

Half Year Report 2010

Cochlear – setting new benchmarks  
in implantable hearing solutions



*Hear now. And always*



Dear Shareholder

I am pleased to provide you with extracts from our half year report lodged with the Australian Stock Exchange on 9 February 2010.

### Highlights

Cochlear Limited, the global leader in implantable hearing solutions, announced record Net Profit after Tax (NPAT) of \$75.2 million for the six months ended 31 December 2009, up 8% on the first half of F09 (previous corresponding period).

- Total revenues were \$347.6 million, down 2%. Sales, excluding FX contracts, were \$336.9 million, down 3%. In constant currency (that is restating F09 at F10 FX rates), sales were up 4% compared to H1 F09 and 7% compared to the June F'09 half.
- Cochlear implant (CI) system sales and accessories, including sound processor upgrades were \$290.5 million, down 3%. While cochlear implant unit sales increased 7% to 9,811 units, installed base sales (that is sound processor upgrades) declined 29% as the focus of the Nucleus 5 launch was on complete system sales not upgrades and indeed Nucleus 5 upgrades were not available at the time of launch.
- Since the Nucleus Freedom™ launch four years ago, over \$250 million of revenue has been generated from the Freedom upgrade program. There are now twice as many CI recipients for the Nucleus 5 upgrade program (when it is released) than when Nucleus Freedom was introduced.
- CI unit sales were biased to the December quarter (Q2) reflecting the timing of the Cochlear Nucleus 5 System launch. CI unit sales growth for Q2 was 13% (compared to 7% for the half). Collectively, for the 20 countries in which Cochlear Nucleus 5 was launched during the half, CI unit sales growth was approximately 20%.
- Baha sales of \$46.4 million grew 10% in constant currency (1% in reported currency).
- Cash from operating activities was up 42% to a record \$85.4 million. Free cash flow of \$89 million was up 149%.
- Total net debt was \$103.4 million at 31st December 2009. Excluding \$34.5 million of debt for the new global headquarters at Macquarie University operating net debt at 31st December 2009 was \$69 million, representing a net gearing ratio of 15% (F09, 21%) defined as (net debt / net debt + equity).



Dr Chris Roberts  
Chief Executive Officer / President

9th February 2010

Cochlear Limited and its controlled entities  
 Consolidated interim income statement  
 For the six months ended 31 December 2009

	31 Dec 2009 \$'000	31 Dec 2008 \$'000
Revenue	347,593	355,227
Cost of sales	(97,413)	(106,461)
<b>Gross profit</b>	<b>250,180</b>	<b>248,766</b>
Other income	8,281	1,161
Selling and general expenses	(90,917)	(90,107)
Administration expenses	(20,456)	(24,941)
Research and development expenses	(43,950)	(45,442)
<b>Results from operating activities</b>	<b>103,138</b>	<b>89,437</b>
Finance income	4,762	15,889
Finance expense	(5,884)	(9,375)
<b>Net finance (expense) / income</b>	<b>(1,122)</b>	<b>6,514</b>
<b>Profit before income tax</b>	<b>102,016</b>	<b>95,951</b>
Income tax expense	(26,769)	(26,015)
<b>Net profit</b>	<b>75,247</b>	<b>69,936</b>
Earnings per share		
Basic earnings per share (cents)	134.0	125.5
Diluted earnings per share (cents)	133.4	125.0

**Cochlear Limited and its controlled entities**  
**Consolidated interim balance sheet**  
**As at 31 December 2009**

	31 Dec 2009 \$'000	30 Jun 2009 \$'000
<b>Current assets</b>		
Cash and cash equivalents	73,655	80,016
Trade and other receivables	200,514	173,256
Capitalised building costs	33,813	-
Inventories	97,367	105,944
Current tax receivables	5,965	3,898
Prepayments	9,323	8,205
<b>Total current assets</b>	<b>420,637</b>	<b>371,319</b>
Trade and other receivables	29,965	20,456
Capitalised building costs	-	10,630
Property, plant and equipment	44,803	46,794
Goodwill	169,028	173,599
Other intangible assets	53,271	34,676
Deferred tax assets	22,098	21,899
<b>Total non-current assets</b>	<b>319,165</b>	<b>308,054</b>
<b>Total assets</b>	<b>739,802</b>	<b>679,373</b>
Trade and other payables	52,346	64,881
Loans and borrowings – construction of Headquarters	34,465	-
Current tax liabilities	25,874	5,362
Provisions	31,721	32,222
Deferred revenue	17,452	14,678
<b>Total current liabilities</b>	<b>161,858</b>	<b>117,143</b>
Trade and other payables	9,560	56
Loans and borrowings – operations	142,546	176,586
Loans and borrowings – construction of Headquarters	-	11,997
Provisions	11,351	9,178
Deferred tax liabilities	9,384	179
<b>Total non-current liabilities</b>	<b>172,841</b>	<b>197,996</b>
<b>Total liabilities</b>	<b>334,699</b>	<b>315,139</b>
<b>Net assets</b>	<b>405,103</b>	<b>364,234</b>
<b>Equity</b>		
Share capital	109,952	97,435
Reserves	2,001	(2,435)
Retained earnings	293,150	269,234
<b>Total equity</b>	<b>405,103</b>	<b>364,234</b>

Cochlear Limited and its controlled entities  
Consolidated interim statement of cash flows  
For the six months ended 31 December 2009

	31 Dec 2009 \$'000	31 Dec 2008 \$'000
<b>Cash flows from operating activities</b>		
Cash receipts from customers	321,994	362,286
Cash payments to suppliers and employees	(230,853)	(274,619)
Grant and other income received	8,283	1,030
Interest received	868	825
Interest paid	(5,884)	(5,393)
Income taxes paid	(9,029)	(23,979)
<b>Net cash from operating activities</b>	<b>85,379</b>	<b>60,150</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(6,415)	(8,013)
Acquisition of enterprise resource planning system	(1,857)	(2,104)
Acquisition of intangible assets	(5,252)	-
Payments for construction of headquarters	(23,183)	(2,740)
<b>Net cash used in investing activities</b>	<b>(36,707)</b>	<b>(12,857)</b>
<b>Cash flows from financing activities</b>		
Repayment of borrowings	(65,000)	(54,000)
Proceeds from borrowings	53,469	60,424
Proceeds from issue of share capital	12,517	14,413
Contributions to executive share plan	-	(2,930)
Dividends paid by the parent	(53,384)	(44,682)
<b>Net cash used in financing activities</b>	<b>(52,398)</b>	<b>(26,775)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(3,726)</b>	<b>20,518</b>
<b>Cash and cash equivalents at 1 July</b>	<b>80,016</b>	<b>36,687</b>
Effect of exchange rate fluctuation on cash held	(2,635)	5,655
<b>Cash and cash equivalents at 31 December</b>	<b>73,655</b>	<b>62,860</b>

## Financial Highlights

For the six months ended 31 December 2009:

	31 Dec 2009 \$'000	31 Dec 2008 \$'000	% Change
Cochlear implant systems sales (units)	9,811	9,178	7
Revenue	347,593	355,227	(2)
EBITDA	118,064	110,053	8
EBIT	107,362	100,464	7
Net profit after tax	75,247	69,936	8
Basic earnings per share (cents)	134.0	125.5	7
Interim dividend per share (cents)	95.0	80.0	19

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