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COCHLEAR ANNOUNCES RECORD REVENUE AND EARNINGS FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

- Revenue up 19% to $355.2 million
- Net Profit after Tax (NPAT) and EPS both up 22% to $69.9 million and $1.26
- Core earnings up 20% to $74.4 million
- Interim dividend up 14% to 80 cents a share
- F09 guidance: core earnings estimated to grow between 15% to 20%

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).

“The result highlights the strength of Cochlear’s business in a challenging global environment,” said Cochlear Chief Executive Officer Dr Chris Roberts.

Cochlear will pay a fully franked half year dividend of 80 cents on 17 March 2009, representing a 14% increase on the previous corresponding period.

“This is a strong result, confirming our strategy of diversifying our growth drivers within the implantable hearing space,” said Dr Roberts. “We anticipate 15% to 20% growth in core earnings in fiscal 2009.”

“Long term growth initiatives were further advanced, with the controlled market launch of the new Hybrid system in Europe. This product opens up a new market segment of recipients who will benefit from Cochlear’s products,” said Dr Roberts.

Cochlear’s sound capital management resulted in the company maintaining its net gearing ratio at 32% at 31 December 2008, which is in line with the June 2008 level. Over 90% of Cochlear’s total debt of $197.3 million is long term.

“Cochlear is well positioned in this time of significant global uncertainty, and our fundamental strategies around technological innovation, business model innovation and development of internal capability, such as scale and leverage, have not changed,” said Dr Roberts.

Financial Performance

Results summary	H1 F09 $ million	H1 F08 $ million	Change
Cochlear implant sales	301.1	247.5	↑ 22%
Bone Anchored Solutions (Baha)	45.8	36.7	↑ 25%
FX Contracts	8.3	13.8	↓ 40%
Total revenue	355.2	298.0	↑ 19%
EBITDA	113.2	97.6	↑ 16%
EBIT	100.4	84.7	↑ 19%
Net Profit After Tax	69.9	57.1	↑ 22%
Basic EPS (cents)	125.5	103.3	↑ 22%
Core Earnings	74.4	61.9	↑ 20%
Interim dividend (payable 17 March 2009)	80c	70c	↑ 14%
Franking	100%	100%	

- 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.

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