

ASX / MEDIA RELEASE

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**COCHLEAR ANNOUNCES RECORD FINANCIAL RESULTS FOR
FULL YEAR ENDED 30TH JUNE 2007**

- Total revenue of \$559.4 million, up 24%
- NPAT of \$100.1 million (183c per share), up 25%
- Core earnings of \$107.6 million, (197c per share), up 24%

Sydney: 14th August 2007, Cochlear Limited (COH.AX) announced record revenue, cochlear implant unit sales, profit and dividends for the year ended 30th June 2007.

Total revenue for the year was \$559.4 million, a 24% increase over F06. Record cochlear implant (CI) unit sales for the year of 15,947 units represented an increase of 24% over F06. Sales revenue from the cochlear implant system product range increased 26% to \$480.2 million. Sales in the Bone Anchored Solutions division were \$62.7 million, a 21% increase over last year.

EBIT was \$150.2 million, a 35% increase over F06, and 26.8% of revenues (F06 24.7%).

A final dividend of 70 cents per share has been determined, which brings the full year dividend to 125 cents, a 25% increase on F06. The record date is 6th September 2007 and the dividend is payable on 27th September 2007.

Core earnings of \$107.6m was ahead of Cochlear's full year guidance for F07 of at least \$100 million. This strong result was in the context of a rising Australian dollar and reflects Cochlear's continued market leadership combined with a disciplined approach to growth.

Results summary	F07	F06	
	\$ million	\$ million	Change
Cochlear implant sales	480.2	379.9	↑ 26%
Bone Anchored Solutions (Baha)	62.7	51.7	↑ 21%
FX Contracts	16.5	20.7	↓ 20%
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Total revenue	559.4	452.3	↑ 24%
EBITDA	170.9	130.2	↑ 31%
EBIT	150.2	111.5	↑ 35%
Net Profit After Tax	100.1	80.0	↑ 25%
Basic EPS (cents)	182.9	146.8	↑ 25%
Core Earnings	107.6	86.4	↑ 24%
Core Basic EPS (cents)	196.5	158.4	↑ 24%
Final dividend (payable 27/09/07)	70c	55c	↑ 27%
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Commenting on the result, CEO Dr Chris Roberts said, "This is a very pleasing result with core earnings of \$107.6 million being ahead of our guidance of \$100 million and 24% ahead of last year.

The improved EBIT/revenue ratio of 26.8% (F06 24.7%) reflects strong sales and a disciplined approach to expense growth and was achieved in an environment of a strengthening Australian dollar.

The long term trend of increased bilateral implantation, that is an implant in each ear, will continue to augment sales growth.

Cochlear continues to invest in long term growth initiatives, including enhancements to supporting infrastructure necessary to underpin our ongoing expansion."

Financial Performance

Total revenue for the year increased 24% to 559.4 million. Sales revenue was stronger, up 26% to \$542.9 million. The difference related to foreign exchange gains on the hedged net foreign currency cash flows which were \$16.5 million, down from \$20.7 million in F06.

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.

The overall after tax profit impact from foreign exchange movements for the year, compared to F06, was a negative \$17.6 million. This includes the reduction in gains from foreign exchange contracts (\$4.2 million), movements on foreign denominated assets (\$6.5 million) and the translation effect of changes in exchange rates between the periods (\$6.9 million).

EBIT for the year of \$150.2 million was up 35% on last year and importantly the EBIT/revenue percentage increased to 26.8% (F06 24.7%). This reflects strong sales in all regions and a disciplined approach to managing our growth.

The NPAT of \$100.1 million was up 25% on F06. The differential between the EBIT and NPAT growth, being a higher net interest charge of \$6.7 million (F06 \$2.7 million), largely as a result of increased interest rates, and a higher tax rate. The higher tax rate reflects \$1.5 million of largely overseas tax adjustments relating to prior years made in F07.

Our net debt of \$115.5 million was marginally up on F06 (\$109.0 million) and our net debt/net debt plus equity gearing ratio improved to 31% (F06 34%).

Trade receivables increased 22% to \$116.9 million (sales growing 26%) and debtor days increased to 79 (F06 74).

Inventory of \$91.9 million was up 20% (F06 \$76.8 million) and included the \$10 million of inventory acquired as part of the manufacturing operations acquired from Crystalaid Manufacture Pty Limited.

Market Performance

Nucleus® Freedom™ performance: Setting a new benchmark for hearing performance and implant reliability

The Nucleus Freedom cochlear implant system was launched in March 2005. Since then, clinical data have clearly demonstrated that patients are hearing better, far earlier than with previous and systems, and continues improving. In addition, reliability data demonstrate unsurpassed implant reliability. These results underpinned the 24% growth in cochlear implant units sales to 15,947 units.

Nucleus Freedom is a product platform on which we can expand the product offering. During the year we launched a range of accessories, including rechargeable batteries and a comprehensive range of pediatric options.

The “backwards compatible” Freedom for N24 was also launched, allowing a potential ~36,000 recipients of one of our prior implant systems to upgrade to the Freedom speech processor. Approximately 20% upgraded in F07. That recipients of previous implant generations can benefit from new technology is a key element of the value proposition of receiving a cochlear implant from us. During F08 we will be releasing the Freedom for N22, enabling recipients of another earlier implant system access to Nucleus Freedom.

Bilateral cochlear implantation: accelerating

Binaural (“from both ears”) hearing allows the brain to compare and contrast input from two ears, increasing hearing performance significantly, for example to localise sound and hear in spatial context. In comparison, remaining deaf in one ear, which is the outcome of receiving a single (“unilateral”) implant represents a significant impairment. Cochlear implantation is moving from unilateral to bilateral implantation as the standard of care, driven by compelling clinical results and benefits beyond hearing performance, for example a child being less fatigued after school being able to comfortably do homework rather than being exhausted just from concentrated listening during the day. In both Europe and the Americas, at least 15% of our current cochlear implant unit sales are for bilateral implants, and this percentage is increasing.

Regional Performance

All geographic regions contributed to growth. In constant currency terms (that is, constant foreign exchange rates), sales in the Americas were up 33%, Europe up 20% and Asia-Pacific up 38%. All regions are successfully implementing region specific growth initiatives.

Americas

Revenue of \$249.8 million was up 26% over the prior period and up 33% in constant currency. The Americas growth was driven by the success of Nucleus Freedom and Baha[®] products, as well as the successful launch of the Freedom for N24 upgrade. The Americas also expanded its consumer advocacy activities and its service activities around the installed patient base, while its "Hear Always" initiatives are reducing the clinics' burden of managing the ever-growing installed base.

Europe

European revenue grew 23% to \$213.0 million. 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 continue expanding as the relevant economies grow.

Asia Pacific

Revenue of \$80.1 million showed particularly strong growth of 34% over last year and 38% in constant currency. This was underpinned by strong growth across the region, particularly in China, India, Korea and Australia. Last year Cochlear reported on a large philanthropic donation of cochlear implants for China. With all steps being taken to ensure the donation program is successful, it took much of the year for the donation mechanisms to be finalised, and so surgeries of donated implants did not start until April 2007. This resulted in the contribution to growth from the donation units being modest, to the extent they represented the minority of implantations in China in F07.

Bone Anchored Solutions Division

BAS sales were a record \$62.7 million, up 21% from F06 and up 23% in constant currency. Since acquiring Baha and Vistafix product lines in 2005 we have accelerated research and development, with an important new product, Baha Intenso[™] launched towards the end of F07. This launch has allowed us to widen indications via the introduction of a redesigned transducer that is 10 times more powerful than previous ear-level systems, so patients with more mixed hearing loss can benefit from Baha. Importantly, the Baha and cochlear implant systems do not compete with each other as they are indicated for different types of hearing loss, and are very complementary from a business perspective.

Product Innovation

Research and Development spending (excluding capitalisation and amortisation of development costs) was up 12% to \$63.8 million, representing 11% of revenue. This reflects the opportunity for improving clinical outcomes through technologic innovation. It is the lifeblood of our company as we continue our development of a range of implantable devices for the hearing impaired. The four key product areas remain: cochlear implants, implants for electro-acoustic stimulation (EAS), bone conduction implants (Baha) and direct-acoustic cochlear stimulation (DACs).

Cochlear implants

The cochlear implant sector is now well established and Cochlear's technology leads the industry world wide. During the year we launched the backwards compatible Nucleus Freedom speech processor for one of our earlier implant types (N24) in many major markets with enthusiastic response.

Focus remains on improving hearing performance, with new speech coding strategies (MP3⁰⁰⁰™) in clinical trials, along with further advances in our sound input pre-processing (SmartSound™) to include concomitant pre-processing strategies (SmartSound™ Combination).

Baha

Spending on Baha R&D has grown from 3% of sales revenue when we purchased Entific Medical Systems in March 2005 to 10% of sales revenue in F07. This increase reflects the importance we place on technology leadership. The Baha Intenso™ device was released in F07 and important new technologies related to aesthetics and performance are well advanced.

EAS

Hybrid implants are cochlear implants with specially designed electrodes, that, when combined with the appropriate surgical technique, preserve the delicate structures of the inner ear, consequently preserving residual hearing. Two electrodes, Hybrid S and Hybrid L are in clinical trials with encouraging results. The market for EAS is significant and untapped at this stage.

DACS

With this product we seek to extend Cochlear's global leadership in implantable solutions for the hearing impaired into new markets, by combining our market leading capabilities in implantable electronics with direct mechanical stimulation of the cochlea. The DACs implant was being developed as a joint venture (with Phonak AG). During the year, the JV was disbanded, with both parties sharing all costs and IP in such a way that the parties can continue their own development paths. This has delayed the project in the short term, but longer term creates synergies for Cochlear that will be beneficial.

Outlook

The momentum with which we ended the year gives us confidence about our future ability to help the hearing impaired in a way that delivers sustainable growth for our shareholders. Our confidence is further reinforced by the implantation rate remaining less than incidence, meaning growth in our potential market continues to outpace our own growth.

The outlook is for continued core earnings profit growth of approximately 15 – 20% depending on the strength and rapidity of the Australian dollar's appreciation.

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