

Cochlear – Overview

- Medical device company (~25yr): global leader in implantable devices for the hearing impaired:
 - Leading global position (~70% share) in cochlear implants (bionic ear) for sensorineural hearing loss
 - Bone anchored hearing implants (Baha) for conductive hearing loss and single sided deafness
- Global footprint with focus on technologic innovation
 - 1500 people & direct operations in 20 countries
 - Products sold in 90+ countries
 - ~ 12% of sales spent on R&D
- Huge unmet clinical need coupled with pipeline of products and opportunities

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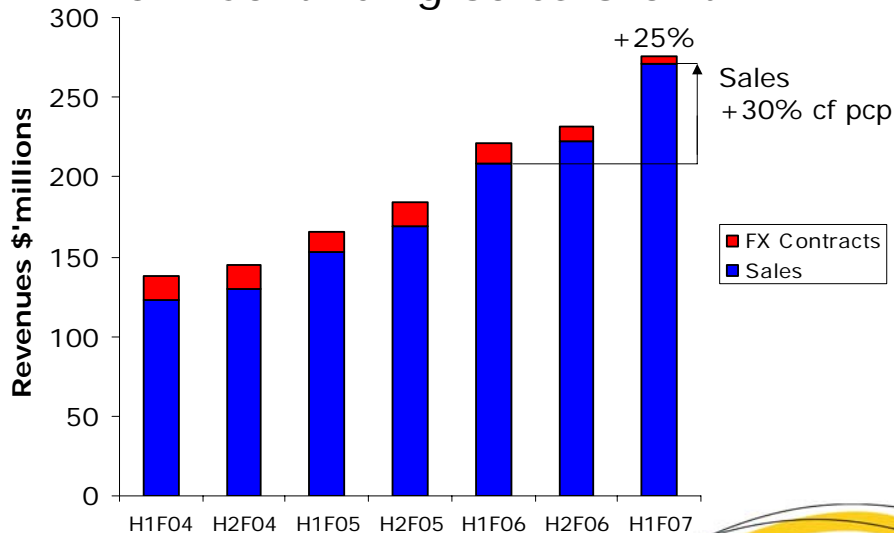
Record Financial Results for H1 F07

	H1 F07	H1 F06	
	\$ millions	\$ millions	+ / (-)%
Cochlear implants	240.3	184.1	↑ 31%
Bone Anchored (Baha)	30.4	24.6	↑ 24%
FX Contracts	5.4	12.4	↓ 56%
Revenue	276.1	221.1	↑ 25%
EBIT	73.6	63.0	↑ 17%
Net Profit After Tax	48.8	43.8	↑ 12%
Core Earnings*	52.8	47.3	↑ 12%
Core Earnings per share	96.5 cps	86.9 cps	↑ 11%

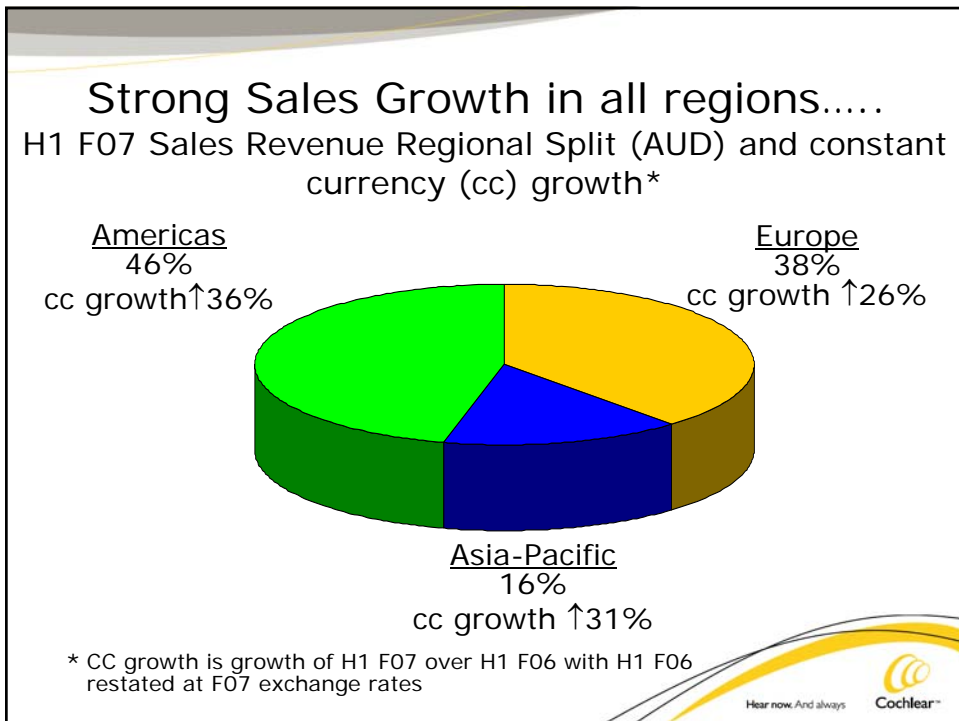
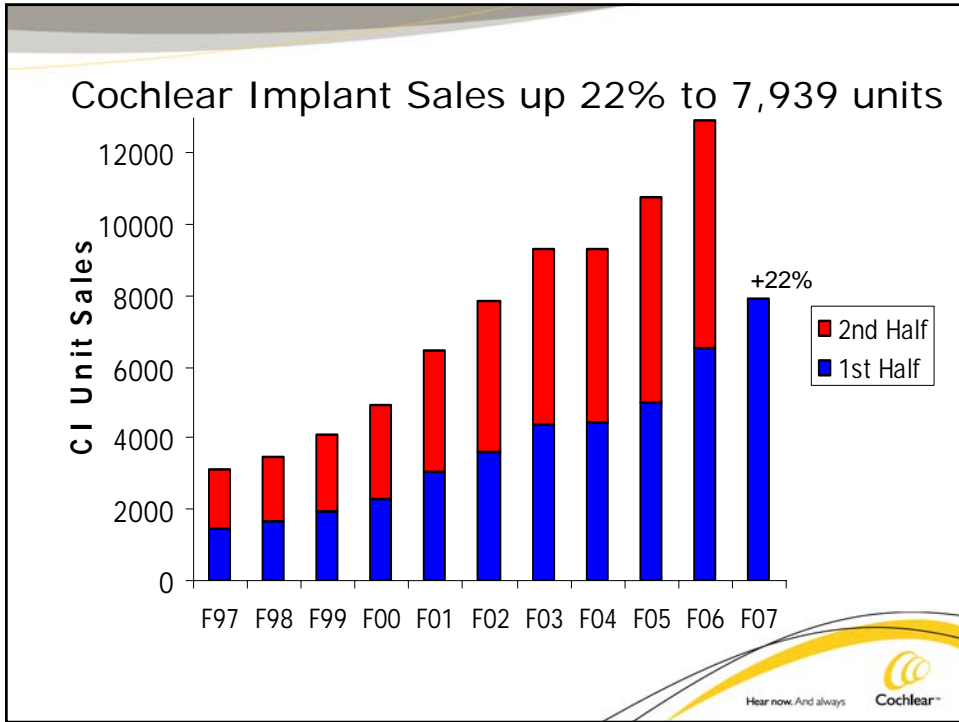
* Core Earnings assumes all R&D is expensed and excludes both amortisation of acquired intangibles and share based compensation expenses

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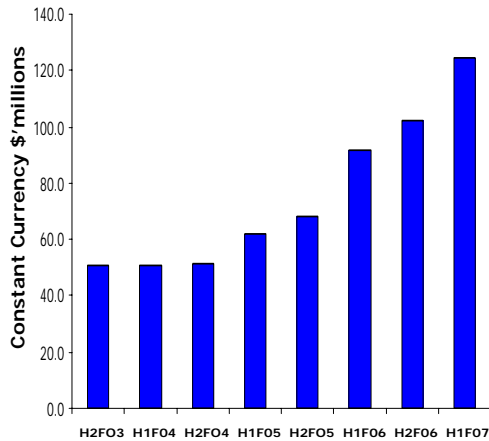
H1 F07: Continuing Sales Growth



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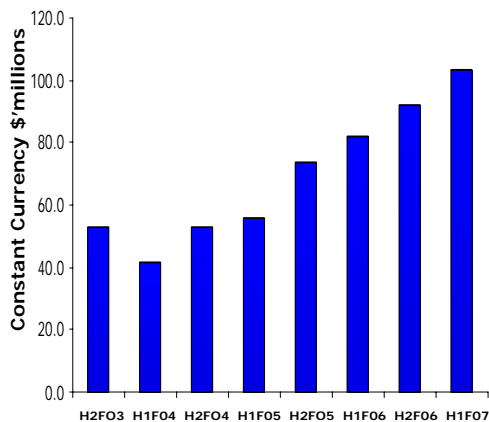
Americas: Half Year Sales in Constant Currency (at F07 FX Rates)



Americas sales ↑ 36% (cc) from continuing impact of:

- Nucleus® Freedom™ performance
- Freedom™ for N24 roll-out
- Expanded field force
- ↑↑ consumer awareness network
- Upgraded internal capability
- Bilateral sales growing

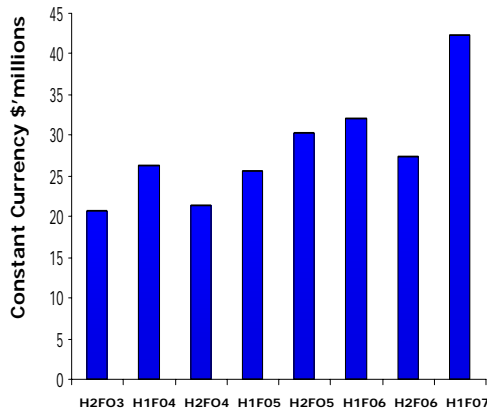
Europe: Half Year Sales in Constant Currency (at F07 FX Rates)



Europe sales ↑ 26% (cc)

- Nucleus® Freedom™ performance
- Freedom™ for N24 roll-out
- Continuing benefit from direct presence in major markets
- New logistics facility in Weybridge UK working well

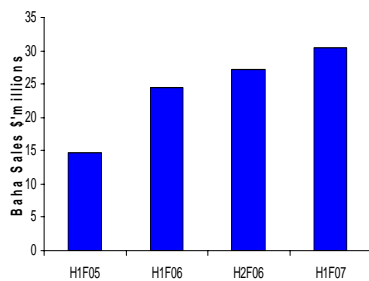
Asia-Pacific: Half Year Sales in Constant Currency (at F07 FX Rates)



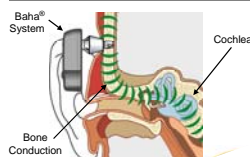
- Asia-Pacific sales ↑ 31% (cc)
- First sales of the China donation, with first surgeries in H2 F07
- ↑ sales in the non-donation market in China
- India continues with high growth rates on the back of excellent clinical outcomes
- Good growth across all of Asia

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Bone Anchored Solutions (Baha) contributing \$30.4 million in sales



Direct Bone Conduction Technology



- Purchased Swedish company Entific Medical Systems in 3/05
- Sales of \$30.4 million ↑ 24%
- Divino ~ 70% of unit sales
- From Jan 1st, 2007 CMS “pass-through” for USA
- Significant R&D & manufacturing investment

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Operating Expenses & EBIT Growth

	H1 F07 \$ millions	growth on PCP %
Total Revenue	\$276.1	25%
Sales (before FX Contracts)	\$270.7	30%
Cost of sales (29.1% of Revenue)	\$80.4	40%
		28% ← Excluding PCP royalty*
Selling General and Administration	\$84.1	12%
Research and development	\$35.6	33%
Operating expenses	\$119.7	17%
EBIT (26.7% of Revenues)	\$73.6	17%
		28% ← Excluding PCP royalty*
Core EBIT (28.2% of Revenues)	\$77.9	17%

* In PCP (H1F06) there was a \$5.7 million (\$4 million after tax) credit for royalties

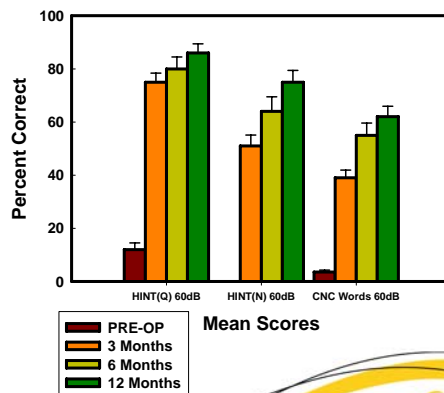


Nucleus® Freedom™ - setting a new benchmark for hearing performance



- Patients hearing better earlier (3 months Freedom™ performance ↑ 6 months on System 3)
- Improvements going out to at least 12 months – input pre-processing (SmartSound™)
- + + hearing in noise & other (eg clarity)
- And..Freedom™ for N24 has been very well accepted

Freedom Clinical Trial N=28

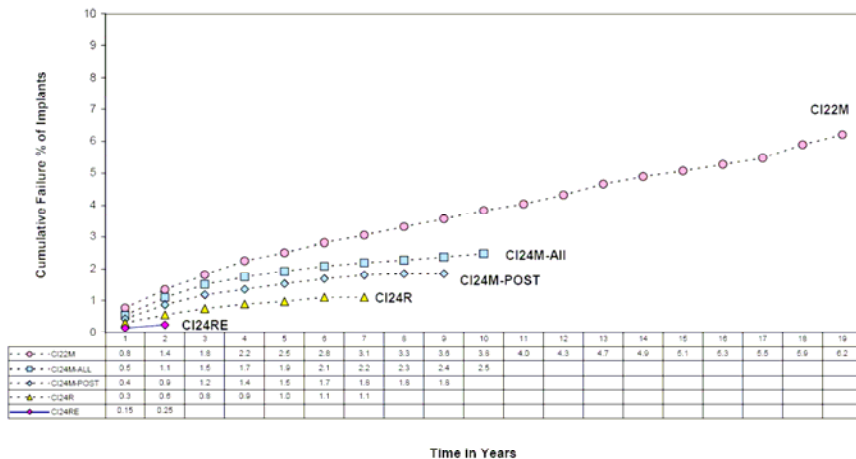


Data Source :
1. North American Freedom Multi-Center Clinical Trial, 2005/06



Adult and Child Cumulative Failure Rates – Dec 06

Cumulative Failure Percentage of Implants COMBINED (ADULT & CHILD)

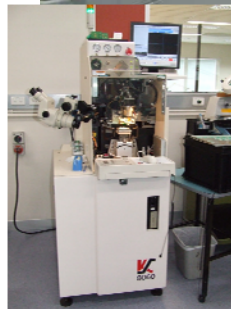
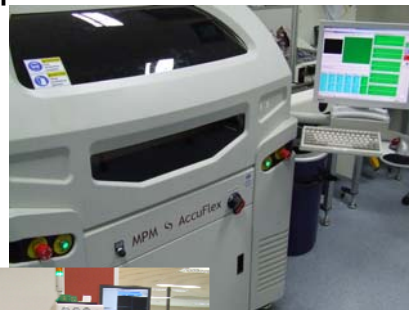


Global Supply Chain Update

- Global supply chain redesign for capacity expansion, flexibility, quality and cost – well underway
- This includes major initiatives in manufacturing around
 - People: ↑ technical leaders, team work, new skills, continuous improvement mindset
 - Lean: Standardisation, fast response, simple error proof assembly, visual displays, Takt time
 - Technology: automation, design for manufacturing, validated stable processes, electronic data capture
- Significant operational improvements in all aspects of supply chain, particularly communication and speed (eg delivery time from Sydney to regions has halved)

Cochlear Brisbane Operations

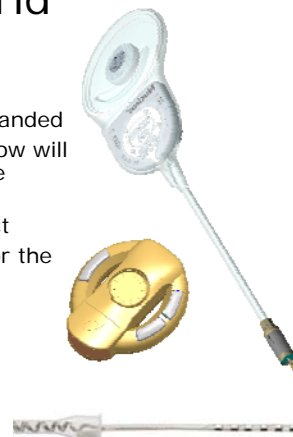
- Acquired from key supplier in Jan 2007
 - 200 people
 - All equipment
 - Leases on buildings
 - ~\$35M annual production value of COH products
- Builds electronics for all speech processors
- Produces most Freedom™ accessories
 - Cable coils, battery holders
 - TV HiFi, PAC
 - Body worn cables
- Builds core competency in externals



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Update on DACS and Hybrid

- Direct Acoustic Cochlear Stimulator (DACS)
 - JV between Phonak and Cochlear will be disbanded
 - Amicable separation, whereby IP and know-how will be shared and both companies can pursue the product independently
 - Cochlear committed to developing this product
 - Clinical trial delayed - independence is best for the long term
- Electro-acoustic stimulation (hybrid)
 - Hybrid S electrode: 90+ patients in USA trial
 - Hearing performance in complex listening situations excellent
 - Hybrid L electrode: expansion of trial from 2 to 10 centres in H1 F07
 - Development of hybrid speech processor



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Cochlear Summary

- Record financial results for H1 F07
 - Revenues \$276.1 million ↑ 25%
 - Core Earnings \$52.8 million ↑ 12%
- Success of Nucleus® Freedom™
 - ↑↑ hearing performance improvements
 - ↑↑ implant reliability
 - Freedom™ for N24 roll-out well received
- Ongoing investments in internal capability including
 - Manufacturing, global supply chain
 - Acquisition of operations from key supplier
- Good mix of short/medium and long term projects



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Financial Results

Neville Mitchell – CFO

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H1 F07 Financial Performance

	H1 F07	H1 F06	+ / (-)%
	\$ millions	\$ millions	
Total Revenue	276.1	221.1	↑ 25%
Reported NPAT	48.8	43.8	↑ 12%
Core Earnings	52.8	47.3	↑ 12%
Dividends			
Interim Dividend	55c	45c	↑ 22%
Record Date 2 March 2007 Payable Date 20 March 2007			
Franking	100%	100%	

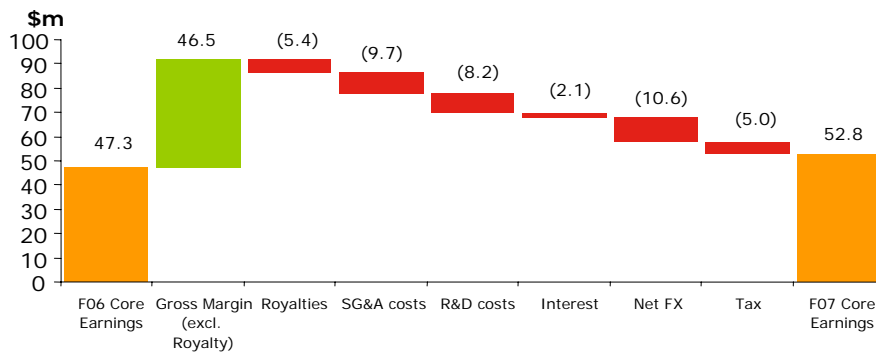


H1 F07 Core Earnings Calculation

	H1 F07	H1 F06
	\$ millions	\$ millions
NPAT	48.8	43.8
Adjustment items (after tax)		
• R&D	0.6	0.7
• Acquired intangible amortisation	1.2	1.1
• Share based compensation	2.2	1.7
Core earnings	52.8	47.3



H1 F06 - F07 Core Earnings Reconciliation in Constant Currency



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H1 F07 Net Financing Expenses

	H1 F07 \$ millions	H1 F06 \$ millions
Net financing expenses/(income)		
Interest (income)	(1.1)	(2.2)
Other net foreign exchange gain	-	<u>(0.8)</u>
Financial (income)	(1.1)	(3.0)
Interest expense	3.8	3.0
Other net foreign exchange loss	<u>2.3</u>	-
Financial expense	6.1	3.0
Net financing expenses	<u>5.0</u>	<u>0.0</u>

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H1 F07 Income Tax Reconciliation

	H1 F07 \$ millions	H1 F06 \$ millions
Profit before tax	70.9	62.1
Income tax expense at 30%	21.3	18.6
Add: Increases in income tax		
Foreign tax rates	0.8	0.6
Amortisation and other	1.1	1.2
Less: Income tax allowances		
R&D allowance	(1.4)	(1.1)
Other	<u>(0.2)</u>	<u>(0.1)</u>
	21.6	19.1
Under provided tax from prior years	<u>2.1</u>	-
Income tax expense	<u>23.7</u>	<u>19.1</u>



Research & Development (R&D) Expense

	H1 F07 \$ millions	H1 F06 \$ millions
R&D Expense (Incl. Minority share)	34.7	25.6
Capitalised Development	(0.4)	(0.1)
Amortised Development	1.3	1.2
	<u>35.6</u>	<u>26.7</u>
Pre-tax minority interest (all R&D)	2.2	1.1
R&D Expense (excl. minority) as % of total revenue	11.8%	11.1%

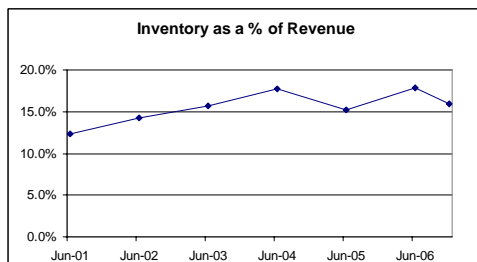
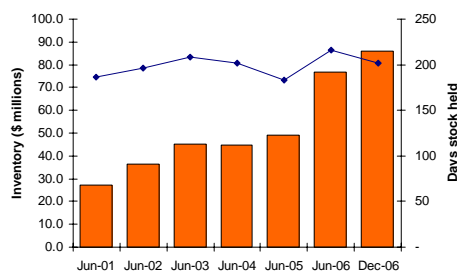


Cash Generated

	H1 F07 \$ millions	H1 F06 \$ millions
Net cash provided by operating activities before changes in assets and liabilities	57.5	51.3
Changes in assets & liabilities		
(Increase) in trade debtors	(16.2)	(29.0)
(Increase) in inventory	(9.1)	(7.2)
(Increase)/decrease in net tax assets	(3.4)	5.1
Other	(10.9)	3.8
	(39.6)	(27.3)
Net cash provided by operating activities	17.9	24.0
Investment and financing activities	(33.7)	(26.4)
Net cash (usage)/increase	(15.8)	(2.4)
Dividends paid	(30.2)	(24.4)

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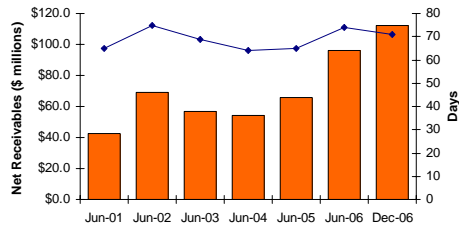
H1 F07 Working Capital Inventory (Days Stock Held)



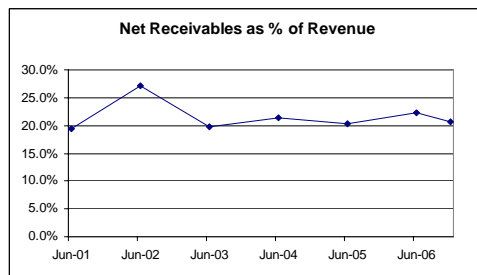
- H1 F07 Inventory at 202 days, \$85.9m
- Inventory up 12% versus sales growth of 30%
- Policy of 8 week finished goods plus strategic stocks

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H1 F07 Working Capital Debtors (Days Outstanding)



- Improvement in debtor days to 71 (F06 74)
- Specific countries, eg. Southern Mediterranean longer



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Thank you... Any questions?



Foreign Exchange

Core Earnings FX – H1 F07 vs F06

	F07 \$ millions
Translation impacts	(3.6)
Transaction impact *	
H1 F06	(12.4)
H1 F07	(5.4)
	(7.0)
Net FX impact for H1 F07	(10.6)

*FX gains on hedged sales



Foreign Exchange

Rates applied F07 vs F06

	H1 F07	H1 F06
Average rates (used for translating P&L)		
USD	0.76	0.76
Euro	0.60	0.63
JPY	90.3	86.5
Contract rates (used to bring FX to Aust)		
USD	0.74	0.68
Euro	0.57	0.56
JPY	65.9	59.0

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Foreign Exchange Rates Going Forward

Average Contract Rates	USD	Euro	JPY	SEK
Weighted average – exchange rates going forward	0.74	0.58	77.9	5.29

- Total mark to market FX gain at 31 December 2006: \$13.8m

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