

## ASX / MEDIA RELEASE

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### COCHLEAR ANNOUNCES RECORD FIRST HALF F11 FINANCIAL RESULTS

- Total revenue up 8% to \$377.1 million, with sales up 17% in constant currency
- Cochlear implant unit sales up 20% to 11,765 units
- Net Profit after Tax (NPAT) of \$87.2 million, up 16%, EPS \$1.54, up 15%
- Net debt reduced to \$17.3 million (June 2010, \$114 million)
- Final dividend of \$1.05 per share (60% franked), up 11% on the prior year

|  | H1 F11<br>\$ million | H1 F10<br>\$ million | Change       |
|--|----------------------|----------------------|--------------|
| <b>Cochlear implant sales</b>              | <b>309.6</b>         | <b>290.5</b>         | <b>↑ 7%</b>  |
| <b>Bone Anchored Solutions (Baha)</b>      | <b>45.6</b>          | <b>46.4</b>          | <b>↓ 2%</b>  |
| <b>FX Contracts Gains</b>                  | <b>21.9</b>          | <b>10.7</b>          |              |
| <b>Total revenue</b>                       | <b>377.1</b>         | <b>347.6</b>         | <b>↑ 8%</b>  |
| <b>EBITDA</b>                              | <b>134.7</b>         | <b>118.0</b>         | <b>↑ 14%</b> |
| <b>EBIT</b>                                | <b>121.1</b>         | <b>107.3</b>         | <b>↑ 13%</b> |
| <b>EBIT / Revenue</b>                      | <b>32%</b>           | <b>31%</b>           |              |
| <b>Net Profit After Tax</b>                | <b>87.2</b>          | <b>75.2</b>          | <b>↑ 16%</b> |
| <b>Basic EPS (cents)</b>                   | <b>154.3</b>         | <b>134.0</b>         | <b>↑ 15%</b> |
| <b>Final dividend (payable 15/03/2011)</b> | <b>105c</b>          | <b>95c</b>           | <b>↑ 11%</b> |
| <b>Franking</b>                            | <b>60%</b>           | <b>100%</b>          |              |
| <b>Conduit Foreign Income</b>              | <b>40%</b>           | <b>-</b>             |              |

## RESULTS REVIEW

### Total Revenue

Total revenues were \$377.1 million, up 8%. Sales, excluding FX contracts, were \$355.2 million, up 5%. In constant currency (that is restating F10 at F11 FX rates), H1 F11 sales were up 17% compared to H1 F10.

Cochlear implant (CI) sales, which included accessories and sound processor upgrades, were \$309.6 million, up 16% in constant currency (up 7% in reported currency).

Cochlear implant unit sales increased 20% to 11,765 units. Over two thirds of implants sold in the first half of F11 were the latest generation of implants, Nucleus 5. Emerging markets comprised approximately one third of cochlear implant unit sales.

Baha sales of \$45.6 million grew 10% in constant currency (down 2% in reported currency).

Operationally, all regions grew:

- Americas sales of \$162.5 million were up 20% in constant currency (10% in reported currency).
- EMEA (Europe, Middle East and Africa) sales of \$136.5 million were up 13% in constant currency (down 4% in reported currency).
- Asia Pacific sales of \$56.2 million were up 20% in constant currency (18% in reported currency).

### Expenses

Selling, General and Admin expenses of \$112.8 million were up 6% in constant currency (1% in reported currency).

### Cash Management

Cash from operating activities was up 6% to a record \$90.5 million.

Free cash flow was \$67 million excluding total project headquarter related cash flow of \$20 million.

Trade receivables of \$153.7 million fell 4% from June 2010 and debtors days were 80 days (H1 F10, 78 days). Inventory grew 3% to \$107.2 million over the June 2010 position.

Total net debt was \$17.3 million at 31<sup>st</sup> December 2010. This equates to an operating net gearing ratio of 3% (F10, 15%) defined as (net debt / net debt + equity).

## **New Headquarters**

Cochlear's new global headquarters building program was successfully completed in the first half of F11 and all functions except manufacturing have now moved into the Macquarie building. Manufacturing will transfer to the new building as regulatory approvals are obtained.

On practical completion Macquarie University paid Cochlear \$130.3 million and then leased the building to Cochlear on commercial terms. After construction and relocation related expenditure, a net profit of \$6.1 million was booked to Other Income in this first half.

## **Foreign Exchange**

Foreign exchange movements impacted Cochlear's financial results. In H1 F11 the average Australian Dollar rates appreciated 8% against the USD and 20% against the Euro, compared to H1 F10.

Gains from FX contracts were \$21.9 million for the half year. This offset some of the effects of an appreciating AUD, although if H1 F10 rates had applied in F11, NPAT would have been \$16.5 million more than reported (i.e. \$103.7 million).

## **Dividends**

An interim partially franked dividend of \$1.05 (franked to 60%) per share was declared and will be paid on 15<sup>th</sup> March 2011 based on a record date of 25<sup>th</sup> February 2011. The unfranked portion of the dividend has been declared Conduit Foreign Income. This is beneficial to overseas shareholders as no withholding tax applies to the dividend.

## **Cochlear Nucleus 5 System**

The Cochlear Nucleus 5 System, which was first released in the first half of F10 is now sold in over 80 countries. It represents significant advances in manufacturing scalability, as well as improvements in recipient usability, miniaturisation, reliability and, most importantly, speech performance in challenging listening situations.

Cochlear's strategy is to bring new enhancements to Cochlear's Nucleus 5 System to market. In H2 F11 Cochlear anticipates releasing an updated version of software, Custom Sound 3.2 which specifically supports new FM capabilities. Custom Sound 3.2 will now enable Nucleus 24 implant recipients to upgrade to the latest sound processor technology.

## **Enhanced Cochlear Baha 3 System**

The enhanced Cochlear Baha 3 System has now been launched in major markets. The Cochlear Baha 3 has components, (sound processor, abutment, implant, surgical tools and fitting software) optimised to operate as a complete system.

## **Investment in Product Pipeline**

Cochlear maintains its focus on developing a portfolio of implantable hearing solutions for the hearing impaired which improves performance and concomitantly broadens patient access through technologies that will help scale the clinical pathways.

Research and Development investment of \$51.4 million in H1 F11 grew 20% in constant currency (up 17% in reported currency).

During H1 F11, the first Straight Research Array (SRA) electrodes were sold commercially. This electrode has been optimised for surgeons who use a particular surgical technique.

The clinical trial for Direct Acoustic Cochlear Stimulator (DACS) product was further advanced with some eight recipients now implanted with encouraging results.

## **Outlook**

Cochlear is strategically well positioned for long term sustainable growth and the outlook remains positive.

There is a significant unmet clinical need for Cochlear's products, leading to ongoing demand from the emerging and developed markets.

Continued investments in capacity, resources and capabilities together with an exciting new product pipeline will underpin and drive this long term growth.

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