

**ASX / MEDIA RELEASE**

**13 FEBRUARY 2007**

**COCHLEAR ANNOUNCES RECORD FINANCIAL RESULTS FOR  
HALF YEAR ENDED DECEMBER 31<sup>ST</sup> 2006**

- Total revenue of \$276.1 million, up 25%
- NPAT of \$48.8 million (89.2c per share) up 12%
- Core earnings of \$52.8 million, (96.5c per share), up 12%

Sydney: 13<sup>th</sup> February 2007, Cochlear Limited (COH.AX) announced record revenue, cochlear implant unit sales, and profit for the half year ended 31<sup>st</sup> December 2006 (H1 F07).

Total revenue for the half year was \$276.1 million, a 25% increase over H1 F06. Record cochlear implant (CI) unit sales for the half year of 7,939 units represented an increase of 22% over H1 F06. Sales revenue from the cochlear implant system product range increased 31% to \$240.3 million. Sales in the Bone Anchored Solutions division were \$30.4 million, a 24% increase over last year.

EBIT of \$73.6 million, a 17% increase over H1 F06, was 26.7% of revenues. In H1 F06, a one-off waiver was received from the Commonwealth Government on royalty payments of \$5.7 million (\$4.0 million after tax). Excluding this one-off benefit, EBIT was up 28% over H1 F06.

A half year dividend of 55 cents per share was declared, with record date of 2<sup>nd</sup> March 2007 and payable 20<sup>th</sup> March 2007.

Core earnings of \$52.8 million was in the context of Cochlear's full year guidance for F07 of at least \$100 million core earnings. This strong position reflects Cochlear's continued market leadership and quality of product offerings.

<b>Results summary</b>	<b>H1 F07</b>	<b>H1 F06</b>	<b>Change</b>
	<b>\$ million</b>	<b>\$ million</b>	
<b>Cochlear implant sales</b>	<b>240.3</b>	<b>184.1</b>	<b>↑ 31%</b>
<b>Bone Anchored Solutions (Baha)</b>	<b>30.4</b>	<b>24.6</b>	<b>↑ 24%</b>
<b>FX Contracts</b>	<b>5.4</b>	<b>12.4</b>	<b>↓ 56%</b>
<b>Total revenue</b>	<b>276.1</b>	<b>221.1</b>	<b>↑ 25%</b>
<b>EBIT</b>	<b>73.6</b>	<b>63.0</b>	<b>↑ 17%</b>
<b>Net Profit After Tax</b>	<b>48.8</b>	<b>43.8</b>	<b>↑ 12%</b>
<b>Basic EPS (cents)</b>	<b>89.2</b>	<b>80.4</b>	<b>↑ 11%</b>
<b>Core Earnings</b>	<b>52.8</b>	<b>47.3</b>	<b>↑ 12%</b>
<b>Core Basic EPS (cents)</b>	<b>96.5</b>	<b>86.9</b>	<b>↑ 11%</b>
<b>Interim dividend (payable 20/03/07)</b>	<b>55c</b>	<b>45c</b>	<b>↑ 22%</b>
Franking	100%	100%	

Commenting on the result, Cochlear CEO, Dr Chris Roberts said, "This is an excellent result with core earnings of \$52.8 million comfortably within our full year guidance of \$100 million issued in August 2006 and confirmed at the AGM in October.

Revenues of \$276.1 million were up 25% with all regions contributing strongly to growth and with Americas (up 36% in constant currency) being particularly strong. Sales of the newly launched backwards compatible Nucleus® Freedom™ Speech Processor to our existing customers also contributed to the strong growth.

Cochlear continued to invest in growth initiatives to secure its long term growth including an emphasis on strengthening internal capability".

## **Financial Performance**

Total revenue for the year increased 25% to \$276.1 million. Sales revenue was stronger, up 30% to \$270.7 million. The difference related to foreign exchange gains on hedged sales which were \$5.4 million, down from \$12.4 million in H1 F06.

Over 95% of Cochlear's sales and over 50% of expenses are in foreign currency. While this provides a natural hedge on part of the FX exposure, the balance is managed through taking out foreign exchange contracts. These contracts cover a three year period at a declining level of cover. As the Australian dollar has strengthened, particularly against the US dollar over the last few years, our ongoing contracts have reflected these rates as we continue to use those contracts taken out in earlier periods.

The overall impact from foreign exchange movements for the half, compared to H1 F06, was a negative \$10.6 million. This includes the reduction in gains from foreign exchange contracts (\$7.0 million), movements on foreign denominated assets (\$3.2 million) and the translation effect of changes in exchange rates between the periods (\$0.4 million).

A key management metric, core earnings, is defined as NPAT assuming all research and development is expensed, and excluding both acquired intangibles amortisation and share based compensation expenses.

NPAT of \$48.8 million and core earnings of \$52.8 million were both 12% higher than the previous corresponding period. The differential between the revenue and profit growth reflects the foreign exchange impact explained above, a release of a royalty accrual of \$5.7 million in the comparable period for F06 and a one-off tax charge of \$2.1 million in H1 F07 for prior period taxation adjustments. EBIT/Revenue ratio of 26.7% includes these impacts and reflects continued restraint on administration and sales & marketing expense growth. These expenses grew 12% against sales revenue growth of 30% during this first half. Research and development expenses grew 33%.

Cash decreased by \$15.8 million for the six months after paying dividends of \$30.2 million during the period. Receivables increased by \$16.2 million reflecting the higher sales. Debtors days outstanding of 71 showed an improvement over June 2006 of 74 days.

Inventory of \$85.9 million was up 12% and continues to be managed to policy in the context of sales revenue growth of 30%.

## **Market Performance**

### ***Market defining Nucleus® Freedom™ performance***

Performance outcomes are an important competitive differentiator in the marketplace, and as such, are a key driver in supporting the growth and success of our business. A key factor driving our business currently is the excellent clinical outcomes recipients are receiving from the Nucleus® Freedom™ system, our latest generation Cochlear implant System. From our clinical trials and external data, Freedom™ recipients are hearing faster and better than recipients of any previous system, regardless of manufacturer, and regardless of the difficulty of the listening situation.

### ***Bilaterals momentum gaining***

A further feature of the half has been the contribution of bilaterals to the result. This is where recipients receive two implants, one in each ear, as opposed to the traditional one implant. There are clear advantages to certain patients having an implant in each ear, including better performance in noisy situations and location of sound direction. Recipients report feeling "more balanced" once they hear in both ears, and importantly, listening is easier. Momentum is beginning to build, particularly in USA, towards bilateral implantation although bilaterals currently only account for less than 15% of our total cochlear implant sales in the USA. There are no precedents for the speed with which bilateral implantation will become routine. Cochlear remains confident that the trend has been set, but that progress will remain very country specific.

### **Regional Performance**

All regions contributed to the strong revenue growth with the Nucleus® Freedom™ backwards compatible processor upgrade being launched in all three regions. Sales of this upgrade to our existing recipients totalled \$12.0 million for the six months which represented 5% of our cochlear implant sales.

#### ***Americas***

Revenue of \$124.8 million was up 31% over the prior period and up 36% in constant currency. This above average growth reflects the continued strength of the Nucleus® Freedom™ implant and the excellent performance results that are now being published twelve months after the launch.

The move towards bilateral implantation is very active amongst recipients in the USA and this enthusiasm is now being reflected in growing numbers of recipients coming back for a second implant. This is an encouraging precedent. The backwards compatible Nucleus® Freedom™ speech processor was launched in September and the initial response has been very enthusiastic with over 2,000 recipients taking up the offer to-date.

The Americas region continues to invest in future growth initiatives including programs to improve the time clinics spend on non-value added activities and broadening the sales channel. These are long term initiatives that are critical to securing our long term growth.

#### ***Europe***

European revenue grew 27% to \$103.7 million. This was particularly pleasing, as the previous corresponding period had contained tender sales that resulted in 35% growth in H1 F06.

Growth in Europe has been helped by our commitment to be direct in certain key markets, and our direct sales in Europe in H1 F07 were greater than 65%.

Bilateral sales results vary by country. Long term outcomes studies are in progress in some countries, which will determine future funding.

The Nucleus® Freedom™ upgrade processor launch is being rolled out in all major European markets. This is being received enthusiastically as there are genuine benefits in hearing performance for patients upgrading.

Organisational capability continues to be strengthened in readiness for future growth, for example, Oracle ERP is being introduced into Europe and this will augment early supply chain improvements.

### **Asia Pacific**

Revenue of \$42.2 million showed strong growth of 31% over first half F06.

The first deliveries on the China donation order were made in the earlier part of the financial year. There has been considerable effort by all involved with implementing the appropriate infrastructure for this donation of over 15,000 cochlear implants. It is anticipated that the first surgeries under this donation program will begin in H2 F07.

India continues to grow strongly with sales up 39% although this is from a small base. This high growth rate is driven by truly excellent clinical outcomes in India. A sound audiological training culture in India augments well for sustained development of this important market.

### **Bone Anchored Solutions Division**

Bone Anchored Solutions' sales worldwide grew 24% to \$30.4 million. This rate is above our original acquisition assumptions and continues to reflect strong demand for the device.

The Baha Divino™ product that was launched last year continues to sell well, now representing over 70% of unit sales, and this will be supplemented by the Baha® Intenso™ which will provide further options for consumers when launched in the second half of F07.

### **Research & Development – Four Planks to our Long Term Strategy**

Cochlear continues to develop four major areas in the implantable hearing device market. These are:

- Cochlear implants
- Baha products
- Hybrid (combination cochlear implants and hearing aid) devices
- DACS (Direct Acoustic Cochlear Stimulator)

### **Cochlear implants**

The cochlear implant sector is now well established and Cochlear's technology leads the industry world wide. During the last six months, we have launched the backwards compatible Nucleus® Freedom™ speech processor for one of our earlier implant types (N24) in many major markets with enthusiastic response.

Focus remains on improving hearing performance, with new speech coding strategies (MP3000) in clinical trials, along with further advances in our sound input pre-processing (SmartSound™) to include concomitant pre-processing strategies (SmartSound™ Combination).

### ***Baha***

Spending on Baha R&D has grown from 3% of sales revenue when we purchased the company in March 2005 to 7% of sales revenue in H1 F07. This increase reflects the importance we place on technology leadership. The Baha® Intenso™ device will be released in H2 F07, and important new technologies related to aesthetics and performance are well advanced.

### ***Hybrid***

The market for the hybrid is significant and untapped at this stage. This is where patients with some low frequency hearing, have it preserved by using an electrode and surgical approach specifically designed to preserve residual hearing. Combining electrical (for the higher frequencies associated with speech) and acoustic hearing confers significant advantages. We already have over 100 devices implanted in clinical trials. Results are encouraging and providing strong learnings for further improving this approach.

### ***DACS***


The fourth plank to our product strategy is DACS. With this product we seek to extend Cochlear's global leadership in implantable solutions for the hearing impaired into new markets by combining our market leading capabilities in implantable electronics with direct mechanical stimulation of the middle ear. To date we have been working with our technology partner Phonak AG on this device. In view of our commitment to an integrated approach to our strategy for involvement in the implantable hearing device market, and the need to integrate the technology efficiencies across the four areas, we have agreed with Phonak that we will pursue this technology alone. Phonak will similarly pursue its own technology stream. Negotiations to effect this revised strategy are in progress with each company in agreement on the direction.

### **Board Change**

Dr John Parker, an Executive Director and Chief Technology Officer has announced his intention to retire from Cochlear and the Cochlear board on his return to Australia from Europe on 31<sup>st</sup> March 2007 to pursue technology opportunities in fields unrelated to Cochlear's field of interest.

### **Outlook**

The half year result provides confidence in meeting guidance for F07 of at least \$100 million core profit.



For further information contact:

**Analysts & Media:** Dr Chris Roberts, CEO/President  
Ph: (02) 9428 6555

Neville Mitchell, CFO  
Ph: (02) 9428 6555

Steven Johnston, Global Communications  
Ph: (02) 9425 3629