



## Cochlear – Background

- Medical device company (~24yr): 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) from 3/05 acquisition of Entific Medical Systems for conductive hearing loss and single sided deafness
- F06: First full year of Nucleus Freedom and Baha
- F06 financial results:
  - Record results, beats guidance, growth continues

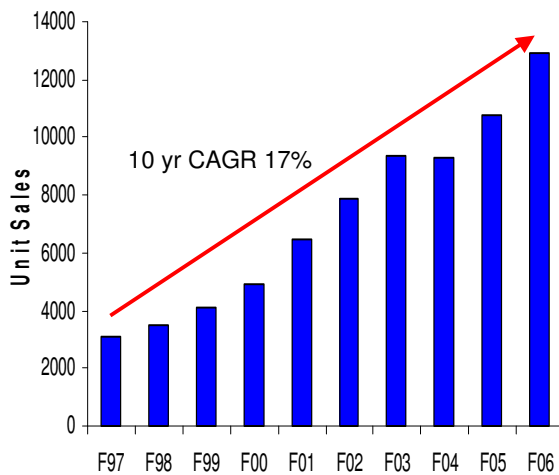
## Record Financial Results for F06

	F06	F05	
	\$ millions	\$ millions	
Cochlear implants	379.9	307.4	↑ 24%
Bone Anchored (Baha)	51.7	14.8	↑ 249%
FX Contracts	20.7	26.8	↓ 23%
<b>Revenue</b>	<b>452.3</b>	<b>349.0</b>	<b>↑ 30%</b>
EBIT (25% of revenue)	111.5	82.5	↑ 35%
Net Profit After Tax	80.0	59.6	↑ 34%
<b>Core Earnings*</b>	<b>86.4</b>	<b>60.8</b>	<b>↑ 42%</b>
Core Earnings per share	158.4 cps	112.4 cps	↑ 41%

\* Core Earnings guidance was 'at least \$80 million'



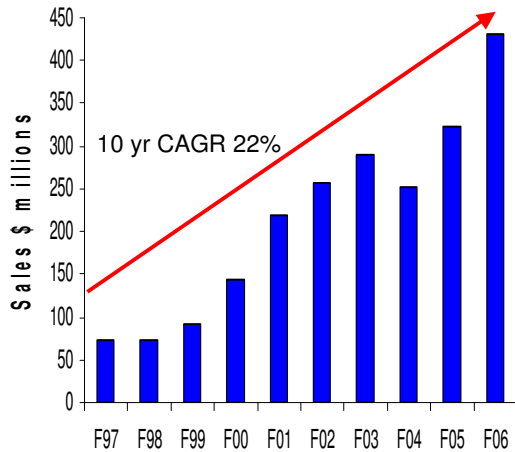
## 10 Year Cochlear Implant (CI) Unit Sales: F97 to F06



- F06 CI unit sales of 12,901 up 19%
- CI growth above 10 year CAGR of 17%
- F06 H1/H2 split distorted by timing effects (tenders/China)



## 10 Year Sales (Excluding FX Contracts): F97 to F06

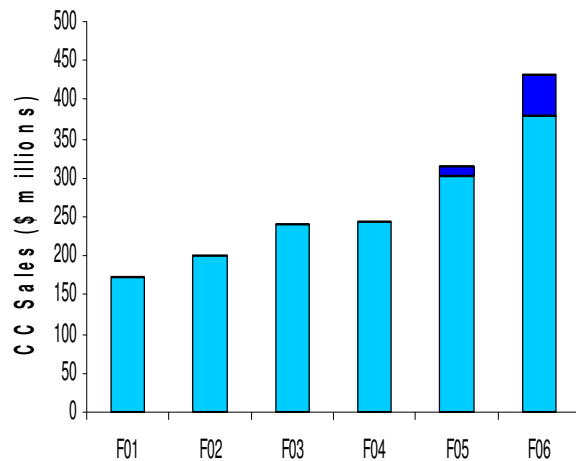


- F06 Sales (ex FX contracts) of \$431.6 million, ↑ 34%
- F06 sales above 10 year CAGR of 22%
- F06 CI sales up 24% above CI unit sales growth

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## Sales Restated using F06 FX Rates\*



- 37% constant currency sales growth (ex FX contracts) for F06

■ Baha

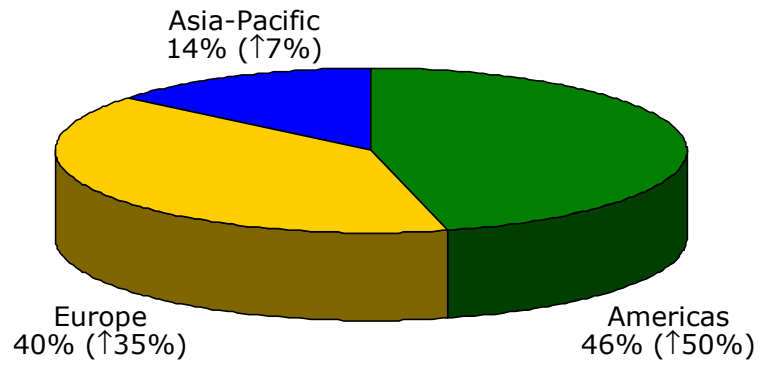
■ Cochlear implants

\* Constant Currency (CC) Sales

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## F06 Sales Revenue and Constant Currency\* growth by Region

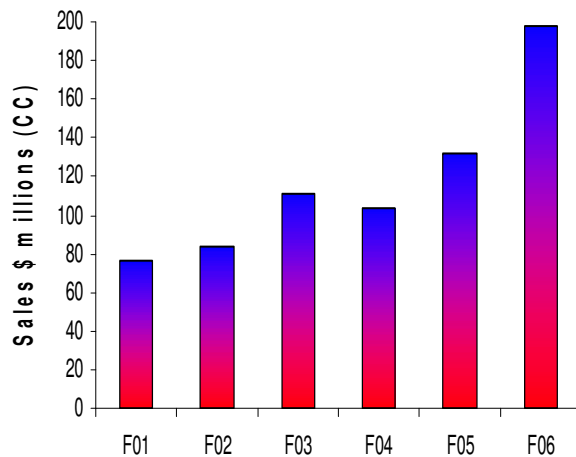


\* CC is Sales revenues restated at F06 exchange rates

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## Americas: F06 Sales in Constant Currency (F06 FX Rates)

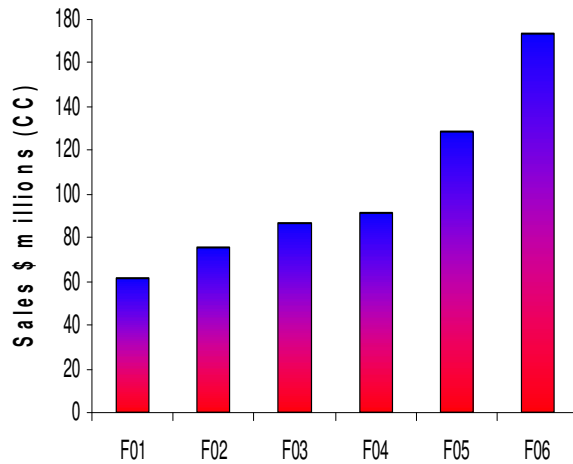


- Americas up 50% in constant currency
- Successful integration of US operations of Entific Medical Systems
- Full year of Nucleus Freedom
- Doubling of US field force and continuing upgrade of internal capability

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## Europe: F06 Sales in Constant Currency (F06 FX Rates)

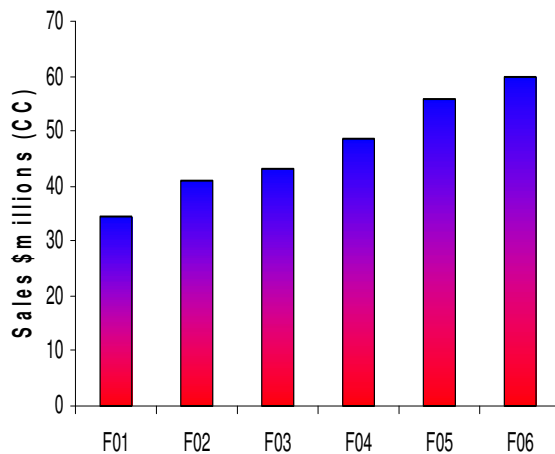


- Europe up 35% in constant currency
- Full year of Nucleus Freedom
- Benefit from increasing direct operations
- Ongoing upgrade of European internal capability

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## Asia Pacific: F06 Sales in Constant Currency (F06 FX Rates)



- Asia Pacific up 7% in constant currency
- Received Regulatory approval in Japan for Contour electrode (as part of the Nucleus 3 Cochlear Implant System)
- Received China order for ~ 15,000 CI over 6 years (first delivery July 06)

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## What have we done in F06?

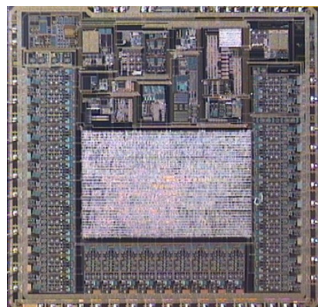
- Continued successful roll-out of Nucleus Freedom
  - Unmatched clinical results and reliability
- Successfully integrated bone anchored products (Baha)
  - Kept growth going (30% over full year F05)
- Significant progress in upgrading manufacturing capability
  - People / Lean thinking / Processes
- Significant building of regional organisations
  - eg doubled field force in US
- Implementing global supply chain strategy to support growth
  - From new warehouses in all regions to redesigned information flow
- Continued building direct distribution in key markets
- China order for ~15,000 implants over 6 years
- Maintained Research and Development spend – technology is key

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## Nucleus Freedom Implant

- 4th generation ASIC CMOS chip
- Cleaner sound reproduction
- Less internal noise
- Low power consumption
- Ultra-low-noise NRT amp ( $\sim 1\mu\text{V}$ )
- Capability for the future
- Unmatched reliability
- Decades of in-house hermetic feed though manufacturing
- 18 month cumulative survival rate of 99.91%
- Contour Advance electrode well proven



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## Nucleus Freedom CI Systems

- Clinical results surpass previous Cochlear Implant systems
  - Hearing performance – short, medium and long-term results setting new benchmark criteria
  - Speech in complex listening situations; eg speech in noisy environments or music – excellent results with 'SmartSound' based on pre-processing of sound
- Excellent reliability
- New External offerings (Nucleus Freedom is a platform)
  - Eg rechargeable batteries / 2 ZnAir / Freedom for N24 backwards compatible
- Options to truly match each person's 'unique fingerprint of hearing'



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## Cochlear F06 Overview

- Record financial results for F06
  - Revenues of \$452.3 million up 30%
  - NPAT of \$80.0 million up 34%
  - Core Earnings of \$86.4 million up 42%
- Acquisition and subsequent integration of Baha product range successful, with growth at 30%
- Nucleus Freedom: the best cochlear implant ever
- Significant investment in internal capability
- Continued commitment to R&D
- F07 core earnings guidance: \$100 million



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### F06 Financial Performance

	<b>F06 AIFRS \$m</b>	<b>F05 \$m</b>	<b>F05 AGAAP \$m</b>
Total Revenue	452.3	349.0	344.9
Reported NPAT	80.0	59.6	54.5
Core Earnings	86.4	60.8	58.4
<b>Dividends</b>			
Final Dividend	55c	45c	45c
Record Date 31 August 2006 Payable Date 21 September 2006			
Full Year	100c	80c	80c
Franking	100%	100%	100%

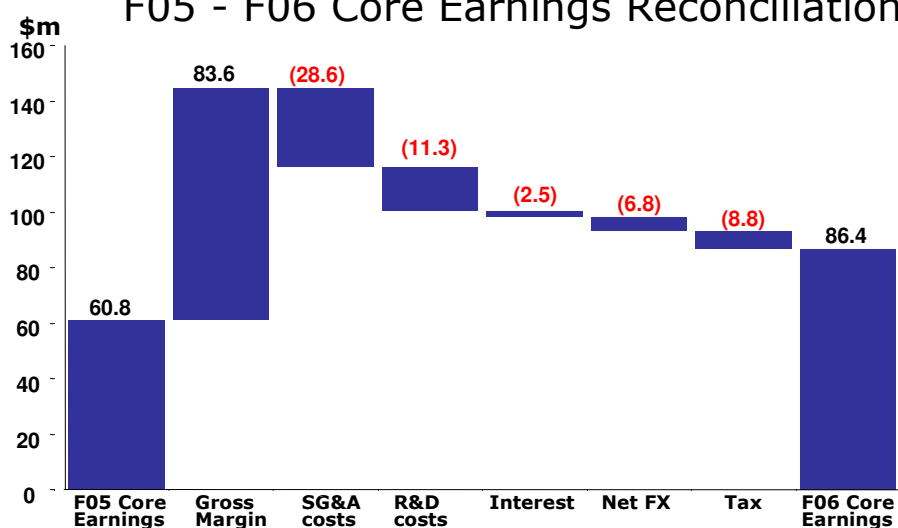
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## F06 Core Earnings Calculation

	F06 \$m	F05 \$m
<b>NPAT</b>	<b>80.0</b>	<b>59.6</b>
Adjustment items (after tax)		
• R&D	1.6	(2.1)
• Acquired intangible amortisation	2.3	0.7
• Share based compensation	2.5	2.6
<b>Core earnings</b>	<b>86.4</b>	<b>60.8</b>

## F05 - F06 Core Earnings Reconciliation



## Research & Development (R&D) Expense

\$m	AIFRS	
	F06	F05
R&D Expense (incl. minority share)	56.7	44.6
Capitalised Development	(0.2)	(4.4)
Amortised Development	2.4	1.3
	<b>58.9</b>	<b>41.5</b>
Pre-tax minority interest (all R&D)	2.5	1.7
R&D Expense (excl. minority) as % of total revenue	12.0%	12.5%

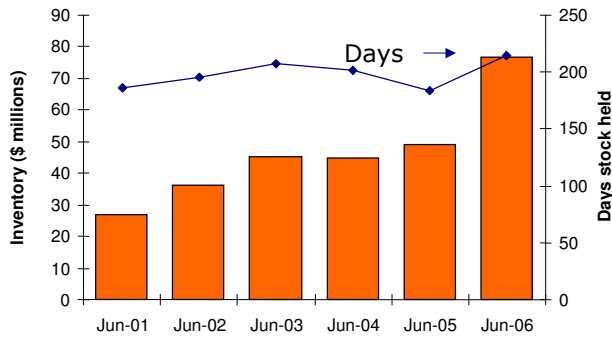
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## Cash Generated

	F06 \$m	F05 \$m
<b>Net cash provided by operating activities before changes in assets and liabilities</b>	<b>115.5</b>	<b>83.0</b>
Changes in assets & liabilities		
Increase in debtors	(29.5)	(1.5)
Increase in inventory	(27.3)	2.3
Other	(7.1)	19.2
	(63.9)	20.0
<b>Net cash provided by operating activities</b>	<b>51.6</b>	<b>103.0</b>
Investment and financing activities	(72.6)	(74.1)
<b>Net cash (usage)/increase</b>	<b>(21.0)</b>	<b>28.9</b>
Dividends paid	(49.1)	(42.8)

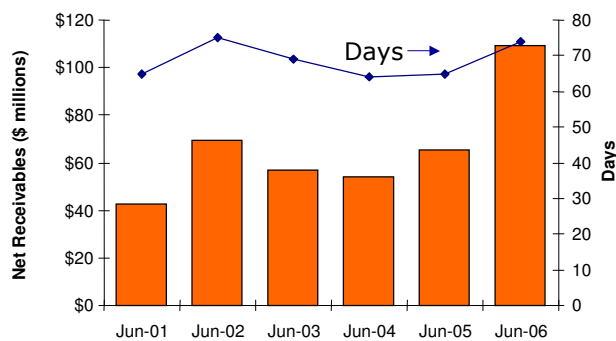
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## F06 Working Capital Inventory (Days Stock Held)



- F06 Inventory at 214 days, \$76.8m
- Finished goods returned to policy levels (generally 8 weeks)
- Year-end build up of processors ahead of backwards compatible Freedom processor release in F07

## F06 Working Capital Debtors (Days Outstanding)



- Debtor days 74 (F05 65)
- European direct distribution increases days as anticipated

## AIFRS

### Impacts

- No material changes in F06 opening balances for AIFRS adjustments from estimates made in F05
- No impact on dividend payments
  - Payout ratio target remains approximately 70% of AIFRS NPAT
- No significant impact on gearing ratios
- No change to Company structures and strategy
  - FX policy maintained

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Thank you... Any questions?



## Foreign Exchange

Core Earnings FX – F06 vs F05

	<b>F06</b> <b>\$m</b>
Translation impact	(0.7)
Transaction impact *	
F05	(26.8)
F06	(20.7)
	(6.1)
Net FX impact for F06	(6.8)

\*FX gains on Hedged sales



## Foreign Exchange

Rates applied F06 vs F05

	<b>F06</b>	<b>F05</b>
Average rates (used for translating P&L)		
USD	0.75	0.75
Euro	0.62	0.60
JPY	86.5	81.0
Contract rates (used to bring FX to Aust)		
USD	0.70	0.65
Euro	0.56	0.56
JPY	60.5	54.4

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## Foreign Exchange Rates Going Forward

Average Contract Rates	USD	Euro	JPY	SEK
Weighted average – exchange rates going forward	0.72	0.57	0.68	5.29

- Total mark to market FX gain at 30 June 2006: \$5.1m (year-end USD rate 0.732)

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