



Cochlear Limited

Results for the year ended 31 December 2005

Chris Roberts CEO
Neville Mitchell CFO

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Cochlear: Background

- Medical device company (24yr): global leader in implantable solutions for the hearing impaired, including
 - Leading global position (~70% share) in cochlear implants (bionic ear) for sensorineural hearing loss
 - Bone anchored hearing implants (Baha) from 3/05 acquisition of Entific Medical Systems for conductive hearing loss and single sided deafness
- F'06 is the first full year of Nucleus Freedom and Baha
- Cochlear well placed for sustainable growth

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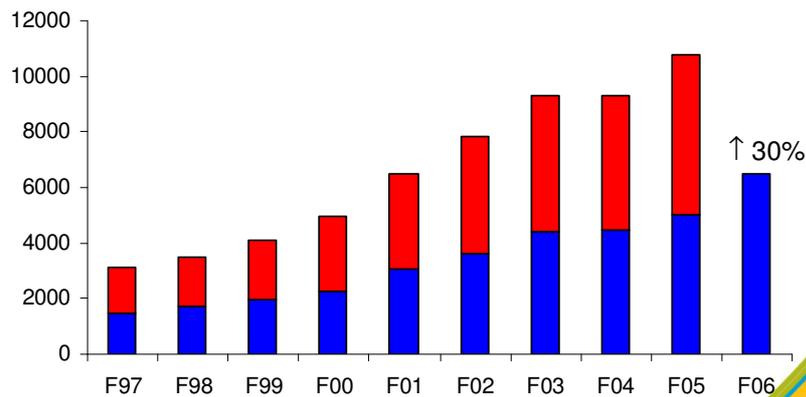
Record Financial Results for H1 F06

- Total Revenues \$221.1 million ↑ 34%
- Sales \$208.7 million ↑ 36%
- Core EBITDA \$72.1 million ↑ 45%
- Core Earnings \$47.3 million ↑ 43%
- Core EPS 86.9 cps ↑ 45%
- Dividend 45 cps ↑ 29%

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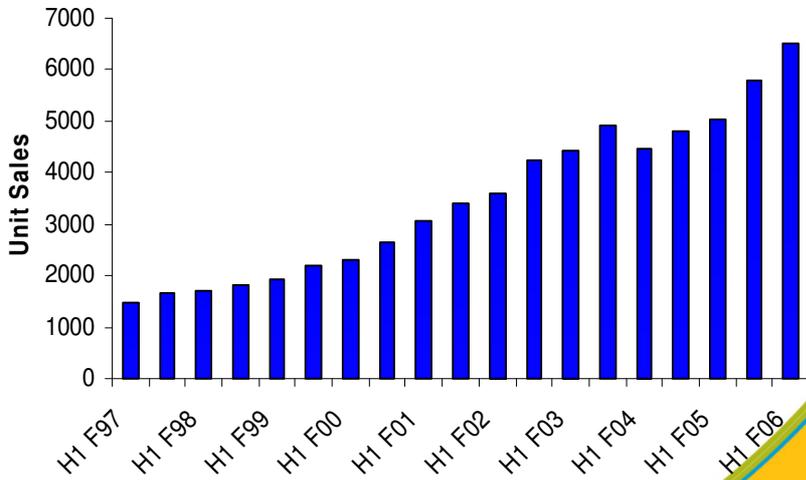
H1 F06 CI Unit Sales of 6,518 units ↑30%



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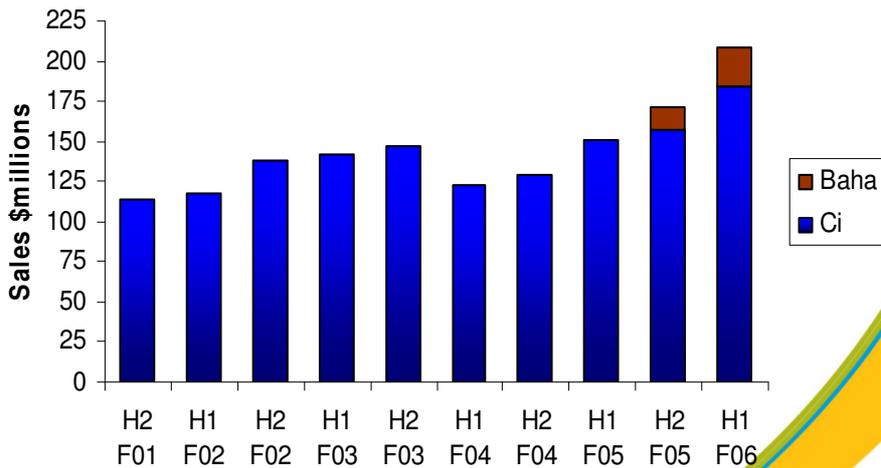
CI Unit Sales: Consecutive Half Years



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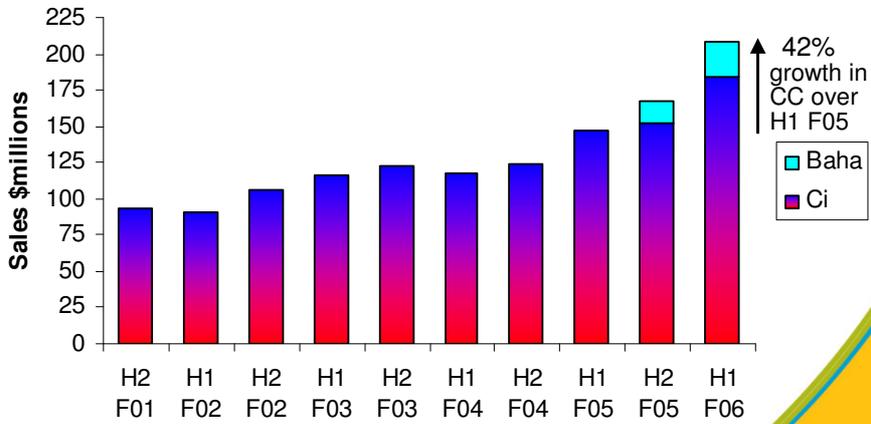
COH: Sales Revenue by Half Years



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Sales by Half Year in Constant Currency*

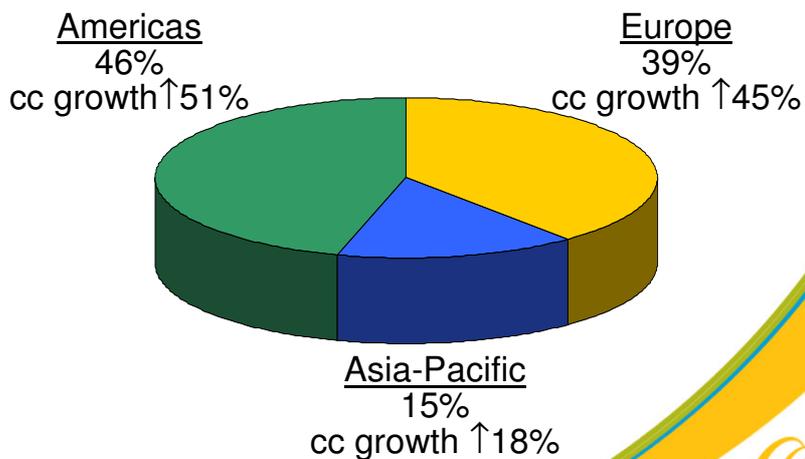


* CC is sales revenues restated at F06 exchange rates

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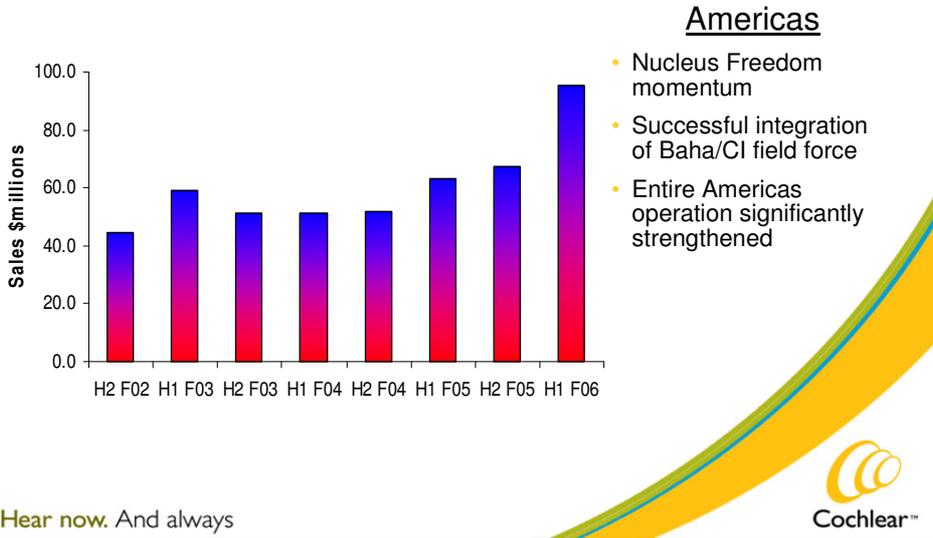
H1 F06 Sales Revenue Regional Split (AUD) and constant currency growth*



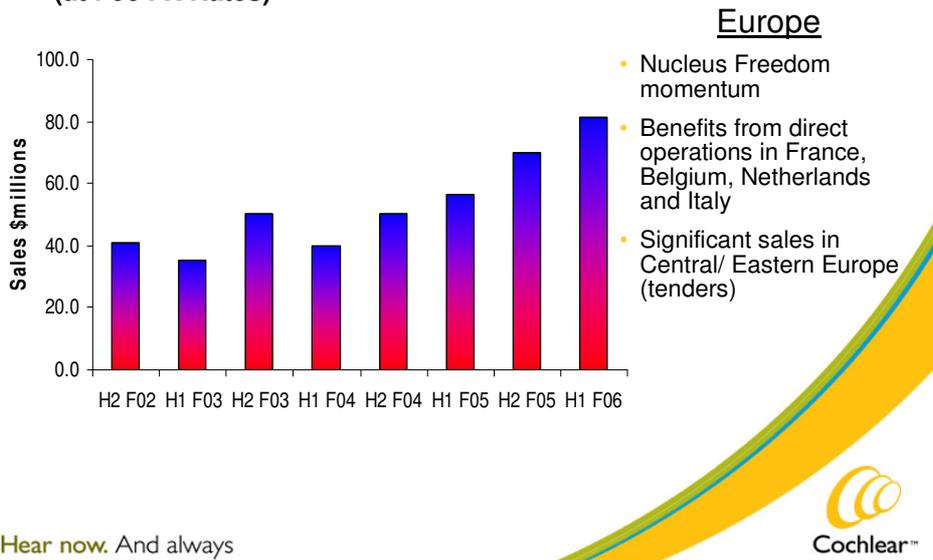
* CC growth is growth of H1 F06 over H1 F05 with H1 F05 restated at F06 exchange rates



Americas: Half Year Sales in Constant Currency (at F06 FX Rates)

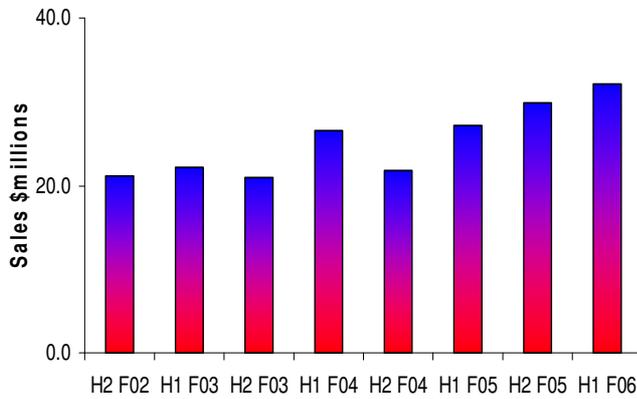


Europe: Half Year Sales in Constant Currency (at F06 FX Rates)



Asia-Pacific: Half Year Sales in Constant Currency

(at F06 FX Rates)



Asia-Pacific

- CI unit sales growth stronger than sales revenue growth - significant installed base sales in pcp
- Nucleus Freedom not yet launched in a number of key countries

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Clinical Outcomes Continue Improving!!

Medical & Surgical Skill



Audiology & Habilitation



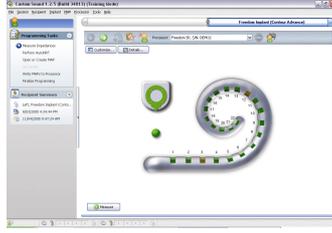
Technology



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Technology Advances in Freedom Implant



- 4th generation ASIC CMOS internal chip
- Cleaner sound reproduction
- Less internal noise
- Improve efficiencies – power consumption
- Ultra-low-noise NRT amp ($\sim 1\mu\text{V}$)

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• Even more reliable



Nucleus Freedom Cochlear Implant



- Launch roll out started April 2005 – over 5000 patients implanted
- Nucleus Freedom is giving improved hearing performance results in both quiet and noisy backgrounds
- Advanced technologies in both the implant and external speech processor contributing to improved performance
- Improved clinical outcomes also helps drive trends such as bilateral implantation (an implant in both ears)

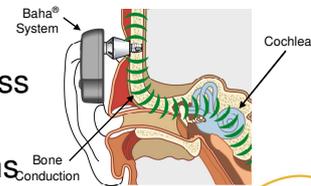
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Baha Update

- Entific Medical Systems acquired 3/05
- Baha implant for conductive hearing loss and single sided deafness
- Distribution integrated into the 3 regions with Bone Anchored Solutions (BAS) division based in Gothenburg, Sweden
- H1 F06 Sales of \$24.6 million up 30% on H1 F05 (before COH acquired Entific)
- USA: CMS acceptance of Baha
- Acquisition has been very positive with the Baha being a truly complementary product line – has helped with scale

Direct Bone Conduction Technology



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Developing Internal Capability

- Core R&D up 23% to \$25.7 million as we continue advancing a range of implantable solutions for the hearing impaired: (Nucleus Freedom is a platform).
- Manufacturing: significant investment in new technologies and processes providing increased manufacturability/scale and capacity
- Undergoing complete review of our entire global supply chain to support growth
- Continued investment in field organisation

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Key Growth Drivers include:

- Demand: Increasing patient motivation
Both patient & medical community understanding
- Supply: Expanding patient access
Eg Clinic/surgeon kinetics, reimbursement, health economics (cost/benefit)
- Product portfolio: CI/Hybrid/DACS/BAHA
- Expanding indications
Eg bilateral, more residual hearing, SSD
- Geographic expansion
- Installed base

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Cochlear Summary: First Half F06

- First half F06: Momentum continues
 - Revenue up 34% to \$221.1 million
 - Core earnings up 43% to \$47.3 million
- Nucleus Freedom: excellent clinical results
- Baha: successful integration of this complementary product line
- Continued building internal capability and operating with financial discipline
- Well positioned for full year F06 (& beyond)
 - F06: Earnings guidance
Core earnings at least \$80 million (↑ 37%)

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Financial Results – H1 F'06

Neville Mitchell
Chief Financial Officer

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H1 F'06 Financial Performance

	F'06	F'05	% Change
	A\$m	A\$m	
Total Revenue	221.1	165.2	↑ 34%
Core EBITDA	72.1	49.8	↑ 45%
Core Earnings	47.3	33.1	↑ 43%
Core EPS (cents per share)	86.9	59.8	↑ 45%
Interim dividend (payable 14/3/06)	45c	35c	↑ 29%
Franking	100%	100%	

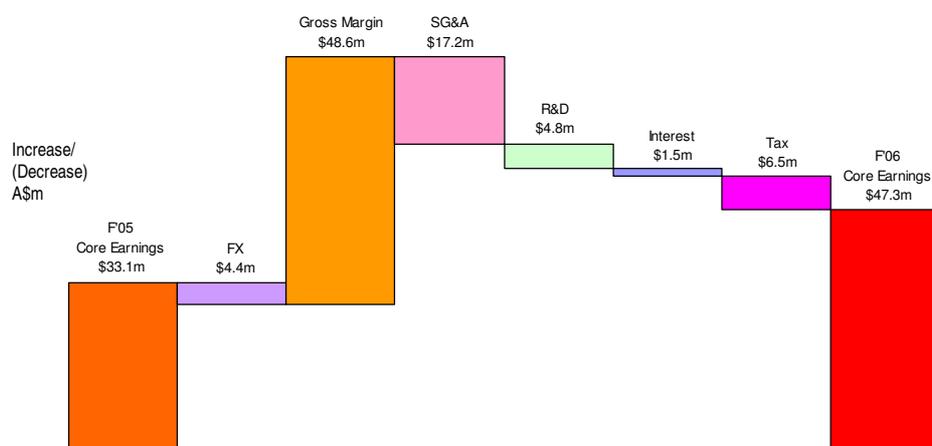
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H1 F'06 Core Earnings Calculation

	F'06 \$m	F'05 \$m
AIFRS NPAT	43.8	33.0
Adjustment items (after tax)		
• R&D		
Capitalised	(0.1)	(2.4)
Amortisation of capitalised R&D	0.8	0.5
• Acquired intangible amortisation	1.1	-
• Share based compensation	1.7	2.0
Core earnings	47.3	33.1

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H1 F'05 – F'06 Core Earnings Rec



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H1 F'06 Baha Financial Impact

- First half of full contribution
- Revenue of \$24.6 million
- Revenue growth up 30% (acquired March 2005)
- Integration with CI business – no separation of expenses
- Gothenburg head office costs included in Admin Expenses
- Integration savings realised per plan

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H1 F'06 - NPAT Impacts

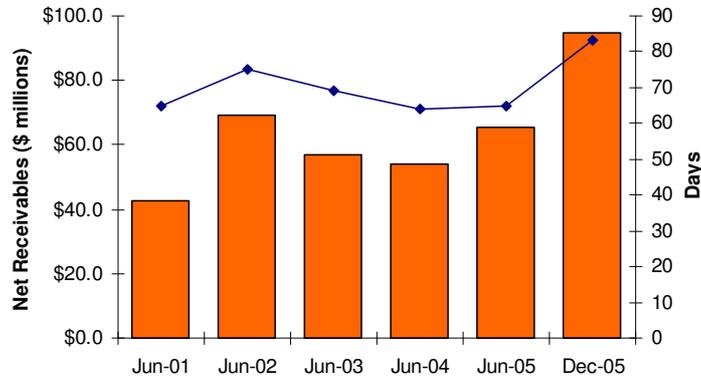
- | • Result includes H1 NPAT impacts: | A\$m |
|------------------------------------|------|
| • Royalty write-back | 4.0 |
| • European tenders (200 units) | 1.5 |
| • FX contracts biased to H1 | 3.0 |

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H1 F'06 Working Capital

Days Sales Outstanding (DSO)



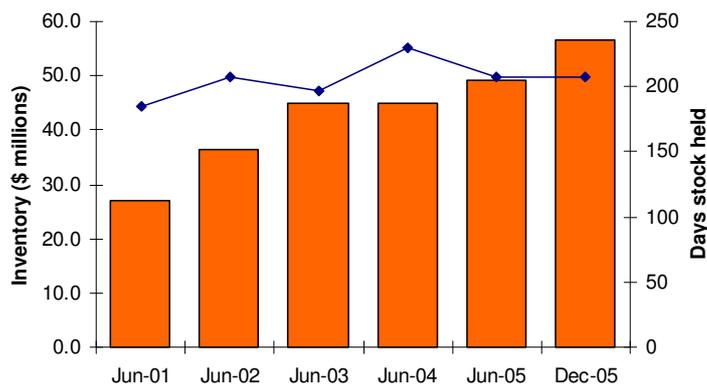
- DSO at 83 days (F'05 65)
- Europe DSO higher as anticipated with direct business model
- USA DSO higher than target – anticipated reduction over next 6 – 12 months

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H1 F'06 Working Capital

Inventory (Days Stock Held)



- Inventory at 207 days
- Inventory below target levels

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H1 F'06 Debt Management

A\$m	31 Dec 05	30 June 05
Cash on hand	104.4	106.1
Interest bearing liabilities, current & non current	<u>(194.9)</u>	<u>(203.1)</u>
Net (debt) / cash	<u>(90.5)</u>	<u>(97.0)</u>
Debt / equity ratio	44%	63%

Manageable levels of debt (pre-tax cost of debt is 2.8%)

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H1 F'06 AIFRS: Key Messages

- AIFRS did not impact cash flow generation nor commercial decisions
- AIFRS adjustments to retained earnings did not impact ability to pay dividends
- AIFRS results in increased volatility in Cochlear's reported earnings
- "Core earnings" is the key management metric

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H1 F'06 Foreign Exchange Rates

- Rates applied F'06 vs F'05

	H1 F'06	H1 F'05
Average rates (used for translating P&L)		
USD	0.755	0.733
Euro	0.632	0.587
JPY	86.5	79.6
Contract rates (used to bring FX to Australia)		
USD	0.68	0.61
Euro	0.56	0.56
JPY	59	55

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Foreign Exchange Rates Going Forward

Average Contract Rates	USD	Euro	JPY
6 months ending June '06 (80% cover)	71	56	56
Next 6 months ending Dec '06 (60% cover)	69	56	57

- Total mark to market FX gain at A\$13.7m
- Hedge book profit rolling off

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