

ASX / MEDIA RELEASE

10 August 2010

COCHLEAR ANNOUNCES RECORD F10 REVENUE AND EARNINGS

- Net Profit after Tax (NPAT) of \$155.2 million, up 19%.
- Successful launch of new cochlear implant system Cochlear™ Nucleus® 5 with second half CI unit sales up 20% and full year up 13% to 21,023 units
- Total revenue up 6% to \$734.8 million, with sales up 12% in constant currency
- Due to 4% margin expansion EBIT up 20% to \$220.5 million
- Free Cash Flow at \$166 million up 50% on last year
- Final dividend of \$1.05c per share (60% franked) bringing total dividends for the year to \$2.00 per share, up 14% on the prior year.

	F10	F09	
	\$ million	\$ million	Change
Cochlear implant sales	603.7	614.0	↓ 2%
Bone Anchored Solutions (Baha)	92.5	97.8	↓ 5%
FX Contracts Gains (losses)	38.6	(17.1)	
Total revenue	734.8	694.7	↑ 6%
EBITDA	243.6	205.5	↑ 19%
EBIT	220.5	183.3	↑ 20%
EBIT / Revenue	30%	26%	
Net Profit After Tax	155.2	130.5	↑ 19%
Basic EPS (cents)	275.7	233.7	↑ 18%
Final dividend (payable 23/09/2010)	105c	95c	↑ 11%
Franking	60%	100%	

RESULTS REVIEW

Total Revenue

Total revenues were \$734.8 million, up 6%. Sales, excluding FX contracts, were \$696.2 million, down 2%. In constant currency (that is restating F09 at F10 FX rates), F10 sales were up 12% compared to F09.

Cochlear implant (CI) sales which included accessories and sound processor upgrades were \$603.7 million, down 2%, up 13% in constant currency.

Cochlear implant unit sales increased 13% to 21,023 units, with second half unit sales up 20% reflecting the momentum of the launch of the Nucleus 5 which commenced in the first half. This momentum meant that the majority of implants sold in the second half of F10 were Nucleus 5.

Baha sales of \$92.5 million grew 9% in constant currency (down 5% in reported currency).

Regional sales reflected growth in constant currency in all regions:

- Americas sales of \$307.6 million were up 18% in constant currency (2% in reported currency) following the Cochlear Nucleus 5 product releases.
- EMEA (Europe, Middle East and Africa) sales of \$291.5 million were up 7% in constant currency (down 9% in reported currency). The Cochlear Nucleus 5 launch drove double digit growth in the developed countries where it was released. Tender sales were variable and overall were down on the prior year.
- Asia Pacific sales of \$97.1 million were up 5% and 13% in constant currency. This included 500 units sold into China for the donation program.

Expenses

Expenses grew less than sales growth. SG&A fell 1% to \$227.4 million (up 7% in constant currency). Research and Development expense fell 2% to \$94.9 million (up 1% in constant currency). This controlled approach to expenses combined with the sales growth led to margin expansion with EBIT/Total Revenue improving 4% to 30%.

Free Cash Flow

Cash from operating activities was up 22% to a record \$179.5 million. Free cash flow of \$166 million was up 50%. Trade receivables of \$159.5 million grew 4% over the prior year and debtors days fell to 72 days (F09 73 days). Inventory fell 1% to \$104.4 million.

New Headquarters

Cochlear's new global headquarters building program is on track for completion by the end of the calendar year. On practical completion Macquarie University will pay Cochlear approximately \$128 million and lease the building to Cochlear on commercial terms. Some \$74.3 million had been spent on the building by 30th June 2010.

Capital management

Total net debt was \$113.9 million at 30th June 2010. Excluding \$72.8 million of net debt for the new global headquarters at Macquarie University net debt at 30th June 2010 was \$41.1 million. This equates to a net gearing ratio of 9% (F09, 21%) defined as (net debt / net debt + equity).

Foreign Exchange

Foreign exchange movements can impact Cochlear's financial results. In F10 the average Australian Dollar rates appreciated 16% against the USD and 15% against the Euro, compared to F09.

Gains from FX contracts were \$38.6 million for the year. This offset some of the effects of an appreciating AUD, although if F09 rates had applied in F10, NPAT would have been \$15.1 million more than reported (ie. \$170.3 million).

Dividends

A final partially franked dividend of \$1.05 (franked to 60%) per share was declared and will be paid on 23rd September 2010 based on a record date of 2nd September 2010. The dividend for the year is \$2.00, up 14%. The unfranked portion of the dividend has been declared Conduit Foreign Income. This is beneficial to our overseas shareholders as no withholding tax applies to the dividend.

Cochlear Nucleus 5 System

The Cochlear Nucleus 5 System is the latest generation cochlear implant and sound processor and includes a wireless assistant for ease of patient use. This is the fifth generation cochlear implant that Cochlear has released in 28 years and the eighth generation sound processor. The Cochlear Nucleus 5 represents significant advances in manufacturing scalability, as well as improvements in recipient useability, miniaturisation, reliability and, most importantly, speech performance in difficult listening situations.

The launch of the Nucleus 5 System has now been rolled out in nearly 50 countries. The features and performance are acknowledged as a game changer in the industry. Recipient performance data are now available and show continued clinically significant hearing improvement.

Enhanced Cochlear Baha 3

The enhanced Cochlear Baha 3 system is currently being 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

Outlook

The launch of the Nucleus 5 has resulted in a game change across multi dimensions, including recipient hearing performance, miniaturisation, scalable manufacturing and the building blocks for scaling the clinical pathway.

Nucleus 5 will continue underpinning growth in F11 and software enhancement available towards the end of the calendar year, will facilitate upgrade processor sales.

The dynamics of the implantable hearing device industry remain positive in terms of cost effective, life changing outcomes driving market growth.

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