

Appendix 4E (ASX Listing Rule 4.3A)

PRELIMINARY FINAL REPORT**Cochlear Limited A.C.N. 002 618 073****30 June 2005****Results for announcement to the market**

System sales	up	16%	to	10,802
Revenue from ordinary activities A\$'000's	up	22%	to	348,517
EBITDA A\$'000's	up	61%	to	88,523
Core Earnings A\$'000's	up	58%	to	58,367
Net profit for the period attributable to members A\$'000's	up	48%	to	54,520

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend	45.0c	45.0c
Interim dividend	35.0c	35.0c
Previous corresponding period	44.0c	44.0c
Record date for determining entitlements to the dividend	1 September 2005	
Dividend payment date	22 September 2005	

Annual meeting

The annual meeting will be held as follows:

Place

The Auditorium Exchange Square 18 Bridge Street Sydney
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Date

20 October, 2005

Time

2.00 pm

Approximate date the annual report will be available

19th September 2005

Statements of financial performance Cochlear Limited and its controlled entities for the year ended 30 June 2005

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
Revenue from ordinary activities	3	348,517	285,836	242,881	210,410
Expenses	4(b)	270,725	237,773	162,993	158,303
Borrowing costs		2,928	811	282	99
Profit from ordinary activities before related income tax expense		74,864	47,252	79,606	52,008
Income tax expense relating to ordinary activities	6(a)	21,512	11,118	19,162	6,707
Net profit		53,352	36,134	60,444	45,301
Net loss attributable to outside equity interests	25	1,168	627	-	-
Net profit attributable to members of the parent entity		54,520	36,761	60,444	45,301
Non-owner transaction changes in equity					
Translation adjustment in general reserve	23	(10)	3	-	-
Net exchange difference relating to self-sustaining foreign operations	23	10,433	(2,778)	-	-
Total changes in equity from non-owner related transactions attributable to members of the parent entity		64,943	33,986	60,444	45,301
Basic earnings per share (cents)					
Ordinary shares	9	100.5	68.2		
Diluted earnings per share (cents) ordinary shares					
Ordinary shares	9	100.5	68.2		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 4 to 41.

Statements of financial position Cochlear Limited and its controlled entities as at 30 June 2005

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
Current assets					
Cash assets	27(a)	106,077	75,946	72,191	58,526
Receivables	10	82,961	66,656	56,497	34,674
Inventories	11	49,120	44,837	25,726	33,429
Income tax receivable	6(b)	-	807	-	640
Other	12	12,872	12,156	5,033	4,408
Total current assets		251,030	200,402	159,447	131,677
Non-current assets					
Receivables	10	10,125	9,633	9,970	9,458
Other financial assets	13	335	-	18,489	6,444
Plant and equipment	14	28,589	29,523	20,838	26,947
Intangible assets	15	191,764	7,190	-	-
Deferred tax assets	6(c)	23,904	17,791	9,669	7,000
Total non-current assets		254,717	64,137	58,966	49,849
Total assets		505,747	264,539	218,413	181,526
Current liabilities					
Payables	16	46,539	31,657	18,914	17,156
Interest bearing liabilities	18	64,206	25,867	1,273	2,100
Current tax liabilities	6(b)	12,455	4,781	8,380	-
Provisions	20	25,617	22,352	17,814	14,386
Other	17	38,132	21,639	18,322	12,664
Total current liabilities		186,949	106,296	64,703	46,306
Non-current liabilities					
Interest bearing liabilities	18	139,286	-	-	-
Provisions	20	3,704	3,256	2,485	2,087
Other	17	9,938	9,458	9,938	9,458
Total non-current liabilities		152,928	12,714	12,423	11,545
Total liabilities		339,877	119,010	77,126	57,851
Net assets		165,870	145,529	141,287	123,675
Equity					
Contributed equity	22	50,746	50,746	50,746	50,746
Reserves	23	10,424	(995)	-	-
Retained profits	24	99,959	89,267	90,541	72,929
Total parent entity interest		161,129	139,018	141,287	123,675
Outside equity interests	25	4,741	6,511	-	-
Total equity	26	165,870	145,529	141,287	123,675

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 4 to 41.

Statements of cash flows

Cochlear Limited and its controlled entities for the year ended 30 June 2005

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
Cash flows from operating activities					
Cash receipts in the course of operations		338,705	291,923	223,459	211,328
Cash payments in the course of operations		(221,370)	(223,570)	(147,240)	(152,047)
Dividends received		-	-	5,131	18,141
Grant and other income received		963	451	815	451
Interest received		2,634	2,514	2,592	2,384
Borrowing costs paid		(2,928)	(811)	(282)	(99)
Income taxes paid		(19,370)	(21,537)	(12,811)	(15,922)
Net cash provided by operating activities	27(b)	98,634	48,970	71,664	64,236
Cash flows from investing activities					
Payment for plant and equipment		(8,035)	(13,332)	(3,574)	(12,403)
Proceeds from sale of non-current assets		27	72	1,279	71
Investment in controlled entities		-	-	(12,045)	(2,500)
Payment for acquisition of cochlear implant distribution business		(3,405)	-	-	-
Payment for controlled entities (net of cash acquired)		(192,208)	-	-	-
Net cash used in investing activities		(203,621)	(13,260)	(14,340)	(14,832)
Cash flows from financing activities					
Repayment of borrowings		(2,100)	-	(2,100)	-
Proceeds from borrowings		178,812	10,880	-	116
Proceeds from the issue of shares		-	27,657	-	27,657
Dividends paid by parent entity		(42,832)	(42,312)	(42,832)	(42,312)
Net cash provided by/(used in) financing activities		133,880	(3,775)	(44,932)	(14,539)
Net increase in cash held		28,893	31,935	12,392	34,865
Cash at beginning of financial year		74,091	42,018	58,526	23,661
Effects of exchange fluctuation on the balances of cash held in foreign currencies		643	138	-	-
Cash at end of financial year	27(a)	103,627	74,091	70,918	58,526

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 4 to 41.

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

I. 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 Act 2001. It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values, or fair values 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 as disclosed in Note 2, are consistent with those of the previous financial 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 financial 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 controlled entities included in the consolidated financial statements have been eliminated.

Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

(c) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

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. Revenue from the sale of goods is recognised when control of the goods passes to the customer. Revenue attributable to unfulfilled obligations is deferred and recognised when that obligation has been satisfied or the right to satisfy the obligation lapses.

Revenue from the sale of services is recognised when the service has been provided to the customer and where there are no continuing unfulfilled service obligations.

Interest income

Interest income is recognised as it accrues.

Other revenue

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

Sales of non-current assets

The gross proceeds of non-current asset sales are recognised as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

Dividends

Revenue from distributions from controlled entities is recognised by the parent entity when they are declared by the controlled entities.

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

(d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(e) 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 reporting 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 statement of financial performance in the financial year in which the exchange rates change, except where:

- hedging specific anticipated transactions or net investments in self-sustaining operations; and
- relating to amounts receivable or payable in foreign currency forming part of a net investment in a self-sustaining foreign operation. In this case, the exchange difference, together with any related income tax expense/revenue, is transferred to the foreign currency translation reserve on consolidation.

Hedges

Transactions are designated as a hedge of the anticipated specific purchase or sale of goods or services, purchase of qualifying assets, or an anticipated interest transaction, only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated. Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the statement of financial position from the date of inception of the hedge transaction. When recognised, the net receivables or payables are revalued using the foreign currency exchange rate current at reporting date. Refer to Note 32.

When the anticipated transaction is no longer expected to occur as designated, the deferred gain or loss relating to the hedged transaction is recognised immediately in the statement of financial performance.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains and losses that arose 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 as designated, deferred gains and losses that arose on the foreign currency hedge prior to its termination are included in the statement of financial performance for the financial period.

Where a hedge is redesignated as a hedge of another transaction, gains or losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. When the original anticipated transaction is no longer expected to occur as designated, any gains or losses relating to the hedge instrument are included in the statement of financial performance for the financial period.

Gains or losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains or losses are recognised immediately in the statement of financial performance.

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

Translation of controlled foreign entities

The assets and liabilities of controlled foreign entities that are self-sustaining are translated at the rates of exchange ruling at reporting date. Equity items are translated at historical rates. The statements of financial performance are translated at the average rate for the financial year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

Translation of controlled foreign branches

The assets and liabilities of controlled foreign branches that are integrated foreign operations are translated using the temporal method. Monetary assets and liabilities are translated into Australian Dollars at rates of exchange current at reporting date, while non-monetary items and revenue and expense items are translated at exchange rates current when transactions are brought to account in the statements of financial performance and position. Exchange differences arising on translation are brought to account in the statement of financial performance.

(f) Borrowing costs

Borrowing costs include interest, finance charges in respect of finance leases and foreign exchange differences net of the effect of hedges on borrowings.

(g) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

Warranties

Warranty periods on hardware products extend for three years to 10 years.

Provisions for warranty claims are made for claims received and claims expected to be received in relation to sales made prior to reporting date, based on historical claim rates and respective product populations. The provision is determined on a discounted cash flow basis.

Dividends

A provision for dividends payable is recognised in the financial period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

Restructuring, employee termination benefits and surplus lease space

Provisions for restructuring or termination benefits are only recognised when a detailed plan has been approved and the restructuring or termination has either commenced or been publicly announced, or firm contracts related to the restructuring or termination benefits have been entered into. Costs related to ongoing activities are not provided for. The liabilities for termination benefits that will be paid as a result of these restructurings have been included in the provision for employee benefits.

Provision is made for non-cancellable operating lease rentals payable on surplus leased premises when it is determined that no substantive future benefit will be obtained from its occupancy and sub-lease rentals are less than the lease rentals paid. The estimate is calculated based on discounted net future cash flows, using the interest rate implicit in the lease or an estimate thereof.

Self-insurance

The Company self-insures to manage risks associated with operating in its line of business. Outstanding claims are recognised when an incident occurs that may give rise to a claim and are measured at the cost that the Company expects to incur in settling the claims, discounted using a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(h) Classification of assets and liabilities

Assets and liabilities have been classified in the statement of financial position as either current or non-current. Current assets are cash assets 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.

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

(i) Research and development expenditure

Research and development expenditure is expensed as incurred.

(j) Intangible assets

Goodwill

Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired.

Acquired technology

The Consolidated Entity has acquired patented and unpatented technology as part of the purchase of Entific Medical Systems AB. This technology has been identified as an intangible asset with a finite useful life of four years. The asset is recorded at cost less accumulated amortisation.

Customer relationships

Customer related intangible assets acquired as part of the purchase of Entific Medical Systems AB have a finite useful life of four years and are recorded at cost less accumulated amortisation.

Intellectual property

The fair value of intellectual property contributed by an outside equity interest holder to Cochlear Acoustics Limited, a 75%-owned subsidiary, has been capitalised and recorded at fair value at the time of the contribution. The asset will be amortised on a straight line basis over a period of three years following the commercial release of the product to which the intellectual property relates.

(k) Recoverable amount of non-current assets valued on a cost basis

The carrying amounts of non-current assets valued on a cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the financial period in which it occurs.

In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value.

(l) Acquisition of assets

All assets acquired, including plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition, being fair value of the consideration provided plus incidental costs directly attributable to the acquisition and depreciated or amortised as outlined below.

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

Enterprise Resource Planning system

The external expenditure incurred on hardware and software and the external costs necessary for the implementation of the Enterprise Resource Planning system are recognised as an asset to the extent that the entity controls future economic benefits as a result of the costs incurred. All internal development, licence and support costs attributable to feasibility, alternative approach assessment and implementation are expensed as incurred.

Carrying value

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

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

(m) Depreciation and amortisation

Items of plant and equipment, including leasehold assets, are depreciated or amortised using the straight line method over their estimated useful lives, taking into account estimated residual values. 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.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future financial periods only.

The annual depreciation and amortisation rates used for each class of asset are as follows:

	2005	2004
Leasehold improvements	12.0 - 20.0%	12.0 - 20.0%
Plant and equipment	13.0 - 33.3%	13.0 - 33.3%
Enterprise Resource Planning system	25.0 - 40.0%	25.0 - 40.0%
Goodwill	5.0%	-
Acquired technology	25.0%	-
Customer relationships	25.0%	-
Intellectual property	33.0%	33.0%

(n) Leased assets

Leases 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

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 expensed as 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 statement of financial performance.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(o) 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 overhead costs. Fixed overhead 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.

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

(p) Investments

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the statement of financial performance of the parent entity when they are proposed by the controlled entities. All intra-group transactions are eliminated on consolidation.

(q) Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave expected to settle within 12 months of the year end represent present obligations resulting from employees' services provided up to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

Long service leave

The provision for employee benefits 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 reporting date.

The provision is calculated using expected future increases in remuneration rates, including related on-costs, and expected settlement dates based on turnover history, and is discounted using the rates attaching to national government securities at reporting date, which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as a long service leave expense.

Share options

The Company has granted options to certain employees under an Executive Share Option Plan (ESOP) and the Cochlear Executive Long Term Incentive Plan (CELTIP). Further information is set out in the Remuneration report. Other than the costs incurred in administering the plan which are expensed as incurred, the plan does not result in any expense to the Consolidated Entity.

No value is attributed to shares and options issued to employees as remuneration for future services in these financial statements. Shares issued to employees upon the exercise of options are recognised in equity at the fair value of consideration received.

Performance shares

The Company has granted performance shares to certain employees under the CELTIP. The cost of shares purchased on market are expensed over the vesting period.

Superannuation plans

The Consolidated Entity contributes to various employee superannuation plans. The liabilities of these plans are covered by the assets in the plans. The Consolidated Entity is obliged to contribute to the plans 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 expense as they are made. A liability is recognised when the vested benefits of defined benefit members exceeds the market value of plan assets. Further information is set out in Note 30.

(r) 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 actual trading terms ranging up to 180 debtor days. The collectability of debts is assessed at reporting date and allowance made for any doubtful accounts.

The allowance 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 allowed for.

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

Credit risk

The credit risk related to the trade debtors of the Consolidated Entity which have been recognised and the carrying amount on the statement of financial position is net of any allowance for doubtful debts. The Consolidated Entity trades in more than 80 countries and at the end of the financial year there was no adverse material exposure to any individual overseas country or individual customer other than as allowed for in the financial statements.

(s) Net fair values of financial assets and liabilities

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

(t) Taxation

The Consolidated Entity adopts the income statement liability method of tax effect accounting. Income tax expense is calculated on profit from ordinary activities 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 in the statement of financial position 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, or if relating to tax losses when realisation is virtually certain.

Tax consolidation

The Company is the head entity in the tax consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 28. The implementation date for the tax consolidated group was 1 July 2003. The head entity recognises all the current and deferred tax assets and liabilities of the tax consolidated group (after elimination of intra-group transactions).

(u) Payables

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 payable are normally settled within 60 days but are negotiated on an individual basis where appropriate.

(v) Interest bearing liabilities

Bank loans are carried in the statement of financial position at their principal amount. Interest expense is accrued at the contracted rate and included in trade creditors and other creditors.

Loan establishment fees are capitalised at the inception of the loan and are amortised on a straight line basis over the term of the loan. These are classified as other financial assets in the statement of financial position.

(w) Comparatives

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

(x) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to members of the parent entity for the financial period, after excluding any costs of servicing equity (other than ordinary shares) by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares of the Company adjusted for any bonus issue.

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

2. Changes in accounting policies

There were no changes in accounting policies in the Consolidated Entity in 2005.

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
3. Revenue from ordinary activities					
Sale of goods revenue from operating activities before hedging		316,332	249,981	207,368	157,620
Foreign exchange gains on hedged sales		26,791	30,287	26,791	31,650
Revenue from the sale of goods		343,123	280,268	234,159	189,270
Rendering of services revenue from operating activities		1,731	2,506	118	76
Other revenue:					
From operating activities:					
Dividends from related parties		-	-	5,131	18,141
Interest received or due and receivable from:					
- related parties		-	-	175	-
- other parties		2,700	2,602	2,483	2,472
Grant received or due and receivable		221	451	221	451
Other income		742	9	594	-
Total other revenue		3,663	3,062	8,604	21,064
Total revenue from ordinary activities		348,517	285,836	242,881	210,410
4. Profit from ordinary activities before related income tax expense					
(a) Individually significant items included in profit from ordinary activities before related income tax expense					
Costs resulting from integration of acquired entity		2,778	-	-	-
Increase in other and legal provision		-	7,373	-	-
Organisational restructuring costs		-	2,631	-	2,631
Write-off of leasehold improvements		-	1,286	-	1,286
Write-off of inventories on discontinued product line		-	1,229	-	1,229
(b) Expenses					
Costs of sales:					
Cost of goods sold		91,251	77,194	89,090	76,080
Warranty expense		6,214	4,934	871	660
Write-down in value of inventories		2,234	4,153	1,925	4,149
		99,699	86,281	91,886	80,889
Distribution, marketing and field clinical support		100,736	86,037	15,016	15,557
Research and development		43,760	44,452	36,012	40,164
Administration and systems development		26,530	21,003	20,079	21,693
		270,725	237,773	162,993	158,303

Notes to the financial statements

Cochlear Limited and its controlled entities for the year ended 30 June 2005

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
(c) Profit from ordinary activities before related income tax expense has been arrived at after charging/(crediting) the following items:					
Borrowing costs					
- related parties		-	-	270	80
- other parties		2,928	811	12	19
Net bad and doubtful debts expense including movements in allowance for doubtful debts		(632)	734	(19)	261
Amortisation of leasehold improvements		2,754	2,897	2,710	2,812
Depreciation of plant and equipment		4,161	3,968	3,025	3,083
Depreciation of Enterprise Resource Planning system		2,669	2,587	2,669	2,587
Amortisation of goodwill		3,121	-	-	-
Amortisation of other intangible assets		726	-	-	-
Operating lease rental expense		6,597	4,886	2,838	2,767
Net foreign exchange loss		-	1,455	962	45
Loss on disposal of plant and equipment		7	1,645	-	1,502

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$	\$	\$	\$
5. Auditors' remuneration					
Audit services					
Auditors of the Company:					
KPMG Australia:					
- audit and review of financial reports		274,600	165,560	274,600	155,000
- other regulatory audit services		5,500	16,925	5,500	16,925
Overseas KPMG firms:					
- audit and review of financial reports		359,772	180,627	24,644	24,027
- other regulatory audit services		10,891	-	-	-
Other auditor		37,994	-	-	-
		688,757	363,112	304,744	195,952
Other services					
Auditors of the Company:					
KPMG Australia:					
- international taxation services		257,529	56,035	257,529	56,035
- other assurance services		47,495	35,474	47,495	22,860
- other taxation services		235,789	298,921	235,786	298,921
Overseas KPMG firms:					
- taxation services		112,050	185,963	40,292	77,246
- international taxation services		85,552	44,074	47,642	44,074
		738,415	620,467	628,744	499,136

Notes to the financial statements

Cochlear Limited and its controlled entities for the year ended 30 June 2005

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
6. Taxation					
(a) Income tax expense					
Prima facie income tax expense calculated at 30% (2004: 30%) on the profit from ordinary activities		22,459	14,176	23,882	15,602
Increase in income tax expense due to: Net higher overseas tax rate		440	905	(134)	477
Decrease in income tax expense due to: Non-allowable/(assessable) permanent differences		1,559	(295)	(453)	(18)
Research and development allowance		(2,308)	(3,178)	(2,308)	(3,178)
Non-assessable dividend from subsidiary		-	-	(1,539)	(5,442)
Income tax expense on profit from ordinary activities		22,150	11,608	19,448	7,441
Income tax over provided in prior financial year		(638)	(490)	(286)	(734)
Income tax expense attributable to profit from ordinary activities		21,512	11,118	19,162	6,707
Income tax expense attributable to profit from ordinary activities is made up of:					
Current income tax provision		29,498	15,058	22,117	7,359
Future income tax benefit		(7,348)	(3,450)	(2,669)	82
Over provided in prior financial year		(638)	(490)	(286)	(734)
		21,512	11,118	19,162	6,707
(b) Current tax liabilities					
Provision for current income tax					
Movements during financial year:					
Balance at beginning of financial year		3,974	10,707	(640)	8,493
Income taxes paid		(19,370)	(21,537)	(12,811)	(15,922)
Current year's income tax expense on profit from ordinary activities		29,498	15,058	22,117	7,359
Over provision in prior financial year		(638)	(494)	(286)	(570)
Net foreign currency difference on translation of self-sustaining foreign operations		(611)	240	-	-
Addition through acquisition of controlled entity		(398)	-	-	-
		12,455	3,974	8,380	(640)
Comprising:					
Current tax liabilities		12,455	4,781	8,380	-
Income tax receivable		-	(807)	-	(640)
		12,455	3,974	8,380	(640)
(c) Deferred tax assets					
Future income tax benefit comprises the estimated future benefit at the applicable local taxation rate on the following items:					
Provisions and other timing differences not currently deductible		21,634	17,791	9,669	7,000
Tax losses carried forward		2,270	-	-	-
		23,904	17,791	9,669	7,000

Notes to the financial statements

Cochlear Limited and its controlled entities for the year ended 30 June 2005

	Cents per share	Total amount \$'000	Franked/unfranked	Date of payment
7. Dividends				
Dividends recognised in the current financial year by the Company are:				
2005				
Interim 2005 ordinary	35.0	19,001	Franked	15 Mar 2005
Final 2004 ordinary	44.0	23,831	Franked	23 Sep 2004
Total amount		42,832		
2004				
Interim 2004 ordinary	35.0	18,957	Franked	17 Mar 2004
Final 2003 ordinary	44.0	23,355	Franked	23 Sep 2003
Total amount		42,312		
Franked dividends declared or paid during the financial year were franked at the tax rate of 30%.				
Subsequent events				
Since the end of the financial year, the directors declared the following dividends:				
Final 2005 ordinary	45.0	24,430	Franked	22 Sep 2005
Total amount		24,430		

The financial effect of the 2005 final dividend has not been brought to account in the financial statements for the year ended 30 June 2005 and will be recognised in the subsequent financial period.

	Company	
	2005 \$'000	2004 \$'000
Dividend franking account		
30% franking credits available to shareholders of Cochlear Limited for subsequent financial periods	9,069	6,144

The above amounts are based on the balance of the dividend franking account at year end adjusted for:

- franking credits that will arise from the payment of the current tax liability;
- franking debits that will arise from the payment of dividends recognised as a liability at the year end; and
- franking credits that the Company may be prevented from distributing in subsequent financial years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

8. Segment reporting

Inter-segment pricing is on an arms length basis and is determined in accordance with transfer pricing arrangements.

Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate expenses and assets associated with the manufacturing process.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

The Consolidated Entity's business segments operate geographically as follows:

	Americas		Europe		Asia Pacific		Unallocated		Eliminations		Consolidated	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000	2005 \$000	2004 \$000	2005 \$000	2004 \$000	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Revenue												
Revenue outside the Consolidated Entity	131,584	109,075	130,906	93,282	56,536	50,590	26,791	30,287	-	-	345,817	283,234
Inter-segment sales revenue	-	-	-	-	-	-	175,333	133,406	(175,333)	(133,406)	-	-
Profit												
Profit from ordinary activities before interest and income tax expense	28,088	8,901	36,975	21,167	13,106	9,639	(3,077)	5,754	-	-	75,092	45,461
Net interest											(228)	1,791
Profit from ordinary activities before related income tax expense											74,864	47,252
Income tax expense relating to ordinary activities											(21,512)	(11,118)
Profit from ordinary activities after related income tax expense											53,352	36,134
Depreciation and amortisation	463	434	1,192	470	166	192	11,610	8,356	-	-	13,431	9,452
Non-cash expenses other than depreciation and amortisation	1,403	8,822	1,403	291	5,942	306	1,495	1,398	-	-	10,243	10,817
Inventory write-down	923	47	942	(227)	369	5	-	4,328	-	-	2,234	4,153
Total assets	63,487	48,410	97,736	52,193	24,782	25,102	386,781	174,517	(67,039)	(35,683)	505,747	264,539
Total liabilities	57,865	37,002	64,204	26,655	11,563	16,941	259,160	56,407	(52,915)	(17,995)	339,877	119,010
Acquisition of non-current assets	3,440	234	1,850	592	54	274	2,691	12,232	-	-	8,035	13,332

Secondary reporting

The Consolidated Entity operates in a single business segment, being the implantable hearing device industry.

	Consolidated	
	2005	2004
9. Earnings per share		
Net profit attributable to members of the parent entity used in the calculation of:		
Basic earnings per share	\$54,520,000	\$36,761,000
Diluted earnings per share	\$54,520,000	\$36,761,000
Weighted average number of ordinary shares used as the denominator:		
Number for basic earnings per share	54,258,466	53,919,572
Number for diluted earnings per share	54,258,466	53,919,572

Notes to the financial statements

Cochlear Limited and its controlled entities for the year ended 30 June 2005

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
10. Receivables					
Current					
Trade debtors		68,308	57,614	8,725	4,789
Allowance for doubtful trade debtors		(2,697)	(3,622)	(120)	(160)
Amount receivable from controlled entities	31	65,611	53,992	8,605	4,629
Deferred foreign exchange hedge receivable		-	-	30,542	17,381
		17,350	12,664	17,350	12,664
Total current receivables		82,961	66,656	56,497	34,674
Non-current					
Deferred foreign exchange hedge receivable		9,938	9,458	9,938	9,458
Other amounts receivable		187	175	32	-
Total non-current receivables		10,125	9,633	9,970	9,458
11. Inventories					
Raw materials and stores, at net realisable value		20,526	26,043	18,973	26,043
Work in progress, at net realisable value		6,172	5,897	5,836	5,897
Finished goods, at net realisable value		22,422	12,897	917	1,489
Total inventories		49,120	44,837	25,726	33,429
12. Other current assets					
Prepayments and other debtors		12,872	12,156	5,033	4,408
13. Other financial assets					
Shares in controlled entities, unlisted, at cost	28	-	-	18,489	6,444
Deferred loan establishment fee		335	-	-	-
Total non-current financial assets		335	-	18,489	6,444

Notes to the financial statements

Cochlear Limited and its controlled entities for the year ended 30 June 2005

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
I 4. Plant and equipment					
Leasehold improvements					
At cost		19,375	19,778	17,834	18,892
Accumulated amortisation		(7,500)	(5,731)	(7,083)	(5,312)
		11,875	14,047	10,751	13,580
Plant and equipment					
At cost		38,302	32,044	27,130	25,183
Accumulated depreciation		(26,627)	(21,232)	(19,043)	(16,480)
		11,675	10,812	8,087	8,703
Enterprise Resource Planning system					
At cost		12,217	9,173	9,179	9,174
Accumulated depreciation		(7,178)	(4,509)	(7,179)	(4,510)
		5,039	4,664	2,000	4,664
Total plant and equipment, at net book value		28,589	29,523	20,838	26,947
Reconciliations					
Reconciliations of the carrying amounts of each class of plant and equipment are set out below:					
Leasehold improvements					
Carrying amount at beginning of financial year		14,047	11,019	13,580	10,642
Additions		592	7,185	624	7,036
Disposals		(27)	(1,286)	(743)	(1,286)
Amortisation		(2,754)	(2,897)	(2,710)	(2,812)
Net foreign currency difference on translation of self-sustaining foreign operations		17	26	-	-
Carrying amount at end of financial year		11,875	14,047	10,751	13,580
Plant and equipment					
Carrying amount at beginning of financial year		10,812	10,863	8,703	8,503
Additions		4,399	4,084	2,945	3,304
Disposals		(7)	(165)	(536)	(21)
Depreciation		(4,161)	(3,968)	(3,025)	(3,083)
Increase through acquisition of an entity		1,042	-	-	-
Net foreign currency difference on translation of self-sustaining foreign operations		(410)	(2)	-	-
Carrying amount at end of financial year		11,675	10,812	8,087	8,703
Enterprise Resource Planning system					
Carrying amount at beginning of financial year		4,664	5,454	4,664	5,454
Additions		3,044	2,063	5	2,063
Disposals		-	(266)	-	(266)
Depreciation		(2,669)	(2,587)	(2,669)	(2,587)
Carrying amount at end of financial year		5,039	4,664	2,000	4,664
Total carrying amount at end of financial year		28,589	29,523	20,838	26,947

Notes to the financial statements

Cochlear Limited and its controlled entities for the year ended 30 June 2005

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
15. Intangible assets					
Goodwill					
At cost		179,860	-	-	-
Accumulated amortisation		(3,121)	-	-	-
		176,739	-	-	-
Acquired technology					
At cost		3,334	-	-	-
Accumulated amortisation		(278)	-	-	-
		3,056	-	-	-
Customer relationships					
At cost		5,002	-	-	-
Accumulated amortisation		(417)	-	-	-
		4,585	-	-	-
Intellectual property capitalised, at cost		6,825	7,190	-	-
Other Intangibles					
At cost		590	-	-	-
Accumulated amortisation		(31)	-	-	-
		559	-	-	-
Total intangible assets		191,764	7,190	-	-
16. Payables					
Trade creditors and other creditors		46,539	31,657	18,914	17,156
17. Other liabilities					
Current					
Deferred foreign exchange hedge gain		17,350	12,664	17,350	12,664
Deferred revenue		20,782	8,975	972	-
		38,132	21,639	18,322	12,664
Non-current					
Deferred foreign exchange hedge gain		9,938	9,458	9,938	9,458

Notes to the financial statements

Cochlear Limited and its controlled entities for the year ended 30 June 2005

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
18. Interest bearing liabilities					
Current					
Bank overdrafts		2,450	1,855	1,273	-
Bank loans, secured		61,756	24,012	-	2,100
		64,206	25,867	1,273	2,100
Non-current					
Bank loans, secured		139,286	-	-	-
Financing arrangements					
The Consolidated Entity has access to the following lines of credit at reporting date:					
Bank overdrafts		3,177	3,855	2,000	2,000
Bank loans		237,056	49,155	5,000	20,000
Standby letters of credit		227	227	227	227
Bank guarantee facility		280	280	280	280
		240,740	53,517	7,507	22,507
Facilities utilised at reporting date:					
Bank overdrafts		2,450	1,855	1,273	-
Bank loans		201,042	24,012	-	2,100
Standby letters of credit		191	212	191	212
Bank guarantee facility		279	279	279	279
		203,962	26,358	1,743	2,591
Facilities not utilised at reporting date:					
Bank overdrafts		727	2,000	727	2,000
Bank loans		36,014	25,143	5,000	17,900
Standby letters of credit		36	15	36	15
Bank guarantee facility		1	1	1	1
		36,778	27,159	5,764	19,916

Bank overdrafts

The bank overdrafts are payable on demand and are subject to annual review. Interest on bank overdrafts is variable and is charged at prevailing market rates. The average effective interest rate is :

- Company 8.8% (2004: 8.5%) per annum; and
- Consolidated 5.4% (2004: 1.7%) per annum.

Bank loans

The bank loans were secured by a letter of guarantee provided by the Company and are payable within one to five years. The utilised facilities bore interest at an average effective interest rate of:

- Company nil (2004: 0.6%) per annum; and
- Consolidated 2.8% (2004: 3.2%) per annum.

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

Non-cash financing and investment activities

There were no non-cash financing and investing activities throughout the 2005 financial year.

During the 2004 financial year, intellectual property with an aggregate fair value of \$7,190,000 was contributed to Cochlear Acoustics Limited, a 75% owned subsidiary, as part consideration for a 25% share in Cochlear Acoustics Limited. This transaction is not reflected in the statement of cash flows.

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$000	\$000	\$000	\$000
19. Commitments					
Operating lease commitments					
Future non-cancellable operating lease rentals not provided for in the financial statements are payable as follows:					
Not later than one year		5,165	4,258	1,995	1,782
Later than one year but not later than five years		15,979	14,723	6,221	7,044
Later than five years		3,161	5,079	-	327
Total commitments		24,305	24,060	8,216	9,153
Capital expenditure commitments					
Contracted but not provided for and payable:					
Not later than one year		584	394	584	394

The Consolidated Entity leases property under non-cancellable operating leases expiring from one to seven years. Leases generally provide the Consolidated Entity with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

Notes to the financial statements

Cochlear Limited and its controlled entities for the year ended 30 June 2005

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
20. Provisions					
Current					
Employee benefits ⁽ⁱ⁾		10,949	6,005	7,253	4,821
Warranty		7,282	6,616	6,565	6,565
Other and legal		7,386	9,731	3,996	3,000
		25,617	22,352	17,814	14,386
Non-current					
Employee benefits ⁽ⁱ⁾		2,377	2,083	1,158	914
Directors' retirement scheme		1,327	1,173	1,327	1,173
		3,704	3,256	2,485	2,087
Reconciliations					
Reconciliations of the carrying amounts of each class of provision, except for the employee benefits provision, are set out below:					
Warranty – current					
Carrying amount at beginning of financial year		6,616	6,680	6,565	6,565
Provisions made during financial year		6,214	4,934	871	660
Increase through acquisition of an entity		658	-	-	-
Applied to provision during financial year		(6,206)	(4,998)	(871)	(660)
Carrying amount at end of financial year		7,282	6,616	6,565	6,565
Other and legal – current					
Carrying amount at beginning of financial year		9,731	3,680	3,000	3,684
Provisions made during financial year		437	6,788	1,154	-
Increase through acquisition of an entity		375	-	-	-
Amounts paid		(3,157)	(737)	(158)	(684)
Carrying amount at end of financial year		7,386	9,731	3,996	3,000
Directors' retirement scheme					
Carrying amount at beginning of financial year		1,173	879	1,173	879
Provisions made during financial year		411	294	411	294
Amounts paid		(257)	-	(257)	-
Carrying amount at end of financial year		1,327	1,173	1,327	1,173

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

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

21. Contingent liabilities

The detail and estimated maximum amounts of contingent liabilities are set out below. The directors are of the opinion that provisions are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required, or the amount is not capable of reliable measurement.

US Department of Justice Inquiry

In March 2004, the Company was informed by the US Department of Justice that Cochlear Americas, a wholly-owned subsidiary, is subject to an inquiry under federal healthcare laws in the US that deal with the Medicare and Medicaid programs, including some with potential criminal sanctions. The Department of Justice has made no specific allegations. The Company is cooperating fully with the inquiry and has engaged a nationally recognised law firm with specialised expertise in US healthcare law.

Legal costs incurred as a result of managing the information request have been provided for in the financial year. It is not possible to estimate the financial impact of this investigation. There has been no change in the status of this matter during the financial year.

In the directors' opinion, disclosure of any further information of the above matter would be prejudicial to the interests of the Company.

Guarantees

Cochlear Limited has provided guarantees to Westpac Institutional Bank for loan facilities provided to Cochlear Sweden Holdings, Cochlear Americas and Cochlear Europe Limited, all wholly-owned subsidiaries.

The Cochlear Sweden Holdings facility is a multi currency facility with a limit of Euro 120.0 million, or equivalent thereof. The outstanding balance of the loan at reporting date was SEK 1,030.0 million.

The Cochlear Americas facility is for US\$12.0 million. The outstanding balance of the loan at reporting date was US\$11.0 million.

The Cochlear Europe Limited facility is for GBP 7.5 million. The outstanding balance of the loan at reporting date was GBP 6.4 million.

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
22. Contributed equity					
Share capital					
54,289,477 (2004: 54,161,690)					
Ordinary shares fully paid ⁽ⁱ⁾		50,746	50,746	50,746	50,746
Movements in ordinary share capital					
Balance at beginning of financial year		50,746	23,089	50,746	23,089
Shares issued:					
72,870 (2004: 43,140) shares issued for nil consideration under the Employee Share Plan ⁽ⁱⁱ⁾		-	-	-	-
Nil (2004: 1,048,000) shares issued from the exercise of options ⁽ⁱⁱⁱ⁾		-	27,657	-	27,657
54,917 (2004: nil) shares issued under the Cochlear Executive Long Term Incentive Plan ^(iv)		-	-	-	-
Balance at end of financial year		50,746	50,746	50,746	50,746

(i) Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

(ii) On 24 September 2004, the Company issued 72,870 shares to eligible employees of the Consolidated Entity under the Employee Share Plan for nil consideration.

(iii) Ordinary shares issued from the exercise of options granted under the ESOP.

(iv) On 30 September 2004, the Company issued 54,917 shares to eligible employees of the Consolidated Entity under the CELTIP for nil consideration.

Notes to the financial statements

Cochlear Limited and its controlled entities for the year ended 30 June 2005

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
23. Reserves					
General		74	84	-	-
Foreign currency translation		10,350	(1,079)	-	-
		10,424	(995)	-	-
Movements during financial year					
General					
Balance at beginning of financial year		84	81	-	-
Translation adjustment		(10)	3	-	-
Balance at end of financial year		74	84	-	-
Foreign currency translation					
Balance at beginning of financial year		(1,079)	1,107	-	-
Net translation adjustment		10,433	(2,778)	-	-
Transfer to retained profits		996	592	-	-
Balance at end of financial year		10,350	(1,079)	-	-
Nature and purpose of reserves					
Foreign currency translation reserve					
The foreign currency translation reserve records the foreign currency difference arising from the translation of self-sustaining foreign operations. Refer to accounting policy Note 1(e).					
24. Retained profits					
Retained profits at beginning of financial year		89,267	95,410	72,929	69,940
Net profit attributable to members of the parent entity		54,520	36,761	60,444	45,301
Transfer from foreign currency translation reserve		(996)	(592)	-	-
Dividends recognised during financial year	7	(42,832)	(42,312)	(42,832)	(42,312)
Retained profits at end of financial year		99,959	89,267	90,541	72,929

Notes to the financial statements

Cochlear Limited and its controlled entities for the year ended 30 June 2005

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
25. Outside equity interests					
Outside equity interests in controlled entities comprise:					
Interest in retained profits at beginning of financial year after adjusting for outside equity interests in entities acquired during financial year		(627)	-	-	-
Interest in loss from ordinary activities after income tax expense		(1,168)	(627)	-	-
Interest in retained profits at end of financial year		(1,795)	(627)	-	-
Interest in share capital		6,825	7,190	-	-
Interest in reserves		(289)	(52)	-	-
Total outside equity interests		4,741	6,511	-	-
26. Total equity reconciliation					
Total equity at beginning of financial year		145,529	119,687	123,675	93,029
Total changes in parent entity interest in equity recognised in statement of financial performance		64,943	33,986	60,444	45,301
Transactions with owners as owners:					
- Movement in contributed equity	22	-	27,657	-	27,657
- Dividends	7	(42,832)	(42,312)	(42,832)	(42,312)
Total changes in outside equity interests	25	(1,770)	6,511	-	-
Total equity at end of financial year		165,870	145,529	141,287	123,675

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

27. Notes to the statements of cash flows

Cash assets

The operating account received an average interest rate of:

- Company 4.8% (2004: 4.3%) per annum; and
- Consolidated 1.3% (2004: 3.1%) per annum.

Cash held on deposit for periods not exceeding 180 days received an average interest rate of:

- Company 5.4% (2004: 4.95%) per annum; and
- Consolidated 5.4% (2004: 4.95%) per annum.

(a) 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 reporting date as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$000	\$000	\$000	\$000
Cash on hand		33,299	32,886	64	15,508
Cash on deposit		72,778	43,060	72,127	43,018
Bank overdrafts		106,077 (2,450)	75,946 (1,855)	72,191 (1,273)	58,526 -
		103,627	74,091	70,918	58,526
(b) Reconciliation of profit from ordinary activities after income tax expense to net cash provided by operating activities					
Profit from ordinary activities after income tax expense		53,352	36,134	60,444	45,301
Add items classified as investing activities					
Loss on disposal of non-current assets		7	1,645	-	1,502
Add non-cash items					
Amounts set aside to provisions		10,243	10,817	7,492	1,398
Depreciation and amortisation		13,431	9,452	8,404	8,482
Net cash provided by operating activities before changes in assets and liabilities		77,033	58,048	76,340	56,683
Changes in assets and liabilities					
(Increase)/decrease in receivables		(773)	2,632	(17,129)	16,179
Decrease/(increase) in inventories		2,740	186	7,703	(528)
Decrease/(increase) in prepayments and other debtors		4,152	(166)	(625)	(410)
Increase in deferred tax assets		(6,113)	(3,826)	(2,669)	(82)
(Decrease)/increase in payables		(1,252)	8,281	1,758	4,588
Increase/(decrease) in current tax liability		8,879	(6,733)	9,020	(9,133)
Decrease in provisions		(8,488)	(6,463)	(3,706)	(3,061)
Increase in deferred income		11,807	-	972	-
Exchange rate adjustment		10,649	(2,989)	-	-
Net cash provided by operating activities		98,634	48,970	71,664	64,236

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

	Note	Interest Held		Country of Incorporation
		2005 %	2004 %	\$'000
28. Controlled entities				
(a) Particulars in relation to controlled entities				
<i>The Company</i>				
Cochlear Limited				Australia
<i>Controlled entities</i>				
Cochlear Europe Limited	i	100	100	UK
Cochlear Acoustics Limited	i	75	75	UK
Cochlear AG	i	100	100	Switzerland
Cochlear (UK) Limited	i	100	100	UK
Cochlear GmbH	i	100	100	Germany
Cochlear Americas	i	100	100	USA
Cochlear (HK) Limited	i	100	100	Hong Kong
Nihon Cochlear Co Limited	i	100	100	Japan
Neopraxis Pty Limited		100	100	Australia
Cochlear Technologies Pty Limited		100	100	Australia
Medical Insurance Pte Limited	i	100	100	Singapore
Cochlear Holdings NV	i, ii	100	-	Belgium
Miaki NV	i, iii	100	-	Belgium
Cochlear Benelux NV	i, iii	100	-	Belgium
Cochlear France SAS	i, iv	100	-	France
Cochlear France Holdings SAS	i, v	100	-	France
Cochlear Italia SRL	i, vi	100	-	Italy
Cochlear Sweden Holdings	i, vii	100	-	Sweden
Entific Medical Systems AB	i, viii	100	-	Sweden
Entific Medical Systems Inc	viii, ix	100	-	USA
Entific Canada Inc	i, viii	100	-	Canada
Entific Medical Systems SAS	i, viii	100	-	France
Entific Medical Systems Deutschland GmbH	i, viii	100	-	Germany
Entific Australia Pty Ltd	i, viii	100	-	Australia
Entific Harbour AB	i, viii	100	-	Sweden

(i) These entities are audited by other member firms of KPMG.

(ii) Incorporated on 13 August 2004.

(iii) Acquired 1 July 2004.

(iv) Acquired on 1 November 2004.

(v) Incorporated 1 November 2004.

(vi) Incorporated 1 December 2004.

(vii) Incorporated 3 January 2005.

(viii) Acquired 8 March 2005.

(ix) Audited by a non-KPMG member firm.

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

(b) Acquisition of controlled entities

During the financial year, the following acquisitions were made in the Consolidated Entity:

- (i) On 1 July 2004, Nihon Cochlear Co, a wholly owned subsidiary of the Company, acquired the cochlear implant distribution business from its distributor for cash;
- (ii) On 1 July 2004, the Consolidated Entity purchased 100% of the voting shares of Miaki NV, a distributor of Cochlear Limited products, incorporated in Belgium. At the time of acquisition, Miaki NV owned 100% of the voting shares of Newmedic NV, which was subsequently renamed to Cochlear Benelux NV;
- (iii) On 1 November 2004, the Consolidated Entity purchased 100% of the voting shares of Newmedic International SAS, a distributor of Cochlear Limited products, incorporated in France. Newmedic International SAS was subsequently renamed to Cochlear France SAS; and
- (iv) On 8 March 2005, the Consolidated Entity acquired 100% of the shares of Entific Medical Systems AB, a company incorporated in Sweden. The company designs, manufactures and distributes bone anchored hearing implants.

Details of each acquisition are as follows:

	(i) Acquisition of cochlear distribution business	(ii) Miaki NV	(iii) Newmedic International SAS	(iv) Entific Medical Systems AB
	2005	2005	2005	2005
	\$000	\$000	\$000	\$000
Consideration	3,405	11,797	6,815	195,337
Cash acquired	-	(2,008)	(694)	(19,039)
Outflow of cash	3,405	9,789	6,121	176,298
Fair value of assets acquired				
Cash assets	-	2,008	694	19,039
Trade debtors	-	2,347	1,400	6,186
Inventories	2,620	286	361	3,755
Income tax receivable	-	-	189	209
Other debtors	-	96	3,064	2,043
Plant and equipment	-	62	128	852
Intangible assets	590	-	-	9,050
Trade creditors and other creditors	-	(1,888)	(3,800)	(10,446)
Bank loans, secured	-	(313)	-	-
Other loans, unsecured	-	(5)	-	-
Provisions	-	-	-	(1,033)
	3,210	2,593	2,036	29,655
Goodwill on acquisition	195	9,204	4,779	165,682
Consideration (cash)	3,405	11,797	6,815	195,337

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

29. Director and executive remuneration

Options and performance shares granted as remuneration

During the financial year, options and performance shares were granted as equity compensation benefits to certain specified directors and specified executives as disclosed below. The options and shares were issued free of charge.

	Number of options granted under CELTIP during the year	Number of performance shares granted under CELTIP during the year	Exercise period	Number of options vested under ESOP during the year
Specified executive directors				
Dr CG Roberts	164,321	10,595	Aug 2007 - Aug 2009	-
Dr JL Parker	42,149	2,717	Aug 2007 - Aug 2009	-
Specified executives				
Mr R Brook	54,736	3,529	Aug 2007 - Aug 2009	-
Mr DW Howitt	30,850	1,989	Aug 2007 - Aug 2009	-
Mr NJ Mitchell	38,886	2,507	Aug 2007 - Aug 2009	-
Mr MD Salmon	38,904	2,508	Aug 2007 - Aug 2009	-
Mr CM Smith	165,830	-	Aug 2007 - Aug 2009	-

All options and performance shares granted in the financial year were granted on 8 September 2004 and vest in August 2007. Options have an expiration date of 30 September 2009. No options or performance shares have been granted since the end of the financial year. The options and performance shares were provided at no cost to the recipients.

All options granted during the financial year have an exercise price of \$18.97 per share and a fair value of \$4.59 per share at grant date or \$2.07 per share at grant date if market conditions are attached. The performance shares granted during the financial year had a fair value at grant date of \$20.59 per share or \$9.27 per share at grant date if market conditions are attached.

Exercise of options granted as remuneration

During the current financial year, no shares were issued on the exercise of options granted as remuneration.

Option holdings

The movement during the financial year in the number of options over ordinary shares of Cochlear Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities, is as follows:

	Held at 1 July 2004	Granted as remuneration	Vested and exercised	Lapsed	Held at 30 June 2005	Vested and exercisable at 30 June 2005
Specified executive directors						
Dr CG Roberts	-	164,321	-	-	164,321	-
Dr JL Parker	120,584	42,149	-	50,000	112,733	-
Specified executives						
Mr R Brook	26,046	54,736	-	-	80,782	-
Mr DW Howitt	65,613	30,850	-	25,000	71,463	-
Mr NJ Mitchell	118,961	38,886	-	50,000	107,847	-
Mr MD Salmon	-	38,904	-	-	38,904	-
Mr CM Smith	-	165,830	-	-	165,830	-

No options held by specified directors or specified executives have vested.

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

Performance share holdings

The movement during the financial year in the number of performance shares over ordinary shares of Cochlear Limited held, in trust, on behalf of each specified director and specified executive, including their personally-related entities, is as follows:

	Held at 1 July 2004	Granted as remuneration	Vested and exercised	Lapsed	Held at 30 June 2005
Specified executive directors					
Dr CG Roberts	-	10,595	-	-	10,595
Dr JL Parker	2,648	2,717	-	-	5,365
Specified executives					
Mr R Brook	3,350	3,529	-	-	6,879
Mr DW Howitt	2,008	1,989	-	-	3,997
Mr NJ Mitchell	2,439	2,507	-	-	4,946
Mr MD Salmon	-	2,508	-	-	2,508
Mr CM Smith	-	-	-	-	-

Equity holdings and transactions

The movement during the financial year in the number of ordinary shares of Cochlear Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities, is as follows:

	Held at 1 July 2004	Purchases	Received on exercise of options	Sales	Held at 30 June 2005
Specified directors					
Non-executive					
Mr TCE Bergman	12,000	-	-	-	12,000
Prof BDO Anderson, AO	4,000	425	-	-	4,425
Prof E Byrne	1,000	-	-	-	1,000
Ms EC Holley ⁽ⁱ⁾	9,000	-	-	-	n/a
Mr R Holliday-Smith ⁽ⁱⁱ⁾	n/a	1,000	-	-	1,000
Mr PJ North, AM	13,000	-	-	-	13,000
Mr JH Veeneklaas	1,000	-	-	-	1,000
Executive					
Dr CG Roberts	162,000	75,000	-	-	237,000
Dr JL Parker	25,000	-	-	-	25,000
Specified executives					
Mr R Brook	-	-	-	-	-
Mr DW Howitt	10,000	-	-	10,000	-
Mr NJ Mitchell	15,000	20,000	-	-	35,000
Mr MD Salmon	-	1,457	-	-	1,457
Mr CM Smith	-	-	-	-	-

(i) Holdings at date of retirement on 19 October 2004 were 9,000.

(ii) Holdings at date of appointment of 1 March 2005 were nil.

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$000	\$000	\$000	\$000
30. Employee benefits					
Aggregate liability for employee benefits including on-costs:					
Current					
Employee benefits provision	20	10,949	6,005	7,253	4,821
Non-current					
Employee benefits provision	20	2,377	2,083	1,158	914
Directors' retirement scheme	20	1,327	1,173	1,327	1,173

The Cochlear Limited directors' retirement scheme provides retiring non-executive directors with more than five years service the benefit of up to three times their average annual remuneration over the previous three years. The directors' retirement scheme was closed to new directors effective from 2003.

Superannuation plans

In the Consolidated Entity, there are a number of superannuation plans including one defined benefit fund (plan) to which the Company contributes.

Employer contributions to the defined benefit plan are based on the advice of the plan's actuary. Contributions in excess of those specified in Superannuation Industry Supervision legislation are not legally enforceable. Employees' 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.

An interim actuarial assessment of the plan was carried out by ALEA Actuarial Consulting Pty Limited as at 30 June 2005 on behalf of the trustees. The assessment, dated 19 July 2005, noted that the plan assets for the defined benefit members amounting to \$4,809,000 are greater than the total of defined benefit members' accrued benefits amounting to \$3,661,000 and are greater than the total of members' vested benefits amounting to \$4,371,000.

The amounts included in the table below are the total assets at net market value, accrued benefits and vested benefits of the various plans. 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 interim 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/(Shortfall)		Total vested benefits	
	2005	2004	2005	2004	2005	2004	2005	2004
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cochlear Superannuation Plans	19,714	17,439	18,566	17,534	1,148	(95)	19,276	17,765

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

Plan assets at net market value and vested benefits have been calculated at 30 June 2005, being the date of the most recent valuation of the plan. Accrued benefits are based on actuarial reviews performed as at 30 June 2005.

Details of contributions to the plan during the year ended 30 June 2005 are as follows:

	Consolidated		Company	
	2005	2004	2005	2004
Employer contributions to Cochlear Superannuation Plan	3,794,648	3,296,617	3,794,648	3,296,617
Number of employees				
Number of employees at reporting date	982	816	534	491

Equity based plans

Cochlear Executive Long Term Incentive Plan

The CELTIP was approved at the AGM held on 20 October 2003. This provides for the grant of performance shares, and, in the case of the most senior executives, options. For the years prior to 2003, grants were made under the ESOP and consisted of options only.

Details of the Company's equity based plans are set out in the Remuneration Report, which is contained with the Directors' Report.

Summary of options over unissued ordinary shares

Details of options over unissued ordinary shares as at the beginning and end of the financial year and movements during the financial year are set out below:

Consolidated and Company 2005

Grant year	Exercise year	Expiry year	Exercise price per option	Number of options at beginning of year	Options granted	Options lapsed	Options exercised	No. of options at end of year on issue	Proceeds received	Date issued	No. of shares
2001	2004	2004	\$37.62	936,000	-	936,000	-	-	-	-	-
2002	2005	2005	\$38.12	1,020,000	-	53,000	-	967,000	-	-	-
2003	2006	2008	\$34.19	192,761	-	11,001	-	181,760	-	-	-
2004	2007	2009	\$18.97	-	738,490	-	-	738,490	-	-	-
Total				2,148,761	738,490	1,000,001	-	1,887,250	-	-	-

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

Consolidated and Company 2004

Grant year	Exercise year	Expiry year	Exercise price per option	Number of options at beginning of year	Options granted	Options lapsed	Options exercised	No. of options at end of year on issue	Proceeds received	Date issued	No. of shares
1999	2002	2002	\$15.00	10,000	-	-	10,000	-	\$150,000	2002	10,000
2000	2003	2003	\$26.50	1,039,000	-	1,000	1,038,000	-	\$27,507,000	2003	1,038,000
2000	2003	2003	\$36.00	100,000	-	100,000	-	-	-	-	-
2001	2004	2004	\$37.62	1,142,000	-	206,000	-	936,000	-	-	-
2002	2005	2005	\$38.12	1,232,000	-	212,000	-	1,020,000	-	-	-
2003	2006	2008	\$34.19	-	243,296	50,535	-	192,761	-	-	-
Total				3,523,000	243,296	569,535	1,048,000	2,148,761			

Employee Share Plan

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

31. Related parties

Non-director related parties

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.

The aggregate amounts included in the profit from ordinary activities before related income tax expense for the Company that resulted from transactions with non-director related parties are:

	Company	
	2005	2004
	\$'000	\$'000
Revenue from sale of goods	175,333	133,406
Interest revenue	175	-
Dividend revenue	5,131	18,141
Interest expense	270	80
The aggregate amounts receivable from wholly-owned controlled entities by the Company at reporting date are:		
Current receivables	30,542	17,381

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

32. 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 foreign currency options. The Consolidated Entity does not enter, 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, euro, Japanese Yen, Hong Kong Dollars and Great British Pounds.

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 forward exchange contracts and the weighted average contracted exchange rates of outstanding contracts:

	Note	Foreign exchange rates		Consolidated	
		2005	2004	2005	2004
				\$'000	\$'000
Sell United States Dollar					
Not later than one year				67,346	62,682
Later than one year but not later than two years				37,842	37,312
Later than two years but not later than three years				4,052	23,307
Weighted average exchange rates contracted		0.67	0.59		
Sell euro					
Not later than one year				62,031	47,082
Later than one year but not later than two years				37,496	23,793
Later than two years but not later than three years				3,479	3,557
Weighted average exchange rates contracted		0.56	0.55		
Sell Japanese Yen					
Not later than one year				9,204	8,893
Later than one year but not later than two years				4,536	8,246
Later than two years but not later than three years				-	4,536
Weighted average exchange rates contracted		50.03	50.86		
Sell Hong Kong Dollar					
Not later than one year				10,160	16,202
Later than one year but not later than two years				5,107	7,300
Later than two years but not later than three years				-	2,056
Weighted average exchange rates contracted		4.87	4.45		
Sell Great British Pound					
Not later than one year				-	5,855
Later than one year but not later than two years				-	5,717
Later than two years but not later than three years				-	5,477
Weighted average exchange rates contracted		-	0.36		

The forward exchange contracts which total \$241 million (2004: \$262 million) as at 30 June 2005 are held specifically to hedge anticipated foreign currency sales. As these contracts are hedging anticipated sales in future financial 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 sale occurs. The net unrecognised gain on hedges of anticipated foreign currency sales at 30 June 2005 was \$27.3 million (2004: \$22.1 million).

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

The net deferred foreign exchange receivable and deferred foreign exchange gain on hedges of anticipated foreign currency sales are recognised in receivables (Note 10) and other liabilities (Note 17) and the timing of their anticipated recognition as part of sales are:

	Company	
	2005	2004
	\$000	\$000
Not later than one year	17,350	12,664
Later than one year but not later than two years	9,883	5,101
Later than two years but not later than three years	55	4,357
	27,288	22,122

33. Impact of adopting Australian equivalents to International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the Consolidated Entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian Accounting Standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

Transition management

The Board has established a formal implementation project, monitored by a steering committee, to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the year commencing 1 July 2005.

The project is achieving its milestones and the Consolidated Entity is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 year.

Assessment and planning phase

This phase identified the key conversion impacts on the financial statements, policies and procedures, systems and processes, and staff.

This phase included:

- identification of the key differences in accounting policies and disclosures expected to arise from adopting AIFRS;
- assessment of new requirements for capturing information in the Company's systems;
- impact on staff, including training; and
- identification of the likely impact on financial statements as a result of adopting AIFRS.

The assessment and planning phase is completed as at 30 June 2005.

Design phase

The aim of the design phase was to effect the changes required to existing accounting policies and procedures and systems in order to transition to AIFRS. This phase included:

- preparation of new accounting policies and procedures for compliance with AIFRS requirements;
- design of business processes and accounting systems to support the capture of information required to conform with AIFRS disclosures;
- the update of disclosures to comply with AIFRS; and
- education of staff on new requirements.

This phase is completed as at 30 June 2005.

Implementation phase

This phase includes the implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff, and enables the Consolidated Entity to generate the required reconciliations and disclosures of AASB / First Time Adoption of Australian Equivalents to International Financial Reporting Standards.

This phase is substantially complete as at 30 June 2005.

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

Impact of transition to AIFRS

The impact of transition to AIFRS, including the transitional adjustments disclosed in the reconciliations from current Australian GAAP to AIFRS, and the selection and application of AIFRS accounting policies, are based on AIFRS that management expects to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report being the half year ending 31 December 2005. Only a complete set of financial statements and notes, together with comparative balances, can provide a true and fair presentation of the Company's and Consolidated Entity's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary; therefore, further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

There is a significant amount of judgement involved in the preparation of the reconciliations from current Australian GAAP to AIFRS. Consequently, the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this note.

The rules for first time adoption of AIFRS are set out in AASB 1 First Time Adoption of Australian Equivalents to *International Financial Reporting Standards*. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS.

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections expected to be made under AASB 1 are set out below:

(a) Reclassifications

The Consolidated Entity has classified capitalised Enterprise Resource Planning system development costs as property and equipment in the financial statements. Under AIFRS, these costs will be reclassified as intangible assets. For the Consolidated Entity and the Company, this is expected to result in \$3,899,000 being reclassified from plant and equipment to intangible assets at 1 July 2004 and \$4,274,000 for the Consolidated Entity (Company: \$1,237,000) at 30 June 2005.

(b) Business combinations

As permitted by the election available under AASB 1, the classification and accounting treatment of business combinations that occurred prior to transition date have not been restated in preparing the transition date AIFRS balance sheet. The assets and liabilities are then subject to the other requirements of AASB 1.

Under AIFRS, inventory acquired as part of a business combination is recognised at fair value rather than historical cost. The impact of this change at transition date is nil for both the Consolidated Entity and the Company. For the year ended 30 June 2005, the value of inventory would be expected to increase by \$398,000 with a corresponding decrease to goodwill for the Consolidated Entity (Company: nil).

Comparative period

Business combinations that occurred on or after 1 July 2004 must be accounted for by applying the purchase method. There are no expected adjustments for either the Consolidated Entity or the Company as a result of transition to AIFRS as there were no contingent liabilities or restructuring provisions recognised at the acquisition date.

(c) Intangible assets

Goodwill

Goodwill represents the difference between the cost of a business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill will be stated at cost less any accumulated impairment losses. Goodwill will be allocated to cash generating units and tested annually for impairment (refer (d) for further details on impairment testing).

Research and development

Under AIFRS, expenditure on development activities must be capitalised if the product or process is technically and commercially feasible and the Consolidated Entity has sufficient resources to complete the development. Capitalised development expenditure will be stated at cost less accumulated amortisation and impairment losses. The Consolidated Entity currently expenses all research and development costs as incurred.

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

On transition and as at 30 June 2005, development costs incurred which meet the criteria for deferral will be capitalised and an adjustment of \$3,149,000 is expected to be made through retained earnings of the Consolidated Entity at 1 July 2004 (Company: \$3,149,000). The earnings of the Consolidated Entity for the year ended 30 June 2005 would be expected to increase by \$4,375,000 (Company: \$4,375,000) as a result of the capitalisation of development costs previously expensed.

Capitalised development costs will be reviewed against the recognition criteria and tested for impairment. No impairment losses are expected.

Other intangible assets

Other intangible assets acquired will be stated at cost less accumulated amortisation and impairment losses. On transition, other intangible assets are being reviewed to ensure they can be recognised under AASB 138 *Intangible Assets* and tested for impairment. No reclassifications or impairment losses are expected.

Amortisation

Amortisation will be recognised on a straight line basis over the estimated useful lives of the intangible assets. Amortisation will commence from the date the intangible assets are available for use. Changes in useful life on transition to AIFRS will be accounted for prospectively. Goodwill will not be subject to amortisation but tested for impairment annually. The estimated useful lives as of 1 July 2004 are expected to be as follows:

	AIFRS	Current A GAAP
Goodwill	Indefinite	20 years
Capitalised development costs	1-3 years	Expensed
Acquired technology	4 years	4 years
Customer relationships	4 years	4 years
Enterprise Resource Planning system	2.5-4 years	2.5-4 years

The impact on the results for the year ended 30 June 2005 is expected to be an increase of \$3,121,000 from the reversal of the goodwill amortisation for the Consolidated Entity (Company: \$nil), offset by amortisation of \$1,263,000 (Company: \$1,263,000) on development costs capitalised at 1 July 2004.

(d) Impairment

Under current Australian GAAP, the carrying amounts of non-current assets valued on a cost basis are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset is in excess of its recoverable amount, the asset is written down to the lower amount and the write-down is recognised in the income statement in the financial period in which it occurs. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

Under AIFRS, the carrying amount of non-current assets, excluding goodwill and deferred tax assets, will be reviewed at each reporting date to determine whether there is any indication of impairment. Goodwill is tested annually for impairment.

If there is any indication that an asset is impaired, the recoverable amount will be estimated for the individual asset, or if not possible, to the smallest identifiable cash generating unit to which the asset belongs. An impairment loss, represented by the excess of carrying amount over recoverable amount, will be recognised as an expense in the income statement.

There is no expected impact of this change in standard at transition date or at 30 June 2005.

(e) Employee benefits

Defined benefit plans

Under Australian GAAP, defined benefit plans are accounted for on a cash basis, with no defined benefit obligation or plan assets recognised in the balance sheet. However, for the year ended 30 June 2004, an actuarial assessment of the Company's defined benefit plan revealed that plan assets were less than vested benefits by \$323,778 and this amount was accrued in the financial statements.

Under AIFRS, a liability or asset in respect of defined benefit superannuation plans is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation as at the reporting date plus unrecognised actuarial gains or losses less the fair value of the plan's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the plan to the reporting date, calculated annually by independent actuaries using the projected unit credit method.

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match the estimated future cash flows. The full amount of actuarial gains and losses that arise subsequent to transition date will be recognised directly in retained earnings in accordance with revised AASB 19 Employee Benefits, which will be early adopted.

The AASB 1 election to recognise full actuarial gains and losses at transition date through retained earnings is expected to be early adopted. At the date of transition, an amount of \$603,000 would be expected to be recognised as an asset of the Consolidated Entity (Company: asset of \$603,000) with a corresponding increase in retained earnings.

For the year ended 30 June 2005 an actuarial assessment has resulted in a reduction of the net asset position of the plan for the Consolidated Entity of \$279,000 (Company: \$279,000). This has been recognised as a decrease to retained earnings.

Share based payments

Under current Australian GAAP, no expense is recognised for options issued to employees.

Under AIFRS, the fair value of options and shares granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at the date the options or shares are granted, taking into account market performance conditions only and expensed over the vesting period after which the employees become unconditionally entitled to the options. The fair value of the options granted will be measured using the Black-Scholes method, taking into account the terms and conditions attached to the options or shares. The amount recognised as an expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

No adjustment will be made for options granted prior to 7 November 2002 which have vested before 1 July 2004. Options granted after 7 November 2002 and remaining unvested at 1 January 2004 will be recognised in the opening balance sheet through retained earnings resulting in a nil impact on transition.

For the financial year ended 30 June 2005, employee benefits expense and retained earnings for the Consolidated Entity would be expected to increase by \$2,592,000 (Company: \$1,811,000) representing the share based payments expense for the financial year.

(f) Leased assets - make good provisions

The Consolidated Entity has a number of operating leases over its offices that require the asset to be returned to the lessor in its original condition. The operating lease payments do not include an element for the repairs / overhauls.

Under current Australian GAAP, the costs of refurbishment are not recognised until the expenditure is incurred, whereas under AIFRS a provision for refurbishment costs must be recognised over the period of the lease, measured at the expected cost of refurbishment at each reporting date.

At 1 July 2004, a charge for make good costs associated with these operating leases of \$153,000 for the Consolidated Entity and \$107,000 for the Company is expected to be recognised through retained earnings. An expense of \$101,000 for the Consolidated Entity and \$80,000 for the Company would be expected for the 2005 financial year.

(g) Foreign operations

Under existing Australian GAAP, the assets and liabilities of self-sustaining foreign operations are translated at the rates of exchange ruling at reporting date. Equity items and goodwill are translated at historical rates. The statements of financial performance are translated at the average exchange rates. Exchange differences on translation are recognised directly in the foreign currency translation reserve.

The assets and liabilities of integrated operations are translated using the temporal method. Monetary assets and liabilities are translated at exchange rates prevailing at reporting date while non-monetary and revenue and expense items are translated at the average exchange rates. Exchange differences arising on translation are recorded in the statement of financial performance.

Under AIFRS, each entity in the Consolidated Entity maintains its accounts in its functional currency, being the currency of the primary economic environment in which the entity operates.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated from the entity's functional currency to the Consolidated Entity's presentation currency of Australian Dollars at exchange rates prevailing at reporting date, while revenue and expenses are translated to Australian Dollars at average exchange rates. Foreign exchange differences arising on translation are recognised in the foreign currency translation reserve.

There are no expected changes in functional currency for the Company, its branches or its subsidiaries.

The AASB 1 election to reset the existing foreign currency translation reserve balance to nil is not expected to be adopted. There is no impact on transition date as a result of this change in accounting policy.

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

The impact of this change at transition date for both the Consolidated Entity and Company would be to increase retained earnings and the foreign currency translation reserve by \$513,000. The impact of this change on the results for the year ended 30 June 2005 for both the Company and the Consolidated Entity would be to decrease profit by \$385,000 representing the reclassification of foreign exchange translation losses from a foreign controlled branch to the foreign currency translation reserve. In addition, the value of goodwill for the Consolidated Entity will decrease by \$13,920,000 with a corresponding decrease to the foreign currency translation reserve as a result of valuing goodwill at exchange rates prevailing at balance date rather than at historical rates (Company: \$nil).

(h) Financial instruments

The Consolidated Entity expects to take advantage of the election in AASB 1 to not restate comparatives for AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. As such, there are no expected adjustments in relation to financial instruments at transition date or for the year ended 30 June 2005 as current Australian GAAP is expected to continue to apply.

At 1 July 2005, the Consolidated Entity has complied with the requirements of AASB 139 in order to qualify for hedge accounting. Consequently, no adjustments are expected to be made to retained earnings.

Debt establishment costs capitalised and amortised over the term of the borrowing under current Australian GAAP will be recalculated based on the effective interest rate method and recognised as a reduction in borrowings rather than as a separate asset. This is expected to result in a decrease in other receivables of \$434,000, a decrease in financial liabilities of \$434,000 and a decrease in retained earnings of \$nil in the Consolidated Entity as at 1 July 2005 (Company: \$nil).

(i) Revenue recognition

Under AIFRS, the amount of revenue recognised under certain marketing programs differs to that recognised under Australian GAAP.

The impact of this change in accounting policy at transition date would be expected to result in a reduction to retained earnings of \$11,083,000 for the Consolidated Entity (Company: \$917,000) from the deferral of revenue previously recognised under existing Australian GAAP. For the financial year ended 30 June 2005, revenue would be expected to increase by \$4,112,000 for the Consolidated Entity (Company: \$917,000) resulting from a release of deferred revenue of \$6,006,000 (Company: \$917,000) offset by the deferral of revenue of \$1,894,000 (Company: \$nil).

(j) Treasury shares

The Company operates the Cochlear Executive Long Term Incentive Plan Trust. The main purpose of the trust is to hold unvested performance shares as part of the CELTIP. Under current Australian GAAP, the trust is not included in the results of the Consolidated Entity as the Company does not control the trust. Under AIFRS, the trust qualifies as an equity compensation plan special purpose entity and its results must be included in those of the Consolidated Entity.

At transition date, the trust held shares of the Company. Under AIFRS, the shares will be accounted for as treasury stock and treated as a reduction in the share capital of the Consolidated Entity. The impact on the Consolidated Entity at transition date would be a decrease in share capital of \$1,371,000. No further adjustment would be expected for the year ended 30 June 2005.

At transition date, the Company had an unamortised balance of \$997,000 as a deferred asset on the balance sheet, representing the amount paid to the trust in order for it to purchase shares of the Company. Under AIFRS, this deferred asset is not amortised. The impact at transition date would be to increase retained earnings and the deferred asset by \$374,000, representing the amortisation of the asset to that date and a decrease to the deferred asset of \$997,000. The impact for the year ended 30 June 2005 would be an increase to earnings of \$499,000 and to decrease the deferred asset by \$499,000.

(k) Taxation

Australian GAAP requires the application of the income statement liability method of tax effect accounting, whilst AIFRS requires the balance sheet method, whereby income tax on the profit or loss for the financial year comprises current and deferred taxes. Income tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

There are not expected to be any changes to retained earnings or the deferred tax balance for the Consolidated Entity or the Company at transition date or for the year ended 30 June 2005 as a result of the change in basis of accounting for income tax.

The tax impact on the Consolidated Entity of the transition adjustments on the deferred tax balance and the previously reported tax expense would be an increase in deferred tax assets of \$3,158,000 (Company: decrease \$918,000) and an increase in retained earnings of \$3,158,000 (Company: decrease \$918,000).

The expected impact of the transition adjustments for the year ended 30 June 2005 is an increase in the tax expense of the Consolidated Entity by \$2,321,000 (Company: \$1,185,000) and a decrease in deferred tax assets of \$1,440,000 (Company: decrease \$1,920,000).

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

Summary of transitional adjustments

The following table sets out the expected adjustments to the statements of financial position of the Company and the consolidated entity at transition to AIFRS as at 1 July 2004 and for the AIFRS comparative period balance sheet as at 30 June 2005.

	Note	Consolidated 1 July 2004			Consolidated 30 June 2005			Company 1 July 2004			Company 30 June 2005		
		AGAAP \$000	Transition Impact \$000	AIFRS \$000	AGAAP \$000	Transition Impact \$000	AIFRS \$000	AGAAP \$000	Transition Impact \$000	AIFRS \$000	AGAAP \$000	Transition Impact \$000	AIFRS \$000
Current assets													
Cash assets		75,946	-	75,946	106,077	-	106,077	58,526	-	58,526	72,191	-	72,191
Receivables		66,656	-	66,656	82,961	-	82,961	34,674	-	34,674	56,497	-	56,497
Inventories	(b)	44,837	-	44,837	49,120	398	49,518	33,429	-	33,429	25,726	-	25,726
Income tax receivable		807	-	807	-	-	-	640	-	640	-	-	-
Other	(e),(h),(j)	12,156	(394)	11,762	12,872	(274)	12,598	4,408	(394)	4,014	5,033	(175)	4,858
Total current assets		200,402	(394)	200,008	251,030	124	251,154	131,677	(394)	131,283	159,447	(175)	159,272
Non-current assets													
Receivables		9,633	-	9,633	10,125	-	10,125	9,458	-	9,458	9,970	-	9,970
Other financial assets	(h)	-	-	-	335	(335)	-	6,444	-	6,444	18,489	-	18,489
Plant and equipment	(f)	29,523	(2,724)	26,799	28,589	(3,200)	25,389	26,947	(2,773)	24,174	20,838	(189)	20,649
Intangible assets	(a),(b),(c),(g),(k)	7,190	7,048	14,238	191,764	1,800	193,564	-	7,048	7,048	-	7,498	7,498
Deferred tax assets	(k)	17,791	3,160	20,951	23,904	(1,440)	22,464	7,000	(916)	6,084	9,669	(1,920)	7,749
Total non-current assets		64,137	7,484	71,621	254,717	(3,175)	251,542	49,849	3,359	53,208	58,966	5,389	64,355
Total assets		264,539	7,090	271,629	505,747	(3,051)	502,696	181,526	2,965	184,491	218,413	5,214	223,627
Current liabilities													
Payables		31,657	-	31,657	46,539	-	46,539	17,156	-	17,156	18,914	-	18,914
Interest bearing liabilities		25,867	-	25,867	64,206	-	64,206	2,100	-	2,100	1,273	-	1,273
Current tax liabilities		4,781	-	4,781	12,455	-	12,455	-	-	-	8,380	-	8,380
Provisions	(e)	22,352	(324)	22,028	25,617	-	25,617	14,386	(324)	14,062	17,814	-	17,814
Other	(i)	21,639	11,376	33,015	38,132	7,264	45,396	12,664	917	13,581	18,322	-	18,322
Total current liabilities		106,296	11,052	117,348	186,949	7,264	194,213	46,306	593	46,899	64,703	-	64,703
Non-current liabilities													
Interest bearing liabilities	(h)	-	-	-	139,286	(434)	138,852	-	-	-	-	-	-
Provisions	(f)	3,256	1,328	4,584	3,704	1,328	5,032	2,087	1,233	3,320	2,485	1,233	3,718
Other		9,458	-	9,458	9,938	-	9,938	9,458	-	9,458	9,938	-	9,938
Total non-current liabilities		12,714	1,328	14,042	152,928	894	153,822	11,545	1,233	12,778	12,423	1,233	13,656
Total liabilities		119,010	12,380	131,390	339,877	8,158	348,035	57,851	1,826	59,677	77,126	1,233	78,359
Net assets		145,529	(5,290)	140,239	165,870	(11,209)	154,661	123,675	1,139	124,814	141,287	3,981	145,268
Equity													
Contributed equity	(j)	50,746	(1,371)	49,375	50,746	(1,371)	49,375	50,746	(1,371)	49,375	50,746	(1,371)	49,375
Reserves	(g)	(995)	(806)	(1,801)	10,424	(14,341)	(3,917)	-	(513)	(513)	-	(128)	(128)
Retained profits		89,267	(3,113)	86,154	99,959	4,503	104,462	72,929	3,023	75,952	90,541	5,480	96,021
Total parent entity interest		139,018	(5,290)	133,728	161,129	(11,209)	149,920	123,675	1,139	124,814	141,287	3,981	145,268
Outside equity interests		6,511	-	6,511	4,741	-	4,741	-	-	-	-	-	-
Total equity		145,529	(5,290)	140,239	165,870	(11,209)	154,661	123,675	1,139	124,814	141,287	3,981	145,268

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

Impact of adopting AIFRS (continued)

Reconciliation of profit for the financial year ended 30 June 2005.

The following table sets out the expected adjustments to the statements of financial performance of the Company and the Consolidated Entity for the year ended 30 June 2005:

	Note	Consolidated 30 June 2005			Company 30 June 2005		
		AGAAP \$000	Transition Impact \$000	AIFRS \$000	AGAAP \$000	Transition Impact \$000	AIFRS \$000
Revenue from ordinary activities	(i)	348,517	4,112	352,629	242,881	917	243,798
Expenses	(c),(e),(f),(g),(j)	270,725	(3,331)	267,394	162,993	(1,012)	161,981
Borrowing costs		2,928	-	2,928	282	-	282
Profit from ordinary activities before related income tax expense		74,864	7,443	82,307	79,606	1,929	81,535
Income tax expense relating to ordinary activities	(k)	21,512	2,321	23,833	19,162	1,185	20,347
Net profit		53,352	5,122	58,474	60,444	744	61,188
Net loss attributable to outside equity interests		1,168	-	1,168	-	-	-
Net profit attributable to members of the parent entity		54,520	5,122	59,642	60,444	744	61,188

Summary of impact of transition to AIFRS on retained earnings

The impact of the transition to AIFRS on retained earnings as at 1 July 2004 is summarised below:

	Consolidated \$000	Company \$000
Retained earnings as at 1 July 2004 under AGAAP	89,267	72,929
AIFRS reconciliation		
- Defined benefit asset	929	929
- Change in functional currency	513	513
- Capitalised research and development	3,149	3,149
- Consolidation of trust (CELTIP)	374	374
- Change to revenue recognition policies	(11,083)	(917)
- Make good costs on leases	(153)	(107)
- Impact of taxation	3,158	(918)
Retained earnings as at 1 July 2004 under AIFRS	86,154	75,952

Notes to the financial statements Cochlear Limited and its controlled entities for the year ended 30 June 2005

34. Events subsequent to reporting date

Other than the matters noted below, there has not arisen in the interval between reporting date and the date of this financial 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.

Extension of royalty waiver

Since 30 June 2005, the Company was informed by the Department of Industry, Tourism and Resources of Australia that the royalty waiver agreement with the Commonwealth of Australia that had expired on 31 December 2002 had been extended to 30 June 2005. As a result, the Company is not required to pay a royalty to the Commonwealth from 1 January 2003 to 30 June 2005. The Company has an accrual of \$5,655,000 for the Commonwealth royalty for this period. The financial effects of this event, being the reversal of the royalty accrual of \$5,655,000 less income tax expense of \$1,697,000, have not been brought to account in the financial statements for the year ended 30 June 2005.

Dividends

For dividends declared after 30 June 2005, see note 7.

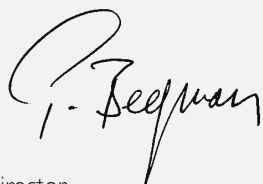
Directors' declaration Cochlear Limited and its controlled entities for the year ended 30 June 2005

In the opinion of the directors of Cochlear Limited:

- (a) the financial statements and notes, as set out on pages 1 to 41, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and Consolidated Entity as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) the directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief officer and the chief financial officer for the year ended 30 June 2005.

Dated at Sydney this 16th day of August 2005.

Signed in accordance with a resolution of the directors:



director



director

Independent audit report to the members of Cochlear Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes to the financial statements (Notes 1 - 34), the disclosures made by the Company in accordance with the Corporations Regulations 2001 as required by AASB 1046 *Directors and Executives Disclosures by Disclosing Entities* in the sections marked as audited in the "Remuneration Report" in the Directors' Report "remuneration disclosures", and the Directors' Declaration for both Cochlear Limited (the Company) and Cochlear Limited and its controlled entities (the Consolidated Entity), for the year ended 30 June 2005. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

The Remuneration Report also contains information not required by AASB 1046 *Director and Executive Disclosures by Disclosing Entities*, which is not subject to our audit. These sections are marked as unaudited.

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Report and the Remuneration Report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the Financial Report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporate Regulations 2001.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Audit opinion

In our opinion, the financial report including the audited remuneration disclosures of the Remuneration Report in the Directors Report of Cochlear Limited are in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2005 and of their performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards in Australia including AASB 1046 *Director and Executive Disclosures by Disclosing Entities*, and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

KPMG

Sydney, 16 August 2005

John Wigglesworth, Partner

Remuneration Report Cochlear Limited for the year ended 30 June 2005

Remuneration Committee

The Remuneration Committee operates under delegated authority of the Board of directors. The Remuneration Committee approves the remuneration policy and structure for executives and executive directors (senior executives) and makes recommendations to the Board on the total remuneration packages of each senior executive.

External advice on remuneration matters is obtained and is made available for the Remuneration Committee.

Remuneration policies - audited

The Board recognises that Cochlear's performance is dependent on the quality of its people. To successfully achieve its financial and operating objectives in a complex and global environment, Cochlear must be able to attract, retain and motivate highly skilled senior executives who are dedicated to the interests of shareholders. Cochlear adopts a total remuneration approach for senior executives. The key principles that underpin Cochlear's Remuneration Policy include:

- a competitive Total Remuneration Strategy provided to attract, retain and motivate senior executive talent;
- a significant proportion (up to 50% of total fixed remuneration) of total senior executive remuneration linked to financial performance and business objectives, under the Cochlear Management Short Term Incentive Plan; and
- a significant proportion (up to 40% of total fixed remuneration) of total senior executive remuneration linked to the creation of long-term value for shareholders under the Cochlear Executive Long Term Incentive Plan (CELTIP).

The Remuneration Policy assists Cochlear to achieve its business strategy and objectives. The Remuneration Committee recognises that, while remuneration is a key factor in recruiting the right people, it is not the only factor. Cochlear's corporate reputation, its ethical culture and values and its ability to provide interesting and challenging career opportunities, also play an important role.

Remuneration structure

Senior executives - audited

Remuneration of the senior executives is comprised of policies and programs under the following categories:

- total fixed remuneration made up of base salary and superannuation, retirement benefits and other incidental benefits; and
- variable remuneration made up of an annual short-term incentive plan and long-term incentives.

The remuneration structure is designed to strike an appropriate balance between fixed and variable remuneration. Variable remuneration is tied to performance and is at risk.

Service contracts - audited

Cochlear's philosophy is not to enter service contracts for senior executives, excluding the CEO/President. Senior executives operate under standard termination and redundancy conditions with the following exceptions. The President, Asia Pacific Region has a notice period of three months and the President, European Region has a notice period of six months. The President, European Region will receive a maximum of CHF30,000 for repatriation costs in the case of termination or resignation.

The CEO/President's conditions are set out separately in this Remuneration Report.

Base salary and benefits - audited

Base salaries are determined by reference to appropriate benchmark information, taking into account an individual's responsibilities, performance, qualifications, experience and geographical location.

In addition to base salary, selected overseas based executives receive additional benefits including health insurance, a car allowance and a relocation allowance.

Remuneration Report Cochlear Limited for the year ended 30 June 2005

In Australia, retirement benefits are paid in line with the statutory Superannuation Guarantee legislation levels. A legacy Defined Benefit Plan remains, but this has been closed since 1995. There are currently 16 members in the Plan. In July 2005, members were given the opportunity to transfer to the accumulation fund with ongoing contributions based on the estimated required Company contributions under the Defined Benefit Scheme actuarial assessments to ensure that employees are not adversely prejudiced by the move. The transfer will be complete in the first half of the 2006 financial year. This will close the Defined Benefit Plan.

Globally, retirement benefits are paid in line with local legislation and practice.

Variable remuneration - unaudited

The Board believes that well designed and managed short-term and long-term incentive plans are important elements of employee remuneration, providing tangible incentives for senior executives to achieve Cochlear's short-term and long-term performance goals. Participation in these plans encourages greater involvement by senior executives to share in the future growth, prosperity and profitability of Cochlear in a way that gives them a community of interest with shareholders.

The proportions of variable remuneration opportunity vary for senior executives within Cochlear, reflecting an individual's responsibilities, performance and experience.

Cochlear Management Short Term Incentive Plan - audited

Short-term incentives for senior executives are determined under the Cochlear Management Short Term Incentive Plan. The short-term incentive is structured in such a way that a significant part of the senior executive's package depends upon achievement of individual performance goals linked to the business objectives and the financial performance of Cochlear. Financial measures include revenue and earnings before interest and taxes targets. Short-term incentives are paid on both the half and full year results.

The percentage of total remuneration that is allocated to short-term incentives varies according to the senior executive's position and is the range of 20% - 50% of total fixed remuneration for achieving all budgeted targets. In years of exceptional performance, the short-term incentives could increase to 100% of total fixed remuneration.

The process of determining relevant performance measures and whether they are met is as follows:

- at the beginning of the financial year, the Remuneration Committee recommends to the Board the targets for the CEO/President and the other senior executives. This is dependent on financial objectives and agreement between the CEO/President and the senior executive on individual performance goals based on the particular objectives of that part of the business; and
- the CEO/President and the other senior executives and then the CEO/President and Chairman assess progress towards the financial and individual performance goals. The Remuneration Committee reviews, and the Board approves, these assessments prior to any payment.

The Remuneration Committee also evaluates the proposed short-term incentive awards in aggregate and determines appropriateness having regard to Cochlear's overall financial results. After this assessment, the Remuneration Committee makes its recommendation to the full board for payment.

Once approved by the Board, the short-term incentive awards are paid to participants. This occurs on a half year and full year basis.

Cochlear Executive Long Term Incentive Plan - audited

The CELTIP was approved by shareholders at the 2003 Annual General Meeting (AGM). The CELTIP is designed to reward senior executives for achieving long-term growth in shareholder value.

Senior executives are offered a mixture of options (being options to acquire ordinary shares in Cochlear Limited) and performance shares (being units of fully paid ordinary shares in Cochlear Limited).

The number of options and performance shares offered to a senior executive depends on their fixed remuneration and Cochlear's target remuneration package for the senior executive's position. The mixture of options and performance shares is determined at the discretion of the Board, having regard to the senior executive's role.

The exercise price of the options is based on the weighted average price of Cochlear Limited's shares traded during the five business days following the date of the provision of the final preliminary report to the Australian Stock Exchange (ASX) in August. Each performance share equates to one ordinary share. All options refer to options over ordinary shares of Cochlear Limited. All performance shares are ordinary shares of Cochlear Limited. Each option is convertible to one ordinary share.

Remuneration Report Cochlear Limited for the year ended 30 June 2005

Both the options and performance shares are subject to performance hurdles and vesting restrictions, which will ultimately determine the final number of options that will be exercisable and the number of performance shares receivable by a senior executive. The relevant performance hurdles and vesting restrictions are:

- a three year vesting period - during which time the senior executive will be unable to exercise the options or trade the performance shares; and
- the performance of Cochlear over the vesting period – measured by using growth in earnings per share (EPS) and total shareholder returns (TSR) as measured against the S&P/ASX 100 index comparator group. Half the offer will be assessed against EPS growth and the other half using TSR growth as follows:

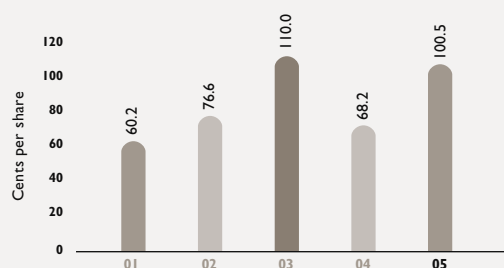
Compound annual growth rate of EPS over a three year period		TSR growth rate against S&P/ASX 100 index comparator group over a three year period	
Performance	% of options and performance shares vesting	Performance	% of options and performance shares vesting
<10%	0%	<50th percentile	0%
10% to 20%	50% to 100% pro-rata	50th to 75th percentile	50% to 100% pro-rata
>20%	100%	>75th percentile	100%

Options and performance shares only vest if the performance hurdles and time qualifications are met.

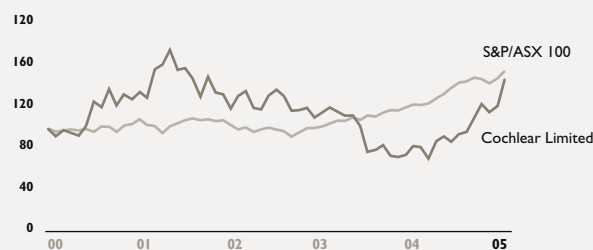
There are no voting or dividend rights attached to options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised. Performance shares are held in trust for the senior executives. Dividends paid to the trust are subsequently paid to the relevant senior executives. Voting rights are not transferred. Voting rights are attached to the performance shares once ownership is transferred. Any dividends paid on performance shares that are subsequently forfeited are not paid to the senior executive.

Performance of Cochlear in current CELTIP cycle - unaudited

Depicted in the charts below is a comparison of EPS for financial years 2001 to 2005 and the TSR performance of Cochlear relative to the S&P/ASX 100 index from financial years 2001 to 2005:



Comparison of the Cochlear Limited's EPS performance for financial years 2001 to 2005



Comparison of Cochlear Limited's TSR performance against the S&P/ASX 100 index for financial years 2001 to 2005. Total return basis index: June 2000 = 100

For the year ended 30 June 2005, the growth in EPS was 47% and the total return to Cochlear Limited shareholders (as measured from the change in share price plus dividends paid) was 76%.

In considering Cochlear's performance and growth in shareholders' value the remuneration policies have regard to the following indices in respect of the current financial year and the previous four financial years.

Amounts in \$	2005	2004	2003	2002	2001
Net profit after tax (million)	54.5	36.8	58.2	40.1	31.2
Dividends paid (million)	42.8	42.3	33.3	26.8	21.3
Share price	39.2	22.7	32.3	34.1	39.0

Remuneration Report Cochlear Limited for the year ended 30 June 2005

Executive Share Option Plan - audited

The Executive Share Option Plan (ESOP) was replaced by CELTIP in 2003. The final ESOP allocation vests in September 2005. The ESOP covers all options granted to senior executives prior to the 2004 financial year. Under the ESOP, each option is convertible to one ordinary share. The exercise price of options is based on the opening price of Cochlear Limited's shares sold in the ordinary course of trading on the ASX on the date the offer of the options was made. Options have a three year vesting period, and must be exercised within a month of vesting (expiry date).

All options under the ESOP lapse on the earlier of the expiry date or termination of the employee's employment. Options do not vest until three years after granting and thereafter the number of options exercisable depends on the compound annual growth rate of EPS achieved by Cochlear over a three year period. Three levels of growth have been set which determine the number of options, which are exercisable in any particular year. If the minimum compound annual growth rate of 10% in EPS is not achieved, no options can be exercised. To achieve a 100% allocation, a compound annual growth rate of 18% in EPS over the three year period must be achieved.

There were no voting or dividend rights attached to the options.

Executive directors - audited

At the date of this Remuneration report, there are two executive directors in office.

Dr Chris Roberts was appointed to the Board on 1 February 2004 at the time of his appointment as CEO/President.

Dr John Parker was appointed to the Board on 19 March 2002. Dr Parker is the Company's Chief Technology Officer.

Dr Chris Roberts

Dr Roberts has been appointed for a fixed term of three years from the commencement date of 1 February 2004. If Cochlear terminates Dr Roberts' employment without cause before the end of the term, he will be entitled to receive an amount equivalent to the total fixed remuneration he would have received during the balance of the term.

Dr Roberts participates in the Cochlear Management Short Term Incentive Plan at a value equal to 50% of total fixed remuneration.

Dr Roberts participates to a value equal to 40% of total fixed remuneration under the CELTIP. This will be in the form of 75% share options and 25% performance shares subject to approval by the shareholders at the AGM in October 2005.

Dr John Parker

Dr Parker is not subject to any service contract and operates under standard employment termination and redundancy conditions.

Dr Parker participates in the Cochlear Management Short Term Incentive Plan at a value equal to 30% of total fixed remuneration.

Dr Parker participates to a value equal to 30% of total fixed remuneration under the CELTIP. This will be in the form of 75% share options and 25% performance shares subject to approval by the shareholders at the AGM in October 2005.

Non-executive directors - audited

Fees for non-executive directors are based on the nature of their work and their responsibilities. The remuneration rates reflect the complexity of Cochlear and the extent of the geographical regions in which Cochlear operates. In determining the level of fees, survey data on comparable companies has been considered. Non-executive directors' fees are recommended by the Remuneration Committee and determined by the Board. Shareholders approve the aggregate amount of non-executive director fees.

At the October 2004 AGM shareholders voted to approve an increase in aggregate director fees to \$1,000,000 a year. Non-executive directors' fees have been increased in line with the position put to shareholders at this meeting and were effective 1 July 2004.

The Chairman of Cochlear is Mr Tommie Bergman. His director's fees are set at three times the base fee for non-executive directors. He does not receive any additional fees for chairing the Remuneration Committee and Nominations Committee or serving on the Audit Committee.

From 2003, no new non-executive director has been entitled to join the Cochlear Limited directors' retirement scheme. Non-executive directors appointed prior to this are members of the scheme which provides directors with more than five years service, retirement benefits in line with the conditions detailed in the Corporations Act 2001 and set out on page 30.

Non-executive directors do not receive any performance related remuneration, options or performance shares.

There are no commitments to non-executive directors arising from non-cancellable contracts with the Company.

Remuneration Report

 Cochlear Limited for the year ended 30 June 2005

Directors' and senior executives' remuneration details

The following table provides the details of all directors (specified directors) and the executives of Cochlear with the greatest authority (specified executives), and each of the five named officers of the Company and Consolidated Entity receiving the highest remuneration. Comparatives are as disclosed in the 2004 Remuneration Report.

Details of the nature and amount of each major element of remuneration are:

Amounts in \$	Year	Primary			Post employment		Total before share based payments	Equity compensation ^{(vi), (vii)}		Total	Audited Yes/No	Unaudited Performance related remuneration as proportion of total %	Unaudited Value of options as proportion of remuneration %
		Salary and fees	Bonuses ^(vi)	Non-monetary benefits ^(vi)	Superannuation benefits	Leaving benefits ^(vi)		Value of options	Value of shares				
Directors													
Non-executive													
Mr TCE Bergman Chairman	2005	240,000	-	-	11,585	202,037	453,622	-	-	453,622	Yes	-	-
	2004	180,000	-	-	11,002	89,064	280,066	-	-	280,066	Yes	-	-
Prof BDO Anderson, AO	2005	96,000	-	-	8,640	40,875	145,515	-	-	145,515	Yes	-	-
	2004	73,500	-	-	6,615	36,500	116,615	-	-	116,615	Yes	-	-
Prof E Byrne	2005	96,000	-	-	8,640	79,131	183,771	-	-	183,771	Yes	-	-
	2004	73,500	-	-	6,615	36,368	116,483	-	-	116,483	Yes	-	-
Ms EC Holley (resigned 19 October 2004)	2005	27,962	-	3,604	2,492	6,091	40,149	-	-	40,149	Yes	-	-
	2004	90,000	-	-	8,100	47,000	145,100	-	-	145,100	Yes	-	-
Mr R Holliday-Smith (appointed 1 March 2005)	2005	39,738	-	-	3,576	-	43,314	-	-	43,314	Yes	-	-
Mr PJ North, AM	2005	105,000	-	-	9,450	42,000	156,450	-	-	156,450	Yes	-	-
	2004	85,000	-	-	7,650	48,000	140,650	-	-	140,650	Yes	-	-
Mr JH Veeneklaas	2005	96,000	-	-	8,640	40,875	145,515	-	-	145,515	Yes	-	-
	2004	73,500	-	-	6,615	36,500	116,615	-	-	116,615	Yes	-	-
Executive													
Dr CG Roberts CEO/President	2005	719,313	648,359	-	11,585	-	1,379,257	129,212	37,343	1,545,812	Yes	52.7%	8.4%
	2004	273,799	137,709	-	4,443	-	415,951	-	-	415,951	Yes	33.1%	-
Dr JL Parker Chief Technology Officer	2005	323,250	128,512	-	11,585	-	463,347	33,143	9,576	506,066	Yes	33.8%	6.5%
	2004	293,792	11,633	-	11,002	-	316,427	25,822	-	342,249	Yes	10.9%	7.5%
Total all specified directors	2005	1,743,263	776,871	3,604	76,193	411,009	3,010,940	162,355	46,919	3,220,214	Yes		
	2004	1,143,091	149,342	-	62,042	293,432	1,647,907	25,822	-	1,673,729	Yes		

Remuneration Report

 Cochlear Limited for the year ended 30 June 2005

Amounts in \$	Year	Primary			Post employment		Total before share based payments	Equity compensation ^{(vi), (vii)}		Total	Audited Yes/No	Not audited Performance related remuneration as proportion of total %	Not audited Value of options as proportion of remuneration %
		Salary and fees	Bonuses ⁽ⁱⁱ⁾	Non-monetary benefits ⁽ⁱⁱⁱ⁾	Superannuation benefits	Leaving benefits ^(iv)		Value of options	Value of shares				
Executives													
Consolidated Entity													
Mr R Brook ^{(i), (v), (viii)} President, European Region	2005	314,245	174,961	64,956	37,379	-	591,541	43,041	12,438	647,020	Yes	35.6%	6.7%
	2004	295,733	24,178	97,872	11,711	-	429,494	-	-	429,494	Yes	5.6%	-
Mr NJ Mitchell ^{(i), (ii), (viii)} Chief Financial Officer and Company Secretary	2005	266,491	118,565	-	45,871	-	430,927	30,577	8,836	470,340	Yes	33.6%	6.5%
	2004	271,906	11,023	-	30,788	-	313,717	20,658	-	334,375	Yes	9.5%	6.2%
Mr MD Salmon ^{(i), (ii), (viii)} President, Asia Pacific Region	2005	297,161	91,685	-	10,917	-	399,763	30,592	8,840	439,195	Yes	29.9%	7.0%
Mr CM Smith ^{(i), (v), (viii)} President, Americas Region	2005	415,520	175,407	157,185	10,323	-	758,435	130,398	-	888,833	Yes	34.4%	14.7%
Mr H Yoshikawa ^{(i), (v)} General Manager and Representative Director, Japan	2005	300,074	96,776	22,757	39,296	-	458,903	-	3,525	462,428	No	21.7%	-
	2004	299,145	30,102	14,333	38,267	-	381,847	-	-	381,847	No	7.9%	-
The Company													
Mr DW Howitt ^{(i), (ii)} Senior Vice President, Manufacturing and Logistics	2005	244,007	93,580	-	11,585	-	349,172	24,258	7,010	380,440	Yes	32.8%	6.4%
	2004	212,705	9,175	4,127	11,002	-	237,009	12,911	-	249,920	Yes	8.8%	5.2%
Mr MC Kavanagh ⁽ⁱ⁾ Senior Vice President, Global Marketing	2005	272,471	102,573	-	11,585	-	386,629	27,211	7,863	421,703	No	32.6%	6.5%
	2004	255,373	11,037	-	11,002	-	277,412	-	-	277,412	No	4.0%	-
Mr JF Patrick ⁽ⁱ⁾ Senior Vice President, Chief Scientist	2005	228,224	101,696	-	39,621	-	369,541	26,411	7,624	403,576	No	33.6%	6.5%
	2004	227,971	9,791	-	38,102	-	275,864	20,658	-	296,522	No	10.3%	7.0%
Total all specified executives	2005	1,537,424	654,198	222,141	116,075	-	2,529,838	258,866	37,124	2,825,828	Yes		
	2004	780,344	44,376	101,999	53,501	-	980,220	33,569	-	1,013,789	Yes		

- (i) Executive is included as one of the five named company executives or relevant group executives who received the highest remuneration in the current financial year in accordance with section 300A of the Corporations Act 2001.
- (ii) Executive is included as a specified executive in accordance with AASB 1046 *Director and Executive Disclosures for Disclosing Entities* for Cochlear.
- (iii) Benefits include the provision of car allowances and health insurance.
- (iv) Amounts accrued during the financial year to the directors' retirement scheme. Refer to note 30 in the financial statements for further information.
- (v) Denotes overseas based executive.
- (vi) Short-term and long-term incentive bonuses are granted annually. The grant date is tied to the performance appraisal, which, for the current year was completed by 30 June 2005. The service and performance criteria are set out in this report.
- (vii) The value disclosed above is the proportion of the fair value of the options and performance shares allocated to the reporting period. The ability to exercise the options and performance shares is conditional on Cochlear achieving certain performance hurdles. The estimated value of options for the current financial year is calculated at the date of grant using the Black-Scholes model applying a 25% volatility, as reflected in the historical volatility. Further details of options granted during the financial year are set out below. The value of options and performance shares granted has been calculated for disclosure purposes only and there is no current requirement to recognise the amounts in determining the net profit for the financial year.
- (viii) Denotes Consolidated Entity and Company executives.

Vesting of performance shares is conditional upon Cochlear achieving the performance hurdles detailed earlier in the Remuneration report. Performance shares were issued from unissued shares and are held under a trust. The calculated value of the performance shares is amortised in the accounts on a pro-rata basis over the vesting period.

Remuneration Report Cochlear Limited for the year ended 30 June 2005

Analysis of bonuses included in remuneration - unaudited

Details of the vesting profile of the short-term incentive awarded as remuneration to each executive director of the Company and each of the five named Company executives and relevant Consolidated Entity executives are detailed below:

Amounts in \$	Short-term incentive bonus		
	Included in remuneration ^(A)	% vested in the financial year	% forfeited during the financial year ^(B)
Executive directors			
Dr CG Roberts	648,359	129%	-
Dr JL Parker	128,512	129%	-
Executives			
Consolidated Entity			
Mr R Brook	174,961	139%	-
Mr NJ Mitchell	118,565	129%	-
Mr MD Salmon	91,685	100%	-
Mr CM Smith	175,407	147%	-
Mr H Yoshikawa	96,776	104%	-
The Company			
Mr DW Howitt	93,580	129%	-
Mr MC Kavanagh	102,573	126%	-
Mr JF Patrick	101,696	128%	-

(A) Amounts included in vested short-term incentives for the financial year represent the amounts that vested in the financial year based on achievement of personal goals and specified financial goals. Amounts exceeding 100% indicate performance above target. No amounts vest in future financial years in respect of the short-term incentive scheme for the financial year.

(B) The amounts forfeited in short-term incentives are due to personal and financial goals not being met in the financial year.

Remuneration Report

Cochlear Limited for the year ended 30 June 2005

Analysis of share-based payments granted as remuneration - unaudited

Details of the vesting profile of the options granted as remuneration to each director of the Company and each of the five named Company executives and relevant Consolidated Entity executives is detailed below:

	Date of grant	Financial years in which grant vests	Options					Performance shares				
			Number granted	% vested in financial year	% forfeited in financial year ^(A)	Value yet to vest		Number granted	% vested in financial year	% forfeited in financial year ^(A)	Value yet to vest	
						Min ^(B)	Max ^(C)				Min ^(B)	Max ^(C)
Executive directors												
Dr CG Roberts	8 September 2004	30 June 2008	164,321	-	-	nil	547,249	10,595	-	-	nil	158,160
Dr JL Parker	7 September 2001	30 June 2005	50,000	0%	100%	-	-	-	-	-	-	-
	1 September 2002	30 June 2006	50,000	-	-	nil	nil	-	-	-	-	-
	1 December 2003	30 June 2007	20,584	-	-	nil	nil	2,648	-	-	nil	nil
	8 September 2004	30 June 2008	42,149	-	-	nil	140,372	2,717	-	-	nil	40,559
Executives												
Consolidated Entity												
Mr R Brook	1 December 2003	30 June 2007	26,046	-	-	nil	nil	3,350	-	-	nil	nil
	8 September 2004	30 June 2008	54,736	-	-	nil	182,291	3,529	-	-	nil	52,680
Mr NJ Mitchell	7 September 2001	30 June 2005	50,000	0%	100%	-	-	-	-	-	-	-
	1 September 2002	30 June 2006	50,000	-	-	nil	nil	-	-	-	-	-
	1 December 2003	30 June 2007	18,961	-	-	nil	nil	2,439	-	-	nil	nil
	8 September 2004	30 June 2008	38,886	-	-	nil	129,505	2,507	-	-	nil	37,424
Mr MD Salmon	8 September 2004	30 June 2008	38,904	-	-	nil	129,565	2,508	-	-	nil	37,439
Mr CM Smith	8 September 2004	30 June 2008	165,830	-	-	nil	552,275	-	-	-	-	-
Mr H Yoshikawa	1 September 2002	30 June 2006	10,000	-	-	nil	nil	-	-	-	-	-
	1 December 2003	30 June 2007	-	-	-	-	-	1,000	-	-	nil	nil
	8 September 2004	30 June 2008	-	-	-	-	-	1,000	-	-	nil	14,928
The Company												
Mr DW Howitt	7 September 2001	30 June 2005	25,000	0%	100%	-	-	-	-	-	-	-
	1 September 2002	30 June 2006	25,000	-	-	nil	nil	-	-	-	-	-
	1 December 2003	30 June 2007	15,613	-	-	nil	nil	2,008	-	-	nil	nil
	8 September 2004	30 June 2008	30,850	-	-	nil	102,742	1,989	-	-	nil	29,691
Mr MC Kavanagh	1 December 2003	30 June 2007	17,836	-	-	nil	nil	2,294	-	-	nil	nil
	8 September 2004	30 June 2008	34,605	-	-	nil	115,247	2,231	-	-	nil	33,304
Mr JF Patrick	7 September 2001	30 June 2005	50,000	0%	100%	-	-	-	-	-	-	-
	1 September 2002	30 June 2006	50,000	-	-	nil	nil	-	-	-	-	-
	1 December 2003	30 June 2007	17,325	-	-	nil	nil	2,228	-	-	nil	nil
	8 September 2004	30 June 2008	33,588	-	-	nil	111,860	2,163	-	-	nil	32,289

(A) The percentage forfeited in the financial year represents the reduction from the maximum number of options and performance shares available to vest due to the highest level performance criteria not being achieved.

(B) The minimum value of options yet to vest is \$nil as the performance criteria may not be met and consequently the options may not vest.

(C) The maximum value of options yet to vest is not determinable as it depends on the market price of shares of the Company on the ASX at the date the option is exercised. The maximum values disclosed above are based on the valuations as per this report.

Remuneration Report Cochlear Limited for the year ended 30 June 2005

Analysis of movements in options – unaudited

The movement of values during the reporting period of options over ordinary shares of Cochlear Limited held by each Company director and each of the five named Company executives and relevant Consolidated Entity executives is detailed below.

Value of options				
Amounts in \$	Granted in year ^(A)	Exercised in year ^(B)	Forfeited in year ^(C)	Total option value in year
Executive directors				
Dr CG Roberts	547,249	-	-	547,249
Dr JL Parker	140,372	-	-	140,372
Executives				
<i>Consolidated Entity</i>				
Mr R Brook	182,291	-	-	182,291
Mr NJ Mitchell	129,505	-	-	129,505
Mr MD Salmon	129,565	-	-	129,565
Mr CM Smith	552,275	-	-	552,275
Mr H Yoshikawa	-	-	-	-
<i>The Company</i>				
Mr DW Howitt	102,742	-	-	102,742
Mr MC Kavanagh	115,247	-	-	115,247
Mr JF Patrick	111,860	-	-	111,860
	2,011,106	-	-	2,011,106

(A) The value of options granted in the year is the fair value of options calculated at grant date using a Black-Scholes model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (ie in years 30 June 2005 to 30 June 2008).

(B) The value of options exercised during the year is calculated as the market price of shares of the Company on the ASX as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

(C) The value of the options that lapsed during the year represented the benefit forgone and is calculated at the date the option lapsed using a Black-Scholes model with no adjustments for whether the performance criteria have or have not been achieved.

Unissued shares under option

As at the date of this Annual Report, unissued ordinary shares of the Company under options are:

Number of options	Plan	Exercise price per share	Exercise period
967,000	ESOP	\$38.12	August 2005 - September 2005
192,761	CELTIP	\$34.19	August 2006 - September 2008
738,490	CELTIP	\$18.97	August 2007 - September 2009

The share price at 30 June 2005 was \$39.20.

During the financial year, the Company granted 738,490 options over ordinary shares to employees under the CELTIP. The options are exercisable in the two years following lodgement with the ASX of the Company's preliminary financial report for the year ending 30 June 2007. The number of options which will be exercisable is dependent on the performance measures and retention requirements set out in this Remuneration Report.

The Company cancelled 1,000,001 share options during the financial year.

Appendix 4E

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Law or other standards acceptable to ASX

Identify other standards used

NIL

2 This report, and the accounts upon which the report is based (if separate), use the same accounting policies.

3 This report does give a true and fair view of the matters disclosed.

4 This report is based on financial statements to which one of the following applies.

The accounts have been audited

The accounts have been subject to a review.

The accounts are in the process of being audited or subject to review.

The accounts have not yet been audited or reviewed.

5 The entity has a formally constituted audit committee.



Sign here:
(Company Secretary)

Date:16 August, 2005.....

Print name: NJ Mitchell