

Appendix 4D

Cochlear Limited Half Yearly Report As at 31 December 2008

Results for announcement to the market

| | | Movement | | \$A000 |
|---|------|----------|----|---------|
| Revenue | up | 19% | to | 355,227 |
| Earnings before interest and taxes (EBIT) | up | 19% | to | 100,464 |
| Profit from ordinary activities after tax attributable to members | up | 22% | to | 69,936 |
| Net profit for the period attributable to members | up | 22% | to | 69,936 |
| Core earnings* | up | 20% | to | 74,378 |
| Basic EPS (cents) | up | 22% | to | 125.5 |
| Core basic EPS (cents)* | up | 19% | to | 133.4 |
| Dividend (cents) | up | 14% | to | 80.0 |
| | | | | |
| Net tangible assets per share at 31 December 2008 (cents) | down | 22% | to | 106.1 |
| Net tangible assets per share at 31 December 2007 (cents) | | | | 135.6 |

*Core earnings is defined as profit after tax attributable to members assuming all research and development costs are 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) | 80.0c | 80.0c |
| Previous corresponding period (cents) | 70.0c | 70.0c |
| Record date for determining entitlements to the dividend | | 27 February 2009 |
| Dividend payment date | | 17 March 2009 |
| 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 2008

Cochlear Limited and its controlled entities

Directors' Report

For the six months ended 31 December 2008

The directors present their report, together with the consolidated interim financial report for Cochlear Limited (the Company) and its controlled entities for the six months ended 31 December 2008, and the auditors' review report thereon.

Directors

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

| Name | Period of directorship |
|--|------------------------------|
| <i>Non-executive directors</i> | |
| Mr Tommie CE Bergman, <i>Chairman</i> | Director since January 2002 |
| Mr Paul Bell | Director since August 2005 |
| Professor Edward Byrne, AO | Director since July 2002 |
| Mr Andrew Denver | Director since February 2007 |
| Mr Rick Holliday-Smith | Director since March 2005 |
| Mr Donal O'Dwyer | Director since August 2005 |
| <i>Executive director</i> | |
| Dr Chris Roberts, <i>CEO/President</i> | Director since February 2004 |

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 2008 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:

| | 2008 \$000 | 2007 \$000 |
|---|---------------|---------------|
| Revenue | 355,227 | 297,972 |
| Earnings before interest and taxes (EBIT) | 100,464 | 84,701 |
| Profit before tax | 95,951 | 79,668 |
| Net profit attributable to members | 69,936 | 57,113 |
| Core earnings* | 74,378 | 61,919 |
| Basic earnings per share (cents) | 125.5 | 103.3 |
| Core basic earnings per share (cents) | 133.4 | 112.0 |
| Diluted earnings per share (cents) | 125.0 | 102.6 |
| Dividend per share (cents) | 80.0 | 70.0 |

***Core earnings** is defined as profit after tax attributable to members assuming all research and development costs are 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).

Cochlear Limited and its controlled entities

Directors' Report

For the six months ended 31 December 2008

Financial Performance

- 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. Global market share remains around 70%. Cochlear implant sales revenue grew 22%, to \$301.1 million for the half year.
- 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.
- Ongoing investment into R&D continued, with Cochlear investing \$45.5 million for the half, an increase of 14% from the previous corresponding period representing 12.8% of revenue.
- There were no impairment or asset write-downs during the period.

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.

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.

**Cochlear Limited and its controlled entities
Directors' Report
For the six months ended 31 December 2008**

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 80 cents per share, franked to 100% with Class C (30%) franking credits, in respect of the year ended 30 June 2008, paid on 25 September 2008. | <u>44,682</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 2008. Since the end of the financial half-year, the directors declared an interim dividend of 80.0 cents fully franked at a tax rate of 30% amounting to a total of \$44,781,690.

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

The lead auditor's independence declaration is set out on page 4 and forms part of the Directors' Report for the six months ended 31 December 2008.

Rounding off

The Company 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 Financial Report and Directors' Report have been rounded off to the nearest one thousand dollars, unless otherwise stated.


Dated at Sydney this 10th day of February 2009.

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 2008 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

Kevin Leighton
Partner

Sydney

10 February 2009

Cochlear Limited and its controlled entities
Consolidated interim income statement
For the six months ended 31 December 2008

| | Note | 31 Dec 2008 \$000 | 31 Dec 2007 \$000 |
|--|------|----------------------|----------------------|
| Revenue | 5(a) | 355,227 | 297,972 |
| Cost of sales | 5(b) | (106,461) | (84,008) |
| Gross profit | | 248,766 | 213,964 |
| Other income | | 1,161 | 1,150 |
| Selling and general expenses | | (90,107) | (75,488) |
| Administration expenses | | (24,941) | (19,841) |
| Research and development expenses | 5(c) | (45,442) | (39,811) |
| Results from operating activities | | 89,437 | 79,974 |
| Financial income | 5(d) | 15,889 | 5,397 |
| Financial expense | 5(d) | (9,375) | (5,703) |
| Net financing costs | 5(d) | 6,514 | (306) |
| Profit before tax | | 95,951 | 79,668 |
| Income tax expense | 6 | (26,015) | (22,555) |
| Net profit attributable to equity holders of the parent | | 69,936 | 57,113 |
| <hr/> | | | |
| Earnings per share | | | |
| Basic earnings per share (cents) | 10 | 125.5 | 103.3 |
| Diluted earnings per share (cents) | 10 | 125.0 | 102.6 |

The condensed notes on pages 9 to 17 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 2008

| | Note | 31 Dec 2008 \$000 | 31 Dec 2007 \$000 |
|---|------|----------------------|----------------------|
| Foreign currency translation differences | | 12,831 | (897) |
| Movement in general reserves | | - | 44 |
| Cash flow hedges: | | | |
| Effective portion of changes in fair value | | (86,389) | 3,345 |
| Gains transferred to the income statement | | (5,799) | (9,657) |
| Net expense recognised directly in equity | | (79,357) | (7,165) |
| Net profit | | 69,936 | 57,113 |
| Total recognised income and expense for the period | | (9,421) | 49,948 |
| Attributable to: | | | |
| Equity holders of the parent | | (9,421) | 49,948 |
| Total recognised income and expense for the period | | (9,421) | 49,948 |

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 9 to 17 are an integral part of these consolidated interim financial statements.

Cochlear Limited and its controlled entities
Consolidated interim balance sheet
As at 31 December 2008

| | Note | 31 Dec 2008 \$000 | 30 Jun 2008 \$000 |
|--------------------------------------|------|----------------------|----------------------|
| Current assets | | | |
| Cash and cash equivalents | | 62,860 | 36,687 |
| Trade and other receivables | | 209,573 | 173,266 |
| Inventories | | 96,190 | 99,169 |
| Current tax assets | | 5,781 | 4,157 |
| Other | | 7,419 | 8,817 |
| Total current assets | | 381,823 | 322,096 |
| Non-current assets | | | |
| Trade and other receivables | | 619 | 15,963 |
| Property, plant and equipment | | 46,059 | 43,219 |
| Intangible assets | | 222,074 | 208,959 |
| Deferred tax assets | | 70,320 | 17,679 |
| Total non-current assets | | 339,072 | 285,820 |
| Total assets | | 720,895 | 607,916 |
| Current liabilities | | | |
| Trade and other payables | | 124,760 | 60,830 |
| Loans and borrowings | | 16,783 | 15,438 |
| Current tax liabilities | | 18,297 | 2,803 |
| Provisions | | 32,648 | 31,516 |
| Other | | 16,218 | 14,358 |
| Total current liabilities | | 208,706 | 124,945 |
| Non-current liabilities | | | |
| Other payables | | 38,552 | - |
| Loans and borrowings | | 180,443 | 154,545 |
| Provisions | | 10,825 | 8,633 |
| Deferred tax liabilities | | 860 | 452 |
| Total non-current liabilities | | 230,680 | 163,630 |
| Total liabilities | | 439,386 | 288,575 |
| Net assets | | 281,509 | 319,341 |
| Equity | | | |
| Share capital | 9 | 96,114 | 82,972 |
| Reserves | 9 | (66,322) | 13,035 |
| Retained earnings | 9 | 251,717 | 223,334 |
| Total equity | | 281,509 | 319,341 |

The condensed notes on pages 9 to 17 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 2008

| | 31 Dec 2008 | 31 Dec 2007 |
|--|-----------------|-----------------|
| | \$000 | \$000 |
| Cash flows from operating activities | | |
| Cash receipts from customers | 362,286 | 264,877 |
| Cash payments to suppliers and employees | (277,359) | (201,226) |
| Grant and other income received | 1,030 | 1,028 |
| Interest received | 825 | 754 |
| Interest paid | (5,393) | (5,365) |
| Income taxes paid | (23,979) | (30,030) |
| Net cash provided by operating activities | 57,410 | 30,038 |
| Cash flows from investing activities | | |
| Payment for property, plant and equipment | (8,013) | (7,880) |
| Payment for enterprise resource planning system | (2,104) | (6,952) |
| Payments for license of intellectual property | - | (1,500) |
| Payment for acquisition of manufacturing business | - | (9,286) |
| Net cash used in investing activities | (10,117) | (25,618) |
| Cash flows from financing activities | | |
| Repayment of borrowings | (54,000) | (33,743) |
| Proceeds from borrowings | 60,424 | 31,083 |
| Proceeds from issue of shares | 14,413 | 12,973 |
| Contributions to executive share plan | (2,930) | - |
| Dividends paid | (44,682) | (38,916) |
| Net cash used in financing activities | (26,775) | (28,603) |
| Net increase / (decrease) in cash and cash equivalents | 20,518 | (24,183) |
| Cash and cash equivalents at 1 July | 36,687 | 81,737 |
| Effects of exchange fluctuation on the balances of cash held in foreign currencies | 5,655 | 1,485 |
| Cash and cash equivalents at 31 December | 62,860 | 59,039 |

There is no overdraft facility included within cash and cash equivalents for 31 December 2008 (H1 F08: \$3,009,000).

The condensed notes on pages 9 to 17 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 2008

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 2008 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 2008 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 2008. This report should also be read in conjunction with any public announcements made by Cochlear Limited during the six months ended 31 December 2008 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 10th February 2009.

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 2008.

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 2008.

Cochlear Limited and its controlled entities
Condensed notes to the consolidated interim financial statements
For the six months ended 31 December 2008

| | 31 Dec 08 | 31 Dec 07 |
|--|----------------|----------------|
| | \$000 | \$000 |
| 5. Revenue and expenses | | |
| (a) Revenue | | |
| Sale of goods revenue before hedging | 345,333 | 282,412 |
| Foreign exchange gains on hedged sales | 8,284 | 13,796 |
| Revenue from the sale of goods | 353,617 | 296,208 |
| Rendering of services revenue | 1,610 | 1,764 |
| Total revenue | 355,227 | 297,972 |
| (b) Expenses | | |
| Cost of sales | | |
| Carrying amount of inventories recognised as an expense | 102,277 | 82,432 |
| Other | 584 | 894 |
| Write down in value of inventories | 3,600 | 682 |
| Total cost of sales | 106,461 | 84,008 |
| (c) Research and Development expenses | | |
| Research and development expenditure | 45,350 | 38,990 |
| Capitalised development expenditure – amortisation expense | 92 | 821 |
| Total Research and Development expenses | 45,442 | 39,811 |
| (d) Net financing costs | | |
| Interest income | 880 | 670 |
| Net foreign exchange gain | 15,009 | 4,727 |
| Financial income | 15,889 | 5,397 |
| Interest expense | (5,393) | (5,703) |
| Net foreign exchange loss | (3,982) | - |
| Financial expense | (9,375) | (5,703) |
| Net financing income/(costs) | 6,514 | (306) |

Cochlear Limited and its controlled entities
Condensed notes to the consolidated interim financial statements
For the six months ended 31 December 2008

| | 31 Dec 08 | 31 Dec 07 |
|--|---------------|---------------|
| | \$000 | \$000 |
| 6. Income tax expense | | |
| Recognised in the income statement | | |
| Current tax expense | | |
| Current year | 29,996 | 23,972 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | (3,981) | (1,417) |
| Total income tax expense in income statement | 26,015 | 22,555 |
| Numerical reconciliation between income tax expense and profit before tax | | |
| Profit before tax | 95,951 | 79,668 |
| Income tax expense using the domestic corporation tax rate of 30% (2007: 30%) | 28,785 | 23,900 |
| Increase in income tax expense due to: | | |
| Effect of tax rate in foreign jurisdictions | 229 | 1,156 |
| Equity settled transactions | 345 | 622 |
| Non-deductible expenses | 783 | 1,228 |
| Decrease in income tax expense due to: | | |
| Research and development allowance | (2,545) | (1,397) |
| Impact of share based payments | (1,243) | (2,695) |
| Non-assessable income | (339) | (259) |
| Income tax expense on profit before tax | 26,015 | 22,555 |

Cochlear Limited and its controlled entities
Condensed notes to the consolidated interim financial statements
For the six months ended 31 December 2008

7. Segment reporting

| | America s | Europe | Asia Pacific | Eliminations | Consolidate d |
|--|----------------------|---------------|-------------------------|---------------------|--------------------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| Six months ended 31 December 2007 | | | | | |
| Revenue | | | | | |
| Revenue outside the Consolidated Entity | 118,897 | 122,340 | 42,939 | - | 284,176 |
| Inter-segment sales revenue | - | - | 221,643 | (221,643) | - |
| Total segment revenue | 118,897 | 122,340 | 264,582 | (221,643) | 284,176 |
| Foreign exchange gains on hedged sales | | | | | 13,796 |
| Total revenue | | | | | 297,972 |
| Segment result | 33,368 | 39,227 | 9,488 | - | 82,083 |
| Unallocated net expenses | | | | | (2,109) |
| Net financing expenses | | | | | (306) |
| Profit before tax | | | | | 79,668 |
| Income tax expense | | | | | (22,555) |
| Net profit | | | | | 57,113 |
| Six months ended 31 December 2008 | | | | | |
| Revenue | | | | | |
| Revenue outside the Consolidated Entity | 148,555 | 153,053 | 45,335 | - | 346,943 |
| Inter-segment sales revenue | - | - | 259,578 | (259,578) | - |
| Total segment revenue | 148,555 | 153,053 | 304,913 | (259,578) | 346,943 |
| Foreign exchange gains on hedged sales | | | | | 8,284 |
| Total revenue | | | | | 355,227 |
| Segment result | 46,110 | 48,658 | 8,593 | - | 103,361 |
| Unallocated net expenses | | | | | (13,924) |
| Net financing income | | | | | 6,514 |
| Profit before tax | | | | | 95,951 |
| Income tax expense | | | | | (26,015) |
| Net profit | | | | | 69,936 |

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 2008

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 2008. In August 2008 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 2008 | \$49.91 | Aug 2011 -13 | 712,331 | 23,082 |

Fair value of options and performance shares and assumptions for the six months ended 31 December 2008:

| | Share Options | Performance Shares |
|---------------------------|--------------------------|-------------------------------|
| Fair value at grant date | \$5.22 | \$22.47 |
| Share price at grant date | \$50.10 | \$50.10 |
| Exercise price | \$49.91 | - |
| Expected volatility | 27% | 27% |
| Expected dividend yield | 3.14% | 3.14% |
| Risk free interest rate | 5.68% | 5.68% |

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 2008.

Cochlear Limited and its controlled entities
Condensed notes to the consolidated interim financial statements
For the six months ended 31 December 2008

9. Capital and reserves

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

| | Issued capital | Treasury reserve | Translation reserve | General reserve | Hedging reserve | Retained earnings | Total equity |
|--|-------------------|---------------------|------------------------|--------------------|--------------------|----------------------|-----------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Balance as at 1 July 2007 | 71,369 | (1,371) | (6,108) | 236 | 15,456 | 181,227 | 260,809 |
| Total recognised income and expense | - | - | (897) | 44 | (6,312) | 57,113 | 49,948 |
| Shares issued | 12,973 | - | - | - | - | - | 12,973 |
| Equity settled transactions | - | - | - | - | - | 2,824 | 2,824 |
| Dividends to shareholders | - | - | - | - | - | (38,916) | (38,916) |
| Balance at 31 December 2007 | 84,342 | (1,371) | (7,005) | 280 | 9,144 | 202,248 | 287,638 |
| Balance as at 1 July 2008 | 85,064 | (2,092) | (10,130) | - | 23,165 | 223,334 | 319,341 |
| Total recognised income and expense | - | - | 12,831 | - | (92,188) | 69,936 | (9,421) |
| Shares issued | 14,413 | - | - | - | - | - | 14,413 |
| Equity settled transactions | (1,371) | 100 | - | - | - | 3,129 | 1,858 |
| Dividends to shareholders | - | - | - | - | - | (44,682) | (44,682) |
| Balance at 31 December 2008 | 98,106 | (1,992) | 2,701 | - | (69,023) | 251,717 | 281,509 |

Cochlear Limited and its controlled entities
Condensed notes to the consolidated interim financial statements
For the six months ended 31 December 2008

10. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the six months ended 31 December 2008 was based on net profit attributable to equity holders of the parent and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2008 calculated as follows:

| | 31 Dec 2008 | 31 Dec 2007 |
|---|--------------------|--------------------|
| Net profit attributable to equity holders of the parent | \$69,936,000 | \$57,113,000 |
| Weighted average number of ordinary shares: | | |
| Issued ordinary shares at 1 July (number) | 55,524,746 | 54,769,632 |
| Effect of shares issued during the period (number) | <u>218,467</u> | <u>513,837</u> |
| Weighted average number of ordinary shares | 55,743,213 | 55,283,469 |
| | | |
| Basic earnings per share (cents) | 125.5 | 103.3 |

Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 31 December 2008 was based on net profit attributable to equity holders of the parent and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2008 calculated as follows:

| | | |
|--|----------------|----------------|
| Net profit attributable to equity holders of the parent | \$69,936,000 | \$57,113,000 |
| Weighted average number of ordinary shares (diluted): | | |
| Weighted average number of shares (basic) | 55,743,213 | 55,283,469 |
| Effect of options and performance shares | <u>223,057</u> | <u>380,347</u> |
| Weighted average number of ordinary shares (diluted) | 55,966,270 | 55,663,816 |
| | | |
| Diluted earnings per share (cents) | 125.0 | 102.6 |

Cochlear Limited and its controlled entities
Condensed notes to the consolidated interim financial statements
For the six months ended 31 December 2008

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 2008 | | | | |
| Final - ordinary | 80.0 | 44,682 | Franked | 25 September 2008 |
| 31 December 2007 | | | | |
| Final - ordinary | 70.0 | 38,916 | Franked | 27 September 2007 |

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 | 80.0 | 44,782 | Franked | 17 March 2009 |

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 2008 and will be recognised in subsequent financial statements.

Dividend franking account

| | Company | |
|---|-------------|-------------|
| | 31 Dec 2008 | 31 Dec 2007 |
| | \$000 | \$000 |
| 30% franking credits available to shareholders of Cochlear Limited for subsequent financial periods | 16,015 | 15,713 |

Cochlear Limited and its controlled entities
Condensed notes to the consolidated interim financial statements
For the six months ended 31 December 2008

12. Contingent liabilities

The details 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.

Patent infringement complaint

During the year ended 30 June 2008 the Company was served with a complaint for patent infringement by the Alfred E. Mann Foundation for Scientific Research (Mann Foundation). The complaint, filed in a US District Court of California, alleges that one of six identified patents has been infringed, specifically United States Patent No 5,609,616 entitled Physician's Testing System and Method for Testing Implantable Cochlear Stimulator, issued 11 March 1997.

The Company believes that the Mann Foundation's allegations of infringement are without merit and intends to vigorously defend against the complaint. As at the date of this report, the litigation is progressing toward a trial sometime in the financial year ended 30 June 2010. Based upon the information available, the financial impacts of the cost of defending the complaint have been 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.

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 2008, see Note 11.

Cochlear Limited and its controlled entities
For the six months ended 31 December 2008

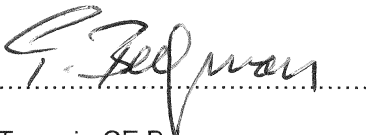
Directors' Declaration

In the opinion of the directors of Cochlear Limited:

1. The financial statements and notes set out on pages 9 to 17 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 2008, 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 10th day of February 2009.

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 2008, income statement, statement of recognised income and expense and cash flow statement 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 18 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 interim financial report

The directors of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the interim 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 financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2008 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 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.



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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 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 2008 and of its performance for the interim period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Kevin Leighton
Partner

Sydney

10 February 2009