

HALF YEAR REPORT 2014

A shared future



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Dear Shareholder

I am pleased to provide you with extracts from our half year report lodged with the Australian Securities Exchange on 11 February 2014.

Highlights – 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.

The Nucleus® 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® 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 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.

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.



Dr Chris Roberts
Chief Executive Officer / President

11th February 2014

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

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

Cochlear Limited and its controlled entities
Interim Balance Sheet
As at 31 December 2013

	31 Dec 2013 \$'000	30 Jun 2013 \$'000 Restated*
Current assets		
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
Total current assets	428,623	405,222
Non-current assets		
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
Total non-current assets	383,052	360,038
Total assets	811,675	765,260
Current liabilities		
Trade and other payables	104,811	96,789
Loans and borrowings	3,216	3,309
Current tax liabilities	2,984	6,002
Provisions	59,009	63,224
Deferred revenue	25,263	22,506
Total current liabilities	195,283	191,830
Non-current liabilities		
Trade and other payables	17,401	13,242
Loans and borrowings	223,105	167,160
Provisions	53,464	38,517
Total non-current liabilities	293,970	218,919
Total liabilities	489,253	410,749
Net assets	322,422	354,511
Equity		
Share capital	118,788	118,788
Reserves	(13,091)	(32,433)
Retained earnings	216,725	268,156
Total equity	322,422	354,511

* Refer Note 3(d) of full financial statements for impact of change in accounting policy.

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

	31 Dec 2013 \$'000	31 Dec 2012 \$'000
Cash flows from operating activities		
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)
Net cash from operating activities	33,611	28,515
Cash flows from investing activities		
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)
Net cash used in investing activities	(13,908)	(30,501)
Cash flows from financing activities		
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)
Net cash (used in) / from financing activities	(16,442)	3,094
Net increase in cash and cash equivalents	3,261	1,108
Cash and cash equivalents at 1 July	52,689	68,486
Effect of exchange rate fluctuation on cash held	4,042	202
Cash and cash equivalents at 31 December	59,992	69,796

Cochlear Limited and its controlled entities
Financial Highlights
For the half year ended 31 December 2013

	2013 \$000	2012 \$000
Revenue	371,060	391,699
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)	-
Profit attributable to members	21,045	77,665
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

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.

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