



ASX / MEDIA RELEASE

15 AUGUST 2006

**COCHLEAR ANNOUNCES RECORD FINANCIAL RESULTS FOR
YEAR ENDED 30 JUNE 2006**

- Total revenue of \$452.3 million, up 30%
- NPAT of \$80 million (\$1.47 per share), up 34%
- Core earnings of \$86.4 million (\$1.58 per share), up 42%

Sydney: 15 August 2006, Cochlear Limited (COH.AX) announced record revenue, cochlear implant unit sales and profit for the year ended 30 June 2006.

Total revenue for the year was \$452.3 million, a 30% increase over F05. Record cochlear implant (CI) unit sales for the year of 12,901 units represented an increase of 19% over F05. Sales revenue from the cochlear implant system product range increased 24% to \$379.9 million. Sales in the Bone Anchored Solutions division (acquired last year and includes the Baha implant product range) were \$51.7 million – compared to \$14.8 million in the four months the business was owned by Cochlear last year.

EBIT of \$111.5 million, a 35% increase over F05, was 24.7% of revenues.

Core earnings of \$86.4 million was ahead of February guidance of at least \$80 million. This strong growth reflects Cochlear's continued market leadership and quality of product offerings.

Results summary	AIFRS F06	AIFRS F05	Change
	\$ million	\$ million	
Cochlear implant sales	379.9	307.4	↑ 24%
Bone Anchored Solutions (Baha)	51.7	14.8	↑ 249%
FX Contracts	20.7	26.8	↓ 23%
Total revenue	452.3	349.0	↑ 30%
EBIT	111.5	82.5	↑ 35%
Net Profit After Tax	80.0	59.6	↑ 34%
Basic EPS (cents)	146.8 cps	110.1 cps	↑ 33%
Core Earnings	86.4	60.8	↑ 42%
Core Basic EPS (cents)	158.4 cps	112.4 cps	↑ 41%
Final dividend (payable 21/09/06)	55 cps	45 cps	↑ 22%
Franking	100%	100%	

Cochlear's Chief Executive Officer, Dr Chris Roberts, said, "Cochlear had again performed strongly – with core earnings of \$86.4 million, ahead of February guidance of \$80 million, and up 42% against F05.

"Revenues of \$452.3 million were up 30% with all regions contributing to growth, with particularly strong growth in the Americas (up 51%) and Europe (up 31%). Americas and Europe benefited from the acquisition of Entific Medical Systems (the vast majority of Baha sales are in Europe and Americas) and also from the roll out of Nucleus Freedom, which is still pending regulatory approval in key Asian markets like China and Japan.

"Importantly, Cochlear capitalised on a number of opportunities this year with world wide cochlear implant market share at least 70% - positioning ourselves clearly as the global leader in implantable solutions for the hearing impaired," Dr Roberts said.

Financial Performance

Total revenue for the year increased 30% to a record \$452.3 million (compared to \$349.0 million in F05). This improvement in sales was driven by an increase in cochlear implant revenues (+24%), and full year contribution from Baha and Vistafix product lines acquired in March 2005 (\$51.7 million in F06 compared to \$14.8 million in F05 which represented 4 months of sales).

Offsetting increases in cochlear implant and Baha revenues was a 23% reduction in gains from foreign exchange contracts (used to hedge our regional net cash flow) from \$26.8 million last year to \$20.7 million in F06. The overall adverse impact from foreign exchange movements for the year was \$6.8 million – this includes the reduction in gains from foreign exchange contracts and the translation effect of changes in exchange rates between the years.

This is the first year of reporting the financial statements under AIFRS rather than AGAAP and there are significant differences between the two accounting standards.

As discussed last year, given the change to AIFRS, one of our key management metrics is core earnings defined as NPAT with all research and development expensed and excluding both acquired intangibles amortisation and share based compensation charges.

Core earnings were \$86.4 million for F06. Core earnings is a better reflection of the after tax cash earnings of the business, a fundamental driver of creating shareholder value. Total Shareholder Returns for F06 were 42%.

Net Profit after Tax of \$80.0 million was up 34% over F05 restated to AIFRS. The \$80 million profit includes a \$4.0 million gain from a waiver of patent royalties from the Commonwealth Government (reported previously). The minority interest loss of \$1.8 million relates to research and development expenditures arising from the joint venture with Phonak.

The EBIT / Sales ratio of 24.7% improved on last year's 23.7%.

Net cash provided by operating activities before changes in assets and liabilities was \$115.5 million (F05 \$83.0 million). Receivables increased by \$29.5 million for the year reflecting both higher sales and increased debtor days to 74 days. The latter influenced by the change to direct distribution in many of our European markets. Inventory increased by \$27.3 million to \$76.8 million or 214 days. Inventory returned to policy and additional Freedom processors were built ahead of the planned backwards compatible release in F07.

Regional Performance

All regions contributed to growth with the standout regions being Americas (sales revenue up 50% in constant currency (CC), that is, restating F05 sales at F06 FX rates), followed by Europe – up 35% in CC. Asia-Pacific was up 7% in CC.

While the Asia-Pacific growth is below our long-term target, there were important developments in our largest market in Asia-Pacific, namely China. An order for ~15,000 cochlear implants was received for delivery over six years. The order was a donation by a Taiwanese philanthropist to the people of China. There was a slow down in sales in China in anticipation of people accessing these donated units. The first units were shipped in July 2006.

Americas Region

- Revenue of \$198.2 million, growth of 50% in constant currency
- Successful Nucleus Freedom roll-out
- Successful integration of USA activities of Entific Medical Systems, including consolidating all activities in Denver, (eg closing Entific's Columbus facility), and combining the field forces
- Doubling the field representation in USA and increasing customer support headcount
- Significant upgrade of organisational capability, for example Oracle switch on in July 05

European Region

- Revenue of \$173.7 million, growth of 35% in constant currency
- Successful launch of Nucleus Freedom in major European markets
- Our direct market strategy implemented in F05 and continued in F06 is now producing results. Margins in these markets have improved, with the added bonus of being closer to our customers. In the last two years we have increased our direct representation in the Netherlands, Belgium, France and Italy and Sweden. Direct sales in Europe were 35% of total sales in F04, and this increased to 52% in F05 and 71% in F06.
- Organisational capability was further strengthened to underpin the future growth with the expansion of our sales and marketing forces. In addition, supply chain capabilities were upgraded with the move of our European supply warehouse to new headquarters in Weybridge, UK.

Asia Pacific

- Revenue of \$59.7 million was up 7% in constant currency
- China sales were lower than the previous year, however the order ~ 15,000 cochlear implants for delivery over 6 years has the potential to significantly transform the industry globally. A slow down in sales was recorded in China in the second half, ahead of the first delivery of this order, which was shipped in July 2006
- India and Australia grew above their targets, while Japan gained Regulatory approval for the Contour electrode as part of the Nucleus 3 Cochlear Implant System and grew stronger than previous years

Bone Anchored Solutions Division:

In March 2005, Cochlear acquired the Swedish company Entific Medical Systems for \$176.3 million (enterprise value), and so F06 was the first full year of owning this business.

Existing product lines consist of Baha and Vistafix products and services. The Baha is a bone anchored hearing implant for either conductive hearing loss or for single sided deafness. Vistafix is for anchoring certain prostheses. Baha products and services are complementary to cochlear implants – providing different solutions for different types of hearing loss.

Cochlear has created a new division (Bone Anchored Solutions) and has successfully integrated most of the customer support activities around the world – providing further scale in sales, marketing and clinical support for Cochlear's implantable hearing devices.

Bone Anchored Division sales in F06 were \$51.7 million, 30% over F05 sales (that is, assuming the business had been owned for all of F05). Research and development has been substantially increased for the Baha products. The division is producing revenues and returns ahead of our internal projections at the time of acquisition.

Operational Update

Research and Development (R&D): Our Lifeblood

Cochlear remains committed to advancing the field of implantable devices for the hearing impaired. In F06 R&D costs spent were \$56.7 million (12.5% of revenues) on existing and new product areas. AIFRS adjustments (capitalisation and amortisation of development costs) increased this to \$58.9 million for F06.

Two important areas for research and development include cochlear implants that combine electrical and acoustic stimulation for people with low frequency residual hearing and developments on DACS (direct acoustic cochlear stimulator) – a product that is being developed jointly with Phonak. The focus of the joint venture over the last year has been developing the commercial version of DACS (a prototype of which was successfully implanted in four patients last year).

Technologic innovation remains a key driver for Cochlear, as evidenced by the success of Nucleus Freedom.

Nucleus Freedom Cochlear Implant System: Setting New Performance Benchmarks

From April 2005, we have been engaged in launching the next generation cochlear implant – Nucleus Freedom.

There are a number of very important characteristics, which are supported by robust clinical data, of our new system:

- Recipients are demonstrating significantly *better hearing performance levels* and achieving these faster than any previous cochlear implant system.
- Nucleus Freedom has a powerful chip in the external speech processor enabling advanced pre-processing schemes. Cochlear's unique SmartSound pre-processing improves hearing performance in difficult listening environments – such as speech in a noisy restaurant.

- Reliability is a key characteristic of the Nucleus Freedom system – being the most reliable cochlear implant *ever* produced.
- Nucleus Freedom supports a diverse range of accessories such as; FM systems, MP3 player connections and lapel microphones, providing recipients with numerous connectivity options.
- The Nucleus Freedom incorporates an advanced technology platform, providing opportunity for current and future Freedom recipients to benefit from future research outcomes.
- Part of our life-long commitment to recipients is reflected in the development of the Freedom processor for N24. Upgrades remain an integral component of our business philosophy and strategy.

Manufacturing and Global Supply Chain Upgrade

We are now more than 12 months through a 30-month program to substantially upgrade manufacturing capability. This involves introducing 'Lean' concepts, training and up-skilling people and introducing certain process changes. The process changes involve R&D efforts to redesign certain aspects of the product for improved manufacturability. The benefits of building scale and capacity are important for our future growth.

We are also redesigning the global supply chain to underpin the continued growth of the company. This involves everything from establishing new warehouses in our three regions to sourcing additional people and new processes that can support a growing company.

We have made significant progress in building Cochlear's internal capability to match the growth potential of the business.

Outlook

We are positioning Cochlear for sustainable growth. There is a huge unmet clinical need for our products – for example, we are implanting less than 10% of the new people we could help each year (incidence). Clinical outcomes are improving through better technology (eg Nucleus Freedom) and different ways of using the product, for example, younger age at implantation and bilateral implantation. Our implants are very cost effective in health economic terms. Most importantly, we continue building internal capability for capturing these growth opportunities.

For F07 we anticipate another year of growth with core earnings guidance of \$100 million.

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