

## Appendix 4D

# Cochlear Limited Half Yearly Report As at 31 December 2013

### Results for announcement to the market

	Movement			\$A000
<b>Revenue</b>	<b>down</b>	<b>5%</b>	<b>to</b>	<b>371,060</b>
Earnings before interest, taxes and patent dispute provision (EBIT)	down	54%	to	49,425
Net profit for the period before patent dispute provision	down	53%	to	36,826
Patent dispute provision net of tax				(15,781)
<b>Net profit for the period attributable to members</b>	<b>down</b>	<b>73%</b>	<b>to</b>	<b>21,045</b>
Basic EPS (cents)	down	73%	to	37.0
Dividend (cents)	up	2%	to	127.0

Net tangible assets per share at 31 December 2013 (cents)	down	57%	to	128.9
Net tangible assets per share at 31 December 2012 (cents)				300.3

<b>Dividends</b>	Amount per security	Franked amount per security	Conduit foreign income per security
Interim dividend per share (cents)	127.0c	0.0c	30.0c
Previous corresponding period (cents)	125.0c	50.0c	38.0c
Record date for determining entitlements to the dividend	6 March 2014		
Dividend payment date	27 March 2014		
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 2013**

**Cochlear Limited and its controlled entities  
Directors' Report  
For the half year ended 31 December 2013**

---

The directors present their report, together with the consolidated interim financial report for Cochlear Limited (the Company) and its controlled entities for the half year ended 31 December 2013 and the auditors' review report thereon.

**Directors**

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

<b>Name</b>	<b>Period of directorship</b>
<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 half year ended 31 December 2013 and the results of those operations are set out below.

**Review of Operations**

The following provides a summary of Cochlear's performance for the half year ended 31 December 2013.

	<b>2013</b>	<b>2012</b>
	<b>\$000</b>	<b>\$000</b>
<b>Revenue</b>	<b>371,060</b>	<b>391,699</b>
Sales revenue	376,967	368,191
Earnings before interest and tax and patent dispute provision * (EBIT)	49,425	108,301
Net profit after tax but before patent dispute provision *	36,826	77,665
Patent dispute provision, net of tax*	(15,781)	-
<b>Profit attributable to members</b>	<b>21,045</b>	<b>77,665</b>
Basic earnings per share (cents)	37.0	136.6
Diluted earnings per share (cents)	36.9	136.1
Interim dividend per share (cents)	127.0	125.0

\*The patent dispute provision was \$22,545,000 before tax and \$15,781,000 after tax

**Revenue**

Fiscal year ended 30 June 2014 (F14) is an important year for Cochlear as new products are scheduled for regulatory approval and commercial launch in all product categories.

The year commenced without these regulatory approvals, but with the market still anticipating imminent new product launches. This had the result of a slowdown of sales in the second half of F13 (H2 F13), which continued into the first quarter of F14.

## **Cochlear Limited and its controlled entities Directors' Report For the half year ended 31 December 2013**

---

The Nucleus<sup>®</sup> 6 sound processor received regulatory approval in the key markets of Europe and USA and was then launched. Regulatory approval in the USA did not include all features and further approvals are being received on a progressive basis.

Baha<sup>®</sup> 4 and Baha Attract were also launched in the second quarter in major markets and have been positively received.

As anticipated, sales in quarter two recovered and were up over 30% from quarter one following approval and the launch of the new products.

Total revenue for H1 F14 was \$371.1 million, down 5% on H1 F13. Sales, excluding FX contracts, were \$377.0 million, up 2%. In constant currency (that is restating H1 F13 at H1 F14 FX rates) H1 F14 sales were down 8%.

Cochlear implant sales revenue, which included sound processor upgrades, was \$331.1 million, and was flat on the prior year and down 10% in constant currency.

Cochlear implant unit sales were 11,712, down 14%. In H1 F13, approximately 1,900 unit sales were delivered against a Chinese tender. There were no comparable sales in H1 F14. Excluding the China tender sales, cochlear implant sales units were flat period on period.

Bone Anchored Solutions, (including acoustic implant sales) of \$45.9 million were up 19% and up 6% in constant currency.

The Australian dollar (AUD) depreciated against our major currencies during the half which benefits foreign sales when translated into AUD. From a translation perspective, Cochlear benefited by net \$18 million. Offsetting this was a reduction in profit from FX contracts. FX contract losses were \$5.9 million compared to a gain of \$23.5 million in H1 F13.

Regional performance:

- Americas sales of \$150.0 million were flat on H1 F13, (down 10% in constant currency).

Sales of sound processor upgrades to existing cochlear implant recipients were down \$3.8 million in constant currency as recipients held off purchases in anticipation of the various Nucleus 6 launches. A further \$2.2 million of sales was deferred during the period as part of the Future Technology Exchange Program (FTEP) initiated in April 2013 to help manage the transition period. At 31 December 2013, deferred revenue for FTEP in the USA was \$6.8 million and is forecast to be released in H2 F14.

Cochlear implant market share in the USA fell to an estimated 60%, although market share estimates are inherently uncertain.

- EMEA (Europe, Middle East and Africa) sales of \$169.1 million were up 21% (up 4% in constant currency).

Sales of sound processor upgrades were down \$1.6 million in constant currency as recipients held off purchases in anticipation of the various Nucleus 6 launches. \$1.8 million of revenue deferred as at 30 June under FTEP was released in the half. There is no remaining FTEP deferred revenue in EMEA at 31 December 2013.

- Asia Pacific sales of \$57.9 million were down 25% (down 28% in constant currency).

Sales of sound processor upgrades to existing implant recipients were down \$6.1 million in constant currency as recipients waited on final regulatory and reimbursement approvals.

There were no Chinese government tender sales booked in the half (H1 F13 approximately 1,900 units).

**Cochlear Limited and its controlled entities**  
**Directors' Report**  
**For the half year ended 31 December 2013**

---

**Profit**

Cost of goods sold (COGS) of \$123.7 million gave a COGS/sales margin of 32.8% compared to 28.5% for the previous corresponding period. Lower manufacturing volumes in the first quarter adversely impacted manufacturing variances. By the second quarter, volumes had recovered and margins were improved.

Selling, general and administration (SG&A) expenses were up 12% but up 4% in constant currency, as a result of a disciplined approach to expenditure. The SG&A expense increase covered product launch and market growth initiatives as well as cost increases flagged last year such as the USA Medical Device Excise Tax and amortisation of ERP systems upgrades completed in F13.

Research and development (R&D) expenses of \$65.1 million increased 9% (increased 4% in constant currency), reflecting the deliberate strategy to maintain momentum in the future development work of R&D. As detailed earlier, a number of new products were released in the first half. The regulatory and reimbursement regimes differ in the various countries Cochlear sells into and launch timing is governed by these approvals.

A provision of USD20 million (\$22.5 million) has been expensed in the half in relation to the patent dispute lawsuit by the Alfred E. Mann Foundation for Scientific Research (AMF) and Advanced Bionics LLC (AB) in the USA. The directors are of the opinion that the facts and the law do not support the jury's findings and will seek to overturn the verdict in post-trial motions with the District Court and, if necessary, through the appeals process, notwithstanding the provision made this half.

The earnings before interest and tax (EBIT) of \$26.9 million for H1F14 was \$81.4 million lower than that for the prior year. EBIT to total revenue of 7.2% was below that for last year of 27.6%.

Excluding the patent dispute provision in the current half, EBIT of \$49.4 million for H1F14 was \$58.9 million lower than that for the prior year. EBIT to total revenue of 13.3% was below that for last year of 27.6%.

Net interest expense increased \$1.8 million to \$4.6 million due to higher borrowings. Interest cover was 6 times (2013: 39 times).

The effective tax rate of 5.8% decreased by 20.6 percentage points, Excluding the patent dispute provision, the effective tax rate of 17.9% decreased by 8.5 percentage points, as the R&D tax concession benefit remained largely unchanged despite the lower profit.

Net profit after tax (NPAT) decreased 73% to \$21.0 million.

Excluding the patent dispute provision, NPAT decreased 53% to \$36.8 million.

**Financial position**

Inventories of \$140.7 million were up 7% from 30 June 2013 (\$131.6 million). This reflects a build-up of inventories ahead of the new product releases. Inventory days decreased to 208 days (30 June 2013: 231 days).

Trade receivables of \$182.1 million were down 3% from 30 June 2013 (\$187.6 million). In constant currency, trade receivables were down 8%. Debtor days decreased to 75 days (30 June 2013: 80 days). Debtor days decreased in all regions following a concerted effort to improve collections.

Trade and other payables increased by \$12.2 million from 30 June 2013, largely due to the increase in the liability associated with forward exchange contracts of \$14 million. The product recall provision was reduced by \$12.2 million to \$24.4 million at 31 December 2013.

Intangible assets of \$248.9 million (30 June 2013: \$235.8 million) are a significant proportion of Cochlear's total assets. Foreign exchange movements accounted for \$13.9 million of the increase. Some \$184.8 million of this total relates to goodwill arising from the earlier acquisitions of businesses,

# **Cochlear Limited and its controlled entities**

## **Directors' Report**

### **For the half year ended 31 December 2013**

---

principally the Entific business in 2005. All intangible assets are tested for impairment on an annual basis. There were no impairments or write-downs of intangible assets in H1F14.

The Board has declared an unfranked dividend of \$1.27 per share which will be paid on 27th March 2014 based on a record date of 6th March 2014.

Net debt was \$166.3 million at 31 December 2013 (30 June 2013: \$117.8 million). Dividends of \$72.4 million were paid in the half.

At 31 December 2013, debt facilities of \$350 million were in place with terms of three and five years. At 31 December 2013, the unused portion of the facility was \$122.6 million. All bank covenants were met at year end.

#### **Outlook**

Management and the Board believe Cochlear is on track for growth and given the Company's strong financial position, the dividend has been declared at \$1.27 per share. We are conscious of the issues surrounding the announced patent dispute and jury verdict and remain confident in our position and will appeal any materially negative judgment.

As always, our dividend policy will consider legal actions and other commercial factors and will be determined based on our financial stability and our medium term prospects.

In the short term, Cochlear continues to see market pressures in the USA where we do not yet have all expected regulatory approvals. Together with margin pressures, we forecast NPAT in H2F14 to be in the range of \$70 - \$80 million.

Profit guidance for the second half is supported by:

- ongoing momentum from the release of the Nucleus 6 sound processor in major markets including Nucleus 6 upgrade sales;
- the anticipated regulatory approval of the Hybrid™ cochlear implant system in the USA and its subsequent launch;
- release of \$6.8 million of deferred revenue following the conclusion of the USA FTEP programme in H2F14;
- supply of approximately 1,800 cochlear implant units to China as part of the most recent government tender that has been awarded to Cochlear; and
- further sales gains from Baha 4 and Baha Attract.

#### **Non-IFRS financial measures**

Given the significance of the FX movements and patent dispute 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 F14 FX rates
- Excluding patent dispute provision: IFRS measures adjusted for the expense of the patent dispute provision.

These 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 half year ended 31 December 2013**

---

**Dividends**

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

In respect of the previous year:	<b>\$000</b>
A final ordinary dividend of 127.0 cents per share, franked to 30% with Class C (30%) franking credits, in respect of the year ended 30 June 2013, paid on 19 September 2013.	<u>72,442</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 2013. Since the end of the financial half-year, the directors declared an interim dividend of 127.0 cents unfranked amounting to a total of \$72.5m.

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

The lead auditor's independence declaration is set out on page 8 and forms part of the Directors' Report for the half year ended 31 December 2013.

**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 11<sup>th</sup> day of February 2014.

Signed in accordance with a resolution of the directors:



Director



Director

**Cochlear Limited and its controlled entities  
Lead Auditor's Independence Declaration  
For the half year ended 31 December 2013**

---

**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 2013 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

KPMG

Sydney, 11 February 2014



Cameron Slapp, Partner



**Cochlear Limited and its controlled entities**  
**Interim Income Statement**  
**For the half year ended 31 December 2013**

	Note	31 Dec 2013 \$000	31 Dec 2012 \$000
Revenue	5(a)	371,060	391,699
Cost of sales	5(b)	<u>(123,669)</u>	<u>(104,842)</u>
<b>Gross profit</b>		<b>247,391</b>	<b>286,857</b>
Selling and general expenses		(114,276)	(97,536)
Administration expenses		(19,351)	(21,319)
Patent dispute provision	12	(22,545)	-
Research and development expenses		(65,057)	(59,901)
Other income	5(c)	1,255	898
Other expenses	5(d)	<u>(537)</u>	<u>(698)</u>
<b>Results from operating activities</b>		<b>26,880</b>	<b>108,301</b>
Finance income	5(e)	150	293
Finance expense	5(e)	<u>(4,740)</u>	<u>(3,123)</u>
<b>Net finance expense</b>	5(e)	<b>(4,590)</b>	<b>(2,830)</b>
<b>Profit before income tax</b>		<b>22,290</b>	<b>105,471</b>
Income tax expense	6	(1,245)	(27,806)
<b>Net profit</b>		<b>21,045</b>	<b>77,665</b>
<hr/>			
Earnings per share			
Basic earnings per share (cents)	9	37.0	136.6
Diluted earnings per share (cents)	9	36.9	136.1

The notes on pages 15 to 25 are an integral part of these consolidated interim financial statements.

**Cochlear Limited and its controlled entities  
Interim Statement of Comprehensive Income  
For the half year ended 31 December 2013**

	31 Dec 2013	31 Dec 2012 Restated*
	\$000	\$000
<b>Net profit</b>	<b>21,045</b>	<b>77,665</b>
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified subsequently to profit or loss</b>		
Defined benefit plan actuarial losses*	(34)	(115)
<b>Total items that will not be reclassified to profit or loss</b>	<b>(34)</b>	<b>(115)</b>
<b>Items that may be reclassified subsequently to profit or loss</b>		
Foreign exchange translation differences	27,929	7,216
Effective portion of changes in fair value of cash flow hedges	(16,212)	8,116
Net change in fair value of cash flow hedges transferred to the income statement	4,135	(16,456)
<b>Total items that may be reclassified to profit or loss</b>	<b>15,852</b>	<b>(1,124)</b>
<b>Other comprehensive income / (loss) for the period, net of income tax</b>	<b>15,818</b>	<b>(1,239)</b>
<b>Total comprehensive income for the period</b>	<b>36,863</b>	<b>76,426</b>

\*Refer Note 3(d) for impact of change in accounting policy.

The notes on pages 15 to 25 are an integral part of these consolidated interim financial statements.

**Cochlear Limited and its controlled entities**  
**Interim Balance Sheet**  
**For the half year ended 31 December 2013**

	Note	31 Dec 2013	30 Jun 2013
		\$000	Restated* \$000
<b>Current assets</b>			
Cash and cash equivalents		59,992	52,689
Trade and other receivables		200,733	203,748
Inventories		140,721	131,574
Current tax receivables		16,878	6,207
Prepayments		10,299	11,004
<b>Total current assets</b>		<b>428,623</b>	<b>405,222</b>
<b>Non-current assets</b>			
Trade and other receivables		405	944
Property, plant and equipment		67,864	65,898
Intangible assets		248,894	235,774
Deferred tax assets		65,889	57,422
<b>Total non-current assets</b>		<b>383,052</b>	<b>360,038</b>
<b>Total assets</b>		<b>811,675</b>	<b>765,260</b>
<b>Current liabilities</b>			
Trade and other payables		104,811	96,789
Loans and borrowings	13	3,216	3,309
Current tax liabilities		2,984	6,002
Provisions	12	59,009	63,224
Deferred revenue		25,263	22,506
<b>Total current liabilities</b>		<b>195,283</b>	<b>191,830</b>
<b>Non-current liabilities</b>			
Trade and other payables		17,401	13,242
Loans and borrowings	13	223,105	167,160
Provisions	12	53,464	38,517
<b>Total non-current liabilities</b>		<b>293,970</b>	<b>218,919</b>
<b>Total liabilities</b>		<b>489,253</b>	<b>410,749</b>
<b>Net assets</b>		<b>322,422</b>	<b>354,511</b>
<b>Equity</b>			
Share capital		118,788	118,788
Reserves		(13,091)	(32,433)
Retained earnings		216,725	268,156
<b>Total equity</b>		<b>322,422</b>	<b>354,511</b>

\*Refer Note 3(d) for impact of change in accounting policy.

The notes on pages 15 to 25 are an integral part of these consolidated interim financial statements.

**Cochlear Limited and its controlled entities**  
**Interim Statement of Changes in Equity**  
**For the half year ended 31 December 2013**

	Issued capital \$000	Treasury reserve \$000	Translation reserve \$000	Hedging reserve \$000	Share based payment reserve \$000	Retained earnings \$000	Total equity \$000
Balance at 1 July 2013	128,196	(9,408)	(54,974)	(16,680)	39,221	268,156	354,511
<b>Total comprehensive income</b>							
Net profit	-	-	-	-	-	21,045	21,045
<b>Other comprehensive income</b>							
Defined benefit plan actuarial losses	-	-	-	-	-	(34)	(34)
Foreign exchange translation differences	-	-	27,929	-	-	-	27,929
Effective portion of changes in fair value of cash flow hedges	-	-	-	(16,212)	-	-	(16,212)
Net change in fair value of cash flow hedges transferred to the income statement	-	-	-	4,135	-	-	4,135
<b>Total other comprehensive income / (loss)</b>	-	-	<b>27,929</b>	<b>(12,077)</b>	-	<b>(34)</b>	<b>15,818</b>
<b>Total comprehensive income / (loss) for the period</b>	-	-	<b>27,929</b>	<b>(12,077)</b>	-	<b>21,011</b>	<b>36,863</b>
<b>Transactions with owners, recorded directly in equity</b>							
Share based payments	-	-	-	-	3,490	-	3,490
Dividends to shareholders	-	-	-	-	-	(72,442)	(72,442)
<b>Total transactions with owners</b>	-	-	-	-	<b>3,490</b>	<b>(72,442)</b>	<b>(68,952)</b>
<b>Balance at 31 December 2013</b>	<b>128,196</b>	<b>(9,408)</b>	<b>(27,045)</b>	<b>(28,757)</b>	<b>42,711</b>	<b>216,725</b>	<b>322,422</b>

The notes on pages 15 to 25 are an integral part of these consolidated interim financial statements.

**Cochlear Limited and its controlled entities**  
**Interim Statement of Changes in Equity**  
**For the half year ended 31 December 2013**

	Issued capital \$000	Treasury reserve \$000	Translation reserve \$000	Hedging reserve \$000	Share based payment reserve \$000	Retained earnings \$000	Total equity \$000
Balance at 1 July 2012	125,865	(4,729)	(84,153)	30,910	36,481	280,506	384,880
Impact of change in accounting policy*	-	-	-	-	-	(2,172)	(2,172)
<b>Restated balance at 1 July 2012</b>	<b>125,865</b>	<b>(4,729)</b>	<b>(84,153)</b>	<b>30,910</b>	<b>36,481</b>	<b>278,334</b>	<b>382,708</b>
<b>Total comprehensive income</b>							
Net Profit	-	-	-	-	-	77,665	77,665
<b>Other comprehensive income</b>							
Defined benefit plan actuarial gains / (losses)*	-	-	-	-	-	(115)	(115)
Foreign exchange translation differences	-	-	7,216	-	-	-	7,216
Effective portion of changes in fair value of cash flow hedges	-	-	-	8,116	-	-	8,116
Net change in fair value of cash flow hedges transferred to the income statement	-	-	-	(16,456)	-	-	(16,456)
<b>Total other comprehensive income / (loss)</b>	<b>-</b>	<b>-</b>	<b>7,216</b>	<b>(8,340)</b>	<b>-</b>	<b>(115)</b>	<b>(1,239)</b>
<b>Total comprehensive income / (loss) for the period</b>	<b>-</b>	<b>-</b>	<b>7,216</b>	<b>(8,340)</b>	<b>-</b>	<b>77,550</b>	<b>76,426</b>
<b>Transactions with owners, recorded directly in equity</b>							
Shares issued	1,989	(4,679)	-	-	-	-	(2,690)
Share based payments	-	-	-	-	3,575	-	3,575
Dividends to shareholders	-	-	-	-	-	(71,216)	(71,216)
<b>Total transactions with owners</b>	<b>1,989</b>	<b>(4,679)</b>	<b>-</b>	<b>-</b>	<b>3,575</b>	<b>(71,216)</b>	<b>(70,331)</b>
<b>Restated Balance at 31 December 2012</b>	<b>127,854</b>	<b>(9,408)</b>	<b>(76,937)</b>	<b>22,570</b>	<b>40,056</b>	<b>284,668</b>	<b>388,803</b>

\*Refer Note 3(d) for impact of change in accounting policy.

The notes on pages 15 to 25 are an integral part of these consolidated interim financial statements.

**Cochlear Limited and its controlled entities**  
**Interim Statement of Cash Flows**  
**For the half year ended 31 December 2013**

	Note	31 Dec 2013	31 Dec 2012
		\$000	\$000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		402,668	341,712
Cash payments to suppliers and employees		(350,926)	(280,399)
Grant and other income received		1,216	898
Interest received		166	307
Interest paid		(4,821)	(3,248)
Income taxes paid		(14,692)	(30,755)
<b>Net cash from operating activities</b>		<b>33,611</b>	<b>28,515</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(10,247)	(9,624)
Acquisition of enterprise resource planning system		(3,661)	(7,572)
Acquisition of intangible assets		-	(13,305)
<b>Net cash used in investing activities</b>		<b>(13,908)</b>	<b>(30,501)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(18,500)	(5,000)
Proceeds from borrowings		74,500	82,000
Payments for repurchase of issued capital, net		-	(2,690)
Dividends paid by the parent		(72,442)	(71,216)
<b>Net cash (used in) / from financing activities</b>		<b>(16,442)</b>	<b>3,094</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,261</b>	<b>1,108</b>
<b>Cash and cash equivalents at 1 July</b>		<b>52,689</b>	<b>68,486</b>
Effect of exchange rate fluctuation on cash held		4,042	202
<b>Cash and cash equivalents at 31 December</b>		<b>59,992</b>	<b>69,796</b>

The notes on pages 15 to 25 are an integral part of these consolidated interim financial statements.

**Cochlear Limited and its controlled entities**  
**Notes to the Interim Financial Statements**  
**For the half year ended 31 December 2013**

**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 half year ended 31 December 2013 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 2013 is available upon request from the Company's registered office at 1 University Avenue, Macquarie University NSW 2109, Australia or at [www.cochlear.com](http://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*, and with IAS 34 *Interim Financial Reporting*.

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 2013. This report should also be read in conjunction with any public announcements made by Cochlear Limited during the half year ended 31 December 2013 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 11 February 2014.

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 2013. The following changes in accounting policy are expected to be reflected in the Consolidated Entity's consolidated financial statements as at and for the year ended 30 June 2014.

**New standards and change in accounting policy**

Cochlear has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013.

**(a) AASB 10 Consolidated Financial Statements (2011)**

In accordance with the transitional provisions of AASB 10 (2011), the Consolidated Entity reassessed the control conclusion for its investees at 1 July 2013 and there have been no changes.

**(b) AASB 13 Fair Value Measurement**

In accordance with the transitional provisions of AASB 13, the Consolidated Entity has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures (refer to Note 15). Notwithstanding the above, the change had no significant impact on the measurements of the Consolidated Entity's assets and liabilities.

**(c) AASB 134 Interim Financial Reporting**

The amendment to AASB 134 clarifies that the Consolidated Entity needs to disclose the measures of total assets and liabilities for a particular reportable segment only if the amounts are regularly provided to the Group's chief operating decision maker, and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. There have been no changes to the disclosures of the Consolidated Entity as a result of the segment disclosure amendment.

**Cochlear Limited and its controlled entities**  
**Notes to the Interim Financial Statements**  
**For the half year ended 31 December 2013**

**(d) AASB 119 Employee Benefits (2011)**

As a result of AASB 119 (2011), the Consolidated Entity has changed its accounting policy with respect to the basis for determining the income or expense related to defined benefit plans.

Under AASB 119 (2011), the Consolidated Entity determines the net interest expense / (income) for the period on the net defined benefit liability / (asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability / (asset) at the beginning of the annual period, taking into account any changes in the net defined benefit liability / (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability / (asset) now comprises:

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect on the asset ceiling.

Previously, the Consolidated Entity determined interest income on plan assets based on their long-term rate of expected return.

Under AASB 119 (2011), the Consolidated Entity changed its accounting policy for recognition of actuarial gains and losses arising from its defined benefit plan from the corridor method to the direct to equity method. Previously unrecognised actuarial gains and losses under the corridor method have been recognised on the balance sheet as part of the net defined benefit obligation.

The overall impact to the financial statements is considered immaterial. The following table summarises the adjustments made to the statement of financial position on implementation of the new accounting policy:

	<b>Provisions – non current</b>	<b>Deferred tax assets</b>	<b>Retained Earnings</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Balance at 1 July 2012, as previously reported</b>	35,056	50,495	280,506
Impact of the change in accounting policy at 1 July 2012	2,858	686	(2,172)
<b>Restated balance at 1 July 2012</b>	<b>37,914</b>	<b>51,181</b>	<b>278,334</b>
<b>Balance at 30 June 2013, as previously reported</b>	35,356	56,663	270,558
Impact of the change in accounting policy at 1 July 2012	2,858	686	(2,172)
Impact of the change in accounting policy during the year ended 30 June 2013	303	73	(230)
<b>Restated balance at 30 June 2013</b>	<b>38,517</b>	<b>57,422</b>	<b>268,156</b>
<b>Balance at 31 December 2012, as previously reported</b>	36,276	42,233	286,955
Impact of the change in accounting policy at 1 July 2012	2,858	686	(2,172)
Impact of the change in accounting policy during half year 31 December 2012	151	36	(115)
<b>Restated balance at 31 December 2012</b>	<b>39,285</b>	<b>42,955</b>	<b>284,668</b>

The effect on the statement of other comprehensive income was as follows:

Decrease in other comprehensive income for the year ended December 2012 by \$115,104 and for half year ended December 2013 by \$33,503.

The change in accounting policy had an immaterial impact on earnings per share for the comparative period.



**Cochlear Limited and its controlled entities**  
**Notes to the Interim Financial Statements**  
**For the half year ended 31 December 2013**

**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 patent dispute provision in Note 12, 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 2013. Further details regarding the estimation uncertainty in respect of the patent dispute provision are disclosed in Note 12.

	<b>31 Dec 2013</b>	<b>31 Dec 2012</b>
	<b>\$000</b>	<b>\$000</b>
<b>5. Revenue and expenses</b>		
<b>(a) Revenue</b>		
Sale of goods revenue before hedging	372,818	364,913
Foreign exchange (losses) / gains on hedged sales	(5,907)	23,508
<b>Revenue from the sale of goods</b>	<b>366,911</b>	<b>388,421</b>
Rendering of services revenue	4,149	3,278
<b>Total revenue</b>	<b>371,060</b>	<b>391,699</b>
<b>(b) Expenses</b>		
<b>Cost of sales</b>		
Carrying amount of inventories recognised as an expense	120,162	102,347
Other	2,671	1,904
Write-down in value of inventories	836	591
<b>Total cost of sales</b>	<b>123,669</b>	<b>104,842</b>
<b>(c) Other income</b>		
Grant received or due and receivable	715	349
Other	540	549
<b>Total other income</b>	<b>1,255</b>	<b>898</b>
<b>(d) Other expenses</b>		
Net foreign exchange loss	537	698
<b>Total other expenses</b>	<b>537</b>	<b>698</b>
<b>(e) Net finance expense</b>		
Interest income	150	293
Interest expense	(4,740)	(3,123)
<b>Net finance expense</b>	<b>(4,590)</b>	<b>(2,830)</b>

**Cochlear Limited and its controlled entities**  
**Notes to the Interim Financial Statements**  
**For the half year ended 31 December 2013**

**6. Income tax expense**

	31 Dec 2013 Before patent dispute provision \$000	31 Dec 2013 Patent dispute provision \$000	31 Dec 2013 Reported \$000	31 Dec 2012 Reported \$000
<b>Numerical reconciliation between income tax expense and profit before income tax</b>				
Net profit / (loss)	36,826	(15,781)	21,045	77,665
Income tax expense / (benefit)	8,009	(6,764)	1,245	27,806
<b>Profit / (loss) before income tax</b>	<b>44,835</b>	<b>(22,545)</b>	<b>22,290</b>	<b>105,471</b>
<hr/>				
Income tax expense / (benefit) using the Company's domestic tax rate of 30% (Dec 2012: 30%)	13,451	(6,764)	6,687	31,641
<b>Increase in income tax expense due to:</b>				
Non-deductible expenses	1,227	-	1,227	644
Effect of tax rate in foreign jurisdictions	(1,295)	-	(1,295)	1,907
<b>Decrease in income tax expense due to:</b>				
Research and development allowances	(5,060)	-	(5,060)	(5,823)
Share based payment deductions	(357)	-	(357)	(335)
	7,966	(6,764)	1,202	28,034
Adjustment for prior years	43	-	43	(228)
<b>Income tax expense / (benefit) on profit before income tax</b>	<b>8,009</b>	<b>(6,764)</b>	<b>1,245</b>	<b>27,806</b>

**Cochlear Limited and its controlled entities**  
**Notes to the Interim Financial Statements**  
**For the half year ended 31 December 2013**

**7. Segment reporting**

	Americas \$000	Europe \$000	Asia Pacific \$000	Total \$000
<b>Information about reportable segments</b>				
<b>Half year ended 31 December 2013</b>				
External revenue	149,964	169,147	57,856	376,967
Reportable segment profit	63,461	72,656	11,535	147,652

**Half year ended 31 December 2012**

External revenue	150,398	140,134	77,659	368,191
Reportable segment profit	77,100	66,499	30,883	174,482

<b>31 Dec 2013</b>	<b>31 Dec 2012</b>
<b>\$000</b>	<b>\$000</b>

**Reconciliation of reportable segment revenue**

External revenue	376,967	368,191
Foreign exchange gains on hedged sales	(5,907)	23,508
Total revenue	<u>371,060</u>	<u>391,699</u>

**Reconciliation of reportable segment profit or loss**

Total profit for reportable segments	147,652	174,482
Corporate and other net expenses	(98,227)	(66,181)
Patent dispute provision	(22,545)	-
Net finance expense	(4,590)	(2,830)
Profit before income tax	<u>22,290</u>	<u>105,471</u>

**Cochlear Limited and its controlled entities**  
**Notes to the Interim Financial Statements**  
**For the half year ended 31 December 2013**

**8. Options and performance rights**

The Company has granted options and performance rights to certain employees and key management personnel under the Cochlear Executive Incentive Plan (CEIP). The terms and conditions of the plan are disclosed in the Consolidated Annual Financial Report as at and for the year ended 30 June 2013.

In October 2013 a grant was made to certain employees and key management personnel under the CEIP.

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

	<b>Exercise price per option</b>	<b>Exercise Period</b>	<b>Number of options</b>	<b>Number of performance rights</b>
Options & performance rights issued in October 2013	\$59.13	Aug 2016 – Mar 17	224,314	19,703

**9. Earnings per share**

**Basic earnings per share**

The calculation of basic earnings per share for the half year ended 31 December 2013 was based on net profit attributable to equity holders of the parent and a weighted average number of ordinary shares outstanding during the half year ended 31 December 2013 calculated as follows:

	<b>31 Dec 2013</b>	<b>31 Dec 2012</b>
Net profit attributable to equity holders of the parent	\$21,045,000	\$77,665,000
<b>Weighted average number of ordinary shares:</b>		
Issued ordinary shares at 1 July (number)	56,915,289	56,865,878
Effect of shares issued during the period (number)	9,091	4,074
<b>Weighted average number of ordinary shares</b>	56,924,380	56,869,952
Basic earnings per share (cents)	37.0	136.6

**Diluted earnings per share**

The calculation of diluted earnings per share for the half year ended 31 December 2013 was based on net profit attributable to equity holders of the parent and a weighted average number of ordinary shares outstanding during the half year ended 31 December 2013 calculated as follows:

Net profit attributable to equity holders of the parent	\$21,045,000	\$77,665,000
<b>Weighted average number of ordinary shares (diluted):</b>		
Weighted average number of shares (basic)	56,924,380	56,869,952
Effect of options and performance shares	125,185	182,217
<b>Weighted average number of ordinary shares (diluted)</b>	57,049,565	57,052,169
Diluted earnings per share (cents)	36.9	136.1

**Cochlear Limited and its controlled entities**  
**Notes to the Interim Financial Statements**  
**For the half year ended 31 December 2013**

**10. Dividends**

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

	<b>Cents per share</b>	<b>Total amount \$'000</b>	<b>Franked/ unfranked</b>	<b>Date of payment</b>
<b>31 December 2013</b>				
Final – ordinary	127.0	72,442	30% Franked	19 September 2013
<b>31 December 2012</b>				
Final – ordinary	125.0	71,216	35% Franked	20 September 2012

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:

	<b>Cents per share</b>	<b>Total amount \$'000</b>	<b>Franked/ unfranked</b>	<b>Date of payment</b>
Interim – ordinary	127.0	72,469	Unfranked	27 March 2014

The financial effect of these dividends has not been brought to account in the Consolidated Interim Financial Report for the half year ended 31 December 2013 and will be recognised in subsequent financial statements.

**11. Goodwill**

	<b>\$000</b>
Carrying amount at 1 January 2013	158,275
Effect of movements in foreign exchange	12,684
<b>Carrying amount at 30 June 2013</b>	<b>170,959</b>
Carrying amount at 1 July 2013	170,959
Effect of movements in foreign exchange	13,878
<b>Carrying amount at 31 December 2013</b>	<b>184,837</b>

**Cochlear Limited and its controlled entities**  
**Notes to the Interim Financial Statements**  
**For the half year ended 31 December 2013**

12. Provisions	31 Dec 2013	30 Jun 2013 Restated*
	\$000	\$000
<b>Current</b>		
Employee benefits	29,040	30,450
Warranties	13,844	13,231
Legal and other	6,829	7,487
Product recall	9,296	12,056
<b>Total current provisions</b>	<b>59,009</b>	<b>63,224</b>
<b>Non-current</b>		
Employee benefits	5,234	3,589
Defined benefit plan	3,547	3,161
Warranties	4,520	4,683
Directors' retirement scheme	416	411
Make good lease costs	2,146	2,143
Product recall	15,056	24,530
Patent dispute	22,545	-
<b>Total non-current provisions</b>	<b>53,464</b>	<b>38,517</b>

\*Refer Note 3(d) for impact of change in accounting policy.

**Product recall**

On 11 September 2011, the Company initiated a worldwide voluntary recall of its unimplanted Nucleus CI500 cochlear implant range. Management has made judgments, estimates and assumptions related to probable costs arising from the recall which affect the reported amounts of assets, liabilities, income and expenses. Actual outcomes may differ from these estimates as further information is identified. No further amount has been recognised as a charge in the half year ended 31 December 2013.

**Patent dispute**

On 24 January 2014 a jury verdict in the patent infringement lawsuit by the Alfred E. Mann Foundation for Scientific Research (AMF) and Advanced Bionics LLC (AB) in the United States District Court in Los Angeles, California was reached. The jury found direct, contributory and wilful, but not induced infringement against Cochlear Limited and its USA subsidiary Cochlear Americas and awarded damages of USD131.2 million against Cochlear.

No judgment has been entered based on the verdict as important issues still remain to be decided by the Judge. These decisions may negate some of the findings of the jury and could alter the damages awarded by the jury. A judgment is expected to be entered in the coming weeks or months.

The directors are of the opinion that the facts and the law do not support the jury's findings and will seek to overturn the verdict in post-trial motions with the District Court and, if necessary, through the appeals process.

A provision of USD 20 million (\$22.5 million) has been expensed in the half year ended 31 December 2013 in relation to this dispute. For the purposes of determining this provision, Cochlear considered its independent damages expert's assessment prepared for the trial to estimate the liability that could result from the dispute.

The nature of the above legal process is such that final future outcomes are uncertain. The directors have made judgments and assumptions relating to their best estimate of the outcome of this litigation and actual outcomes may differ from the estimated liability.

**Cochlear Limited and its controlled entities  
Notes to the Interim Financial Statements  
For the half year ended 31 December 2013**

**13. Loans and Borrowings**

	<b>31 Dec 2013</b>	<b>30 Jun 2013</b>
	<b>\$000</b>	<b>\$000</b>
<b>Current</b>		
Secured bank loans	3,216	3,309
<b>Total current loans and borrowings</b>	<b>3,216</b>	<b>3,309</b>
<b>Non-current</b>		
Secured bank loans	223,105	167,160
<b>Total non-current loans and borrowings</b>	<b>223,105</b>	<b>167,160</b>

**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 loan**

In September 2012, Cochlear's Japanese Yen (JPY) 300.0 million bank facility was increased to JPY 450.0 million. It is secured by a letter of guarantee and reviewed annually. Interest is charged at prevailing market rates.

**Secured bank loan – multi-option credit facility**

Cochlear has two corporate loan facilities. The first was amended and extended in June 2013 for a period of three years for a total commitment limit of AUD 200.0 million, with an option to allocate a letter of credit sub-facility limit of up to AUD 30.0 million for the purpose of drawing either bank guarantees or letters of credit. This letter of credit sub-limit currently sits at AUD 5.0 million. In December 2013, the total commitment limit was increased to AUD 250.0 million. The letter of credit sub-limit currently remains at AUD 5.0 million.

In June 2013, Cochlear negotiated a second loan facility for a period of five years. The facility has a total commitment limit of AUD 115.0 million made up of an AUD 100.0 million loan sub-facility limit and incorporates an existing AUD 15.0 million letter of credit facility that was negotiated in August 2011. Both facilities are secured by interlocking guarantees provided by certain controlled entities. Interest on the facilities is variable and charged at prevailing market rates.

**Bank guarantees**

As at 31 December 2013, Cochlear has other bank guarantee facilities denominated in US dollars, Euros, Pound sterling, India Rupees and New Zealand dollars totalling \$1.3 million (June 2013: \$1.2 million).

**14. 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.

**Product liability claims**

Cochlear is currently and is likely from time to time to be involved in claims and lawsuits incidental to the ordinary course of business, including claims for damages relating to its products and services. In addition, Cochlear has received legal claims in various countries and law suits in the United States by recipients who have had Cochlear implant CI500 series devices stop functioning for the reason that led to the September 2011 voluntary recall of unimplanted CI500 series devices. The claims are being

**Cochlear Limited and its controlled entities**  
**Notes to the Interim Financial Statements**  
**For the half year ended 31 December 2013**

negotiated and the law suits defended by Cochlear. A provision has been recognised in respect of this matter and further disclosure is made at Note 12.

Cochlear carries product liability insurance and has made claims under the policy. The insurers have agreed to indemnify Cochlear in accordance with the terms and conditions of the policy including deductibles and exclusions. In the opinion of the directors, the details of the product liability insurance policies are commercially sensitive and any disclosure of these details may be prejudicial to the interests of Cochlear.

**15. Financial Instruments**

**Fair values**

The fair values of financial assets and liabilities, together with carrying amounts shown in the balance sheet, are as follows:

	Note	31 Dec 2013		30 Jun 2013	
		Carrying amount \$000	Fair value \$000	Carrying amount \$000	Fair value \$000
Cash and cash equivalents		59,992	59,992	52,689	52,689
Trade and other receivables – current		200,733	200,733	203,748	203,748
Trade and other receivables – non-current		405	405	944	944
Trade and other payables – current		(104,811)	(104,811)	(96,789)	(96,789)
Trade and other payables – non-current		(17,401)	(17,401)	(13,242)	(13,242)
Secured bank loans – current	13	(3,216)	(3,216)	(3,309)	(3,309)
Secured bank loans – non-current <sup>(i)</sup>	13	(223,105)	(224,000)	(167,160)	(168,000)
<b>Total</b>		<b>(87,403)</b>	<b>(88,298)</b>	<b>(23,119)</b>	<b>(23,959)</b>

(i) Included within carrying amount of secured bank loans is an amount of \$895,000 (30 June 2013: \$840,028) in relation to unamortised loan establishment fees.

**Basis for determining fair values**

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

**Derivatives**

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk interest free rate based on government bonds. These fair values are provided by independent third parties.

**Non-derivative financial assets and liabilities**

The fair value of cash, receivables, payables and short-term borrowings is considered to approximate their carrying amount because of their short maturity.

The directors consider the carrying amount of long-term borrowings recorded in the financial statements approximates their fair value as interest rates on loans and borrowings are variable.

**Fair value hierarchy**

The table below analyses financial instruments carried at fair value, by the levels in the value hierarchy. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or



**Cochlear Limited and its controlled entities**  
**Notes to the Interim Financial Statements**  
**For the half year ended 31 December 2013**

liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 2 \$000	Total \$000
<b>31 December 2013</b>		
<b>Derivative financial assets</b>		
Forward exchange contracts used for hedging	1,334	1,334
Other forward exchange contracts	34	34
<b>Total assets</b>	<b>1,368</b>	<b>1,368</b>
<b>Derivative financial liabilities</b>		
Forward exchange contracts used for hedging	(42,340)	(42,340)
<b>Total liabilities</b>	<b>(42,340)</b>	<b>(42,340)</b>
<b>30 June 2013</b>		
<b>Derivative financial assets</b>		
Forward exchange contracts used for hedging	4,362	4,362
<b>Total assets</b>	<b>4,362</b>	<b>4,362</b>
<b>Derivative financial liabilities</b>		
Forward exchange contracts used for hedging	(28,134)	(28,134)
Other forward exchange contracts	(23)	(23)
<b>Total liabilities</b>	<b>(28,157)</b>	<b>(28,157)</b>

There have been no transfers between levels during the year. There are no other financial instruments carried at fair value or valued using a Level 1 or Level 3 valuation method.

**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.

**Patent dispute provision**

For details on the patent dispute provision at 31 December 2013, see Note 12.

**Dividends**

For dividends declared after 31 December 2013, see Note 10.

**Cochlear Limited and its controlled entities**  
**Directors' Declaration**  
**For the half year ended 31 December 2013**

In the opinion of the directors of Cochlear Limited:

1. The financial statements and notes set out on pages 9 to 25 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 2013, and of its performance, for the six month period ended on that date; and
  - b. complying with Australian Accounting Standard 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 11 day of February 2014.

Signed in accordance with a resolution of the directors:



Director



Director

**Cochlear Limited and its controlled entities**  
**Independent auditor's review report to the members of Cochlear Limited**  
**For the half year ended 31 December 2013**

We have reviewed the accompanying interim financial report of Cochlear Limited, which comprises the consolidated interim balance sheet as at 31 December 2013, 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 internal 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 the Consolidated Entity's financial position as at 31 December 2013 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 2013 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*.

**Cochlear Limited and its controlled entities**  
**Independent auditor's review report to the members of Cochlear Limited**  
**For the half year ended 31 December 2013**

*Emphasis of Matter*

We draw attention to Note 12 to the financial statements which describes the uncertainty related to the outcome of the lawsuit filed against the entity for alleged patent infringement. Our review report is not modified in respect of this matter.

KPMG

KPMG  
Sydney, 11 February 2014



Cameron Slapp, Partner