

## ASX Announcement

16 August 2019

### COCHLEAR FINANCIAL RESULTS FOR THE YEAR ENDED JUNE 2019

**Cochlear delivered growing sales revenue and profits in FY19, while continuing to invest to grow the hearing implant market**

- **Reported sales revenue up 7% (2% in constant currency<sup>1</sup>) to \$1,446.1m, with Services revenue up 20% and Cochlear implant revenue up 2%**
- **Cochlear implant units down 3% to 34,083, with developed markets in line with FY18 while emerging market volumes declined**
- **Reported net profit of \$276.7m, up 13% (up 11% in CC) includes \$10.8m in non-cash net gains from the revaluation of innovation fund investments**
- **Underlying net profit of \$265.9m, which excludes the revaluation, up 7% (up 6% in CC)**
- **Strong cash flow generation supports the 10% increase in full year dividends**
- **FY20 net profit guidance of \$290-300 million, a 9-13% increase on underlying net profit for FY19**

\$m	FY19	FY18	Change % (reported)	Change % (CC)
Cochlear implant units	<b>34,083</b>	35,260	↓ 3%	
Sales revenue	<b>1,446.1</b>	1,351.4	↑ 7%	↑ 2%
Earnings before interest & tax (EBIT)	<b>370.1</b>	348.4	↑ 6%	↑ 5%
Net profit (reported)	<b>276.7</b>	245.8	↑ 13%	↑ 11%
Net profit (excl revaluation of innovation fund)	<b>265.9</b>	248.0	↑ 7%	↑ 6%
% net profit margin <sup>2</sup>	<b>18%</b>	18%		
Basic earnings per share	<b>\$4.80</b>	\$4.27	↑ 12%	
Final dividend per share	<b>\$1.75</b>	\$1.60	↑ 9%	
Total dividends per share	<b>\$3.30</b>	\$3.00	↑ 10%	
% franking	<b>100%</b>	100%		
% payout ratio	<b>69%</b>	70%		

<sup>1</sup> Constant currency (CC) removes the impact of foreign exchange (FX) rate movements and FX contract gains/(losses) to facilitate comparability. See end note for further detail. Page 1 of 10

<sup>2</sup> Excluding revaluation of innovation fund

## OVERVIEW

### FY19 operational highlights

Cochlear's CEO & President, Dig Howitt said, "The business delivered a 7% increase in sales revenue (2% in CC) with underlying net profit growing by 7% (6% in CC) in FY19. The highlight was the strong growth of the Services business with a slower year for cochlear implant system sales."

Services revenue grew by 20% (14% in CC), with sound processor upgrade revenue increasing by 17% in CC. Mr Howitt said, "The Services business continues to grow in importance as our recipient base grows, now representing 30% of sales revenue. In FY19, Services benefitted from the continued strong uptake of the Nucleus® 7 Sound Processor."

The cochlear implant business grew revenue by 2% (down 3% in CC) with units declining by 3%. Mr Howitt said, "After four years of strong growth driven by a combination of market growth and share gains, our developed markets units were in line with last year, while emerging markets units declined."

The US and Germany lost market share following a competitor product launch. Sales however returned to growth following the launch of the Nucleus Profile™ Plus Series cochlear implant in Europe in mid May and the US in late June. Mr Howitt said, "The Nucleus Profile Plus Series cochlear implant has been well-received by the market and has driven an uplift in sales since its launch late in FY19."

Japan momentum continues with strong demand following the expansion of indications and funding for cochlear implants in late 2017.

Emerging markets units declined, with around 700 fewer Chinese Central Government tender units than last year and very significant declines in Argentina and Turkey driven by recession and currency devaluation. Strong growth was delivered across many regions including the Middle East and Eastern Europe, with the shipment of a number of tenders won in FY19 expected in FY20.

"A key component of our strategy in emerging markets is to build our direct presence, which improves our knowledge and influence in these markets, providing a base for future growth. In FY19 we acquired distributors in some key emerging markets," said Mr Howitt.

### Strong financial position

Cochlear delivered net profit of \$276.7 million, an increase of 13% on FY18 (11% in CC), which includes \$10.8 million in non-cash net gains from the revaluation of innovation fund investments. Net profit excluding the revaluation was \$265.9 million, an increase of 7% (6% in CC).

Operating cash flow increased by \$37.9 million to \$296.0 million and the Board has declared a final dividend of \$1.75, an increase of 9%. Full year dividends increased by 10% to \$3.30 in FY19, fully franked.

Mr Howitt said, "Cochlear continues to target the delivery of consistent revenue and earnings growth over time. We have a strong balance sheet and generate operating cash flows sufficient to fund investing activities, capital expenditure and acquisitions whilst increasing dividends to shareholders and maintaining conservative gearing levels."

### Commitment to technology leadership

Cochlear has been the global leader in implantable hearing solutions for close to 40 years and continues to invest around 12% of sales revenue each year on R&D. Mr Howitt said, "We launched a number of new products this year including the Nucleus Profile Plus Series cochlear implant, built on the world's thinnest implant platform, and designed for routine 1.5 and 3 Tesla magnetic resonance imaging (MRI) scans without the need to remove the internal magnet.

"The Nucleus 7 Sound Processor expanded its range of connectivity features, enabling direct audio streaming from compatible Android devices. The functionality will be accessible to Android devices using Google's Audio Streaming for Hearing Aids (ASHA) protocol, which is expected in early FY20. A new control feature, ForwardFocus, was added to the Nucleus Smart App, allowing Nucleus 7 Sound Processor users to better control their listening environment by reducing distracting noise coming from behind them so they can more easily enjoy a face-to-face conversation.

“We introduced the Cochlear™ Research Platform ECochG, which assists surgeons with the electrode insertion process by providing real time feedback, and the Remote Check pilot commenced in the UK. Remote Check is a convenient, at-home testing tool that allows patients with a Nucleus 7 Sound Processor to complete a routine review of their cochlear implant at home using their mobile device, reducing the need to visit their clinic in person.”

Cochlear continues to advance its innovation agenda with a number of new products in the pipeline. “We have an exciting portfolio of products to be launched over the next 18 months,” said Mr Howitt.

### **Building a consistent treatment pathway for adults**

One of Cochlear’s challenges is the lack of a consistent treatment pathway for diagnosing and treating adults. For many adults who are clear candidates, the pathway to cochlear implants is often haphazard with the vast majority unaware of the existence of this effective option for treating their hearing loss.

Mr Howitt said, “Cochlear continues to work to build grass roots awareness with candidates including through its successful direct-to-consumer marketing activities. We have focused on building referrals from the hearing aid channel in the US through the establishment of the Cochlear Provider Network, which links surgeons with hearing aid clinics, while building professional awareness through improved education.

“We are also encouraging initiatives within the professional community, including leading cochlear implant surgeons and audiologists, to develop a consensus on the appropriate treatment pathway for adults with severe to profound sensorineural hearing loss, with solid progress made this year. In March, an independent steering committee and panel of 30 audiologists and ENT surgeons across 13 countries, reached a consensus that could lay the foundations for the creation of international clinical practice guidelines for cochlear implantation, including patient identification, referral, implantation and rehabilitation.”

The independent process has received funding support from a cross-industry group, including Cochlear, none of which had a voting role in the consensus.

### **Quality of life benefits of cochlear implants**

Positive results were achieved in the recent ‘CI532 Multi-Center Clinical Study (532)’\*, a study designed to measure the benefits of bimodal cochlear implantation – a cochlear implant in one ear, and a hearing aid in the other – on a large group of adults. The study found significant improvements in speech performance, self-perception of abilities and quality of life for people for this group, who had previously been hearing aid users.

Mr Howitt said, “We have been greatly encouraged by the results of the ‘532’ study which found that, on average, participants achieved a 10-fold improvement in satisfaction with their hearing performance with cochlear implants over hearing aids, with dramatic improvements in the ability to understand conversations, hear on the phone and listen to and appreciate music.

“We have long understood the hearing improvement provided by cochlear implants. This study goes a step further, demonstrating the impact the implant has on the patient’s quality of life, an increasingly important component of determining the value of funded interventions to payers. As we increasingly work with the hearing aid channel, the ‘532’ study provides an important foundation for educating hearing professionals of the benefits of cochlear implants over hearing aids in this patient population.”

### **Market growth through expanding indications**

One of the drivers of market growth for cochlear implants is the expansion of indications for funded implants. There are many countries that have either restrictive clinical indications or capped funding which limits access. Mr Howitt said, “We have been building our market access capability globally to advocate for the expansion of both indications and funding for cochlear implants.

“In March, the UK announced an expansion to the reimbursement criteria for cochlear implants to include candidates with severe hearing loss, doubling the total addressable market. This change is a major milestone and is expected to support growth in the UK over the coming years. It follows recent changes in Japan and Taiwan (Greater China) where the expansion of clinical indications and/or reimbursement for cochlear implants has driven growing demand for implants.

<sup>3</sup> Clinical Evaluation of the Cochlear Nucleus CI532 Cochlear Implants in Adults. 2019 Jan; Data on file.

“We have other applications being assessed by health authorities and payers across the regions and hope to see further extension of the reimbursement criteria for cochlear implants in the coming years.”

### **Revaluation of innovation fund**

Cochlear’s innovation fund has made several small investments in companies with novel technologies that may, over the longer term, enhance or leverage the Company’s core technology. The innovation fund includes investments in Saluda, Nyxoah, Earlens, EpiMinder and Sensorion. FY19 net profit includes \$10.8 million in non-cash net gains from the revaluation of the fair value of the innovation fund to \$50.9 million.

### **FY20 financial outlook**

For FY20, Cochlear expects to deliver reported net profit of \$290-300 million, a 9-13% increase on underlying net profit for FY19. Mr Howitt said, “We expect strong growth in cochlear implant units in FY20, driven by a number of new products launched late in FY19 and the continued investment in market awareness and access activities. While still early in the year, we have seen an uplift in sales since the launch of the Nucleus Profile Plus Series cochlear implant which is currently being rolled out across the developed markets as regulatory approvals are received.

“As the global leader in implantable hearing solutions, we continue to be excited by the long-term opportunity to grow the hearing implant market. Our strategy to retain market leadership and grow the hearing implant market has clear priorities that drive investment decisions and capital allocation. And we have a strong financial position that enables the business to fund its growth activities while rewarding shareholders along the way with a growing dividend stream.

“We expect to continue to deliver growth in revenue and earnings in the coming years, underpinned by the investments made in product development and market growth initiatives. The balance sheet and free cash flow generation remain strong and we continue to target a dividend payout ratio of around 70% of net profit.”

Key guidance considerations for FY20:

- Expect strong growth in cochlear implant units in developed markets driven by the recent launch of the Nucleus Profile Plus Series cochlear implant and continued investment in market awareness and access activities;
- Emerging market growth rates over time continue to be strong, however, annual growth rates can be variable driven by the timing of tender based activity and macro-economic conditions;
- Expect to release the new osseointegrated steady-state implant (OSIA) product later in FY20 to extend the Acoustics product portfolio;
- Capital expenditure to increase to around \$180 million, including the continued development of the China manufacturing facility, fitout of the new, larger Denver office as well as investment in IT platforms to strengthen connected health, digital and cyber security capabilities. Capital expenditure is expected to drop to around \$100 million in FY21;
- Includes an estimated \$2-3 million pre-tax earnings impact from the introduction of the new Australian leasing accounting standard (AASB 16);
- Excludes any revaluation of innovation fund investments that may occur;
- Targeting to maintain the net profit margin; and
- Forecasting a weighted average AUD/USD exchange rate of 70 cents for FY20 (72 cents in FY19) and AUD/EUR of 0.62 EUR (0.63 EUR in FY19).

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## PRODUCT & SERVICE HIGHLIGHTS

	FY19	FY18	Change %	Change %
	\$m	\$m	(reported)	(CC)
Cochlear implants (units)	34,083	35,260	↓ 3%	
<b>Sales revenue</b>				
Cochlear implants	845.1	831.0	↑ 2%	↓ 3%
Services (sound processor upgrades and other)	427.2	355.2	↑ 20%	↑ 14%
Acoustics (bone conduction and acoustic implants)	173.8	165.2	↑ 5%	↓ 1%
<b>Total sales revenue</b>	<b>1,446.1</b>	<b>1,351.4</b>	<b>↑ 7%</b>	<b>↑ 2%</b>

### Cochlear implants – 58% of sales revenue

Cochlear implant revenue grew 2% (down 3% in CC) with units declining by 3%. Cochlear's developed markets business, which represents around 80% of revenue, delivered units and CC revenue broadly in line with last year.

The US and Germany lost market share following a competitor product launch. Both markets have experienced an uplift in sales since the launch of the Nucleus Profile Plus Series cochlear implant in Germany in mid May and the US in late June. Japan momentum continues with strong demand following the expansion of indications and funding for cochlear implants in late 2017.

The seniors segment continues to be the fastest growing segment across the developed markets as awareness increases. Surgeries for seniors, in the US in particular, are increasingly being driven by the Company's successful direct-to-consumer marketing campaigns, with a small but growing number being referred from the hearing aid channel.

Emerging markets units declined, with around 700 fewer Chinese Central Government tender units than last year and very significant declines in Argentina and Turkey driven by recession and currency devaluation. Strong growth was delivered across many regions including the Middle East and Eastern Europe, with the shipment of a number of tenders won in FY19 expected in FY20.

### Services (sound processor upgrades and other) – 30% of sales revenue

Services sales revenue increased by 20% (14% in CC). Sound processor upgrade revenue, which represents around 75% of Services revenue, increased by 17% in CC driven by strong uptake of the Nucleus 7 Sound Processor. The growing recipient base, initiatives to strengthen connectivity with recipients as well as the product's market-leading functional and lifestyle features, have all contributed to the strong Services growth.

Cochlear continues to invest to provide its growing customer base with a world-class customer experience with increased connectivity and engagement. Cochlear Family, the recipient membership program, provides Cochlear with the opportunity to connect directly with recipients to provide service and support. Membership continues to grow rapidly, increasing by 40% over the last 12 months, to now exceed 140,000 members with an acceleration in recruitment in recent years driven by a combination of direct outreach programs and improvements in customer onboarding.

### Acoustics (bone conduction and acoustic implants) – 12% of sales revenue

Acoustics revenue increased by 5% (down 1% in CC), with revenue impacted by lower upgrade sales. The business expects to release the new osseointegrated steady-state implant (OSIA) product later in FY20 to extend the Acoustics product portfolio.

## REGIONAL REVIEW

Sales revenue	FY19 \$m	FY18 \$m	Change % (reported)	Change % (CC)
Americas	688.6	648.5	↑ 6%	↓ 1%
EMEA (Europe, Middle East and Africa)	519.2	478.9	↑ 8%	↑ 6%
Asia Pacific	238.3	224.0	↑ 6%	↑ 2%
<b>Total sales revenue</b>	<b>1,446.1</b>	<b>1,351.4</b>	<b>↑ 7%</b>	<b>↑ 2%</b>

### Americas (US, Canada & Latin America) – 48% of sales revenue

Sales revenue increased by 6% (down 1% in CC). The US experienced a lower rate of growth for much of the year, losing market share following a competitor product launch. The launch of the Nucleus Profile Plus Series cochlear implant in late June has been well-received by the market, driving an uplift in sales since launch. Services revenue grew driven by upgrades to the Nucleus 7 Sound Processor.

The business continues to invest in expanding direct-to-consumer marketing in the US with a growing emphasis on working with the hearing aid channel to grow referrals. The Cochlear Provider Network is expanding rapidly and is increasing education of the indications and benefits of cochlear implants to hearing aid audiologists and is starting to provide a referral pathway to cochlear implant surgeons.

Units and revenue in Latin America declined primarily the result of significant declines in Argentina, following currency devaluation and economic impacts.

### EMEA (Europe, Middle East and Africa) – 36% of sales revenue

Sales revenue increased by 8% (6% in CC). Germany, the largest market in Europe, experienced a decline in system sales revenue with a loss of market share following a competitor product launch. The launch of the Nucleus Profile Plus cochlear implant in mid May has been well-received by the market, driving an uplift in sales since launch.

After a slower start to the year, cochlear implant system sales in Western Europe (excluding Germany) improved, growing high single-digit in the second half. Services performed strongly driven by upgrade demand for the Nucleus 7 Sound Processor.

In March, the UK announced the expansion of indications for cochlear implantation to include candidates with severe hearing loss, a major milestone that is expected to support growth in the UK over the coming years.

Units and sales revenue across EMEA's emerging markets grew as a result of the timing of a number of tenders and is underpinned by investments in the organisation in recent years. The solid result was partially offset by declines in Turkey, following devaluation of the currency and recession.

### Asia Pacific (Australasia & Asia) – 16% of sales revenue

Sales revenue increased by 6% (2% in CC). Japan experienced strong unit growth, with Australia delivering strong growth in sound processor upgrades. Solid revenue growth was delivered across the developed markets and non-tender emerging market portions of the region with expanded indications and Cochlear's growing presence.

Growth for Asia Pacific overall was affected by the timing of emerging market tender ordering as well as around 700 fewer Chinese Central Government tender units than last year.

## FINANCIAL REVIEW

### Profit & loss

	FY19	FY18	Change %	Change %
	\$m	\$m	(reported)	(CC)
<b>Sales revenue</b>	<b>1,446.1</b>	<b>1,351.4</b>	<b>7%</b>	<b>2%</b>
Cost of sales	351.1	361.2	(3%)	(6%)
<i>% gross margin</i>	76%	73%	3 pts	2 pts
Selling, marketing and general expenses	450.9	397.0	14%	9%
Research and development expenses	184.4	167.7	10%	9%
<i>% of sales revenue</i>	13%	12%		
Administration expenses	94.8	97.4	(3%)	(3%)
<b>Total expenses</b>	<b>1,081.2</b>	<b>1,023.3</b>	<b>6%</b>	<b>3%</b>
Other net income	13.8	10.2		
Other net income (revaluation of innovation fund)	10.8	(2.2)		
FX contract gains / (losses)	(19.4)	12.3		
<b>Earnings before interest and tax (EBIT)</b>	<b>370.1</b>	<b>348.4</b>	<b>6%</b>	<b>5%</b>
<i>% of sales revenue</i>	26%	26%		
Net finance expense	4.5	7.9	(43%)	
Income tax expense	88.9	94.7	(6%)	
<i>% effective tax rate</i>	24%	28%		
<b>Net profit (reported)</b>	<b>276.7</b>	<b>245.8</b>	<b>13%</b>	<b>11%</b>
<b>Net profit (excl revaluation of innovation fund)</b>	<b>265.9</b>	<b>248.0</b>	<b>7%</b>	<b>6%</b>
<i>% net profit margin (excl reval of innovation fund)</i>	18%	18%		

Reported sales revenue increased by 7% (2% in CC) to \$1,446.1 million. Reported net profit increased by 13% (11% in CC) to \$276.7 million and includes \$10.8 million in non-cash net gains from the revaluation of innovation fund investments. Underlying net profit, which excludes the revaluation, increased by 7% (6% in CC), with the net profit margin remaining stable at 18%.

#### Key points of note:

- Cost of sales declined by 3% (6% in CC) to \$351.1 million, reflecting manufacturing efficiencies, improved sound processor reliability, lower warranty costs and lower repair expenses resulting from the centralisation of repairs. As a result, gross margin improved by three percentage points to 76%;
- Selling, marketing and general expenses increased by 14% (9% in CC) to \$450.9 million. The increase reflects the continued investment in the sales force and direct-to-consumer marketing, with a growing investment in longer-term market growth activities including standard of care and market access initiatives;
- Investment in R&D increased 10% (9% in CC) to \$184.4 million, representing 13% of sales revenue;
- Other net income of \$13.8 million includes \$10.8 million relating to a release in the contingent consideration value of Sycle;
- Other net income (revaluation of innovation fund) of \$10.8 million reflects non-cash net gains from the revaluation of the innovation fund to \$50.9 million; and
- The effective tax rate reduced from 28% to 24%, primarily reflecting the full year impact of lower US federal corporate tax rates and the impact of the innovation fund revaluation which is not tax affected. FY18 included a \$6.3 million revaluation of the deferred tax assets which was directly related to the US tax changes.

## Cash flow

	FY19	FY18	Change
	\$m	\$m	\$m
EBIT	370.1	348.4	21.7
Depreciation and amortisation	38.5	34.2	4.3
Changes in working capital and other	(17.4)	(15.3)	(2.1)
Net interest paid	(4.5)	(7.9)	3.4
Income taxes paid	(90.7)	(101.3)	10.6
<b>Operating cash flow</b>	<b>296.0</b>	<b>258.1</b>	<b>37.9</b>
Capital expenditure	(86.6)	(44.6)	(42.0)
Acquisition of other intangible assets	(28.0)	(5.1)	(22.9)
Other net investments	(23.2)	(5.7)	(17.5)
<b>Free cash flow</b>	<b>158.2</b>	<b>202.7</b>	<b>(44.5)</b>

Operating cash flow increased by \$37.9 million to \$296.0 million, with free cash flow reducing by \$44.5 million to \$158.2 million driven by increases in capital expenditure and other investments.

### Key points of note:

- Operating cash flow increase was driven by improved earnings, with EBIT increasing by \$21.7 million and lower tax payments;
- Capital expenditure (capex) increased by \$42.0 million to \$86.6 million, reflecting stay in business capex, IT platform development to strengthen connected health, digital and cyber security capabilities as well as the partial construction of the China manufacturing facility;
- Acquisition of other intangible assets includes amounts relating to the expanded GN Hearing collaboration – license fees for existing technology and contribution to the development of intellectual property. Cochlear moved to direct distribution across a number of emerging markets during the year resulting in the acquisition of some distributors; and
- Other net investments primarily relates to the investment in Nyxoah, a medical device company focused on the development and commercialisation of a best-in-class hypoglossal nerve stimulation therapy for the treatment of obstructive sleep apnea.



## Capital employed

	FY19	FY18	Change
	\$m	\$m	\$m
Trade receivables	299.5	299.1	0.4
Inventories	195.4	167.4	28.0
Less: Trade and other payables	(160.8)	(140.5)	(20.3)
Working capital	334.1	326.0	8.1
<i>Working capital / sales revenue*</i>	23%	24%	
<i>Debtor days</i>	67	69	(2) days
<i>Inventory days</i>	203	171	32 days
Property, plant and equipment	166.5	128.4	38.1
Intangible assets	424.4	345.3	79.1
Investments	47.8	15.8	32.0
Other net liabilities	(143.9)	(118.5)	(25.4)
<b>Capital employed</b>	<b>828.9</b>	<b>697.0</b>	<b>131.9</b>

Capital employed increased by \$131.9 million to \$828.9 million since June 2018.

Key points of note:

- Inventories increased by \$28.0 million, primarily reflecting stock build ahead of the launch of the new Nucleus Profile Plus Series cochlear implant;
- Property, plant and equipment increased by \$38.1 million and includes the partly-constructed China manufacturing facility;
- Intangible assets increased by \$79.1 million to \$424.4 million, reflecting investments in IT infrastructure and contributions to the expanded GN Hearing collaboration. In addition, Cochlear moved to direct distribution across a number of emerging markets during the year resulting in the acquisition of some distributors; and
- Investments increased by \$32.0 million, reflecting the investment in Nyxoah and the \$10.8 million revaluation of the innovation fund.

## Net debt

	FY19	FY18	Change
	\$m	\$m	\$m
Loans and borrowings:			
Current	3.3	3.7	(0.4)
Non-current	178.3	144.0	34.3
Total loans and borrowings	181.6	147.7	33.9
Less: Cash and cash equivalents	(78.6)	(61.5)	(17.1)
<b>Net debt</b>	<b>103.0</b>	<b>86.2</b>	<b>16.8</b>

Net debt increased by \$16.8 million to \$103.0 million since June 2018, driven by higher capital investment levels including the partial construction of the China manufacturing facility and IT infrastructure development.

## Dividends

	FY19	FY18	Change %
Interim ordinary dividend (per share)	\$1.55	\$1.40	11%
Final ordinary dividend (per share)	\$1.75	\$1.60	9%
Total ordinary dividends (per share)	\$3.30	\$3.00	10%
% payout ratio	69%	70%	
% franking	100%	100%	

Strong free cash flow and the continued strength of the balance sheet have supported the declaration of a final dividend of \$1.75 per share, an increase of 9%, franked at 100%. Full year dividends increased by 10% to \$3.30 per share, franked at 100% and representing a payout of 69% of reported net profit.

The record date for determining dividend entitlements is 20 September 2019 and the final dividend will be paid on 14 October 2019.

## NOTES

### Forward-looking statements

Cochlear advises that this document contains forward-looking statements which may be subject to significant uncertainties outside of Cochlear's control. No representation is made as to the accuracy or reliability of forward-looking statements or the assumptions on which they are based. Actual future events may vary from these forward-looking statements and it is cautioned that undue reliance not be placed on any forward-looking statement.

### Non-IFRS financial measures

Given the significance of foreign exchange rate movements, the directors believe the presentation of the non-IFRS financial measure, constant currency, is useful for the users of this document as it reflects the underlying financial performance of the business. This non-IFRS financial measure has not been subject to review or audit. However, KPMG has separately undertaken a set of procedures to agree the non-IFRS financial measures disclosed to the books and records of the group.

### Constant currency

Constant currency removes the impact of foreign exchange rate movements to facilitate comparability of operational performance for Cochlear. This is done by converting the prior comparable period net profit of entities in the group that use currencies other than Australian dollars at the rates that were applicable to the current period (translation currency effect) and by adjusting for current year foreign currency gains and losses (foreign currency effect). The sum of the translation currency effect and foreign currency effect is the amount by which reported EBIT and net profit is adjusted to calculate the result at constant currency.

### Reconciliation of constant currency net profit to reported net profit

	FY19	FY18	Change %
	\$m	\$m	
<b>Net profit (reported)</b>	<b>276.7</b>	<b>245.8</b>	<b>13%</b>
FX contract movement		(31.7)	
Spot exchange rate effect to sales revenue and expenses*		39.0	
Balance sheet revaluation*		(4.5)	
<b>Net profit (CC)</b>	<b>276.7</b>	<b>248.6</b>	<b>11%</b>

\* FY19 actual v FY18 at FY19 rates.