



ASX / MEDIA RELEASE

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COCHLEAR ANNOUNCES RECORD FINANCIAL RESULTS FOR HALF YEAR ENDED DECEMBER 31ST 2004

- Total revenue of \$163.6 million, up 18%
- Record unit sales of 5,014, up 12%
- EBITDA of \$44.8 million up 12%
- Profit After Tax of \$29.5 million up 10%

Sydney: Cochlear Limited (COH.AX), today announced record revenue and after tax profit results for the half year ended December 31st, 2004.

Revenue for the 6 months was \$163.6 million, an 18% increase over the previous corresponding period (2003: \$139.2 million). Record unit sales for the 6 months of 5,014 units represented an increase of 12% over the December half year last year (2003: 4,482 units). EBITDA of \$44.8 million was an increase of 12% (2003: \$39.9 million). Profit after tax was \$29.5 million an increase of 10% over the December 31st 2003 half year (2003: \$26.9 million).

Cochlear has maintained its dividend at 35 cents per share, fully franked, (on an EPS of 54.3 cents per share) payable on 15 March 2005 to shareholders on the register at 25 February 2005.

Results summary

	31 Dec.2004	31 Dec.2003	Change
System sales units	5,014	4,482	↑12%
	(A\$ million)	(A\$ million)	
Total revenue	163.6	139.2	↑18%
EBITDA	44.8	39.9	↑12%
Profit Before Tax	40.0	36.4	↑10%
Profit after tax	29.5	26.9	↑10%
EPS (cents)	54.3	50.1	↑8%
Half year dividend	35cps	35cps	
Franking	100%	100%	

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

“This is a pleasing result from a number of aspects.

”First, revenue, unit sales and profit are all record first half results.

“Second, the result is ahead of our expectations and demonstrates that the hard decisions made last year are beginning to yield positive results. Sales revenue was stronger and costs were in line with targets. A competitor having a recall certainly helped, however the result was a strong result even if there had been no recall (the recall benefit was approximately \$2.5 million of sales or around 1.5% of total revenue). In addition, we have regained market share.

“Third, the organisation as a whole is in good shape for the second half and beyond. The rollout of new products in the second half will further consolidate our leading market position.

”At a regional level, we are particularly pleased with the performance of the European region, where revenue was up 44% on the previous corresponding period. The developed countries within Europe in particular performed well and we benefited from the acquisitions of our French and Benelux distributors”

Regional Performance

Americas Region

Revenue in the Americas region was US\$47.4 million, up 22% on the previous corresponding period (2003: US\$38.7 million). Because of continued strengthening of the AUD against the USD the increase in AUD terms was 16%.

The Americas region result was impacted by flat sales in South and Central America (these sales are traditionally variable over accounting periods), and sales growth in the USA was higher than the regional growth.

Market share gains were made in the first half and it is estimated that Cochlear’s market share in the Americas at the end of 2004 was 60 - 65%.

A competitor was unable to sell product due to a product recall lasting approximately 6 weeks in the first half. Cochlear estimates this provided a one off Group benefit of A\$2.5 million of sales during this recall period, the great majority coming from the Americas region. Late in the half year, another competitor received a warning letter from FDA along with an import ban but had enough stock in the USA to continue selling, so the impact during the half on Cochlear’s sales was minimal.

In March 2004, the United States Department of Justice (DOJ) issued a request for information to Cochlear’s wholly owned American subsidiary Cochlear Americas Inc. 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 since Cochlear last updated the market at the AGM in October 2004. It is not known when the DOJ will complete its investigation.

Dr Roberts said, "One important development in the USA during the first half was an improvement in Government reimbursement for Medicare patients. The funding was raised by a further 12% this year. This increased reimbursement does not come to Cochlear, but relates to the reimbursement the hospital receives to offset its expenses. In addition, the USA Centers for Medicare and Medicaid Services (CMS), is seeking public comment on its recommendation that the hearing test score eligibility criterion be increased thereby potentially expanding the Medicare patients eligible for a cochlear implant.

"These changes are very positive for the many thousands of severely hearing impaired patients whose lives could be transformed by this well-proven, cost-effective and now routine cochlear implant intervention. The increasing acceptance of cochlear implants is very positive for Cochlear and its long term growth plans in key markets like the USA".

European Region

European revenue for the half year was Euro 33.4 million, a 34% increase on the previous corresponding period (2003: Euro 24.9 million) and market share increased to 60-65%. In AUD the sales were up 44% (to \$59.3 million).

Approximately A\$2.5 million of the increased European revenue was attributable to Cochlear's direct presence in Belgium, The Netherlands and France. Cochlear finalised the purchase of its distributors' ongoing businesses in these countries and entered these markets directly from 1 July 2004 for Belgium and The Netherlands and 1 November 2004 for France. These acquisitions were funded from internal cash reserves. Cochlear's strategy to increase its direct presence in key markets has progressed well and the integration of these operations has been successfully completed.

Cochlear has given notice to its Italian distributor that it intends to enter the Italian market directly at the conclusion of its contract in May 2005. There are substantial start up costs associated with establishing Cochlear Italia that will be incurred in the second half, however Italy is an important European market where Cochlear's direct presence is important.

Asia Pacific

Growth in Australia and Northern Asia remains robust, however Asia Pacific's revenue of \$ 26.7 million only increased 3% on the previous year (2003: \$25.8 million). The flat sales were because sales to China were below last year's levels. The China sales were negatively impacted by a Chinese Customs Department investigation into the tax exempt importation of cochlear implants by distributors. Cochlear has excellent relationships with various Chinese Government bodies involved in the development of the cochlear implant industry in China and we remain confident in the future of the China market for cochlear implants.

Foreign Currency Impact

Cochlear earns more than 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 half, foreign exchange gains including gains on hedged sales were \$13.9 million, down 8% from the December 2003 half (2003: \$15.1 million).

Technology

The primary focus for the research and development, marketing and manufacturing teams remains the delivery of the fourth generation Cochlear implant system. A staged market introduction of this new system is planned starting in the second half of F'05. There are always unknowns (such as timing on regulatory approvals), however the system is on track for release according to schedule.

Initial results from clinical trials of System 4 are very encouraging and support Cochlear's extensive bench testing. According to Dr Roberts, "The new system will provide a platform for exciting ongoing improvements in hearing performance as well as advancing the flexibility of the system to suit the needs of individual users. We will announce more on product specifics at launch."

An important development that occurred in the first half was an increased focus on reliability as a point of differentiation between the manufacturers. Cochlear has always advocated that reliability is a crucial element of any product design and have long pointed to our published reliability data. Following issues with the regulatory authorities by both our competitors, we published comparative data on our website (www.cochlear.com/1086.asp) which highlights that a competitors' implant is up to four times more likely to fail than a Cochlear Nucleus implant. We continue to highlight the reliability of our implant as we believe it vital that potential recipients are aware of the facts.

Board Appointment

Cochlear today announced the appointment of Mr Rick Holliday-Smith to the Cochlear Board, effective from 1 March 2005. Mr Holliday-Smith is currently the Chairman of SFE Corporation Limited (SFE.AX) and Exco Resources NL (EXS.AX) and a director of DCA Group (DVC.AX) and Servcorp Limited (SRV.AX). He will chair Cochlear's Audit Committee.

Mr Holliday-Smith was formerly American Regional President of NationsBank-CRT based in Chicago and prior to that Managing Director of the Hong Kong Bank Limited based in London and has extensive international business experience.

Outlook

“In the second half of F’05 continued growth in unit sales and revenue is anticipated.

“A strategic decision has been taken to increase the marketing and R&D spend associated with our new cochlear implant system. This enhanced marketing and technology push comes at a time that will maximise our impact in the competitive landscape and help entrench and further advance the recent gains we’ve made.

“These costs plus the extra costs associated with the set up of the Italian direct operations will result in second half profits lower than first half profits, however we are increasing our F’05 profit after tax guidance to \$53-55 million (up from \$50–51 million). Accordingly we expect the full year profit to be approximately 45% higher than the full year result reported last year”, said Dr Roberts.

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