 (unrelated to recall as CI500 was never released in Mainland China)
- H2 CI unit sales up 15% on H1

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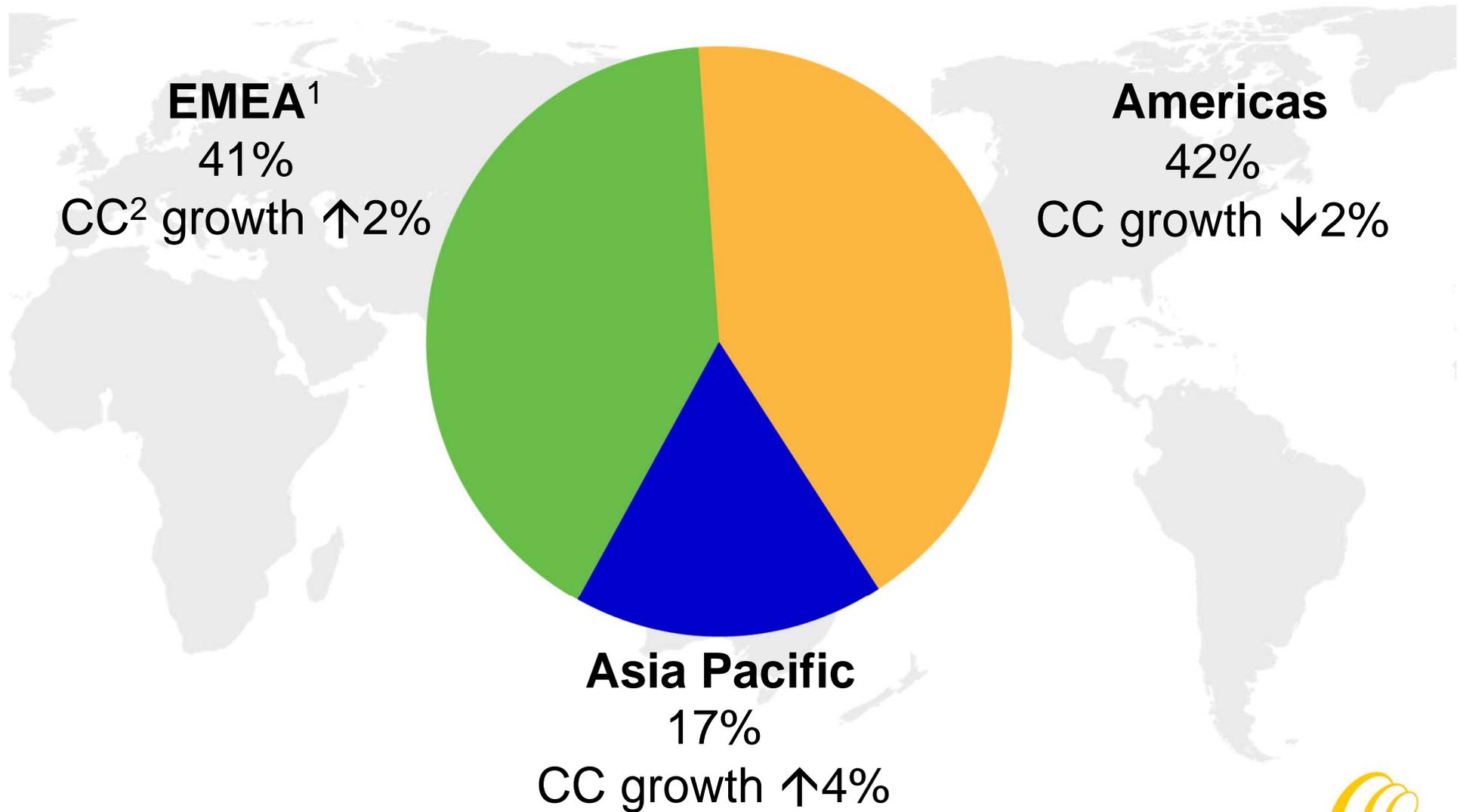


Cochlear: Sales of Bone Anchored Solutions (BAS) in Constant Currency



- BAS sales (including Baha implants) \$77.9 million for F12, down 4% in constant currency
- Completed global launch of Baha 3 Power
- Increased competitive environment
- New product releases due in F13

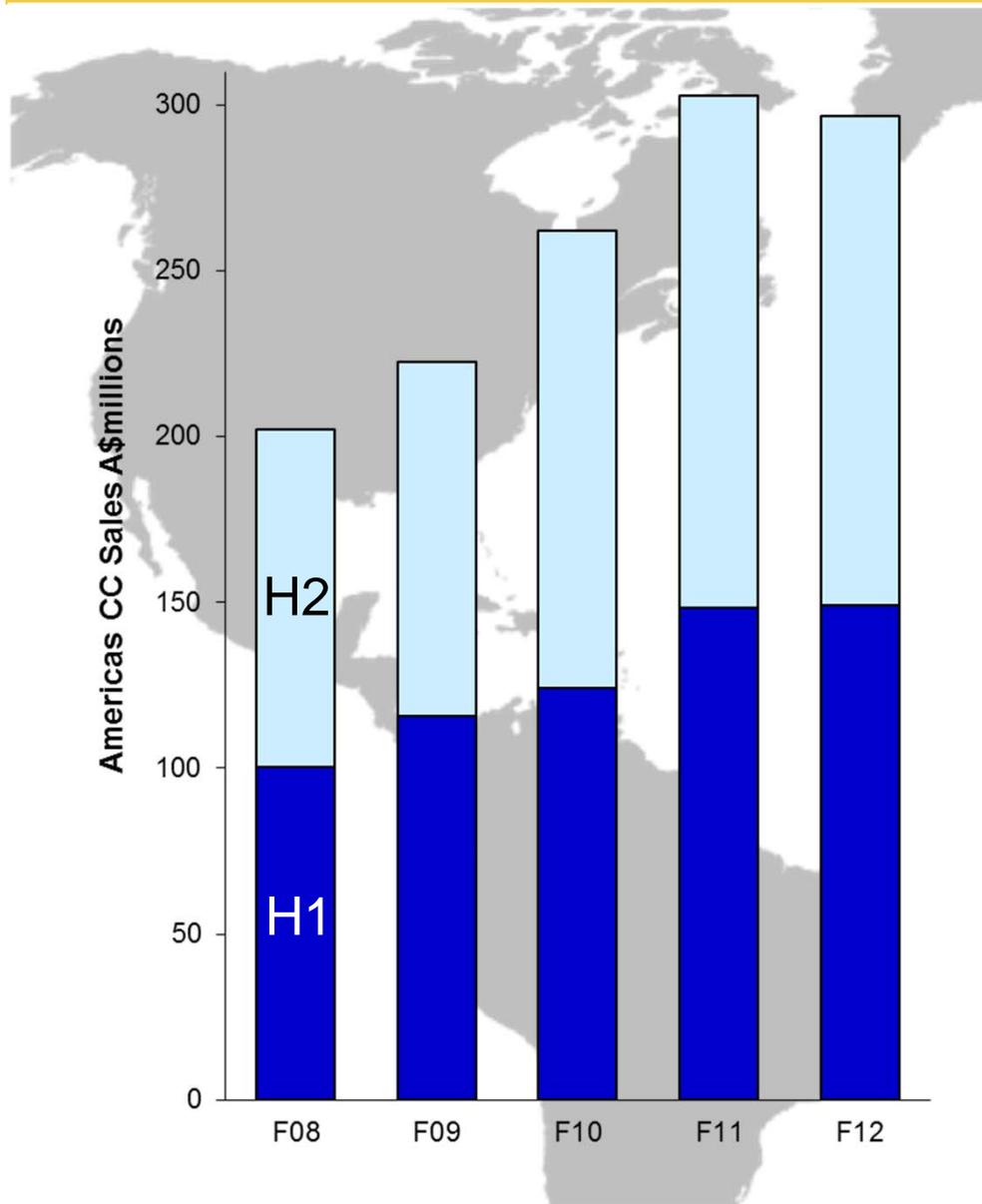
Cochlear: F12 Regional Split of Sales



¹ EMEA is Europe, Middle East and Africa

² CC is constant currency

Cochlear Americas: Sales in Constant Currency



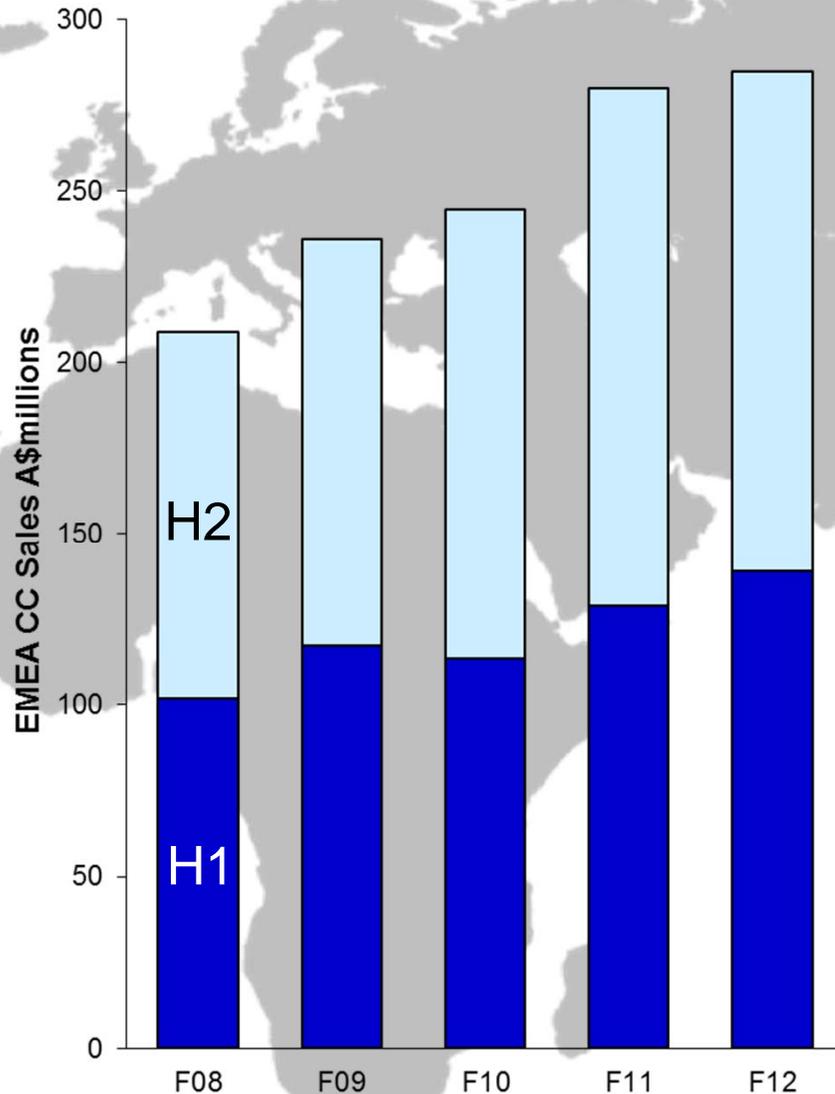
- Americas sales of \$297.0 million, down 2% in constant currency
- BAS sales down 8% in constant currency
- Nucleus CI422 (Slim Straight) electrode implant launched June 2012
- Distribution for Latin and Central America from Panama operational

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Cochlear EMEA: Sales in Constant Currency

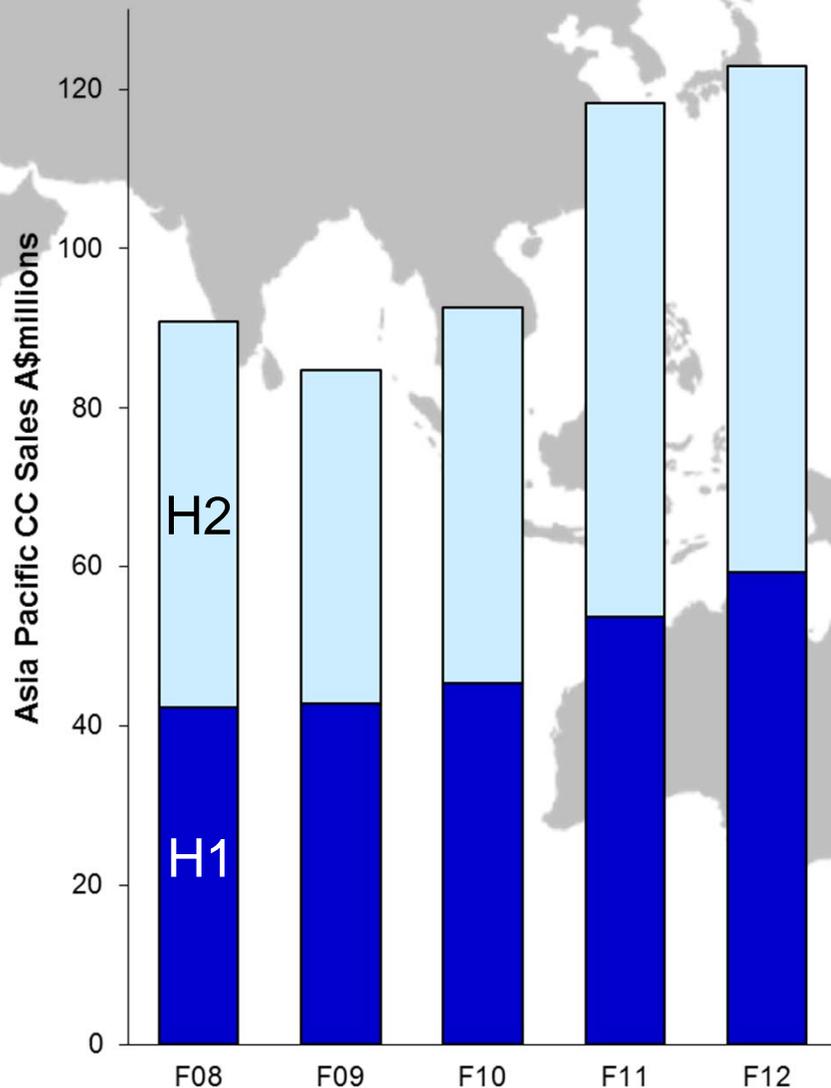


- EMEA (Europe, Middle East and Africa) sales of \$284.7 million, up 2% in constant currency
- Portfolio effect of product and geography
- Codacs clinical trial expanded with excellent clinical outcomes

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Cochlear Asia Pac: Sales in Constant Currency

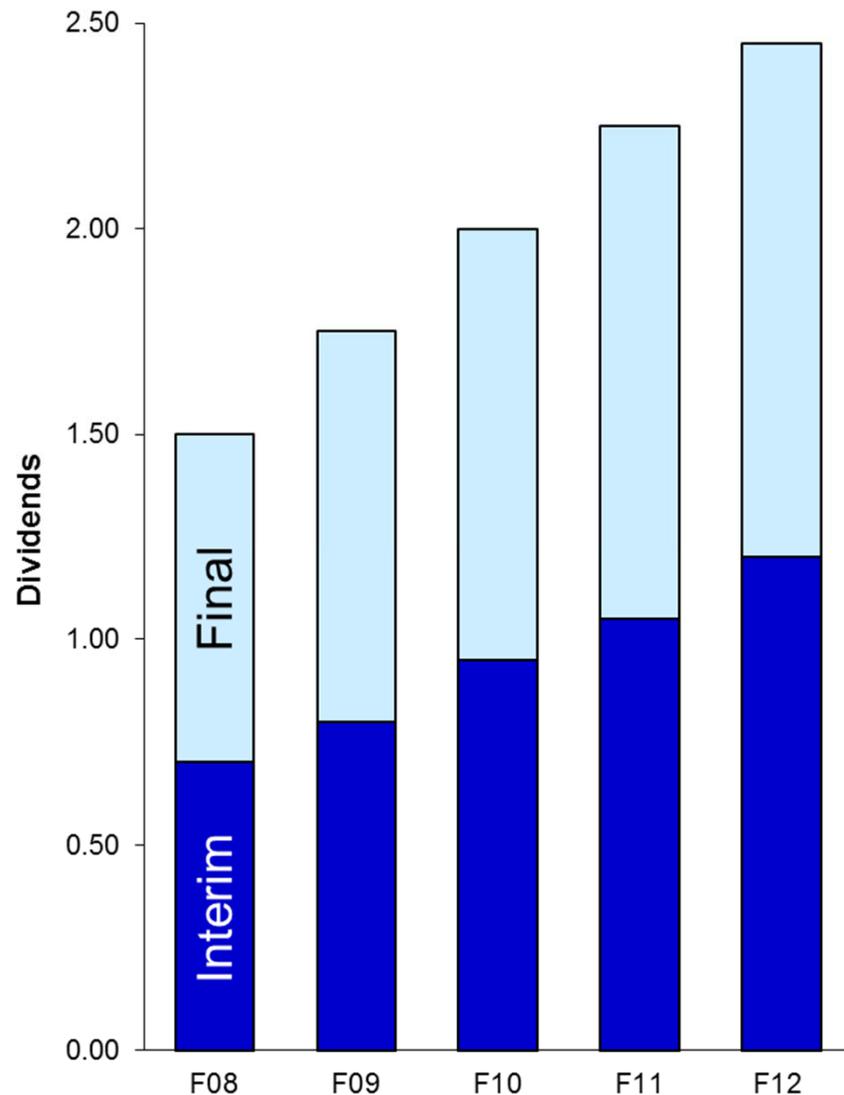


- Asia Pacific sales of \$122.9 million, up 4% in constant currency
- Nucleus 5 externals launched in China and India
- CI422 (Slim Straight) implant launched in Australia, Korea and SE Asia in H2

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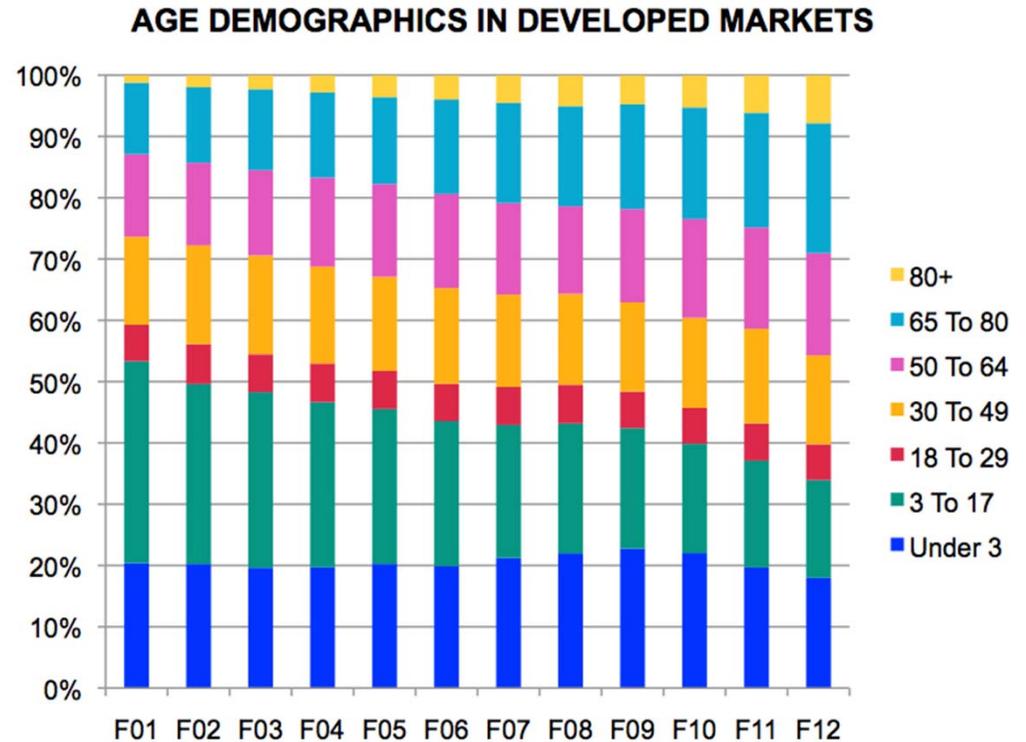
Cochlear: Free Cash Flow and Dividends



- Free cash flow (after recall costs) of \$142.7 million
- \$2.9 million net cash at 30 June 2012
- Final dividend \$1.25 per share (35% franked, 25% CFI), up 4%
- Full year dividend (interim and final) \$2.45 up 9%

Cochlear – Clinical Trends

- Bilateral implantation continues growing (developed economies)
- In developed economies, ~30% of all new recipients are aged 65+
- Cochlear implantation increasingly accepted and reimbursed for children in emerging economies, e.g. in Asia Pacific, over two thirds of cochlear implants are government reimbursed

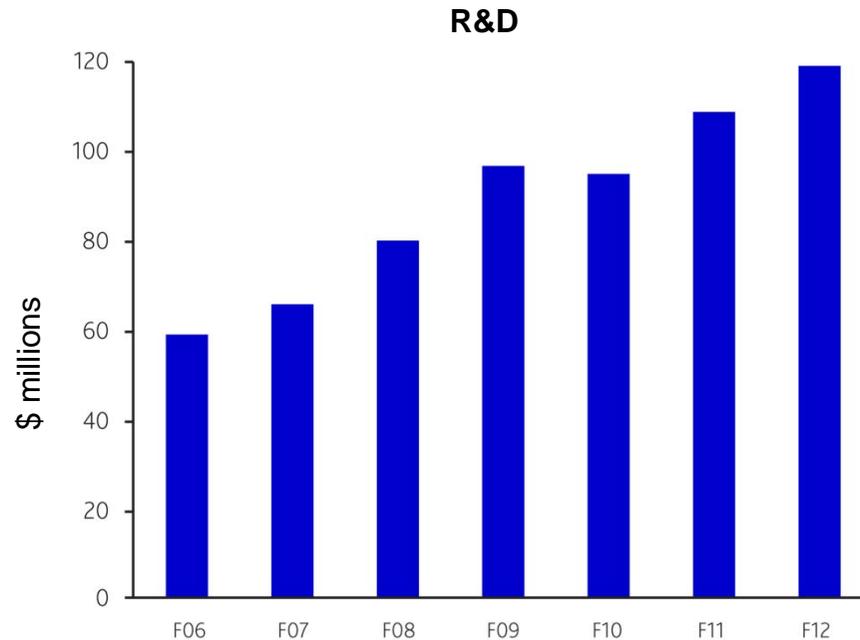


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Investment for Maintaining Market Leadership

- Ongoing investment in R&D
- Technology partnerships, e.g. GN Resound, Otologics
- Significant investment in online (digital) strategy
- Continued investments in awareness, e.g. hearing health seminars
- Development of hearing precinct at Macquarie University



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Cochlear F12 Overview

- F12 was a challenging year
- Recall resulted in a \$138.8 million expense in H1 F12
- Ramp up of CI24RE well executed with minimal market share loss
- Well positioned to take advantage of global clinical trends
- Building blocks in place for long term sustainable growth



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F12 Financial Results



Neville Mitchell, CFO

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Cochlear F12 Financial Performance

	F12 \$m	F11 \$m	% Change
Total Revenue	779.0	809.6	4↓ %
EBIT *	215.3	242.7	11↓ %
Net Profit after Tax *	158.1	180.1	12↓ %
Product Recall Costs, net of tax	101.3	-	
Net profit attributable to members	56.8	180.1	68↓ %
Dividends			
Final Dividend	125c	120c	4↑ %
Record Date 30 August 2012			
Payable Date 20 September 2012			
Franking %	35%	70%	
Conduit Foreign Income %	25%	30%	

*These items exclude product recall expenses of \$138.8 million before tax

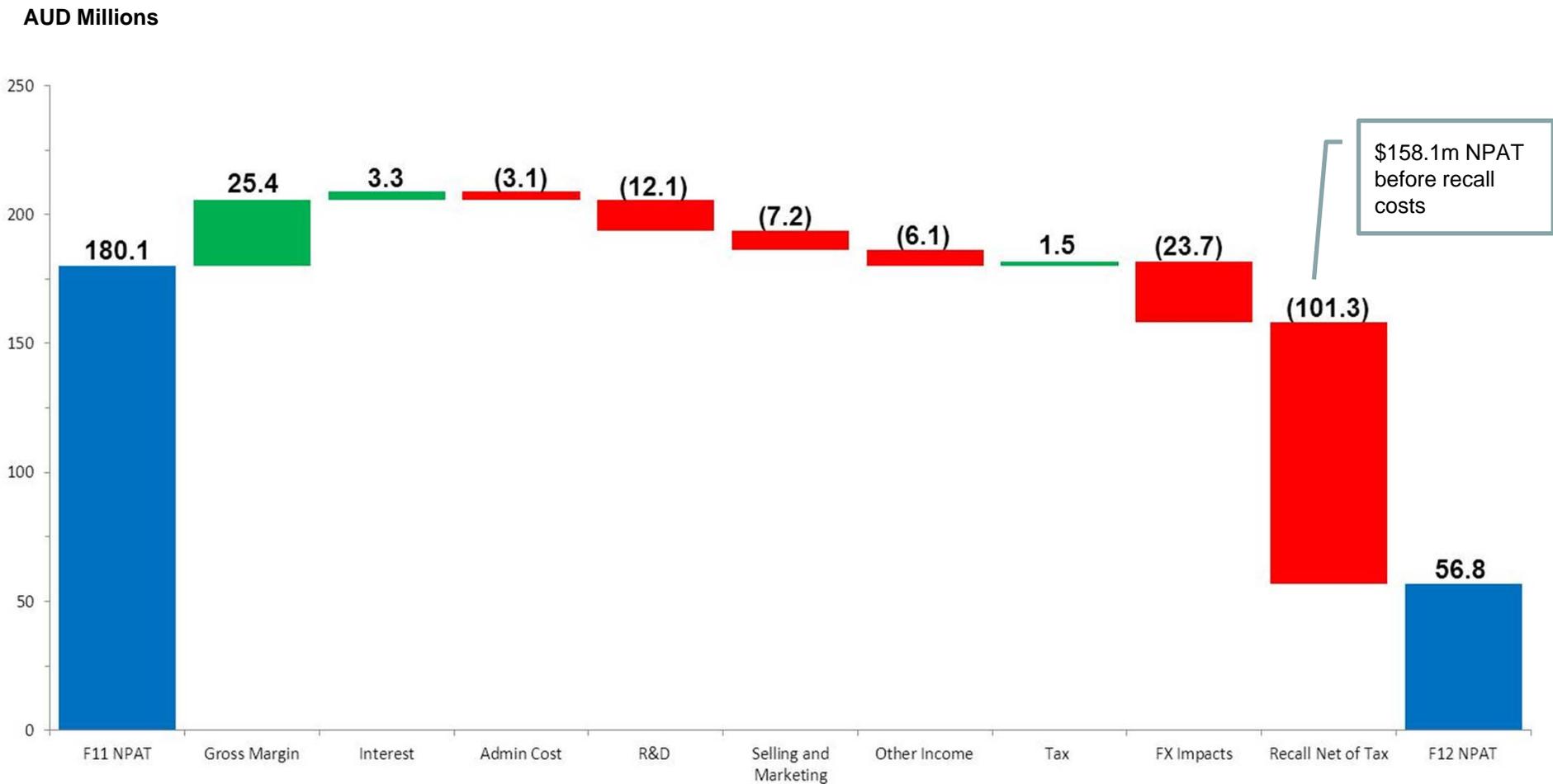
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Cochlear F12 Product Recall

Composition of Product Recall Expense	F12 \$m
Write down of Inventory	34.9
Impairment of Property, Plant and Equipment	14.0
Impairment of Intangibles	13.8
Warranty and other expenses	76.1
Cost of Sales – Product recall before interest and tax	138.8
Income tax benefit	(37.5)
Total Product Recall Cost After Tax	101.3

Cochlear F11 – F12 NPAT Reconciliation



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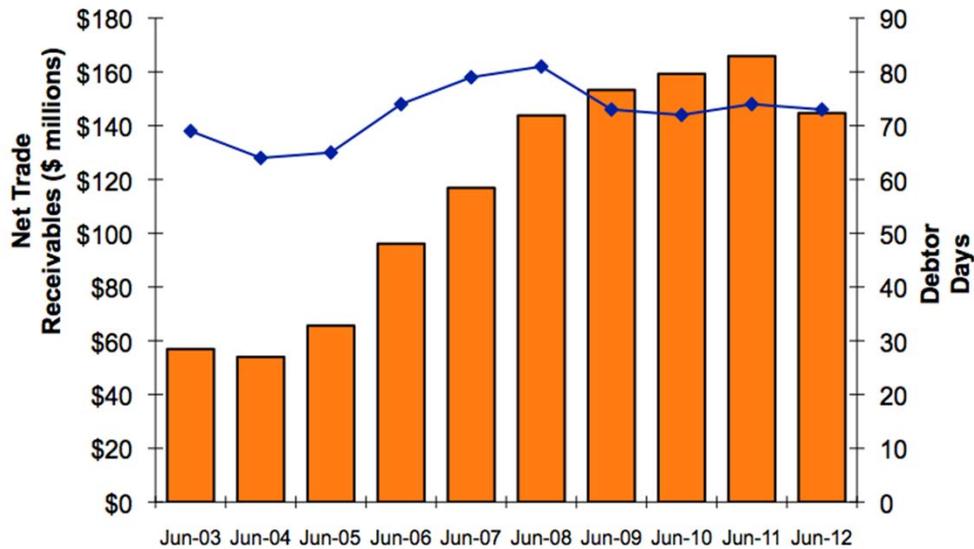
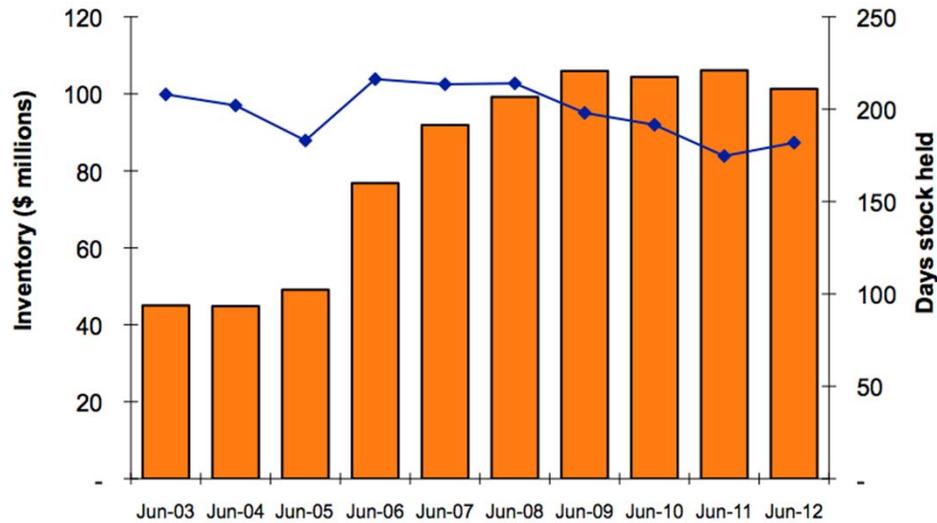
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Impact of Appreciating AUD on F12 NPAT

	A\$m	
		F/(U)
Income Statement Translation Impact		
Sales Revenue	(29.8)	<div style="border: 1px solid black; padding: 5px; display: inline-block;"> Difference F12 actual vs F12 at F11 rates </div>
Total Expenses including tax	11.9	
	(17.9)	
Transaction Impact		
- Decrease from F11 of FX gain on hedged sales		(3.0) ←
Translation Impact		
- Decrease over F11 of FX gain on asset translation		(2.8) ←
		(23.7)
Impact on F12 NPAT of appreciating AUD		(23.7)

Cochlear F12 Working Capital

Inventory (Days Stock Held) / Debtors Days Outstanding



- F12 Inventory days increased to 182 (F11 173 days)
- Debtor days 73 (F11 74 days)
- Trade receivables at \$144.7 million (F11 \$165.9 million)

Cochlear F12 Cash

	30 June 2012	30 June 2011
Operations	\$m	\$m
Loans and Borrowings		
Current	(45.7)	(60.0)
Non-current	(19.9)	(3.0)
Total Debt	(65.6)	(63.0)
Cash	68.5	72.4
Net Cash	2.9	9.4
<i>Gearing ratio (net debt/net debt + equity)</i>	<i>(1%)</i>	<i>(2%)</i>
Total Loan Facilities	200.0	150.0
Unused Portion of Facility	128.0	79.5

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Thank you
Any questions?

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FX Contract Cover and Rates as at 30 June 2012

Total FX hedges at 30 June 2012 expressed in Foreign Currency (millions)	USD	EUR	JPY
	243	162	1,039

FX Hedges at 30 June 2012 Expressed in AUD millions	261.0	234.3	13.7	Total 509.0
% of total cover (in AUD)	51%	46%	3%	100%

3 yr weighted average rates FX contracts at 30 June 2012	0.93	0.69	75.98
FX contracts at 30 June 2011	0.82	0.64	75.35

F13 weighted average rates FX contracts at 30 June 2012	0.92	0.69	77.5	
Cover for F13 (in AUD millions)	160.0	132.7	7.5	300.2

Foreign Exchange

Rates applied F12 vs. F11

	F12	F11	% Change
Average rates (used for translating P&L)			
USD	1.03	0.98	5%
Euro	0.77	0.73	5%
JPY	81.1	82.0	(1%)
GBP	0.65	0.62	5%
Contract rates (used to bring FX to Aust)			
USD	0.84	0.83	1%
Euro	0.66	0.58	14%
JPY	77.1	78.4	(2%)



Foreign Exchange

Period end rates applied F12 vs. F11

	30 June 2012	30 June 2011	% change
Period end rates (used for translating Bal Sheet)			
USD	1.01	1.05	(4%)
Euro	0.81	0.73	11%
JPY	80.1	84.8	(6%)

Property, Plant & Equipment & Leasehold Improvements

	30 June 2012
\$m	
Gross value 30 June 2012	158.3
Accumulated depreciation	98.7
Net book value at 30 June 2012	<u>59.6</u>
F'12 movements	
Additions	20.8
Depreciation	(15.8)
Recall Impairment	(14.0)
Disposals	(0.2)
FX Impacts	(0.6)

Corporate & Other Net Expenses

	F12	F11
	\$m	\$m
FX Contracts	(74.4)	(77.4)
Research and Development	118.1	107.7
Corporate Administration & Marketing	63.5	59.7
Corporate Other Income	(1.4)	(7.7)
FX (gains)/losses	0.3	(2.5)
Corporate and other net expense (note 10)	106.1	79.8

Non-IFRS Financial Measures

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.