Cochlear Europe Limited

Directors' report and financial statements

Registered number 3874867

30 June 2003

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2003.

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

Sales revenue increased ahead of 2002 values by 16% to £37.6m. A key element of our growth strategy in Europe is the continued expansion into the new geographic markets of Central and Eastern Europe and the Middle East. The Iraq conflict made the Middle East expansion difficult but there was strong growth in the Central and Eastern European areas.

Dividend

No dividend has been paid or proposed during the year (2002: £nil). The profit for the year retained in the company is £1,034,432 (2002: £682,184).

Directors and directors' interests

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

NJ Mitchell
ME Sundler (resigned 5 May 2003)
F Shakerifar (resigned 23 June 2003)
DTM Ashton (appointed 3 June 2003)
RJ Brook (appointed 3 June 2003)

The directors who held office at the end of the financial year did not have any interests in the company but held 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:

	Type of share	**Interest at end of year**	**Interest at start of year**
		No. of shares	*No. of shares*
NJ Mitchell	Ordinary	30,000	19,500

According to the register of directors' interests, 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 year, except as indicated below:

	Number of Cochlear Limited Ordinary Share options during the year			
	At 30 June 2002	**Granted**	**Exercised**	**At 30 June 2003**
NJ Mitchell	120,000	50,000	30,000	140,000
F Shakerifar	17,000	4,000	5,000	16,000
ME Sundler	100,000	50,000	-	150,000

Directors' report (contd.)

Auditors

Pursuant to a shareholders' resolution, the company is not obliged to reappoint it's auditors annually and KPMG LLP will therefore continue in office.

By order of the board

DTM Ashton
Director

22/24 Worple Road
Wimbledon
London
SW19 4DD

19 January 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year 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 year. 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.

Report of the Independent Auditors to the members of Cochlear Europe Limited

We have audited the financial statements on pages 5 to 14.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, 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 1985. 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 audit 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 2003 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditors

8 Salisbury Square
London EC4Y 8BB
19 January 2004

Profit and loss account

for the year ended 30 June 2003

	Note	2003 £	2002 £
Turnover	2	**37,557,182**	32,290,571
Cost of sales		**(25,192,665)**	(22,103,986)
Gross profit		**12,364,517**	10,186,585
Distribution expenses		**(459,068)**	(369,406)
Administrative expenses		**(9,941,071)**	(8,480,119)
Operating profit		**1,964,378**	1,337,060
Other interest receivable and similar income	3	**5,253**	13,960
Interest payable and similar charges	4	**(399,737)**	(333,134)
Profit on ordinary activities before taxation	5-7	**1,569,894**	1,017,886
Tax on profit on ordinary activities	8	**(535,462)**	(335,702)
Retained profit for the financial year		**1,034,432**	682,184

All recognised gains and losses are included in the profit and loss account for the year. Accordingly a statement of total recognised gains and losses has not been prepared. All transactions relate to continuing business operations.

The notes on pages 8 to 14 form part of these financial statements.

Balance sheet

at 30 June 2003

	Note	2003		2002	
		£	£	£	£
Fixed assets					
Tangible assets	9		**170,640**		187,415
Current assets					
Stock	10	**4,346,146**		3,758,391	
Debtors	11	**11,791,562**		11,518,544	
Cash at bank and in hand		**3,519,469**		704,946	
		19,657,177		15,981,881	
Creditors: amounts falling due within one year	12	**(17,920,985)**		(15,296,896)	
Net current assets			**1,736,192**		684,985
Net assets			**1,906,832**		872,400
Capital and reserves					
Called up share capital	14		**2**		2
Profit and loss account	15		**1,906,830**		872,398
Shareholders' funds - equity			**1,906,832**		872,400

The notes on pages 8 to 14 form part of these financial statements.

These financial statements were approved by the board of directors on 19 January 2004 and were signed on its behalf by:

DTM Ashton
Director

Reconciliation of movements in shareholders' funds

at 30 June 2003

	2003 £	2002 £
Profit for the financial year	**1,034,432**	682,184
Opening shareholders' funds	**872,400**	190,216
Closing shareholders' funds	**1,906,832**	872,400

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, under the historical cost accounting rules and on a going concern basis.

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 consolidated financial statements.

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 - 3 to 8 years

Stocks

Stocks are valued at the lower of cost and net realisable value.

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 as incurred.

Pension costs

The company 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 defined benefit scheme arrangements.

Turnover

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

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

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 18.

Notes *(continued)*

2 Turnover

By destination:	2003	2002
	£	£
UK & Eire	6,769,939	6,371,944
Nordic	2,392,565	2,241,558
Middle East	1,381,941	1,149,120
Mediterranean and Israel	14,050,117	11,051,799
Germany and Austria	6,750,751	6,364,535
Benelux	3,187,292	2,641,705
South Africa	565,483	337,387
Central and Eastern Europe	2,459,094	2,132,523
	37,557,182	32,290,571

By origin:	2003	2002
	£	£
UK	37,557,182	32,290,571

3 Other interest receivable and similar income

	2003	2002
	£	£
Other interest receivable and similar income	5,253	13,960

4 Interest payable and similar charges

	2003	2002
	£	£
Amounts payable on bank loans and overdrafts	224,483	195,834
Amounts payable to group undertakings	175,254	137,182
Interest payable and similar charges	-	118
	399,737	333,134

5 Profit on ordinary activities before taxation

	2003	2002
	£	£
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
Audit	18,000	15,000
Taxation	1,200	2,200
Depreciation	74,103	79,052
Rentals payable under operating leases		
- Plant and machinery	23,364	38,100
- Other operating leases	144,115	144,115

Notes *(continued)*

6 Directors Emoluments

The aggregate emoluments in connection with the management of the Company's affairs (including pension contributions) of the Directors were:

	2003 £	2002 £
Remuneration	**258,276**	220,820
Compensation for loss of office	**111,565**	-
Pension contributions	**26,033**	21,108
	395,874	241,928

As at 30 June 2003, the number of Directors for whom benefits were accruing under defined contribution schemes was 3 (2002: 2).

The emoluments (excluding pension contributions) of the highest paid Director were as follows:

	2003 £	2002 £
Remuneration	**135,888**	126,953
Compensation for loss of office	**111,565**	-
	247,453	126,953

The company paid £21,850 (2002: £17,258) into a defined contribution pension plan for the highest paid Director.

7 Staff numbers and costs

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

	2003 No.	2002 No.
Clinical and technical	**8**	8
Administration	**16**	15
Sales and marketing	**12**	13
	36	36

The aggregate payroll costs of these persons were as follows:

	2003 £	2002 £
Wages and salaries	**1,638,766**	1,516,734
Social security costs	**199,980**	161,201
Other pension costs	**70,687**	71,572
	1,909,433	1,749,507

Notes *(continued)*

8 Taxation

Analysis of charge in year:	2003	2002
	£	£
UK corporation tax		
Current tax on income for the period	**542,383**	364,014
Deferred tax	**(6,921)**	(28,312)
Total tax	**535,462**	335,702

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2002: higher) than the standard rate of corporation tax in the UK (30%, 2002: 30%). The differences are explained below:

	2003	2002
Current tax reconciliation	£	£
Profit on ordinary activities before tax	**1,569,894**	1,017,886
Current tax at 30% (2002: 30%)	**470,968**	305,366
Effects of:		
Expenses not deductible for tax purposes	**66,563**	52,716
Prior year adjustment	**2,538**	-
Depreciation for period in excess of capital allowances	**2,314**	5,932
Total current tax charge (see above)	**542,383**	364,014

9 Tangible fixed assets

	Fixtures, fittings, tools and equipment
	£
Cost	
At 1 July 2002	351,373
Additions	57,337
Disposals	(6,569)
At 30 June 2003	402,141
Depreciation	
At 1 July 2002	163,958
Charge for the year	74,103
Disposals	(6,560)
At 30 June 2003	231,501
Net book value:	
At 30 June 2003	**170,640**
At 30 June 2002	187,415

Notes *(continued)*

10 Stock

	2003	2002
	£	£
Finished goods and goods for resale	**4,346,146**	3,758,391

11 Debtors

	2003	2002
	£	£
Trade debtors	**10,879,044**	10,840,636
Other debtors	**621,906**	557,147
Prepayments and accrued income	**255,379**	92,449
Deferred tax asset (see note 13)	**35,233**	28,312
	11,791,562	11,518,544

12 Creditors: amounts falling due within one year

	2003	2002
	£	£
Bank loans and overdrafts	**4,500,000**	4,500,000
Trade creditors	**443,053**	396,800
Amounts owed to group undertakings	**10,713,289**	8,716,190
Taxation and social security	**374,652**	283,265
Other creditors	**3,821**	1,509
Accruals and deferred income	**1,886,170**	1,399,132
	17,920,985	15,296,896

The bank loans are guaranteed by the ultimate holding company and are repayable upon demand. Interest is chargeable on a semi-annual basis at 0.5% above LIBOR.

Interest is charged at 2.5%-4% per annum on loans and other amounts owed to group undertakings.

Notes *(continued)*

13 Deferred tax

The elements of deferred taxation are as follows:

	2003	2002
	£	£
Difference between accumulated depreciation and capital allowances	2,810	(1,570)
Other timing differences	32,423	29,882
Deferred tax asset (see note 11)	35,233	28,312

14 Called up share capital

	2003	2002
	£	£
Authorised		
1,000 Ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	2	2

15 Reserves

	Profit and loss account
	£
At 1 July 2002	872,398
Retained profit for the year	1,034,432
At 30 June 2003	1,906,830

16 Commitments

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

	Land and buildings 2003	Other 2003	Land and buildings 2002	Other 2002
	£	£	£	£
Operating leases which expire:				
Within one year	-	2,769	-	6,948
In the second to fifth years Inclusive	144,115	16,373	144,115	18,054
	144,115	19,142	144,115	25,002

Notes *(continued)*

17 Pension Scheme

The Company makes contributions to certain employees personal pension schemes. The charge made to the Company's profit and loss account in the period under review was £70,687 (2002: £71,572). At the end of the year, no contributions were outstanding (2002: nil).

18 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.