



**ASX / MEDIA RELEASE**

**14 FEBRUARY 2006**

**COCHLEAR ANNOUNCES RECORD FINANCIAL RESULTS FOR HALF YEAR ENDED DECEMBER 31<sup>ST</sup> 2005**

- Total revenue of \$221.1 million, up 34%
- Cochlear implant unit sales of 6,518, up 30%
- Baha sales of \$24.6 million up 30%
- Core earnings of \$47.3 million, up 43%
- Net borrowings of \$90.5 million down 7%

Sydney: 14<sup>th</sup> February 2006, Cochlear Limited (COH.AX) announced record revenue, cochlear implant unit sales, and core earnings for the half year ended 31<sup>st</sup> December 2005 (H1 F06).

Total revenue for the 6 months was \$221.1 million, a 34% increase over the half year ended 31<sup>st</sup> December 2004 (H1 F05) of \$165.2 million. Record cochlear implant (CI) unit sales for the year of 6,518 units represented an increase of 30% over H1 F05 (5,014 CI unit sales). Baha sales augmented the revenue growth as no sales were reported in Cochlear's H1 F05 (the acquisition of Entific Medical Systems was in March 2005). Baha sales at \$24.6 million were 30% ahead of Entific Medical Systems' H1 F05 sales.

Core EBITDA of a record \$72.1 million was an increase of 45% over H1 F05 (\$49.8 million).

Core earnings of \$47.3 million were 43% ahead of H1 F05 (\$33.1 million).

**Results summary**

	<b>31 Dec 2005 H1 F06 A\$ million</b>	<b>31 Dec 2004 H1 F05 A\$ million</b>	<b>Change</b>
<b>Total revenue</b>	<b>221.1</b>	<b>165.2</b>	<b>↑34%</b>
<b>Core EBITDA</b>	<b>72.1</b>	<b>49.8</b>	<b>↑45%</b>
<b>Core Earnings</b>	<b>47.3</b>	<b>33.1</b>	<b>↑43%</b>
<b>AIFRS EPS (cents)</b>	<b>80.4</b>	<b>60.9</b>	<b>↑32%</b>
<b>Core EPS (cents)</b>	<b>86.9</b>	<b>59.8</b>	<b>↑45%</b>
<b>Interim dividend (payable 14/3/06)</b>	<b>45cps</b>	<b>35cps</b>	<b>↑29%</b>
Franking	100%	100%	

Chief Executive Officer and President, Dr Chris Roberts, said:

“The first half of F’06 has been exceptional for Cochlear.

“Revenues of \$221.1 million are up 34% with all regions contributing, but with especially strong growth in Europe (35%) and the Americas (46%). It was also particularly pleasing that Baha sales were up 30%. This is ahead of our internal targets when we purchased Entific Medical Systems in March 2005.

“Core earnings of \$47.3 million were up 43% reflecting the robust sales increase following the successful launch of our new Freedom product range and the Baha contribution.

“Importantly, Cochlear capitalised on a number of opportunities in this half with world wide market share estimated to be in excess of 70%.

“Cochlear is ideally positioned to achieve our growth targets for the balance of F’06 and beyond.”

## **Financial Performance**

Total revenue for this half (H1 F06) increased by 34% to a record \$221.1 million. This reflected Cochlear implant growth of 30% following the very successful launch of the Freedom product range and the inclusion of \$24.6 million of Baha product revenue (H1 F05 nil).

Cochlear implant sales were stronger than initially anticipated reflecting the quality of the new product range – the Nucleus Freedom. All regions provided higher than average cochlear implant growth and one-off tender sales in the European region of approximately 200 units were also booked.

Core earnings rose 43% to \$47.3 million. As flagged last year, with the introduction of AIFRS we will report core earnings in addition to AIFRS PAT, the reconciling items being the expensing of all R&D expenditure, the write-back of share based compensation and the write-back of amortisation of acquired intangibles. A table reconciling core earnings to AIFRS PAT is attached.

The core earnings result of \$47.3 million for H1 F06, apart from being driven by higher sales, was also helped by a write-back of previously expensed royalty costs of \$4 million after tax. In addition, favourable foreign exchange contracts were biased towards the first half of the year. At current exchange rates, the second half profit on FX contracts will be approximately \$3 million after tax less than the first half profit on FX contracts.

During the half, an independent entity, the Cochlear Foundation was established primarily for supporting various longer-term programs promoting research in and awareness of, treatments for significant hearing impairment. It remains a tragedy that the vast majority of people (even in advanced countries) who could benefit from interventions such as a cochlear implant or Baha are either unaware of them, or are denied access to them. Cochlear made a donation of \$1.5 million to the Cochlear Foundation in the half year to December 31, 2005.

Trade receivables increased by \$29 million. The decision to go direct in several European countries has had an anticipated increase in debtor days outstanding.

Net inventory of \$56.7 million increased 15% over June 30, 2005 levels in line with plans to meet increased demand. At December 31, 2005 inventory was not at policy levels and inventory levels are anticipated to increase over the next six months accordingly.

## **Regional Performance**

### **Americas Region**

Revenue in the Americas region was US\$71.8 million, up 51% on H1 F05 (US\$47.4 million). In Australian dollars, the increase was 46% over the prior year half (H1 F05).

Momentum following the Nucleus Freedom launch in June 2005 was stronger than initially anticipated and market share remained estimated at over 70% for the full six months.

An emerging trend, particularly in the USA, is the increase in bilateral implants. That is, a recipient receiving either an implant in each ear at initial surgery (simultaneous bilateral) or a second implant some time after the initial implant (sequential bilateral). Clinical data continues to support the significant benefit from binaural hearing (where the brain can process and compare sounds from both ears) and that the longer a recipient waits for the second implant, the longer it takes and the more difficult it is to achieve binaural hearing.

With the acquisition of Entific Medical Systems, the USA customer care organisations from both Cochlear and Entific Medical Systems were integrated, which has had a positive effect on overall customer support and market coverage. This has benefited both cochlear implant and Baha customers.

### **European Region**

European revenue for the half year (H1 F06) was Euro 51.6 million, a 45% increase on last year's half (H1 F05: Euro 35.4 million). Because the Australian dollar strengthened against the Euro during the past year, European sales were up 35% in Australian dollars terms to \$81.4 million.

Sales revenue was augmented by Baha sales (not included in the comparative), but the major markets with the exception of the UK, all grew cochlear implant sales significantly. In addition, there were tender sales of approximately 200 units in Central and Eastern Europe and the Middle East in the first half which are not expected to be repeated in the second half.

Nucleus Freedom has now been launched in all major markets in the European region. The product has been well accepted and market share increased to an estimated over 70%.

This is the first full half year that Cochlear has been direct in Italy, and with the direct operations established last year in the Netherlands, Belgium and France, Cochlear's presence in Europe has been strengthened. We have also established our direct presence in Sweden using last March's acquisition of the Swedish company Entific Medical Systems as a base.

## Asia Pacific

Revenue of \$32.2 million was up 15% on last year's half (H1 F05), but up 18% in constant currency terms (restating last year's sales at F06 FX rates). Nearly all this growth came from the cochlear implant sales as the Baha product sales in Asia-Pacific are off a low base and we still require regulatory approval in many key markets. Upgrade processor revenue was approximately \$3 million less than H1 F'05.

Nucleus Freedom has now been launched in those countries where regulatory approval has been obtained and the response has been enthusiastic. Regulatory approval is still pending in certain key markets like China and Japan.

## **Operational Update**

### **Bone Anchored Solutions Division**

Baha sales for the half year to December 2005 were \$24.6 million, 30% ahead of sales during the half year to December 2004 (H1 F05) by Entific Medical Systems. There were no Baha sales reported by Cochlear in the first half last year (H1 F05), as the product range was not owned by Cochlear.

The growth is encouraging and is ahead of our assumptions made at the time of the acquisition in March 2005. Cochlear has begun to pay down the loan used to buy the business and some \$18 million was paid off during this six months.

The integration has proceeded well. Manufacturing, global marketing, research and development remain in Gothenburg, Sweden. Regional sales and distribution have been integrated into Cochlear's regional organisations. Planned synergies are being realised.

In the Americas, the field force integration took place in July and has had a positive impact on both the Baha and cochlear implant activities.

In Europe, integration has been on a country by country basis. This reflects European diversity.

Asia Pacific has only a limited Baha presence compared to Europe or the Americas, and Baha represents an important growth opportunity for the region.

In the USA, CMS (Center for Medicare and Medicaid Services) acceptance of the Baha product for funding was received in November 2005. This is positive news and will assist many recipients to receive a Baha in the future. However, the impact will not be immediately felt, as this is just the start of a longer process.

### **Nucleus Freedom Launch**

The release of Cochlear's Nucleus Freedom cochlear implant system into major markets in the fourth quarter of F'05 created significant momentum that continued into the first half of F'06. Indeed demand was even stronger than anticipated and we now have world wide market share estimated to be in excess of 70%.

Roll out of the Nucleus Freedom is continuing according to our internal schedule and in some cases paced by regulatory approvals, such as in Japan.

Clinical results with the Nucleus Freedom remain excellent, across the spectrum from hearing performance in quiet and noise, through to exceptional implant reliability and even features like the splash proof speech processor (no Nucleus Freedom speech processor has failed due to moisture). Importantly, Nucleus Freedom is a platform, and further significant enhancements will be released when available.

## **Operational Developments**

The over 30% sales growth in the first half of F'06 has underlined the necessity for an agile supply chain. Much has been done to understand Cochlear's end-to-end supply chain which is both complex and Global.

Lean principles have been introduced into manufacturing together with technology improvements to assist with the manufacturability of the product and overall capacity. This is an ongoing process, but one on which Cochlear will remain focussed to ensure flexibility in supply, particularly as demand for individual items can be quite variable.

## **Technology**

Technology leadership remains fundamental to ongoing growth and market strength. Core research and development expenditure for the half year (H1 F06) was \$25.7 million up 23% on last year's half (H1 F05: \$20.9 million). Cochlear remains committed to advancing a range of implantable solutions for the hearing impaired and technologic innovation is key to this.

## **Outlook**

Cochlear is well positioned to meet core earnings guidance of at least \$80 million for the full fiscal year (to June 30<sup>th</sup> 2006) – an increase of 37% over last year.

Attachments:           Income Statement  
                              Reconciliation of Core Earnings  
                              Balance Sheet  
                              Cash Flow Statement

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**Cochlear Limited and its Controlled Entities  
Condensed consolidated interim income  
statement**

**For the half-year ended 31 December 2005**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2005</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>
Revenue	221,130	165,172
Cost of Sales	(59,917)	(46,376)
<b>Gross profit</b>	<b>161,213</b>	<b>118,796</b>
Other operating income	235	161
Distribution, marketing and field technical expenses	(55,291)	(44,831)
Administrative expenses	(17,314)	(11,243)
Research and development expenses	(26,713)	(18,361)
<b>Operating profit before financing costs</b>	<b>62,130</b>	<b>44,522</b>
Financial income	2,998	1,888
Financial expenses	(3,030)	(454)
<b>Net financing (costs) / income</b>	<b>(32)</b>	<b>1,434</b>
<b>Profit before tax</b>	<b>62,098</b>	<b>45,956</b>
Income tax expense	(19,089)	(13,446)
<b>Net profit</b>	<b>43,009</b>	<b>32,510</b>
<b>Attributable to:</b>		
Equity holders of the parent	43,759	32,959
Minority interest	(750)	(449)
<b>Profit for the period</b>	<b>43,009</b>	<b>32,510</b>
Basic earnings per share (cents)		
- Ordinary shares	80.4	60.9
Diluted earnings per share (cents)		
- Ordinary shares	79.6	60.8

**H1 F'06 Core Earnings Calculation**

	<b>F'06 \$m</b>	<b>F'05 \$m</b>
<b>AIFRS NPAT</b>	<b>43.8</b>	<b>33.0</b>
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
<b>Core earnings</b>	<b>47.3</b>	<b>33.1</b>

**Cochlear Limited and its Controlled Entities**  
**Condensed consolidated interim balance sheet**

**As at 31 December 2005**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2005</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current assets</b>		
Cash and cash equivalents	104,431	106,077
Trade receivables	94,579	65,611
Forward exchange contract	9,431	17,350
Inventories	56,735	49,518
Other	12,863	12,598
<b>Total current assets</b>	<b>278,039</b>	<b>251,154</b>
<b>Non-current assets</b>		
Forward exchange contract	4,253	9,938
Intangibles	193,120	193,564
Plant and equipment	25,188	25,389
Deferred tax assets	26,610	22,464
Other	160	187
<b>Total non-current assets</b>	<b>249,331</b>	<b>251,542</b>
<b>Total assets</b>	<b>527,370</b>	<b>502,696</b>
<b>Current liabilities</b>		
Trade and other payables	48,419	46,539
Interest bearing liabilities	61,818	64,206
Income tax payable	21,736	12,455
Provisions	23,238	25,617
Deferred revenue	30,043	28,046
Deferred foreign exchange gain	-	17,350
<b>Total current liabilities</b>	<b>185,254</b>	<b>194,213</b>
<b>Non-current liabilities</b>		
Interest bearing liabilities	133,097	138,852
Provisions	4,330	5,032
Deferred foreign exchange gain	-	9,938
<b>Total non-current liabilities</b>	<b>137,427</b>	<b>153,822</b>
<b>Total liabilities</b>	<b>322,681</b>	<b>348,035</b>
<b>Net assets</b>	<b>204,689</b>	<b>154,661</b>
<b>Equity</b>		
Issued capital	66,663	49,375
Reserves	8,753	(3,917)
Retained earnings	125,498	104,462
<b>Total equity attributable to equity holders of the parent</b>	<b>200,914</b>	<b>149,920</b>
<b>Minority interest</b>	<b>3,775</b>	<b>4,741</b>
<b>Total equity</b>	<b>204,689</b>	<b>154,661</b>



# COCHLEAR LIMITED

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## Cochlear Limited and its Controlled Entities Statement of Cash Flows

For the half-year ended 31 December 2005

	Consolidated	
	31 December 2005	31 December 2004
	\$'000	\$'000
<b>Cash flows from Operating activities</b>		
Cash receipts from customers	198,066	156,791
Cash payments to suppliers & employees	(159,511)	(111,332)
Grants received	235	161
Interest received	2,216	900
Interest paid	(3,030)	(396)
Income taxes paid	(13,954)	(11,429)
<b>Net cash provided by operating activities</b>	<b>24,022</b>	<b>34,695</b>
<b>Cash flows from Investing activities</b>		
Payment for plant and equipment	(4,102)	(3,232)
Payment for investments	-	(838)
Payment for controlled entities (net of cash acquired)	-	(15,910)
<b>Net Cash used in investing activities</b>	<b>(4,102)</b>	<b>(19,980)</b>
<b>Cash flows From Financing activities</b>		
Dividends paid	(24,430)	(23,831)
Proceeds from borrowings	3,003	4,262
Repayment of borrowings	(18,215)	-
Issue of shares	17,288	-
<b>Net cash used in financing activities</b>	<b>(22,354)</b>	<b>(19,569)</b>
<b>Net decrease in cash held</b>	<b>(2,434)</b>	<b>(4,854)</b>
<b>Cash at beginning of financial period</b>	<b>106,077</b>	<b>74,091</b>
Effects of exchange fluctuations on the balances of cash held in foreign currencies	788	460
<b>Cash at the end of the financial period</b>	<b>104,431</b>	<b>69,697</b>