

Appendix 4D

Cochlear Limited Half Yearly Report As at 31 December 2010

Results for announcement to the market

	Movement			\$A000
Revenue	up	8%	to	377,072
Earnings before interest and taxes (EBIT)	up	13%	to	121,131
Profit from ordinary activities after tax attributable to members	up	16%	to	87,226
Net profit for the period attributable to members	up	16%	to	87,226
Basic EPS (cents)	up	15%	to	154.3
Dividend (cents)	up	11%	to	105
Net tangible assets per share at 31 December 2010 (cents)	up	53%	to	497.7
Net tangible assets per share at 31 December 2009 (cents)				324.8

Dividends	Amount per security	Franked amount per security
Interim dividend per share (cents)	105.0c	63.0c
Previous corresponding period (cents)	95.0c	95.0c
Record date for determining entitlements to the dividend	25 February 2011	
Dividend payment date	15 March 2011	
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 2010

Cochlear Limited and its controlled entities

Directors' Report

For the six months ended 31 December 2010

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 2010 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 2010 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:

	2010	2009
	\$000	\$000
Revenue	377,072	347,593
Earnings before interest and taxes (EBIT)	121,131	107,362
Profit before income tax	116,661	102,016
Net profit attributable to members	87,226	75,247
Basic earnings per share (cents)	154.3	134.0
Diluted earnings per share (cents)	153.3	133.4
Dividend per share (cents)	105.0	95.0

Cochlear Limited and its controlled entities

Directors' Report

For the six months ended 31 December 2010

Financial Performance

- Total revenues were \$377.1 million, up 8%. Sales, excluding FX contracts, were \$355.2 million, up 5%. In constant currency (that is restating F10 at F11 FX rates), H1 F11 sales were up 17% compared to H1 F10.
- Cochlear implant (CI) sales, which included accessories and sound processor upgrades, were \$309.6 million, up 16% in constant currency (up 7% in reported currency).
- Cochlear implant unit sales increased 20% to 11,765 units. Over two thirds of implants sold in the first half of F11 were the latest generation of implants, Nucleus 5. Emerging markets comprised approximately one third of cochlear implant unit sales.
- Baha sales of \$45.6 million grew 10% in constant currency (down 2% in reported currency).
- Operationally, all regions grew:
 - Americas sales of \$162.5 million were up 20% in constant currency (10% in reported currency).
 - EMEA (Europe, Middle East and Africa) sales of \$136.5 million were up 13% in constant currency (down 4% in reported currency).
 - Asia Pacific sales of \$56.2 million were up 20% in constant currency (18% in reported currency).
- Selling, General and Admin expenses of \$112.8 million were up 6% in constant currency (1% in reported currency).
- Cash from operating activities was up 6% to a record \$90.5 million. Free cash flow was \$67 million excluding total project headquarter related cash flow of \$20 million.
- Trade receivables of \$153.7 million fell 4% from June 2010 and debtors days were 80 days (H1 F10, 78 days). Inventory grew 3% to \$107.2 million over the June 2010 position.
- Total net debt was \$17.3 million at 31st December 2010. This equates to an operating net gearing ratio of 3% (F10, 15%) defined as (net debt / net debt + equity).
- Cochlear's new global headquarters building program was successfully completed in the first half of F11 and all functions except manufacturing have now moved into the Macquarie building. Manufacturing will transfer to the new building as regulatory approvals are obtained.
- On practical completion Macquarie University paid Cochlear \$130.3 million and then leased the building to Cochlear on commercial terms. After construction and relocation related expenditure, a net profit of \$6.1 million was booked to Other Income in this first half.
- Foreign exchange movements impacted Cochlear's financial results. In H1 F11 the average Australian Dollar rates appreciated 8% against the USD and 20% against the Euro, compared to H1 F10.
- Gains from FX contracts were \$21.9 million for the half year. This offset some of the effects of an appreciating AUD, although if H1 F10 rates had applied in F11, NPAT would have been \$16.5 million more than reported (i.e. \$103.7 million).

Dividends

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

	\$000
In respect of the previous year:	
A final ordinary dividend of 105.0 cents per share, franked to 60% with Class C (30%) franking credits, in respect of the year ended 30 June 2010, paid on 23 September 2010.	<u>59,404</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 2010. Since the end of the financial half-year, the directors declared an interim dividend of 105.0 cents franked at 60% amounting to a total of \$59,500,000.

**Cochlear Limited and its controlled entities
Directors' Report
For the six months ended 31 December 2010**

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 2010.

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 8th day of February 2011.

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 2010**

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 2010 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, 8 February 2011



Kevin Leighton, Partner

Cochlear Limited and its controlled entities
Interim Income Statement
For the six months ended 31 December 2010

	Note	31 Dec 2010 \$000	31 Dec 2009 \$000
Revenue	5(a)	377,072	347,593
Cost of sales	5(b)	(101,164)	(97,413)
Gross profit		275,908	250,180
Other income	5 (c)	6,736	8,281
Selling and general expenses		(92,887)	(90,917)
Administration expenses		(19,895)	(20,456)
Research and development expenses		(51,423)	(43,950)
Results from operating activities		118,439	103,138
Finance income	5(d)	3,230	4,762
Finance expense	5(d)	(5,008)	(5,884)
Net finance (expense) / income	5(d)	(1,778)	(1,122)
Profit before income tax		116,661	102,016
Income tax expense		(29,435)	(26,769)
Net profit		87,226	75,247
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Earnings per share			
Basic earnings per share (cents)	8	154.3	134.0
Diluted earnings per share (cents)	8	153.3	133.4

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 2010**

	31 Dec 2010	31 Dec 2009
	\$000	\$000
Net profit	87,226	75,247
Other comprehensive income		
Foreign exchange translation differences	(20,025)	(19,587)
Effective portion of changes in fair value of cash flow hedges	52,813	31,508
Net change in fair value of cash flow hedges transferred to the income statement	(15,306)	(7,485)
Other comprehensive income for the period, net of income tax	17,482	4,436
Total comprehensive income for the period	104,708	79,683

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 2010

	Note	31 Dec 2010 \$000	30 Jun 2010 \$000
Current assets			
Cash and cash equivalents		63,558	42,808
Trade and other receivables		246,081	210,690
Capitalised building costs – construction of Headquarters	12	-	74,326
Inventories		107,199	104,407
Current tax receivables		7,949	7,695
Prepayments		8,085	7,962
Total current assets		432,872	447,888
Non-current assets			
Trade and other receivables		37,596	25,143
Property, plant and equipment		60,308	49,597
Goodwill	10	154,551	159,877
Other intangible assets		50,844	51,962
Deferred tax assets		15,020	17,252
Total non-current assets		318,319	303,831
Total assets		751,191	751,719
Current liabilities			
Trade and other payables		82,601	70,763
Loans and borrowings – construction of Headquarters	12	-	73,811
Current tax liabilities		33,377	12,630
Provisions		36,085	36,896
Deferred revenue		19,576	19,048
Total current liabilities		171,639	213,148
Non-current liabilities			
Trade and other payables		-	5,724
Loans and borrowings – operations		80,936	82,934
Provisions		11,213	11,605
Total non-current liabilities		92,149	100,263
Total liabilities		263,788	313,411
Net assets		487,403	438,308
Equity			
Share capital		117,673	117,016
Reserves		42,885	22,269
Retained earnings		326,845	299,023
Total equity		487,403	438,308

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 2010

	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 Changes in Equity
For the six months ended 31 December 2010

	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 2009	99,427	(1,992)	(22,214)	19,779	18,274	250,960	364,234
Total comprehensive income							
Net profit	-	-	-	-	-	75,247	75,247
Other comprehensive income							
Foreign exchange translation differences	-	-	(19,587)	-	-	-	(19,587)
Effective portion of changes in fair value of cash flow hedges	-	-	-	31,508	-	-	31,508
Net change in fair value of cash flow hedges transferred to the income statement	-	-	-	(7,485)	-	-	(7,485)
Total other comprehensive income	-	-	(19,587)	24,023	-	-	4,436
Total comprehensive income for the period	-	-	(19,587)	24,023	-	75,247	79,683
Transactions with owners, recorded directly in equity							
Shares issued	13,352	(835)	-	-	-	-	12,517
Share based payments	-	-	-	-	2,053	-	2,053
Dividends to shareholders	-	-	-	-	-	(53,384)	(53,384)
Total transactions with owners	13,352	(835)	-	-	2,053	(53,384)	(38,814)
Balance at 31 December 2009	112,779	(2,827)	(41,801)	43,802	20,327	272,823	405,103

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 2010

	Note	31 Dec 2010	31 Dec 2009
		\$000	\$000
Cash flows from operating activities			
Cash receipts from customers		359,243	321,994
Cash payments to suppliers and employees		(242,041)	(230,853)
Grant and other income received		720	8,283
Interest received		405	868
Interest paid		(5,008)	(5,884)
Income taxes paid		(22,779)	(9,029)
Net cash from operating activities		90,540	85,379
Cash flows from investing activities			
Acquisition of property, plant and equipment		(21,260)	(6,415)
Acquisition of enterprise resource planning system		(2,754)	(1,857)
Acquisition of intangible assets		(3,692)	(5,252)
Payments for construction of headquarters		(36,027)	(23,183)
Proceeds from sale of headquarters	12	130,302	-
Net cash used in investing activities		66,569	(36,707)
Cash flows from financing activities			
Repayment of borrowings		(63,000)	(65,000)
Proceeds from borrowings		61,000	31,000
Repayment of borrowings – construction of headquarters		(98,344)	-
Proceeds from borrowings – construction of headquarters		24,533	22,469
Proceeds from issue of share capital		5,488	12,517
Contributions to executive share plan		(4,831)	-
Dividends paid by the parent		(59,404)	(53,384)
Net cash used in financing activities		(134,558)	(52,398)
Net increase / (decrease) in cash and cash equivalents		22,551	(3,726)
Cash and cash equivalents at 1 July		42,808	80,016
Effect of exchange rate fluctuation on cash held		(1,801)	(2,635)
Cash and cash equivalents at 31 December		63,558	73,655

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 2010

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 2010 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 2010 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 2010. This report should also be read in conjunction with any public announcements made by Cochlear Limited during the six months ended 31 December 2010 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 8th February 2011.

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

Except as described below, 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 2010.

(a) Change in accounting policy

(i) Presentation of transactions recognised in other comprehensive income

From 1 July 2010 Cochlear has applied amendments to AASB 101 Presentation of Financial Statements outlined in AASB 2010-4 Further amendments to Australian Accounting Standards arising from the Annual Improvements Project. The change in accounting policy only relates to disclosures and had no impact on consolidated earnings per share or net income.

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, the significant judgements 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 2010.

Cochlear Limited and its controlled entities
Condensed Notes to the Interim Financial Statements
For the six months ended 31 December 2010

	Note	31 Dec 2010 \$000	31 Dec 2009 \$000
5. Revenue and expenses			
(a) Revenue			
Sale of goods revenue before hedging		351,790	335,037
Foreign exchange gains on hedged sales		21,865	10,693
Revenue from the sale of goods		373,655	345,730
Rendering of services revenue		3,417	1,863
Total revenue		377,072	347,593
(b) Expenses			
Cost of sales			
Carrying amount of inventories recognised as an expense		95,720	92,800
Other		2,766	1,333
Write-down in value of inventories		2,678	3,280
Total cost of sales		101,164	97,413
(c) Other Income			
Grant received or due and receivable		219	358
Construction profit net of relocation expense	12	6,130	-
Other		387	7,923
Total other income		6,736	8,281
(d) Net finance expense			
Interest income		538	538
Net foreign exchange gain		2,692	4,224
Finance income		3,230	4,762
Interest expense		(5,008)	(5,884)
Finance expense		(5,008)	(5,884)
Net finance (expense)/income		(1,778)	(1,122)

Cochlear Limited and its controlled entities
Condensed Notes to the Interim Financial Statements
For the six months ended 31 December 2010

6. Segment reporting

	Americas	Europe	Asia Pacific	Total
	\$000	\$000	\$000	\$000
Information about reportable segments				
Six months ended 31 December 2010				
External revenue	162,499	136,483	56,225	355,207
Reportable segment profit or loss	80,617	61,048	17,127	158,792
Six months ended 31 December 2009				
External revenue	147,691	141,651	47,558	336,900
Reportable segment profit or loss*	72,686	66,996	15,402	155,084

	31 Dec 2010	31 Dec 2009
	\$000	\$000
Reconciliation of reportable segment revenue		
External revenue	355,207	336,900
Foreign exchange gains on hedged sales	21,865	10,693
Total revenue	<u>377,072</u>	<u>347,593</u>

Reconciliation of reportable segment profit or loss

Total profit or loss for reportable segments	158,792	155,084
Corporate and other net expenses	(40,353)	(51,946)
Net finance (expense) / income	<u>(1,778)</u>	<u>(1,122)</u>
Profit before income tax	<u>116,661</u>	<u>102,016</u>

* Comparative segment information has been re-presented to be consistent with a methodology first adopted at 30 June 2010.

Cochlear Limited and its controlled entities
Condensed Notes to the Interim Financial Statements
For the six months ended 31 December 2010

7. 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 2010. In August 2010 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 2010	\$69.80	Aug 2013 - 15	443,498	25,005

Fair value of options and performance shares and assumptions for the six months ended 31 December 2010:

	Share Options	Performance Shares
Fair value at grant date	\$9.67	\$41.27
Share price at grant date	\$68.84	\$68.84
Exercise price	\$69.80	-
Expected volatility	34.6%	34.6%
Expected dividend yield	2.60%	2.60%
Risk free interest rate	4.49%	4.49%

The basis for measuring fair value is consistent with that disclosed in the Consolidated Annual Financial Report as at and for the year ended 30 June 2010.

Cochlear Limited and its controlled entities
Condensed Notes to the Interim Financial Statements
For the six months ended 31 December 2010

8. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the six months ended 31 December 2010 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 2010 calculated as follows:

	31 Dec 2010	31 Dec 2009
Net profit attributable to equity holders of the parent	\$87,226,000	\$75,247,000
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 July (number)	56,482,346	55,977,555
Effect of shares issued during the period (number)	54,901	159,009
Weighted average number of ordinary shares	<u>56,537,247</u>	<u>56,136,564</u>
Basic earnings per share (cents)	154.3	134.0

Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 31 December 2010 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 2010 calculated as follows:

Net profit attributable to equity holders of the parent	\$87,226,000	\$75,247,000
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic)	56,537,247	56,136,564
Effect of options and performance shares	351,398	261,167
Weighted average number of ordinary shares (diluted)	<u>56,888,645</u>	<u>56,397,731</u>
Diluted earnings per share (cents)	153.3	133.4

Cochlear Limited and its controlled entities
Condensed Notes to the Interim Financial Statements
For the six months ended 31 December 2010

9. 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 2010				
Final – ordinary	105.0	59,404	60% Franked	23 September 2010
31 December 2009				
Final – ordinary	95.0	53,384	100% Franked	24 September 2009

Franked dividends declared or paid during the financial year were fully 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	105.0	59,500	60% Franked	15 March 2011

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 2010 and will be recognised in subsequent financial statements.

Cochlear Limited and its controlled entities
Condensed Notes to the Interim Financial Statements
For the six months ended 31 December 2010

10. Intangible assets

Goodwill	\$000
Reconciliation of carrying amount	
Carrying amount at 1 January 2010	169,028
Effect of movements in foreign exchange	<u>(9,151)</u>
Carrying amount at 30 June 2010	159,877
Carrying amount at 1 July 2010	159,877
Effect of movements in foreign exchange	<u>(5,326)</u>
Carrying amount at 31 December 2010	154,551

11. 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 a US District Court of California, alleges that two patents have been infringed.

In May 2009, the complaint was dismissed for lack of standing to sue by the Mann Foundation. The dismissal was reversed by the US Court of Appeals in May 2010 and the complaint has returned to the District Court for further proceedings.

Guarantees - Otologics

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 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 has a secured \$200.0 million multi-option credit facility maturing in June 2012. The facility provides Cochlear with the option to reallocate a sub-limit of up to \$15.0 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.

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.

Cochlear Limited and its controlled entities
Condensed Notes to the Interim Financial Statements
For the six months ended 31 December 2010

12. 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. No progress payments were made during the course of development which commenced in 2009.

The Headquarters was constructed on land owned by MU by a special purpose entity, Lachlan Project Development Pty Ltd. Adjacent land has been reserved by MU for possible future expansion by Cochlear over the next 25 years.

Construction activities are not part of the ordinary course of Cochlear's business and Cochlear was exposed to the usual risks associated with construction.

Construction expense was determined as the sum of costs incurred plus interest capitalised during the year. Revenue was recognised on a percentage of completion basis throughout the project.

Cochlear now leases the premises for a minimum of 15 years from a MU entity.

Cochlear also incurred certain relocation related expenses pertaining to its Headquarters relocation. These expenses have been 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 has been brought to account over the years ended 30 June 2009, 2010 and the current year. The total project construction profit has been recognised in the six months ended 31 December 2010.

	Total Project	6 months ended	6 months ended
	\$000	31 Dec 2010	31 Dec 2009
		\$000	\$000
Construction contract revenue	130,302	66,606	23,183
Construction contract expense	(118,712)	(55,016)	(23,183)
Relocation related expenditure	(5,460)	(5,460)	-
Construction profit net of relocation expense	6,130	6,130	-

The following balances related to the construction of the Headquarters are incorporated in the consolidated interim balance sheet:

	31 Dec 2010	30 Jun 2010
	\$000	\$000
Assets		
Cash and cash equivalents	541	994
Trade and other receivables	396	223
Capitalised building costs – construction of Headquarters	-	74,326
Total current assets	937	75,543
Total assets	937	75,543
Liabilities		
Loans and borrowings – construction of Headquarters	-	73,811
Provisions	7,195	-
Current tax liabilities	3,572	61
Total current liabilities	10,767	73,872
Total liabilities	10,767	73,872
Net (liabilities) / assets	(9,830)	1,671

Cochlear Limited and its controlled entities
Condensed Notes to the Interim Financial Statements
For the six months ended 31 December 2010

13. 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 2010, see Note 9.

Cochlear Limited and its controlled entities
For the six months ended 31 December 2010

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 2010, 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 8th day of February 2011.

Signed in accordance with a resolution of the directors:



Director



Director

Cochlear Limited and its controlled entities

For the six months ended 31 December 2010

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 2010, 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, a statement of accounting policies and other explanatory notes 1 to 13 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 (including the Australian Accounting Interpretations) 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 Interim and Other Financial Reports 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 the Consolidated Entity's financial position as at 31 December 2010 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*.

Cochlear Limited and its controlled entities
For the six months ended 31 December 2010

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 2010 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

Kevin Leighton, Partner

Sydney, 8 February 2011