Cochlear Limited

Results for the half year ended 31 December 2011 (H1 F12)

Chris Roberts, CEO

Neville Mitchell, CFO

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Cochlear Overview

- Cochlear Limited (ASX:COH): global leader in implantable devices for the hearing impaired (eg cochlear implants, bone conduction implants..)
- ~ 2,500 employees
- Direct operations in 20+ countries, and products sold in 100+ countries
- A focus on a long term partnership with recipients and healthcare professionals, with a particular emphasis on technologic innovation

Strategy post 11 September 2011

1. 11 Sep 2011: recalled unimplanted CI500 series implants (a component of Nucleus cochlear implant system)
2. Replaced with CI24RE implant (without any compromise in hearing performance)
3. Focus on global execution, for example, communication, manufacturing ramp up, and the like
4. Key growth initiatives that drive the business longer term kept in place

Communication has been a major focus

- Communication around the recall has been critical
- Objective was to be open, transparent and fact based
- Different external regulators, across different countries can make co-ordination of communication complex
- Overall, feedback from the field on the communication has been positive

CI500 Series Recall – Current Status

1. As at 31st January 2012, the proportion of registered CI500 implants that had failed was 2.4%
2. Newly reported implant failures have reduced every month since October
3. Implant failure mode consistent: loss of hermeticity causing malfunction of specific electronic components (typically 1 of 4 diodes) such that device shuts down
4. Clinical symptoms consistent: intermittency followed by device shut down
5. Root cause: unexpected variations in a brazing process – forms basis for return of CI500 series
6. Fully expensed in H1 F12 ($100.5 million cost after tax). Cash costs estimated as $20 to $30 million (over time)

Cochlear: Financial Results for H1 F12

	H1 F12 $m	H1 F11 $m	% 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%**

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

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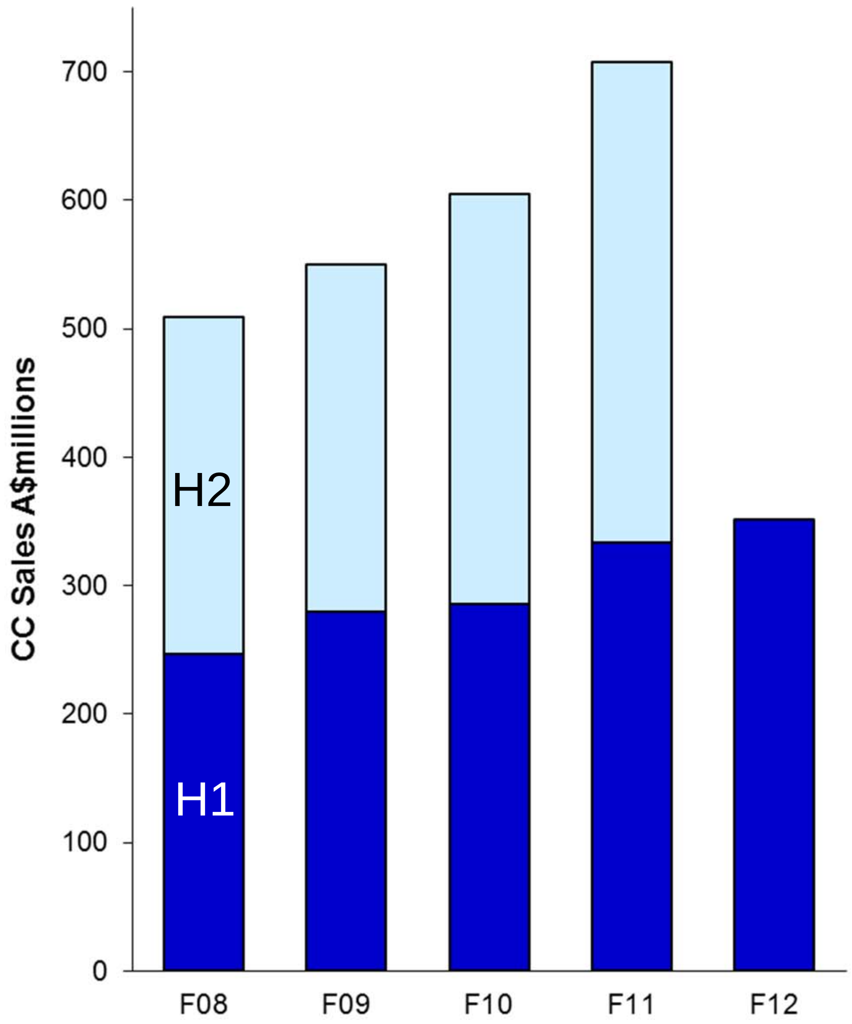
Cochlear: Sales in Constant Currency (CC)



- H1 F12 revenues up 3% to $387.5 million in reported currency
- H1 F12 sales in constant currency (prior periods restated at H1 F12 rates) up 5%

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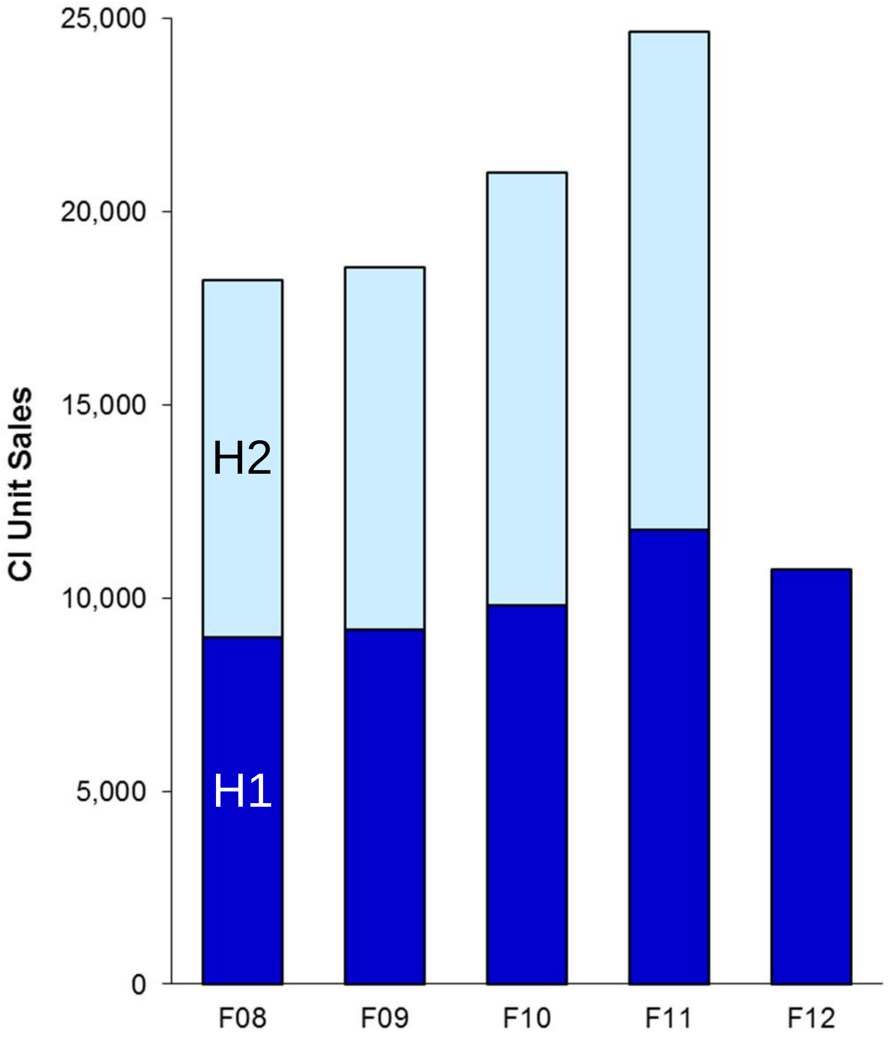
Cochlear: Cochlear Implant (CI) Unit Sales



- H1 F12 CI unit sales ↓9% to 10,724 implants
- This 10,724 excludes 2,300+ units shipped post recall not recognised as revenue (replacing unimplanted CI500)
- Given limited implant supply (post recall), shipments were to scheduled surgeries
- Record number of recipients receiving an implant, ie clinic de-stocking

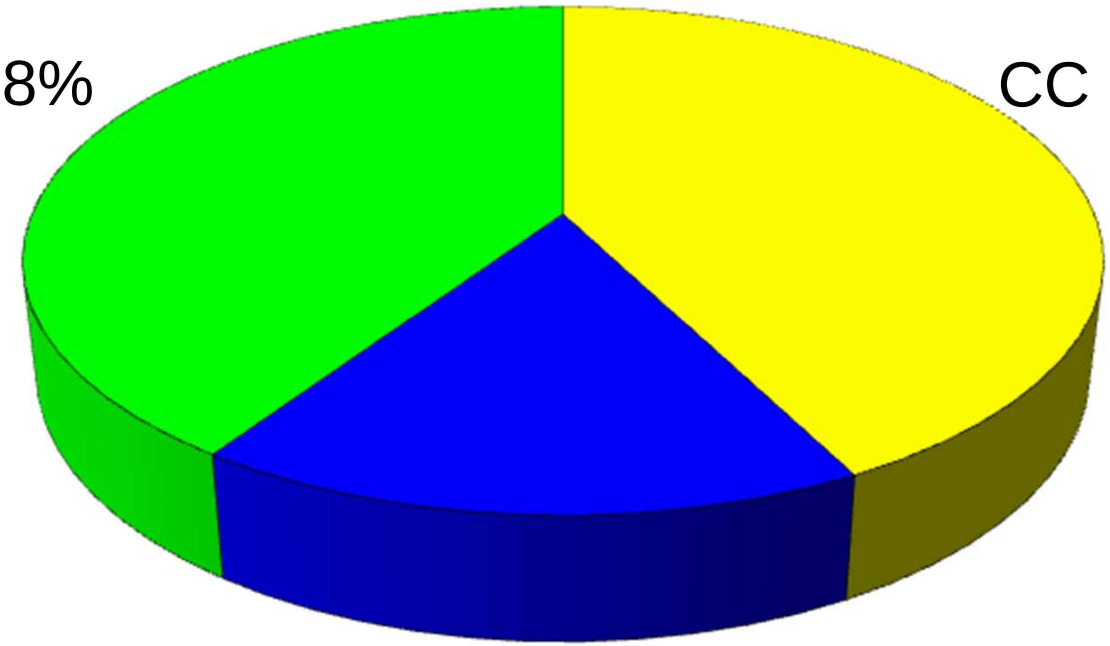
Manufacturing and Global Supply Chain

- Rapid response to recall by manufacturing
  - by December weekly production of cochlear implants was significantly above pre recall levels
  - Investments in agility and flexibility over the past 5 years were critical to implementing this rapid response
- Supply of cochlear implants was limited, still only shipping to surgeries in December, no surgeries missed
  - Our Oracle ERP system was critical in global management of supply chain
- Should not be supply constrained in H2 F12

Cochlear: H1 F12 Regional Split of Sales

EMEA[1]
41%
CC growth ↑8%

Americas
42%
CC growth ↑1%



Asia Pacific
17%
CC growth ↑11%

[1] EMEA is Europe, Middle East and Africa
[2] CC refers to constant currency

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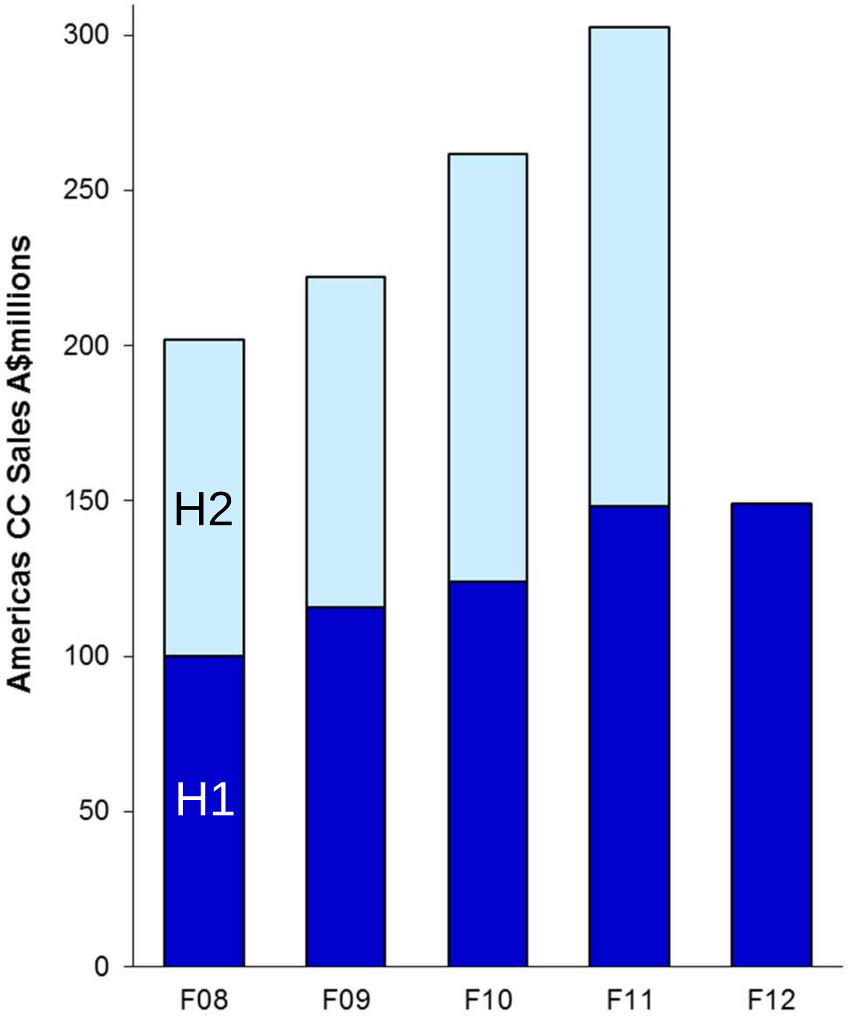
Cochlear Americas: Sales in Constant Currency



- H1 F12 Americas sales of $149 million, up 1% in constant currency
- Clinic destocking due to implant supply constraint
- Continued Hearing Health Seminars (market growth & awareness initiatives)
- On-line strategy roll out

Cochlear™ Awareness Network
passion · action · education · support

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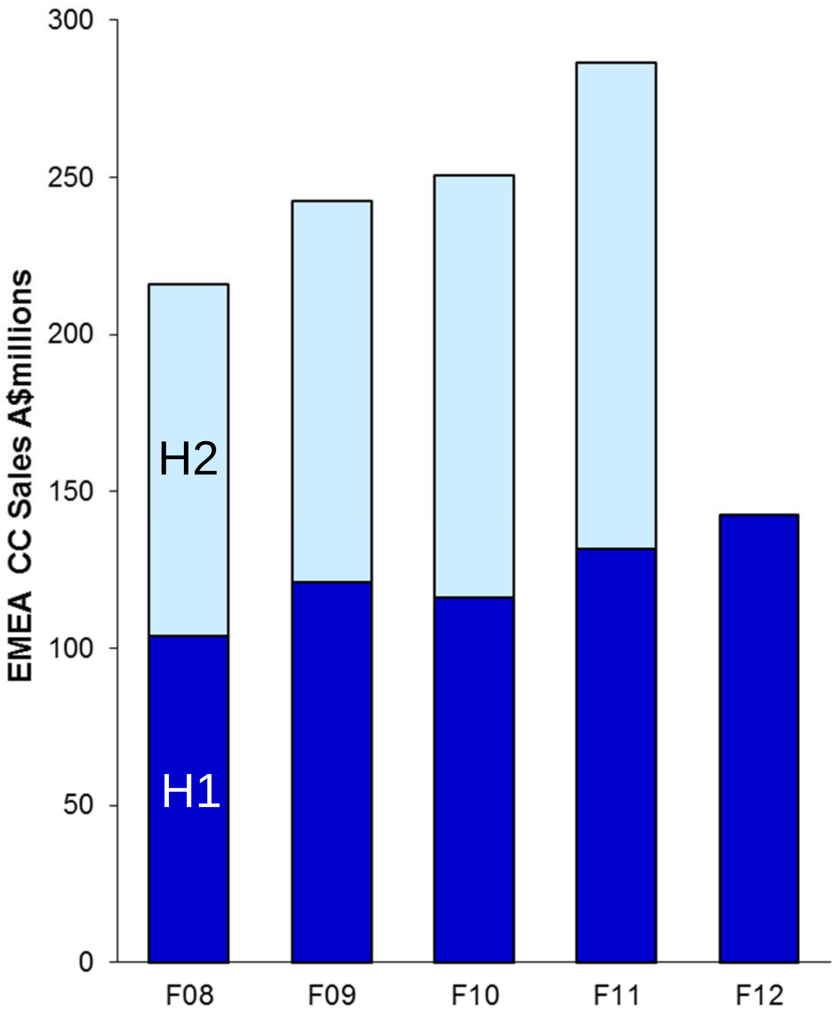
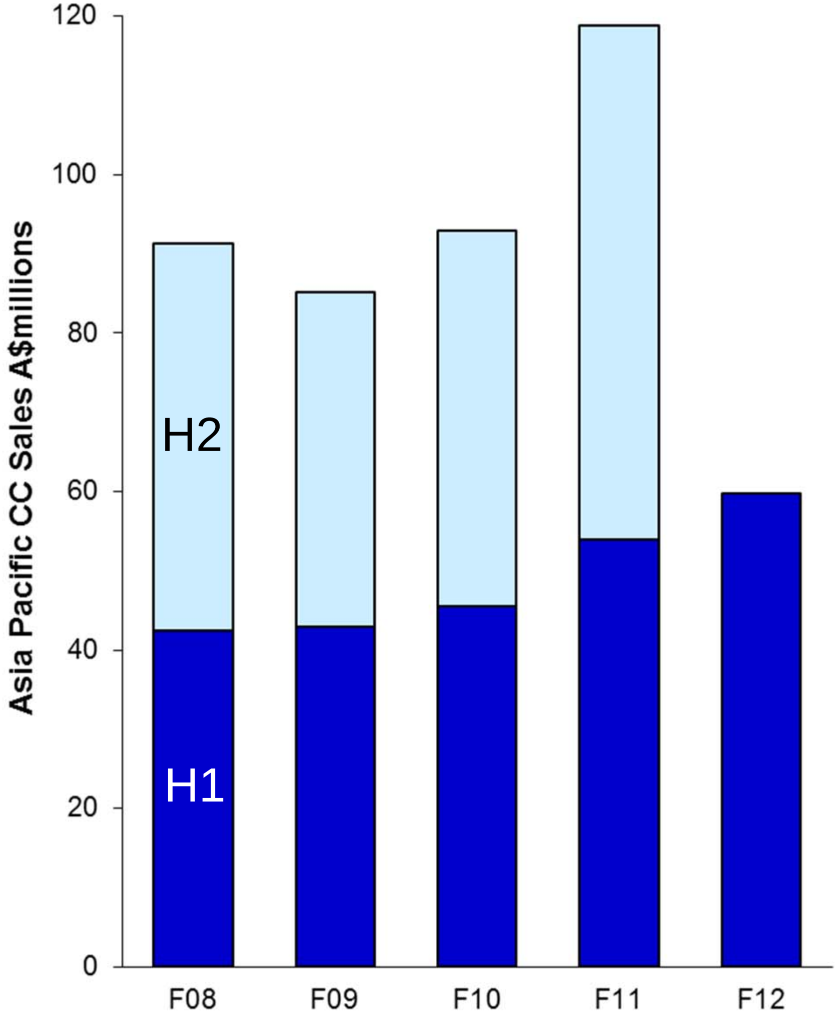
Cochlear EMEA: Sales in Constant Currency



- H1 F12 EMEA sales of $143 million, up 8% in constant currency
- Portfolio effect of products eg CI422 (Slim Straight Electrode) and geographies
- On-line strategy beginning to roll-out

Cochlear Asia Pac: Sales in Constant Currency



- H1 F12 Asia Pacific sales of $60 million, up 11% in constant currency
- Direct operations in India working well, including investment in infrastructure & people
- CI500 implant was not available in certain countries (eg Japan, China, so impact of recall less)

Cochlear™ Nucleus® System

Cochlear Implant

Sound Processor

Remote Assistant

Programming Software. Custom Sound™

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Cochlear: Investing for long term growth

- Deepening global footprint /customer experience & service
- Technologic innovation (~13% of revenues)
- Significant investments in manufacturing and global supply chain
- Macquarie University hearing precinct as catalyst for global collaboration
- Investments in productivity/scalability including products (e.g. scalability suite driving simplification, automaticity, remote connectivity), transactions (online transactional tools) and customer interactions

Cochlear H1 F12 Overview

- Very challenging half year! However:
  - Record revenue of $387.5 million
  - Record new Nucleus implant recipients
  - Recall costs fully expensed in H1
- Global Cochlear team executed well on challenges, eg supply chain management
- The fundamentals of the business remain positive, no change to commitment to drivers of long term growth

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H1 F12 Financial Results

Neville Mitchell, CFO

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Cochlear H1 F12 Financial Performance

	H1 F12 $m	H1 F11 $m	% Change
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%**
Dividends			
Interim Dividend Record Date 28 February 2012 Payable Date 13 March 2012	120c	105c	↑ 14%
Franking	60%	60%	

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

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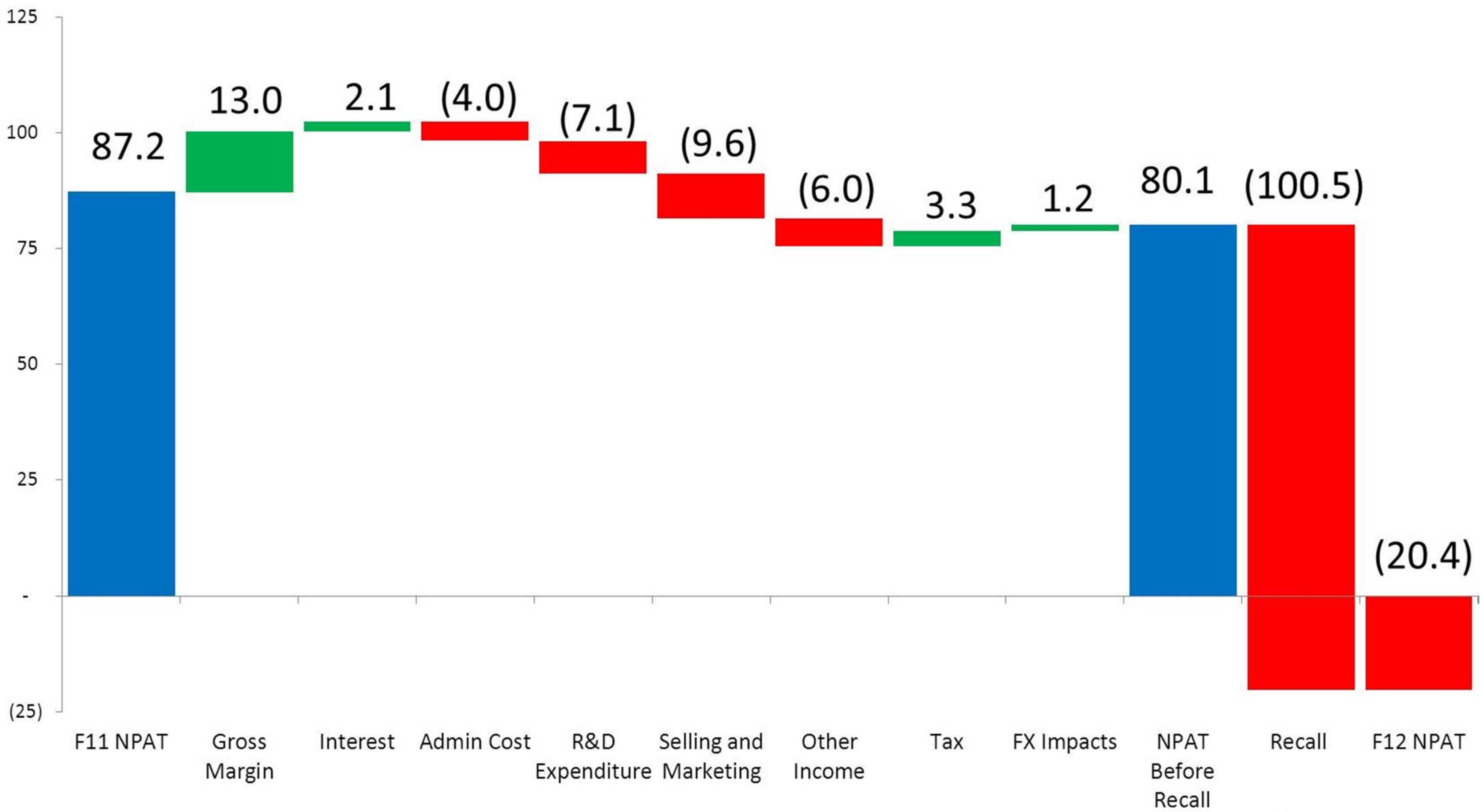
Cochlear H1 F12 Product Recall

Composition of Product Recall Expense	H1 F12 $m
Write down of Inventory	34.4
Impairment of Property, Plant and Equipment	14.0
Impairment of Intangibles	13.8
Warranty and other expenses	76.6
Cost of Sales – Product recall before interest and tax	138.8
Income tax benefit	(38.3)
Total Product Recall Cost After Tax	**100.5**

Cochlear H1 F11 – H1 F12 NPAT Reconciliation

AUD Millions



Impact of Appreciating AUD on H1 F12 NPAT

	A$m F/(U)	
Income Statement Translation Impact		
Sales Revenue	(17.9)	Difference H1 F12 actual vs H1 F12 at H1 F11 rates
Total Expenses including tax	8.0	
	(9.9)	
Transaction Impact		
- Increase from H1 F11 of FX gain on hedged sales	14.3	Net difference actuals H1 F12 vs H1 F11
Translation Impact		
- Decrease over H1 F11 of FX gain on asset translation	(3.2)	Net difference actuals H1 F12 vs H1 F11
Impact on H1 F12 NPAT of appreciating AUD	1.2	

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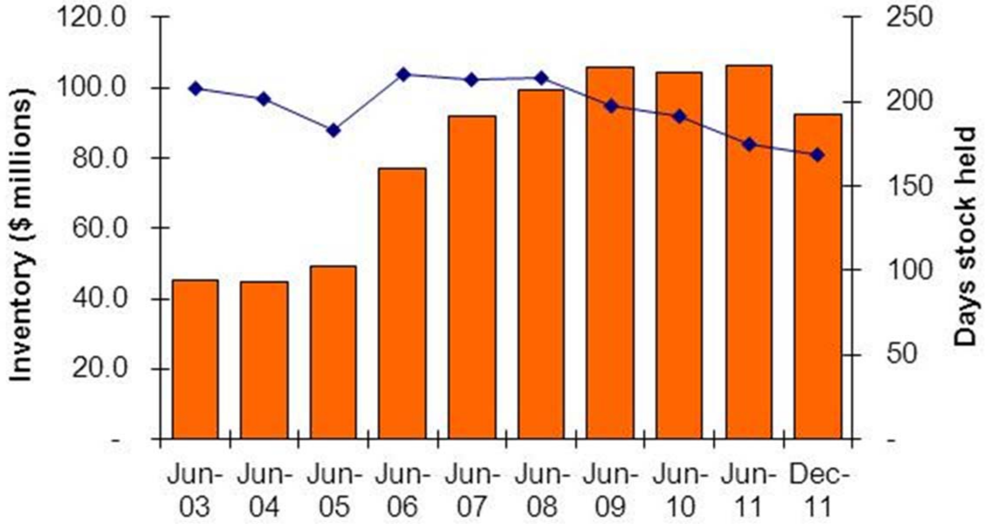
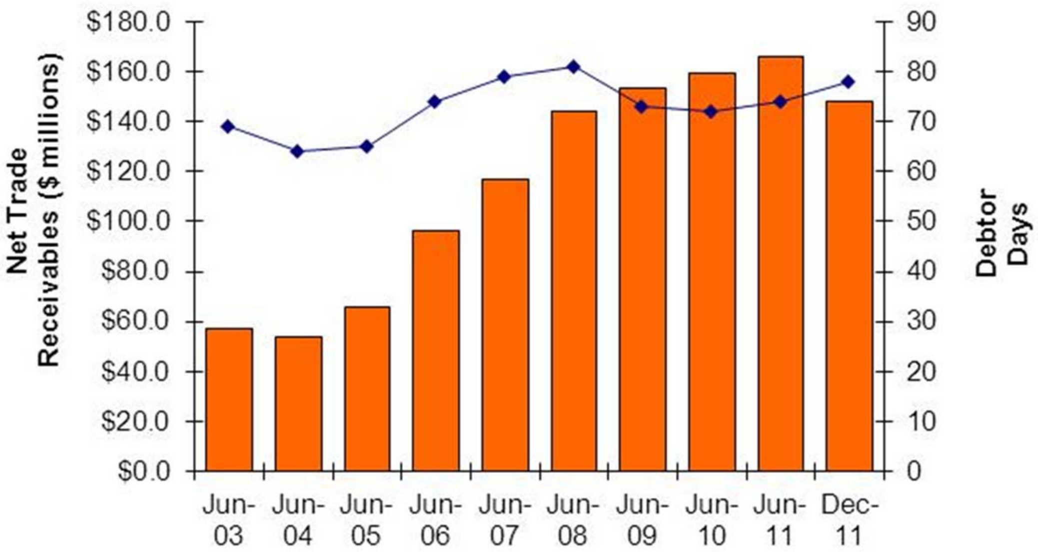
Cochlear H1 F12 Working Capital
Inventory (Days Stock Held) / Debtors Days Outstanding





- H1 F12 Inventory days decreased to 168 (June F11 173 days)
- Debtor days 78 (June F11 74 days)
- Trade receivables at $148.3m (June F11 $165.9m)

Cochlear H1 F12 Cash / (Debt)

Operations	31 Dec 2011 $m	30 Jun 2011 $m
Loans and Borrowings		
Current	(40.0)	(60.0)
Non-current	(43.5)	(3.0)
Total Debt – operations	(83.5)	(63.0)
Cash	75.0	72.4
Net (Debt)/Cash – operations	**(8.5)**	**9.4**
Gearing ratio - operations (net debt/net debt + equity)	*2%*	*(2%)*
Total Loan Facilities	**200.0**	**150.0**
Unused Portion of Facility	**107.2**	**79.5**

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Cochlear H1 F12 Overview

- Very challenging half year! However:
  - Record revenue of $387.5 million
  - Record new Nucleus implant recipients
  - Recall costs fully expensed in H1
- Excellent performance of global Cochlear team in facing the challenges, eg supply chain management
- The fundamentals of the business remain positive, no change to commitment to drivers of long term growth

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Thank you

Any questions?

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FX Contract Cover and Rates as at 31 December 2011

Total FX cover at 31 Dec 2011 expressed in Foreign Currency	**USD** **295.0m**	**EUR** **168.0m**	**JPY** **720m**	
FX Hedges Expressed in AUD	**AUD** **333.5m**	**AUD** **255.6m**	**AUD** **9.7m**	**AUD Total** **598.8m**
% of total cover (in AUD)	56%	43%	1%	100%
3 yr weighted average rates FX contracts at 31 Dec 11	**0.88**	**0.66**	**74.2**	
FX contracts at 31 Dec 10	0.77	0.57	75.5	
H2 F12 weighted average rates FX contracts at 31 Dec 11	**0.85**	**0.65**	**73.9**	
Cover for H2 F12 (in AUD)	**AUD** **111.4m**	**AUD** **86.8m**	**AUD** **2.4m**	**AUD** **200.6m**

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Foreign Exchange

Rates applied H1 F12 vs. H1 F11	**H1 F12**	**H1 F11**	**% Change**
Average rates (used for translating P&L)			
USD	1.03	0.94	10%
Euro	0.74	0.72	3%
JPY	80.0	79.5	1%
GBP	0.65	0.60	8%
Contract rates (used to bring FX to Aust)			
USD	0.85	0.80	6%
Euro	0.63	0.57	11%
JPY	76.4	80.2	(5%)

Foreign Exchange

Period end rates applied F12 vs. F11

	31 Dec 2011	30 June 2011	% change
Period end rates (used for translating Bal Sheet)			
USD	1.02	1.05	(3%)
Euro	0.78	0.73	7%
JPY	79.0	84.8	(7%)

Property, Plant & Equipment

$m	31 Dec 2011 $m
Gross value 30 June 2011	157.0
Accumulated depreciation	(87.6)
Net book value	69.4
F'12 movements	
Additions	9.6
Depreciation	(8.2)
Recall write-off	(14.0)
FX Impacts	(0.4)
Net book value December 2011	56.4

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Corporate & Other Net Expenses

	H1 F12 $m	H1 F11 $m
FX Contracts	(36.3)	(21.9)
Research and Development	57.4	50.9
Corporate Administration & Marketing	31.3	24.0
Corporate Other Income	(0.7)	(6.7)
Corporate and other net expense (note 7)	**51.7**	**46.3**

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.