HALF YEAR REPORT 2013

Graham Carrick

The first commercial cochlear implant recipient (1982)

Hear now. And always

Cochlear®

Dear Shareholder

I am pleased to provide you with extracts from our half year report lodged with the Australian Securities Exchange on 5 February 2013.

Highlights

- Total revenues for H1 F13 were $391.7 million, up 1% on H1 F12. Sales, excluding FX contracts, were $368.2 million, up 5%. In constant currency (that is restating H1 F12 at H1 F13 FX rates), H1 F13 sales were up 9%.
- Cochlear implant sales, which included accessories and sound processor upgrades, were $329.7 million, up 6% in reported currency and up 10% in constant currency.
- Cochlear implant unit sales were 13,672, up 27%.
- Bone Anchored Solutions sales of $38.5 million were down 3% in reported currency and unchanged in constant currency.
- Regional performance:
  - Americas sales of $150.4 million grew 1% in constant currency (up 1% in reported currency).
  - EMEA (Europe, Middle East and Africa) sales of $140.1 million were up 7% in constant currency (down 2% in reported currency).
  - Asia Pacific sales of $77.7 million were up 33% in constant currency (30% in reported currency).
- EBIT to Revenue was 27.6%; the same as for F12 despite FX contracts down $12.8 million for the half.

Dr Chris Roberts
Chief Executive Officer / President 5th February 2013

Cochlear Limited and its controlled entities
Interim Income Statement
For the six months ended 31 December 2012

	31 Dec 2012 $000	31 Dec 2011 $000
Revenue	391,699	387,491
Cost of sales	(104,842)	(100,280)
Cost of sales – product recall	-	(138,835)
Gross profit	**286,857**	**148,376**
Selling and general expenses	(97,536)	(98,573)
Administration expenses	(21,319)	(22,249)
Research and development expenses	(59,901)	(57,862)
Other income	898	728
Other expenses	(698)	(581)
Results from operating activities	**108,301**	**(30,161)**
Finance income	293	445
Finance expense	(3,123)	(2,828)
Net finance expense	**(2,830)**	**(2,383)**
Profit / (loss) before income tax	**105,471**	**(32,544)**
Income tax (expense) / benefit	(27,806)	12,155
Net profit / (loss)	**77,665**	**(20,389)**
Earnings per share		
Basic earnings per share (cents)	136.6	(35.9)
Diluted earnings per share (cents)	136.1	(35.8)

Cochlear Limited and its controlled entities
Interim Balance Sheet
As at 31 December 2012

	31 Dec 2012 $000	30 Jun 2012 $000
Current assets		
Cash and cash equivalents	69,796	68,486
Trade and other receivables	200,047	189,085
Inventories	115,715	101,298
Current tax receivables	7,713	5,763
Prepayments	7,001	9,249
Total current assets	**400,272**	**373,881**
Non-current assets		
Trade and other receivables	17,748	11,840
Property, plant and equipment	62,262	59,611
Goodwill	158,275	151,066
Other intangible assets	61,571	55,649
Deferred tax assets	42,233	50,495
Total non-current assets	**342,089**	**328,661**
Total assets	**742,361**	**702,542**
Current liabilities		
Trade and other payables	80,931	100,218
Loans and borrowings	78,372	45,744
Current tax liabilities	6,246	19,526
Provisions	66,391	78,366
Deferred revenue	18,525	18,089
Total current liabilities	**250,465**	**261,943**
Non-current liabilities		
Trade and other payables	583	735
Loans and borrowings	63,947	19,928
Provisions	36,276	35,056
Total non-current liabilities	**100,806**	**55,719**
Total liabilities	**351,271**	**317,662**
Net assets	**391,090**	**384,880**
Equity		
Share capital	118,446	121,136
Reserves	(14,311)	(16,762)
Retained earnings	286,955	280,506
Total equity	**391,090**	**384,880**

Cochlear Limited and its controlled entities
Interim Statement of Cash Flows
For the six months ended 31 December 2012

	31 Dec 2012 $000	31 Dec 2011 $000
Cash flows from operating activities		
Cash receipts from customers	341,712	367,841
Cash payments to suppliers and employees	(280,399)	(273,793)
Grant and other income received	898	728
Interest received	307	415
Interest paid	(3,248)	(2,787)
Income taxes paid	(30,755)	(25,039)
Net cash from operating activities	**28,515**	**67,365**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(9,624)	(9,683)
Acquisition of enterprise resource planning system	(7,572)	(3,833)
Acquisition of intangible assets	(13,305)	(3,752)
Net cash used in investing activities	**(30,501)**	**(17,268)**
Cash flows from financing activities		
Repayment of borrowings	(5,000)	(30,000)
Proceeds from borrowings	82,000	50,000
Payments for repurchase of issued capital, net	(2,690)	1,534
Dividends paid by the parent	(71,216)	(68,171)
Net cash from / (used in) financing activities	**3,094**	**(46,637)**
Net increase in cash and cash equivalents	**1,108**	**3,460**
Cash and cash equivalents at 1 July	68,486	72,423
Effect of exchange rate fluctuation on cash held	202	(935)
Cash and cash equivalents at 31 December	**69,796**	**74,948**

Cochlear Limited and its controlled entities
Financial Highlights
For the six months ended 31 December 2012

	31 Dec 2012 $000	31 Dec 2011 $000	% Change
Cochlear implant systems sales (units)	13,672	10,724	27
Revenue	**391,699**	**387,491**	**1**
EBIT before product recall costs *	108,301	108,674	Flat
Net profit after tax but before product recall costs *	77,665	80,147	(3)
Product recall costs, net of tax *	-	(100,536)	
Net profit/(loss) after tax	**77,665**	**(20,389)**	
Basic earnings per share (cents)	136.6	(35.9)	
Interim dividend per share (cents)	125.0	120.0	4

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

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

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.

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