

ASX / MEDIA RELEASE

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COCHLEAR ANNOUNCES RECORD EARNINGS FOR THE HALF YEAR ENDING 31 DECEMBER 2009

- Net Profit after Tax (NPAT) of \$75.2 million up 8% with EPS of \$1.34 up 7%.
- Successful launch of the new cochlear implant system Cochlear™ Nucleus® 5, with sales biased to the December quarter (Q2). Cochlear implant (CI) unit sales for the half of 9,811 units up 7%, with Q2 CI unit sales up 13%.
- Interim dividend of \$0.95 up 19%.
- Total Revenue of \$347.6 million, down 2% (sales up 4% in constant currency).
- F10 guidance: full year F10 NPAT growth of at least 15% over F09.

Sydney, Australia, 9th February 2010: Cochlear Limited (ASX:COH), the global leader in implantable hearing solutions, today announced record Net Profit after Tax (NPAT) of \$75.2 million for the six months ended 31st December 2009, up 8% on the first half of F09.

Cochlear will pay a fully franked interim dividend of 95 cents per share on 16th March 2010 representing a 19% increase on the previous corresponding period.

“This financial result was helped by the successful launch of the new Cochlear Baha® BP100 sound processor and the next generation cochlear implant system, Cochlear Nucleus 5. Customer feedback from the new systems is extremely positive and improved clinical performance demonstrated. Importantly, these launches provide momentum going into the second half,” said Cochlear CEO Dr Chris Roberts.

“With the launch of the new products and financial discipline around operating expenses, operating margins expanded, with EBIT of \$107.3 million being 31% of revenue compared to 28% for H1 F09.

“Free cash flow for the half year of \$89 million was a record and net debt excluding the headquarters building program was reduced by \$29.7 million to \$69.0 million.

“Full year NPAT is forecast to be at least 15% ahead of last year reflecting continuing momentum from the successful new product launches,” he said.

Financial Summary

Results summary	H1 F10 \$ million	H1 F09 \$ million	Change
Cochlear implant sales	290.5	301.1	↓ 3%
Bone Anchored Solutions (Baha)	46.4	45.8	↑ 1%
FX Contracts Gains	10.7	8.3	
Total revenue	347.6	355.2	↓ 2%
EBITDA	118.0	110.1	↑ 8%
EBIT	107.3	100.4	↑ 7%
EBIT / Revenue	31%	28%	
Net Profit After Tax	75.2	69.9	↑ 8%
Basic EPS (cents)	134.0	125.5	↑ 7%
Interim dividend (payable 16/03/2010)	95c	80c	↑ 19%
Franking	100%	100%	

- Total revenues were \$347.6 million, down 2%. Sales, excluding FX contracts, were \$336.9 million, down 3%. In constant currency (that is restating F09 at F10 FX rates), sales were up 4% compared to H1 F09 and 7% compared to the June F'09 half.
- Cochlear implant (CI) system sales and accessories, including sound processor upgrades were \$290.5 million, down 3%. While cochlear implant unit sales increased 7% to 9,811 units, installed base sales (that is sound processor upgrades) declined 29% as the focus of the Nucleus 5 launch was on complete system sales not upgrades and indeed Nucleus 5 upgrades were not available at the time of launch.
- Since the Nucleus Freedom™ launch four years ago, over \$250 million of revenue has been generated from the Freedom upgrade program. There are now twice as many CI recipients for the Nucleus 5 upgrade program (when it is released) than when Nucleus Freedom was introduced.
- CI unit sales were biased to the December quarter (Q2) reflecting the timing of the Cochlear Nucleus 5 System launch. CI unit sales growth for Q2 was 13% (compared to 7% for the half). Collectively, for the 20 countries in which Cochlear Nucleus 5 was launched during the half, CI unit sales growth was approximately 20%.
- Baha sales of \$46.4 million grew 10% in constant currency (1% in reported currency).

- Regional sales growth:
 - Americas sales of \$147.7 million were up 7% in constant currency (down 1% in reported currency) following Cochlear Nucleus 5 and Cochlear Baha BP100 product releases.
 - Europe sales of \$141.7 million were up 1% in constant currency (down 7% in reported currency). Tender sales in Central and Eastern Europe and Middle East were down on last year reflecting timing and in some cases delays in tenders rather than market share shift. The Cochlear Nucleus 5 launch drove double digit growth in those countries where it was released.
 - Asia Pacific sales of \$47.5 million were up 9% in constant currency (up 5% in reported currency). This included 300 units for the China donation program.

- Cash from operating activities was up 42% to a record \$85.4 million. Free cash flow of \$89 million was up 149%.
- Total net debt was \$103.4 million at 31st December 2009. Excluding \$34.5 million of debt for the new global headquarters at Macquarie University operating net debt at 31st December 2009 was \$69 million, representing a net gearing ratio of 15% (F09, 21%) defined as (net debt / net debt + equity).
- 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 \$34 million has been spent on the building to date.
- An interim fully franked dividend of 95 cents per share was declared and will be paid on 16th March 2010 based on a record date of 26th February 2010. This interim dividend is up 19%.

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 5th generation cochlear implant that Cochlear has released in 28 years and the 8th 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.

CE Mark approval was obtained in Europe in June 2009 and following reimbursement registration in various European countries the product was successfully launched. The staged roll out will continue as further reimbursement registrations are obtained, for example France and Belgium are expected to launch in the June half. Major distributor markets in the Middle East and Eastern Europe will also launch in the June half.

FDA approval of the Cochlear Nucleus 5 (PMA Supplement) submission was received for USA in September 2009. The Cochlear Nucleus 5 System was then launched into this market. As in launch countries in Europe and Asia Pacific, the launch has been enthusiastically received in the USA with strong sales momentum carrying through into the second half.

Features of the Cochlear Nucleus 5 System, such as the implant being 40% thinner (so the implant can barely be felt after surgery), the implant being 2.5 times stronger (improved impact resistance) as well as the externals (slim processor, remote assistant and the like) and improved hearing performance have supported increases in market share.

Cochlear Baha BP100 released

The next generation Baha sound processor (BP100) was commercially released in key markets, including the USA, during this half.

The BP100's state-of-the-art automated digital sound processing, optimised for bone conduction, further improves hearing performance while retaining simplicity of use.

The Direct Acoustic Cochlear Stimulator (DACS)

The DACS system is designed to provide mechanical (acoustic) stimulation direct to the cochlea for recipients with severe mixed hearing losses.

The first recipients of Cochlear's DACS system were implanted in Germany in November and were switched on in January 2010 with success. First human implant is a significant milestone event in any implantable product development program and much will be learned from the initial pilot trial.

Outlook

The full year F10 results continue to be influenced by the momentum and further roll out of the launch program of our new products, particularly Cochlear Nucleus 5. NPAT is forecast to be at least 15% ahead of last year.

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