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COCHLEAR FINANCIAL RESULTS FOR THE YEAR ENDED JUNE 2016

Positive momentum continues with sales revenue exceeding $1 billion

- **Sales revenue up 23% (12% in constant currency) to $1.158 billion with growth delivered across all product categories and regions**
- **Cochlear implant sales revenue up 21% and implant units up 12% with growth across developed and emerging markets**
- **Market leadership position supported by successful new products, continued investment in market growth initiatives and R&D activities**
- **FX benefits from the depreciation of the Australian dollar**
- **Net profit of $189m, up 30%, at the top end of guidance of $180-190m**
- **Total dividends up 21% to $2.30 per share, fully franked**
- **FY17 net profit guidance of $210-225m, up ~10-20% on FY16**

A$m	**FY16**	**FY15**	**Change %**
Sales revenue	1,158.1	941.9	⬆ 23%
FX contracts loss	(27.5)	(16.3)	
Total revenue	1,130.6	925.6	⬆ 22%
Earnings before interest & tax (EBIT)	**262.6**	**206.4**	**⬆ 27%**
Net finance costs	(8.3)	(10.1)	⬇ 18%
Taxation expense	(65.4)	(50.5)	⬆ 30%
Net profit	**188.9**	**145.8**	**⬆ 30%**
Basic earnings per share	$3.31	$2.56	⬆ 29%
Final dividend per share	$1.20	$1.00	⬆ 20%
Total dividends per share	$2.30	$1.90	⬆ 21%
Franking %	100%	69%	

FINANCIAL HIGHLIGHTS

- Sales revenue of $1,158.1 million, up 23% (12% in constant currency);
- Net profit of $188.9 million, up 30%;
- Basic earnings per share of $3.31 per share, up 29%; and
- Final dividend of $1.20 cents per share, up 20%, franked at 100%. Total dividends increased by 21% to $2.30 per share, franked at 100%, representing a payout of 70% of full year net profit.

OVERVIEW

FY16 operational highlights

Cochlear's Chief Executive Officer & President Chris Smith said, "The positive momentum we saw in FY15 has continued throughout FY16 with strong growth delivered across all product categories and regions. The business achieved a major milestone with sales revenue increasing by 23% (12% in constant currency) to $1.158 billion, exceeding $1 billion for the first time.

"The cochlear implant business delivered revenue growth of 21% (10% in constant currency) and unit growth of 12%. Our leading developed markets, including the United States (US), the United Kingdom (UK), Germany and Australia, each grew implant units by around 10%. Emerging markets performed well with highlights including China, both in the private pay and tender market, India and the Middle East.

"We have strengthened our market-leading position with the success of a suite of product releases made over the past 18 months. In FY16 we introduced Cochlear's first off-the-ear sound processor Cochlear™ Kanso™; expanded the bone conduction portfolio with Baha® 5 Power and SuperPower sound processors; introduced the Nucleus® Profile™ Slim Modiolar electrode, the world's slimmest electrode and launched the next generation True Wireless™ Mini Microphone 2+.

"Cochlear continues to demonstrate its commitment to being the technology leader in our industry with ongoing investment in research and development (R&D). Our aim is to improve hearing outcomes and expand the indications for implantable solutions so our recipients can have the quality of life they expect. In FY16, R&D spend increased by 12% to $143 million, representing approximately 12% of sales revenue. As we move forward, we are injecting greater discipline into our R&D processes to ensure our investments are customer-driven and returns focused. We expect to deliver new products across all categories over the next 18 months as well as advance our long-term technology development pipeline.

"The Services business, which includes sound processor upgrades and accessories, continues to perform well with sales revenue increasing 30% (20% in constant currency). Services now represents approximately 25% of sales revenue and has been established as a separate business unit. We expect its sales contribution to continue to trend upward over time as both the recipient base and service offering expand.

Strong financial position

Mr Smith said, "Cochlear has delivered a strong profit result with net profit of $189 million, up 30%, and at the high end of the guidance range. Free cash flow remains strong and has supported the 21% increase in full year dividends.

"We have benefitted from the devaluation of the Australian dollar and have taken the opportunity to accelerate our investment in market growth initiatives, including direct-to-consumer marketing and expansion of the sales force, as well as increasing our investment in R&D. We believe these investments have contributed to market growth this year and will help underpin growth in the coming years.

"At the same time, we have undertaken a balance sheet review in the context of new generation products launched over the past 18 months. The review has contributed to a $16 million non-cash inventory write-off, pre tax, reflecting old and obsolete parts and products."

Solid progress made against business priorities

Mr Smith said, "Cochlear's priorities are focused on the customer with initiatives aimed at accelerating market growth through global expansion of awareness and increased market access initiatives. With a growing recipient base, now numbering over 450,000, we are actively strengthening our servicing capability to provide products, programs and digital services to support the lifetime relationship with our recipients.

"In order to deliver on these priorities, we have strengthened our organisational capability, appointing a number of key leaders into the organisation. These include President, Services, Stuart Sayers; Chief Medical Officer, Dr Richard Toselli; Chief Operating Officer, Dig Howitt; President, Asia Pacific, Anthony Bishop and Senior Vice President, Global Marketing, Dean Phizacklea.

"We have made solid progress against our business priorities in FY16. These priorities are grow the core; build a service business; shape the organisation and value creation."

The highlights for FY16 include:

Grow the core

- successfully introduced of a range of new market-leading products – Kanso, Baha 5 Power and SuperPower, Nucleus Profile Slim Modiolar electrode and Mini Microphone 2+;
- appointed a Chief Medical Officer to expand clinical programs, enhance the regulatory path to market and strengthen the value proposition of Cochlear's products; and
- expanded the direct-to-consumer programs in the US and strengthened direct-to-consumer activities in other developed markets including in Australia, Germany and the UK.

Build a service business

- established Services as a separate business unit and appointed a President;
- expanded the recipient recruitment program and clinical support tools with the roll out of Cochlear Family, MyCochlear.com and CochlearLink; and
- expanded wireless product offerings.

Shape the organisation

- expanded the sales force across major markets with over 50 additional professional, clinical and customer-focused employees;
- expanded the sales office in Dubai to improve service in the Middle East and established an office in Vienna to service Central and Eastern Europe; and
- appointed a Chief Operating Officer to drive global integration of support functions and focus the organisation on operating as one global company to drive efficiencies and effectiveness.

Value creation

- strengthened the Smart Hearing Alliance commercial relationship with GN ReSound; and
- established an innovation fund to focus on innovative technologies which potentially assist Cochlear's future business activities. $14 million was invested in FY16.

2017 financial outlook

For FY17, net profit is expected to be within a range of $210-225 million, an increase of around 10-20% on FY16. Mr Smith said, "Cochlear expects positive momentum to continue, with investments made in product development and market growth initiatives expected to underpin growth for FY17."

Key considerations for FY17:

- expect continued strong uptake of the Nucleus 6 and Kanso sound processors over the next few years with the current penetration rate for the Nucleus 6 at around 22% of potential recipients;
- Chinese Central Government tender units expected to be at similar levels to FY16 with delivery of units biased to the first half;
- in Europe, Cochlear does not expect any immediate impact on the business from the UK's decision to withdraw from the European Union. However, the Company remains alert to the potential for uncertainty to curtail economic growth and put pressure on health budgets;
- expect FY17 R&D expenditure to be broadly in line with that for FY16, representing a lower percentage of sales revenue;
- forecasting a weighted average AUD/USD FX rate of 75 cents for FY17 versus 73 cents in FY16; and
- the balance sheet position and free cash flow generation remain strong. The Company will continue to target a dividend payout ratio of around 70% of net profit.

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PRODUCT & SERVICE HIGHLIGHTS

	FY16	FY15	Change %	Constant currency
Cochlear implants (units)	30,172	26,838	⬆ 12%	
Sales revenue *(A$m)*				
Cochlear implants	729.2	604.3	⬆ 21%	⬆ 10%
Services (sound processor upgrades and accessories)	289.4	222.5	⬆ 30%	⬆ 20%
Acoustics (bone conduction and acoustic implants)	139.5	115.1	⬆ 21%	⬆ 9%
Total sales revenue	**1,158.1**	**941.9**	**⬆ 23%**	**⬆ 12%**

Cochlear implants – 63% of sales revenue

Cochlear implant revenue grew 21% (10% in constant currency) and unit sales grew 12% (8% excluding the benefit of China tender units) with solid growth experienced across developed and emerging markets. Leading developed markets, including the US, UK, Germany and Australia, all grew implant units by around 10%. Emerging markets performed well with highlights including strong growth in China, both in the private pay and tender markets, India and the Middle East.

There has been a strong uptake of the Nucleus Profile implants since release in FY15. The Profile series are the most reliable implants on the market and feature the world's thinnest electrodes, allowing for a reduction in surgery time and a less traumatic insertion. The Profile series implants are providing recipients with significant improvements in hearing performance in challenging listening situations when used with True Wireless accessories[1].

During the second half of FY16, we commenced a controlled market release of the new Slim Modiolar electrode (CI532) in Europe, the US and Canada. The CI532 is 60% thinner than the previous generation Contour Advance electrode, allowing for optimised surgical placement and an even less traumatic insertion.

Cochlear extended its sound processor portfolio during the second half with the introduction of Kanso. Kanso is a discrete, easy-to-use, off-the-ear sound processor that delivers the same hearing performance as the Nucleus 6 Sound Processor.

The increase in sales revenue also reflects earlier investments in sales and marketing capabilities including direct-to-consumer activities and field expansion across many markets. These initiatives help build awareness of implantable hearing solutions and support further penetration into the adult segment.

Services (sound processor upgrades and accessories) – 25% of sales revenue

Services sales revenue increased 30% (20% in constant currency) driven by the continuing strong uptake of the Nucleus 6 Sound Processor. With the launch of the Nucleus 6 for Nucleus 22 recipients, the latest sound processor is now compatible with all generations of implants released over the last 30 years.

[1] Wolfe J, Morais M, Schafer E. Improving hearing performance for cochlear implant recipients with use of a digital, wireless, remote-microphone, audio-streaming accessory. J Am Acad Audiol. 2015 Jun;26(6):532-9.

Accessories growth was supported by the continued uptake of True Wireless and the Aqua+ for Nucleus 6 users.

Wireless Mini Microphone 2+, which streams speech directly to the Cochlear sound processor, was launched during the second half, providing further enhancements in hearing performance to the True Wireless range.

As part of the commitment to provide recipients with great customer experience, the business commenced the rollout of a number of service-oriented products. These products include the recipient membership program, Cochlear Family; a personalised online portal to connect recipients directly with Cochlear, MyCochlear.com; and Cochlear Link, which uses cloud based technology to provide recipients with simpler and faster servicing of their sound processors.

Acoustics (bone conduction and acoustic implants) – 12% of sales revenue
Acoustics, which includes bone conduction and acoustic implant sales revenue, grew 21% (9% in constant currency) with solid performances across all regions. The bone conduction portfolio grew 10% in constant currency.

The Baha 5 portfolio was extended during the second half with the launch of Baha 5 Power and Baha 5 SuperPower Sound Processors, designed for recipients with higher degrees of hearing loss.

The Baha 5 System now provides the widest range of sound processors, including the industry's smallest, smartest and most powerful head-worn bone conduction solutions for those with single-sided deafness or who have conductive or mixed hearing loss. The Baha 5 System is also the only hearing implant system with MFi (made for iPhone) capabilities, allowing direct streaming between the sound processor and iPhones.

The Baha 5 Power and SuperPower Sound Processors are now commercially available in most key markets. They will be made available in other markets over the next 12 months as regulatory approvals are obtained.

REGIONAL REVIEW

Sales revenue *(A$m)*	**FY16**	**FY15**	**Change %**	**Constant currency**
Americas	519.7	403.0	⬆ 29%	⬆ 12%
EMEA (Europe, Middle East & Africa)	427.9	377.6	⬆ 13%	⬆ 7%
Asia Pacific	210.5	161.3	⬆ 31%	⬆ 23%
Total sales revenue	**1,158.1**	**941.9**	⬆ **23%**	⬆ **12%**

Americas (US, Canada & Latin America) – 45% of sales revenue
Sales revenue increased 29% to $519.7 million (12% in constant currency). The highlight was the growth in the US with revenue growth of 16% in constant currency and cochlear implant unit sales up around 10%. Growth overall has been driven by new product introductions and growing services revenue, supported by strategic growth initiatives commenced over the past few years.

The expanded field sales organisation, direct-to-consumer marketing and new customer relationship management system (Salesforce.com) have supported accelerated market growth.

Services revenue increased by over 20% in constant currency driven by upgrades to the Nucleus 6 Sound Processor. The uptake by Nucleus 22 recipients has been enthusiastic since launch in November 2015.

Overall Latin American sales revenue declined in constant currency as a result of deteriorating economic conditions.

EMEA (Europe, Middle East and Africa) – 37% of sales revenue

Sales revenue increased 13% to $427.9 million (7% in constant currency) with solid performances across the whole region.

The highlight was the performance of Germany, the largest market in EMEA, which grew units by around 10%. The German result reflects the impact of an expanded field sales team and investment in direct-to-consumer marketing activities.

Other key markets in Western Europe, particularly the UK and France, performed well with units also growing around 10% driven by investments in market growth initiatives and the positive impact of a strong product portfolio across all product categories.

Despite a challenging political and macro-economic year, sales revenue in the Middle East grew strongly, coming off a low base in FY15. The Middle East is benefiting from Cochlear's expanded presence since the opening of a new Middle East headquarters in Dubai in 2014. A headquarters was established in Vienna to service Central and Eastern Europe in April 2016.

Asia Pacific (Australasia & Asia) – 18% of sales revenue

Sales revenue increased 31% to $210.5 million (23% in constant currency) with solid growth experienced across most markets.

Australia continues to grow consistently with unit growth of around 10% as the combination of field sales expansion and new marketing programs contributes to growing awareness.

China performed strongly in both the private pay and tender markets. Private pay sales and services revenue were boosted by the expansion of Cochlear's field sales presence. The region benefited from Chinese Central Government tenders of around 3,300 units.

India represents a small but rapidly growing market. The growing number of clinics, expansion of the field force and improvements in reimbursement all contributed to double-digit unit growth.

FINANCIAL REVIEW

Major expenses

A$m	FY16	FY15	Change $
Cost of goods sold	333.6	275.3	58.3
% of sales revenue	*28.8%*	*29.2%*	*(0.4%)*
Selling and general expenses	326.1	260.8	65.3
Administration expenses	79.3	59.5	19.8
Research and development expenses	143.1	128.0	15.1
% of sales revenue	*12.4%*	*13.6%*	*(1.2%)*
Other income	(14.1)	(4.4)	(9.7)
EBIT	262.6	206.4	56.2
% of total revenue	*23.2%*	*22.3%*	*0.9%*

EBIT increased by $56.2 million, up 27%, to $262.6 million, with the operating margin (EBIT to total revenue) increasing by 0.9% to 23.2%.

Cost of goods sold (COGS) increased $58.3 million to $333.6 million, primarily as a result of growing volumes. COGS as a percentage of sales revenue improved by 0.4% to 28.8%, reflecting the impact of changes in foreign exchange (FX) rates, product and geographic mix as well as the higher COGS associated with the initial introduction of the Nucleus Profile series implant.

A balance sheet review was conducted in the context of new generation products launched over the past 18 months. This review has contributed to a $16.3 million non-cash inventory write-off, pre tax, reflecting old and obsolete parts and products.

Selling and general expenses increased by $65.3 million to $326.1 million. The 25% increase reflects the increased investment in market growth initiatives as well as the impact on translation of the depreciation of the Australian dollar. In constant currency, the increase in selling and general expenses was 15%.

Administration expenses increased by $19.8 million to $79.3 million, an increase of 33%. More than half of the increase is related to investments in IT systems. The investment in global IT platforms will enable the business to strengthen its sales processes and build upon its services offering.

Investment in research and development (R&D) increased 12% to $143.1 million, which is consistent with Cochlear's stated commitment to continue to invest in R&D to strengthen its technology leadership position. It follows several years of limited incremental investment in R&D.

Other income increased by $9.7 million. A $7.5 million increase in FX gains on asset translation is included in this line item.

Foreign currency impacts on the income statement

	A$m
Transaction impacts	
Reported FX contract gains/(losses) on hedged sales	
- FX losses – FY16	(27.5)
- FX losses – FY15	(16.3)
	(11.2)
Translation impacts	
Sales revenue & expenses[1]	
- Sales revenue	93.5
- Total expenses including tax	(44.7)
	48.8
Reported asset translation impacts	
- FX gain on asset translation – FY16	8.7
- FX gain on asset translation – FY15	1.2
	7.5

1. FY16 actual v FY15 at FY16 rates

Transaction impacts

Cochlear utilises currency hedging to provide some certainty around near-term cash flow. Over 90% of revenue and around 50% of costs are denominated in foreign currency. Most of the cash that is generated is repatriated to Australia to fund operating and investing activities, including R&D and dividends. In order to provide some certainty around near-term cash flow, expected cash flows are hedged back to Australian dollars (AUD).

In FY16, the AUD depreciated against most of the major currencies. As a result, FX losses on hedged sales were $27.5 million. This compared to FX losses on hedged sales of $16.3 million in FY15.

Translation impacts

The key translation impacts from translating foreign sales and expenses into AUD include:

- a net benefit to sales revenue of $93.5 million;
- a net increase in expenses of $44.7 million; and
- a net benefit to net profit of $8.7 million from the translation of assets, primarily trade receivables. This compares to a $1.2 million net benefit in FY15.

Capital employed

A$m	30 June 2016	30 June 2015	Change $
Trade receivables	268.5	236.7	31.8
Inventories	154.1	145.9	8.2
Less: Trade and other payables	(110.3)	(99.9)	(10.4)
Working capital	312.3	282.7	29.6
Debtor days	*85*	*83*	2
Inventory days	*169*	*193*	(24)
Property, plant and equipment	86.9	80.8	6.1
Intangible assets	224.3	228.5	(4.2)
Other net liabilities	(57.1)	(96.1)	39.0
Capital employed	**566.4**	**495.9**	**70.5**

Capital employed increased by $70.5 million to $566.4 million since 30 June 2015 primarily as a result of an increase in working capital and a reduction in other net liabilities.

Working capital increased by $29.6 million to $312.3 million largely reflecting increased sales.

Trade receivables increased $31.8 million to $268.5 million. In constant currency, trade receivables increased by 11%, reflecting sales growth during the year. Debtors days increased by two days to 85 days.

Inventories increased $8.2 million to $154.1 million. Inventory days reduced 24 days to 169 days, reflecting the reduction in stock which had been built up in June 2015 ahead of tender shipments made during the first half and the higher sales, as well as the $16.3 million inventory write off (as detailed in the prior major expenses commentary).

Net property, plant and equipment remained largely unchanged.

Intangible assets decreased by $4.2 million to $224.3 million, largely a result of revaluation to period end FX rates. All intangible assets are tested for impairment on an annual basis. There were no impairments or write-downs of intangible assets in FY16.

Other net liabilities reduced by $39.0 million, largely reflecting higher tax payments made during the year.

Cash flow

A$m	FY16	FY15	Change $
EBIT	262.6	206.4	56.2
Depreciation and amortisation	33.5	30.3	3.2
Change in working capital and other	(20.0)	(8.5)	(11.5)
Net interest paid	(10.3)	(7.3)	(3.0)
Income taxes paid	(80.7)	(32.2)	(48.5)
Operating cash flow	**185.1**	**188.7**	**(3.6)**
Capital expenditure	(28.9)	(23.9)	(5.0)
Other investments	(21.2)	(4.5)	(16.7)
Free cash flow	**135.0**	**160.3**	**(25.3)**

The business generated strong cash flow with cash realisation of operating cash flow approximately equating to net profit.

An increase in EBIT of $56.2 million was offset by a $48.5 million increase in income taxes paid and a net $11.5 million investment in working capital and other to fund business growth.

Income taxes paid increased by $48.5 million, reflecting improved profitability and $18.1 million of timing related payments following a change in the timing of Australian tax instalment payments. The effective tax rate has remained at approximately 26%. Further details are included in the 2016 Tax Contribution report which is available at the Investor Centre of the website, www.cochlear.com.

Net debt

A$m	30 June 2016	30 June 2015	Change $
Loans and borrowings			
Current	4.0	168.1	(164.1)
Non-current	189.3	44.6	144.7
Total debt	193.3	212.7	(19.4)
Cash and cash equivalents	(75.4)	(72.2)	(3.2)
Net debt	**117.9**	**140.5**	**(22.6)**
Total loan facilities	350.0	350.0	
Unused portion of debt facilities	155.0	135.0	

Net debt reduced by $22.6 million to $117.9 million since 30 June 2015. During FY16, the $250.0 million debt facility was renewed for a further three years at lower interest rates.

At 30 June 2016, there was $350.0 million in total loan facilities and the unused portion of the bank facility was $155.0 million.

Dividends

	FY16	FY15	Change %
Interim ordinary dividend ($/share)	$1.10	$0.90	22%
Franking %	*100%*	*35%*	
Final ordinary dividend ($/share)	$1.20	$1.00	20%
Franking %	*100%*	*100%*	
Total ordinary dividends ($/share)	$2.30	$1.90	21%
Payout ratio %	*70%*	*74%*	
Franking %	*100%*	*69%*	

Strong free cash flow and the continued strength of the balance sheet have supported the payment of a final dividend of $1.20 per share, franked at 100%. Total fully franked dividends of $2.30 per share were declared for the year, an increase of 21% on dividends paid last year, representing a payout of 70% of net profit.

The record date for determining dividend entitlements is 8 September 2016 and the final dividend will be paid on 29 September 2016.

Non-IFRS financial measures

Given the significance of 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:

- Constant currency: restatement of IFRS financial measures in comparative years using FY16 FX rates.

The above non-IFRS financial measures have 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 Consolidated Entity.

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.

Appendix

Relevant FX rates

The following table includes FX contract cover and rates as at 30 June 2016:

Total FX hedges expressed in foreign currency (local currency - millions)	USD 245.5	EUR 207.9	JPY 1,683.0	Total
FX hedges expressed in $Am	336.5	325.1	20.1	681.7
% of total cover	*49%*	*48%*	*3%*	*100%*
3 year weighted average rates				
- FX contracts 30/6/16	0.74	0.64	83.76	
- FX contracts 30/6/15	0.84	0.67	89.17	
FY17 weighted average rates				
FX contracts at 30/6/16	0.75	0.65	85.49	
Cover for FY17 ($Am)	195.8	188.4	12.2	396.4

Summary of relevant FX rates:

	FY16	FY15	Change %
Average rates (used for translating P&L)			
USD	0.73	0.84	*(13%)*
Euro	0.66	0.70	*(6%)*
JPY	85.09	95.73	*(11%)*
GBP	0.49	0.53	*(8%)*
Average contract rates (used to repatriate FX to Australia)			
USD	0.80	0.91	*(12%)*
Euro	0.67	0.69	*(3%)*
JPY	88.70	88.83	*0%*
	FY16	FY15	
Period end rates (used for translating balance sheet)			
USD	0.74	0.77	*(4%)*
Euro	0.67	0.69	*(3%)*
JPY	75.41	94.97	*(21%)*
GBP	0.56	0.49	*14%*