

Appendix 4D

Cochlear Limited Half Yearly Report As at 31 December 2007

Results for announcement to the market

	Movement			\$A'000
Revenue	up	8%	to	297,972
Earnings before interest and taxes (EBIT)	up	15%	to	84,701
Profit from ordinary activities after tax attributable to members	up	17%	to	57,113
Net profit for the period attributable to members	up	17%	to	57,113
Core earnings*	up	17%	to	61,919
Basic EPS (cents)	up	16%	to	103.3c
Core basic EPS (cents)	up	16%	to	112.0c
Dividend (cents)	up	27%	to	70.0c

Net tangible assets per share at 31 December 2007 (cents)	up	464%	to	81.8
Net tangible assets per share at 31 December 2006 (cents)				14.5

***Core earnings** is defined as profit after tax attributable to members assuming all research and development is expensed and excluding acquired intangible amortisation and share based compensation charges. A reconciliation of after tax profit to core earnings is found in the analysts briefing (lodged with this document).

Dividends	Amount per security	Franked amount per security
Interim dividend per share (cents)	70.0c	70.0c
Previous corresponding period (cents)	55.0c	55.0c
Record date for determining entitlements to the dividend		29 February 2008
Dividend payment date		18 March 2008
* No dividend reinvestment plans were in operation during or since the half-year.		

Refer to the attached Directors' Report for an explanation of the above movements.

Cochlear Limited and its controlled entities

ACN 002 618 073

Interim Financial Report

31 December 2007

The directors present their report, together with the Consolidated Interim Financial Report for Cochlear Limited and its controlled entities for the six months ended 31 December 2007, and the Auditors' review report thereon.

Directors

The directors of the Company during or since the end of the interim period are:

Mr Tommie CE Bergman, ° + * #

Chairman

Age 62. DipEng, Grad Dip Marketing, FAICD, FAIM

Appointed Chairman 22 October 2002, Director since January 2002

Dr Chris Roberts, ^ #

CEO/President

Age 54. BE (Hons), MBA, PhD, FAICD, FTSE

CEO/President since February 2004

Mr Paul Bell, + ° #

Age 62. BA, MA (Hons)

Director since August 2005

Professor Edward Byrne, AO ^ ° #

Age 55. DSc, MD, MBA, FRCP, FRACP

Director since July 2002

Mr Andrew Denver, * ° #

Age 59. BSc (Hons), MBA, FAICD

Director since February 2007

Mr Rick Holliday-Smith, * ° +

Age 58. BA (Hons), FAICD

Director since March 2005

Mr Donal O'Dwyer, ^ ° # *

Age 54. BE (Civil), MBA

Director since August 2005

* Member of Audit Committee

+ Member of Remuneration Committee

Member of Technology and Innovation Committee

^ Member of Medical Science Committee

° Member of Nominations Committee

Principal activities and review of operations and results

Other than as discussed in this Report, there were no significant changes in the nature of operating activities during the six months ended 31 December 2007 and the results of those operations are set out below.

Financial overview

The consolidated results for the six months attributable to the members of the Company are:

	2007 \$000	2006 \$000
Revenue	297,972	276,112
Earnings before interest and taxes (EBIT)	84,701	73,634
Profit before tax	79,668	70,944
Net profit attributable to members	57,113	48,798
Core earnings*	61,919	52,778
Basic earnings per share (cents)	103.3	89.2
Core basic earnings per share (cents)	112.0	96.5
Diluted earnings per share (cents)	102.6	88.0
Dividend per share (cents)	70.0	55.0

*Core earnings is defined as profit after tax attributable to members assuming all research and development is expensed and excluding acquired intangible amortisation and share based compensation charges. A reconciliation of after tax profit to core earnings is found in the analysts briefing (lodged with this document).

Results

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 year, compared to H1 F'07, was a negative \$4.9 million.

EBIT for the 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.

Dividends

Dividends paid or declared by the Company since the end of the previous financial year are:

	\$'000
In respect of the previous year:	
A final ordinary dividend of 70 cents per share, franked to 100% with Class C (30%) franking credits, in respect of the year ended 30 June 2007, paid on 27 September 2007.	<u>38,916</u>

The interim dividend in respect of the current financial year has not been provided for in this financial report as it was not declared until after 31 December 2007. Since the end of the financial half-year, the directors declared an interim dividend of 70.0 cents fully franked at a tax rate of 30% amounting to a total of \$38,935,995.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act

The lead auditor's independence declaration is set out on page 8 and forms part of the Directors' Report for the six months ended 31 December 2007.

Rounding off

The Company is of a kind referred to in ASIC Class Order 98/ 100 dated 10 July, 1998, and in accordance with that Class Order, amounts in the Financial Report and Directors' Report have been rounded off to the nearest one thousand dollars, unless otherwise stated.

Dated at Sydney this 12th day of February 2008.

Signed in accordance with a resolution of the directors:



.....
Tommie CE Bergman
Director



.....
Dr Chris G Roberts
Director



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Cochlear Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the six month period ended 31 December 2007 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'Kevin Leighton', with a long horizontal stroke extending to the right.

Kevin Leighton
Partner

Sydney

12 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
	Note	2007	2006
		\$'000	\$'000
Revenue	5(a)	297,972	276,112
Cost of sales	5(b)	(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	5(c)	(39,811)	(35,608)
Results from operating activities		79,974	75,983
Financial income	5(d)	5,397	1,091
Financial expense	5(d)	(5,703)	(6,130)
Net financing costs	5(d)	(306)	(5,039)
Profit before tax		79,668	70,944
Income tax expense	6	(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
<hr/>			
Basic earnings per share (cents)			
- Ordinary shares	10	103.3	89.2
Diluted earnings per share (cents)			
- Ordinary shares	10	102.6	88.0

The condensed notes on pages 13 to 21 are an integral part of these consolidated interim financial statements.

Cochlear Limited and its Controlled Entities
Consolidated interim statement of recognised income and expense

For the six months ended 31 December 2007

	Consolidated	
	31 December	31 December
Note	2007	2006
	\$'000	\$'000
Foreign currency translation differences	(897)	94
Movement in general reserves	44	(112)
Cash flow hedges:		
Effective portion of changes in fair value	3,345	9,711
Gains transferred to the income statement	(9,657)	(3,814)
Net (expense)/income recognised directly in equity	(7,165)	5,879
Net profit (including minority interest)	57,113	47,281
Total recognised income and expense for the period	49,948	53,160
Attributable to:		
Equity holders of the parent	49,948	55,210
Minority interest	-	(2,050)
Total recognised income and expense for the period	49,948	53,160

Other movements in equity arising from transactions with equity participants as equity participants are set out in Note 9. The amounts recognised directly in equity are disclosed net of tax. The condensed notes on pages 13 to 21 are an integral part of these consolidated interim financial statements.

Cochlear Limited and its Controlled Entities

Consolidated interim balance sheet

As at 31 December 2007

		Consolidated	
	Note	31 December 2007 \$'000	30 June 2007 \$'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	9	82,971	69,998
Reserves	9	2,419	9,584
Retained earnings	9	202,248	181,227
Total equity		287,638	260,809

The condensed notes on pages 13 to 21 are an integral part of these consolidated interim financial statements.

Cochlear Limited and its Controlled Entities
Consolidated interim statement of cash flows

For the six months ended 31 December 2007

	Consolidated	
	31 December	31 December
	2007	2006
	\$'000	\$'000
Cash flows from operating activities		
Cash receipts from customers	264,877	268,192
Cash payments to suppliers and employees	(201,226)	(215,797)
Grant and other income received	1,028	183
Interest received	754	1,096
Interest paid	(5,365)	(3,781)
Income taxes paid	(30,030)	(31,999)
Net cash provided by operating activities	30,038	17,894
Cash flows from investing activities		
Payment for property, plant and equipment	(7,880)	(9,065)
Payment for enterprise resource planning system	(6,952)	(3,431)
Payments for license of intellectual property	(1,500)	-
Development expenditure	-	(374)
Payment for acquisition of manufacturing business	(9,286)	(2,000)
Net cash used in investing activities	(25,618)	(14,870)
Cash flows from financing activities		
Repayment of borrowings	(33,743)	(14,804)
Proceeds from borrowings	31,083	22,860
Proceeds from issue of shares	12,973	3,335
Dividends paid	(38,916)	(30,175)
Net cash used in financing activities	(28,603)	(18,784)
Net decrease in cash and cash equivalents	(24,183)	(15,760)
Cash and cash equivalents at 1 July	81,737	85,326
Effects of exchange fluctuation on the balances of cash held in foreign currencies	1,485	(1,617)
Cash and cash equivalents at 31 December	59,039	67,949

Included with cash and cash equivalents for 31 December 2007 is an overdraft facility of \$3,009,000 (December 2006: \$1,593,000)

The condensed notes on pages 13 to 21 are an integral part of these consolidated interim financial statements.

Cochlear Limited and its Controlled Entities
Condensed notes to the consolidated interim financial statements

For the six months ended 31 December 2007

1. Reporting entity

Cochlear Limited (the Company) is a company domiciled in Australia. The Consolidated Interim Financial Report of the Company as at and for the six months ended 31 December 2007 comprises the Company and its subsidiaries (together referred to as the Consolidated Entity). The Consolidated Annual Financial Report of the Consolidated Entity as at and for the year ended 30 June 2007 is available upon request from the company's registered office at 14 Mars Rd, Lane Cove NSW 2066, Australia or at www.cochlear.com. The Consolidated Entity operates in the implantable hearing device industry.

2. Statement of compliance

The Consolidated Interim Financial Report is a general purpose financial report which has been prepared in accordance with AASB134 *Interim Financial Reporting* and the Corporations Act 2001.

The Consolidated Interim Financial Report does not include all of the information required for a full annual financial report, and should be read in conjunction with the Consolidated Annual Financial Report of the Consolidated Entity as at and for the year ended 30 June 2007. This report should also be read in conjunction with any public announcements made by Cochlear Limited during the six months ended 31 December 2007 in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

The Consolidated Interim Financial Report was authorised for issue by the directors on 12th February 2008.

The Consolidated Entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the Consolidated Interim Financial Report have been rounded off to the nearest thousand dollar, unless otherwise stated.

3. Significant accounting policies

The accounting policies applied by the Consolidated Entity in this Consolidated Interim Financial Report are the same as those applied by the Consolidated Entity in the Consolidated Annual Financial Report as at and for the year ended 30 June 2007.

4. Estimates

The preparation of the Consolidated Interim Financial Report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this Consolidated Interim Financial Report, the significant judgements made by management in applying the Consolidated Entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Annual Financial Report as at and for the year ended 30 June 2007.

Cochlear Limited and its Controlled Entities
Condensed notes to the consolidated interim financial statements

For the six months ended 31 December 2007

	Consolidated	
	31 December	31 December
	2007	2006
	\$'000	\$'000
5. Revenue and expenses		
(a) Revenue		
Sale of goods revenue before hedging	282,412	269,236
Foreign exchange gains on hedged sales	13,796	5,449
Revenue from the sale of goods	296,208	274,685
Rendering of services revenue	1,764	1,427
Total revenue	297,972	276,112
(b) Expenses		
Cost of sales		
Carrying amount of inventories recognised as an expense	82,432	77,922
Other	894	1,899
Write down in value of inventories	682	570
Total cost of sales	84,008	80,391
(c) Research and Development expenses		
Research and development expenditure	38,990	34,705
Development expenditure capitalised	-	(374)
Capitalised development expenditure – amortisation expense	821	1,277
Total Research and Development expenses	39,811	35,608
(d) Net financing costs		
Interest income	670	1,091
Net foreign exchange gain	4,727	-
Financial income	5,397	1,091
Interest expense	(5,703)	(3,781)
Net foreign exchange loss	-	(2,349)
Financial expense	(5,703)	(6,130)
Net financing costs	(306)	(5,039)

Cochlear Limited and its Controlled Entities
Condensed notes to the consolidated interim financial statements

For the six months ended 31 December 2007

	Consolidated	
	31 December	31 December
	2007	2006
	\$'000	\$'000
6. Income tax expense		
Recognised in the income statement		
Current tax expense		
Current year	23,892	21,416
Under provided in prior years	80	2,141
	<u>23,972</u>	<u>23,557</u>
Deferred tax expense		
Origination and reversal of temporary differences	(1,417)	106
Total income tax expense in income statement	<u>22,555</u>	<u>23,663</u>
Numerical reconciliation between income tax expense and profit before tax		
Profit before tax	79,668	70,944
Income tax expense using the domestic corporation tax rate of 30% (2006: 30%)	23,900	21,283
Increase in income tax expense due to:		
Effect of tax rate in foreign jurisdictions	1,156	827
Equity settled transactions	622	585
Non-deductible expenses	1,228	554
Decrease in income tax expense due to:		
Research and development allowance	(1,397)	(1,388)
Employee share distribution	(2,775)	(202)
Non-assessable income	(259)	(137)
	<u>22,475</u>	<u>21,522</u>
Under provided in prior years	80	2,141
Income tax expense on profit before tax	<u>22,555</u>	<u>23,663</u>

Cochlear Limited and its Controlled Entities
Condensed notes to the consolidated interim financial statements

For the six months ended 31 December 2007

	Americas		Europe		Asia Pacific		Eliminations		Consolidated	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
7. Segment reporting										
Revenue										
Revenue outside the Consolidated Entity	118,897	124,775	122,340	103,661	42,939	42,227	-	-	284,176	270,663
Inter-segment sales revenue	-	-	-	-	221,643	174,216	(221,643)	(174,216)	-	-
Total segment revenue	118,897	124,775	122,340	103,661	264,582	216,443	(221,643)	(174,216)	284,176	270,663
Foreign exchange gains on hedged sales									13,796	5,449
Total revenue									297,972	276,112
Segment result	33,368	41,155	39,227	33,398	9,488	10,958	-	-	82,083	85,511
Unallocated net expenses									(2,109)	(9,528)
Net financing expenses									(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

Secondary reporting

The Consolidated Entity operates in a single business segment, being the implantable hearing device industry.

Cochlear Limited and its Controlled Entities
Condensed notes to the consolidated interim financial statements

For the six months ended 31 December 2007

8. Options and performance shares

The Company has granted options and performance shares to certain employees and key management personnel under the Cochlear Executive Long Term Incentive Plan (CELTIP). The terms and conditions of the plan are disclosed in the Consolidated Annual Financial Report as at and for the year ended 30 June 2007. In August 2007 a further grant on similar terms was made to certain employees and key management personnel.

Details of the grant made in the current period are set out below.

	Exercise price per option	Exercise period	Number of options	Number of performance shares
Options & performance shares issued in August 2007	\$63.18	Aug 2010 -12	411,089	21,337

Fair value of options and performance shares and assumptions for the six months ended 31 December 2007:

	Share Options	Performance Shares
Fair value at grant date	\$12.41	\$45.49
Share price at grant date	\$64.50	\$64.50
Exercise price	\$63.18	-
Expected volatility	27%	27%
Expected dividend yield	1.7%	1.7%
Risk free interest rate	6.135%	6.135%

The basis for measuring fair value is consistent with that disclosed in the Consolidated Annual Financial Report as at and for the year ended 30 June 2007.

Cochlear Limited and its Controlled Entities
Condensed notes to the consolidated interim financial statements

For the six months ended 31 December 2007

9. Capital and reserves

Reconciliation of movement in capital and reserves attributable to equity holders of the parent

Consolidated A\$000s	Issued capital	Treasury reserve	Translation reserve	General reserve	Hedging reserve	Retained earnings	Total	Minority interest	Total equity
Balance as at 1 July 2006	68,034	(1,371)	(662)	76	3,596	137,864	207,537	2,241	209,778
Total recognised income and expense	-	-	627	(112)	5,897	48,798	55,210	(2,050)	53,160
Shares issued	3,335	-	-	-	-	-	3,335	-	3,335
Equity settled transactions	-	-	-	-	-	2,184	2,184	-	2,184
Dividends to shareholders	-	-	-	-	-	(30,175)	(30,175)	-	(30,175)
Balance at 31 December 2006	71,369	(1,371)	(35)	(36)	9,493	158,671	238,091	191	238,282
Balance as at 1 July 2007	71,369	(1,371)	(6,108)	236	15,456	181,227	260,809	-	260,809
Total recognised income and expense	-	-	(897)	44	(6,312)	57,113	49,948	-	49,948
Shares issued	12,973	-	-	-	-	-	12,973	-	12,973
Equity settled transactions	-	-	-	-	-	2,824	2,824	-	2,824
Dividends to shareholders	-	-	-	-	-	(38,916)	(38,916)	-	(38,916)
Balance at 31 December 2007	84,342	(1,371)	(7,005)	280	9,144	202,248	287,638	-	287,638

Cochlear Limited and its Controlled Entities
Condensed notes to the consolidated interim financial statements

For the six months ended 31 December 2007

10. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the six months ended 31 December 2007 was based on net profit attributable to equity holders of the parent of \$57,113,000 (six months ended 31 December 2006: \$48,798,000) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2007 of 55,283,469 (six months ended 31 December 2006: 54,713,600) calculated as follows:

	31 December 2007	31 December 2006
Net profit attributable to equity holders of the parent	<u>\$57,113,000</u>	<u>\$48,798,000</u>
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 July	54,769,632	54,636,995
Effect of shares issued during the period	<u>513,837</u>	<u>76,605</u>
Weighted average number of ordinary shares	<u>55,283,469</u>	<u>54,713,600</u>

Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 31 December 2007 was based on net profit attributable to equity holders of the parent of \$57,113,000 (six months ended 31 December 2006: \$48,798,000) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2007 of 55,663,816 (six months ended 31 December 2006: 55,444,411) calculated as follows:

Net profit attributable to equity holders of the parent	<u>\$57,113,000</u>	<u>\$48,798,000</u>
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic)	55,283,469	54,713,600
Effect of options and performance shares	<u>380,347</u>	<u>730,811</u>
Weighted average number of ordinary shares (diluted)	<u>55,663,816</u>	<u>55,444,411</u>

Cochlear Limited and its Controlled Entities
Condensed notes to the consolidated interim financial statements

For the six months ended 31 December 2007

11. Dividends

Dividends recognised in the current financial period by Cochlear Limited are:

	Cents per share	Total amount \$'000	Franked/ unfranked	Date of payment
31 December 2007				
Final - ordinary	70.0	38,916	Franked	27 September 2007
31 December 2006				
Final - ordinary	55.0	30,175	Franked	21 September 2006

Franked dividends declared or paid during the financial year were fully franked at a tax rate of 30%.

Subsequent events

Since the end of the reporting period, the directors declared the following dividend:

	Cents per share	Total amount \$'000	Franked/ unfranked	Date of payment
Interim – ordinary	70.0	38,936	Franked	18 March 2008

The financial effect of these dividends has not been brought to account in the Consolidated Interim Financial Report for the six months ended 31 December 2007 and will be recognised in subsequent financial statements.

Dividend franking account

	Company	
	31 December 2007	31 December 2006
	\$'000	\$'000
30% franking credits available to shareholders of Cochlear Limited for subsequent financial periods	15,713	18,796

Cochlear Limited and its Controlled Entities
Condensed notes to the consolidated interim financial statements

For the six months ended 31 December 2007

12. Contingent liabilities

The detail and estimated maximum amounts of contingent liabilities are set out below. The directors are of the opinion that provisions are either adequate or are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required, or the amount is not capable of reliable measurement.

Office of Inspector General inquiry

In March 2004, the Company was informed by the US Department of Justice (DOJ) that Cochlear Americas, a wholly-owned subsidiary, is subject to an inquiry under federal healthcare laws in the US that deal with the Medicare and Medicaid programs, including some with potential criminal and civil sanctions.

The inquiry has since been transferred to the Office of Inspector General (OIG) for administrative processing.

Discussions with the OIG are ongoing. The Company is cooperating fully with the inquiry and has engaged a nationally recognised law firm with specialised expertise in US healthcare law.

In prior years, the Company has recorded a provision in respect of estimated costs of responding to the investigation.

Based on the information available at the date of this report, the financial impact of those costs of responding to the investigation has been adequately provided for in the financial statements.

In the directors' opinion, disclosure of any further information of the above matter would be prejudicial to the interests of the Company.

Litigation

From time to time, the Company is or may be a party to, or may be otherwise responsible for, pending or threatened lawsuits related primarily to products and services it currently or formerly manufactured or performed. Based on the information available at the date of this report, the financial impact of costs of responding to any current lawsuits or claims has been adequately provided for in the financial statements.

13. Events subsequent to reporting date

Other than reported below, there has not arisen in the interval between the reporting date and the date of this financial report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

Dividends

For dividends declared after 31 December 2007, see Note 11.

Directors' Declaration

In the opinion of the directors of Cochlear Limited:

1. The financial statements and notes set out on pages 9 to 21 are in accordance with the Corporations Act 2001, including:
 - a. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2007, and of its performance, for the six month period ended on that date; and
 - b. complying with Australian Accounting Standards AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 12th day of February 2008.

Signed in accordance with a resolution of the directors:



Tommie CE Bergman

Director



Dr Chris G Roberts

Director



Independent auditor's review report to the members of Cochlear Limited

Report on the financial report

We have reviewed the accompanying interim financial report of Cochlear Limited, which comprises the consolidated interim balance sheet as at 31 December 2007, and the consolidated interim income statement, consolidated interim statement of recognised income and expense and consolidated interim statement of cash flows for the interim period ended on that date, a statement of accounting policies and other explanatory notes 1 to 13 and the directors' declaration set out on page 22 of the consolidated entity comprising the company and the entities it controlled at the interim period's end or from time to time during the interim period.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the interim period financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the interim period financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the interim period financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim period financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's position as at 31 December 2007 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Cochlear Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a interim period financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim period financial report of Cochlear Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

KPMG

KPMG

Kevin Leighton
Partner

Sydney

12 February 2008