



**ASX / MEDIA RELEASE**

**16 AUGUST 2005**

**COCHLEAR ANNOUNCES RECORD FINANCIAL RESULTS FOR FULL YEAR ENDED JUNE 30<sup>TH</sup> 2005**

- Total revenue of \$348.5 million, up 22%
- Cochlear implant unit sales of 10,802, up 16%
- EBITDA of \$88.7 million, up 62%
- Net Profit After Tax of \$54.5 million, up 48%
- Core Earnings, which is Net Profit After Tax (excluding intangibles amortisation), of \$58.3 million, up 58%

Sydney: 16<sup>th</sup> August 2005, Cochlear Limited (COH.AX) announced record revenue, cochlear implant unit sales, and Core Earnings for the year ended 30<sup>th</sup> June 2005.

Total revenue for the 12 months was a record \$348.5m a 22% increase over the previous corresponding period (2004: \$285.8m). Record cochlear implant unit sales for the year of 10,802 units (2004: 9,306) represented an increase of 16% for the full year, but a 20% increase for the second half.

EBITDA of a record \$88.7m was an increase of 62% (2004: \$54.9m). Net Profit After Tax was \$54.5m, an increase of 48% over the previous corresponding period.

Net Profit After Tax (excluding intangibles amortisation) was a record \$58.3m, which was 58% ahead of last year, and is defined as Core Earnings.

**Results summary**

	<b>30 June 2005</b>	<b>30 June 2004</b>	<b>Change</b>
<b>Cochlear implant unit sales</b>	<b>10,802</b>	<b>9,306</b>	<b>↑16%</b>
	<b>A\$ million</b>	<b>A\$ million</b>	
<b>Total revenue</b>	<b>348.5</b>	<b>285.5</b>	<b>↑22%</b>
<b>EBITDA</b>	<b>88.7</b>	<b>54.9</b>	<b>↑62%</b>
<b>Net Profit after tax</b>	<b>54.5</b>	<b>36.8</b>	<b>↑48%</b>
<b>Core Earnings (NPAT excluding intangibles)</b>	<b>58.3</b>	<b>36.8</b>	<b>↑58%</b>
<b>EPS (cents)</b>	<b>100.5</b>	<b>68.2</b>	<b>↑47%</b>
<b>Core EPS (cents)</b>	<b>107.0</b>	<b>68.2</b>	<b>↑57%</b>
<b>Final year dividend (payable 22/9/05)</b>	<b>45cps</b>	<b>44cps</b>	<b>↑2%</b>
Franking	100%	100%	

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

"F05 was a great success for Cochlear after a difficult F04. We delivered on our stated objectives and set the company on a path of sustainable growth."

"Cochlear is well positioned for a solid 2006, driven by the full year benefits of the Nucleus® Freedom™, the Entific acquisition and the general strengthening of Cochlear's competitive position and operational capability."

"Revenues were up 22% to a record \$348.5m with all regions contributing to the growth. Momentum gathered during the year with the successful release of our new Nucleus Freedom product range in the June quarter."

"The acquisition of Entific Medical Systems and its Baha range of products in March was also a highlight. Sales of Baha products in the June quarter (our first full quarter since acquisition) were 31% ahead of June quarter sales last year."

"Market share in cochlear implants was gained in F05 and market share estimates at June suggest a market share of approximately 70%."

## **Financial Performance**

Total revenue for the year increased 22% to a record \$348.5m (compared to \$285.5m in F04), with second half total revenue growth of 26%. In constant currency terms (restating last year at F05 exchange rates) sales revenue was up 29%.

All regions contributed to this growth, with the standout region being Europe (sales revenue up 37% in constant currency (CC)), followed by the Americas (up 27% in CC) and Asia-Pacific (up 14% in CC). Asia-Pacific had a difficult first half (3% growth) and to achieve 14% for the full year was another example of momentum gathering during the year.

Core Earnings were \$58.3 million, a record result, with Core Earnings per share of 107 cents (up 62%). As we move forward with AIFRS, the definition of Core Earnings for financial year 2006 includes the expensing of R&D, not amortising intangibles and not expensing share based compensation.

Net Profit After Tax (NPAT) of \$54.5 million increased 48% over F04, and was approximately 12% ahead of guidance given last March. The \$54.5 million was after a goodwill charge of \$3.1m from the acquisition of Entific Medical Systems. (Under IFRS accounting standards adopted from July 1st 2005, this goodwill charge will be reversed in F06).

Due to the Entific Acquisition, the company took on debt during the year with net debt at 30<sup>th</sup> June of \$97.4 million. Debt to equity is 58%, and the effective interest rate on the debt is 2.8%.

## **Regional Performance**

### **Americas Region**

Revenue in the Americas region was US\$98.9 million, up 27% on the previous corresponding period (2004: US\$77.8 million). In Australian dollars, the increase was 21%.

The new President of the Americas, Chris Smith joined Cochlear in August 2004 and provided strong leadership for the entire Americas team. The refocused and reinvigorated team regained market share lost during F04 and successfully launched the Nucleus Freedom that is our next generation cochlear implant.

The launch of Nucleus Freedom in the June quarter built strong momentum going into F'06. Increased deferred revenue and reduction in hospital shelf stock associated with the early phase of the launch meant the underlying surgery rate of the Nucleus Freedom in the final quarter was stronger than the reported numbers suggest.

### **European Region**

Strong European sales growth seen in the first half of the year (up 34%) was repeated during the second half year. European revenue for the year was Euro 78.1m, a 37% increase on the previous corresponding period (Euro 56.5m). Market share increased to close to 65% (from 60%). In Australian dollars, sales were up 40% to \$130.9m. This was helped by the Entific acquisition, however even without Baha sales, sales were up over 27% for the year.

Sales growth was achieved in all European countries.

As highlighted earlier, Cochlear expanded its presence in Europe by purchasing distributors in The Netherlands, Belgium and France in the first half. In May 2005, Cochlear went direct in Italy, which is an important European market for us. As a result, over 75% of our sales in Europe are now through our own direct sales operations. Cochlear believes this is important as it brings us in closer contact with our customers and should enable us to drive further growth in these important regions.

The Nucleus Freedom has been launched in major markets across Europe. The launch started in the June quarter. We go into F'06 with a strengthened market position and a strong order book as a result.

### **Asia Pacific**

Revenue of \$56.5m was 12% up on last year (14% in constant currency). The Asia-Pacific region benefited from Mark Salmon's appointment as President of Asia-Pacific at the start of the financial year. Capability was built through the year, and the slow down seen in China addressed. Momentum gathered over the year, from 3% growth in first half, to 19% in the second half. Second half cochlear implant unit sales growth of over 20% reflected stronger sales across the region including a return to normalised sales growth in China.

In Japan, the purchase of our distributor's cochlear implant business was concluded in the first half, but with a phased handover of customers over a nine-month period. The integration has now been successfully concluded.

Nucleus Freedom has been launched in selected markets with an enthusiastic response. A specially developed value priced speech processor was also launched in China in the second half. This processor was specifically developed from feedback from the Chinese market and has been well received.

## **Strategic Initiatives**

The year saw the execution on a number of important growth initiatives, many of which were flagged last year. These initiatives were in the context of Cochlear's mission: "To be the global leader in innovative implantable solutions for the hearing impaired".

### **New Product Release – Nucleus Freedom**

The release of our next generation Nucleus Freedom cochlear implant system in the fourth quarter helped us achieve growth of 20% in unit sales in the second half (up from 12% in the first half).

The Nucleus Freedom system provides the best hearing performance ever available and is the result of many years of hard work (by many hundreds of people at Cochlear and key suppliers). Nucleus Freedom offers the next step in cochlear implant technology. This product genuinely increases benefits for our recipients and the many healthcare professionals helping them. It is a platform for future innovations and has been received by our customers across the world with much enthusiasm.

The release of Nucleus Freedom only effectively started in the June quarter so we are yet to reap the full benefit of the global roll-out of this product. We released Nucleus Freedom on time and with a very impressive feature set in the first release, demonstrating Cochlear's operational capability.

In anticipation of the Nucleus Freedom launch, detailed market research was conducted in multiple markets. This helped us identify key messages that would resonate with candidates and provided a basis for fact based marketing decisions.

Our Nucleus Freedom launch was focussed on the best hearing performance in the widest range of listening situations, the broadest range of accessories and features for many lifestyle needs, assured reliability and a commitment from Cochlear to provide ongoing support.

Specific features include, Smart Sound (providing a wider variety of programmes to improve listening clarity); a new speech processor with built in diagnostics and simpler controls and the splash proof quality of the new processor. In addition, the potential for future advancements with the new system were stressed.

### **Purchase of Entific**

The purchase of Entific Medical Systems for \$195 million (\$176 million enterprise value) in March 2005 was important as it widened the product offering from cochlear implants to now include implants allowing hearing through bone conduction (Baha). The Baha and cochlear implant products do not compete with each other, rather they complement each other as they are indicated for different causes of deafness. The Baha product fits in perfectly with our vision of being "the global leader in innovative hearing solutions".

The cochlear implant is focused on bilateral sensorineural severe and profound hearing loss, while the Baha provides a bone anchored hearing solution for conductive hearing loss as well as single sided deafness.

There are significant synergies in bringing the two companies together, including potential growth for cochlear implant sales. Integration has proceeded well with plans to integrate most sales activities into Cochlear's regional structure yet retaining a Bone Anchored Solutions division (based in Gothenburg, Sweden).

Baha revenues grew 31% (in constant currency) in the June quarter (our first full quarter) although it is not anticipated to grow at these exceptional levels in F'06.

## **Executive Team**

Key to execution is a dynamic senior executive team dedicated to growing the business. Early on in the year, new regional heads for the Americas (Chris Smith) and Asia Pacific (Mark Salmon) were appointed. Recently the R&D department was further strengthened by the internal promotion of Jan Janssen to the position of Senior Vice President Design & Development. This will allow Dr John Parker, our Chief Technology Officer the opportunity to further advance our technology in not just cochlear implants but in newer areas like bone conduction. David Morris (previously VP of Business Development) has been appointed as President of the Bone Anchored Solutions division. The entire senior team is functioning well and has made significant progress in both strategy development and execution of that strategy during the year.

## **Technology**

Technology leadership remains fundamental to ongoing growth and market strength. While the focus for F'05 was launching the Nucleus Freedom, Cochlear maintains a long-term view and considerable work continues on future generations. Improvements in performance through speech coding and simplification of the device together with further miniaturisation remain important goals.

Cochlear has also continued advancing some new ideas through its joint venture agreement with Phonak AG. This joint project is focussed on developing a new type of implantable hearing device for yet another segment of the hearing impaired market for which neither a cochlear implant nor Baha is indicated.

## **Outlook**

Cochlear is well positioned going into F06, with the result driven by 2006 being the first full year of: Nucleus Freedom, the Entific acquisition and being direct in certain key markets.

Cochlear anticipates Core Earnings growth of at least 20% in financial year 2006.

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