



## **ASX RELEASE**

# **COCHLEAR LIMITED - CEO UPDATE**

Cochlear Limited (Cochlear) today announced the outcomes of a review of the business and the implementation of restructuring and improvement programmes initiated by Dr Chris Roberts.

The outcome is the first step from an intensive two-month review undertaken by CEO, Dr Roberts following his appointment in February 2004. The review has examined the Cochlear business, its operations and its geographic regions.

“The fundamentals of the Company, and its markets, are compelling. There is a large unmet clinical need for Cochlear’s products for the profoundly deaf and severely hearing impaired. Combining this with a strong global market position, continued technology leadership and an exciting product development pipeline, provides an opportunity for robust long term growth. That said, we are coming off a disappointing December half where unit sales were down 9% from the June half.

“As a new CEO, I’ve been able to take a long, hard and objective look at Cochlear’s business and have made some tough, but necessary decisions,” said Dr Roberts.

### **F’04 SECOND HALF OUTLOOK**

The split of first half to second half unit sales in F’04 is now forecast to be similar to prior years. This will not support double-digit growth in the second half compared to the prior year. It is encouraging in that it restores historical sequential half on half growth for this second half over the first half.

This results in a full year profit after tax forecast in the range of A\$35m to A\$39m after non-recurring costs.

It is anticipated that the final dividend will be maintained at last year’s payout of 44¢ per share.

### **NON-RECURRING ITEMS AND WRITE OFFS**

The CEO Review has highlighted the need to refocus on the core business activities. A number of non-recurring items will be booked in the current year. The estimated total cost of these non-recurring items is expected to be A\$17m before tax and A\$12m after tax including headcount reduction of some 40 people. The details of these items are discussed below.

### **Research & Development (R&D) – A\$6.0m**

The review highlighted the need to refocus the R&D efforts on securing our technology leadership in the cochlear implant industry. The immediate priority is the successful launch of System 4 which remains on schedule for release in F'05.

Research on devices to expand the indications for implantation has been prioritised.

The Functional Electrical Stimulation (FES) project and work in allied areas has been cancelled. We are proceeding with supply of product into an existing bladder control programme in Melbourne, but all other activities in peripheral areas have been halted. Inventory associated with these projects will be written off in the current year.

While we have reprioritised the R&D projects we are also reworking our R&D processes. We must retain our technology leadership and this means we must not only be more innovative but also faster at bringing these innovations to market. A number of projects focused at time to market are being implemented, which will incur some one-off costs,

### **Other Costs & Legal – A\$11m**

As announced on 11 March 2004, Cochlear has received a request for information from the US Department of Justice (DOJ) relating to various healthcare laws. The DOJ has made no specific allegations against Cochlear and Cochlear is co-operating fully with the information request. It is not possible at present, to provide more detail regarding this investigation.

While it is still early in this investigation and forecasts of legal costs cannot be estimated with certainty, Cochlear has estimated that material legal fees are likely to be incurred as a result of managing the information request. These will be booked in the current year.

The timeframe for the resolution of this matter is yet to be determined and as relevant information becomes available, Cochlear will communicate this to the market.

A detailed review of all other assets throughout the Group has resulted in a write-down of various individually non-significant items in the current year.

Upgrades to the facilities at Lane Cove including two additional Clean Rooms are now complete. All prior capitalised leasehold improvement costs will be written off in the current year.

## REVIEW SUMMARY

“My review highlighted:

- The potential for robust medium to long term growth for Cochlear in the hearing business.
- Cochlear’s unique position to capitalise on this potential with its strong market presence, history of product innovation and reliability and an exciting product pipeline going forward.
- The need for excellent execution of our strategies for innovative products and market growth.

These are the priorities on which we will focus going forward.”

Dr Chris Roberts  
CEO/ President

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