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COCHLEAR ANNOUNCES FULL YEAR FINANCIAL RESULTS FOR YEAR ENDED 30 JUNE 2012

- Total revenue down 4% to $779.0 million, with sales up 1% in constant currency
- Net profit after tax of $56.8 million, including $101.3 million after-tax recall costs
- Final dividend of $1.25 per share (35% franked), up 4% on prior year
- Full year cochlear implant unit sales of 23,087 units, down 6%; H2 unit sales of 12,363, up 15% on H1

	F12 $ million	F11 $ million	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 (loss)/profit attributable to members	**56.8**	**180.1**	↓	**68%**
Final dividend (payable 20 Sep 2012)	**125c**	**120c**	↑	**4%**
Franking	**35%**	**70%**		
Conduit Foreign Income	**25%**	**30%**		

*These items exclude product recall expenses of $138.8 million before tax and $101.3 million after tax.

Commentary by Dr Chris Roberts, Cochlear CEO

Dr Roberts said, "This was a challenging year, particularly given we recalled the CI500 series implant in September 2011, swapping it with the functionally equivalent CI24RE implant. The global organisation responded well and market share losses have been minimal. This together with the ongoing investments in R&D product pipeline, and market growth associated with positive clinical trends, provide confidence for the long term growth of the Company.

FULL YEAR RESULTS REVIEW

Total Revenue

Total revenues for F12 were $779.0 million, down 4% on F11. Sales, excluding FX contracts, were $704.6 million, also down 4%. In constant currency (that is restating F11 at F12 FX rates), F12 sales were up 1% compared to F11.

Cochlear implant (CI) sales, which included accessories and sound processor upgrades, were $626.7 million, down 3% in reported currency and up 1% in constant currency.

Cochlear implant unit sales were 23,087. This was down 6% on F11. Second half unit sales of 12,363 were up 15% on first half sales of 10,724 units. No donation or tender sales were made to mainland China (F11 approximately 1,000 units). Destocking, primarily in the Americas was estimated at 1,000 units.

Bone Anchored Solutions (BAS) sales of $77.9 million were down 7% in reported currency and down 4% in constant currency. There has been increased competition in the bone conduction segment, however the recent release of the Baha 3 Power has gone well and there is a strong pipeline of future products for release in F13.

Regional performance:

- Americas sales of $297 million fell 2% in constant currency (down 6% in reported currency).
- EMEA (Europe, Middle East and Africa) sales of $285 million were up 2% in constant currency (down 3% in reported currency).
- Asia Pacific sales of $123 million were up 4% in constant currency (1% in reported currency).

Expenses

Selling, General and Admin expenses of $242.5 million were up 1% in reported currency and up 4% in constant currency.

R&D was up 10% in reported currency and 11% in constant currency. The increases reflected the deliberate strategy to maintain momentum in the future development work in R&D.

Recall Costs

An amount of $138.8 million before tax was recognised in the first half 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.

No addition has been made to the total charge in the second half.

Cash Management

Cash from operating activities of $168.3 million was down 16% on F11.

Free cash flow was $142.7 million after recall cash costs. Free cash flow in F11 was $165.7 million.

Trade receivables of $144.7 million fell 13% from June 2011 and debtors days were 73 days (June 2011, 74). Inventory fell 5% to $101.3 million over the June 2011 position.

Net cash on hand was $2.9 million at 30th June 2012. Banking facilities were increased by $50 million in the first half to $200 million. At 30th June 2012, the unused portion of the facility was $128.0 million (June 2011, $79.5 million).

Dividends

A final partially franked dividend of $1.25 (franked to 35%) per share was declared and will be paid on 20th September 2012 based on a record date of 30th August 2012.

Total dividend for the year was $2.45 (F11, $2.25), up 9%.

Operational Review

F12 has been a challenging year for Cochlear.

Following an increase in failures of the CI500 implant, the decision was made to voluntarily recall CI500 unimplanted devices on September 11, 2011.

Concomitantly, Cochlear switched to supplying the CI24RE implant. This was a complex logistical exercise and while supply was constrained immediately after the switch, the flexibility and agility that Cochlear had built into the supply chain and manufacturing meant that by the second half, Cochlear was no longer supply constrained and only minimal market share loss resulted.

The strategic decision was made to be careful and disciplined with spending, but not to suspend growth initiatives that would negatively impact longer term prospects. R&D investments continued with advances made on products due for release in F13 and beyond. Important clinical trials were continued, such as Codacs, which expanded into five countries.

We recently 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.

On the 7th August 2012 the Company provided a further update to healthcare professionals on the recall of the unimplanted CI500 series implants. 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.

Overarching all of these activities were our recipients. They remain our top priority and their welfare guided and will continue to guide our actions.

Outlook

Cochlear is well positioned to take advantage of global clinical trends (such as bilateral implantation and growing demand from the ageing population) and we are entering F13 a stronger, improved company with a pipeline of products that will continue to drive growth.

The building blocks underpinning Cochlear's long-term growth are firmly in place. These include excellent technology partnerships; the developing Macquarie Hearing Hub; a growing global footprint; sound financials; and an enviable market share that has been minimally impacted by the recall. These strengths, along with our ongoing investments in R&D and the sound fundamentals of the market in which we operate, give Cochlear great confidence in the company's long-term, sustainable growth prospects.

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Company contacts:

Dr Chris Roberts, CEO/President
p: + 61 2 9428 6555

Neville Mitchell, CFO
p: + 61 2 9428 6555

Media contact:

Piers Shervington, Corporate Communications
P: +61 2 9425 5416

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.