Half Year Report 2009

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Cochlear™

Dear Shareholder

I am pleased to provide you with extracts from our half year report lodged with the Australian Stock Exchange on 10th February 2009.

Highlights

Cochlear Limited, the global leader in implantable hearing solutions, announced record NPAT of $69.9 million for the six months ended 31 December 2008, representing a 22% increase from the first half of F08 (previous corresponding period).

- Total revenues were up 19% to $355.2 million. Sales, excluding FX contracts, were up 22% to $346.9 million. In constant currency, (that is restating H1 F08 at H1 F09 FX rates), sales were up 12%.
- Cochlear implant unit sales rose 2% to 9,178. Cochlear implant related sales revenue grew 22%, to $301.1 million for the half year and was up 12% in constant currency. Global market share remains around 70%.
- Sales revenue for Bone Anchored Solutions, which includes the Baha® implant, grew 25% to $45.8 million, and was up 13% in constant currency.
- Interest of $4.5 million was down 10% on last year, primarily due to lower interest rates. Tax at 27.1% of earnings was lower than prior years owing to a bigger tax concession in line with increased spending on R&D.
- Foreign Exchange (FX) contracts were down 40%, reflecting a weaker AUD against most trading currencies.
- Investment in R&D continued to grow, with Cochlear investing $45.5 million for the half, an increase of 14% from the previous corresponding period representing 12.8% of revenue.
- A further $0.4 million was provided for funding of the Cochlear Foundation.
- There were no impairment or asset write-downs during the period.

Regional Performance

Americas: 43% of group sales

The Americas delivered higher growth for the half with revenue up 25% to $148.5 million from the previous corresponding period (PCP). This represents 15% growth in constant currency up from 8% in the PCP.

Sales in the US were negatively impacted by the FDA Import Alert announced in February 2008. The Import Alert was lifted in October 2008 and US sales recovered strongly in the second quarter.

Upgrade sales were positively impacted by the release of the Freedom Processor for N22 users in late F08.

Europe: 44% of group sales

Revenue for the half year grew 25% to $153.1 million from PCP. This represents 13% growth in constant currency down from 24% in the PCP.

Cochlear successfully started selling the Hybrid range of products into selected European markets during the half and initial feedback has been positive. The Hybrid (EAS) system includes the Hybrid L implant and combined speech processor. The device combines electrical stimulation (cochlear implant) with acoustic amplification (hearing aid technology).

The UK NICE Guidelines for cochlear implants were published in January 2009. These guidelines support cochlear implants as an effective intervention for severe to profound deafness in adults and children, including recommending simultaneous bilateral cochlear implantation for children receiving a cochlear implant. This is an important precedent and augurs well for continuing growth in the UK. It also provides guidance to other reimbursement authorities.

Asia Pacific: 13% of group sales

Revenue for the half year grew 6% to $45.3 million, but was flat in constant currency.

There were no donation sales units into China in this half (previous corresponding period 180 units). As advised in prior years, the order pattern is uneven and irregular, but donation sales are forecast for the second half of fiscal 2009, although below last year's full year number of 700 units.

Sales in India and Korea continued to expand in line with growth expectations.

Stock held by clinics was reduced as clinics took advantage of Cochlear's improved supply chain efficiencies and managed down stock levels while maintaining surgery rates.

Foreign Exchange (FX) Hedging Strategy

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 largely managed through foreign exchange contracts.

These FX contracts cover a three year period at a declining level of cover and are a non-speculative approach to FX management. This follows a Board approved policy which has been in place for several years.

The hedge provides a measure of protection and certainty to Cochlear's net cash flow, which is particularly important in a volatile FX environment. In the fiscal first half, the AUD fell against all of Cochlear's major trading currencies, with the decline biased to the second quarter.

FX contracts delivered a gain of $8.3 million in the half ($13.8 million in the previous corresponding period), but this hedge book will roll off with an estimated loss in the second half - although this will be more than offset by gains at the sales line.

Global Financial Crisis

Cochlear is well positioned in this period of global uncertainty.

Cochlear remains vigilant and conservative, particularly regarding capital management, cost control, credit management and supplier liaison. The global financial crisis has, thus far, had a relatively minor impact on our major customers. For example, reimbursement remains intact.

Cash flow from operations was up 91% to $57.4 million for the half year, and cash at 31 December 2008, was $62.9 million - up from $36.7 million at 30 June 2008.

Capital Management

Debtor sales outstanding (DSO) has fallen to 76 days, down from 81 at June 2008, and 85 at 31 December 2007. This improvement reflects the ongoing attention to cash collections.

Inventory of $96.2 million was down on the June 2008 level of $99.2 million, reflecting ongoing efficiencies in supply chain management.

Cochlear's net debt of $134.4 million is in line with the company's June 2008 balance of $133.3 million, despite the decline in the AUD which increased the translated value of foreign denominated debt by

$27 million. Cochlear's total debt of $197.3 million is committed by lenders and $180.5 million is classified as long term. Cochlear continues to meet all its debt covenants.

Cochlear's net gearing ratio of 32% is in line with June 2008 levels.

Outlook

Cochlear continues to advance during this period of uncertainty by adhering to a strategy of broad based growth within the implantable hearing device space.

One of the long-term projects vital to Cochlear's competitive advancement is the new manufacturing and headquarter facilities at Macquarie University, which has been granted planning approval by the New South Wales Department of Planning.

Cochlear anticipates 15% to 20% growth in core earnings for the full year.

Dr Chris Roberts

Chief Executive Officer / President 10th February 2009

Cochlear Limited and its Controlled Entities
Consolidated interim income statement
For the six months ended 31 December 2008

	Consolidated	
	31 December 2008 $'000	31 December 2007 $'000
Revenue	355,227	297,972
Cost of sales	(106,461)	(84,008)
Gross profit	**248,766**	**213,964**
Other income	1,161	1,150
Selling and general expenses	(90,107)	(75,488)
Administration expenses	(24,941)	(19,841)
Research and development expenses	(45,442)	(39,811)
Results from operating activities	**89,437**	**79,974**
Financial income	15,889	5,397
Financial expense	(9,375)	(5,703)
Net financing costs	**6,514**	**(306)**
Profit before tax	**95,951**	**79,668**
Income tax expense	(26,015)	(22,555)
Net profit attributable to equity holders of the parent	**69,936**	**57,113**
Earnings per share		
Basic earnings per share (cents)	125.5	103.3
Diluted earnings per share (cents)	125.0	102.6

Cochlear Limited and its Controlled Entities
Consolidated interim balance sheet
As at 31 December 2008

	Consolidated	
	31 December 2008 $'000	30 June 2008 $'000
Current assets		
Cash and cash equivalents	62,860	36,687
Trade and other receivables	209,573	173,266
Inventories	96,190	99,169
Current tax assets	5,781	4,157
Other	7,419	8,817
Total current assets	**381,823**	**322,096**
Non-current assets		
Trade and other receivables	619	15,963
Property, plant and equipment	46,059	43,219
Intangible assets	222,074	208,959
Deferred tax assets	70,320	17,679
Total non-current assets	**339,072**	**285,820**
Total assets	**720,895**	**607,916**
Current liabilities		
Trade and other payables	124,760	60,830
Loans and borrowings	16,783	15,438
Current tax liabilities	18,297	2,803
Provisions	32,648	31,516
Other	16,218	14,358
Total current liabilities	**208,706**	**124,945**
Non-current liabilities		
Other payables	38,552	-
Loans and borrowings	180,443	154,545
Provisions	10,825	8,633
Deferred tax liabilities	860	452
Total non-current liabilities	**230,680**	**163,630**
Total liabilities	**439,386**	**288,575**
Net assets	**281,509**	**319,341**
Equity		
Share capital	96,114	82,972
Reserves	(66,322)	13,035
Retained earnings	251,717	223,334
Total equity	**281,509**	**319,341**

Cochlear Limited and its Controlled Entities
Core earnings calculation
For the six months ended 31 December 2008

	Consolidated	
	31 December 2008 $'000	31 December 2007 $'000
Net profit attributable to members	**69,936**	**57,113**
Adjustment items (after tax)		
Amortisation of capitalised research and development	65	575
Acquired intangible amortisation	1,248	1,406
Share based compensation	3,129	2,825
Core earnings	**74,378**	**61,919**

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