Cochlear

ASX / MEDIA RELEASE

COCHLEAR ANNOUNCES RECORD FULL YEAR PROFIT & DIVIDEND

	June 2003 A$m	June 2002 A$m	% Increase
System Sales Units	**9,328**	**7,845**	**19%**
Revenue from Ordinary Activities	290.0	256.2	13%
EBIT	80.0	51.0	57%
Profit After Tax	**58.2**	**40.1**	**45%**
EPS	**110¢**	**76.6**	**44%**
Cash (Net Position)	28.9	(13.7)	-
2nd Half Dividend Payment	44¢	30¢	47%
Full Year Dividend	77¢	51¢	50%
Franking	100%	100%	100%

Highlights

- System sales up 19% to 9,328 with global market share improved to between 65-70%
- Behind The Ear processor sales up 30%
- Profit after tax up 45% to $58.2m
- Full year dividend up 50% to 77¢ per share, fully franked. (2nd half dividend 44¢ per share)
- Strong cash in-flow of $42.6m for the year to bring the net cash on hand to A$28.9m.

Cochlear Limited CEO and President, Mr Jack O'Mahony said: "This is an excellent result from a very difficult year. We have had to deal with SARS in Asia, the war in the Middle East, a false alarm involving meningitis and a strengthening Australian Dollar. Despite these adversities, we have continued to achieve growth in line with our long-term target of 20% average growth in system sales. In addition we have achieved a record profit of $58.2m which is up 45% on last year.

"Cash generation was strong with $28.9m in cash reserves at year end.

"The Company has declared a fully franked dividend in line with our 70% payout ratio. The full year's dividends are up 50% on the prior year."

Results

Sales

System sales grew by 19% to 9,328 units. Sales revenue in local currencies was in line with system sales growth, but the strengthening Australian Dollar meant that the Australian Dollars revenue of A$290.0 was 13% ahead of last year.

Cochlear earns over 90% of its 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 gross margin line of the accounts in accordance with generally accepted accounting principles. In the current year, although the revenue line of our results was adversely impacted by the rising Australian Dollar, the net profit impact year on year was relatively minor due to the offset of the expenditure and the prudent foreign exchange management.

Behind the Ear (BTE) speech processor sales continued to rise strongly and were up 30% on the prior year. This confirms the trend to the more convenient behind the ear model of processors. Sales revenue from the ESPrit 22 model of BTE upgrade was lower by $6m as this upgrade programme for Nucleus 22 users winds down.

Factors Impacting Result

Cochlear's record results were achieved despite a number of adverse external factors during the year:

In the first half, Cochlear's major competitor withdrew its product from the market for a short time following concerns by the FDA and other regulators regarding its safety. Although Cochlear gained market share as a result, the industry did pause while it assessed the position. The recent report by the American Centre for Disease Control supported Cochlear's early position that our recipients without malformations of the inner ear are at no greater risk than the general population. We believe that long-term industry growth will not be affected by this incident.

The war in the Middle East negatively impacted on our ability to grow in this developing region as travel and local hospital buying patterns were disrupted. The overall impact of this disruption was, however, not material in the context of the Group result.

A third, more serious factor impacting results was the SARS outbreak in the Asian market in the last quarter of the current financial year. As an elective surgical procedure, cochlear implantation was delayed by potential recipients (especially children), who stayed away from hospitals during the epidemic. We estimate approximately 250 unit sales were lost as a result. Surgeries have begun again, but the first quarter results in Asia have again been adversely impacted, but to a much lesser degree.

The strengthening Australian Dollar has been mentioned already. Prudent management of our FX position has meant that the impact of profit after tax when compared to last year is not significant.

Expenditure

As flagged earlier this year, the focus this year was on market development and support and an additional $19m was spent in developing and underpinning the growth in our markets. The majority of this spend was in the Americas region which grew by more than 30% in unit terms this year. However, there was additional investment in all regions.

Research and Development expenditure of $37.0m was at similar levels to last year following a step up function in costs in the prior year.

Cash

Cash generation was particularly strong and the Company generated A$ 35.1m during the year. Working capital was well controlled and as a result, Cochlear had a net positive cash position of A$ 28.9m at the end of the year compared to a net borrowing position of A$13.7m at the end of June 2002.

Cochlear's policy of maintaining a dividend payout ratio of approximately 70% remains and the declaration of a second half dividend of 44¢ per share means that the full year dividends are up over 50% on last year.

Regional Performance

A characteristic of the cochlear implant industry is the variability of growth rates observed across the portfolio of 80 countries in which we do business. This portfolio of countries however, delivered growth consistent with the long term average growth rate of approximately 20%. This portfolio effect will continue in future years.

Americas Region

The Americas region was the standout result for the year with revenue of A$142.2 up 19% (33% in US Dollars) on the previous year. This strong growth reflects the ongoing industry growth in the region and the market share gains made over the year. Sales from processors and accessories remain a higher proportion of revenue than other regions.

European Region

Sales revenue of A$98.3 million was up 13% (16% in local currency) on the previous year. As anticipated, growth in the second half was strong and more than 60% of the year's sales occurred in the second half. It is anticipated that a similar seasonal trend will be evident in future years.

Asia Pacific

Sales of A$47.9 million were flat on last year, but unit sales up 5% on the previous year. SARS negatively impacted the result as sales in key North East Asian countries virtually ceased in the last quarter as surgery was delayed. Growth in other areas within the region was at targeted levels.

Technology

Cochlear is committed to making our products as simple to operate as possible. An important part of our development in this area is the software which drives the implant. During the last six months we have released our new R126v2 programming software. This release, which is fully compatible for all of our past and current implant models, begins to use Neural Response Telemetry based MAPping for programming a patient. This is an important step towards our ultimate goal of providing automated programming to clinics and recipients.

Nucleus® 24 Contour Advance™ – Softip™ Electrode Development

Preservation of residual hearing is an important factor to many recipients when choosing whether to have a cochlear implant. Cochlear currently has the only electrode which hugs the inner wall of the cochlea structure. Developments in the last six months on the electrode have altered the tip of the electrode to make it even more flexible. A new insertion technique has been developed which further improves the placement and performance of the electrode system. These improvements have demonstrated excellent results in the retention of residual hearing and have facilitated deeper insertion into the inner ear structure.

Leveraging Intellectual Property

Cochlear continues to explore methods of leveraging our intellectual property. The severely hearing impaired market remains largely untapped at this time. With this aim, Cochlear has expanded its co-operation with Phonak AG to include the development of an implantable hearing device aimed at the severely hearing impaired segment of the market. This development is in its infancy and expenditure will be met from our current R&D budget. It may be several years before the success of the new device can be clinically accepted.

Cochlear will be seeking to exploit further our intellectual property portfolio by licensing and other means. Our focus, however, remains very clearly on the cochlear implant business and these activities will not divert resources.

Corporate Governance

Cochlear takes its responsibilities towards Corporate Governance seriously and has a policy of open and transparent accounting treatments. Cochlear is in compliance with the major recommendations issued by the ASX Corporate Governance Council.

During the year, two additional Board sub-committees were established. These are the Medical Science Committee and the Technology and Innovation Committee. Detailed work at the committee level has ensured an appropriate level of review of the relevant areas by Board members.

Outlook

The long term average growth trend of 20% in unit sales remains intact. Cochlear believes that along with this sales growth it can grow profit after tax by a similar percentage in F'04. Cochlear now has more than 50,000 recipients. As this installed base increases, we expect the supply of accessories and upgrades to our recipients to become an important revenue stream.

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