

2000 Financial Report

Cochlear Limited and its controlled entities – financial report for the year ended 30 June 2000

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Directors' Report

Cochlear Limited for the year ended 30 June 2000

The directors present their Report, together with the financial report of Cochlear Limited (the "Company") and the consolidated financial report of the Consolidated Entity, being the Company and its controlled entities, for the year ended 30 June 2000, and the Auditors' Report thereon.

Directors

The directors of the Company in office during the year or since the financial year are Prof. DG Penington, AC, Ms CB Livingstone, Prof. BDO Anderson, AO, Mr JA Calvert-Jones, Ms EC Holley, Mr PJ North and Mr JH Veeneklaas. Mr JA Calvert-Jones retired as director on 19 October 1999. Information on the directors is presented on pages 24 and 25.

Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the year are:

	Board of Directors		Remuneration Committee		Audit Committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
Prof. DG Penington, AC	10	10	2	2	4	4
Ms CB Livingstone	10	10	2	2	4	4
Prof. BDO Anderson, AO	10	10	2	2	–	–
Mr JA Calvert-Jones*	4	4	1	1	–	–
Ms EC Holley	10	10	–	–	4	4
Mr PJ North	10	9	–	–	4	4
Mr JH Veeneklaas	10	9	2	2	–	–

* Retired 19 October 1999.

Principal Activities and Review of Operations and Results

The principal activities and a review of the operations of the Consolidated Entity during the year ended 30 June 2000, and the results of those operations are set out in the accompanying Chairman's and Managing Director's Review.

Other than as discussed in this Report, there were no significant changes in the nature of those activities during the year ended 30 June 2000 and the results of those operations are set out in the Chairman's and Managing Director's Review.

Consolidated Results

The consolidated results for the year attributable to the members of the Company are:

	2000	1999
	\$000	\$000
Sales revenue	144,158	127,181
Operating profit after abnormal item and before income tax	31,668	23,944
Operating profit after income tax	20,167	16,327
Basic earnings per share (cents)	39.6	32.3

Cochlear Limited for the year ended 30 June 2000

Dividends

Dividends paid or declared by the Company since the end of the previous financial year are:

As proposed and provided for in last year's Report:

- a final ordinary dividend of 12 cents per share, franked to 100% with Class C (36%) franking credits, amounting to \$6,064,000, in respect of the year ended 30 June 1999, paid on 22 September 1999; and
- a final special dividend of 8 cents per share, franked to 100% with Class C (36%) franking credits, amounting to \$4,043,000 in respect of the year ended 30 June 1999, paid on 22 September 1999.

In respect of the current year:

	\$000
• an interim ordinary dividend of 15 cents per share franked to 100% with Class C (36%) franking credits and paid on 22 March 2000	7,670
• the final ordinary dividend declared by the directors of the Company of 15 cents per share franked to 100% with Class C (34%) franking credits, to be paid on 26 September 2000	7,677
Total dividends paid and provided for in respect of the year ended 30 June 2000	15,347

Derivatives and Other Financial Instruments

The Consolidated Entity's activities expose it to the vagaries of foreign exchange. The Board has confirmed policies and procedures to manage these foreign exchange risks and benefits.

It is the Consolidated Entity's policy to use derivative financial instruments such as forward exchange contracts and options to hedge foreign exchange rate risks.

Derivative financial instruments are not held for speculative purposes. In line with AASB1033 "Presentation and Disclosure of Financial Instruments", details have been included in the financial statements on these matters.

Environmental Regulations

The Consolidated Entity's operations are not subject to any significant environmental regulations under either the Commonwealth of Australia or State/Territory legislation. However, the Board believes that the Consolidated Entity has adequate systems in place to manage its environmental obligations and is not aware of any breach of those environmental requirements as they apply to the Consolidated Entity.

Events Subsequent to Balance Date

On 14 July 2000, the Chairman announced the appointment of a new Managing Director, Mr Jack O'Mahony, to succeed Ms Catherine Livingstone from 21 September 2000.

Other than the matter noted above, there has not arisen in the interval between the end of the financial year and the date of this Report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

State of Affairs

The significant changes to the state of affairs of the Consolidated Entity during the financial year were as follows:

- on 24 September 1999, options over 578,500 ordinary shares were exercised as part of the Executive Share Option Plan for a total consideration of \$1,580,460;
- on 7 January 2000, the Company issued 34,500 shares to eligible employees of the Company and its subsidiaries under the Employee Share Plan for nil consideration; and
- on 19 February 2000, the Company acquired technology from Philips Hearing Implants NV. The directors have chosen to expense this amount during the year as the cost relates to research and development findings and unproven technology in respect of which the probability of future benefits cannot be determined at this stage.

Directors' Report

Cochlear Limited for the year ended 30 June 2000

Likely Developments

Further information as to likely developments in the operations of the Consolidated Entity and the expected results of those operations in subsequent financial years has not been included in this Report because the directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the Consolidated Entity.

Directors' and Executives' Emoluments

The Consolidated Entity's remuneration policy is structured to ensure that remuneration packages properly reflect the accountabilities and responsibilities of the directors and executives and are sufficient to attract, motivate and retain personnel of the appropriate calibre.

Working within this policy framework, the Remuneration Committee makes recommendations to the Board in relation to the Board members and to executives of the Consolidated Entity.

Remuneration packages are structured in such a way that a significant part of the executive's package depends upon achievement of individual performance goals linked to the business objectives and the financial performance of the Consolidated Entity. Performance related bonus payments are therefore contingent on the achievement of agreed individual performance goals and the financial performance of the Consolidated Entity.

An Executive Share Option Plan is also in place with offers determined by reference to the level of accountability and responsibility for development and implementation of corporate strategy. The exercise price of options is based on the average closing price of the Company's shares at the time of acceptance of the offer. Share options have a three year vesting period and exercise is dependent on achieving earnings per share growth hurdles.

Details of the emoluments of each Director and of the five most highly remunerated executives of the Consolidated Entity and the Company are shown below:

Amounts in \$	Salary or fees	Performance related bonus	Benefits ¹	Super-annuation	Leaving benefits	Total	Number of options exercised ^{2, 3}
Directors of the Company							
Prof. DG Penington, AC	93,500	–	–	6,545	–	100,045	–
Ms CB Livingstone ²	328,881	128,636	–	55,822	–	513,339	72,000
Prof. BDO Anderson, AO	37,001	–	–	2,590	–	39,591	–
Mr JA Calvert-Jones	11,385	–	–	796	–	12,181	–
Ms EC Holley	43,001	–	–	2,590	–	45,591	–
Mr PJ North	37,001	–	–	2,590	–	39,591	–
Mr JH Veeneklaas	37,001	–	–	2,590	–	39,591	–
Consolidated Entity Executives							
Mr RE West ^{2, 4} President, Americas Region	378,560	203,763	11,722	22,281	–	616,326	45,000
Dr ML Lehnhardt ^{2, 4} Professional Relations & Market Development Manager	231,806	94,439	19,966	29,992	–	376,203	45,000
Mr R Giancola ⁴ Director of Sales, Latin America	282,490	30,322	14,380	12,459	–	339,651	–
Mr K Barela ^{3, 4} Director of Sales, North America	151,139	69,421	14,421	12,942	85,606	333,529	8,000
Mr H Noguchi ^{2, 4} President, Nihon Cochlear Corporation	275,513	–	19,142	–	–	294,655	15,000
Company Executives							
Mr NO Gorshenin General Manager, Global Business	213,227	40,944	–	7,067	–	261,238	–
Mr JF Patrick ² General Manager, Research & Applications	151,391	52,685	6,421	20,854	–	231,351	45,000
Dr JL Parker ² General Manager, Design & Development	172,611	49,992	–	7,067	–	229,670	36,000

Cochlear Limited for the year ended 30 June 2000

Amounts in \$	Salary or fees	Performance related bonus	Benefits ¹	Super-annuation	Leaving benefits	Total	Number of options exercised ^{2 3}
Mr L Port ² General Manager, Business Systems	144,813	36,107	3,796	18,634	–	203,350	15,000
Mr NJ Mitchell ² Chief Financial Officer and Company Secretary	141,923	43,109	–	9,934	–	194,966	36,000

1. Benefits include the provision of car allowances, telecommunication costs and health insurance.

2. Options were exercised in accordance with an Executive Share Option Plan at an exercise price of \$2.56 per share during the year, and at the time of exercise the share price was \$16.15.

3. Options were exercised in accordance with the Executive Share Option Plan at an exercise price of \$4.55 per share during the year and at the time of exercise the share prices was \$16.15.

4. Denotes overseas-based executive.

Options

During and since the end of the financial year, the Company granted options over unissued ordinary shares to the Managing Director and those of the five most highly remunerated executives of the Company and of the Consolidated Entity as part of their remuneration:

	Number of options granted	Exercise price per share	Exercise period
Managing Director			
Ms CB Livingstone	60,000	\$15.00	Aug – Sept 2002
Executives			
Mr RE West President, Americas Region	30,000	\$15.00	Aug – Sept 2002
Dr ML Lehnhardt Professional Relations & Market Development Manager	20,000	\$15.00	Aug – Sept 2002
Ms R Giancola Director of Sales, Latin America	–	–	–
Mr K Barela Director of Sales, North America	–	–	–
Mr H Noguchi President, Nihon Cochlear Corporation	–	–	–
Mr NO Gorshenin General Manager, Global Business	30,000	\$15.00	Aug – Sept 2002
Mr JF Patrick General Manager, Research & Applications	30,000	\$15.00	Aug – Sept 2002
Dr JL Parker General Manager, Design & Development	30,000	\$15.00	Aug – Sept 2002
Mr L Port General Manager, Business Systems	30,000	\$15.00	Aug – Sept 2002
Mr NJ Mitchell Chief Financial Officer and Company Secretary	30,000	\$15.00	Aug – Sept 2002
At the date of this Report, unissued ordinary shares of the Company under option are:			
	696,000	\$2.56	Aug – Sept 2000
	68,000	\$4.55	Aug – Sept 2000
	471,000	\$8.90	Aug – Sept 2001
	589,000	\$15.00	Aug – Sept 2002
	25,000	\$16.80	Aug – Sept 2002

During the year, the Company granted options over 624,000 unissued ordinary shares to employees under an Executive Share Option Plan. The options are exercisable in the month following lodgment with the Australian Stock Exchange of the Company's preliminary financial report for the financial year ending 30 June 2002. The number of options which will be exercisable by the executives will depend upon the compound annual growth rate of the earnings per share achieved by the Consolidated Entity since 1 July 1999. Three different levels of growth rate have been set which will determine the number of options which will be exercisable by the executives in any particular year. If the minimum growth rate of 10% compound average growth rate is not achieved, no shares will be issued.

The Company cancelled 48,500 share options during the year.

Directors' Report

Cochlear Limited for the year ended 30 June 2000

Directors' Interests

The relevant interest of each director in the share capital of the Company, as notified by the directors to the ASX in accordance with Section 235(1) of the Corporations Law at the date of this Report, is as follows:

	Cochlear Limited ordinary shares	Options over ordinary shares
Prof. DG Penington, AC	25,000	–
Ms CB Livingstone	100,000	216,000
Prof. BDO Anderson, AO	4,000	–
Ms EC Holley	8,000	–
Mr PJ North	14,000	–
Mr JH Veeneklaas	–	–

Indemnification of Directors and Officers

Under the terms of Article 35 of the Company's Constitution, and to the extent permitted by law, the Company has indemnified the directors of the Company, named in this Report, the Company Secretary Mr NJ Mitchell, and other persons concerned in or taking part in the management of the Consolidated Entity. The indemnity applies when persons are acting in their capacity as officers of the Company in respect of:

- liability to third parties (other than the Company or related bodies corporate), if the relevant officer has acted in good faith; and
- the costs and expenses of successfully defending legal proceedings in which relief under the Corporations Law is granted to the relevant officer.

Insurance for Directors and Officers

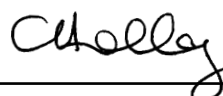
During the year, the Company paid a premium for a Directors' and Officers' Liability Insurance policy. The insurance provides cover for the directors named in this Report, the Company Secretary, and officers and former directors and officers of the Company. The policy also provides cover for present and former directors and officers of the Consolidated Entity. The directors have not included details of the nature of the liabilities covered and the amount of the premium paid in respect of the Directors' and Officers' Liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

Rounding Off

The Company is of a kind referred to in Australian Securities and Investments Commission Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order amounts in the financial report and Directors' Report have been rounded off to the nearest one thousand dollars, unless otherwise indicated.

Dated at Sydney this 22nd day of August 2000.

Signed in accordance with a resolution of the directors:



Director Director

Profit and Loss Statements

Cochlear Limited and its controlled entities for the year ended 30 June 2000

Consolidated Company					
	<i>Note</i>	2000 \$000	1999 \$000	2000 \$000	1999 \$000
Operating profit before income tax	2	36,055	23,944	30,117	22,037
Abnormal item	4	4,387	–	4,387	–
Operating profit before income tax		31,668	23,944	25,730	22,037
Income tax expense attributable to operating profit	5	11,501	7,617	9,084	6,917
Operating profit after income tax		20,167	16,327	16,646	15,120
Retained profits at the beginning of the year		26,518	24,341	14,381	13,411
Total available for appropriation		46,685	40,668	31,027	28,531
Dividends paid or provided for	6	15,347	14,150	15,347	14,150
Retained profits at the end of the year		31,338	26,518	15,680	14,381
Basic earnings per share (cents)	8	39.6	32.3	–	–

The profit and loss statements are to be read in conjunction with the notes to the financial statements set out on pages 38 to 61.

Balance Sheets

Cochlear Limited and its controlled entities as at 30 June 2000

Consolidated Company								
				<i>Note</i>	2000 \$000	1999 \$000	2000 \$000	1999 \$000
Current Assets								
Cash	24(i)	23,201	33,831	12,313	23,729			
Receivables				9	31,789	17,013	19,602	8,424
Inventories				10	14,068	11,361	7,905	6,005
Other				11	2,913	1,806	699	244
<i>Total current assets</i>					<i>71,971</i>	<i>64,011</i>	<i>40,519</i>	<i>38,402</i>
Non-Current Assets								
Receivables				9	463	344	–	–
Investments				12	–	–	3,944	3,944
Plant and equipment				13	10,311	7,222	8,344	5,863
Other				14	11,026	11,362	7,134	6,773
<i>Total non-current assets</i>					<i>21,800</i>	<i>18,928</i>	<i>19,422</i>	<i>16,580</i>
Total assets					93,771	82,939	59,941	54,982
Current Liabilities								
Accounts payable				15	21,879	17,835	14,049	10,580
Borrowings				16	2,406	3,462	–	–
Provisions				20	26,108	27,101	21,699	23,147
<i>Total current liabilities</i>					<i>50,393</i>	<i>48,398</i>	<i>35,748</i>	<i>33,727</i>
Non-Current Liabilities								
Provisions				20	549	491	549	491
<i>Total non-current liabilities</i>					<i>549</i>	<i>491</i>	<i>549</i>	<i>491</i>
Total liabilities					50,942	48,889	36,297	34,218
Net assets					42,829	34,050	23,644	20,764
Shareholders' Equity								
Share capital				22	7,964	6,383	7,964	6,383
Reserves				23	3,527	1,149	–	–
Retained profits					31,338	26,518	15,680	14,381
Total shareholders' equity					42,829	34,050	23,644	20,764

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 38 to 61.

Statements of Cash Flows

Cochlear Limited and its controlled entities for the year ended 30 June 2000

Notes to the Financial Statements

Consolidated Company				
Note	2000 \$000	1999 \$000	2000 \$000	1999 \$000
Cash Flows from Operating Activities				
Cash receipts in the course of operations	129,091	127,379	84,321	79,957
Cash payments in the course of operations	(103,360)	(93,799)	(61,914)	(50,489)
Grants received	658	–	–	–
Interest received	1,417	969	1,141	801
Interest paid	(92)	(116)	–	–
Income taxes paid	(12,267)	(8,634)	(10,031)	(7,066)
Purchase of technology expensed as abnormal item	(4,387)	–	(4,387)	–
Net cash provided by operating activities	24(ii) 11,060	25,799	9,130	23,203
Cash Flows from Investing Activities				
Payment for plant and equipment	(5,759)	(4,315)	(4,350)	(3,700)
Proceeds from sale of non-current assets	2(a) 13	37	–	37
Net cash used in investing activities	(5,746)	(4,278)	(4,350)	(3,663)
Cash Flows from Financing Activities				
Repayment of borrowings	(2,529)	–	–	–
Proceeds from the issue of shares	1,581	1,383	1,581	1,383
Dividends paid	(17,777)	(8,793)	(17,777)	(8,793)
Net cash used in financing activities	(18,725)	(7,410)	(16,196)	(7,410)
Net (decrease)/increase in cash held	(13,411)	14,111	(11,416)	12,130
Cash at the beginning of the year	32,835	19,227	23,729	11,599
Foreign exchange adjustment to beginning cash	1,371	(503)	–	–
Cash at the end of the year	24(i) 20,795	32,835	12,313	23,729

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 38 to 61.

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Notes

*Notes to the financial statements for Cochlear Limited and its controlled entities
for the year ended 30 June 2000*

1. Statement of Significant Accounting Policies

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board, and the Corporations Law. It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non-current assets.

These accounting policies have been consistently applied by each entity in the Consolidated Entity and, except where there is a change in accounting policy, are consistent with those of the previous year. Unless otherwise stated, these accounts have been prepared in Australian Dollars.

(b) Principles of Consolidation

The consolidated financial statements of the Consolidated Entity include the financial statements of the Company, being the parent entity, and its controlled entities. Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased. The balances, and effects of transactions, between the parent entity and controlled entities included in the consolidated financial statements have been eliminated.

(c) Revenue Recognition

Sales Revenue

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products or services to entities outside the Consolidated Entity. Sales revenue is recognised when the goods are provided, or when the fee in respect of services provided is receivable.

Interest Income

Interest income is recognised as it accrues.

Other Revenue

Other revenue, including government grants, is recognised when the entitlement is confirmed.

Asset Sales

The gross proceeds of asset sales are included as revenue of the Consolidated Entity. The profit and loss on disposal of assets is brought to account at the date an unconditional contract of sale is signed.

**Notes to the financial statements for Cochlear Limited and its controlled entities
for the year ended 30 June 2000**

1. Statement of Significant Accounting Policies (continued)

(d) Foreign Currency

Transactions

Foreign currency transactions are translated to Australian Dollars at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts receivable and payable in foreign currencies are brought to account as exchange gains or losses in the profit and loss statement in the financial year in which the exchange rates change.

Hedges

Hedge transactions of the Consolidated Entity are designed to hedge the purchase or sale of goods or services. Exchange differences arising up to the date of purchase or sale, together with any gains or losses arising at the time of entering into the hedge, are deferred and included in the measurement of the purchase or sale. Any exchange differences on the hedge transaction after that date are included in the profit and loss statement.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur, the deferred gains and losses that arise on the foreign currency hedge prior to its termination, continue to be deferred and are included in the measurement of the purchase or sale when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur, deferred gains and losses that arose on the foreign currency hedge prior to its termination are included in the profit and loss statement for the period.

Translation of Controlled Foreign Entities

The balance sheets of overseas controlled entities that are self-sustaining foreign operations are translated at the rates of exchange ruling at balance date. The profit and loss statements are translated at the average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

Translation of Foreign Branches

The balance sheets of controlled overseas branches that are integrated foreign operations are translated using the temporal method. Monetary assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while non-monetary items and revenue and expense items are translated at exchange rates current when transactions are brought to account in the profit and loss statement.

Notes

*Notes to the financial statements for Cochlear Limited and its controlled entities
for the year ended 30 June 2000*

1. Statement of Significant Accounting Policies (continued)

(e) Provision for Warranties

Warranty costs are expensed as incurred with a provision made for the estimated liability on products still under warranty. The amount provided each year for warranty is calculated based on historical claims experience and respective product populations.

(f) Classification of Assets and Liabilities

Assets and liabilities have been classified in the balance sheet of the Consolidated Entity as either current or non-current. Current assets are cash and other assets that would in the ordinary course of business be consumed or converted to cash within 12 months. Current liabilities are liabilities that would in the ordinary course of business be due and payable within 12 months.

(g) Research and Development Expenditure

Research and development expenditure is expensed as incurred.

(h) Non-Current Assets

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value.

(i) Plant and Equipment

Acquisition

Items of plant and equipment are recorded at cost and depreciated as outlined below.

The cost of plant and equipment constructed by the Consolidated Entity includes the cost of materials and direct labour, an appropriate proportion of fixed and variable overheads, and capitalised interest.

Carrying Value

All items of plant and equipment are carried at the lower of cost, less accumulated depreciation, and their recoverable amount.

Depreciation and Amortisation

Items of plant and equipment, including leasehold assets, are depreciated or amortised over their estimated useful lives ranging from three to ten years. The straight line method is used. Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

**Notes to the financial statements for Cochlear Limited and its controlled entities
for the year ended 30 June 2000**

1. Statement of Significant Accounting Policies (continued)

Leased Plant and Equipment

Leases of plant and equipment under which the Consolidated Entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are capitalised. A lease asset and a liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Contingent rentals are written off as an expense of the financial year in which they are incurred. Capitalised lease assets are amortised on a straight line basis over the term of the relevant lease, or where it is likely the Consolidated Entity will obtain ownership of the asset, the life of the asset. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are charged to the profit and loss statement.

Payments made under operating leases are charged against profit in equal instalments over the financial years covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Manufacturing Activities

Cost is based on the first-in-first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location. In the case of manufactured inventories and work in progress, cost includes an appropriate share of both variable and fixed costs. Fixed costs are allocated on the basis of normal operating capacity.

Net Realisable Value

Net realisable value is determined on the basis of each entity's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

(k) Investments

Investments in controlled entities are carried at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the profit and loss statement when they are proposed by the controlled entities. All intra-group transactions are eliminated on consolidation.

Notes

*Notes to the financial statements for Cochlear Limited and its controlled entities
for the year ended 30 June 2000*

1. Statement of Significant Accounting Policies (continued)

(l) Employee Entitlements

Wages, Salaries and Annual Leave

The provisions for employee entitlements to wages, salaries and annual leave represent the amount which the Consolidated Entity has a present obligation to pay resulting from employees' services provided up to the balance date. The provisions have been calculated at nominal amounts based on current wage and salary rates and include related on-costs.

Long Service Leave

The provision for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date.

Provisions for employee entitlements which are not expected to be settled within 12 months are discounted using the rates attaching to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates, and having regard to the probability that employees will remain in the entity's employ for the period of time necessary to qualify for long service leave. Related on-costs have also been included in the provisions.

Share Options

The Company has granted options to certain employees under an Executive Share Option Plan. Further information is set out in the Directors' Report to the financial report. Other than the costs incurred in administering the scheme which are expensed as incurred, the scheme does not result in any expense to the Consolidated Entity.

Superannuation Funds

The Consolidated Entity contributes to various employee superannuation funds. The liabilities of these superannuation funds are covered by the assets in the funds. The Consolidated Entity is obliged to contribute to the superannuation funds as a consequence of legislation or trust deeds; legal enforceability is dependent on the terms of the legislation and the trust deeds. Contributions are charged against profit as they are made. Further information is set out in Note 28.

(m) Receivables

Trade Debtors

Trade debtor terms vary from market to market depending on the economic factors relevant to the individual market. The Consolidated Entity has internal targets ranging up to 120 debtor days calculated on actual sales per day. The collectability of debts is assessed at balance date and provision made for any doubtful accounts.

The provision for doubtful debts is calculated with reference to the profile of debtors in the Consolidated Entity's sales and marketing regions. Where specific material doubtful debts are identified, an additional amount is provided.

**Notes to the financial statements for Cochlear Limited and its controlled entities
for the year ended 30 June 2000**

1. Statement of Significant Accounting Policies (continued)

Credit Risk

The credit risk related to the trade debtors of the Consolidated Entity which have been recognised and the carrying amount on the balance sheet is net of any provision for doubtful debts. The Consolidated Entity trades in nearly 60 countries and at year end there was no adverse material exposure to any individual overseas country or individual customer other than as provided for in the financial statements.

(n) Net Fair Values of Financial Assets and Liabilities

The carrying value of the Consolidated Entity's financial assets and liabilities approximate their net fair value.

(o) Taxation

Income Tax

The Consolidated Entity adopts the liability method of tax effect accounting. Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences which arise from items being brought to account in different years for income tax and accounting purposes, is carried forward on the balance sheet as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

(p) Accounts Payable

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Company or Consolidated Entity. Trade accounts are normally settled within 60 days but are negotiated on an individual basis where appropriate.

(q) Bank Loans

Bank loans are carried on the balance sheet at their principal amount. Interest expense is accrued at the contracted rate and included in "trade creditors and other creditors".

(r) Comparatives

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current year amounts and other disclosures.

Notes

Notes to the financial statements for Cochlear Limited and its controlled entities for the year ended 30 June 2000

	Consolidated		Company	
	2000 \$000	1999 \$000	2000 \$000	1999 \$000
2. Operating Profit				
(a) Revenue				
<i>Revenue from Operating Activities</i>				
Sales revenue	144,158	127,181	94,828	81,018
Other revenue:				
<i>Interest received or due and receivable from other persons</i>	1,379	977	1,103	809
<i>Government grant received or due and receivable</i>	658	–	–	–
<i>Revenue from Outside Operating Activities:</i>				
<i>Gross proceeds from sale of non-current assets</i>	13	37	–	37
<i>Other income</i>	134	32	71	–
	146,342	128,227	96,002	81,864
(b) Expenses				
Borrowing costs paid or due and payable to other parties	92	116	–	–
Bad trade debts written off to profit and loss statement	–	1	–	–
Depreciation of plant and equipment	2,070	1,709	1,314	998
Amortisation of leasehold improvements	573	1,018	555	1,005
Amounts set aside to provision for:				
Warranties	2,246	3,007	829	1,187
Doubtful trade debts	172	1,016	–	–
Employee entitlements	4,652	4,739	2,346	2,363
Other	112	597	–	1,268
Total amounts set aside to provisions	7,182	9,359	3,175	4,818
Operating lease rental expense	2,203	2,308	632	761
Research and development expenditure expensed as incurred	20,207	13,476	17,986	12,144
Net foreign exchange loss/(gain)	37	6	(12)	4
Loss on sale of plant and equipment	15	1,073	–	1,054
Write down in value of inventories	285	862	207	232

*Notes to the financial statements for Cochlear Limited and its controlled entities
for the year ended 30 June 2000*

	Consolidated		Company	
	2000 \$	1999 \$	2000 \$	1999 \$
3. Auditors' Remuneration				
Amounts Received or Due and Receivable for Audit Services by				
Auditors of the Company	87,000	71,000	87,000	71,000
Other KPMG member firms	107,459	106,000	–	–
	194,459	177,000	87,000	71,000
Amounts Received or Due and Receivable for Other Services by				
Auditors of the Company	336,000	219,000	336,000	219,000
Other KPMG member firms	126,160	30,000	–	–
	462,160	249,000	336,000	219,000

	Consolidated		Company	
	2000 \$000	1999 \$000	2000 \$000	1999 \$000
4. Abnormal Items				
Acquisition of core technology from Philips Hearing Implants NV	4,387	–	4,387	–
Income tax effect	(1,457)	–	(1,457)	–
	2,930	–	2,930	–

The directors have expensed this amount during the year as the cost relates to research and development findings and unproven technology in respect of which the probability of future benefits cannot be determined at this stage.

Notes

Notes to the financial statements for Cochlear Limited and its controlled entities for the year ended 30 June 2000

	Note	Consolidated		Company	
		2000 \$000	1999 \$000	2000 \$000	1999 \$000
5. Taxation					
(a) Income Tax Expense					
Prima facie income tax expense calculated at 36% (1999: 36%) on the operating profit					
		11,400	8,620	9,263	7,933
Increase in Income Tax Expense Due to					
Net higher overseas tax rate					
		209	158	200	100
Non-allowable permanent differences					
		201	228	25	33
Decrease in Income Tax Expense Due to					
Research and development allowance					
		(1,233)	(1,044)	(1,117)	(967)
Other allowable permanent differences					
		–	(148)	–	–
Income tax expense on operating profit before abnormal tax item					
		10,577	7,814	8,371	7,099
Abnormal income tax item:					
Restatement of future income tax benefit due to change in company tax rate					
		1,019	–	936	–
Income tax expense on operating profit after abnormal tax item					
		11,596	7,814	9,307	7,099
Income tax overprovided in prior years					
		(95)	(197)	(223)	(182)
Total income tax expense attributable to operating profit					
		11,501	7,617	9,084	6,917
Total Income Tax Expense Is Made Up of					
Current income tax provision					
		12,390	10,116	9,588	8,778
Future income tax benefit					
		(794)	(2,302)	(281)	(1,679)
Overprovision in prior years					
		(95)	(197)	(223)	(182)
		11,501	7,617	9,084	6,917
(b) Provision for Current Income Tax					
Balance at the end of the year					
	20	5,463	6,689	5,274	6,252
(c) Future Income Tax Benefit					
Future income tax benefit comprises the estimated future benefit at the applicable rate of 34% or 30% depending on when the benefit of the component is expected to be realised (1999: 36%) on the following items:					
Provisions and other timing differences not currently deductible					
		10,712	11,362	7,134	6,773
Tax losses carried forward					
		314	–	–	–
	14	11,026	11,362	7,134	6,773

*Notes to the financial statements for Cochlear Limited and its controlled entities
for the year ended 30 June 2000*

6. Dividends

Cents per share	Total amount \$000	Date of payment	Franked tax franked	Percentage		
Dividends declared or paid by the Company are:						
2000						
Interim – ordinary	15.0	7,670	22 March 2000	36% (Class C)	100%	
Final – ordinary	15.0	7,677	26 September 2000	34% (Class C)	100%	
Total		15,347				
1999						
Interim – ordinary	8.0	4,043	23 March 1999	36% (Class C)	100%	
Final – ordinary	12.0	6,064	22 September 1999	36% (Class C)	100%	
Final – special	8.0	4,043	22 September 1999	36% (Class C)	100%	
Total		14,150				

Consolidated Company				
	2000 \$000	1999 \$000	2000 \$000	1999 \$000
Franking Account				
Balance of franking account adjusted for franking credits which will arise from the payment of income tax provided for in the financial statements, and after deducting franking credits to be used in payment of the above dividend:				
Class C (34% (1999: 36%)) franking credits	10,446	7,846	10,446	7,846

Notes

Notes to the financial statements for Cochlear Limited and its controlled entities for the year ended 30 June 2000

7. Geographical Segments

	Asia Pacific	Europe	Americas	Unallocated	Eliminations	Consolidated								
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Sales Revenue														
Sales revenue outside the Consolidated Entity	28,617	19,213	51,142	48,395	64,399	59,573	–	–	–	–	144,158	127,181		
Intersegment sales revenue	70,830	65,604	2,977	–	–	–	–	–	(73,807)	(65,604)	–	–		
Profit														
Operating profit/(loss) before interest and income tax	5,984	4,039	16,043	15,483	15,577	17,851	(2,836)	(14,290)	–	–	34,768	23,083		
Net interest revenue											1,287	861		
Operating profit before abnormal item and income tax											36,055	23,944		
Abnormal item											(4,387)	–		
Operating profit before income tax											31,668	23,944		
Income tax expense attributable to operating profit											(11,501)	(7,617)		
Operating profit after income tax											20,167	16,327		
Total Assets	13,588	10,636	22,023	15,150	30,707	23,788	55,152	43,274	(27,699)	(9,909)	93,771	82,939		

Industry Segments

The Consolidated Entity operates in the cochlear implant industry.

8. Earnings per Share

	Consolidated	
	2000	1999
Basic earnings per share (cents)	39.6	32.3
Weighted average number of ordinary shares used in the calculation of basic earnings per share	50,978,761	50,492,566

There is no material difference between basic earnings per share and diluted earnings per share.

*Notes to the financial statements for Cochlear Limited and its controlled entities
for the year ended 30 June 2000*

		Consolidated		Company	
	<i>Note</i>	2000 \$000	1999 \$000	2000 \$000	1999 \$000
9. Receivables					
Current					
Trade debtors		34,154	19,242	3,198	1,500
Provision for doubtful trade debtors		(2,365)	(2,229)	(1,329)	(1,329)
		31,789	17,013	1,869	171
Amount receivable from controlled entities	29	–	–	17,733	8,253
Net trade receivables		31,789	17,013	19,602	8,424
Non-Current					
Other amounts receivable		463	344	–	–
10. Inventories					
Raw materials and stores, at net realisable value		2,905	2,679	2,905	2,679
Work in progress, at net realisable value		4,108	1,490	4,108	1,490
Finished goods, at net realisable value		7,055	7,192	892	1,836
Total inventories		14,068	11,361	7,905	6,005
11. Other Current Assets					
Prepayments and other debtors		2,913	1,806	699	244
12. Investments					
Shares in controlled entities, unlisted at cost	25	–	–	3,944	3,944

Notes

Notes to the financial statements for Cochlear Limited and its controlled entities for the year ended 30 June 2000

		Consolidated		Company	
	Note	2000 \$000	1999 \$000	2000 \$000	1999 \$000
13. Plant and Equipment					
Leasehold improvements					
At cost		6,044	3,345	5,400	3,151
Accumulated amortisation		(1,664)	(1,067)	(1,498)	(943)
		4,380	2,278	3,902	2,208
Plant and equipment					
At cost		16,678	13,943	11,194	9,111
Accumulated depreciation		(10,747)	(8,999)	(6,752)	(5,456)
		5,931	4,944	4,442	3,655
Total plant and equipment at net book value		10,311	7,222	8,344	5,863
14. Other Non-Current Assets					
Future income tax benefit	5(c)	11,026	11,362	7,134	6,773
15. Accounts Payable					
Current					
Trade creditors and other creditors		21,879	17,835	14,049	10,580
16. Borrowings					
Current					
Bank overdraft	18	2,406	996	–	–
Bank loans, secured	18	–	2,466	–	–
Balance at the end of the year		2,406	3,462	–	–
17. Commitments					
Operating Lease Commitments					
Future non-cancellable operating lease rentals not provided for in the financial statements are payable as follows:					
<i>Not later than one year</i>		2,288	2,355	904	876
<i>Later than one year but not later than five years</i>		5,677	4,891	3,816	3,273
<i>Later than five years</i>		880	1,733	880	1,733
Total commitments		8,845	8,979	5,600	5,882
Capital expenditure commitments					
Contracted but not provided for and payable:					
Not longer than one year		554	1,902	554	1,902

**Notes to the financial statements for Cochlear Limited and its controlled entities
for the year ended 30 June 2000**

	Consolidated		Company	
	2000 \$000	1999 \$000	2000 \$000	1999 \$000
18. Financing Arrangements				
The Consolidated Entity has Access to the Following Lines of Credit at Balance Date				
Bank overdraft	5,249	4,100	2,000	2,000
Bank loan	2,529	2,466	–	–
Bill acceptance facility	500	500	500	500
Standby letter of credit	500	500	500	500
	8,778	7,566	3,000	3,000
Facility Utilised at Balance Date				
Bank overdraft	2,406	996	–	–
Bank loan – current	–	2,466	–	–
Bill acceptance facility	–	–	–	–
Standby letter of credit	–	–	–	–
	2,406	3,462	–	–
Facility Not Utilised at Balance Date				
Bank overdraft	2,843	3,104	2,000	2,000
Bank loan	2,529	–	–	–
Bill acceptance facility	500	500	500	500
Standby letter of credit	500	500	500	500
	6,372	4,104	3,000	3,000

Bank Overdraft

The bank overdraft is payable on demand and is subject to annual review. Interest on the bank overdraft is variable and is charged at prevailing market rates. The average effective interest rate is 5.5% per annum (1999: 5.25%).

Bank Loan

The bank loan was secured by a letter of comfort provided by the Company. The bank loan was repaid during the year. The utilised facility bore interest at 2.8% per annum (1999: 2.7%).

Bill Acceptance Facility

The bill acceptance facility is reviewed on an annual basis with the next renewal due on 30 November 2000.

Standby Letter of Credit

A transaction negotiation authority is in place to facilitate electronic payments.

Notes

*Notes to the financial statements for Cochlear Limited and its controlled entities
for the year ended 30 June 2000*

Consolidated Company					
	Note	2000 \$000	1999 \$000	2000 \$000	1999 \$000
19. Amounts Payable in Foreign Currencies					
<i>The Australian Dollar equivalent of unhedged amounts payable in foreign currencies, calculated at balance date exchange rates, is as follows:</i>					
Current					
Amounts Payable					
Swiss Franc		56	9	32	9
United States Dollar		1,262	–	1,260	–
Great British Pound		80	17	44	17
German Deutschmark		40	6	5	6
Belgian Franc		932	–	932	–
Japanese Yen		195	–	195	–
<hr/>					
20. Provisions					
Current					
Income tax	5(b)	5,463	6,689	5,274	6,252
Dividend	6	7,677	10,107	7,677	10,107
Employee entitlements*		6,573	4,851	3,577	2,446
Warranties		3,500	2,671	3,500	2,671
Other		2,895	2,783	1,671	1,671
Balance at the end of the year		26,108	27,101	21,699	23,147
<hr/>					
Non-Current					
Employee entitlements*		549	491	549	491

* Employee entitlements include entitlements measured at present values of future amounts expected to be paid, based on a 5% per annum projected weighted average increase in wage and salary rates over an average period of eight years. Present values are calculated using a weighted average rate of 6% per annum based on government guaranteed securities with similar maturity terms.

**Notes to the financial statements for Cochlear Limited and its controlled entities
for the year ended 30 June 2000**

21. Contingent Liabilities

The detail and estimated maximum amounts of contingent liabilities that may become payable are set out below. The directors are not aware of any circumstance or information which would lead them to believe that these liabilities will crystallise and consequently no provisions are included in the financial statements in respect of these matters.

There are no contingent liabilities for termination benefits under service agreements with directors or persons who take part in the management of the Company.

Guarantees

Cochlear Corporation, a wholly owned subsidiary, has guaranteed Wells Fargo US\$1m for a finance facility. The facility was established to provide customer financing for purchases of ESPrit 22 processors within the Americas Region. The bank administers the financing programme.

Consolidated Company				
	2000	1999	2000	1999
	\$000	\$000	\$000	\$000
22. Share Capital				
Issued and Paid-up Capital				
51,148,750 (1999: 50,535,750)				
Ordinary shares fully paid	7,964	6,383	7,964	6,383
Movements in Ordinary Share Capital				
Balance at the beginning of the year	6,383	5,000	6,383	5,000
Shares issued:				
578,500 (1999: 535,750)				
shares issued from the exercise of options(i)	1,581	1,383	1,581	1,383
34,500 shares issued for nil consideration under the Employee Share Plan(ii)	–	–	–	–
Balance at the end of the year	7,964	6,383	7,964	6,383

(i) Ordinary shares issued from the exercise of options granted under the Executive Share Option Plan.

(ii) On 7 January 2000, the Company issued 34,500 ordinary shares to eligible employees of the Consolidated Entity under the Employee Share Plan for nil consideration.

Notes

Notes to the financial statements for Cochlear Limited and its controlled entities for the year ended 30 June 2000

Consolidated Company				
	2000 \$000	1999 \$000	2000 \$000	1999 \$000
23. Reserves				
General	77	74	–	–
Foreign currency translation	3,450	1,075	–	–
	3,527	1,149	–	–
Movements during the Year				
<i>General</i>				
Balance at the beginning of the year	74	77	–	–
Translation adjustment	3	(3)	–	–
Balance at the end of the year	77	74	–	–
<i>Foreign Currency Translation</i>				
Balance at the beginning of the year	1,075	2,677	–	–
Translation adjustment on controlled foreign entities' financial statements	2,375	(1,602)	–	–
Balance at the end of the year	3,450	1,075	–	–

24. Notes to the Statements of Cash Flows

Cash

The Company's operating account pays an average interest rate of 4.5% per annum (1999: 3.6%).

Cash is held on deposit for periods not exceeding 180 days with an average interest rate of 6.15% per annum (1999: 4.7%).

(i) Reconciliation of Cash

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and term deposits, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the balance sheets as follows:

Consolidated Company				
	2000 \$000	1999 \$000	2000 \$000	1999 \$000
Cash at bank and on hand	11,727	8,570	839	824
Cash on deposit	11,474	25,261	11,474	22,905
	23,201	33,831	12,313	23,729
Bank overdraft	2,406	996	–	–
	20,795	32,835	12,313	23,729

*Notes to the financial statements for Cochlear Limited and its controlled entities
for the year ended 30 June 2000*

Consolidated Company				
	2000	1999	2000	1999
	\$000	\$000	\$000	\$000
24. Notes to the Statements of Cash Flows				
(continued)				
(ii) Reconciliation of Operating Profit after				
Income Tax to Net Cash Provided by				
Operating Activities				
Operating profit after income tax	20,167	16,327	16,646	15,120
Add Items Classified as Investing/Financing Activities				
Loss on sales of non-current assets	15	1,073	–	1,054
Add Non-Cash Items				
Total amounts set aside to provisions	7,182	9,359	3,175	4,818
Depreciation and amortisation	2,643	2,727	1,869	2,003
Net cash provided by operating activities				
before changes in assets and liabilities	30,007	29,486	21,690	22,995
Changes in Assets and Liabilities				
(Increase)/decrease in inventories	(2,707)	2,267	(1,900)	2,037
(Increase)/decrease in prepayments and other debtors	(1,107)	(343)	(455)	66
(Increase)/decrease in trade debtors and other amounts receivable	(15,067)	199	(11,178)	(1,061)
Increase in trade creditors and other creditors	4,044	3,002	3,469	1,565
Decrease in provisions	(4,289)	(6,347)	(1,157)	(2,251)
(Decrease)/increase in income taxes payable	(1,226)	768	(978)	1,168
Increase/(decrease) in deferred income taxes	336	(1,883)	(361)	(1,316)
Exchange rate adjustment	1,069	(1,350)	–	–
Net cash provided by operating activities	11,060	25,799	9,130	23,203

(iii) Financing Facilities

Refer Note 18.

Notes

Notes to the financial statements for Cochlear Limited and its controlled entities for the year ended 30 June 2000

25. Particulars in Relation to Controlled Entities

Name	Note	Interest held		Country of incorporation
		2000 %	1999 %	
The Company				
Cochlear Limited				Australia
Controlled Entities				
Cochlear Europe Ltd	a, b	100	–	United Kingdom
Cochlear AG	a	100	100	Switzerland
Cochlear (UK) Ltd	a	100	100	United Kingdom
Cochlear GmbH	a	100	100	Germany
Cochlear Corporation	a	100	100	United States of America
Cochlear (HK) Ltd	a	100	100	Hong Kong
Nihon Cochlear Co Ltd	a	100	100	Japan
Neopraxis Pty Ltd		100	100	Australia

a. These entities are audited by other member firms of KPMG.

b. Incorporated during the year.

**Notes to the financial statements for Cochlear Limited and its controlled entities
for the year ended 30 June 2000**

Consolidated Company				
	2000 No.	1999 No.	2000 No.	1999 No.
26. Directors' Remuneration				
The number of directors of the Company whose income from the Company or related parties falls within the following bands:				
\$10,000 – \$19,999			1	–
\$30,000 – \$39,999			3	–
\$40,000 – \$49,999			1	5
\$100,000 – \$109,999			1	1
\$460,000 – \$469,999			–	1
\$510,000 – \$519,999			1	–
Total		7	7	
	\$	\$	\$	\$
Total income paid or payable or otherwise made available to all directors of the Company from the Company or any related party	789,929	783,638	789,929	783,638

Directors' income does not include insurance premiums paid by the Company or related parties in respect of Directors' and Officers' Liability and legal expenses insurance contracts, as the insurance policies do not specify premiums paid in respect of individual directors. Details of the insurance premiums are set out in the Directors' Report.

Notes

Notes to the financial statements for Cochlear Limited and its controlled entities for the year ended 30 June 2000

27. Executives' Remuneration

The number of executive officers of the Company and Controlled Entity whose income from the Company or related parties and from entities in the Consolidated Entity falls within the following bands:

	Executives of entities in the Consolidated Entity of the Company		Executives	
	2000 No.	1999 No.	2000 No.	1999 No.
\$100,000 – \$109,999	8	7	3	2
\$110,000 – \$119,999	14	18	7	5
\$120,000 – \$129,999	9	6	4	1
\$130,000 – \$139,999	4	4	–	2
\$140,000 – \$149,999	8	5	3	3
\$150,000 – \$159,999	1	1	1	1
\$160,000 – \$169,999	1	6	–	1
\$170,000 – \$179,999	1	2	1	1
\$180,000 – \$189,999	6	2	2	1
\$190,000 – \$199,999	1	1	1	1
\$200,000 – \$209,999	2	4	1	1
\$210,000 – \$219,999	1	1	–	1
\$220,000 – \$229,999	2	1	1	–
\$230,000 – \$239,999	2	2	1	–
\$240,000 – \$249,999	1	–	–	–
\$250,000 – \$259,999	1	1	–	–
\$260,000 – \$269,999	3	–	1	–
\$270,000 – \$279,999	2	–	–	–
\$290,000 – \$299,999	1	–	–	–
\$320,000 – \$329,999	–	1	–	–
\$330,000 – \$339,999	2	–	–	–
\$370,000 – \$379,999	1	–	–	–
\$400,000 – \$409,999	–	1	–	–
\$460,000 – \$469,999	–	1	–	1
\$510,000 – \$519,999	1	–	1	–
\$610,000 – \$619,999	1	1	–	–
Total	73	65	27	21
	\$	\$	\$	\$
Total remuneration received or due and receivable by executive officers whose income is \$100,000 or more:				
From the Company or related parties			4,394,693	3,368,127
From entities in the Consolidated Entity or related parties	12,926,477	10,657,749		

Remuneration denominated in foreign currencies were converted at the exchange rates applicable for those years.

Executives' income does not include insurance premiums paid by the Company and related parties in respect of Directors' and Officers' Liability and legal expenses insurance contracts, as the insurance policies do not specify premiums paid in respect of individual executives.

**Notes to the financial statements for Cochlear Limited and its controlled entities
for the year ended 30 June 2000**

28. Employee Entitlements

Superannuation Plans

In the Consolidated Entity, there are a number of superannuation plans including one defined benefit fund (the "Plan") to which the Company contributes. Employer contributions are based on the advice of the Plan's actuary. Contributions in excess of those specified in Superannuation Guarantee legislation are not legally enforceable. Employee contributions are based on various percentages of their gross salaries. After serving a qualifying period, eligible employees are entitled to benefits on retirement, disability or death.

The Plan provides defined benefits based on years of service and final average salary. In accordance with the trust deed, the Company is under no legal obligation to make up any shortfall in the Plan's assets to meet payments due to eligible employees.

An actuarial assessment of the Plan was carried out by Mr D O'Keefe, FIAA in March 1999. The actuary concluded that the assets of the Plan were sufficient to meet all benefits payable in the event of the Plan's termination, or the voluntary or compulsory termination of employment of each employee of the Company who is covered by the Plan.

The amounts included in the table below are the total net assets, accrued benefits and vested benefits of the Plan. Accrued benefits are benefits which the Plan is presently obliged to pay at some future date, as a result of membership of the Plan. Vested benefits are benefits which are not conditional upon the continued membership of the Plan or any factor, other than resignation from the Plan.

The directors, based on the advice of the trustees of the Plan, are not aware of any changes in circumstances since the actuarial assessment of the Plan, which have a material impact on the overall financial position of the Plan.

	Total assets at net market value		Total accrued benefits		Excess benefits		Total vested	
	2000	1999	2000	1999	2000	1999	2000	1999
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cochlear Superannuation Plan	6,364	5,811	6,109	5,067	255	744	5,780	4,709

Plan assets at net market value, vested benefits and accrued benefits have been calculated at 30 June 1999, being the date of the most recent financial statements of the Plan

Details of contributions to the Plan during the year ended 30 June 2000 are as follows:

Company	2000	1999
	\$000	\$000
Employer contributions to Cochlear Superannuation Plan	1,216	1,137

Executive Share Option Plan

An Executive Share Option Plan is in place for executives with offers determined by reference to the level of accountability and responsibility for development and implementation of corporate strategy.

The exercise price of options is based on the average closing price of the Company's shares at the time of acceptance of the offer. Options have a three year vesting period.

The number of options exercisable depends on the compound annual growth rate of earnings per share achieved by the Consolidated Entity over a three year period from the date of issue. Three different levels of growth have been set which determines the number of options which are exercisable in any particular year. If the minimum compound growth rate of 10% is not achieved, no shares will be issued.

Employee Share Plan

The Company's Employee Share Plan was approved by special resolution at the Annual General Meeting of the Company held on 19 October 1999. Under this plan, the directors, at their discretion can allocate, at nil consideration up to a maximum of market value \$2,000 worth of shares per eligible employee in any one year. Shares under the plan vest with the employee immediately but are non-transferable for a period of up to three years.

Notes

Notes to the financial statements for Cochlear Limited and its controlled entities for the year ended 30 June 2000

29. Related Parties

Directors

The names of each person holding the position of director of Cochlear Limited during the financial year are Prof. DG Penington, AC, Ms CB Livingstone, Prof. BDO Anderson, AO, Mr JA Calvert-Jones, Ms EC Holley, Mr PJ North and Mr JH Veeneklaas. Mr JA Calvert-Jones retired as a Director during the year.

Details of directors' remuneration are set out in Note 26.

Apart from the details disclosed in this Note, no director has entered into a material contract with the Company or the Consolidated Entity since the end of the previous year and there were no material contracts involving directors' interests existing at year end.

Directors' Holdings of Shares and Share Options

The relevant interests of directors of the Company in shares and share options of Cochlear Limited are set out below:

Consolidated number held		
	2000	1999
Ordinary shares	358,143	325,143
Options over ordinary shares	216,000	228,000

During the year, the Company granted options to the Managing Director over 60,000 unissued shares under the Executive Share Option Plan on the same terms and conditions as those granted to other employees. During the year, 72,000 of share options previously granted to the Managing Director were exercised.

Other Transactions with the Company or its Controlled Entities

Dr ML Lehnhardt is a director of Cochlear (UK) Ltd. Prof. Dr Dr E Lehnhardt, a related party, provided advisory and consulting services to that company on commercial terms.

Other Transactions

The Company engages in purchases and sales with its controlled entities. These transactions are in the ordinary course of business and normal terms and conditions apply.

Balances with Entities within the Wholly Owned Group

The aggregate amounts receivable from wholly owned controlled entities by the Company at balance date:

			2000	1999
			\$000	\$000
Current Receivables				
Controlled entities			17,733	8,253

30. Foreign Exchange Risk

The Consolidated Entity is exposed to changes in foreign exchange rates from its activities. It is the Consolidated Entity's policy to use derivative financial instruments to hedge these risks using a combination of forward exchange contracts and options. The Consolidated Entity does not enter into, hold or issue derivative financial instruments for trading purposes.

The Company enters into forward exchange contracts and foreign currency options contracts to hedge anticipated sales and purchases in US Dollars, Swiss Francs, Japanese Yen, Hong Kong Dollars, Euro Dollars, Great British Pounds and German Deutschmarks.

These amounts of forward cover taken are in accordance with approved policy and internal budgets.

The following table sets out the gross value to be received under foreign currency contracts and forward exchange options contracts and the weighted average contracted exchange rates of outstanding contracts. Amounts relating to currency options are based on face values and strike rates.

**Notes to the financial statements for Cochlear Limited and its controlled entities
for the year ended 30 June 2000**

Foreign exchange rates Consolidated				
	2000	1999	2000	1999
			\$000	\$000
Sell United States Dollar				
Not greater than one year			60,580	48,038
Greater than one year but not greater than two years			20,626	13,040
Weighted average exchange rates contracted	0.64	0.64		
Sell Euro Dollar				
Not greater than one year			3,482	–
Greater than one year but not greater than two years			5,499	–
Weighted average exchange rates contracted	0.61	–		
Sell Swiss Franc				
Not greater than one year			14,943	12,710
Greater than one year but not greater than two years			7,982	2,977
Weighted average exchange rates contracted	0.95	0.93		
Sell Japanese Yen				
Not greater than one year			6,749	5,293
Greater than one year but not greater than two years			3,619	346
Weighted average exchange rates contracted	62.71	77.23		
Sell Hong Kong Dollar				
Not greater than one year			2,887	1,242
Greater than one year but not greater than two years			1,370	489
Weighted average exchange rates contracted	4.86	5.12		
Sell Great British Pound				
Not greater than one year			9,824	11,405
Greater than one year but not greater than two years			1,494	3,007
Weighted average exchange rates contracted	0.40	0.40		
Sell German Deutchmark				
Not greater than one year			7,546	5,519
Greater than one year but not greater than two years			–	2,596
Weighted average exchange rates contracted	1.16	1.11		
Buy United States Dollar				
Not greater than one year			–	4,392
Weighted average exchange rates contracted	–	0.65		

The forward exchange contracts and options which total \$147m (1999: \$111m) as at 30 June 2000 are held specifically to hedge anticipated foreign currency sales and purchases. As these contracts are hedging anticipated sales and purchases in future years, any unrealised gains and losses on the contracts, together with the costs of the contracts, will be recognised in the financial statements at the time the underlying transaction occurs. The net unrecognised (loss)/gain on hedges of anticipated foreign currency purchases and sales at 30 June 2000 was:

	2000	1999
	\$000	\$000
Not later than one year	(5,064)	3,717
Later than one year but not later than two years	32	818
	(5,032)	4,535

31. Event Subsequent to Balance Date

On 28 July 2000, the Company issued 31,025 shares to eligible employees under the Cochlear Employee Share Plan for nil consideration.

Directors' Declaration

In the opinion of the directors of Cochlear Limited:

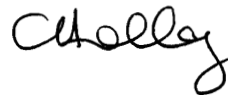
- (a) the financial statements and notes, as set out on pages 35 to 61, are in accordance with the Corporations Law, including:
- (i) giving a true and fair view of the financial position of the Company and Consolidated Entity as at 30 June 2000 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) there are reasonable grounds to believe the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 22nd day of August 2000.

Signed in accordance with a resolution of the directors:



Director



Director

Independent Auditors' Report

Independent auditors' report to the members of Cochlear Limited

Scope

We have audited the financial report of Cochlear Limited for the financial year ended 30 June 2000, consisting of the profit and loss statements, balance sheets, statements of cash flows, accompanying notes 1-31 and the Directors' Declaration, set out on pages 35 to 62. The financial report includes the consolidated financial statements of the Consolidated Entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Cochlear Limited is in accordance with:

- (a) the Corporations Law, including:
 - (i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2000 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporation Regulations; and
- (b) other mandatory professional reporting requirements.

KPMG Chartered Accountants

Roger M Amos Partner

Sydney, 22nd August 2000

Additional Information

Additional information required by Australian Stock Exchange Listing Rules and not disclosed elsewhere in this Annual Report; the information presented is as at 16 August 2000.

Shareholdings

Substantial Shareholders

Name	Number of ordinary shares held	%
Principal Mutual Holding Company	9,647,805	18.9
AMP Limited	4,176,039	8.2
The Capital Group Companies, Inc	3,591,550	7.0
Mercury Asset Management Group Ltd	3,110,161	6.1
Total	20,525,555	40.2

Distribution of Shareholders

Category	Number of shareholders
1 – 1,000	3,608
1,001 – 5,000	2,816
5,001 – 10,000	236
10,001 – 100,000	150
100,001 – over	57
Total	6,867

Non-marketable parcels – 18 shareholders hold less than a marketable parcel.

Twenty Largest Shareholders

Name	Number of ordinary shares held	%
Chase Manhattan Nominees Limited	7,132,005	13.9
BT Custodial Services Pty Limited (Equi A/C)	4,506,235	8.8
National Nominees Limited	3,866,475	7.5
Westpac Custodian Nominees Limited	3,213,374	6.3
BT Custodial Services Pty Limited	2,488,133	4.9
AMP Life Limited	2,002,397	3.9
The National Mutual Life Association of Australasia Limited	960,783	1.9
MLC Limited	693,646	1.4
Citicorp Nominees Pty Limited	663,722	1.3
Perpetual Trustees Victoria Limited (MTRAEF A/C)	604,619	1.2
BT Custodians Limited	583,308	1.1
AMP Nominees Pty Limited (SMP Accounts)	545,756	1.1
Zurich Australia Limited	518,960	1.0
BT Custodial Services Pty Ltd (MFTP A/C)	510,241	1.0
AMP Nominees Pty Limited	479,596	0.9
Perpetual Trustees Victoria Limited (Imputa A/C)	455,258	0.9
Tower Life Australia Limited	426,342	0.8
Commonwealth Custodial Services Limited	396,706	0.8
Perpetual Trustees Victoria Limited (MTRBAL A/C)	347,500	0.7
Bankers Trust Life Limited (Number 3 A/C)	326,465	0.7

The 20 largest shareholders held 60.1% of the ordinary shares of the Company.