

# Growing opportunities

Half Year Report 2012



*Hear now. And always*



Dear Shareholder

I am pleased to provide you with extracts from our half year report lodged with the Australian Securities Exchange on 7 February 2012.

### Highlights

- 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).
- 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.



Dr Chris Roberts  
Chief Executive Officer / President

7th February 2012

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

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

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

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

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

	31 Dec 2011 \$'000	31 Dec 2010 \$'000
<b>Cash flows from operating activities</b>		
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)
<b>Net cash from operating activities</b>	<b>67,365</b>	<b>90,540</b>
<b>Cash flows from investing activities</b>		
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	-	130,302
<b>Net cash (used in) / from investing activities</b>	<b>(17,268)</b>	<b>66,569</b>
<b>Cash flows from financing activities</b>		
Repayment of borrowings	(30,000)	(63,000)
Proceeds from borrowings	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)
<b>Net cash used in financing activities</b>	<b>(46,637)</b>	<b>(134,558)</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,460</b>	<b>22,551</b>
<b>Cash and cash equivalents at 1 July</b>	<b>72,423</b>	<b>42,808</b>
Effect of exchange rate fluctuation on cash held	(935)	(1,801)
<b>Cash and cash equivalents at 31 December</b>	<b>74,948</b>	<b>63,558</b>

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

	31 Dec 2011 \$'000	31 Dec 2010 \$'000	% Change
Cochlear implant systems sales (units)	10,724	11,765	(9)
<b>Revenue</b>	<b>387,491</b>	<b>377,072</b>	<b>3</b>
EBIT before product recall costs *	108,674	121,131	(10)
Profit before tax and product recall costs *	106,291	116,661	(9)
Net profit after tax but before product recall costs *	80,147	87,226	(8)
Product recall costs, net of tax *	(100,536)	-	-
<b>Net (loss)/profit after tax</b>	<b>(20,389)</b>	<b>87,226</b>	<b>(123)</b>
Basic earnings per share (cents)	(35.9)	154.3	(123)
Interim dividend per share (cents)	120.0	105.0	14

\* 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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