Cochlear Europe Limited

(Formerly Fewager Limited)

Directors' report and financial statements

Registered number 3874867

30 June 2000

Contents

Directors' report

The directors present their annual report and the audited financial statements for the period from incorporation on 10 November 1999 to 30 June 2000.

Principal activities

The company's principal activity is the sales and distribution of implantable hearing devices in Europe, the Middle East and Africa on behalf of its Australian parent.

Business review

The company was incorporated on 10 November 1999 as Fewager Limited and subsequently changed its name by special resolution to Cochlear Europe Limited on 10 December 1999. The company commenced trading on 21 February 2000, its employees and fixed assets being transferred from that of Cochlear (UK) Limited, a related company.

Dividend

No dividend has been paid or proposed during the period. The loss for the period retained in the company is £404,773.

Political and charitable donations

The company made no political contributions or charitable donations during the period.

Directors and directors' interests

The directors who held office during the period were as follows:

CB Livingstone (appointed 17 December 1999, resigned 2 November 2000)
NJ Mitchell (appointed 17 December 1999)
ME Sundler (appointed 5 January 2000)
PL Lai (appointed 10 November 1999, resigned 17 December 1999)

The directors who held office at the end of the financial period had the following interests in the ordinary shares of the ultimate holding company, Cochlear Limited, incorporated in Australia, as recorded in the register of directors' share and debenture interests:

	Interest at end of period	Interest at date of appointment
CB Livingstone	100,000	67,000
NJ Mitchell	1,500	36,500

None of the other directors who held office at the end of the financial period had any disclosable interest in the shares of any group company.

Directors' report *(continued)*

According to the register of directors' interest, no rights to subscribe for Ordinary shares in any group company were granted to any of the directors or their immediate families, or exercised by them, during the financial period, except as indicated below:

	Number of options during the period			
	At 1 July 1999	**Granted**	**Exercised**	**At end of period**
CB Livingstone	228,000	60,000	(72,000)	216,000
NJ Mitchell	114,000	30,000	(36,000)	108,000

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Auditors

Pursuant to section 386 of the Companies Act 1985, a resolution is to be put to the forthcoming Annual General Meeting which, if passed, would result in the company not being required to reappoint its auditors annually. KPMG would then continue as the company's auditors.

By order of the board

ME Sundler
Director

22/24 Worple Road
Wimbledon
London
SW19 4DD

24 April 2001

kpmg

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Auditors' report to the members of Cochlear Europe Limited

We have audited the financial statements on pages 4 to 11.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 30 June 2000 and of the loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

30th April, 2001

Profit and loss account

for the period from 10 November 1999 to 30 June 2000

	Note	2000 £
Turnover	*1*	7,680,455
Cost of sales		(5,824,649)
Gross profit		1,855,806
Administrative expenses		(2,229,014)
Other operating income		791
Operating loss		(372,417)
Interest receivable and similar income	*2*	730
Interest payable and similar charges	*3*	(33,086)
Loss on ordinary activities before taxation	*4-6*	(404,773)
Tax on loss on ordinary activities	*7*	-
Retained loss for the financial period		(404,773)

All recognised gains and losses, and all movements in shareholders' funds are included in the profit and loss account above for the period. All transactions relate to continuing business operations.

Balance sheet

at 30 June 2000

	Notes		2000
		£	£
Fixed assets			
Tangible assets	8		202,917
Current assets			
Stock	9	1,387,989	
Debtors	10	4,873,778	
Cash at bank and in hand		812,525	
		7,074,292	
Creditors: amounts falling due within one year	11	(7,681,980)	
Net current liabilities			(607,688)
Net liabilities			(404,771)
Capital and reserves			
Called up share capital	12		2
Profit and loss account	13		(404,773)
Shareholders' funds - equity	14		(404,771)

These financial statements were approved by the board of directors on 24 April 2001 and were signed on its behalf by:

ME Sundler
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Under Financial Reporting Standard 1 (as revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published financial statements.

Going concern

Cochlear Limited, the parent company, has confirmed that it will continue to provide support in order that the company can meet its commitments as they fall due.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Fixtures, fittings, tools and equipment - 5 to 8 years

Leases

All leases are accounted for as 'operating leases' as the company has no leases which entail the company taking substantially all the risks and rewards of ownership of the assets. The rental charges on operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Pension costs

The company does not operate its own pension scheme but makes payments for eligible employees into external defined contribution schemes which are taken to the profit and loss account in the period to which they relate. There are no arrangements for payments into defined benefit schemes.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services during the period.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Notes *(continued)*

1 Accounting policies (continued)

Related Parties

As the company is a wholly owned subsidiary of Cochlear Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Cochlear Limited, within which this company is included, can be obtained from the address given in note 16.

2 Interest receivable and similar income

	2000
	£
Other	730

3 Interest payable and similar charges

	2000
	£
Payable to group undertakings	33,086

4 Loss on ordinary activities before taxation

	2000
	£
Loss on ordinary activities before taxation is stated after charging:	
Auditors' remuneration:	
Audit	449
Depreciation	11,510
Pension costs	24,776
Rentals payable under operating leases	
- Plant and machinery	8,819
- Land and buildings	24,990

5 Remuneration of directors

No remuneration was paid in respect of directors of the company during the period.

Notes *(continued)*

6 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period, analysed by category, was as follows:

	2000 No.
Clinical and technical	6
Directors	1
Administration	9
Sales and marketing	11
	27

The aggregate payroll costs of these persons were as follows:

	2000 £
Wages and salaries	409,002
Social security costs	44,189
Other pension costs	24,776
	477,967

7 Taxation

No taxation was charged in the period due to the loss arising.

8 Tangible fixed assets

	Fixtures, fittings, tools and equipment £
Cost	
Transferred from Cochlear (UK) Limited at net book value	188,879
Additions	25,548
At 30 June 2000	214,427
Depreciation	
On incorporation	-
Charge for the period	11,510
At 30 June 2000	11,510
Net book value:	
At 30 June 2000	**202,917**

Notes *(continued)*

9 Stocks and work in progress

	2000 £
Finished goods and goods for resale	1,387,989

10 Debtors

	2000 £
Trade debtors	4,195,821
Amounts owed by group undertaking	362,941
Other debtors	276,917
Prepayments and accrued income	38,099
	4,873,778

11 Creditors: amounts falling due within one year

	2000 £
Trade creditors	222,530
Amounts owed to group undertakings	6,330,650
Taxation and social security	35,403
Other creditors	343,246
Accruals and deferred income	750,151
	7,681,980

Notes *(continued)*

12 Called up share capital

	2000
	£
Authorised	
1000 Ordinary shares of £1 each	1,000
Alloted, called up and fully paid	
2 Ordinary shares of £1 each	2

The shares were issued at par on incorporation of the company.

13 Reserves

	Profit and loss account
	£
On incorporation	-
Retained loss for the period	(404,773)
At 30 June 2000	**(404,773)**

14 Reconciliation of movements in shareholders' funds

	2000
	£
Loss for the financial period	(404,773)
Issue of shares	2
Closing shareholders' funds	(404,771)

Notes *(continued)*

15 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings	**Other**
	2000	2000
	£	£
Operating leases which expire:		
Within one year	-	5,930
In the second to fifth years inclusive	100,000	14,823
	100,000	20,753

16 Ultimate parent company

The company is a wholly owned subsidiary undertaking of Cochlear Limited which is incorporated in Australia, the consolidated accounts of which are available to the public and may be obtained from: 12 Mars Road, Lane Cove, Sydney, NSW 2066, Australia.