2002

FINANCIAL REPORT CONTENTS

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The Directors present their report, together with the financial report of Cochlear Limited (Company) and the consolidated financial report of the Consolidated Entity, being the Company and its controlled entities, for the year ended 30 June 2002, and the Auditors' Report thereon.

DIRECTORS

The Directors of the Company in office during the financial year or since the financial year are Prof. BDO Anderson, AO, Mr TCE Bergman, Prof. E Byrne, Ms EC Holley, Mr PJ North, Mr JJ O'Mahony, Dr JL Parker, Prof. DG Penington, AC, and Mr JH Veeneklaas. Information on the directors is presented on page 8.

DIRECTORS' MEETINGS

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

	Board of Directors		Remuneration Committee		Audit Committee	
	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended
Prof. BDO Anderson, AO	10	10	2	2	–	–
Mr TCE Bergman	4	4	–	–	2	2
Ms EC Holley	10	10	–	–	4	4
Mr PJ North	10	8	–	–	4	4
Mr JJ O'Mahony	10	10	2	2	4	4
Dr JL Parker	3	3	–	–	–	–
Prof. DG Penington, AC	10	10	2	2	4	4
Mr JH Veeneklaas	10	10	2	2	–	–

PRINCIPAL ACTIVITIES AND REVIEW OF OPERATIONS AND RESULTS

The principal activities and a review of the operations of the Consolidated Entity during the year ended 30 June 2002, and the results of those operations, are set out in the CEO/President's Report.

Other than as discussed in this Report, there were no significant changes in the nature of those activities during the year ended 30 June 2002 and the results of those operations are set out in the CEO/President's Report.

CONSOLIDATED RESULTS

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

	2002	2001
	$000	$000
Revenue from ordinary activities	256,201	222,234
Profit from ordinary activities before related income tax expense	51,030	46,451
Net profit attributable to members of the Company	40,110	31,178
Basic earnings per share (cents)	76.6	60.2
Diluted earnings per share (cents)	76.6	60.2

DIVIDENDS

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

TYPE	CENTS PER SHARE	TOTAL AMOUNT $000	DATE OF PAYMENT	TAX RATE FOR FRANKING CREDIT
• As proposed and provided in last year's report:				
Final – ordinary shares	21.0	10,924	25 Sept 01	30%
• In respect of the current financial year:				
Interim – ordinary shares	21.0	11,025	20 Mar 02	30%
Final – ordinary shares	30.0	15,750	24 Sep 02	30%
		26,775		

All the dividends paid or provided by the Company since the end of the previous financial year were 100% franked.

ENVIRONMENTAL REGULATIONS

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

EVENTS SUBSEQUENT TO BALANCE DATE

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

STATE OF AFFAIRS

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

- on 10 August 2001, the Company issued 24,786 shares to eligible employees of the Consolidated Entity under the Cochlear Employee Share Plan for nil consideration;
- on 24 September 2001, options over 458,000 ordinary shares were exercised respectively as part of the Executive Share Option Plan for a total consideration of $4,076,200;
- capital expenditure was increased to $17.1 million. Major investments included, a spend of approximately $7 million on the expansion of plant capacity and facilities in the Lane Cove building and approximately $5 million on the commencement of the implementation of an enterprise resource planning system; and
- a loan of $10 million was raised from Westpac Banking Corporation to fund growth in working capital and capital expenditure.

LIKELY DEVELOPMENTS

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

DIRECTORS' AND EXECUTIVES' EMOLUMENTS

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

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

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

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

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

AMOUNTS IN $	SALARY OR FEES	PERFORMANCE RELATED BONUS	BENEFITS[1]	SUPER-ANNUATION	LEAVING BENEFITS	TOTAL	NUMBER OF OPTIONS EXERCISED[2]
Directors of the Company							
Prof. BDO Anderson, AO	52,500	–	–	4,200	–	56,700	–
Mr TCE Bergman	34,731	–	–	2,779	–	37,510	–
Ms EC Holley	67,500	–	–	5,363	–	72,863	–
Mr PJ North	60,000	–	–	4,800	–	64,800	–
Mr JJ O'Mahony	597,770	316,925	35,860	8,804	–	959,359	–
Dr JL Parker	227,582	87,465	–	8,804	–	323,851	30,000
Prof. DG Penington, AC	125,000	–	–	8,702	–	133,702	–
Mr JH Veeneklaas	52,500	–	–	4,200	–	56,700	–
Consolidated Entity executives							
Mr H Noguchi[3] President – Nihon Cochlear Co Limited	167,441	–	–	106,955	576,231	850,627	–
Mr J Miller[3] President – Americas Region	440,175	148,872	13,940	28,263	–	631,250	–
Mr R Giancola[3] Director – Latin America	361,228	145,662	17,763	25,342	–	549,995	–
Ms B March[3] Vice President – Customer Service, Cochlear Americas	308,924	146,580	10,412	22,782	–	488,698	5,000
Mr M Sundler[3] President – European Region	269,601	38,534	–	60,110	–	368,245	–
Company executives							
Mr V Morrant Senior Vice – President Marketing and Business Development	214,761	60,077	–	8,804	–	283,642	–
Mr NJ Mitchell Chief Financial Officer and Company Secretary	192,344	62,472	–	8,804	–	263,620	30,000
Mr JF Patrick Senior Vice President – Research and Applications	181,246	58,335	–	23,383	–	262,964	30,000
Mr P Daffas Vice President – Marketing	114,746	14,175	–	5,181	125,441	259,543	10,000
Ms M Vischer Senior Vice President – Human Resources	191,688	55,842	–	8,804	–	256,334	–

1. Benefits include the provision of car allowances, telecommunication costs and health insurance.
2. Options were exercised during the year in accordance with an Executive Share Option Plan at an exercise price of $8.90 per share, and at the time of exercise the share price was $42.30.
3. Denotes overseas-based executive.

OPTIONS

During and since the end of the financial year, the Company granted options over unissued ordinary shares to the Executive Directors, Mr JJ O'Mahony and Dr JL Parker, and those of the five most highly remunerated executives of the Company and of the Consolidated Entity as part of their remuneration:

	NUMBER OF OPTIONS GRANTED	EXERCISE PRICE PER SHARE	EXERCISE PERIOD
Director			
Mr JJ O'Mahony CEO/President	75,000	$37.62	Aug - Sept 2004
Dr JL Parker Senior Vice President and Chief Operating Officer	50,000	$37.62	Aug - Sept 2004
Executives			
Mr J Miller President – Americas Region	50,000	$37.62	Aug - Sept 2004
Mr R Giancola Director – Latin America	8,000	$37.62	Aug - Sept 2004
Ms B March Vice President – Customer Service, Cochlear Americas	25,000	$37.62	Aug - Sept 2004
Mr JF Patrick Senior Vice President – Research and Applications	50,000	$37.62	Aug - Sept 2004
Mr V Morrant President – Asia Pacific Region	50,000	$37.62	Aug - Sept 2004
Mr M Sundler President – European Region	60,000	$37.62	Aug - Sept 2004
Mr NJ Mitchell Chief Financial Officer and Company Secretary	50,000	$37.62	Aug - Sept 2004
Ms M Vischer Senior Vice President – Human Resources	50,000	$37.62	Aug - Sept 2004

At the date of this Report, unissued ordinary shares of the Company under option are:

NUMBER OF OPTIONS	EXERCISE PRICE PER SHARE	EXERCISE PERIOD
514,000	$15.00	Aug - Sept 2002
25,000	$16.80	Aug - Sept 2002
1,039,000	$26.50	Aug - Sept 2003
125,000	$36.00	Aug - Sept 2003
1,215,000	$37.62	Aug - Sept 2004

During the financial year, the Company granted options over 1,276,000 unissued ordinary shares to employees under an Executive Share Option Plan. The options are exercisable in the month following lodgment with the Australian Stock Exchange (ASX) of the Company's preliminary financial report for the financial year ending 30 June 2004. The number of options which will be exercisable by the executives will depend upon the compound annual growth rate of the earnings per share achieved by the Consolidated Entity since 1 July 2001. Three different levels of growth rate have been set which will determine the number of options exercisable by the executives in any particular year. If the minimum compound growth rate of 10% per annum is not achieved, no shares will be issued. To achieve a 100% allocation, an annual compound growth rate of 18% over the three year period must be achieved.

The Company cancelled 81,000 share options during the financial year.

DIRECTORS' INTERESTS

The relevant interest of each Director in the share capital of the Company, as notified by the Directors to ASX in accordance with Section 235(1) of the Corporations Act 2001, at the date of this Report is as follows:

	COCHLEAR LIMITED ORDINARY SHARES	OPTIONS OVER ORDINARY SHARES
Prof. BDO Anderson, AO	4,000	–
Mr TCE Bergman	8,000	–
Prof. E Byrne	–	–
Ms EC Holley	8,000	–
Mr PJ North	12,000	–
Mr JJ O'Mahony	–	225,000
Dr JL Parker	5,000	130,000
Prof. DG Penington, AC	25,000	–
Mr JH Veeneklaas	–	–

INDEMNIFICATION OF OFFICERS

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

- liability to third parties (other than the Company or related bodies corporate), if the relevant officer has acted in good faith; and
- the cost and expenses of successfully defending legal proceedings in which relief under the Corporations Act 2001 is granted to the relevant officer.

INSURANCE FOR DIRECTORS AND OFFICERS

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

ROUNDING OFF

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

Dated at Sydney this 20th day of August 2002.

Signed in accordance with a resolution of the Directors:

Director

Director

STATEMENTS OF FINANCIAL PERFORMANCE

Cochlear Limited and its controlled entities for the year ended 30 June 2002

		CONSOLIDATED		COMPANY	
	NOTE	2002	2001	2002	2001
		$000	$000	$000	$000
Revenue from ordinary activities	2	256,201	222,234	187,752	135,781
Expenses	3(b)	204,021	175,561	136,448	99,659
Borrowing costs		1,150	222	195	–
Profit from ordinary activities before related income tax expense		**51,030**	**46,451**	**51,109**	**36,122**
Income tax expense relating to ordinary activities	5(a)	10,920	15,273	11,952	11,605
Net profit attributable to members of the parent entity		**40,110**	**31,178**	**39,157**	**24,517**
Non-owner transaction changes in equity					
Translation adjustment in general reserve	21	3	9	–	–
Net exchange difference on translation of financial statements of self-sustaining foreign operations	21	2,507	(113)	–	–
Total changes in equity from non-owner related transactions attributable to the members of the parent entity		**42,620**	**31,074**	**39,157**	**24,517**
Dividends paid and provided	6	**26,775**	**21,327**	**26,775**	**21,327**
Basic earnings per share (cents)					
Ordinary shares	8	76.6	60.2		
Diluted earnings per share (cents)					
Ordinary shares	8	76.6	60.2		

The statement of financial performance is to be read in conjunction with the notes to the financial statements set out on pages 40 to 63.

STATEMENTS OF FINANCIAL POSITION

Cochlear Limited and its controlled entities as at 30 June 2002

		CONSOLIDATED		COMPANY	
	NOTE	2002	2001	2002	2001
		$000	$000	$000	$000
CURRENT ASSETS					
Cash assets	23(i)	10,539	31,025	3,698	14,232
Receivables	9	69,284	42,511	31,228	16,890
Inventories	10	36,380	27,068	27,258	18,779
Other	11	6,976	5,834	3,870	2,583
Total current assets		**123,179**	**106,438**	**66,054**	**52,484**
NON-CURRENT ASSETS					
Receivables	9	215	251	–	–
Other financial assets	12	–	–	3,944	3,944
Plant and equipment	13	24,925	12,541	22,156	9,889
Deferred tax assets	5(c)	12,109	9,818	7,158	7,188
Total non-current assets		**37,249**	**22,610**	**33,258**	**21,021**
Total assets		**160,428**	**129,048**	**99,312**	**73,505**
CURRENT LIABILITIES					
Payables	14	21,136	30,511	9,534	16,295
Interest bearing liabilities	15	24,252	9,689	10,000	–
Current tax liabilities	5(b)	3,835	3,209	2,155	2,578
Provisions	18	34,149	29,529	30,653	24,264
Total current liabilities		**83,372**	**72,938**	**52,342**	**43,137**
NON-CURRENT LIABILITIES					
Provisions	18	1,640	615	759	615
Total non-current liabilities		**1,640**	**615**	**759**	**615**
Total liabilities		**85,012**	**73,553**	**53,101**	**43,752**
Net assets		**75,416**	**55,495**	**46,211**	**29,753**
EQUITY					
Contributed equity	20	14,959	10,883	14,959	10,883
Reserves	21	5,933	3,423	–	–
Retained profits	22	54,524	41,189	31,252	18,870
Total equity		**75,416**	**55,495**	**46,211**	**29,753**

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 40 to 63.

STATEMENTS OF CASH FLOWS

Cochlear Limited and its controlled entities for the year ended 30 June 2002

	NOTE	CONSOLIDATED 2002	CONSOLIDATED 2001	COMPANY 2002	COMPANY 2001
		$000	$000	$000	$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts in the course of operations		233,437	213,669	178,747	141,317
Cash payments in the course of operations		(215,609)	(179,366)	(150,706)	(107,756)
Grant received		622	726	–	–
Interest received		702	1,148	183	1,221
Borrowing costs		(997)	(222)	–	–
Income taxes paid		(12,373)	(16,194)	(10,233)	(13,658)
Purchase of core technology		(4,884)	–	(4,884)	–
Net cash provided by operating activities	23(ii)	**898**	**19,761**	**13,107**	**21,124**
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for plant and equipment		(17,130)	(5,537)	(15,769)	(4,044)
Net cash used in investing activities		**(17,130)**	**(5,537)**	**(15,769)**	**(4,044)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		14,121	8,038	10,000	–
Proceeds from the issue of shares		4,076	2,919	4,076	2,919
Dividends paid		(21,948)	(18,080)	(21,948)	(18,080)
Net cash used in financing activities		**(3,751)**	**(7,123)**	**(7,872)**	**(15,161)**
Net increase/(decrease) in cash held		**(19,983)**	**7,101**	**(10,534)**	**1,919**
Cash at the beginning of the financial year		29,374	20,795	14,232	12,313
Foreign exchange adjustment to beginning cash		(917)	1,478	–	–
Cash at the end of the financial year	23(i)	**8,474**	**29,374**	**3,698**	**14,232**

The statement of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 40 to 63.

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1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

(A) BASIS OF PREPARATION

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations 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, are consistent with those of the previous year. Unless otherwise stated, these accounts have been prepared in Australian Dollars.

(B) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of the Consolidated Entity include the financial statements of the Company, being the parent entity, and its controlled entities. Where an entity either began or ceased to be controlled during the 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.

(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. Sales revenue is recognised when the goods are provided, or when the fee in respect of services provided is receivable.

Interest income
Interest income is recognised as it accrues.

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

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

(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 balance date are translated at the rates of exchange ruling on that date.

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

Hedges

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

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

Translation of controlled foreign entities

The statements of financial position of controlled foreign entities that are self-sustaining foreign operations are translated at the rates of exchange ruling at balance date. 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 foreign branches

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(F) PROVISION FOR WARRANTIES

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

(G) 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.

(H) RESEARCH AND DEVELOPMENT EXPENDITURE

Research and development expenditure is expensed as incurred.

(I) RECOVERABLE AMOUNT OF NON-CURRENT ASSETS VALUED ON A COST BASIS

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

(J) PLANT AND EQUIPMENT

Acquisition

Items of plant and equipment are recorded at their cost of acquisition, being fair value of the consideration provided plus incidental costs directly attributed to the acquisition and depreciated 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.

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. 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.

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

	2002	2001
Leasehold improvements	12 - 20.0%	12 - 20.0%
Plant and equipment	17 - 33.3%	17 - 33.3%
Enterprise resource planning system	25 - 40.0%	25 - 40.0%

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

Finance leases
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.

(K) 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.

(L) INVESTMENTS

Controlled entities
Investments in controlled entities are carried 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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(M) EMPLOYEE ENTITLEMENTS

Wages, salaries and annual leave

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

Long service leave

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

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

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

Share options

The Company has granted options to certain employees under an Executive Share Option Plan. Further information is set out in the Directors' Report to the financial report. Other than the costs incurred in administering the 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. Shares issued to employees upon the exercise of options are recognised in equity at the fair value of consideration received.

Superannuation plans

The Consolidated Entity contributes to various employee superannuation plans. The liabilities of these superannuation plans are covered by the assets in the plans. The Consolidated Entity is obliged to contribute to the superannuation 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 revenue as they are made. Further information is set out in Note 27.

(N) RECEIVABLES

Trade debtors

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

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

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 provision for doubtful debts. The Consolidated Entity trades in more than 60 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 provided for in the financial statements.

(O) NET FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

(P) 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. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

(Q) 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 are normally settled within 60 days but are negotiated on an individual basis where appropriate.

(R) 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.

(S) COMPARATIVES

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

(T) CHANGE IN ACCOUNTING POLICY

The Consolidated Entity has applied the following Accounting Standards for the first time from 1 July 2001. The application of these standards did not have a material effect on the financial report:

• AASB 1005 Segment Reporting. The primary segment reported is by geographic region; and

• AASB 1027 Earnings Per Share.

		CONSOLIDATED		COMPANY	
	NOTE	2002	2001	2002	2001
		$000	$000	$000	$000
2. REVENUE FROM ORDINARY ACTIVITIES					
Sale of goods revenue from operating activities		252,706	218,138	186,795	134,355
Rendering of services revenue from operating activities		2,275	1,973	760	58
Other revenue:					
From operating activities					
Interest received or due and receivable from other persons		690	1,160	183	1,219
Grant received or due and receivable		463	726	–	–
From outside operating activities					
Other income		67	237	14	149
Total other revenue		1,220	2,123	197	1,368
Total revenue from ordinary activities		**256,201**	**222,234**	**187,752**	**135,781**
3. PROFIT FROM ORDINARY ACTIVITIES BEFORE RELATED INCOME TAX EXPENSE					
(a) Individually significant items included in profit from ordinary activities before related income tax expense:					
Acquisition of core technology from Implex AG Hearing Technology Implants NV		5,229	–	5,229	–
(b) Expenses					
Cost of goods sold		72,966	72,419	69,916	54,705
Distribution, marketing and field clinical support expenses		77,252	67,411	17,456	13,531
Research and development expenses	3(a)	42,977	27,742	38,261	23,416
Administration expenses		10,665	7,989	10,665	8,007
Other expense from ordinary activities		161	–	150	–
		204,021	175,561	136,448	99,659
(c) Profit from ordinary activities before related income tax expense has been arrived at after charging/(crediting) the following items:					
Interest paid or due and payable to other parties		1,150	222	195	–
Write down in value of inventories		542	265	371	179
Net bad and doubtful debts expense including movements in provision for doubtful debts		962	406	624	300
Depreciation of plant and equipment		3,632	2,650	2,403	1,733
Depreciation of enterprise resource planning system		129	–	129	–
Amortisation of leasehold improvements		986	863	970	766
Net expense from movements in provisions for:					
Warranty		509	2,000	510	2,000
Employee entitlements		4,683	3,814	3,956	894
Other		(543)	1,742	(354)	–
Operating lease rental expense		4,285	3,632	1,701	1,271
Net foreign exchange (gain)/loss		(1,036)	464	150	149
Loss on disposal of plant and equipment		393	82	–	–

	CONSOLIDATED		COMPANY	
	2002	2001	2002	2001
	$	$	$	$

4. AUDITORS' REMUNERATION

	2002 $	2001 $	2002 $	2001 $
Amounts received or due and receivable for audit services:				
Auditors of the Company	104,200	90,000	92,800	90,000
Other KPMG member firms	152,000	166,205	15,600	–
	256,200	256,205	108,400	90,000
Amounts received or due and receivable for other services:				
Auditors of the Company[(i)]	668,208	286,000	520,739	286,000
Other KPMG member firms	37,164	169,491	–	–
	705,372	455,491	520,739	286,000

(i) Other services relate to transfer pricing, tax advice and superannuation services.

	CONSOLIDATED		COMPANY	
	2002	2001	2002	2001
	$000	$000	$000	$000
5. TAXATION				
(a) Income tax expense				
Prima facie income tax expense calculated at 30% (2001: 34%) on the profit from ordinary activities	15,309	15,793	15,333	12,281
Increase in income tax expense due to:				
Net higher overseas tax rate	650	205	175	250
Non-allowable/(assessable) permanent differences	480	254	61	(41)
Decrease in income tax expense due to:				
Overseas share options deductions	(2,017)	–	–	–
Research and development allowance	(3,322)	(1,512)	(3,166)	(1,332)
Income tax expense on profit from ordinary activities before individual significant tax item	11,100	14,740	12,403	11,158
Individual significant income tax item:				
Restatement of future income tax benefit due to change in company tax rate	–	556	–	478
	11,100	15,296	12,403	11,636
Income tax overprovided in prior year	(180)	(23)	(451)	(31)
Total income tax expense attributable to profit from ordinary activities	**10,920**	**15,273**	**11,952**	**11,605**
Total income tax expense is made up of:				
Current income tax provision	13,348	15,177	12,373	11,570
Future income tax benefit	(2,248)	119	30	66
Overprovision in prior financial year	(180)	(23)	(451)	(31)
	10,920	**15,273**	**11,952**	**11,605**
(b) Current tax liabilities				
Provision for current income tax				
Movements during the year:				
Balance at the beginning of the year	3,209	5,463	2,578	5,274
Income tax paid	(12,373)	(16,194)	(10,233)	(13,658)
Current year's income tax on profit	13,391	14,088	12,373	11,570
Overprovision in prior year	(180)	(23)	(451)	(31)
Tax loss transferred from a controlled entity	–	–	(2,112)	(577)
Net foreign currency difference on translation of self-sustaining operations	(212)	(125)	–	–
	3,835	**3,209**	**2,155**	**2,578**
(c) Deferred tax assets				
Future income tax benefit comprises the estimated future benefit at the applicable local taxation rate.				
Provisions and other timing differences not currently deductible	12,109	9,818	7,158	7,188
	12,109	**9,818**	**7,158**	**7,188**

6. DIVIDENDS

	CENTS PER SHARE	TOTAL $000	DATE OF PAYMENT	FRANKED TAX RATE	PERCENTAGE FRANKED
Dividends recognised in the current year by the Company are:					
2002					
Interim – ordinary	21	11,025	20 March 2002	30%	100%
Final – ordinary	30	15,750	24 September 2002	30%	100%
Total franked amount		**26,775**			
2001					
Interim – ordinary	20	10,403	20 March 2001	34%	100%
Final – ordinary	21	10,924	25 September 2001	30%	100%
Total franked amount		**21,327**			

No unfranked dividends have been provided or paid during the year.

	CONSOLIDATED		COMPANY	
	2002	2001	2002	2001
	$000	$000	$000	$000
Dividend franking account				
Balance of franking account adjusted for franking credits which will arise from the payment of income tax provided for in the financial statements, and after deducting franking credits to be used in payment of the above dividend:				
30% franking credits available to shareholders of Cochlear Limited for subsequent years	**12,532**	**12,037**	**12,532**	**12,037**

From 1 July 2002, the new Business Tax System (Imputation) Act 2002 requires measurement of franking credits based on the amount of income tax paid, rather than on after tax profits.

As a result, franking credits available were converted from $12.532 million to $5.371 million as at 1 July 2002. This change in the basis of measurement does not change the value of franking credits to shareholders who may be entitled to franking credit benefits.

7. GEOGRAPHICAL SEGMENTS

	AMERICAS		EUROPE		ASIA PACIFIC		UNALLOCATED		ELIMINATIONS		CONSOLIDATED	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Revenue												
Revenue outside the Consolidated Entity	119,616	106,611	87,342	72,711	48,405	41,120	838	1,792	–	–	256,201	222,234
Intersegment sale revenue	–	–	–	–	–	–	167,919	117,066	(167,919)	(117,066)	–	–
Profit												
Profit/(loss) from ordinary activities before interest and income tax	31,876	32,893	27,311	23,567	12,225	11,316	(19,922)	(22,263)	–	–	51,490	45,513
Net interest revenue/(expense)											(460)	938
Profit from ordinary activities before related income tax expense											51,030	46,451
Income tax expense relating to ordinary activities											(10,920)	(15,273)
Profit from ordinary activities after income tax expense											40,110	31,178
Depreciation and amortisation	545	18	562	449	288	268	3,352	2,778	–	–	4,747	3,513
Non-cash expenses other than depreciation and amortisation	735	1,538	768	933	692	744	3,455	4,545	–	–	5,650	7,760
Inventory write down	172	72	–	15	–	–	870	676	–	–	1,042	763
Total assets	46,966	49,968	44,139	28,964	18,441	15,856	104,921	68,636	(54,039)	(34,376)	160,428	129,048
Total liabilities	19,843	19,468	30,385	26,263	6,035	8,643	69,856	43,950	(41,107)	(24,771)	85,012	73,553
Acquisition of non-current assets	1,214	594	465	594	108	133	15,343	4,216	–	–	17,130	5,537

Industry segments

The Consolidated Entity operates in the cochlear implant industry.

8. EARNINGS PER SHARE

	CONSOLIDATED	
	2002	2001
Net profit used in the calculation of:		
Basic earnings per share	$40,110,483	$31,178,163
Diluted earnings per share	$40,110,483	$31,178,163
Weighted average number of ordinary shares used as the denominator:		
Number for basic earnings per share	52,381,173	51,784,230
Number for diluted earnings per share	52,381,173	51,784,230

As the number of shares to be issued under the Executive Share Option Plan is contingent upon the achievement of certain future earnings thresholds, the potential ordinary shares are considered to be contingently issuable and have not been included in the calculation of diluted earnings per share.

	NOTE	CONSOLIDATED 2002 $000	CONSOLIDATED 2001 $000	COMPANY 2002 $000	COMPANY 2001 $000
9. RECEIVABLES					
Current					
Trade debtors		72,857	45,083	4,378	3,022
Provision for doubtful trade debtors		(3,573)	(2,572)	(2,253)	(1,629)
		69,284	42,511	2,125	1,393
Amount receivable from controlled entities	28	–	–	29,103	15,497
Net trade receivables		**69,284**	**42,511**	**31,228**	**16,890**
Non-current					
Other amounts receivable		**215**	**251**	**–**	**–**
10. INVENTORIES					
Raw materials and stores, at net realisable value		19,257	11,042	19,257	11,042
Work in progress, at net realisable value		6,110	5,588	6,110	5,588
Finished goods, at net realisable value		11,013	10,438	1,891	2,149
Total inventories		**36,380**	**27,068**	**27,258**	**18,779**
11. OTHER CURRENT ASSETS					
Prepayments and other debtors		**6,976**	**5,834**	**3,870**	**2,583**
12. OTHER FINANCIAL ASSETS					
Shares in controlled entities, unlisted at cost	24	**–**	**–**	**3,944**	**3,944**

	CONSOLIDATED		COMPANY	
	2002	2001	2002	2001
	$000	$000	$000	$000
13. PLANT AND EQUIPMENT				
Leasehold improvements				
At cost	14,186	7,190	13,417	6,236
Accumulated amortisation	(3,482)	(2,440)	(3,233)	(2,264)
	10,704	4,750	10,184	3,972
Plant and equipment				
At cost	24,086	21,182	17,799	14,402
Accumulated depreciation	(14,668)	(13,391)	(10,630)	(8,485)
	9,418	7,791	7,169	5,917
Enterprise resource planning system				
At cost	4,932	–	4,932	–
Accumulated depreciation	(129)	–	(129)	–
	4,803	–	4,803	–
Total plant and equipment at net book value	24,925	12,541	22,156	9,889
Reconciliations				
Reconciliations of the carrying amounts of each class of plant and equipment are set out below:				
Leasehold improvements				
Carrying amount at the beginning of the year	4,750	4,380	3,972	3,902
Additions	7,319	1,161	7,182	836
Disposals	(393)	–	–	–
Amortisation	(986)	(863)	(970)	(766)
Net foreign currency difference on translation of self-sustaining foreign operations	14	72	–	–
Carrying amount at the end of the year	10,704	4,750	10,184	3,972
Plant and equipment				
Carrying amount at the beginning of the year	7,791	5,931	5,917	4,442
Additions	4,880	4,376	3,655	3,208
Disposals	–	(82)	–	–
Depreciation	(3,632)	(2,650)	(2,403)	(1,733)
Net foreign currency difference on translation of self-sustaining foreign operations	379	216	–	–
Carrying amount at the end of the year	9,418	7,791	7,169	5,917
Enterprise resource planning system				
Carrying amount at the beginning of the year	–	–	–	–
Additions	4,932	–	4,932	–
Disposals	–	–	–	–
Depreciation	(129)	–	(129)	–
Carrying amount at the end of the year	4,803	–	4,803	–
Total carrying amount at the end of the year	24,925	12,541	22,156	9,889

	CONSOLIDATED		COMPANY	
	2002	2001	2002	2001
	$000	$000	$000	$000
14. PAYABLES				
Current				
Trade creditors and other creditors	21,136	30,511	9,534	16,295
15. INTEREST BEARING LIABILITIES				
Bank overdraft	2,065	1,651	–	–
Bank loans, secured	22,187	8,038	10,000	–
	24,252	9,689	10,000	–
Financing arrangements				
The Consolidated Entity has access to the following lines of credit at balance date:				
Bank overdraft	7,762	8,092	2,000	2,000
Bank loans	32,187	8,315	20,000	–
Standby letters of credit	500	500	500	500
	40,449	16,907	22,500	2,500
Facilities utilised at balance date				
Bank overdraft	2,065	1,651	–	–
Bank loans – current	22,187	8,038	10,000	–
Standby letters of credit	–	–	–	–
	24,252	9,689	10,000	–
Facilities not utilised at balance date				
Bank overdraft	5,697	6,441	2,000	2,000
Bank loans	10,000	277	10,000	–
Standby letters of credit	500	500	500	500
	16,197	7,218	12,500	2,500

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 1.57% (2001: 1.75%) per annum.

Bank loans

The bank loans were secured by a letter of guarantee provided by the Company. The utilised facility bore interest at an average effective interest rate of 5.1% (2001: 6.2%) per annum.

	NOTE	CONSOLIDATED 2002 $000	CONSOLIDATED 2001 $000	COMPANY 2002 $000	COMPANY 2001 $000
16. 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		4,187	3,274	1,824	1,312
Later than one year but not later than five years		14,624	7,895	7,297	5,381
Later than five years		10,312	1,185	1,824	1,185
Total commitments		**29,123**	**12,354**	**10,945**	**7,878**
Capital expenditure commitments					
Contracted but not provided for and payable:					
Not later than one year		**3,417**	**181**	**3,417**	**181**
17. AMOUNTS PAYABLE IN FOREIGN CURRENCIES					
The Australian Dollar equivalent of unhedged amounts payable in foreign currencies, calculated at balance date exchange rates, is as follows:					
Current					
Amounts payable					
United States Dollar		1,132	3,635	1,132	3,530
euro		1,272	1,316	1,272	1,316
Other		464	172	464	172
18. PROVISIONS					
Current					
Dividends	6	15,750	10,924	15,750	10,924
Employee entitlements*		8,295	8,468	5,579	4,403
Warranty		6,010	5,500	6,010	5,500
Other		4,094	4,637	3,314	3,437
Balance at the end of the year		**34,149**	**29,529**	**30,653**	**24,264**
Non-current					
Employee entitlements*		**1,640**	**615**	**759**	**615**

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

19. CONTINGENT LIABILITIES

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

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

Guarantees
Cochlear Americas, a wholly-owned subsidiary, has guaranteed Wells Fargo Bank West, N.A. US$1million for a finance facility. The facility was established to provide customer financing for purchases of ESPrit 22 processors within the Americas Region. The bank administers the financing program. The outstanding balance on the consumer loans at the balance date was US$83,000.

	CONSOLIDATED		COMPANY	
	2002	2001	2002	2001
	$000	$000	$000	$000
20. CONTRIBUTED EQUITY				
Issued and paid-up capital				
52,500,145 (2001: 52,027,359)				
Ordinary shares fully paid(i)	**14,959**	**10,883**	**14,959**	**10,883**
Movements in ordinary share capital				
Balance at the beginning of the year	10,883	7,964	10,883	7,964
Shares issued:				
24,786 (2001: 31,609) shares issued for nil consideration				
under the Employee Share Plan(ii)	–	–	–	–
458,000 (2001: 837,000) shares issued from				
the exercise of options(iii)	4,076	2,919	4,076	2,919
Balance at the end of the year	**14,959**	**10,883**	**14,959**	**10,883**

(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 10 August 2001, the Company issued 24,786 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 Executive Share Option Plan.

	CONSOLIDATED		COMPANY	
	2002	2001	2002	2001
	$000	$000	$000	$000
21. RESERVES				
General	89	86	–	–
Foreign currency translation	5,844	3,337	–	–
	5,933	3,423	–	–
Movements during the year				
General				
Balance at the beginning of the year	86	77	–	–
Translation adjustment	3	9	–	–
Balance at the end of the year	89	86	–	–
Foreign currency translation				
Balance at the beginning of the year	3,337	3,450	–	–
Net translation adjustment	2,507	(113)	–	–
Balance at the end of the year	5,844	3,337	–	–

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 and the translation of transactions that hedge the Company's net investment in a self-sustaining foreign operation. Refer to accounting policy Note 1(e).

	CONSOLIDATED		COMPANY	
	2002	2001	2002	2001
	$000	$000	$000	$000
22. RETAINED PROFITS				
Retained profits at the beginning of the year	41,189	31,338	18,870	15,680
Net profit attributable to the members of the parent entity	40,110	31,178	39,157	24,517
Dividends paid and provided	(26,775)	(21,327)	(26,775)	(21,327)
Balance at the end of the year	54,524	41,189	31,252	18,870

23. NOTES TO THE STATEMENTS OF CASH FLOWS

Cash assets

The Company's operating account received an average interest rate of 3.56% (2001: 4.74%) per annum.
Cash held on deposit for periods not exceeding 180 days received an average interest rate of 4.42% (2001: 5.93%) per annum.

(i) Reconciliation of cash

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

	CONSOLIDATED		COMPANY	
	2002	2001	2002	2001
	$000	$000	$000	$000
Cash on hand	8,750	19,384	3,597	2,723
Cash on deposit	1,789	11,641	101	11,509
	10,539	**31,025**	**3,698**	**14,232**
Bank overdraft	2,065	1,651	–	–
	8,474	**29,374**	**3,698**	**14,232**
(ii) Reconciliation of net profit attributable to members of the parent entity to net cash provided by operating activities				
Net profit attributable to members of the parent entity	**40,110**	**31,178**	**39,157**	**24,517**
Add items classified as investing/financing activities:				
Loss on disposal of non-current assets	286	82	–	–
Add non-cash items:				
Amounts set aside to provisions	5,650	7,763	4,736	3,194
Depreciation and amortisation	4,747	3,513	3,502	2,499
Net cash provided by operating activities before changes in assets and liabilities	**50,793**	**42,536**	**47,395**	**30,210**
Changes in assets and liabilities:				
(Increase)/decrease in receivables	(27,738)	(10,717)	(14,962)	2,412
(Increase)/decrease in inventories	(9,312)	(13,000)	(8,479)	(10,874)
(Increase)/decrease in prepayments and other debtors	(1,142)	(2,921)	(1,287)	(1,884)
(Increase)/decrease in deferred tax assets	(2,291)	1,208	30	(54)
(Decrease)/increase in payables	(9,374)	8,632	(6,761)	2,246
(Decrease)/increase in current tax liability	626	(2,254)	(423)	(2,696)
(Decrease)/increase in provisions	(3,805)	(1,853)	(2,406)	1,764
Exchange rate adjustment	3,141	(1,870)	–	–
Net cash provided by operating activities	**898**	**19,761**	**13,107**	**21,124**

NAME	NOTE	INTEREST HELD 2002 %	INTEREST HELD 2001 %	COUNTRY OF INCORPORATION
24. PARTICULARS IN RELATION TO CONTROLLED ENTITIES				
The Company				
Cochlear Limited				Australia
Controlled entities				
Cochlear Europe Limited	a	100	100	United Kingdom
Cochlear AG	a	100	100	Switzerland
Cochlear (UK) Ltd	a	100	100	United Kingdom
Cochlear GmbH	a	100	100	Germany
Cochlear Americas	a	100	100	United States of America
Cochlear (HK) Limited	a	100	100	Hong Kong
Nihon Cochlear Co Limited	a	100	100	Japan
Neopraxis Pty Ltd		100	100	Australia

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

	CONSOLIDATED		COMPANY	
	2002	2001	2002	2001
		.	NO.	NO.
25. DIRECTORS' REMUNERATION				
The number of Directors of the Company whose income from the Company or related parties falls within the following bands:				
$30,000 - $39,999			1	3
$40,000 - $49,999			–	1
$50,000 - $59,999			2	–
$60,000 - $69,999			1	–
$70,000 - $79,999			1	–
$100,000 - $109,999			–	1
$130,000 - $139,999			1	–
$320,000 - $329,999			1	–
$580,000 - $589,999			–	1
$760,000 - $769,999			–	1
$950,000 - $959,999			1	–
Total			8	7
Total income paid or payable or otherwise made available to all Directors of the Company from the Company or any related party	$1,705,485	$1,612,243	$1,705,485	$1,612,243

Directors' income does not include insurance premiums paid by the Company or related parties in respect of Directors' and Officers' Liability and Supplementary Legal Expenses Insurance policies, as the insurance policies do not specify premiums paid in respect of individual Directors.

26. EXECUTIVES' REMUNERATION

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

	EXECUTIVES OF ENTITIES IN THE CONSOLIDATED ENTITY		EXECUTIVES OF THE COMPANY	
	2002	2001	2002	2001
	NO.	NO.	NO.	NO.
$100,000 - $109,999	–	3	–	3
$110,000 - $119,999	1	2	1	2
$120,000 - $129,999	2	2	2	2
$130,000 - $139,999	3	1	3	1
$140,000 - $149,999	2	3	–	1
$150,000 - $159,999	2	3	2	2
$160,000 - $169,999	3	–	2	–
$170,000 - $179,999	1	1	–	–
$180,000 - $189,999	1	1	–	–
$190,000 - $199,999	3	3	2	2
$200,000 - $209,999	5	2	3	1
$210,000 - $219,999	1	–	–	–
$220,000 - $229,999	2	1	1	1
$230,000 - $239,999	1	1	1	1
$240,000 - $249,999	1	3	–	1
$250,000 - $259,999	5	–	3	–
$260,000 - $269,999	2	2	2	–
$270,000 - $279,999	1	1	–	1
$280,000 - $289,999	2	1	1	1
$290,000 - $299,999	–	2	–	1
$300,000 - $309,999	–	1	–	–
$320,000 - $329,999	–	2	–	–
$330,000 - $339,999	2	–	–	–
$340,000 - $349,999	1	–	–	–
$360,000 - $369,999	1	1	–	1
$390,000 - $399,999	–	1	–	–
$420,000 - $429,999	–	2	–	–
$480,000 - $489,999	1	–	–	–
$540,000 - $549,999	1	–	–	–
$560,000 - $569,999	–	1	–	–
$630,000 - $639,999	1	–	–	–
$800,000 - $809,999	–	1	–	–
$850,000 - $859,999	1	–	–	–
Total	46	41	23	21
Total remuneration received or due and receivable by executive officers whose income is $100,000 or more:				
From the Company or related parties			$4,482,125	$3,914,991
From entities in the Consolidated Entity or related parties	$11,293,922	$10,005,841		

Executive officers are those officers, involved in the strategic direction, general management or control of business at a company or operating divisional level.
Remuneration denominated in foreign currencies was converted at the exchange rates applicable for those years.
Executives' income does not include insurance premiums paid by the Company and related parties in respect of Directors' and Officers' Liability and Supplementary Legal Expenses Insurance policies, as the insurance policies do not specify premiums paid in respect of individual executives.

27. EMPLOYEE ENTITLEMENTS

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 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. Employee contributions are based on various percentages of their gross salaries. After serving a qualifying period, eligible employees are entitled to benefits on retirement, disability or death.

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

An actuarial assessment of the Plan was carried out by PJ Vere Pty Ltd in June 2001. The actuary concluded that the assets of the Plan were sufficient to meet all benefits payable in the event of the Plan's termination, or the voluntary or compulsory termination of employment of each employee of the Company who is covered by the Plan.

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

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

	TOTAL ASSETS AT NET MARKET VALUE		TOTAL ACCRUED BENEFITS		EXCESS		TOTAL VESTED BENEFITS	
	2002	2001	2002	2001	2002	2001	2002	2001
	$000	$000	$000	$000	$000	$000	$000	$000
Cochlear Superannuation Plan	8,801	7,760	4,456	4,466	4,345	3,294	8,079	7,173

Plan assets at net market value and vested benefits have been calculated at 30 June 2001, being the date of the most recent financial statements of the Plan. Accrued benefits have been obtained from the most recent financial statements of the Plan being 30 June 2001, and are based on actuarial reviews performed as at 30 June 2001.

Details of contributions to the Plan during the financial year ended 30 June 2002 are as follows:

	CONSOLIDATED		COMPANY	
	2002	2001	2002	2001
Employer contributions to Cochlear Superannuation Plan			$2,267,000	$1,638,000
Number of employees				
Number of employees at balance date	722	639	528	419

Executive Share Option Plan

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

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

The number of options exercisable depends on the compound annual growth rate of earnings per share achieved by the Consolidated Entity over a three year period from the date of issue. Three different levels of growth have been set which determine the number of options which are exercisable in any particular year. If the minimum compound growth rate of 10% per annum is not achieved, no shares will be issued. To achieve a 100% allocation, an annual compound growth rate of 18% over the three year period must be achieved.

Employee Share Plan

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

28. RELATED PARTIES

Directors

The names of each person holding the position of Director of Cochlear Limited during the financial year are Prof. BDO Anderson, AO, Mr TCE Bergman, Ms EC Holley, Mr PJ North, Mr JJ O'Mahony, Dr JL Parker, Prof. DG Penington, AC, and Mr JH Veeneklaas.

Details of Directors' remuneration are set out in Note 25.

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

Directors' holdings of shares and share options

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

	CONSOLIDATED NUMBER HELD	
	2002	2001
Ordinary shares	62,000	51,000
Options over ordinary shares	355,000	150,000

During the year, the Company granted options to the CEO/President and Senior Vice President and Chief Operating Officer over 75,000 and 50,000 unissued shares respectively under the Executive Share Option Plan on the same terms and conditions as those granted to other employees.

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 receivable from wholly-owned controlled entities by the Company at balance date and the value of sales transactions between the parent entity and the wholly-owned controlled entities were:

	2002	2001
	$000	$000
Revenue from sale of goods	167,919	117,066
Current receivables	29,103	15,497

29. FOREIGN EXCHANGE RISK

The Consolidated Entity is exposed to changes in foreign exchange rates from its activities. It is the Consolidated Entity's policy to use derivative financial instruments to hedge these risks using a combination of forward exchange contracts and options. The Consolidated Entity does not enter, 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, Swiss Francs, 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 foreign currency options and the weighted average contracted exchange rates of outstanding contracts. Amounts relating to currency options are based on face values and strike rates.

	FOREIGN EXCHANGE RATES		CONSOLIDATED	
	2002	2001	2002	2001
			$000	$000
Sell United States Dollar				
Not later than one year			56,069	39,248
Later than one year but not later than two years			40,980	29,417
Later than two years but not later than three years			5,669	6,089
Weighted average exchange rates contracted	0.51	0.53		
Sell euro				
Not later than one year			55,383	7,900
Later than one year but not later than two years			28,457	–
Later than two years but not later than three years			10,261	–
Weighted average exchange rates contracted	0.57	0.60		
Sell Swiss Franc				
Not later than one year			–	10,500
Weighted average exchange rates contracted		0.93		
Sell Japanese Yen				
Not later than one year			18,762	11,647
Later than one year but not later than two years			6,079	4,860
Later than two years but not later than three years			1,205	1,085
Weighted average exchange rates contracted	57.46	57.92		
Sell Hong Kong Dollar				
Not later than one year			12,288	3,944
Later than one year but not later than two years			3,039	3,101
Later than two years but not later than three years			–	773
Weighted average exchange rates contracted	3.93	4.08		
Sell Great British Pound				
Not later than one year			11,580	1,314
Later than one year but not later than two years			8,315	–
Weighted average exchange rates contracted	0.36	0.40		

The forward exchange contracts which total $258 million (2001: $120 million) as at 30 June 2002 are held specifically to hedge anticipated foreign currency sales and purchases. As these contracts are hedging anticipated sales and purchases in future years, any unrealised gains and losses on the contracts, together with the costs of the contracts, will be recognised in the financial statements at the time the underlying transaction occurs. The net unrecognised gain/(loss) on hedges of anticipated foreign currency purchases and sales at 30 June 2002 was:

	2002	2001
	$000	$000
Not later than one year	8,854	(5,303)
Later than one year but not later than two years	1,983	687
Later than two years but not later than three years	(515)	70
	10,322	**(4,546)**

30. EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen in the interval between the balance 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.

DIRECTORS' DECLARATION

In the opinion of the Directors of Cochlear Limited:

(a) the financial statements and notes, as set out on pages 37 to 63, 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 2002 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 and the Corporations Regulations 2001; and

(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.

Dated at Sydney this 20th day of August 2002.

Signed in accordance with a resolution of the Directors:

Director

Director

Independent auditors' report to the members of Cochlear Limited

SCOPE

We have audited the financial report of Cochlear Limited for the financial year ended 30 June 2002, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying Notes 1 - 30, and the Directors' Declaration, set out on pages 37 to 64. The financial report includes the consolidated financial statements of the Consolidated Entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's Directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

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

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

AUDIT OPINION

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

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2002 and of their performance for the financial year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporation Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

KPMG

Roger M Amos, Partner

Sydney, 20th August 2002

ADDITIONAL INFORMATION

Additional information required by Australian Stock Exchange Listing Rules and not disclosed elsewhere in this Annual Report; the information presented is as at 9 August 2002.

SHAREHOLDINGS

Substantial shareholders

NAME	NUMBER OF ORDINARY SHARES HELD	%
Commonwealth Bank Group	5,207,377	9.9
Credit Suisse First Boston Australia (Holdings) Ltd	5,045,491	9.6
The AXA Group	3,777,556	7.2
The Capital Group Companies, Inc.	3,173,615	6.1
Merrill Lynch Investment Managers	3,082,688	5.9
Total	**20,286,727**	**38.7**

Distribution of shareholders

NUMBER OF SHARES HELD	NUMBER OF ORDINARY SHAREHOLDERS
1 - 1,000	10,913
1,001 - 5,000	2,678
5,001 - 10,000	179
10,001 - 100,000	147
100,001 - over	45
Total	**13,962**

Non-marketable parcels – 43 shareholders held less than a marketable parcel.

TWENTY LARGEST SHAREHOLDERS

NAME	NUMBER OF ORDINARY SHARES HELD	%
JP Morgan Nominees Australia Ltd	9,471,734	18.04
National Nominees Ltd	4,253,848	8.10
Westpac Custodian Nominees Ltd	3,530,851	6.73
The National Mutual Life Association of Australasia Ltd	1,923,886	3.66
MLC Ltd	1,416,280	2.70
Citicorp Nominees Pty Ltd (CFS WSLE Imputation Fund A/c)	1,111,399	2.12
Citicorp Nominees Pty Ltd	1,068,949	2.04
Commonwealth Custodial Services Ltd	1,053,907	2.01
AMP Life Ltd	899,553	1.71
RBC Global Services Australia Nominees Pty Ltd (MTRAEF A/c)	867,323	1.65
RBC Global Services Australia Nominees Pty Ltd	866,943	1.65
Citicorp Nominees Pty Ltd (CFS WSLE Aust Share Fund A/c)	690,489	1.32
Citicorp Nominees Pty Ltd (CFS WSLE Geared Share Fund A/c)	603,267	1.15
Citicorp Nominees Pty Ltd (CFS Imputation Fund A/c)	582,118	1.11
Cogent Nominees Pty Ltd	581,734	1.11
Tower Australia Ltd	552,716	1.05
ANZ Nominees Ltd	524,830	1.00
Cogent Nominees Pty Ltd (SMP Accounts)	499,391	0.95
Citicorp Nominees Pty Ltd (CFS WSLE Industrial Share A/c)	493,210	0.94
Queensland Investment Corporation	474,818	0.90

The 20 largest shareholders held 59.94% of the ordinary shares of the Company.

ON MARKET BUY-BACK

There is no current on market buy-back.