

## To Our Shareholders:

Innovative. Trusted. Leadership. These are but three of the words that characterize Edwards Lifesciences, and the way we run this company and live our lives. I am pleased to report that 2005 was another successful year of substantial strengthening for Edwards Lifesciences on many fronts. In our 5th year as an independent, publicly-traded company, we achieved all of our financial goals, introduced a number of new products, and made important progress on our growth initiatives. We also continued to contribute meaningfully to the communities in which our employees live and work.

### *Financial Gains and New Product Introductions*

Our solid financial performance created a strong platform from which we continue to grow. We met or exceeded all of our 2005 financial goals, achieving sales in excess of \$998 million and improving our gross profit margin by more than 200 basis points. Non-GAAP net income grew 20%, and we also delivered free cash flow of \$126 million. We continued to grow and gain share in our Heart Valve Therapy and Critical Care franchises, while improving these product lines' profitability. On an underlying basis, all of Edwards' businesses posted higher sales growth rates over last year, and presently more than 80% of our sales come from products in #1 global market positions.

Our R&D investment, which we increased nearly 14% this year, is yielding considerable returns, with newer products representing a growing proportion of our sales and further extending Edwards' leadership in key areas. New product introductions included our PERIMOUNT Magna valve with ThermaFix treatment, Theon mitral tissue valve and Geoform valve repair ring in the U.S., as well as our PERIMOUNT Magna mitral valve in Europe. We also unveiled one of the most exciting new advancements in surgical heart valve treatment — our Ascendra minimal access heart valve system, which

enables aortic heart valve replacement to be performed on a patient's beating heart. We also introduced the FloTrac sensor and Vigileo monitor, the first innovations from a next-generation Critical Care platform that should yield a number of additional, less-invasive technologies in the coming years.

### *Growth Through Learning*

This year, we continued to advance the state of the art and gained additional strength in our key growth initiatives. Although we fell short of our original sales goals for LifeStent peripheral vascular stents, we remain optimistic about our differentiated technology and the overall market opportunity. Preliminary 12-month results from our Phase I RESILIENT clinical trial showed promise in improving patients' circulation in the demanding superficial femoral artery, and we believe these early results bode well for LifeStent's future success.

Additionally, we made important progress in the development of our percutaneous heart valve programs. In the first quarter, we initiated a U.S. IDE clinical trial for our Cribier-Edwards percutaneous aortic heart valve, which uses a catheter delivery system to navigate the replacement valve through the patient's circulatory system instead of taking a surgical approach. We voluntarily suspended the study at mid-year in order to incorporate a new delivery system, which had reduced procedural complexity and improved clinical outcomes in cases outside the U.S. We were very pleased to have restarted patient cases by the end of the year.

In our two percutaneous mitral heart valve repair therapies, we incorporated a number of product enhancements, and clinical feasibility cases were underway at Canadian and European sites by year-end.

We believe percutaneous heart valve therapies offer hope to thousands of patients worldwide who are not good candidates for conventional open-heart valve surgery and face lim-

ited therapeutic options. With the experience gained this year, we are well-positioned for clinical progress in all of our percutaneous valve programs in 2006.

### *Strengthening Our Communities*

With more than 5,400 employees now working in Edwards' operations globally, we continue extending our connections and contributions throughout the world. Fueled by the continued increasing demand for our innovative PERIMOUNT tissue heart valves, in June we opened a new heart valve manufacturing plant in Singapore to serve growing numbers of customers and patients.

Additionally, we announced the creation of The Edwards Lifesciences Fund, a \$20 million charitable fund intended to support advancements in knowledge and improvements in quality of life, focusing primarily on cardiovascular disease and the communities where our employees live and work. The 17 organizations that received funds from our first grant cycle will help realize the Fund's mission by assisting underserved individuals around the world.

### *Looking Ahead: Continued Leadership and Innovation*

Going forward, Edwards will seek to further extend growth and leadership in our chosen areas of emphasis: heart valve disease, critical care technologies and peripheral vascular disease. We will continue emphasizing differentiated, physician-preference products with leadership potential, further building upon the contributions we have been fortunate to make. We also expect to continue investing aggressively in innovative technologies — balancing disciplined growth with new platforms that will enable us to treat even more patients whose conditions are underdiagnosed or untreated.

For 2006, we are confident in our ability to achieve our financial goals, generating total sales between \$1.02 and \$1.06 billion

(equating to an underlying growth rate of 8-10%); increasing gross profit margin by 150 to 200 basis points; delivering non-GAAP net income growth of 12-15% excluding the impact of special items and stock option expensing, and generating free cash flow of \$140 to \$150 million.

Over the decades since Miles Lowell Edwards first started his laboratory, Edwards has pledged to serve as a trusted partner in the community fighting cardiovascular disease. We remain a proud member of the medical technology community, which through its innovations, has contributed to extending patient longevity, increasing productivity and reducing hospitalizations around the world.

We expect the demand for Edwards' technologies to continue growing, as more patients require treatment for their advanced cardiovascular conditions, amplified by the increasing aging population and the progressive nature of this disease. While we are proud of our accomplishments to date, helping patients is our life's work, and there is much yet to do. We thank you for your interest and support as we continue to pursue our aspirations while serving our customers, patients, employees and shareholders.

Sincerely,



A handwritten signature in dark ink, appearing to read 'Michael A. Mussallem'. The signature is fluid and cursive, with a prominent 'M' and 'L'.

**Michael A. Mussallem**

Chairman & Chief Executive Officer

*This letter to shareholders contains figures that are not prepared in conformity with Generally Accepted Accounting Principles ("GAAP"). Management has determined that inclusion of these non-GAAP figures provides a more meaningful comparison of the company's ongoing operations. For a reconciliation of GAAP to non-GAAP figures, see the inside back cover of the accompanying Annual Report and SEC Form 10-K.*