

ASX / MEDIA RELEASE

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COCHLEAR ANNOUNCES RECORD FINANCIAL RESULTS FOR SIX MONTHS ENDED 31 DECEMBER 2007

- Core earnings of \$61.9 million, (\$1.12 per share), up 17%
- Sales revenue up 15% in constant currency
- Total revenue of \$298.0 million, up 8%
- Margin improvement of EBIT/Revenue of 1.7% to 28.4%
- Dividend of 70c, up 27%

Sydney: 12th February 2008, Cochlear Limited (COH.AX) announced record revenue, cochlear implant unit sales, profit and dividends for the half year ended 31st December 2007.

Total revenue of \$298 million, was up 8% over H1 F'07, and sales revenue in constant currency (H1 F'07 restated at H1 F'08 rates) was up 15%. Record cochlear implant (CI) unit sales for the half year of 8,968 units were up 13% and sales in the Bone Anchored Solutions division of \$36.7 million maintained its strong growth profile and were up 29% on H1 F'07 in constant currency.

Importantly during the half, new products were readied for launch, advances made in growth initiatives and internal capabilities strengthened. This was achieved in a disciplined expense environment and core earnings of \$61.9 million grew 17% over H1 F'07, slightly ahead of the 15% constant currency sales revenue growth.

Results summary	H1 F08	H1 F07	
	\$ million	\$ million	Change
Cochlear implant sales	247.5	240.3	↑ 3%
Bone Anchored Solutions (Baha)	36.7	30.4	↑ 21%
FX Contracts	13.8	5.4	↑ 156%
Total revenue	298.0	276.1	↑ 8%
EBITDA	97.6	83.9	↑ 16%
EBIT	84.7	73.6	↑ 15%
Net Profit After Tax	57.1	48.8	↑ 17%
Basic EPS (cents)	103.3	89.2	↑ 16%
Core Earnings	61.9	52.8	↑ 17%
Core Basic EPS (cents)	112.0	96.5	↑ 16%
Final dividend (payable 18/03/08)	70c	55c	↑ 27%
Franking	100%	100%	

Commenting on the result, CEO Dr Chris Roberts said, "This has been a successful half. Cochlear's expansion plans are on track despite the higher Australian dollar, higher interest rates and the unsettled world business environment.

"While delivering a 17% increase in core earnings profit of \$61.9 million for the half, we have also achieved our operational milestones, essential to support the exciting long term growth potential of Cochlear.

"A new software program (Custom Sound 2.0), is currently being launched. This feature-rich programming software further advances our input pre-processing strategies, allowing recipients to hear better in difficult listening environments.

Also currently launching, is the Freedom for N22 processor. This is the Freedom speech processor upgrade for those recipients who received an implant in the 1980's and early 1990's, further demonstrating Cochlear's lifetime commitment to its recipients.

“Operationally, our internal capabilities were strengthened by rolling out the final stages of our worldwide Oracle ERP project, on time and on budget.

“This continuing progress on the drivers for our development augurs well for sustained growth in Cochlear.”

Financial Performance

Total revenue for the year increased 8% to \$298.0 million with cochlear implant sales revenue growing 3% and Baha sales revenue growing 21% to \$36.7 million. Importantly, in constant currency terms, sales revenue was up 15%. Cochlear implant unit sales were up 13%.

A defining characteristic of the H1 F08 period was the appreciating AUD, particularly against the USD. The average AUD rate against the USD was 14% higher than for H1F07. While sales revenue grew 5%, sales in constant currency grew 15%. 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 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 and Japanese yen over the last few years, our ongoing contracts reflect these higher rates. This hedge is not perfect and does not protect our sales revenue line, however it provides a measure of protection to our net cash flow in a volatile FX environment. While the translation impact of the FX movement was a negative \$13.3 million, this was partially offset by FX contract gains of \$8.4 million over the previous corresponding period. The overall NPAT impact from foreign exchange movements for the half year, compared to H1 F'07, was a negative \$4.9 million.

EBIT for the half year of \$84.7 million was up 15% on last year and importantly the EBIT/revenue percentage increased to 28.4% (H1 F'07 26.7%). This reflects a disciplined approach to expense control while maintaining investment in growth initiatives. R&D grew 12% to \$39.8 million. Sales and Marketing expenses grew 16% to \$75.5 million while administration costs remained well contained growing 3% to \$19.8 million

The NPAT of \$57.1 million was up 17% on H1 F'07. The 2% differential between the EBIT and NPAT growth, being a higher net interest charge of \$5.0 million (H1 F'07 \$2.7 million), largely as a result of increased interest rates, but offset by lower group tax rate. The lower tax rate reflects increased overseas tax deductions.

Our net debt of \$138.4 million was up on H1 F'07 (\$131.7 million), and importantly remains low in the context of our balance sheet and market capitalisation. Our net debt/net debt plus equity gearing ratio was 32% (H1 F'07 36%).

Receivables increased 10% to \$158.1 million and debtor days increased to 85 days (June 30 2007, 79 days). This is consistent with our internal targets given the mix of markets in which we operate, including many with traditionally long collection periods.

Inventory of \$99.5 million was up 8% (June 30 2007, \$91.9 million). Days inventory was maintained at 214 days. This increase in inventory levels is in line with new product introductions and customer order profiles.

Market Performance

Nucleus® Freedom™ continues to set new benchmarks for hearing performance and implant reliability

Nucleus Freedom is a product platform on which we continue to expand the product offering. During this half an exciting software programme upgrade (Custom Sound 2.0) was completed and is now being launched. This software simplifies programming for audiologists and further improves hearing performance for our recipients. These advances help free up clinic capacity while stimulating excitement with our customers.

Recent data published in the peer review medical literature have further shown the superiority of the performance of our Contour Advance electrode when used with the Advanced Off-Stylet insertion technique (AOS). This is important as it provides yet another point of differentiation with our competitors.

The “backwards compatible” Freedom for N24 launch continued to be rolled out, allowing a potential ~36,000 recipients of one of our prior implant systems to upgrade to the Freedom speech processor. Approximately 35% of this population have now upgraded. In the Americas nearly 40% of recipients have upgraded under the programme and sales slowed down in H1 F’08 as the early adopters have now taken up the upgrade.

A key element of the value proposition of receiving a cochlear implant from Cochlear is that recipients of previous implant generations can benefit from new technology. During the last six months we have completed the Freedom for N22 processor. This will be released in selected markets in H2 F’08, enabling nearly 18,000 recipients of another earlier implant system access to Nucleus Freedom.

Bone Anchored Solutions Division (BAS)

The more powerful vibrator in the recently launched Intenso product has been very successful and patient indications are now expanding into those with mixed hearing loss, particularly patients with a conductive component of at least 30dB. This helps expand the potential market for Baha products.

To support future growth the division moved into new premises in Gothenburg Sweden where production can expand to meet future demand.

Cochlear understands that it may receive a warning letter from the United States Food and Drug Administration (FDA) relating to aspects of the BAS operations in Gothenburg following its first FDA inspection in May 2007. Cochlear will work swiftly with the FDA to resolve any issues.

Bilateral Cochlear Implants

Evidence for and acceptance of bilateral cochlear implants to achieve binaural hearing, eg sound localisation, continues to become more prevalent around the world.

A good example of this during the half was a publication in the United Kingdom of the “Appraisal Consultation Document on Cochlear Implants” issued by the National Institute for Health and Clinical Excellence (NICE) which recommends simultaneous bilateral cochlear implantation for pre-lingually deafened children with severe to profound hearing impairment.

This is a powerful precedent for other jurisdictions who are also experiencing increased interest in bilateral implantation. In the USA there is now health insurance coverage for bilateral cochlear implantation for over 158 million people.

Regional Performance

Americas

Revenue of \$118.9 million was up 8% in constant currency. The Americas first half growth was strongly biased to the second quarter.

There was also much progress in the Americas on a number of programs aimed at supporting the long term growth potential of this market.

Cochlear Americas’ “Hear Always” program continued to gain traction with the majority of clinics now participating in the program. “Hear Always” is focussed on Cochlear providing technical support directly to recipients. This program translates to savings in non-reimbursable expenses for participating clinics, thereby helping to address potential clinical capacity restraints.

In addition, we expanded the consumer advocacy network by approximately 200 volunteers this half year.

A further program gaining momentum in the USA is the expansion of the field organisation to capitalise on opportunities in the hearing aid channel, including hearing aid dispensers. We now have twelve specialists in the field, as Territory Outreach Specialists to help mobilise the referral channel.

Europe

The strong growth trend experienced in Europe over the last three years again continued. European revenue of \$122.3 million grew 24% in constant currency. The expanded direct market activities of the European region continue supporting growth, with over 70% of European revenue from countries where Cochlear operates directly. At the same time, our distributor activities in Central and Eastern Europe, North Africa and the Middle East continue expanding as the relevant economies grow.

Asia Pacific

Revenue of \$42.9 million was up 8% in constant currency. In 2006 Cochlear reported on a large philanthropic donation of cochlear implants for China. Steps necessary to ensure the donation program is successful again took much of the half. To date some 574 units sales of donated implants have been sold under the donation programme. Lumpiness in the sales of the donation units will continue and the order is not forecast to be drawn down evenly. In addition, first half CI unit sales to Korea slowed ahead of our going direct in that market, which will occur in the second half of F'08. Growth in other areas remained robust.

Outlook

We remain excited by the strong fundamentals of the business and the ability to bring hearing to many thousands of people around the world in a way that delivers sustainable growth to our shareholders.

Last August, and again at the October AGM, we provided guidance for F08 for core earnings growth of approximately 15 – 20% depending on the strength and rapidity of the Australian dollar's appreciation. We confirm that the business is on track to achieve this growth in core earnings.

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