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ASX / MEDIA RELEASE

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COCHLEAR FINANCIAL RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2013

- Total revenue $371.1 million, down 5%
- Cochlear implant unit sales of 11,712, down 14%
- Net profit after tax of $21.0 million, down 73% (down 53% excluding patent dispute provision)
- Key products launched; Q2 sales up 30+% over Q1
- Interim dividend of $1.27 per share (unfranked) up 2%

	H1 F14 $ million	H1 F13 $ million	Change	
Cochlear implant sales	**331.1**	**329.7**	↑	**0%**
Bone Anchored Solutions/Acoustics sales	**45.9**	**38.5**	↑	**19%**
FX contracts (loss) / gain	**(5.9)**	**23.5**	↓	**125%**
Total revenue	**371.1**	**391.7**	↓	**5%**
EBIT *	**49.4**	**108.3**	↓	**54%**
Net profit after tax *	**36.8**	**77.7**	↓	**53%**
Patent dispute provision, net of tax	**15.8**	**-**		
Net profit attributable to members	**21.0**	**77.7**	↓	**73%**
Interim dividend (payable 27 March 2014)	**127c**	**125c**	↑	**2%**
Franking	**0%**	**40%**		
Conduit foreign income	**24%**	**30%**		

*For F14 these items exclude patent dispute provision of $22.5 million before tax and $15.8 million after tax.

Dr Roberts, CEO and President commented:

"This was a difficult half as we entered the period with no regulatory approvals for our new products in our key markets. The good news was that we did obtain approvals and launched new products by the end of the half.

"The net effect of the timing of these approvals and launches was that quarter one sales continued to decline. With the release of the new products, quarter two sales were up over 30% on quarter one. There is sales momentum going into the second half."

INTRODUCTION

F14 is an important year for Cochlear as new products are scheduled for regulatory approval and commercial launch in all product categories.

The year commenced without these regulatory approvals, but with the market still anticipating imminent new product launches. This had the result of a slowdown of sales in the second half of F13, which continued into the first quarter of F14.

The Nucleus® 6 sound processor received regulatory approval in the key markets of Europe and USA and was then launched. Regulatory approval in the USA did not include all features and further approvals are being received on a progressive basis.

Baha® 4 and Baha Attract were also launched in the second quarter in major markets and have been positively received.

As anticipated, sales in quarter two recovered and were up over 30% from quarter one following approval and the launch of the new products.

HALF YEAR RESULTS REVIEW

Total Revenue

Total revenue for H1 F14 was $371.1 million, down 5% on H1 F13. Sales, excluding FX contracts, were $377.0 million, up 2%. In constant currency (that is restating H1 F13 at H1 F14 FX rates) H1 F14 sales were down 8%.

Cochlear implant sales revenue, which included sound processor upgrades, was $331.1 million, and was flat on the prior year and down 10% in constant currency.

Cochlear implant unit sales were 11,712, down 14%. In H1 F13, approximately 1,900 unit sales were delivered against a Chinese tender. There were no comparable sales in H1 F14. Excluding the China tender sales, cochlear implant sales units were flat period on period.

Bone Anchored Solutions, (including acoustic implant sales) of $45.9 million were up 19% and up 6% in constant currency.

The Australian dollar (AUD) depreciated against our major currencies during the half which benefits foreign sales when translated into AUD. From a translation perspective, Cochlear benefited by net $18 million. Offsetting this was a reduction in profit from FX contracts. FX contract losses were $5.9 million compared to a gain of $23.5 million in H1 F13.

Regional performance:

- Americas sales of $150.0 million were flat on H1 F13, (down 10% in constant currency).

  Sales of sound processor upgrades to existing cochlear implant recipients were down $3.8 million in constant currency as recipients held off purchases in anticipation of the various Nucleus 6 launches. A further $2.2 million of sales was deferred during the period as part of the Future Technology Exchange Program (FTEP) initiated in April 2013 to help manage the transition period. At 31 December 2013, deferred revenue for FTEP in the USA was $6.8 million and is forecast to be released in H2 F14.

  Cochlear implant market share in the USA fell to an estimated 60%, although market share estimates are inherently uncertain.

- EMEA (Europe, Middle East and Africa) sales of $169.1 million were up 21% (up 4% in constant currency).

  Sales of sound processor upgrades were down $1.6 million in constant currency as recipients held off purchases in anticipation of the various Nucleus 6 launches. $1.8 million of revenue deferred as at 30 June under FTEP was released in the half. There is no remaining FTEP deferred revenue in EMEA at 31 December 2013.

- Asia Pacific sales of $57.9 million were down 25% (down 28% in constant currency).

  Sales of sound processor upgrades to existing implant recipients were down $6.1 million in constant currency as recipients waited on final regulatory and reimbursement approvals.

  There were no Chinese government tender sales booked in the half (H1 F13 approximately 1,900 units).

Gross Margin

Cost of goods sold (COGS) of $123.7 million gave a COGS/sales margin of 32.8% compared to 28.5% for the previous corresponding period. Lower manufacturing volumes in the first quarter adversely impacted manufacturing variances. By the second quarter, volumes had recovered and margins were improved.

Expenses

Selling, general and administration expenses of $133.7 million were up 12% in reported currency and up 4% in constant currency. No addition was made to the recall provision in the period.

A $22.5 million (USD 20 million) patent dispute provision was booked following an adverse jury verdict in the patent infringement lawsuit by the Alfred E Mann Foundation for Scientific

Research and Advanced Bionics LLC in the United States District Court in Los Angeles on 24th January 2014. The Directors believe the facts and law do not support the jury findings and will seek to overturn the verdict in post-trial motions with the District Court and, if necessary, through the appeals process.

Investment in research and development of $65.1 million was up 9% in reported and 4% in constant currency.

Working Capital and Debt

Trade receivables were $182.1 million with debtors days of 75 (June 2013, 80 days). Inventory was $140.7 million (June 2013, $131.6 million).

Net debt was $166.3 million at 31st December 2013. At 31st December 2013, the unused portion of the facility was $122.6 million.

Dividends

The Board has declared an unfranked dividend of $1.27 per share which will be paid on 27th March 2014 based on a record date of 6th March 2014.

Outlook

Management and the Board believe Cochlear is on track for growth and given the Company's strong financial position, the dividend has been declared at $1.27 per share. We are conscious of the issues surrounding the announced patent dispute and jury verdict and remain confident in our position and will appeal any materially negative judgement.

As always, our dividend policy will consider legal actions and other commercial factors and will be determined based on our financial stability and our medium term prospects.

In the short term, Cochlear continues to see market pressures in the USA where we do not yet have all expected regulatory approvals. Together with margin pressures, we forecast NPAT in H2 F14 to be in the range of $70 - $80 million.

Profit guidance for the second half is supported by:

- Ongoing momentum from the release of the Nucleus 6 sound processor in major markets including Nucleus 6 upgrade sales
- The anticipated regulatory approval of the Hybrid™ cochlear implant system in the USA and its subsequent launch
- Release of $6.8 million of deferred revenue following the conclusion of the USA FTEP programme in H2 F14
- Supply of approximately 1,800 cochlear implant units to China as part of the most recent government tender that has been awarded to Cochlear.
- Further sales gains from Baha 4 and Baha Attract

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Non-IFRS financial measures

Given the significance of the patent dispute 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 patent dispute provision: IFRS measures adjusted for the expense of the patent dispute provision
- Constant currency: restatement of IFRS financial measures in comparative years using F14 FX rates

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.