

Appendix 4D

Cochlear Limited Half Yearly Report As at 31 December 2011

Results for announcement to the market

	Movement			\$A000
Revenue	up	3%	to	387,491
Earnings before interest, taxes and product recall costs (EBIT)	down	10%	to	108,674
Net profit after tax but before product recall costs	down	8%	to	80,147
Product recall costs before tax				(138,835)
Product recall costs net of tax				(100,536)
Net loss for the period attributable to members	down	123%	to	(20,389)
Basic EPS (cents)	down	123%	to	(35.9)
Dividend (cents)	up	14%	to	120.0

Net tangible assets per share at 31 December 2011 (cents)	down	30%	to	350.5
Net tangible assets per share at 31 December 2010 (cents)				497.7

Dividends	Amount per security	Franked amount per security
Interim dividend per share (cents)	120.0c	72.0c
Previous corresponding period (cents)	105.0c	63.0c
Record date for determining entitlements to the dividend	28 February 2012	
Dividend payment date	13 March 2012	
No dividend reinvestment plans were in operation during or since the half-year.		

Refer to the attached Directors' Report for an explanation of the above movements.

Cochlear Limited and its controlled entities

ACN 002 618 073

Interim Financial Report

31 December 2011

**Cochlear Limited and its controlled entities
Directors' Report
For the six months ended 31 December 2011**

The directors present their report, together with the consolidated interim financial report for Cochlear Limited (the Company) and its controlled entities for the six months ended 31 December 2011 and the auditors' review report thereon.

Directors

The directors of the Company during or since the end of the interim period are:

Name	Period of directorship
<i>Non-executive directors</i>	
Mr Rick Holliday-Smith, <i>Chairman</i>	Director since March 2005
Mrs Yasmin Allen	Director since August 2010
Mr Paul Bell	Director since August 2005
Professor Edward Byrne, AO	Director since July 2002
Mr Andrew Denver	Director since February 2007
Mr Donal O'Dwyer	Director since August 2005
<i>Executive director</i>	
Dr Chris Roberts, <i>CEO/President</i>	Director since February 2004

Principal activities and review of operations and results

Other than as discussed in this report, there were no significant changes in the nature of operating activities during the six months ended 31 December 2011 and the results of those operations are set out below.

Financial overview

The consolidated results for the six months attributable to the members of the Company are:

	2011 \$000	2010 \$000
Revenue	387,491	377,072
Earnings before interest and taxes and product recall costs (EBIT) *	108,674	121,131
Profit before income tax and product recall costs *	106,291	116,661
Net profit after tax but before product recall costs *	80,147	87,226
Product recall costs, net of tax *	(100,536)	-
Net (loss)/profit attributable to members	(20,389)	87,226
Basic earnings per share (cents)	(35.9)	154.3
Diluted earnings per share (cents)	(35.8)	153.3
Dividend per share (cents)	120.0	105.0

* The product recall costs were \$138,835,000 before tax and \$100,536,000 after tax

Cochlear Limited and its controlled entities

Directors' Report

For the six months ended 31 December 2011

Financial Performance

- Total revenues were \$387.5 million, up 3%. Sales, excluding FX contracts, were \$351.2 million, down 1%. In constant currency (that is restating F11 at F12 FX rates), H1 F12 sales were up 5% compared to H1 F11.
- Cochlear implant (CI) sales, which included accessories and sound processor upgrades, were \$311.5 million, up 1% in reported currency and up 7% in constant currency.
- Cochlear implant unit sales were 10,724. While this was down 9% on H1 F11, it excludes over 2,300 units shipped post recall, but not recognised as revenue. These were not recognised as revenue because they were offset against credit notes issued for return of unimplanted CI500 components as part of the recall. Due to limited supply, these replacement units were essentially only shipped for scheduled surgeries, leading to clinic destocking. Our estimates are that the number of recipients receiving Nucleus cochlear implants for the half was at an all-time high.
- Baha sales of \$39.7 million were down 13% in reported currency and down 7% in constant currency. While there has been increased competition in the bone conduction segment, the recent release of the Nucleus Baha 3 Power has gone well.
- Operationally, all regions grew:
 - Americas sales of \$149.0 million grew 1% in constant currency (down 8% in reported currency).
 - EMEA (Europe, Middle East and Africa) sales of \$142.5 million were up 8% in constant currency (up 4% in reported currency).
 - Asia Pacific sales of \$59.7 million were up 11% in constant currency (6% in reported currency).
- Selling, General and Admin expenses of \$120.8 million were up 7% in reported currency and up 12% in constant currency and R&D was up 13% in reported currency and 14% in constant currency. The increases reflected targeted investments in marketing initiatives and further development work in R&D.
- On the 11th September 2011, the Company initiated a world-wide voluntary recall of its unimplanted Nucleus CI500 cochlear implant series. An amount of \$138.8 million before tax has been recognised as a charge to cost of sales, representing management's best estimates of probable costs based on current available data. This takes into account inventory write downs, property plant and equipment, intangible asset impairments and warranty and other costs.
- Cash from operating activities of \$67.4 million was down 26% on H1 F11.
- Free cash flow was \$70.8 million which excludes recall cash costs of \$12.1 million. Free cash flow in H1 F11 was \$67.3 million.
- Trade receivables of \$148.3 million fell 11% from June 2011 and debtors days were 78 days (June 2011, 74). Inventory fell 13% to \$92.5 million over the June 2011 position.
- Total net debt was \$8.5 million. This equates to an operating net gearing ratio of 2% defined as (net debt/net debt plus equity). Banking facilities were increased by \$50.0 million to \$200.0 million. At 31st December 2011, the unused portion of the facility was \$107.2 million (June 2011, \$79.5 million).

Given the significance of the product recall and 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:

- Excluding recall costs: IFRS measures adjusted for the costs of the product recall
- Constant currency: restatement of IFRS financial measures in comparative years using F12 FX rates
- Free cash flow: IFRS cash flow from operating and investing activities excluding interest and tax paid related to non-operating activities.

The above non-IFRS financial measures have not been subject to review or audit. However, KPMG have separately undertaken a set of procedures to agree the non-IFRS financial measures disclosed to the books and records of the consolidated entity.

**Cochlear Limited and its controlled entities
Directors' Report
For the six months ended 31 December 2011**

Dividends

Dividends paid or declared by the Company since the end of the previous financial year are:

In respect of the previous year:	\$000
A final ordinary dividend of 120.0 cents per share, franked to 70% with Class C (30%) franking credits, in respect of the year ended 30 June 2011, paid on 22 September 2011.	<u>68,171</u>

The interim dividend in respect of the current financial year has not been provided for in this financial report as it was not declared until after 31 December 2011. Since the end of the financial half-year, the directors declared an interim dividend of 120.0 cents franked at 60% amounting to a total of \$68,283,000.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act

The lead auditor's independence declaration is set out on page 4 and forms part of the Directors' Report for the six months ended 31 December 2011.

Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July, 1998, and in accordance with the Class Order, amounts in the Financial Report and Directors' Report have been rounded off to the nearest one thousand dollars, unless otherwise stated.

Dated at Sydney this 7th day of February 2012.

Signed in accordance with a resolution of the directors:



Director



Director

**Cochlear Limited and its controlled entities
Directors' Report
For the six months ended 31 December 2011**

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

I declare that, to the best of my knowledge and belief, in relation to the review for the financial half year ended 31 December 2011 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.



KPMG

Sydney, 7 February 2012



Bruce Phillips, Partner

Cochlear Limited and its controlled entities
Interim Income Statement
For the six months ended 31 December 2011

	Note	31 Dec 2011 \$000	31 Dec 2010 \$000
Revenue	5(a)	387,491	377,072
Cost of sales	5(b)	(100,280)	(101,164)
Cost of sales – product recall	15	(138,835)	-
Gross profit		148,376	275,908
Selling and general expenses		(98,573)	(92,887)
Administration expenses		(22,249)	(19,895)
Research and development expenses		(57,862)	(51,423)
Other income	5(c)	728	9,428
Other expenses	5(d)	(581)	-
Results from operating activities		(30,161)	121,131
Finance income	5(e)	445	538
Finance expense	5(e)	(2,828)	(5,008)
Net finance expense	5(e)	(2,383)	(4,470)
Profit before income tax		(32,544)	116,661
Income tax benefit / (expense)	6	12,155	(29,435)
Net (loss) / profit		(20,389)	87,226
<hr/>			
Earnings per share			
Basic earnings per share (cents)	9	(35.9)	154.3
Diluted earnings per share (cents)	9	(35.8)	153.3

The notes on pages 11 to 19 are an integral part of these consolidated interim financial statements.

**Cochlear Limited and its controlled entities
Interim Statement of Comprehensive Income
For the six months ended 31 December 2011**

	31 Dec 2011	31 Dec 2010
	\$000	\$000
Net (loss) / profit	(20,389)	87,226
Other comprehensive income		
Foreign exchange translation differences	(12,843)	(20,025)
Effective portion of changes in fair value of cash flow hedges	13,883	52,813
Net change in fair value of cash flow hedges transferred to the income statement	(25,398)	(15,306)
Other comprehensive (loss) / income for the period, net of income tax	(24,358)	17,482
Total comprehensive (loss) / income for the period	(44,747)	104,708

The notes on pages 11 to 19 are an integral part of these consolidated interim financial statements.

Cochlear Limited and its controlled entities
Interim Balance Sheet
As at 31 December 2011

	Note	31 Dec 2011 \$000	30 Jun 2011 \$000
Current assets			
Cash and cash equivalents		74,948	72,423
Trade and other receivables		190,083	238,276
Inventories		92,524	106,126
Current tax receivables		11,265	3,936
Prepayments		8,594	9,123
Total current assets		377,414	429,884
Non-current assets			
Trade and other receivables		30,417	17,184
Property, plant and equipment		56,448	69,357
Goodwill	11	153,810	159,137
Other intangible assets		42,000	49,413
Deferred tax assets		37,718	16,072
Total non-current assets		320,393	311,163
Total assets		697,807	741,047
Current liabilities			
Trade and other payables		76,862	85,047
Loans and borrowings	12	40,000	60,000
Current tax liabilities		6,618	17,288
Provisions		76,557	42,393
Deferred revenue		17,532	18,732
Total current liabilities		217,569	223,460
Non-current liabilities			
Trade and other payables		1,916	-
Loans and borrowings	12	43,478	3,040
Provisions		39,596	11,264
Total non-current liabilities		84,990	14,304
Total liabilities		302,559	237,764
Net assets		395,248	503,283
Equity			
Share capital		121,271	119,737
Reserves		2,348	23,357
Retained earnings		271,629	360,189
Total equity		395,248	503,283

The notes on pages 11 to 19 are an integral part of these consolidated interim financial statements.

Cochlear Limited and its controlled entities
Interim Statement of Changes in Equity
For the six months ended 31 December 2011

	Issued capital	Treasury reserve	Translation reserve	Hedging reserve	Share based payment reserve	Retained earnings	Total equity
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2011	123,226	(3,489)	(65,849)	56,379	32,827	360,189	503,283
Total comprehensive income							
Net loss	-	-	-	-	-	(20,389)	(20,389)
Other comprehensive income							
Foreign exchange translation differences	-	-	(12,843)	-	-	-	(12,843)
Effective portion of changes in fair value of cash flow hedges	-	-	-	13,883	-	-	13,883
Net change in fair value of cash flow hedges transferred to the income statement	-	-	-	(25,398)	-	-	(25,398)
Total other comprehensive loss	-	-	(12,843)	(11,515)	-	-	(24,358)
Total comprehensive loss for the period	-	-	(12,843)	(11,515)	-	(20,389)	(44,747)
Transactions with owners, recorded directly in equity							
Shares issued	2,773	(1,239)	-	-	-	-	1,534
Share based payments	-	-	-	-	3,349	-	3,349
Dividends to shareholders	-	-	-	-	-	(68,171)	(68,171)
Total transactions with owners	2,773	(1,239)	-	-	3,349	(68,171)	(63,288)
Balance at 31 December 2011	125,999	(4,728)	(78,692)	44,864	36,176	271,629	395,248

The notes on pages 11 to 19 are an integral part of these consolidated interim financial statements.

Cochlear Limited and its controlled entities
Interim Statement of Changes in Equity
For the six months ended 31 December 2011

	Issued capital	Treasury reserve	Translation reserve	Hedging reserve	Share based payment reserve	Retained earnings	Total equity
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2010	119,842	(2,826)	(50,776)	45,644	27,401	299,023	438,308
Total comprehensive income							
Net profit	-	-	-	-	-	87,226	87,226
Other comprehensive income							
Foreign exchange translation differences	-	-	(20,025)	-	-	-	(20,025)
Effective portion of changes in fair value of cash flow hedges	-	-	-	52,813	-	-	52,813
Net change in fair value of cash flow hedges transferred to the income statement	-	-	-	(15,306)	-	-	(15,306)
Total other comprehensive income	-	-	(20,025)	37,507	-	-	17,482
Total comprehensive income for the period	-	-	(20,025)	37,507	-	87,226	104,708
Transactions with owners, recorded directly in equity							
Shares issued	1,320	(663)	-	-	-	-	657
Share based payments	-	-	-	-	3,134	-	3,134
Dividends to shareholders	-	-	-	-	-	(59,404)	(59,404)
Total transactions with owners	1,320	(663)	-	-	3,134	(59,404)	(55,613)
Balance at 31 December 2010	121,162	(3,489)	(70,801)	83,151	30,535	326,845	487,403

The notes on pages 11 to 19 are an integral part of these consolidated interim financial statements.

Cochlear Limited and its controlled entities
Interim Statement of Cash Flows
For the six months ended 31 December 2011

	Note	31 Dec 2011	31 Dec 2010
		\$000	\$000
Cash flows from operating activities			
Cash receipts from customers		367,841	359,243
Cash payments to suppliers and employees		(273,793)	(242,041)
Grant and other income received		728	720
Interest received		415	405
Interest paid		(2,787)	(5,008)
Income taxes paid		(25,039)	(22,779)
Net cash from operating activities		67,365	90,540
Cash flows from investing activities			
Acquisition of property, plant and equipment		(9,683)	(21,260)
Acquisition of enterprise resource planning system		(3,833)	(2,754)
Acquisition of intangible assets		(3,752)	(3,692)
Payments for construction of headquarters		-	(36,027)
Proceeds from sale of headquarters	14	-	130,302
Net cash (used in) / from investing activities		(17,268)	66,569
Cash flows from financing activities			
Repayment of borrowings	12	(30,000)	(63,000)
Proceeds from borrowings	12	50,000	61,000
Repayment of borrowings – construction of headquarters		-	(98,344)
Proceeds from borrowings – construction of headquarters		-	24,533
Proceeds from issue of share capital		1,534	657
Dividends paid by the parent		(68,171)	(59,404)
Net cash used in financing activities		(46,637)	(134,558)
Net increase in cash and cash equivalents		3,460	22,551
Cash and cash equivalents at 1 July		72,423	42,808
Effect of exchange rate fluctuation on cash held		(935)	(1,801)
Cash and cash equivalents at 31 December		74,948	63,558

The notes on pages 11 to 19 are an integral part of these consolidated interim financial statements.

Cochlear Limited and its controlled entities
Condensed Notes to the Interim Financial Statements
For the six months ended 31 December 2011

1. Reporting entity

Cochlear Limited (the Company) is a company domiciled in Australia. The Consolidated Interim Financial Report of the Company as at and for the six months ended 31 December 2011 comprises the Company and its subsidiaries (together referred to as Cochlear or the Consolidated Entity). Cochlear's Consolidated Annual Financial Report as at and for the year ended 30 June 2011 is available upon request from the Company's registered office at 1 University Avenue, Macquarie University NSW 2109, Australia or at www.cochlear.com.

2. Statement of compliance

The Consolidated Interim Financial Report is a general purpose financial report which has been prepared in accordance with AASB134 *Interim Financial Reporting and the Corporations Act 2001*.

The Consolidated Interim Financial Report does not include all of the information required for a full annual financial report, and should be read in conjunction with Cochlear's Consolidated Annual Financial Report as at and for the year ended 30 June 2011. This report should also be read in conjunction with any public announcements made by Cochlear Limited during the six months ended 31 December 2011 in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

The Consolidated Interim Financial Report was approved by the Board of Directors on 7th February 2012.

The Consolidated Entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the Consolidated Interim Financial Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

3. Significant accounting policies

The accounting policies applied by the Consolidated Entity in this Consolidated Interim Financial Report are the same as those applied by the Consolidated Entity in the Consolidated Annual Financial Report as at and for the year ended 30 June 2011.

4. Estimates

The preparation of the Consolidated Interim Financial Report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this Consolidated Interim Financial Report, other than the costs of the product recall, the significant judgments made by management in applying Cochlear's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Annual Financial Report as at and for the year ended 30 June 2011. Details in relation to the product recall are included in Note 15.

Cochlear Limited and its controlled entities
Condensed Notes to the Interim Financial Statements
For the six months ended 31 December 2011

	Note	31 Dec 2011 \$000	31 Dec 2010 \$000
5. Revenue and expenses			
(a) Revenue			
Sale of goods revenue before hedging		348,088	351,790
Foreign exchange gains on hedged sales		36,283	21,865
Revenue from the sale of goods		384,371	373,655
Rendering of services revenue		3,120	3,417
Total revenue		387,491	377,072
(b) Expenses			
Cost of sales			
Carrying amount of inventories recognised as an expense		96,449	95,720
Other		2,151	2,766
Write-down in value of inventories		1,680	2,678
Total cost of sales (excluding the product recall)		100,280	101,164
(c) Other Income			
Grant received or due and receivable		339	219
Construction profit net of relocation expense	14	-	6,130
Net foreign exchange gain		-	2,692
Other		389	387
Total other income		728	9,428
(d) Other Expenses			
Net foreign exchange loss		(581)	-
Total other expenses		(581)	-
(e) Net finance expense			
Interest income		445	538
Interest expense		(2,828)	(5,008)
Net finance expense		(2,383)	(4,470)

Cochlear Limited and its controlled entities
Condensed Notes to the Interim Financial Statements
For the six months ended 31 December 2011

6. Income tax expense

	31 Dec 2011	31 Dec 2011	31 Dec 2011	31 Dec 2010
	Reported	Product	Total	Reported
	\$000	recall	adjusted	\$000
	\$000	\$000	\$000	\$000
Numerical reconciliation between income tax expense and profit before income tax				
Net (loss) / profit	(20,389)	(100,536)	80,147	87,226
Income tax (benefit) / expense	(12,155)	(38,299)	26,144	29,435
(Loss) / profit before income tax	(32,544)	(138,835)	106,291	116,661
Income tax (benefit) / expense using the Company's domestic tax rate of 30% (2011: 30%)	(9,763)	(41,651)	31,888	34,998
Increase in income tax expense due to:				
Non-deductible expenses	4,338	4,152	186	1,081
Decrease in income tax expense due to:				
Research and development allowances	(4,586)	(800)	(3,786)	(5,473)
Share based payment deductions	(326)	-	(326)	(319)
Effect of tax rate in foreign jurisdictions	(673)	-	(673)	(139)
	(11,010)	(38,299)	27,289	30,148
Adjustment for prior years	(1,145)	-	(1,145)	(713)
Income tax (benefit) / expense on profit before income tax	(12,155)	(38,299)	26,144	29,435

**Cochlear Limited and its controlled entities
Condensed Notes to the Interim Financial Statements
For the six months ended 31 December 2011**

7. Segment reporting

	Americas	Europe	Asia Pacific	Total
	\$000	\$000	\$000	\$000
Information about reportable segments				
Six months ended 31 December 2011				
External revenue	149,001	142,534	59,673	351,208
Reportable segment profit or loss	72,267	68,308	19,767	160,342
Six months ended 31 December 2010				
External revenue	162,499	136,483	56,225	355,207
Reportable segment profit or loss*	84,590	64,094	18,744	167,428

	31 Dec 2011	31 Dec 2010
	\$000	\$000
Reconciliation of reportable segment revenue		
External revenue	351,208	355,207
Foreign exchange gains on hedged sales	36,283	21,865
Total revenue	<u>387,491</u>	<u>377,072</u>

Reconciliation of reportable segment profit or loss

Total profit or loss for reportable segments	160,342	167,428
Corporate and other net expenses	(51,668)	(46,297)
Cost of sales - product recall	(138,835)	-
Net finance expense	(2,383)	(4,470)
(Loss) / profit before income tax	<u>(32,544)</u>	<u>116,661</u>

* Comparative segment information has been re-presented to be consistent with a methodology first adopted at 30 June 2011.

Cochlear Limited and its controlled entities
Condensed Notes to the Interim Financial Statements
For the six months ended 31 December 2011

8. Options and performance shares

The Company has granted options and performance shares to certain employees and key management personnel under the Cochlear Executive Long Term Incentive Plan (CELTIP). The terms and conditions of the plan are disclosed in the Consolidated Annual Financial Report as at and for the year ended 30 June 2011. In August 2011 and October 2011, a further grant on similar terms was made to certain employees and key management personnel.

Details of the grant made in the current period are set out below.

	Exercise price per option	Exercise period	Number of options	Number of performance shares
Options & performance shares issued in August and October 2011	\$68.56	Aug 2014 - 16	537,695	24,102

9. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the six months ended 31 December 2011 was based on net profit attributable to equity holders of the parent and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2011 calculated as follows:

	31 Dec 2011	31 Dec 2010
Net profit attributable to equity holders of the parent	(\$20,389,000)	\$87,226,000
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 July (number)	56,680,142	56,482,346
Effect of shares issued during the period (number)	99,761	54,901
Weighted average number of ordinary shares	56,779,903	56,537,247
Basic earnings per share (cents)	(35.9)	154.3

Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 31 December 2011 was based on net profit attributable to equity holders of the parent and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2011 calculated as follows:

Net profit attributable to equity holders of the parent	(\$20,389,000)	\$87,226,000
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic)	56,779,903	56,537,247
Effect of options and performance shares	127,783	351,398
Weighted average number of ordinary shares (diluted)	56,907,686	56,888,645
Diluted earnings per share (cents)	(35.8)	153.3

Cochlear Limited and its controlled entities
Condensed Notes to the Interim Financial Statements
For the six months ended 31 December 2011

10. Dividends

Dividends recognised in the current financial period by Cochlear Limited are:

	Cents per share	Total amount \$'000	Franked/ unfranked	Date of payment
31 December 2011				
Final – ordinary	120.0	68,171	70% Franked	22 September 2011
31 December 2010				
Final – ordinary	105.0	59,404	60% Franked	23 September 2010

Franked dividends declared or paid during the financial year were franked at a tax rate of 30%.

Subsequent events

Since the end of the reporting period, the directors declared the following dividend:

	Cents per share	Total amount \$'000	Franked/ unfranked	Date of payment
Interim – ordinary	120.0	68,283	60% Franked	13 March 2012

The financial effect of these dividends has not been brought to account in the Consolidated Interim Financial Report for the six months ended 31 December 2011 and will be recognised in subsequent financial statements.

11. Intangible assets

	\$000
Goodwill	
Carrying amount at 1 January 2011	154,551
Effect of movements in foreign exchange	4,586
Carrying amount at 30 June 2011	159,137
Carrying amount at 1 July 2011	159,137
Effect of movements in foreign exchange	(5,327)
Carrying amount at 31 December 2011	153,810

Cochlear Limited and its controlled entities
Condensed Notes to the Interim Financial Statements
For the six months ended 31 December 2011

12. Loans and Borrowings

	31 Dec 2011	30 Jun 2011
	\$000	\$000
Current		
Secured bank loan	40,000	60,000
Total current loans and borrowings	40,000	60,000
Non-Current		
Secured bank loan	43,478	3,040
Total non-current loans and borrowings	43,478	3,040

Unsecured bank overdrafts

Certain unsecured bank overdrafts are payable on demand and are subject to annual review. Interest on unsecured bank facilities is variable and is charged at prevailing market rates.

Secured bank loans

Cochlear has a JPY300 million bank facility maturing September 2012, which is secured by a letter of guarantee. Interest is charged at prevailing market rates.

Secured bank loans – multi-option credit facility

Cochlear's corporate debt facility was amended and restated in April 2011 and was varied in October 2011. The facility has two tranches: Tranche A is a \$75.0 million loan facility which may be extended for periods of 12 months, up until 20 April 2014; and Tranche B has a total limit of \$125.0 million maturing 20 April 2014. Tranche B provides Cochlear with the option to reallocate a sub-limit of up to \$30.0 million for the purpose of drawing either bank guarantees or letters of credit. The facility is secured by interlocking guarantees provided by certain controlled entities. Interest on the facility is variable and is charged at prevailing market rates.

Secured bank loans – bank guarantee facility

In December 2009, Cochlear secured a GBP1.0 million bank guarantee line which is supported by corporate indemnities and guarantee of up to GBP2.0 million.

In August 2011, Cochlear established a \$5.0 million multi-currency bank guarantee and letter of credit facility to be used for general corporate purposes.

Cochlear Limited and its controlled entities
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For the six months ended 31 December 2011

13. Contingent liabilities

The details of contingent liabilities are set out below. The directors are of the opinion that provisions are either adequate or are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required, or the amount is not capable of reliable measurement.

Patent infringement complaint

During the year ended 30 June 2008, the Company was served with a complaint for patent infringement by the Alfred E. Mann Foundation for Scientific Research (Mann Foundation).

The complaint, filed in the US District Court of California, alleges that two patents have been infringed.

The Company believes the Mann Foundation's allegations are without merit and is vigorously defending the complaint.

At the date of this report, the litigation process is ongoing. No provision has been established against settlement because the probability of a significant outflow is considered unlikely.

Guarantees – Otologics LLC

Cochlear has arranged a letter of credit of USD 10 million (expiring 1 June 2012) facilitating a loan by Wells Fargo Bank funding joint research operations with Otologics LLC.

The obligation of Otologics LCC to pay Cochlear if a call is made on the letter of credit is secured by Intellectual Property owned by Otologics LLC.

Guarantees - Operations

Cochlear amended and restated its multi-option credit facility in April 2011 and varied it in October 2011. The facility has two tranches with a total facility limit of \$200.0 million. It provides Cochlear with a loan sub-facility limit, which may not exceed \$30.0 million for the purpose of drawing either bank guarantees or letters of credit. The loan sub-facility limit forms part of Tranche B of the facility, which matures 20 April 2014.

In August 2011, Cochlear established a \$5.0 million multi-currency bank guarantee and letter of credit facility to be used for general corporate purposes.

In December 2009 Cochlear secured a GBP1.0 million bank guarantee line which is supported by corporate indemnities and guarantee of up to GBP2.0 million.

14. Construction of Headquarters and relocation

Cochlear completed construction work on its new Headquarters at the Macquarie University (MU) site during the six months ended 31 December 2010. Upon practical completion MU paid Cochlear a development fee of \$130.3 million and ownership of the building was transferred to MU.

Cochlear also incurred certain relocation related expenses pertaining to its Headquarters relocation. These expenses were included in net construction profit and mainly relate to running two sites whilst obtaining regulatory approval for manufacturing at the new Headquarters.

The total project construction revenue and expenses was brought to account over the years ended 30 June 2009, 2010 and 2011. The total project construction profit was recognised in the six months ended 31 December 2010.

	Total Project	6 months ended	6 months ended
	\$000	31 Dec 2011	31 Dec 2010
		\$000	\$000
Construction contract revenue	130,302	-	66,606
Construction contract expense	(118,712)	-	(55,016)
Relocation related expenditure	(5,460)	-	(5,460)
Construction profit net of relocation expense	6,130	-	6,130

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15. Product recall

On 11 September 2011, the Company initiated a worldwide voluntary recall of its unimplanted Nucleus CI500 cochlear implant range. The Company had identified a recent increase in the number of Nucleus CI512 implant failures.

In the event of a Nucleus CI500 series implant failure recipients may be re-implanted with the Nucleus CI24RE implant range which remains available and continues to be sold with Nucleus 5 externals.

Relevant healthcare professionals and regulatory authorities were advised of this action and management continues to work with these authorities.

On 20 December 2011, the Company announced to healthcare professionals and the Australian Securities Exchange that it had identified the root cause of the failures and continued to work on resolving the problem.

An amount of \$138.8 million has been recognised this year as a charge to cost of sales in the Interim Income Statement, representing management's best estimate of probable costs based on current available data. This takes into account inventory write-downs, property, plant & equipment and intangible asset impairments, and warranty and other costs which include factors such as estimated return rates for the affected units, unit replacement costs, consulting, logistical and administrative expenses directly associated with the recall.

Management has made judgments, estimates and assumptions related to probable costs arising from the recall which affects the reported amounts of assets and liabilities, income and expenses. Actual outcomes may differ from these estimates as further information is identified.

A provision of \$63.9 million is included in current and non-current provisions related to the costs associated with the recall that are still to be incurred as at 31 December 2011.

Net loss includes the following items whose disclosure is relevant in explaining the financial performance of the Company:

	\$000
Product Recall	
Write-down of inventories	34,427
Impairment of property, plant and equipment	14,006
Impairment of intangible assets	13,840
Provision for warranty and other costs	<u>76,562</u>
Total cost of sales – product recall before interest and tax	138,835
Income tax benefit	<u>(38,299)</u>
Total product recall cost after tax	<u>100,536</u>

16. Events subsequent to reporting date

Other than reported below, there has not arisen in the interval between the reporting date and the date of this financial report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of Cochlear, the results of those operations, or the state of affairs of Cochlear in future financial years.

Dividends

For dividends declared after 31 December 2011, see Note 10.

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Directors' Declaration

In the opinion of the directors of Cochlear Limited:

1. The financial statements and notes set out on pages 5 to 19 are in accordance with the Corporations Act 2001, including:
 - a. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2011, and of its performance, for the six month period ended on that date; and
 - b. complying with Australian Accounting Standards AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 7th day of February 2012.

Signed in accordance with a resolution of the directors:



Director



Director

Cochlear Limited and its controlled entities
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Independent auditor's review report to the members of Cochlear Limited

Report on the Financial Report

We have reviewed the accompanying interim financial report of Cochlear Limited, which comprises the consolidated interim balance sheet as at 31 December 2011, consolidated interim income statement, consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the half-year period ended on that date, notes 1 to 16 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Consolidated Entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Consolidated Entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Cochlear Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Cochlear Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



KPMG
Sydney, 7 February 2012



Bruce Phillips, Partner