

HALF YEAR REPORT 2008



25
Celebration
of Hearing years

Hear now. And always


Cochlear™

Dear Shareholder

I am pleased to provide you with extracts from our half year report lodged with the Australian Stock Exchange on 12th February 2008.

Highlights

Cochlear Limited announced record revenue, cochlear implant unit sales, profits and dividends for the half year ended 31st December 2007 (HI F'08).

Total revenue of \$298 million, was up 8% over HI F'07, and sales revenue in constant currency (HI F'07 restated at HI 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 HI 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 HI F'07, slightly ahead of the 15% constant currency sales revenue growth.

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 HI 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.

A handwritten signature in black ink, appearing to read "Chris Roberts". The signature is fluid and cursive, with a large initial "C" and "R".

Dr Chris Roberts

Chief Executive Officer / President

12th February 2008

Cochlear Limited and its Controlled Entities
Consolidated interim income statement
For the six months ended 31 December 2007

	Consolidated	
	31 December	31 December
	2007	2006
	\$'000	\$'000
Revenue	297,972	276,112
Cost of sales	(84,008)	(80,391)
Gross profit	213,964	195,721
Other income	1,150	-
Selling and general expenses	(75,488)	(64,944)
Administration expenses	(19,841)	(19,186)
Research and development expenses	(39,811)	(35,608)
Results from operating activities	79,974	75,983
Financial income	5,397	1,091
Financial expense	(5,703)	(6,130)
Net financing costs	(306)	(5,039)
Profit before tax	79,668	70,944
Income tax expense	(22,555)	(23,663)
Net profit (including minority interest)	57,113	47,281
Attributable to:		
Equity holders of the parent	57,113	48,798
Minority interest	-	(1,517)
Net profit (including minority interest)	57,113	47,281
Basic earnings per share (cents)		
- Ordinary shares	103.3	89.2
Diluted earnings per share (cents)		
- Ordinary shares	102.6	88.0

Cochlear Limited and its Controlled Entities
Consolidated interim balance sheet
As at 31 December 2007

	Consolidated	
	31 December	30 June
	2007	2007
	\$'000	\$'000
Current assets		
Cash and cash equivalents	62,048	83,382
Receivables	158,070	143,076
Inventories	99,507	91,890
Other	5,648	5,390
Total current assets	325,273	323,738
Non-current assets		
Receivables	2,263	6,178
Other financial assets	93	477
Property, plant and equipment	41,218	40,565
Intangible assets	212,262	196,268
Deferred tax assets	29,889	18,511
Total non-current assets	285,725	261,999
Total assets	610,998	585,737
Current liabilities		
Trade and other payables	61,943	61,923
Loans and borrowings	161,433	161,337
Current tax liabilities	8,524	7,997
Provisions	25,630	30,953
Other	16,564	17,338
Total current liabilities	274,094	279,548
Non-current liabilities		
Loans and borrowings	39,040	37,552
Provisions	10,226	7,828
Total non-current liabilities	49,266	45,380
Total liabilities	323,360	324,928
Net assets	287,638	260,809
Equity		
Share capital	82,971	69,998
Reserves	2,419	9,584
Retained earnings	202,248	181,227
Total equity	287,638	260,809

Cochlear Limited and its Controlled Entities
Core earnings calculation
For the six months ended 31 December 2007

	Consolidated	
	31 December 2007 \$'000	31 December 2006 \$'000
Net profit attributable to members	57,113	48,798
Adjustment items (after tax)		
Research and development capitalised	-	(262)
Amortisation of capitalised research and development	575	894
Acquired intangible amortisation	1,406	1,164
Share based compensation	2,825	2,184
Core earnings	61,919	52,778

For further information, please contact:

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