

ASX / MEDIA RELEASE

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COCHLEAR ANNOUNCES RECORD FINANCIAL RESULTS FOR THE YEAR ENDED 30 JUNE 2008

- Core earnings of \$123.7 million, (\$2.23 per share), up 15% and in line with guidance
- Total revenue of \$601.7 million, up 8%
- Sales revenue up 18% in constant currency
- Final dividend of 80c, up 14%

Cochlear Limited, the global leader in implantable hearing solutions, today announced record Net Profit after Tax of \$115.2 million for the year ended 30 June, 2008, a 15% increase from the previous corresponding period.

“The result was on the back of record sales of the cochlear implant units, improved margins and a disciplined approach to expenses”, said Cochlear Chief Executive Officer Dr Chris Roberts.

“Core earnings rose 15%, in line with guidance and ahead of revenue growth, to \$123.7 million.

“Stripping away the significant impact of the appreciation of the Australian dollar, sales were up 18% in constant currency. Total revenue rose 8% to a record \$601.7 million.

“Cochlear determined a final dividend of 80 cents, taking the full-year dividend payout to \$1.50 a share – 20% higher than a year ago.

“This strong result confirms our growth strategy,” said Dr Roberts. “Importantly, it was achieved in a year of a higher Australian dollar, rising interest rates and an unsettled global economic environment, particularly in the USA.

“Long-term initiatives to continue our global growth were advanced in all regions and new products were launched, including the backwards compatible Freedom for N22 processor in the second half of the fiscal year,” said Dr Roberts.

“We remain confident about the continuing growth story, our ability to enhance shareholder value and importantly the positive life changing benefits we deliver to recipients.

“In F09 Cochlear again anticipates double digit core earnings growth with a bias towards profit delivery in the second half,” said Dr Roberts.

Financial Performance

- During 2008, the average Australian dollar (AUD) rate against the US dollar (USD) was 14% higher than for F07. While revenue grew 8%, sales revenue in constant currency grew 18%
- EBIT for the year of \$167.3 million was up 11% on last year with improved margins at both the gross margin and EBIT/revenue lines
- R&D grew 21% to \$80.0 million and Sales and Marketing expenses grew 11% to \$156.5 million while administration costs declined 7% to \$36.1 million. This expenditure profile reflected a deliberate investment in R&D while maintaining disciplined growth in SG&A costs.

Results summary	F08 \$ million	F07 \$ million	Change
Cochlear implant sales	504.8	480.2	↑ 5%
Bone Anchored Solutions (Baha)	75.6	62.7	↑ 21%
FX Contracts	21.3	16.5	↑ 29%
Total revenue	601.7	559.4	↑ 8%
EBITDA	193.3	170.9	↑ 13%
EBIT	167.3	150.2	↑ 11%
Net Profit After Tax	115.2	100.1	↑ 15%
Basic EPS (cents)	208.1	182.9	↑ 14%
Core Earnings	123.7	107.6	↑ 15%
Core Basic EPS (cents)	223.4	196.5	↑ 14%
Final dividend (payable 25/09/2008)	80c	70c	↑ 14%
Full year dividend (interim and final)	150c	125c	↑ 20%
Franking	100%	100%	



NPAT – NPAT of \$115.2 million was up 15% on F07. Net interest expense of \$10.6 million was up 59% on last year largely as a result of higher interest rates. This higher interest charge was offset by a lower tax charge, driven substantially by overseas share based payment deductions.

Debt - All of Cochlear's total debt of \$170.0 million is committed and some \$154.6 million of this debt is classified as long term debt. At 30 June 2008, Cochlear continues to meet all its debt covenants. Its net debt to equity gearing ratio was 29%, an improvement from F07's 31%.

Receivables of \$143.8 million reflect debtor days of 81 days, down from 85 at 31 December 2007 (2007: 79 days). While Americas and European receivable days reduced over last year, Asia Pacific's days increased marginally.

Inventory - Inventory of \$99.2 million was down from December half year of \$99.5 million. Days inventory was maintained at 214 days. Inventory levels are in line with new product introductions and customer order profiles.

Currency

Over 90% 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 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, Cochlear's ongoing contracts reflect these higher rates.

This hedge is not perfect and does not protect the sales revenue line; however, it provides a measure of protection to Cochlear's net cash flow in a volatile FX environment.

While the translation impact of the FX movement was a negative \$25.7 million, this was partially offset by FX contract gains of \$4.8 million over the previous corresponding period (F08 \$21.3 million, F07 \$16.5 million).

The overall NPAT impact from foreign exchange movements for the year, compared to F07, even after hedging, was a negative \$20.9 million.

Market Performance

Expanding Product Range - During 2008 Cochlear introduced a number of important new innovations to market. The Nucleus® Freedom™ product platform was further expanded through the introduction of the Freedom sound processor for Cochlear's earlier N22 implant recipients. In addition, the Freedom sound processor became available for recipients of Cochlear's specialist Auditory Brainstem Implant (ABI) and Double Electrode Array recipients.



The release of the Freedom for N22 processor into major markets provides the latest processor technology to the nearly 18,000 recipients of the earlier Nucleus 22 implant system. Importantly this confirms, in a very practical way, Cochlear's brand promise of "Hear now. And always". Many of these recipients were implanted in the 1980s and are now benefiting from 2008 technology.

The backwards compatible Freedom™ sound processor for N24 recipients continued to be rolled out with particularly strong sales in Europe. Worldwide Cochlear estimates over 15,000 recipients have upgraded from their earlier processor model. The high USA penetration of over 50% reflects that region's earlier and enthusiastic adoption by many recipients in the prior year.

The Custom Sound™ 2.0 programming software was released in all major markets in 2008. It provides recipients easier access to the pre-processing of sound and is also aimed at simplifying programming for the audiologist. It has been enthusiastically received in the market.

Baha® - Baha worldwide sales grew 27% in constant currency to \$75.6 million in 2008. Sales were strong in all regions.

In February 2008 Cochlear Bone Anchored Solutions (BAS) based in Gothenburg, Sweden, received a warning letter from the United States Food and Drug Administration (FDA).

The warning letter advised that an import alert had been issued relating to the import of Baha products from Sweden into the USA.

Cochlear is committed to full compliance with FDA regulations and continues to work with the FDA to resolve the outstanding issues. In June 2008 the Gothenburg site was reinspected by the FDA.

Cochlear Limited has also established a manufacturing presence in the USA for certain Baha items.

Regional Performance

Americas - Revenue of \$232.2 million was up 6% in constant currency. Revenue in the region was negatively impacted by flat unit sales in South America and a 34% fall in installed base sales following the F07 surge in upgrade sales of Freedom for N24 processors. Some 50% of eligible recipients have now upgraded to the Nucleus Freedom processor for N24 in the USA. This is already ahead of the original three year target of 45%.

Europe - In F08 revenue grew 30% in constant currency to \$257.2 million. The growth included increased revenue from several established direct markets as well as the exciting new developing markets in the Middle East and Eastern Europe.



Progress was made in expanding Cochlear's reach into selected key markets with a direct operation set up in Turkey. This puts Cochlear closer to its customers and is consistent with its strategy of extending its direct reach into selected markets.

Asia Pacific - Revenue of \$91.0 million was up 20% in constant currency.

Some 700 units were delivered into China in F08 against the donation programme first announced in 2006. The delivery of donation sales units continues to be uneven and this irregular pattern of demand is anticipated to continue. The non-donation market was larger than the donation market in F08.

Cochlear's direct presence in the region continued to strengthen with a subsidiary employing 12 staff established in Seoul, South Korea. In addition, a branch was established in Singapore and a liaison office in Mumbai, India.

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