

## Appendix 4D

### Cochlear Limited Half Yearly Report As at 31 December 2006

#### Results for announcement to the market

	Movement			\$A'000
Revenue	up	24.9%	to	276,112
Earnings before interest and taxes (EBIT)	up	17.0%	to	73,634
Profit from ordinary activities after tax attributable to members	up	11.5%	to	48,798
Net profit for the period attributable to members	up	11.5%	to	48,798
Core earnings*	up	11.6%	to	52,778
Basic EPS (cents)	up	10.9%	to	89.2
Core basic EPS (cents)	up	11.0%	to	96.5

Net tangible assets per share at 31 December 2006 (cents)	up	152.9%	to	14.5
Net tangible assets per share at 31 December 2005 (cents)				(27.4)

\***Core earnings** is defined as profit after tax attributable to equity holders of the parent assuming all research and development is expensed and excluding both intangible amortisation and share based compensation changes. A reconciliation of after tax profit to core earnings is found in the analysts briefing (lodged with this document).

<b>Dividends</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
Interim dividend per share (cents)	55.0c	55.0c
Previous corresponding period (cents)	45.0c	45.0c
Record date for determining entitlements to the dividend		2 March 2007
Dividend payment date		20 March 2007
* 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 2006**

COCHLEAR LIMITED AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT  
For the half-year ended 31 December 2006

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The directors present their report, together with the Consolidated Interim Financial Report for Cochlear Limited and its controlled entities for the half-year ended 31 December 2006, and the Auditors' review report thereon.

**Directors**

The directors of the Company during or since the end of the half-year are:

**Mr Tommie CE Bergman, ° + \***

*Chairman*

Age 61. DipEng, Grad Dip Marketing, FAICD, FAIM

Appointed Chairman 22 October 2002, Director since January 2002

**Dr Chris Roberts, ^ #**

*CEO/President*

Age 53. BE (Hons), MBA, PhD, FAICD, FTSE

CEO/President since February 2004

**Mr Paul Bell, + ° #**

Age 61. BA, MA (Hons)

Director since August 2005

**Professor Edward Byrne, AO ^ ° # \***

Age 54. DSc, MD, MBA, FRCP, FRACP

Director since July 2002

**Mr Andrew Denver, \* ° #**

Age 58. BSc (Hons), MBA, FAICD

Director since February 2007

**Mr Rick Holliday-Smith, \* ° +**

Age 57. BA (Hons), FAICD

Director since March 2005

**Mr Donal O'Dwyer, ^ ° # \***

Age 53. B Eng (Civil), MBA

Director since August 2005

**Dr John L.Parker, #**

Age 44. BSc (Hons), PhD, DOC

Director since March 2002

\* Member of Audit Committee

+ Member of Remuneration Committee

# Member of Technology & Innovation Committee

^ Member of Medical Science Committee

° Member of Nominations Committee

**Mr Peter J. North, AO and Mr Justus H. Veeneklaas** retired as Directors on 23 October 2006.

## 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 2006 and the results of those operations are set out below.

### Financial overview

The consolidated results for the half-year attributable to the members of the Company are:

	2006 \$000	2005 \$000
Revenue	276,112	221,130
Earnings before interest and taxes (EBIT)	73,634	62,958
Profit before tax	70,944	62,098
Net profit attributable to members	48,798	43,759
Core earnings	<u>52,778</u>	<u>47,313</u>
Basic earnings per share (cents)	89.2	80.4
Core basic earnings per share (cents)	96.5	86.9
Diluted earnings per share (cents)	88.0	79.7
Dividend per share (cents)	55.0	45.0

### **Results**

Total revenue for the year increased 25% to \$276.1 million. Sales revenue was stronger, up 30% to \$270.7 million. The difference related to foreign exchange gains on hedged sales which were \$5.4 million, down from \$12.4 million in H1 F06.

Over 95% of Cochlear's sales and over 50% of expenses are in foreign currency. While this provides a natural hedge on part of the FX exposure, the balance is managed through taking out foreign exchange contracts. These contracts cover a three year period at a declining level of cover. As the Australian dollar has strengthened, particularly against the US dollar over the last few years, our ongoing contracts have reflected these rates as we continue to use those contracts taken out in earlier periods.

The overall impact from foreign exchange movements for the half, compared to H1 F06, was a negative \$10.6 million. This includes the reduction in gains from foreign exchange contracts (\$7.0 million), the AIFRS treatment of movements on foreign denominated assets (\$3.2 million) and the translation effect of changes in exchange rates between the periods (\$0.4 million).

COCHLEAR LIMITED AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT  
For the half-year ended 31 December 2006

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A key management metric, core earnings, is defined as net profit after tax attributable to members (NPAT) assuming all research and development is expensed, and excluding both acquired intangibles amortisation and share based compensation expenses.

NPAT of \$48.8 million and core earnings of \$52.8 million were both 12% higher than the previous corresponding period. The differential between the revenue and profit growth reflects the foreign exchange impact explained above, a release of a royalty accrual of \$5.7 million in the comparable period for F06 and a one-off tax charge of \$2.1 million in H1 F07 for prior period taxation adjustments. EBIT/sales ratio of 27% includes these impacts and reflects continued restraint on administration and sales & marketing expense growth. These expenses grew 12% against sales revenue growth of 30% during this first half. Research and development expenses grew 33%.

Cash decreased by \$15.8 million for the six months after paying dividends of \$30.2 million during the period. Receivables increased by \$16.2 million reflecting the higher sales. Debtors days outstanding of 71 showed an improvement over June 2006 of 74 days.

Inventory of \$85.9 million was up 12% and continues to be managed to policy in the context of sales revenue growth of 30%.

#### **Dividends**

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

	<b>\$'000</b>
In respect of the previous year:	
A final ordinary dividend of 55 cents per share, franked to 100% with Class C (30%) franking credits, in respect of the year ended 30 June 2006, paid on 21 September 2006.	<u>30,175</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 2006. Since the end of the financial half-year, the directors declared an interim dividend of 55 cents fully franked at a tax rate of 30% amounting to a total of \$30,207,733.

**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 2006.

**Rounding off**

The Company is of a kind referred to in ASIC Class Order 98/ 100 dated 10 July, 1998, and in accordance with that Class Order, amounts in this Report and the accompanying financial statements have been rounded off to the nearest one thousand dollars, unless otherwise indicated.

Dated at Sydney this 13 day of February 2007.

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 half-year ended 31 December 2006 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

A handwritten signature in black ink, appearing to read 'Kevin A. Leighton', written over the printed name.

Kevin Leighton

*Partner*

Sydney

13 February 2007



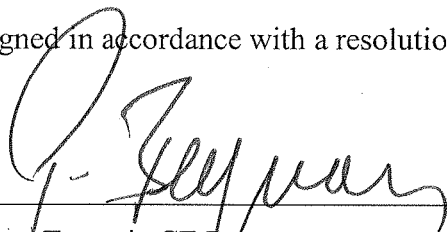
## Directors' Declaration

In the opinion of the directors of Cochlear Limited:

1. The financial statements and notes set out on pages 10 to 23 are in accordance with the Corporations Act 2001, including:
  - a. giving a true and fair view of the financial position of the Consolidated Entity as at 31 December 2006, and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
  - b. complying with 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 13<sup>th</sup> day of February 2007.

Signed in accordance with a resolution of the directors:



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Tommie CE Bergman

Director



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Dr Chris G Roberts

Director

**Cochlear Limited and its Controlled Entities**  
**Consolidated interim income statement**

**For the half-year ended 31 December 2006**

		<b>Consolidated</b>	
		<b>31 December</b>	<b>31 December</b>
	<b>Note</b>	<b>2006</b>	<b>2005</b>
		<b>\$'000</b>	<b>\$'000</b>
Revenue	5(a)	276,112	221,130
Cost of sales	5(b)	(80,391)	(57,256)
<b>Gross profit</b>		<b>195,721</b>	<b>163,874</b>
Other income		-	235
Distribution, marketing and field technical expenses		(64,944)	(57,952)
Administration expenses		(19,186)	(17,314)
Research and development expenses		(35,608)	(26,713)
<b>Operating profit before net financing expenses</b>		<b>75,983</b>	<b>62,130</b>
Financial income	5(c)	1,091	2,998
Financial expenses	5(c)	(6,130)	(3,030)
<b>Net financing (expenses) / income</b>	5(c)	<b>(5,039)</b>	<b>(32)</b>
<b>Profit before tax</b>		<b>70,944</b>	<b>62,098</b>
Income tax expense	6	(23,663)	(19,089)
<b>Net profit (including minority interest)</b>		<b>47,281</b>	<b>43,009</b>
Attributable to:			
<b>Equity holders of the parent</b>		<b>48,798</b>	<b>43,759</b>
Minority interest		(1,517)	(750)
<b>Net profit (including minority interest)</b>		<b>47,281</b>	<b>43,009</b>
<hr/>			
Basic earnings per share (cents)			
- Ordinary shares	11	89.2	80.4
Diluted earnings per share (cents)			
- Ordinary shares	11	88.0	79.7

The consolidated interim income statement is to be read in conjunction with the notes to the Consolidated Interim Financial Report set out on pages 14 to 23

**Cochlear Limited and its Controlled Entities**  
**Consolidated interim statement of recognised income and expense**

**For the half-year ended 31 December 2006**

	<b>Note</b>	<b>Consolidated</b>	
		<b>31 December</b>	<b>31 December</b>
		<b>2006</b>	<b>2005</b>
		<b>\$'000</b>	<b>\$'000</b>
Foreign exchange translation differences		94	(1,231)
Movement in general reserves		(112)	-
Cash flow hedges:			
Effective portion of changes in fair value		9,711	3,280
Losses taken to the income statement		(3,814)	(8,697)
<b>Net income recognised directly in equity</b>		<b>5,879</b>	<b>(6,648)</b>
Net profit (including minority interest)		47,281	43,009
<b>Total recognised income and expense for the period</b>		<b>53,160</b>	<b>36,361</b>
Attributable to:			
<b>Equity holders of the parent</b>		<b>55,210</b>	<b>37,327</b>
Minority interest		(2,050)	(966)
<b>Total recognised income and expense for the period</b>		<b>53,160</b>	<b>36,361</b>
<b>Effect of change in accounting policy – financial instruments</b>			
<b>Hedging reserve</b>		<b>-</b>	<b>19,102</b>
Attributable to:			
<b>Equity holders of the parent</b>		<b>-</b>	<b>19,102</b>
Minority interest		-	-
		<b>-</b>	<b>19,102</b>

Other movements in equity arising from transactions with equity participants as equity participants are set out in Note 10. The amounts recognised directly in equity are disclosed net of tax. The consolidated interim statement of recognised income and expense is to be read in conjunction with the notes to the Consolidated Interim Financial Report set out on pages 14 to 23.

## Cochlear Limited and its Controlled Entities

### Consolidated interim balance sheet

As at 31 December 2006

	Note	Consolidated	
		31 December	30 June
		2006	2006
		\$'000	\$'000
<b>Current assets</b>			
Cash and cash equivalents		69,542	87,073
Receivables		112,235	96,060
Forward exchange contracts		12,251	5,901
Inventories		85,900	76,822
Other		18,709	13,347
<b>Total current assets</b>		<b>298,637</b>	<b>279,203</b>
<b>Non-current assets</b>			
Other financial assets		187	383
Plant and equipment		35,052	30,833
Intangible assets		202,323	205,238
Deferred tax assets		27,997	30,267
Forward exchange contracts		1,567	-
<b>Total non-current assets</b>		<b>267,126</b>	<b>266,721</b>
<b>Total assets</b>		<b>565,763</b>	<b>545,924</b>
<b>Current liabilities</b>			
Payables		61,433	57,345
Interest bearing liabilities		96,690	70,547
Current tax liabilities		16,979	24,981
Provisions		21,624	27,058
Other		19,304	23,525
<b>Total current liabilities</b>		<b>216,030</b>	<b>203,456</b>
<b>Non-current liabilities</b>			
Interest bearing liabilities		104,546	125,493
Provisions		6,905	6,433
Other		-	764
<b>Total non-current liabilities</b>		<b>111,451</b>	<b>132,690</b>
<b>Total liabilities</b>		<b>327,481</b>	<b>336,146</b>
<b>Net assets</b>		<b>238,282</b>	<b>209,778</b>
<b>Equity</b>			
Issued capital	10	69,998	66,663
Reserves	10	9,422	3,010
Retained earnings	10	158,671	137,864
<b>Total equity attributable to equity holders of the parent</b>		<b>238,091</b>	<b>207,537</b>
Minority interest	10	191	2,241
<b>Total equity</b>		<b>238,282</b>	<b>209,778</b>

The consolidated interim balance sheet is to be read in conjunction with the notes to the Consolidated Interim Financial Report set out on pages 14 to 23.

**Cochlear Limited and its Controlled Entities**  
**Consolidated interim statement of cash flows**

**For the half-year ended 31 December 2006**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>		
Cash receipts in the course of operations	268,192	198,066
Cash payments in the course of operations	(215,797)	(159,511)
Grant and other income received	183	235
Interest received	1,096	2,216
Interest paid	(3,781)	(3,030)
Income taxes paid	(31,999)	(13,954)
<b>Net cash provided by operating activities</b>	<b>17,894</b>	<b>24,022</b>
<b>Cash flows from investing activities</b>		
Payment for plant and equipment	(9,065)	(3,648)
Payment for enterprise resource planning system	(3,431)	(310)
Development expenditure	(374)	(144)
Deposit on purchase of assets	(2,000)	-
<b>Net cash used in investing activities</b>	<b>(14,870)</b>	<b>(4,102)</b>
<b>Cash flows from financing activities</b>		
Repayment of borrowings	(14,804)	(18,215)
Proceeds from borrowings	22,860	3,003
Proceeds from issue of shares	3,335	17,288
Dividends paid by the parent	(30,175)	(24,430)
<b>Net cash used in financing activities</b>	<b>(18,784)</b>	<b>(22,354)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(15,760)</b>	<b>(2,434)</b>
<b>Cash and cash equivalents at 1 July</b>	<b>85,326</b>	<b>106,077</b>
Effects of exchange fluctuation on the balances of cash held in foreign currencies	(1,617)	788
<b>Cash and cash equivalents at 31 December</b>	<b>67,949</b>	<b>104,431</b>
Included with cash and cash equivalents for December 2006 is an overdraft facility of \$1,593,000 (December 2005: nil)		

The consolidated interim statement of cash flows is to be read in conjunction with the notes to the Consolidated Interim Financial Report set out on pages 14 to 23.

**Cochlear Limited and its Controlled Entities**  
**Condensed notes to the consolidated interim financial statements**

**For the half-year ended 31 December 2006**

**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 2006 comprise the Company and its subsidiaries (together referred to as the Consolidated Entity). The Consolidated Annual Financial Report of the Consolidated Entity as at and for the year ended 30 June 2006 is available upon request from the company's registered office at 14 Mars Rd, Lane Cove NSW 2066, 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* (IAS34 *Interim Financial Reporting*) and the Corporations Act 2001.

The Consolidated Interim Financial Report does not include all of the information for a full annual financial report, and should be read in conjunction with the Consolidated Annual Financial Report of the Consolidated Entity as at and for the year ended 30 June 2006. This report should also be read in conjunction with any public announcements made by Cochlear Limited during the half-year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

The Consolidated Interim Financial Report was authorised for issue by the directors on 13<sup>th</sup> February 2007.

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 dollar, unless otherwise stated.

**3. Significant accounting policies**

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 2006.

**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 the Consolidated Entity'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 2006.

**Cochlear Limited and its Controlled Entities**  
**Condensed notes to the consolidated interim financial statements**

**For the half-year ended 31 December 2006**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>5. Revenue and expenses</b>		
<b>(a) Revenue</b>		
Sale of goods revenue before hedging	269,236	207,609
Foreign exchange gains on hedged sales	5,449	12,424
<b>Revenue from the sale of goods</b>	<b>274,685</b>	<b>220,033</b>
Rendering of services revenue	1,427	1,097
<b>Total revenue</b>	<b>276,112</b>	<b>221,130</b>
<b>(b) Expenses</b>		
<b>Cost of sales</b>		
Carrying amount of inventories recognised as an expense	77,922	55,299
Other	1,899	1,345
Write down in value of inventories	570	612
<b>Total cost of sales</b>	<b>80,391</b>	<b>57,256</b>
<b>(c) Net financing expenses</b>		
Interest (income)	(1,091)	(2,170)
Other net foreign exchange (gain)	-	(828)
Financial (income)	(1,091)	(2,998)
Interest expense	3,781	3,030
Other net foreign exchange loss	2,349	-
Financial expense	6,130	3,030
<b>Net financing expenses</b>	<b>5,039</b>	<b>32</b>

**Cochlear Limited and its Controlled Entities**  
**Condensed notes to the consolidated interim financial statements**

**For the half-year ended 31 December 2006**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>6. Income tax expense</b>		
<b>Recognised in the income statement</b>		
<b>Current tax expense</b>		
Current year	21,416	14,895
Under provided in prior years	2,141	48
	<u>23,557</u>	<u>14,943</u>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	106	4,146
<b>Total income tax expense in income statement</b>	<u>23,663</u>	<u>19,089</u>
<b>Numerical reconciliation between income tax expense and profit before tax</b>		
Profit before tax	70,944	62,098
Income tax expense using the domestic corporation tax rate of 30% (2005: 30%)	21,283	18,629
Increase in income tax expense due to:		
Effect of tax rate in foreign jurisdictions	827	551
Equity settled transactions	585	426
Amortisation of intangibles	349	317
Non-deductible expenses	205	479
Decrease in income tax expense due to:		
Research and development allowance	(1,388)	(1,139)
Employee share distribution	(202)	(164)
Non-assessable income	(137)	(58)
	<u>21,522</u>	<u>19,041</u>
Under provided in prior years	2,141	48
<b>Income tax expense on profit before tax</b>	<u>23,663</u>	<u>19,089</u>



**Cochlear Limited and its Controlled Entities**  
**Condensed notes to the consolidated interim financial statements**

**For the half-year ended 31 December 2006**

	Americas		Europe		Asia Pacific		Eliminations		Consolidated	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>7. Segment reporting</b>										
<b>Revenue</b>										
Revenue outside the Consolidated Entity	124,775	95,090	103,661	81,387	42,227	32,229	-	-	270,663	208,706
Inter-segment sales revenue	-	-	-	-	174,216	119,655	(174,216)	(119,655)	-	-
Foreign exchange gains on hedged sales									5,449	12,424
<b>Total revenue</b>									<b>276,112</b>	<b>221,130</b>
Segment result	41,155	28,982	33,398	26,033	10,958	9,494	-	-	85,511	64,509
Unallocated expenses									(9,528)	(2,379)
Net financing expenses									(5,039)	(32)
Profit before tax									70,944	62,098
Income tax expense									(23,663)	(19,089)
<b>Net profit (including minority interest)</b>									<b>47,281</b>	<b>43,009</b>

**Secondary reporting**

The Consolidated Entity operates in a single business segment, being the implantable hearing device industry.

**Cochlear Limited and its Controlled Entities**  
**Condensed notes to the consolidated interim financial statements**

**For the half-year ended 31 December 2006**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2006</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>8. Issued capital</b>		
<b>Issued share capital</b>		
54,923,151 (June 2006: 54,812,840) ordinary shares, fully paid	69,998	66,663

**9. 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 2006. In September 2006 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.

	<b>Exercise price per option</b>	<b>Exercise period</b>	<b>Number of options</b>	<b>Number of performance shares</b>
Options & performance shares issued in September 2006	\$49.43	Aug 2009 -11	520,668	17,060

**Cochlear Limited and its Controlled Entities**  
**Condensed notes to the consolidated interim financial statements**

**For the half-year ended 31 December 2006**

**10. Capital and reserves**

Reconciliation of movement in capital and reserves attributable to equity holders of the parent

<b>Consolidated</b>	<b>Issued</b>	<b>Treasury</b>	<b>Translation</b>	<b>General</b>	<b>Hedging</b>	<b>Retained</b>	<b>Total</b>	<b>Minority</b>	<b>Total</b>
<b>A\$000s</b>	<b>capital</b>	<b>reserve</b>	<b>reserve</b>	<b>reserve</b>	<b>reserve</b>	<b>earnings</b>	<b>equity</b>	<b>interest</b>	<b>equity</b>
Balance as at 1 July 2005	50,746	(1,371)	(3,991)	74	-	104,462	149,920	4,741	154,661
Effect of change in accounting policy	-	-	-	-	19,102	-	19,102	-	19,102
Opening balance at 1 July 2005 - restated	50,746	(1,371)	(3,991)	74	19,102	104,462	169,022	4,741	173,763
Total recognised income and expense	-	-	(1,015)	-	(5,417)	43,759	37,327	(966)	36,361
Shares issued	17,288	-	-	-	-	-	17,288	-	17,288
Equity settled transactions	-	-	-	-	-	1,707	1,707	-	1,707
Dividends to shareholders	-	-	-	-	-	(24,430)	(24,430)	-	(24,430)
<b>Balance at 31 December 2005</b>	<b>68,034</b>	<b>(1,371)</b>	<b>(5,006)</b>	<b>74</b>	<b>13,685</b>	<b>125,498</b>	<b>200,914</b>	<b>3,775</b>	<b>204,689</b>
Balance as at 1 July 2006	68,034	(1,371)	(662)	76	3,596	137,864	207,537	2,241	209,778
Total recognised income and expense	-	-	627	(112)	5,897	48,798	55,210	(2,050)	53,160
Shares issued	3,335	-	-	-	-	-	3,335	-	3,335
Equity settled transactions	-	-	-	-	-	2,184	2,184	-	2,184
Dividends to shareholders	-	-	-	-	-	(30,175)	(30,175)	-	(30,175)
<b>Balance at 31 December 2006</b>	<b>71,369</b>	<b>(1,371)</b>	<b>(35)</b>	<b>(36)</b>	<b>9,493</b>	<b>158,671</b>	<b>238,091</b>	<b>191</b>	<b>238,282</b>

**Cochlear Limited and its Controlled Entities**  
**Condensed notes to the consolidated interim financial statements**

**For the half-year ended 31 December 2006**

**11. Earnings per share**

**Basic earnings per share**

The calculation of basic earnings per share for the six months ended 31 December 2006 was based on net profit attributable to equity holders of the parent of \$48,798,000 (six months ended 31 December 2005: \$43,759,000) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2006 of 54,713,600 (six months ended 31 December 2005: 54,427,884) calculated as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Net profit attributable to equity holders of the parent	<u>\$48,798,000</u>	<u>\$43,759,000</u>
<b>Weighted average number of ordinary shares:</b>		
Issued ordinary shares at 1 July	54,636,995	54,169,325
Effect of shares issued during the period	<u>76,605</u>	<u>258,559</u>
<b>Weighted average number of ordinary shares</b>	<u>54,713,600</u>	<u>54,427,884</u>

**Diluted earnings per share**

The calculation of diluted earnings per share for the six months ended 31 December 2006 was based on net profit attributable to equity holders of the parent of \$48,798,000 (six months ended 31 December 2005: \$43,759,000) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2006 of 55,444,411 (six months ended 31 December 2005: 54,876,758) calculated as follows:

Net profit attributable to equity holders of the parent	<u>\$48,798,000</u>	<u>\$43,759,000</u>
<b>Weighted average number of ordinary shares (diluted):</b>		
Weighted average number of shares (basic)	54,713,600	54,427,884
Effect of options and performance shares	<u>730,811</u>	<u>448,874</u>
<b>Weighted average number of ordinary shares (diluted)</b>	<u>55,444,411</u>	<u>54,876,758</u>

**Cochlear Limited and its Controlled Entities**  
**Condensed notes to the consolidated interim financial statements**

**For the half-year ended 31 December 2006**

**12. 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 2006</b>				
Final - ordinary	55.0	30,175	Franked	21 September 2006
<b>31 December 2005</b>				
Final - ordinary	45.0	24,430	Franked	22 September 2005

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:

	<b>Cents per share</b>	<b>Total amount \$'000</b>	<b>Franked/ unfranked</b>	<b>Date of payment</b>
Interim – ordinary	55.0	30,208	Franked	20 March 2007

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 2006 and will be recognised in subsequent financial statements.

**Dividend franking account**

	<b>Company</b>	
	<b>31 December 2006</b>	<b>31 December 2005</b>
	<b>\$'000</b>	<b>\$'000</b>
30% franking credits available to shareholders of Cochlear Limited for subsequent financial periods	18,796	15,030

**Cochlear Limited and its Controlled Entities**  
**Condensed notes to the consolidated interim financial statements**

**For the half-year ended 31 December 2006**

**13. Contingent liabilities**

The detail 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.

**US Department of Justice 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. Discussions with the DOJ are ongoing, but at the date of this report, no specific claims have been made. The Company is cooperating fully with the inquiry and has engaged a nationally recognised law firm with specialised expertise in US healthcare law.

In prior years, the Company has recorded a provision in respect of the estimated cost of responding to the investigation.

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

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

**Guarantees**

Cochlear Limited has provided guarantees to Westpac Institutional Bank for loan facilities provided to Cochlear Sweden Holdings, Cochlear Americas and Cochlear Europe Limited, all wholly-owned subsidiaries.

The Cochlear Sweden Holdings facility is a multi currency facility with a limit of euro 87.2 million, or equivalent thereof. The outstanding balance of the loan at reporting date was SEK 799.1 million (euro 87.2 million).

The Cochlear Americas facility is for USD 30.0 million. The outstanding balance of the loan at reporting date was USD 30.0 million.

The Cochlear Europe Limited facility is for GBP 7.5 million. The outstanding balance of the loan at reporting date was GBP 7.1 million.

**14. 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 the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

**Cochlear Limited and its Controlled Entities**  
**Condensed notes to the consolidated interim financial statements**

**For the half-year ended 31 December 2006**

**Acquisition of manufacturing operations and assets**

In January 2007 the Company acquired Cochlear related manufacturing operations and assets worth approximately \$19 million from Crystalaid Manufacture Pty Ltd.

The Company has purchased only those activities relating to its own products. The acquisition includes approximately \$11 million of inventory and \$4 million of plant and equipment.

**Dividends**

For dividends declared after 31 December 2006, see Note 12.



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

### **Report on the Financial Report**

We have reviewed the accompanying half-year financial report of Cochlear Limited, which comprises the consolidated interim balance sheet as at 31 December 2006, and the consolidated interim income statement, consolidated interim statement of recognised income and expense and consolidated interim statement of cash flows for the half-year ended on that date, a statement of accounting policies and other explanatory notes 1 to 14 and the directors' declaration set out on page 9 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 Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year 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 half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim 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 half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's position as at 31 December 2006 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 a half-year 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.





*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year 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 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

KPMG

Kevin Leighton  
*Partner*

Sydney

13 February 2007