



**Cochlear**

**ASX / MEDIA RELEASE**

**COCHLEAR F2004 FULL YEAR RESULTS**

Sydney August 17<sup>th</sup>, 2004: Cochlear Limited (Cochlear) announced a net profit of \$36.7 million in line with the Company's guidance to the market in April, 2004.

Total revenue for the full year was \$285.8 million, compared to \$307.6 million last year. Unit sales of 9,306 were in line with last year's sales of 9,328 units. Sales revenue of A\$252m was down 14% over last year, but up 1% in constant currency terms.

Cochlear has maintained its final year dividend of 44¢ per share fully franked payable on 23<sup>rd</sup> September 2004 to shareholders registered at 5:00 pm on 2<sup>nd</sup> September 2004. This brings the full year dividend to a fully franked 79¢ per share.

	<b>F'04</b>	<b>F'03</b>	<b>% Change</b>
<b>System sales units</b>	<b>9,306</b>	<b>9,328</b>	<b>0%</b>
	<b>A\$m</b>	<b>A\$m</b>	
<b>Total revenue</b>	<b>285.8</b>	<b>307.6</b>	<b>(7%)</b>
<b>Profit before tax</b>	<b>47.3</b>	<b>80.0</b>	<b>(41%)</b>
<b>Profit after tax</b>	<b>36.7</b>	<b>58.2</b>	<b>(37%)</b>
<b>EPS</b>	<b>68.2¢</b>	<b>110¢</b>	<b>(38%)</b>
<b>Final year dividend</b>	<b>44¢</b>	<b>44¢</b>	
Franking	100%	100%	
<b>Cash on hand as at June 30, 2004 A\$m</b>	<b>50.0</b>	<b>28.9</b>	<b>73%</b>

CEO/President, Dr Chris Roberts, who commenced with Cochlear on 1 February 2004 commented:

"As outlined in my report to the market in April, the fundamentals for Cochlear and its markets are compelling, notwithstanding the disappointing result this year.

"The Company is refocused on the core business activities and this has necessarily required some hard decisions which have impacted the F'04 profit. However these steps are necessary for longer term growth.

“In terms of the second half, unit sales were 4,824, an increase of 8% over first half sales. In constant currency terms, second half sales revenue was marginally ahead of second half last year and comprised record second half sales revenue for each of the three regions: Americas, Europe and Asia Pacific. This indicates that the changes we’ve made in the last few months have stabilised the Company for the June half.

“I remain confident that robust growth can be achieved in the medium and long term, given the large unmet clinical need for Cochlear’s products, our strong global market position and our exciting product development pipeline. Achieving this growth requires an ongoing commitment to execution.

“The Board is confident of the future growth and has maintained the final dividend at last year’s level despite the fall in current year earnings.”

### **Foreign Currency Impact**

Cochlear earns over 95% of its sales revenue in currencies other than the Australian Dollar. More than 50% of expenditure is also in foreign currencies. To manage the currency variations, Cochlear undertakes forward cover positions on a sliding scale up to 3 years out. The gains and losses from these positions are disclosed in the revenue from ordinary activities line of the accounts in accordance with generally accepted accounting principles. In the current year, the revenue was adversely impacted by the rising Australian Dollar to an amount of A\$38.5 million. Offsetting this were gains on currency hedges of approximately \$30 million.

## **Regional Performance**

### **Americas Region**

While Americas revenue of A\$109.1 million was down 23%, 17% of this was currency. In addition, it was a tough comparable as a competitor was out of the American market for a portion of the prior year. While we have lost market share over the last year, we believe our market share has now stabilised around 60%.

The United States Department of Justice (DOJ) issued a request for information to our wholly owned American subsidiary Cochlear Americas Inc in March 2004. This request for information relates to an investigation into certain Federal Healthcare regulations. The DOJ has made no specific allegations and Cochlear Americas Inc is cooperating fully. There is nothing further to report at this time, and there is no timeframe for a resolution of this issue, but our advice suggests it will be some time before this matter will be resolved.

Mr Chris Smith has been appointed as the President of the Americas Region, effective August 2004. He has over 20 years experience in the medical device industry in the United States.

Government reimbursement levels for Medicare and Medicaid patients in the USA were raised 12% during the year. This is an important precedent as reimbursement remains key for future growth. In addition the Centre for Medical Service (CMS) in the USA is currently reviewing an application to broaden its candidacy criteria guidelines.

## European Region

In constant currency terms, European revenue was up 6% over the prior year and our strong market share of approximately 60% was maintained.

The training centre in Mechelen, Belgium, which opened in the first half was active in the second half and healthcare professionals were trained with the latest Cochlear products and therapies during the year.

To strengthen our presence in Europe, we have been negotiating the purchase of our Distributors in France, Belgium and the Netherlands. These negotiations were successfully concluded after June 30, 2004. These three markets are very important cochlear implant markets and we believe our direct presence in these markets will facilitate continued growth.

## Asia Pacific

China and Australia provided the impetus for strong growth in unit sales of more than 18% in Asia Pacific. Long term plans and growth strategies for Asia are beginning to now pay off after several years of investment.

In Australia, awareness strategies aimed at the adult market increased demand and strong growth of nearly 20% was achieved in this, our most penetrated market. This was important, as it is a model for growth in other developed markets where reimbursement lags demand.

In Japan we have acquired the assets of our long-standing distributor business and will transition to a fully direct model over the next nine months. This is again part of our strategy to increase our direct interaction with all levels of the cochlear implant market.

In July 2004, we appointed Mr Mark Salmon as President of the Asia Pacific region. Mark comes with extensive healthcare and Asia Pacific experience.

## **New Products**

Three important products were launched during the second half of F'04.

### **1. Nucleus® 24 Contour Advance™**

Following successful clinical trials, the Contour Advance electrode has now been successfully launched in most major markets including Europe and the USA. A key aim of the design is to have an electrode that is less traumatic on insertion into the cochlea such that the delicate structures in the inner ear are not damaged. This is an important step towards preservation of residual hearing which is one factor for penetrating the severely hearing impaired market.

The launch has been enthusiastically received and already more than 50% of all our implants sold in Europe and the USA incorporate the unique electrode.

## 2. **ESPrIt 3G For Nucleus 22 Users**

Providing access to the very latest technology for our existing recipients is an important promise by Cochlear and a key point of differentiation from our competitors. The ESPrIt 3G processor for N22 users delivers on this promise, as the speech processor is designed to be compatible with Nucleus implants received up to 20 years ago. This gives tens of thousands of existing recipients the opportunity to gain the additional benefits of Esprit 3G's telecoil and Whisper Setting. It was launched in key markets in Europe and America in the second half and has been embraced enthusiastically.

## 3. **Streamlined Fitting**

Cochlear's Streamlined Fitting Software methodology is now being trialled in our major markets. The results to date are very encouraging with the potential to reduce initial programming time from several hours to less than 15 minutes. This can also assist with improving clinic profitability. The next stage is to encourage adoption in leading clinics thereby freeing up clinicians' time while ensuring consistent results.

## **THE WAY AHEAD**

New people have been appointed in certain key executive positions in all of the regions. New regional Presidents have now started in the Americas and Asia-Pacific. New marketing executives have been appointed in all regions during the last twelve months. Sydney Operations has also been strengthened with the appointment of new Senior VP of Quality and Regulatory. There is an appropriate mix of new and experienced executives driving the Company forward.

Following a refocus of R&D programmes on our core business, our next generation of products has advanced well, particularly over the last six months. The priority remains our new generation product platform, which is on target for clinical trials in the next 6 months and commercial release starting in the first half of calendar 2005 for certain selected countries.

Activity on the Functional Electrical Stimulation project and work in allied areas has been discontinued and refocused into the core business.

Cochlear's geographic reach is very deep, with cochlear implants being actively sold in over 70 countries. There is a need to strengthen core markets as well as grow those newer developing markets. To strengthen certain core markets we have purchased our distributors' businesses in Japan, Belgium, The Netherlands and France. These acquisitions were concluded after year-end at a total cost including inventory and other assets of approximately \$23 million which was internally funded.

After the profit downgrades of F'04 we have changed key people and implemented strategies initially stabilising the Company and importantly positioning it for growth. That said, until the results of the initiatives become clearer, it is difficult to offer quantitative guidance for F'05 at this time. While the full year profit for F'05 will be ahead of F'04 on present indications, the first half profit will be below last year's first half profit. A further update will be given at the October AGM.

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