

Appendix 4D

Cochlear Limited Half Yearly Report As at 31 December 2009

Results for announcement to the market

	Movement			\$A000
Revenue	down	2%	to	347,593
Earnings before interest and taxes (EBIT)	up	7%	to	107,362
Profit from ordinary activities after tax attributable to members	up	8%	to	75,247
Net profit for the period attributable to members	up	8%	to	75,247
Basic EPS (cents)	up	7%	to	134.0
Dividend (cents)	up	19%	to	95.0

Net tangible assets per share at 31 December 2009 (cents)	up	206%	to	324.8
Net tangible assets per share at 31 December 2008 (cents)				106.1

Dividends	Amount per security	Franked amount per security
Interim dividend per share (cents)	95.0c	95.0c
Previous corresponding period (cents)	80.0c	80.0c
Record date for determining entitlements to the dividend	26 February 2010	
Dividend payment date	16 March 2010	
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 2009

**Cochlear Limited and its controlled entities
Directors' Report
For the six months ended 31 December 2009**

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 2009 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 Tommie CE Bergman, <i>Chairman</i>	Director since January 2002
Mr Paul Bell	Director since August 2005
Professor Edward Byrne, AO	Director since July 2002
Mr Andrew Denver	Director since February 2007
Mr Rick Holliday-Smith	Director since March 2005
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 2009 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:

	2009	2008
	\$000	\$000
Revenue	347,593	355,227
Earnings before interest and taxes (EBIT)	107,362	100,464
Profit before income tax	102,016	95,951
Net profit attributable to members	75,247	69,936
Basic earnings per share (cents)	134.0	125.5
Diluted earnings per share (cents)	133.4	125.0
Dividend per share (cents)	95.0	80.0

Cochlear Limited and its controlled entities

Directors' Report

For the six months ended 31 December 2009

Financial Performance

- Total revenues were \$347.6 million, down 2%. Sales, excluding FX contracts, were \$336.9 million, down 3%. In constant currency (that is restating F09 at F10 FX rates), sales were up 4% compared to H1 F09 and 7% compared to the June F09 half.
- Cochlear implant (CI) system sales and accessories, including sound processor upgrades were \$290.5 million, down 3%. While cochlear implant unit sales increased 7% to 9,811 units, installed base sales (that is sound processor upgrades) declined 29% as the focus of the Nucleus 5 launch was on complete system sales not upgrades and indeed Nucleus 5 upgrades were not available at the time of launch.
- Since the Nucleus Freedom™ launch four years ago, over \$250 million of revenue has been generated from the Freedom upgrade program. There are now twice as many CI recipients for the Nucleus 5 upgrade program (when it is released) than when Nucleus Freedom was introduced.
- CI unit sales were biased to the December quarter (Q2) reflecting the timing of the Cochlear Nucleus 5 System launch. CI unit sales growth for Q2 was 13% (compared to 7% for the half). Collectively, for the 20 countries in which Cochlear Nucleus 5 was launched during the half, CI unit sales growth was approximately 20%.
- Baha sales of \$46.4 million grew 10% in constant currency (1% in reported currency).
- Regional sales growth:
 - Americas sales of \$147.7 million were up 7% in constant currency (down 1% in reported currency) following Cochlear Nucleus 5 and Cochlear Baha BP100 product releases.
 - Europe sales of \$141.7 million were up 1% in constant currency (down 7% in reported currency). Tender sales in Central and Eastern Europe and Middle East were down on last year reflecting timing and in some cases delays in tenders rather than market share shift. The Cochlear Nucleus 5 launch drove double digit growth in those countries where it was released.
 - Asia Pacific sales of \$47.5 million were up 9% in constant currency (up 5% in reported currency). This included 300 units for the China donation program.
- Cash from operating activities was up 42% to a record \$85.4 million. Free cash flow of \$89 million was up 149%.
- Total net debt was \$103.4 million at 31st December 2009. Excluding \$34.5 million of debt for the new global headquarters at Macquarie University operating net debt at 31st December 2009 was \$69 million, representing a net gearing ratio of 15% (F09, 21%) defined as (net debt / net debt + equity).

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 95 cents per share, franked to 100% with Class C (30%) franking credits, in respect of the year ended 30 June 2009, paid on 24 September 2009.	<u>53,384</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 2009. Since the end of the financial half-year, the directors declared an interim dividend of 95.0 cents fully franked at a tax rate of 30% amounting to a total of \$53,534,227.

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 2009.

Cochlear Limited and its controlled entities
Directors' Report
For the six months ended 31 December 2009

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 9th day of February 2010.

Signed in accordance with a resolution of the directors:



Tommie CE Bergman
Director



Dr Chris G Roberts
Director



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Cochlear Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the financial half year ended 31 December 2009 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

Kevin Leighton
Partner

Sydney

9 February 2010

Cochlear Limited and its controlled entities
Consolidated interim income statement
For the six months ended 31 December 2009

	Note	31 Dec 2009 \$000	31 Dec 2008 \$000
Revenue	5(a)	347,593	355,227
Cost of sales	5(b)	<u>(97,413)</u>	<u>(106,461)</u>
Gross profit		250,180	248,766
Other income		8,281	1,161
Selling and general expenses		(90,917)	(90,107)
Administration expenses		(20,456)	(24,941)
Research and development expenses		<u>(43,950)</u>	<u>(45,442)</u>
Results from operating activities		103,138	89,437
Finance income	5(c)	4,762	15,889
Finance expense	5(c)	<u>(5,884)</u>	<u>(9,375)</u>
Net finance (expense) / income	5(c)	(1,122)	6,514
Profit before income tax		102,016	95,951
Income tax expense		(26,769)	(26,015)
Net profit		<u>75,247</u>	<u>69,936</u>
<hr/>			
Earnings per share			
Basic earnings per share (cents)	8	134.0	125.5
Diluted earnings per share (cents)	8	<u>133.4</u>	<u>125.0</u>

The condensed notes on pages 11 to 20 are an integral part of these consolidated interim financial statements.

Cochlear Limited and its controlled entities
Consolidated interim statement of comprehensive income
For the six months ended 31 December 2009

	31 Dec 2009	31 Dec 2008
	\$000	\$000
Net profit	75,247	69,936
Other comprehensive income		
Foreign exchange translation differences	(19,587)	12,831
Effective portion of changes in fair value of cash flow hedges	31,508	(86,389)
Net change in fair value of cash flow hedges transferred to the income statement	(7,485)	(5,799)
Other comprehensive income for the period, net of income tax	4,436	(79,357)
Total comprehensive income for the period	79,683	(9,421)

The condensed notes on pages 11 to 20 are an integral part of these consolidated interim financial statements.

Cochlear Limited and its controlled entities
Consolidated interim statement of changes in equity
For the six months ended 31 December 2009

For the six months ended 31 December 2009

	Issued capital	Treasury reserve	Translation reserve	Hedging reserve	Retained earnings	Total equity
	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2009	99,427	(1,992)	(22,214)	19,779	269,234	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)	-	-	(51,331)	(38,814)
Balance at 31 December 2009	112,779	(2,827)	(41,801)	43,802	293,150	405,103

The condensed notes on pages 11 to 20 are an integral part of these consolidated interim financial statements.

Cochlear Limited and its controlled entities
Consolidated interim statement of changes in equity
For the six months ended 31 December 2009

For the six months ended 31 December 2008

	Issued capital	Treasury reserve	Translation reserve	Hedging reserve	Retained earnings	Total equity
	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2008	85,064	(2,092)	(10,130)	23,165	223,334	319,341
Total comprehensive income						
Net profit	-	-	-	-	69,936	69,936
Other comprehensive income						
Foreign exchange translation differences	-	-	12,831	-	-	12,831
Effective portion of changes in fair value of cash flow hedges	-	-	-	(86,389)	-	(86,389)
Net change in fair value of cash flow hedges transferred to the income statement	-	-	-	(5,799)	-	(5,799)
Total other comprehensive income	-	-	12,831	(92,188)	-	(79,357)
Total comprehensive income for the period	-	-	12,831	(92,188)	69,936	(9,421)
Transactions with owners, recorded directly in equity						
Shares issued	14,413	-	-	-	-	14,413
Share based payments	(1,371)	100	-	-	3,129	1,858
Dividends to shareholders	-	-	-	-	(44,682)	(44,682)
Total transactions with owners	13,042	100	-	-	(41,553)	(28,411)
Balance at 31 December 2008	98,106	(1,992)	2,701	(69,023)	251,717	281,509

The condensed notes on pages 11 to 20 are an integral part of these consolidated interim financial statements.

Cochlear Limited and its controlled entities
Consolidated interim balance sheet
As at 31 December 2009

	Note	31 Dec 2009 \$000	30 Jun 2009 \$000
Current assets			
Cash and cash equivalents		73,655	80,016
Trade and other receivables		200,514	173,256
Capitalised building costs – construction of Headquarters		33,813	-
Inventories		97,367	105,944
Current tax receivables		5,965	3,898
Prepayments		9,323	8,205
Total current assets		420,637	371,319
Non-current assets			
Trade and other receivables		29,965	20,456
Capitalised building costs – construction of Headquarters		-	10,630
Property, plant and equipment		44,803	46,794
Goodwill	10	169,028	173,599
Other intangible assets	10	53,271	34,676
Deferred tax assets		22,098	21,899
Total non-current assets		319,165	308,054
Total assets		739,802	679,373
Current liabilities			
Trade and other payables		52,346	64,881
Loans and borrowings – construction of Headquarters		34,465	-
Current tax liabilities		25,874	5,362
Provisions		31,721	32,222
Deferred revenue		17,452	14,678
Total current liabilities		161,858	117,143
Non-current liabilities			
Trade and other payables		9,560	56
Loans and borrowings – operations		142,546	176,586
Loans and borrowings – construction of Headquarters		-	11,997
Provisions		11,351	9,178
Deferred tax liabilities		9,384	179
Total non-current liabilities		172,841	197,996
Total liabilities		334,699	315,139
Net assets		405,103	364,234
Equity			
Share capital		109,952	97,435
Reserves		2,001	(2,435)
Retained earnings		293,150	269,234
Total equity		405,103	364,234

The condensed notes on pages 11 to 20 are an integral part of these consolidated interim financial statements.

Cochlear Limited and its controlled entities
Consolidated interim statement of cash flows
For the six months ended 31 December 2009

	31 Dec 2009	31 Dec 2008
	\$000	\$000
Cash flows from operating activities		
Cash receipts from customers	321,994	362,286
Cash payments to suppliers and employees	(230,853)	(274,619)
Grant and other income received	8,283	1,030
Interest received	868	825
Interest paid	(5,884)	(5,393)
Income taxes paid	(9,029)	(23,979)
Net cash from operating activities	85,379	60,150
Cash flows from investing activities		
Acquisition of property, plant and equipment	(6,415)	(8,013)
Acquisition of enterprise resource planning system	(1,857)	(2,104)
Acquisition of intangible assets	(5,252)	-
Payments for construction of headquarters	(23,183)	(2,740)
Net cash used in investing activities	(36,707)	(12,857)
Cash flows from financing activities		
Repayment of borrowings	(65,000)	(54,000)
Proceeds from borrowings	53,469	60,424
Proceeds from issue of share capital	12,517	14,413
Contributions to executive share plan	-	(2,930)
Dividends paid by the parent	(53,384)	(44,682)
Net cash used in financing activities	(52,398)	(26,775)
Net increase / (decrease) in cash and cash equivalents	(3,726)	20,518
Cash and cash equivalents at 1 July	80,016	36,687
Effect of exchange rate fluctuation on cash held	(2,635)	5,655
Cash and cash equivalents at 31 December	73,655	62,860

The condensed notes on pages 11 to 20 are an integral part of these consolidated interim financial statements.

Cochlear Limited and its controlled entities
Condensed notes to the consolidated interim financial statements
For the six months ended 31 December 2009

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 2009 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 2009 is available upon request from the Company's registered office at 14 Mars Rd, Lane Cove NSW 2066, 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 2009. This report should also be read in conjunction with any public announcements made by Cochlear Limited during the six months ended 31 December 2009 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 9th February 2010.

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 2009.

(a) Change in accounting policy

(i) Determination and presentation of operating segments

As of 1 January 2009 Cochlear determines and presents operating segments based on the information that internally is provided to the Chief Executive Officer (CEO), who is Cochlear's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with AASB 114 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of AASB 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of Cochlear that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Cochlear's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate head office results.

Cochlear Limited and its controlled entities
Condensed notes to the consolidated interim financial statements
For the six months ended 31 December 2009

3. Significant accounting policies (continued)

(ii) Presentation of financial statements

Cochlear applies revised AASB 101 *Presentation of Financial Statements*, which became effective as of 1 July 2009. As a result, Cochlear presents in the consolidated interim statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated interim statement of comprehensive income. This presentation has been applied in this consolidated interim financial report as of and for the six months ended 31 December 2009.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

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 2009.

Cochlear Limited and its controlled entities
Condensed notes to the consolidated interim financial statements
For the six months ended 31 December 2009

	31 Dec 2009	31 Dec 2008
	\$000	\$000
5. Revenue and expenses		
(a) Revenue		
Sale of goods revenue before hedging	335,037	345,333
Foreign exchange gains on hedged sales	10,693	8,284
Revenue from the sale of goods	345,730	353,617
Rendering of services revenue	1,863	1,610
Total revenue	347,593	355,227
(b) Expenses		
Cost of sales		
Carrying amount of inventories recognised as an expense	92,800	102,277
Other	1,333	584
Write-down in value of inventories	3,280	3,600
Total cost of sales	97,413	106,461
(c) Net finance expense		
Interest income	538	880
Net foreign exchange gain	4,224	15,009
Finance income	4,762	15,889
Interest expense	(5,884)	(5,393)
Net foreign exchange loss	-	(3,982)
Finance expense	(5,884)	(9,375)
Net finance (expense)/income	(1,122)	6,514

Cochlear Limited and its controlled entities
Condensed notes to the consolidated interim financial statements
For the six months ended 31 December 2009

6. Segment reporting

	Americas \$000	Europe \$000	Asia Pacific \$000	Total \$000
Information about reportable segments				
Six months ended 31 December 2009				
External revenue	147,691	141,651	47,558	336,900
Reportable segment profit or loss	49,400	44,713	9,678	103,791
Six months ended 31 December 2008				
External revenue	148,555	153,053	45,335	346,943
Reportable segment profit or loss	46,110	48,658	8,593	103,361

	31 Dec 2009 \$000	31 Dec 2008 \$000
Reconciliation of reportable segment revenue		
External revenue	336,900	346,943
Foreign exchange gains on hedged sales	10,693	8,284
Total revenue	<u>347,593</u>	<u>355,227</u>

Reconciliation of reportable segment profit or loss

Total profit or loss for reportable segments	103,791	103,361
Unallocated net expenses	(653)	(13,924)
Net finance (expense) / income	(1,122)	6,514
Profit before income tax	<u>102,016</u>	<u>95,951</u>

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2009.

Cochlear Limited and its controlled entities
Condensed notes to the consolidated interim financial statements
For the six months ended 31 December 2009

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 2009. In August 2009 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 2009	\$60.04	Aug 2012 - 14	435,606	19,508

Fair value of options and performance shares and assumptions for the six months ended 31 December 2009:

	Share Options	Performance Shares
Fair value at grant date	\$9.04	\$36.52
Share price at grant date	\$61.15	\$61.15
Exercise price	\$60.04	-
Expected volatility	33%	33%
Expected dividend yield	2.62%	2.62%
Risk free interest rate	4.92%	4.92%

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 2009.

Cochlear Limited and its controlled entities
Condensed notes to the consolidated interim financial statements
For the six months ended 31 December 2009

8. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the six months ended 31 December 2009 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 2009 calculated as follows:

	31 Dec 2009	31 Dec 2008
Net profit attributable to equity holders of the parent	\$75,247,000	\$69,936,000
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 July (number)	55,977,555	55,524,746
Effect of shares issued during the period (number)	159,009	218,467
Weighted average number of ordinary shares	56,136,564	55,743,213
Basic earnings per share (cents)	134.0	125.5

Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 31 December 2009 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 2009 calculated as follows:

Net profit attributable to equity holders of the parent	\$75,247,000	\$69,936,000
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic)	56,136,564	55,743,213
Effect of options and performance shares	261,167	223,057
Weighted average number of ordinary shares (diluted)	56,397,731	55,966,270
Diluted earnings per share (cents)	133.4	125.0

Cochlear Limited and its controlled entities
Condensed notes to the consolidated interim financial statements
For the six months ended 31 December 2009

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 2009				
Final – ordinary	95.0	53,384	Franked	24 September 2009
31 December 2008				
Final – ordinary	80.0	44,682	Franked	25 September 2008

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	95.0	53,534	Franked	16 March 2010

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 2009 and will be recognised in subsequent financial statements.

Cochlear Limited and its controlled entities
Condensed notes to the consolidated interim financial statements
For the six months ended 31 December 2009

10. Intangible assets

Goodwill	\$000
Reconciliation of carrying amount	
Carrying amount at 1 January 2009	200,995
Acquisitions through business combinations	419
Effect of movements in foreign exchange	<u>(27,815)</u>
Carrying amount at 30 June 2009	173,599
Carrying amount at 1 July 2009	173,599
Effect of movements in foreign exchange	<u>(4,571)</u>
Carrying amount at the 31 December 2009	169,028

Other intangible assets

During the six months ended 31 December 2009, Cochlear acquired technology, patents and licenses from Otologics LLC for \$20.1 million.

11. Contingent liabilities

The details and estimated maximum amounts 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.

Office of Inspector General inquiry

In March 2004, the Company was informed by the US Department of Justice (DOJ) that Cochlear Americas, a wholly-owned subsidiary, is subject to an inquiry under federal healthcare laws in the US that deal with the Medicare and Medicaid programs, including some with potential criminal and civil sanctions.

During the year ended 30 June 2007, the inquiry was transferred to the Office of Inspector General (OIG) for administrative processing.

Discussions with the OIG are ongoing. The Company is cooperating fully with the inquiry and has engaged a nationally recognised law firm with specialised expertise in US healthcare law.

Based on the information available at the date of this report, the financial impact of the investigation has been adequately provided for in the financial statements.

In the directors' opinion, disclosure of any further information of the above matter would be prejudicial to the interests of the Company.

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 case was dismissed for lack of standing. Mann Foundation has appealed against the decision and the matter will now be dealt with by the Appellate Court.

Guarantees

Cochlear has a secured \$300.0 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.

Cochlear Limited and its controlled entities
Condensed notes to the consolidated interim financial statements
For the six months ended 31 December 2009

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.

12. Construction of Headquarters

Cochlear is building its new Headquarters at the Macquarie University (MU) site. Upon practical completion MU will pay Cochlear a development fee of approximately \$128.0 million at which time the building will be transferred to MU. There are no progress payments.

During the year ended 30 June 2009, Cochlear entered into agreements with MU to develop its new global Headquarters on MU's behalf. The Headquarters will be constructed on land owned by MU by a special purpose entity, Lachlan Project Development Pty Ltd. Adjacent land has been reserved by MU for future expansion by Cochlear over the next 25 years. Cochlear has subcontracted the construction of the Headquarters and, upon completion, will lease the premises for a minimum of 15 years. A MU entity will own the building.

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

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

The following amounts related to the construction of the Headquarters are incorporated in the consolidated interim income statement:

	31 Dec 2009	31 Dec 2008
	\$000	\$000
Construction contract revenue	23,183	2,740
Construction contract expense	(23,183)	(2,740)
Construction contract revenue, net of expense	-	-

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

	31 Dec 2009	30 Jun 2009
	\$000	\$000
Assets		
Cash and cash equivalents	52	2,088
Trade and other receivables	466	-
Trade and other receivables (capitalised building costs)	33,813	-
Total current assets	34,331	2,088
Trade and other receivables (capitalised building costs)	-	10,630
Deferred tax asset	-	17
Total non-current assets	-	10,647
Total assets	34,331	12,735
Liabilities		
Trade and other payables	10	47
Loans and borrowings	34,465	-
Provisions	81	-
Total current liabilities	34,556	47
Trade and other payables	-	56
Loans and borrowings	-	11,997
Total non-current liabilities	-	12,053
Total liabilities	34,556	12,100
Net (liabilities) / assets	(225)	635

Cochlear Limited and its controlled entities
Condensed notes to the consolidated interim financial statements
For the six months ended 31 December 2009

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 2009, see Note 9.

Cochlear Limited and its controlled entities
For the six months ended 31 December 2009

Directors' Declaration

In the opinion of the directors of Cochlear Limited:

1. The financial statements and notes set out on pages 5 to 20 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 2009, 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 9th day of February 2010.

Signed in accordance with a resolution of the directors:



Tommie CE Bergman
Director



Dr Chris G Roberts
Director



Independent auditor's review report to the members of Cochlear Limited

We have reviewed the accompanying interim financial report of Cochlear Limited, which comprises the consolidated interim balance sheet as at 31 December 2009, consolidated interim income statement and 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 and fair presentation of the interim financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 2009 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 2009 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

9 February 2010