

**Cochlear Limited and its controlled entities**  
**ACN 002 618 073**  
**Financial statements and reports**  
**for the half year ended 31 December 2003**

COCHLEAR LIMITED AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT  
For the six months ended 31 December 2003

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The Directors present their report, together with the financial statements of Cochlear Limited (the "Company") and the consolidated financial statements of the Consolidated Entity, being the Company and its controlled entities, for the half-year ended 31 December 2003, and the Auditors' review report thereon.

### **Directors**

The Directors of the Company during or since the end of the half-year are:

**Mr Tommie CE Bergman, \*+**

*Chairman*

Age 58 DipEng, FAICD, FAIM  
Chairman since 22 October 2002.

**Dr Christopher G Roberts**

*Chief Executive Officer*

Age. 50. BE, MBA, PhD, FTSE, FAICD  
Chief Executive Officer since 1<sup>st</sup> February 2004

**Mr John J O'Mahony**

*Chief Executive Officer*

Age. 57. B.Com  
Chief Executive Officer until 31 January 2004

**Prof Brian DO Anderson, AO #^**

Age 62. BSc, BE (Syd), PhD (Stan), FRS, FTSE, FAA, Hon FIE Aust, FIEEE.  
Director since 1995

**Ms E Carol Holley \*+**

Age 55. FCA, FAICD  
Director since 1995

**Mr Peter J. North \*#**

Age 69 BE (Syd) MBA (Har) FTSE, FAIM, FAICD  
Director since 1997

**Mr Justus H. Veeneklaas +#**

Age 61. B. Laws (Utrecht).  
Director since 1998

**Professor Edward Byrne #^**

Age 51. DSc, MD, FRCP, FRACP  
Director since 2002

**Dr John Parker #**

Age 41. BSc (Hons) (ANU), PhD (ANU), DOC (RTH Stockholm)  
Director since 2002

\* Member of Audit Committee

+ Member of Remuneration Committee

# Technology Committee

^ Medical Committee

**Mr John J O'Mahony** retired as Chief Executive Officer on 31 January 2004.

## Principal Activities and Review of Operations and Results

Other than as discussed in this Report, there were no significant changes in the nature of operating activities during the half-year ended 31 December 2003 and the results of those operations are set out below.

### Financial overview

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

	<b>2003</b>	<b>2002</b>
	<b>\$000</b>	<b>\$000</b>
Sales revenue	139,208	150,472
Operating profit before tax	36,351	36,013
Profit after tax	<u>26,880</u>	<u>27,015</u>
Earnings per share (cents)	50.1c	51.1c

## **Results**

### Americas Region

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

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

### European Region

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

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

During the half, Cochlear launched a training centre at our research facility in Antwerp, Belgium. The centre will provide ongoing support and training for key professionals

throughout Europe, increasing therapy awareness and providing training in streamlined fitting.

### **Asia Pacific**

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

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

### **Technology**

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

#### **1. Nucleus® 24 Contour Advance™ – Softip™ Electrode Development**

Cochlear currently has the only commercial curling electrode which hugs the inner wall of the inner ear. The new Softip™ electrode further enhances the flexibility of the electrode. Clinical trial results show that this has the potential to retain residual hearing and achieve deeper insertion into the inner ear structure. This is an important step to further penetrate the severely hearing impaired segment.

#### **2. ESPrit 3G For Nucleus 22 Users**

The ESPrit 3G Behind the Ear processor for Nucleus 22 users is in the early stages of commercial release in America and Europe. This processor provides the very latest in technology to our existing Nucleus 22 recipient group and further develops our revenue from sources other than new implant sales.

#### **3. Streamlined Fitting**

Cochlear's Streamlined Fitting Software methodology, now being introduced into key markets, can cut the initial programming time of recipients from several hours per initial session to approximately 15 minutes. This major breakthrough in software development will become increasingly important, particularly for improving clinic capacity.

### **Outlook**

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

- Ever increasing neonatal screening which identifies potential infant recipients

COCHLEAR LIMITED AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT  
For the six months ended 31 December 2003

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

### Dividends

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

	<b>A\$'000</b>
In respect of the previous year:	
A final ordinary dividend of 44 cents per share, franked to 100% with Class C (30%) franking credits, in respect of the year ended 30 June 2003, paid on 23 September 2003.	<u>23,355</u>

The interim dividend in respect of the current financial year has not been provided for in this financial report as it was not declared until after 31 December 2003. Since the end of the financial year, the Directors declared an interim dividend of 35.0 cents franked at a tax rate of 30% amounting to a total of \$18,956,591.

### Rounding Off

The Company is of a kind referred to in ASIC Class Order 98/ 100 dated 10 July, 1998, and in accordance with that Class Order, amounts in this Report and the accompanying financial statements have been rounded off to the nearest one thousand dollars, unless otherwise indicated.

Dated at Sydney this 17<sup>th</sup> day of February 2004.

Signed in accordance with a resolution of the Directors:

.....  
Tommie CE Bergman  
Director

.....  
E C Holley  
Director

## Directors' Declaration

In the opinion of the Directors of Cochlear Limited:

1. The financial statements and notes set out on pages 8 to 18 are in accordance with the Corporations Act 2001, including:
  - a. giving a true and fair view of the financial position of the consolidated entity as at 31 December 2003, and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
  - b. complying with Accounting Standards AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
2. 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 17<sup>th</sup> day of February 2004.

Signed in accordance with a resolution of the Directors:

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T. C.E. Bergman  
Director

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E C Holley  
Director

## Cochlear Limited Half Yearly Report As at 31 December 2003

**Results for announcement to the market**

		Movement		\$A'000
<b>Sales units</b>	<b>up</b>	<b>2%</b>	<b>to</b>	<b>4,482</b>
Total Revenue	down	-7%	to	139,208
Profit after tax attributable to members of the parent entity		0%	to	26,880

Net Tangibles assets per share	up	27 %	to	252 cents
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Cash after borrowings	up	34%	to	38,795
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<b>Dividends</b>	Amount per security	Franked amount per security
Interim dividend	35.0c	35.0c
Previous corresponding period	33.0c	33.0c
Record date for determining entitlements to the dividend	25 February 2004	
Dividend payment date	17 March 2004	
*No dividend reinvestment plans were in operation during or since the half year		

Refer to the attached Directors' report for an explanation of the above movements.

**Cochlear Limited and its Controlled Entities**  
**Statement of Financial Performance**

**For the half-year ended 31 December 2003**

		<b>Consolidated</b>	
	<b>Note</b>	<b>31 December 2003 \$'000</b>	<b>31 December 2002 \$'000</b>
Total revenue	2	139,208	150,472
Total expenses	2	102,462	113,926
Borrowing costs	2	395	533
<b>Profit from ordinary activities before related income tax expense</b>		<b>36,351</b>	<b>36,013</b>
Income tax expense relating to ordinary activities	3	9,705	8,998
<b>Net profit</b>		<b>26,646</b>	<b>27,015</b>
Net loss attributable to outside equity interests		234	-
<b>Net profit attributable to members of the parent entity</b>	<b>6</b>	<b>26,880</b>	<b>27,015</b>
<b>Non owner transaction changes in equity</b>			
Net exchange difference relating to self-sustaining foreign operations		(3,044)	(633)
Net increase in retained earnings on initial adoption of Revised AASB 1044 "Provisions, Contingent Liabilities & Contingent Assets"		-	311
<b>Total changes in equity from non-owner related transactions attributable to the members of the parent entity</b>	<b>8</b>	<b>23,836</b>	<b>26,693</b>
<hr/>			
Basic earnings per share (cents)			
- Ordinary shares		50.1	51.1
Diluted earnings per share (cents)			
- Ordinary shares		50.1	51.1

The statement of financial performance is to be read in conjunction with the notes to the half year financial statements set out on pages 11 to 18.

**Cochlear Limited and its Controlled Entities**  
**Statement of Financial Position**

**As at 31 December 2003**

		<b>Consolidated</b>	
	<b>Note</b>	<b>31 December</b>	<b>30 June</b>
		<b>2003</b>	<b>2003</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Current assets</b>			
Cash assets		65,385	43,891
Trade receivables		53,914	56,918
Deferred foreign exchange receivable		35,809	24,843
Inventories		48,985	45,023
Other		15,483	11,990
<b>Total current assets</b>		<b>219,576</b>	<b>182,665</b>
<b>Non-current assets</b>			
Deferred foreign exchange receivable		11,782	9,796
Intangibles	<b>12</b>	6,809	-
Plant and equipment		30,905	27,336
Deferred tax assets		11,092	13,965
<b>Total non-current assets</b>		<b>60,588</b>	<b>51,097</b>
<b>Total assets</b>		<b>280,164</b>	<b>233,762</b>
<b>Current liabilities</b>			
Payables		31,747	32,523
Interest bearing liabilities		26,590	15,005
Current tax liabilities		4,780	10,707
Provisions		15,300	18,838
Deferred revenue		3,689	3,890
Deferred foreign exchange gain		30,460	21,660
<b>Total current liabilities</b>		<b>112,566</b>	<b>102,623</b>
<b>Non-current liabilities</b>			
Provisions		1,414	1,820
Deferred foreign exchange gain		11,782	9,632
<b>Total non-current liabilities</b>		<b>13,196</b>	<b>11,452</b>
<b>Total liabilities</b>		<b>125,762</b>	<b>114,075</b>
<b>Net assets</b>		<b>154,402</b>	<b>119,687</b>
<b>Equity</b>			
Contributed equity	<b>5</b>	50,746	23,089
Reserves		(1,264)	1,188
Retained profits	<b>6</b>	98,343	95,410
<b>Total parent entity interest</b>		<b>147,825</b>	<b>119,687</b>
<b>Outside equity interests</b>		<b>6,577</b>	<b>-</b>
<b>Total equity</b>	<b>8</b>	<b>154,402</b>	<b>119,687</b>

The statement of financial position is to be read in conjunction with the notes to the half year financial statements set out on pages 11 to 18.

**Cochlear Limited and its Controlled Entities**  
**Statement of Cash Flows**

**For the half-year ended 31 December 2003**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from Operating activities</b>		
Cash receipts in the course of operations	125,228	154,114
Cash payments in the course of operations	(100,367)	(98,732)
Grants received	108	-
Interest received	995	181
Interest paid	(292)	(533)
Income taxes paid	(12,710)	(8,515)
<b>Net cash provided by operating activities</b>	<b>12,962</b>	<b>46,515</b>
<b>Cash flows from Investing activities</b>		
Payment for plant and equipment	(8,406)	(7,812)
<b>Net Cash used in investing activities</b>	<b>(8,406)</b>	<b>(7,812)</b>
<b>Cash flows from Financing activities</b>		
Dividends paid	(23,355)	(15,759)
Proceeds from borrowings	17,996	-
Repayment of borrowings	(4,383)	(10,000)
Issue of shares	27,657	8,130
<b>Net cash provided by/(used in) financing activities</b>	<b>17,915</b>	<b>(17,629)</b>
<b>Net increase in cash held</b>	<b>22,471</b>	<b>21,074</b>
<b>Cash at the beginning of the financial period</b>	<b>42,018</b>	<b>8,474</b>
Effects of exchange fluctuations on the balances of cash held in foreign currencies	(854)	(402)
<b>Cash at the end of the financial period</b>	<b>63,635</b>	<b>29,146</b>

The statement of cash flows is to be read in conjunction with the notes to the half year financial statements set out on pages 11 to 18.

**Cochlear Limited and its Controlled Entities**  
**Notes to the financial statements**

**For the half-year ended 31 December 2003**

**1. Statement of significant accounting policies**

**(a) Basis of preparation of half-year financial report**

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting", the recognition and measurement requirements of applicable AASB standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. This half-year financial report is to be read in conjunction with the 30 June 2003 Annual Financial Report and any public announcements by Cochlear Limited and its Controlled Entities during the half-year in accordance with continuous disclosure obligations arising under 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 are consistent with those applied in the 30 June 2003 Annual Financial Report. Certain comparative balances have been reclassified to conform with current period presentation.

The half-year report does not include full note disclosures of the type normally included in an Annual Financial Report

**(b) Intangible Assets**

The fair value of intellectual property contributed by a minority interest holder to Cochlear Acoustics Limited, a 75% owned subsidiary, has been capitalised and recorded at fair value at the time of 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.

	<b>Consolidated</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>

**2. Revenue and expenses from ordinary activities**

**(a) Revenue**

**Operating activities**

Revenue from sale of goods before hedging	121,838	145,215
Foreign exchange gains on hedged sales	15,114	3,847
<b>Revenue from the sale of goods</b>	<b>136,952</b>	<b>149,062</b>

Revenue from rendering of services	980	1,049
	<b>137,932</b>	<b>150,111</b>

**Outside operating activities**

Other revenue	108	143
Interest revenue	1,168	218
	<b>139,208</b>	<b>150,472</b>

**Cochlear Limited and its Controlled Entities**  
**Notes to the financial statements**

**For the half-year ended 31 December 2003**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2003</b>	<b>2002</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(b) Expenses</b>		
<b>Cost of sales</b>		
- Cost of goods sold	32,790	34,434
- Warranty expense	3,336	4,881
- Write down in value of inventories	333	1,625
	<b>36,459</b>	<b>40,940</b>
Distribution, marketing and field clinical support expenses	39,541	48,995
Research and development expenses	19,737	17,147
Administration and new system development expenses	6,725	6,844
	<b>102,462</b>	<b>113,926</b>
Borrowing costs	395	533
<b>3. Income tax</b>		
<b>Prima facie income tax expense on operating profit at 30%</b>	<b>10,905</b>	<b>10,804</b>
Increase in income tax due to non-tax deductible items:		
Net higher overseas tax rate	295	109
Other non-allowable permanent differences	256	282
Decrease in income tax expense due to non-tax assessable items:		
Research and development allowance	(1,051)	(1,241)
Overseas share option deductions	(207)	(1,235)
Other allowable permanent differences	(130)	(170)
	<b>10,068</b>	<b>8,549</b>
Income tax (over)/under provided in prior years	(363)	449
<b>Total income tax expense attributable to operating profit</b>	<b>9,705</b>	<b>8,998</b>

**Cochlear Limited and its Controlled Entities**  
**Notes to the financial statements**

**For the half-year ended 31 December 2003**

**4. Segment reporting**

	Asia Pacific		Europe		Americas		Unallocated		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>												
Sales revenue outside the economic entity	27,264	26,087	40,794	42,139	56,036	78,399	15,114	3,847	-	-	139,208	150,472
Intersegment revenue	70,325	74,113	-	-	-	-	-	-	(70,325)	(74,113)	-	-
<b>Profit</b>												
<b>Operating profit/(loss) before interest and tax</b>	<b>6,317</b>	<b>6,623</b>	<b>7,856</b>	<b>12,219</b>	<b>11,326</b>	<b>21,753</b>	<b>10,079</b>	<b>(4,267)</b>	-	-	<b>35,578</b>	<b>36,328</b>
Net interest revenue/(expense)											773	(315)
<b>Operating profit before tax</b>											<b>36,351</b>	<b>36,013</b>
Income tax expense attributable to operating profit											(9,705)	(8,998)
<b>Operating profit after tax</b>											<b>26,646</b>	<b>27,015</b>

**Industry Segment**

The Consolidated Entity operates in the cochlear implant industry.

**Cochlear Limited and it Controlled Entities**  
**Notes to the financial statements**

**For the half-year ended 31 December 2003**

	<b>Consolidated</b>	
	<b>31 December 2003 \$'000</b>	<b>31 December 2002 \$'000</b>
<b>5. Contributed equity</b>		
<b>Issued and paid-up capital</b>		
54,161,690 (June 2003: 53,070,550) ordinary shares, fully paid	50,746	23,089
<b>Movements in ordinary share capital</b>		
<b>Balance at beginning of financial year</b>	<b>23,089</b>	<b>14,959</b>
Shares issued:		
43,140 (2003: 31,405) shares issued for nil consideration under the Employee Share Plan	-	-
1,048,000 (2003: 539,000) shares issued from the exercise of options	27,657	8,130
<b>Balance at end of financial year</b>	<b>50,746</b>	<b>23,089</b>

**Options**

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

	<b>Exercise Price Per Share</b>	<b>Exercise Period</b>	<b>Number of Options</b>	<b>Number of Performance Shares</b>
Options issued in September 2001 (i)	\$37.62	Aug-Sept 2004	1,101,000	-
Options issued in September 2002 (i)	\$38.12	Aug-Sept 2005	1,191,000	-
Options & performance shares granted in November 2003 (ii)	\$34.19	Aug 2006-2008	243,296	65,235

- (i) The Company has an Executive Share Option Plan ("ESOP") originally approved and adopted at the Annual General Meeting on 20 October 1995 and subsequently amended 20 October 1997. All options expire on the earlier of their 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 earnings per ordinary share achieved by the Consolidated Entity over a three year period from the date of issue. The number of options which will be exercisable by the executives under the plan will depend upon the compound annual growth rate of the earnings per share achieved by the Consolidated Entity. 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. During the financial period, 1,048,000 options were exercised for proceeds of \$27,657,000. 101,000 options expired during the half-year.

**Cochlear Limited and it Controlled Entities**  
**Notes to the financial statements**

**For the half-year ended 31 December 2003**

- (ii) During the financial period, the Company introduced a new long term incentive plan to replace the existing ESOP plan. The Cochlear Executive Long Term Incentive Plan (CELTIP) was approved and adopted at the Annual General Meeting on 21 October 2003. The CELTIP offers a mixture of options over unissued shares and performance shares. Both the options and the performance shares are subject to a three year vesting period. The number of options and shares exercisable by the executives will depend on the performance of the Consolidated Entity over the vesting period. Half of the offer will be assessed against the compound annual growth rate of the earnings per share achieved by the Consolidated Entity, and the other half against the total shareholder return ("TSR") as measured against the S&P ASX 100. If the minimum annual compound growth rate in earnings per share of 10% is not achieved and the Consolidated Entity is below the 50th percentile against the S&P ASX 100 over three years, no shares will be issued. To achieve a 100% allocation, an annual compound growth rate in earnings per share of 20% must be achieved and the Consolidated Entity must be in at least the 75th percentile against the S&P ASX 100.

**6. Retained profits**

	<b>Consolidated</b>	
	<b>31 December 2003 \$'000</b>	<b>31 December 2002 \$'000</b>
<b>Retained profits at the beginning of the half-year</b>	<b>95,410</b>	<b>54,524</b>
Net profit attributable to members of the parent entity	26,880	27,015
Net effect of changes in accounting policies	-	16,061
Crystallisation of foreign currency translation reserve following dividend paid by controlled entity	(592)	-
Dividends recognised during the half-year	(23,355)	(15,759)
<b>Retained profits at the end of the half-year</b>	<b>98,343</b>	<b>81,841</b>

**7. Dividends**

Dividends recognised in the current financial period by The Company are:

	<b>Cents per share</b>	<b>Total amount \$'000</b>	<b>Franked/ Unfranked</b>	<b>Date of payment</b>
<b>31 December 2003</b>				
Final – ordinary	44.0	23,355	Franked	23 September 2003
<b>31 December 2002</b>				
Final – ordinary	30.0	15,759	Franked	24 September 2002

Franked dividends declared or paid during the financial year were franked at a tax rate of 30%.

**Cochlear Limited and it Controlled Entities**  
**Notes to the financial statements**

**For the half-year ended 31 December 2003**

**Subsequent events**

Since the end of the reporting period the Directors declared the following dividend:

	<b>Cents per share</b>	<b>Total amount \$'000</b>	<b>Franked/ Unfranked</b>	<b>Date of payment</b>
Interim – ordinary	35.0	18,957	Franked	17 March 2004

The financial effect of this dividend has not been brought to account in the Consolidated Entity financial statements for the half-year ended 31 December 2003 and will be recognised in the subsequent financial period.

**Dividend Franking Account**

	<b>Company</b>	
	<b>31 December 2003</b>	<b>31 December 2002</b>
	<b>\$'000</b>	<b>\$'000</b>
30% franking credits available to shareholders of Cochlear Limited for subsequent financial periods	11,924	15,853

	<b>Note</b>	<b>Consolidated</b>	
		<b>31 December 2003</b>	<b>31 December 2002</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>8. Total equity reconciliation</b>			
<b>Total equity at beginning of the half-year</b>		<b>119,687</b>	<b>91,166</b>
Total changes in parent entity interest in equity recognised in Statement of Financial Performance		23,836	26,693
<b>Transactions with owners as owners:</b>			
Movement in contributed equity	<b>5</b>	27,657	8,130
Dividends paid	<b>7</b>	(23,355)	(15,759)
Total changes in outside equity interest (Refer Note 12)		6,577	-
<b>Total equity at end of the half-year</b>		<b>154,402</b>	<b>110,230</b>

**Cochlear Limited and it Controlled Entities**  
**Notes to the financial statements**

**For the half-year ended 31 December 2003**

**9. Particulars in Relation to Controlled Entities**

	Interest Held		Country of Incorporation
	31 December	30 June	
	2003	2003	
	%	%	
<b>The Company</b>			
Cochlear Limited			Australia
<b>Controlled entities</b>			
Cochlear Europe Limited	100	100	United Kingdom
Cochlear Acoustics Limited	75	75	United Kingdom
Cochlear AG	100	100	Switzerland
Cochlear (UK) Limited	100	100	United Kingdom
Cochlear GmbH	100	100	Germany
Cochlear Americas	100	100	USA
Cochlear (HK) Limited	100	100	Hong Kong
Nihon Cochlear Co Limited	100	100	Japan
Neopraxis Pty Limited	100	100	Australia
Cochlear Technologies Pty Limited (a)	100	-	Australia
Medical Insurance Pte Limited (b)	100	-	Singapore

(a) Incorporated 21 August 2003.

(b) Incorporated 7 October 2003.

**10. Contingent liabilities**

The detail and estimated maximum amounts of contingent liabilities that may become payable is 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 bank administers the financing program. The facility was established to provide customer financing for purchases of ESPril 22 processors within the Americas region. The outstanding balance on the consumer loans at the balance date was US\$20,600.

**Cochlear Limited and its Controlled Entities**  
**Notes to the financial statements**

**For the half-year ended 31 December 2003**

**11. 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.

**12. Non cash financing and investing activities**

During the financial period, intellectual property with an aggregate fair value of \$6,809,000 was contributed to Cochlear Acoustics Limited, a 75% owned subsidiary, by an outside equity interest as part consideration for a 25% share in Cochlear Acoustics Limited. This transaction is not reflected in the statement of cash flows.



## Independent review report to the members of Cochlear Limited

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the Cochlear Limited Consolidated Entity ("the Consolidated Entity"), for the half-year ended 31 December 2003. The Consolidated Entity comprises Cochlear Limited ("the Company") and the entities it controlled during that half-year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial 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.

#### *Review approach*

We conducted an independent review in order for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

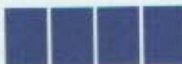
We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

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

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.





***Independence***

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

***Statement***

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half-year financial report of Cochlear Limited is not in accordance with:

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2003 and of its performance for the half-year ended on that date; and
  - ii. complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

*KPMG*

KPMG

A handwritten signature in black ink, appearing to read 'John Wigglesworth', with a long horizontal line extending to the right.

John Wigglesworth  
*Partner*

Place: Sydney

Date: 17 February 2004