



ASX / MEDIA RELEASE

COCHLEAR F2004 FIRST HALF-YEAR RESULTS

Cochlear Limited (Cochlear) today announced record first half sales of 4,482 units, up 2% on the previous corresponding period. The first-half F'04 Profit after Tax (PAT) of \$26.9 million was in line with the company's guidance to the market in December 2003 and the record result achieved in the same period last year (H1 03: \$27.0m).

Sales revenue in local currencies grew in line with units, but with the strengthening dollar, total revenue fell 7% to A\$139.2 million. Despite the lower Australian dollar revenues, the company's successful foreign exchange strategy and strict cost management have delivered a profit consistent with last year's record result.

The Profit before Tax as a percentage of Sales for the first half increased to 26.1%, up from 23.9% in previous corresponding period.

Cochlear has declared a fully franked dividend of 35c per share, up 2c on the previous corresponding period, and in line with the company's stated 70% payout ratio.

	Dec 2003 A\$m	Dec 2002 A\$m	% Change
System Sales Units	4,482	4,415	2%
Total revenue	139.2	150.1	(7%)
Profit before tax	36.3	36.0	1%
<i>Profit before tax/sales</i>	<i>26.1%</i>	<i>23.9%</i>	
Profit After Tax	26.9	27.0	
<i>Profit After Tax / Sales</i>	<i>19.3%</i>	<i>17.9%</i>	
EPS	50.1c	51.1c	
Cash (Net Position)	38.8	28.9	34%
1st Half Dividend	35¢	33¢	6%
Franking	100%	100%	

Dr Chris Roberts commenced as CEO on 1 February 2004. Dr Roberts was formerly Executive Vice President and Director of ResMed Inc, and has, for more than 20 years, been successfully growing and advancing Australian-based medical device companies internationally.

"Despite the record half-year sales result, the 2% growth is below where we want to be," said Dr Roberts.

"Growth in the last half was disappointing, but of course this was on the back of nearly 50% growth in the first half of the previous year. This half was also affected by a number of short term items such as SARS."

“However, the fundamentals of the business remain sound. There is still a significant unmet clinical need for the product and our technology is world-leading.”

“The demographics indicate that the market is still largely under-penetrated. We need to execute our strategy to drive continued growth across all regions.”

Regional Performance

Americas Region

Cochlear’s market share, at over 60%, is ahead of the company’s market share position at the start of F’03, despite strong competition.

Reimbursement for the procedure remains a key issue. Private health insurance patients (HMOs), comprise more than 60% of sales and participation remains key to market expansion. Participation rates in HMOs are only now rising after several years of decline. For Medicare and Medicaid patients, public funding provided for Cochlear implant procedures has been increased by 12%, which augurs well for future growth.

European Region

Cochlear maintained its marketshare leadership in Europe, with over 60% marketshare. Sales were strong in the key developed European countries. Sales during the half to the Middle East and Central and Eastern Europe were disappointing.

Reimbursement is a key issue in achieving growth. Countries with socialised medicine have not universally increased funding for cochlear implantation in line with demand, although significant funding increases in particular countries has occurred in the past three years.

During the half, Cochlear launched a training centre at our research facility in Antwerp, Belgium. The centre will provide ongoing support and training for key professionals throughout Europe, increasing therapy awareness and providing training in streamlined fitting.

Asia Pacific

China and North East Asia delivered strong growth in the first half, reflecting more than 10 years of careful investment in the region. Cochlear is the clear market leader in Asia and is driving its marketing and sales to target younger recipients in key markets such as Japan and also in emerging markets such as India.

Australia achieved strong growth in the first half, despite no breakthroughs in reimbursement.

Technology

Cochlear's Research & Development and Manufacturing teams remain focused on delivering Cochlear fourth generation cochlear implant system in F'05. The system has been market tested and soundly endorsed by industry professionals. Three key developments are due to be released within the second half of F'04:

- 1. Nucleus® 24 Contour Advance™ – Softip™ Electrode Development**
Cochlear currently has the only commercial curling electrode which hugs the inner wall of the inner ear. The new Softip™ electrode further enhances the flexibility of the electrode. Clinical trial results show that this has the potential to retain residual hearing and achieve deeper insertion into the inner ear structure. This is an important step to further penetrate the severely hearing impaired segment.
- 2. ESPrit 3G For Nucleus 22 Users**
The ESPrit 3G Behind the Ear processor for Nucleus 22 users is in the early stages of commercial release in America and Europe. This processor provides the very latest in technology to our existing Nucleus 22 recipient group and further develops our revenue from sources other than new implant sales.
- 3. Streamlined Fitting**
Cochlear's Streamlined Fitting Software methodology, now being introduced into key markets, can cut the initial programming time of recipients from several hours per initial session to approximately 15 minutes. This major breakthrough in software development will become increasingly important, particularly for improving clinic capacity.

Outlook

In the second half of F04, unit sales growth is expected to strengthen to double-digit growth compared to 2% in the first half. Profit after Tax should be marginally below F03 record profit, as per the previous guidance.

There are a number of encouraging long-term trends which will drive future growth, including:

- Ever increasing neonatal screening which identifies potential infant recipients
- Growing awareness of the benefits of cochlear implantation as the overall critical mass of people with a cochlear implant expands and these recipients are increasingly in contact with the general public
- Improved cosmetics of the device which in turn makes it more appealing
- The growing ageing population which is increasingly prepared to demand and receive the best available technology
- Increasing importance of developing countries, for example China and India.

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