Annual Report 2008

Sound

Hear now. And always

Cochlear™

Globally, about 278 million* people have a moderate to profound hearing loss in both ears. As the population ages and life expectancy increases, the incidence of hearing loss will continue to rise.

* Source: World Health Organization

Contents

Cochlear's global headquarters and principal manufacturing facilities are in Sydney, Australia, with three regional headquarters located in Asia Pacific, Europe and the Americas. Cochlear's Bone Anchored Solutions headquarters and manufacturing are in Gothenburg, Sweden.

Sound investment

Cochlear's vision is to help address this growing global need. Through the development of a wide range of hearing solutions, increasing awareness and improving access, more people will no longer have to live in a world of silence. Cochlear™ remains committed to helping the hearing impaired hear now and always.

Cochlear's ongoing development of four product streams provides sustainable growth and strengthens our technology leadership in hearing solutions.

Cochlear implants

Nucleus® Freedom™

The cochlear implant system restores the ability to perceive and understand sound. It is the best solution for people with severe to profound sensorineural hearing loss in both ears. Cochlear's Nucleus Freedom continues to set new benchmarks in hearing performance. Recent peer reviewed studies confirmed the distinct design of the Contour Advance™ electrode as providing the best option for optimising hearing performance. In 2007, Cochlear also reinforced its lifetime commitment by releasing the Freedom™ for N22 to our earliest generation of recipients.

1

Electro-acoustic stimulation

***Cochlear Hybrid™**

Electro-acoustic stimulation combines both electrical stimulation as in a cochlear implant and acoustic stimulation as in a hearing aid. This hearing solution is for people who have useful low frequency residual hearing but require electrical stimulation for the higher frequencies. The external Hybrid speech processor is a state-of-the-art fully integrated speech processor that combines both electrical and acoustic stimulation capabilities. The specially designed Hybrid implants have specific electrodes designed to preserve the delicate structures of the inner ear, consequently preserving residual hearing. Cochlear is in the advanced stage of clinical trials with this new hearing solution.

2

* Not yet regulatory approved.

Sound portfolio

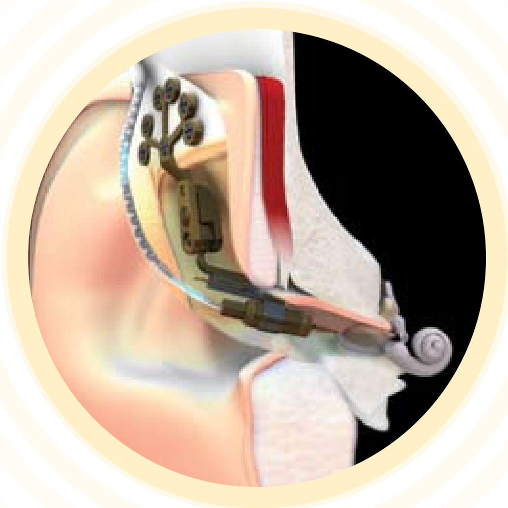
Bone conduction

Cochlear Baha®

The Baha system is the most effective hearing solution for people with significant conductive hearing loss, mixed hearing loss or single-sided deafness (SSD). The Baha Intenso™, introduced in 2007, is the most powerful head-worn digital Baha device. With an active feedback cancellation system, it delivers clearer sound quality in all types of listening environments. The Baha Intenso is ideal for those with a substantial mixed hearing loss, risk of progressive hearing loss and patients with SSD. The Baha Intenso has expanded the audiological indications to include patients with a substantial mixed hearing loss due to its ability to compensate for greater degrees of sensorineural hearing loss.

3

*Direct acoustic cochlear stimulator

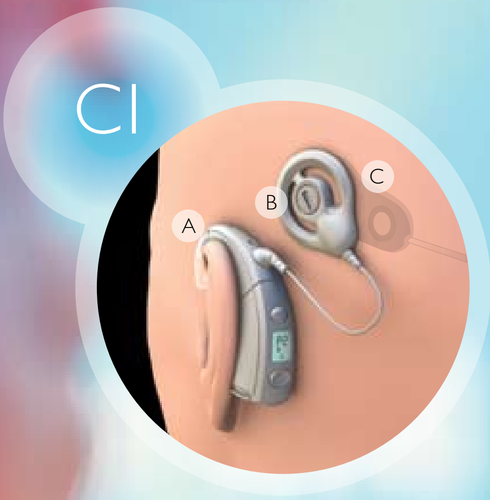


*DACS

The direct acoustic cochlear stimulator (DACS) is a new type of implantable hearing device, which will expand our hearing solutions. The DACS system is being designed to provide an effective solution for people with severe to profound mixed hearing impairment. DACS provides mechanical (acoustic) stimulation directly to the cochlea. Good progress continues to be made on this project.

4

* Investigational device, not regulatory approved yet.



Each ear is implanted with a cochlear implant system. The cochlear implant system has both external and internal parts:

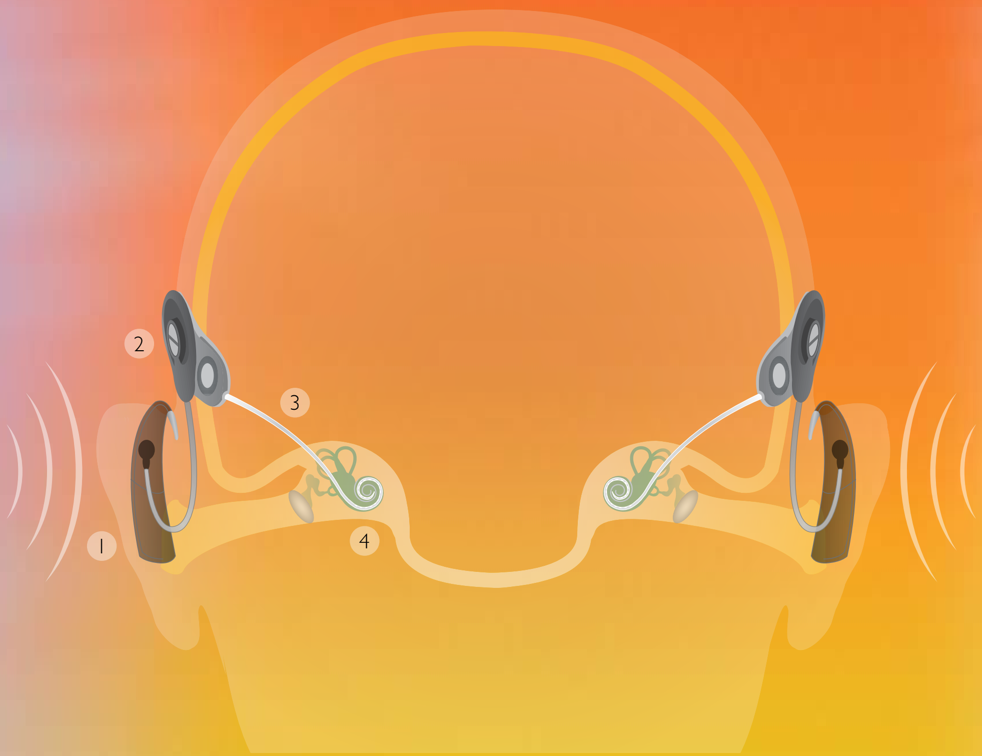
- the speech processor (A) with coil (B) is worn behind the ear; and
- the implant (C) is placed just under the skin, behind the ear.

Cochlear implants in both ears result in a more naturally balanced sound which makes it easier to understand speech in noisy environments or locate where sound is coming from.

Recipient
Dylan Harvey

Hearing solution
Bilateral Cochlear Implants

Location
Miami, USA



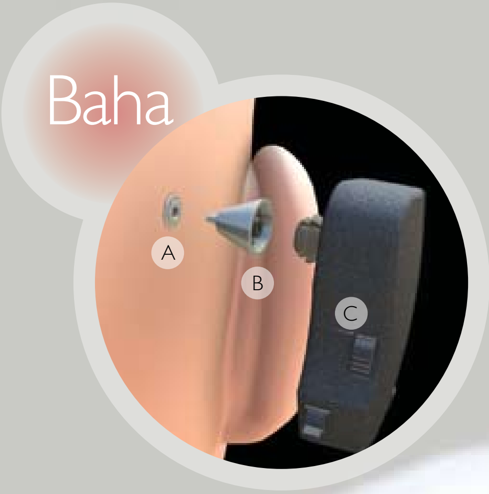
How bilateral cochlear implant systems work

1 The speech processor captures sound and converts it into digital code.

2 The speech processor transmits the digitally coded sound through the coil to the implant just under the skin.

3 The implant converts the digitally coded sound to electrical signals and sends them along the electrode array, which is positioned in the cochlea.

4 The implant's electrodes stimulate the cochlea's hearing nerve fibres, which relay the sound signals to the brain to produce hearing.



The Baha system combines a small titanium implant (A), a connecting abutment (B) and a detachable high performance sound processor (C).

The titanium implant osseointegrates with bone (titanium and bone merge) allowing sound to be conducted directly to the cochlea. Sounds can be heard clearly because the damaged portions of the ear — outer and middle — are bypassed.

Recipient
Annie Hammarvid

Hearing solution
Unilateral Bone Conduction Implant

Location
Särö, Sweden

How the unilateral bone conduction implant system works

1 A sound processor picks up sound vibrations.

2 A connecting abutment transfers sound into mechanical vibrations from the Baha device to the implant.

3 A small titanium implant, which is placed in the bone behind the ear, fuses with the living bone. This implant transfers the sound vibrations, via the skull, directly to the functioning cochlea.

It is my pleasure to report on another year of growth at Cochlear, with further advancements in profit and organisational capability.

Record financial performance

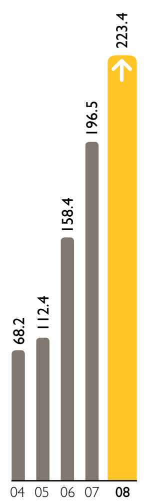
In 2008, Cochlear achieved a record reported profit of $115.2 million up 15% on last year.

This record profit result was achieved in the context of a rapidly falling US dollar against the Australian dollar (which rose from 78 US cents to 96 US cents over the year), rising interest rates and financial uncertainty in many of the countries in which we do business.

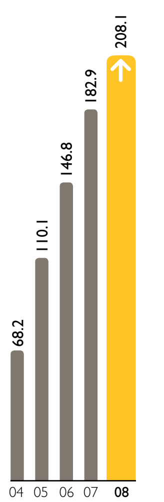
Europe and Asia Pacific produced strong results that were ahead of their long-term growth trends, while the Americas region consolidated its position after two very strong years of growth in 2006 and 2007.

Earnings per share of 208.1 cents was up 14% on last year and return on equity was 40%.

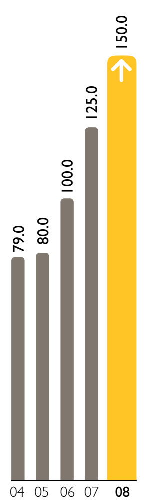
Gearing reduced to 29% and debt was reduced to $170 million. The long-term committed debt of $154.6 million is 91% of Cochlear's total debt.



Core basic earnings per share (cents)



Basic earnings per share (cents)



Dividends per share (cents)

Financial amounts for 2005 to 2008 are in accordance with IFRS.
Financial amounts for 2004 are in accordance with previous GAAP.

Dividend

The year's financial performance and an ongoing confidence of sustainable growth enabled the Board to increase the final dividend to 80 cents per share, fully franked, making a total for the year of 150 cents per share. This is up 20% on last year and is consistent with the Company's long standing payout ratio of approximately 70%.

Increased shareholder value

In line with our view of long-term sustainable growth, Cochlear has a rolling three year view of total shareholder return (TSR). For the three years ended 30 June 2008, Cochlear's TSR of 35% was ranked in the top 25% of the ASX 100 companies in terms of TSR. This is the second year in a row that Cochlear has been in the top 25% and the result was achieved despite a fall in the share price in the second half of the year.

Cochlear's long-term strategy in place

Cochlear's strategy remains focused on sustainable growth through the four areas we have identified in the implantable hearing space. These are:

- cochlear implants;
- electro-acoustic stimulation;
- bone conduction implants – the Baha; and
- direct acoustic cochlear stimulator.

This impressive product portfolio combines short-term innovations and product releases with the prospect of entering new market segments in the future. The strategy should be viewed in the context of a presence in over 100 countries. This creates a portfolio effect of both geography and product, thereby reducing the overall risk of the Company.

Supporting long-term growth, internal projects aimed at productivity gains in the supply chain and sales and administration areas continued to receive focus and deliver results. Continued growth of the Company is underpinned by projects such as these.

Sustainability

While Cochlear is committed to long-term sustainable financial growth, it is also committed to sustainability in the other important areas of the environment and society.

Sound performance

An independent study commissioned by Cochlear shows that our carbon footprint is relatively low. Internal teams are working on reducing our carbon footprint even further. In view of our low level of carbon emissions, Cochlear does not qualify for inclusion in the National Greenhouse and Energy Reporting Act 2007 reporting requirements which started on 1 July 2008. Cochlear will continue to closely monitor new regulatory compliance obligations in this field.

Cochlear has a long history of support to the society and communities with which it works through sponsorships, charity donations and the time our employees freely give to provide expertise where it is most needed. This continues to be encouraged and details of some of this year's activities are included in the Annual Report. In addition, Cochlear also continues to support the Cochlear Foundation.

Office of Inspector General (OIG) inquiry

As advised in March 2004, our American subsidiary Cochlear Americas received a request for information from the US Department of Justice (DOJ). The request sought a variety of documents including those concerning Cochlear Americas' relationships with healthcare professionals.

Last year, the DOJ passed the investigation on to the OIG for administrative processing.

During 2008, we have continued to cooperate fully with the OIG. However, there is nothing further to report at this stage.

Contribution

Both the Board and the senior management team were unchanged during the year. This stability has been important in dealing with the complex global challenges that are so much part of Cochlear's environment.

Cochlear now has approximately 1,800 employees in over 21 countries. Cochlear has a broad base short-term and long-term incentive plan for its employees. Over 140 managers who influence and implement our strategies have options or performance shares and over 1,000 employees are currently shareholders! This involvement is an important part of the overall alignment of Cochlear and its staff.

On behalf of the Board, I would again like to thank all of our staff for their contributions this year. Cochlear's success reflects their passion and dedication and we are all justifiably proud of the Company's record.

Outlook

Cochlear is well positioned to continue with its history of growth and market leadership. Record investments in R&D and ongoing investments in growth initiatives and internal capabilities will support Cochlear's continued positive development.

Mr Tommie CE Bergman
Chairman

Growth continues

For over 25 years, Cochlear has developed, manufactured and marketed cochlear implants, the total now numbering over 120,000. Fifty percent of people implanted with a cochlear implant, received it in the last five years, reflecting the exponential growth characterising this intervention. In addition to cochlear implants, Cochlear manufactures the Baha, a bone anchored hearing implant for a different type of hearing loss than that requiring a cochlear implant. Over 40,000 people have now received a Baha implant, with similar exponential growth characteristics.

Translating knowledge and technology into the gift of hearing for an ever increasing number of people is the mission of all at Cochlear, and indeed the mission of thousands of healthcare professionals globally involved in hearing implant programs. Despite this growth, the world is still implanting less than incidence of severe and profound hearing loss. That is, even after 25 years, more people are born deaf or go deaf every year than receive an implant – and that is true even for developed countries with advanced healthcare systems.

Through the never ending improvement in technology and the ever increasing skills of a broad group of healthcare professionals, Cochlear will continue providing life changing interventions to young and old. 2008 was another successful year of growth on this long journey.

Record financial results

Total revenue for the year increased 8% to a record $601.7 million (compared to $559.4 million in F07). The underlying increase was masked by significant foreign currency movements during the year, (for example, a 14% appreciation of the AUD against the USD). The growth rate in constant currency sales (F08 sales compared to F07 sales restated at F08 exchange rates) was 18%. This growth was underpinned by record sales of 18,228 cochlear implants, up 14% from F07, and record sales of Baha products of $75.6 million, up 27% in constant currency terms.

Transformation of our manufacturing, (particularly over the last three years), coupled with last year's purchase of the operations of Crystalaid (a key externals supplier), and other investments in our supply chain continue contributing scale and efficiencies. Our gross margin for the last three years has increased to 72%, despite an appreciation of the AUD against the USD of 20% over those three years.

Net profit after tax (NPAT) for F08 of a record $115.2 million, increased 15% over F07, and our key management metric of core earnings was a record $123.7 million, 15% ahead of F07 and consistent with our F08 market guidance. Core earnings is defined as NPAT assuming all R&D is expensed, and excluding both acquired intangibles amortisation and share-based compensation. Basic earnings per share and core earnings per share were $2.08 (up 14%) and $2.23 (up 14%) respectively.

Expanding the Nucleus Freedom product range

During F08, Cochlear introduced a number of important new innovations to the market. The Nucleus Freedom product platform was further expanded through the introduction of the Freedom speech processor for Cochlear's earlier N22 implant recipients. By allowing the early implant recipients to upgrade to the current speech processor technology, we delivered on our promise of: Hear now. And always. In addition, the Freedom speech processor became available for recipients of Cochlear's specialist Auditory Brainstem Implant (ABI) and Double Electrode Array.

Clinical data published in the peer review medical literature during the year, confirmed the importance of our electrode system (Contour Advance) coupled with the Advance Off-Stylet surgical technique that together increases the chance of the surgeon placing the electrode in the ideal position in the cochlea (specifically within the scala tympani) thereby increasing hearing performance. The refinement of the surgical technique and electrode mechanics to ensure a scala tympani insertion has been one of the more significant advances in cochlear implant surgery in recent years. As the technology and how to use it improve, the clinical outcomes continue improving.

Another area of significant improvement during the year was the release of Custom Sound 2.0 programming software. This release allowed recipients easier access to pre-processing of the sound, including multiple pre-processing strategies working in combination.

Bone Anchored Solutions: growth and continued investment

The Bone Anchored Solutions (BAS) division includes the Baha and Vistafix™ product lines acquired from Entific Medical Systems in 2005. BAS sales were a record $75.6 million up 21% from F07 (and up 27% in constant currency terms). During F08, our recipients had the benefit of the new Intenso speech processor with significantly more amplification, increasing the suitability

Sound future

of Baha for people with mixed hearing loss (conductive and sensorineural hearing loss). In fact, for a patient with mixed hearing loss where the conductive component is at least 35 dB, the patient will hear better with a Baha than a high powered hearing aid. The BAS business has been successfully integrated into Cochlear, and indeed the business has doubled since its acquisition. It was a truly complementary acquisition.

Bilateral cochlear implantation: providing further hearing improvement

We have two ears for a good reason (it is fundamental to binaural hearing) and not surprisingly most cochlear implant recipients would benefit from two cochlear implants. Bilateral cochlear implantation continues to gain acceptance, driven by a growing body of clinical literature and growing bilateral cochlear implant patient numbers demonstrating the benefits. Given less than 5% of people with a cochlear implant have two implants, this continues to be a source of long-term growth.

Innovation is key to our future

Innovation is the lifeblood of a company such as Cochlear, and in F08 we spent $80.0 million in R&D, an increase of 21%. Not only are we advancing cochlear implants and bone conduction implants, but also systems that preserve residual hearing as well as a direct acoustic cochlear stimulator. Advancing a range of implantable devices for the hearing impaired is a key strategy for Cochlear.

While technological innovation is key, it is not the only form of innovation and considerable effort on business model innovation, including consumer advocacy and recipient services, remains important. During F08, Cochlear continued expanding its consumer advocacy networks, increasing awareness and understanding of our implants. In addition, we expanded direct recipient services in key countries such as the USA.

People

Our headcount continues to expand supporting growth, with employee numbers approximating 1,800, including employees in two new countries where we now have a direct market presence: Korea and Turkey. The passion and commitment of our people are a key success factor for Cochlear and to all our employees, thank you.

Outlook

We remain confident of our ability to help the hearing impaired in a way that delivers sustainable growth for our shareholders. While our focus is on long-term sustainable growth around helping people hear, we also recognise the need to deliver growth annually. There are challenges to this, including currency volatility and slowing economic growth in many major markets. However, a baby born deaf, or an adult going deaf from a progressive hearing loss, needs an implant at the appropriate time regardless of the economic cycle or currency fluctuations. In addition, Cochlear's business is geographically diverse, offering a portfolio effect to changes in local conditions. For these reasons, we remain confident of delivering growth for our shareholders in F09 and beyond.

Dr Chris Roberts
CEO/President

Sales growth continues

- Total revenue up 8% to $601.7 million.
- In constant currency terms, revenue was up 18%.
- Baha sales were up 21% to $75.6 million.
- Sales growth in cochlear implant (CI) units was up 14% to 18,228 for the full year and 16% for the second half.
- The portfolio effect of selling in over 100 countries was evident with Americas revenue up 6%, Europe up 30% and Asia Pacific up 20%, all in constant currency terms.

Profit

- Foreign exchange was again an important aspect of the result.
- Cochlear has a partial natural hedge with 90% of sales in foreign currency and over 50% of expenses in foreign currency. To help manage the portion not covered by the natural hedge, foreign exchange contracts on foreign currency cash flows back to Australia are taken out. These contracts cover a three year period at a declining level of cover. As the Australian dollar has strengthened over time, the ongoing contracts reflect the higher rates.
- During the year, there was a net gain of $4.7 million (2007: $3.4 million loss) on the translation of foreign assets. This is reported through Note 6 (Net finance expense) to the financial statements.
- Overall the net profit after tax was negatively impacted by $20.8 million due to the movements in foreign exchange rates during the year.

Improvement in margins

- Gross margin to revenue improved from 71% to 72% reflecting the ongoing efficiencies gained from the three year manufacturing program transformation. This is the third year of gross margin improvements.
- EBIT/Revenue improved from 27% to 28%. This reflects ongoing discipline in expense control. Sales and marketing expenses of $156.5 million grew 11% while administration expenses declined 7% to $36.1 million.
- R&D expenses of $80.0 million were up 21%. Increased investments in R&D for Baha and new CI products were made in the year.

	2008 IFRS	2007 IFRS	2006 IFRS	2005 IFRS	2004 previous GAAP	2003 previous GAAP	2002 previous GAAP	2001 previous GAAP	2000 previous GAAP	1999 previous GAAP
Cochlear implant system sales (units)	18,228	15,947	12,901	10,802	9,306	9,328	7,845	6,482	4,941	4,128
Total revenue ($million)	601.7	559.4	452.3	349.0	282.8	306.1	255.0	220.1	144.2	127.2
R&D expenses ($million)	80.0	65.9	56.7	44.6	44.5	37.0	37.7[(i)]	27.7	20.9[(ii)]	13.5
EBITDA ($million)	193.3	170.9	130.2	96.8	54.9	87.9	56.2	49.0	33.0	25.8
EBIT ($million)	167.3	150.2	111.5	82.5	45.5	80.1	51.5	45.5	30.4	23.1
NPAT ($million)	115.2	100.1	80.0	59.6	36.8	58.2	40.1	31.2	20.2	16.3
Basic EPS (cents)	208.1	182.9	146.8	110.1	68.2	110.0	76.6	60.2	39.6	32.3
Core earnings ($million)	123.7	107.6	86.4	60.8	36.8	58.2	40.1	31.2	20.2	16.3
Core basic EPS (cents)	223.4	196.5	158.4	112.4	68.2	110.0	76.6	60.2	39.6	32.3
DPS (cents)	150.0	125.0	100.0	80.0	79.0	77.0	51.0	41.0	30.0	20.0
Closing share price ($)	43.65	61.00	54.63	39.20	22.72	32.30	34.05	39.00	28.76	12.00
Market capitalisation as at 30 June ($million)	2,423	3,341	2,985	2,123	1,231	1,714	1,788	2,029	1,469	606
Number of employees	1,789	1,655	1,100	982	816	814	722	639	543	432

(i) Excludes $5.2 million acquisition of core technology from Implex AG Hearing Technology.
(ii) Excludes $4.4 million acquisition of core technology from Philips Hearing Implants NV.

Sound growth

- NPAT/Revenue improved from 18% to 19%.
- Net interest expense increased $3.9 million to $10.6 million caused by interest rate increases and an increase in net debt.

Tax rate reduction

- The tax rate reduced to 26.5% in 2008. This was largely due to overseas share based payment deductions being available. The long-term tax rate is forecast at approximately 29%.

Increased dividends

- The final dividend of 80 cents per share brought the full year dividend to 150 cents per share. The full year dividend is up 20% on 2007 and reflects the Board's confidence in the ongoing growth of the Company.
- The payout reflects the ongoing commitment to a payout ratio of approximately 70%. The 2008 dividends are fully franked.

Core earnings – driver of the business

To assist with the understanding of the accounts, Cochlear discloses movements in core earnings at the half and full year results announcements. The reconciliation between reported profit and core earnings is lodged with the ASX announcements.

The three key reconciling items between reported and core earnings are that core earnings assumes:

- all R&D is expensed as incurred;
- there is no amortisation of acquired intangible assets; and
- there is no expensing of share based compensation.

Capital management

Short-term debt reduced

- Net debt marginally increased to $133.3 million from $115.5 million; however the composition of the debt changed in that the long-term portion was expanded and short-term reduced. Of the $170.0 million of debt at 30 June 2008, $154.6 million (2007: $37.6 million) was long-term committed debt. Short-term debt reduced to $15.4 million (2007: $161.3 million).
- Cochlear continues to meet all its debt covenant conditions.

Debtors

- Debtor days increased to 81 days (2007: 79 days). Importantly, debtor days in the Americas and European regions reduced over last year. Asia Pacific debtor days increased marginally as a result of going direct in certain countries.

Inventory levels steady

- Inventories of $99.2 million was up 8% on 2007 (2007: $91.9 million). Days inventory was maintained at 214 days. This increase is in line with new product introductions and customer order profiles and is below sales increases.

Intangible assets – no impairment write-offs

- Intangible assets of $209.0 million (2007: $196.3 million) are a significant proportion of Cochlear's total assets. Some $187.7 million of this total relates to goodwill arising from the earlier acquisition of businesses.
- All intangible assets are tested for impairment on an annual basis. There were no write-downs in 2008.
- Some $15.2 million (2007: $8.4 million) of the intangible assets relates to the implementation of Cochlear's global enterprise resource planning (ERP) system. During 2008, ERP implementation in Europe, Manufacturing, Cochlear Sweden and Human Resources was completed. This concludes the global roll out of the ERP.

Recipient
Philip Gordon

Hearing solution
Bilateral Cochlear Implants

Location
Denver, USA

Americas

The Americas continued to grow with revenue of $232.2 million, up 6% in constant currency terms, with good progress made on long-term growth programs.

Continued growth

The constant currency growth in revenue of 6% reflected ongoing growth in the Americas region after two years of over 25% annual revenue growth.

Sales revenue in South and Central Americas was flat. Sales revenue from South and Central Americas accounts for approximately 25% of the region's sales revenue.

In addition, the Freedom for N24 processor revenue was 34% lower than last year as the total uptake levels continued to rise. Some 50% of potential recipients in the USA have now upgraded.

Continued investment in growth initiatives

The drivers of growth in the Americas remain unchanged. These include improving therapy awareness, reimbursement and clinic capacity. Much was achieved in the year to advance long-term programs to achieve sustainable growth in the region.

Expanded field force

Targeted field expansion continued in 2008 with the aim of addressing therapy awareness. Some 13 new Territory Outreach Specialists were added to the USA field force in 2008. These specialists are focused on educating hearing aid professionals. Hearing aid professionals have direct access to hearing impaired patients who may benefit from a cochlear implant. This is a long-term initiative aimed at increasing therapy awareness in this important market segment.

Improving capacity

The Hear Always initiative was further expanded during the year. This initiative aims to free up clinician time by directing routine technical support of recipients directly to Cochlear. By year end, some 76% of clinics and 65% of recipients were participating in this initiative.

New product launches

Cochlear Americas continued to expand the range of products it offers to customers. Custom Sound 2.0 was launched during the year, providing further software options to our professionals.

In the second half, two new FDA trials for the electro-acoustic stimulation product line were started. This underscored our technologic leadership in the region.

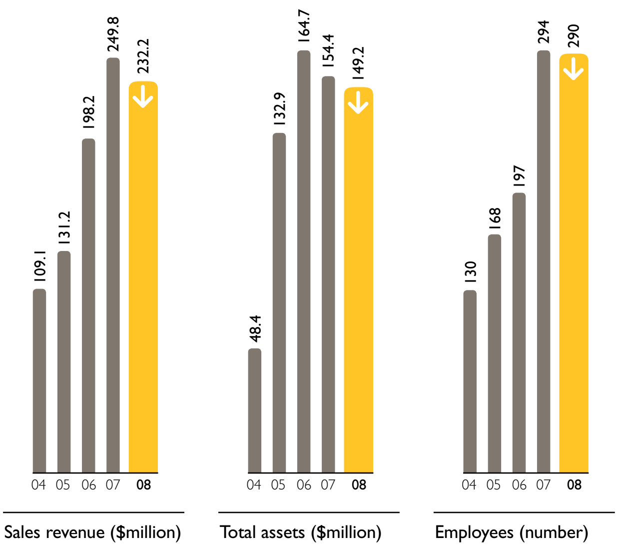
In quarter four, the backwards compatible Freedom processor for Nucleus 22 implant users was launched with an enthusiastic response from these long-term recipients. This fulfils the promise of making the latest technology available to our earlier recipients.

Facility for the future

In June 2008, Cochlear Americas moved into a new purpose fitted-out building in Denver. The new campus style facility brings together two separate Denver offices and is planned to meet growth over the next decade.

Outlook

The focus in F09 will remain on driving growth through the execution of key market initiatives including the Hear Always program and Territory Outreach Specialists program.



Financial amounts for 2005 to 2008 are in accordance with IFRS.
Financial amounts for 2004 are in accordance with previous GAAP.

The European region continued its strong sales revenue growth with record revenue of $257.2 million, up 30% in constant currency terms.

Continued strong sales growth

Revenue increased to a record $257.2 million which was up 30% in constant currency. This was the fourth year in a row of sales revenue growth in excess of 20%. The European region now covers some 53 countries including many of the emerging economies in Central and Eastern Europe and the Middle East.

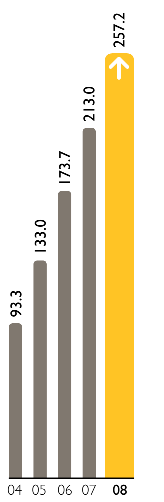
During 2008, sales growth was strong in both the established European markets and the new developing countries, providing depth in the portfolio of countries Cochlear Europe sells into.

Roll out of increased direct distribution strategy

In the last three years, Cochlear has "gone direct" in France, Belgium, Italy, The Netherlands, Sweden and Finland. This strategy enables Cochlear to get closer to customers and thereby increases product awareness and other programs aimed at market growth.

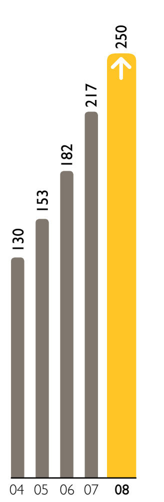
During the year, the decision was made to go direct in Turkey with effect from July 2008. Cochlear has been selling in Turkey since 1998 and the country has strong growth potential for Cochlear's product lines.

In 2008, Cochlear took control of the after-sales aspect of the business in Germany. A new workshop was built in Hannover and this now fits into a Europe-wide service strategy with further upgrades to Cochlear's service and repair facilities in Europe.



Sales revenue ($million)

Total assets ($million)



Employees (number)

Financial amounts for 2005 to 2008 are in accordance with IFRS.
Financial amounts for 2004 are in accordance with previous GAAP.

Growth strategies

Cochlear Europe continued to stress the importance of appropriate reimbursement for its devices in Europe. This includes providing information which supports the cost effectiveness of the devices to the relevant authorities.

In the United Kingdom, the National Institute for Health and Clinical Excellence (NICE) report was issued for discussion during the year. This independent government report supported cochlear implantation and discussed the benefits of bilateral implantation. This is an influential report and provides an important precedent for other work on the cost effectiveness of the cochlear implant and bilateral implantation.

Therapy awareness was raised by the expansion of the advocacy program targeted on a country-by-country basis. This program involves recipients, or their parents, volunteering to share their experiences with potential customers. This is important in raising awareness, but also in addressing specific issues raised by potential customers.

Further work was focused on the web which is now available in eight languages.

Underpinning of growth with investment in key infrastructure

In order to support the rapid growth in Europe, targeted investments in key infrastructure were made in 2008.

Service and repair facilities were upgraded and the customer and business development function focused on the installed base and process innovation was created.

The Oracle ERP system was implemented in October 2007 throughout Europe. This now links Europe with the worldwide supply chain. This is increasingly important as volumes grow – in 2008, some 1.2 million items were shipped from our central warehouse in London alone!

Outlook

In 2009, the team will continue to be focused on growth initiatives including a growing emphasis on developing markets and the continued roll out of the Freedom processor upgrades for the Nucleus 24 and Nucleus 22 implant users.

Asia Pacific

The Asia Pacific region continued its strong growth with revenue in constant currency terms increasing 20% to $ 91.0 million.

Ongoing strong financial performance

The Asia Pacific region continued its strong growth with revenue increasing 14% to $ 91.0 million. Strong sales into China helped drive the result.

Strong growth in China and building the infrastructure

A total of 700 donation units were shipped to China this year as part of the contract to supply a total 15,000 units under the donation order. The supply of donation units was again lumpy and this unevenness is anticipated to continue.

The activity surrounding the donation is now driving an increase in demand from the non-donation sector. Cochlear views both these sectors as important in growing the overall Chinese market.

As part of building the infrastructure in China, Cochlear and its Chinese distributors operate the Cochlear Training and Education Centre in Beijing. In 2008, the first class of Auditory Verbal Therapy teachers graduated. These teachers will play an important ongoing role in supporting the long-term growth of the Chinese market.

Developing the Baha market

The Baha Intenso product received reimbursement benefit recognition on the Australian Department of Health and Ageing prosthesis list. This was important in ensuring reimbursement for the Baha in a market which is currently very under-penetrated. Sales of Baha in Australia grew over 50%, albeit from a very small base.

Elsewhere in Asia, the focus was on obtaining the necessary regulatory approvals for sale of Baha in the individual countries. This can take several years in some countries.

Partnership with clinics

Cochlear Asia Pacific pioneered the "Lean Clinics Project" with a select group of clinics in Australia and New Zealand. The aim of the project was to work with clinics to increase capacity through improving the patient appointment model and enhanced throughput in relation to clinicians' activities. There is still more to do, but initial results are encouraging and set useful precedents for the region.

Increased presence in key markets

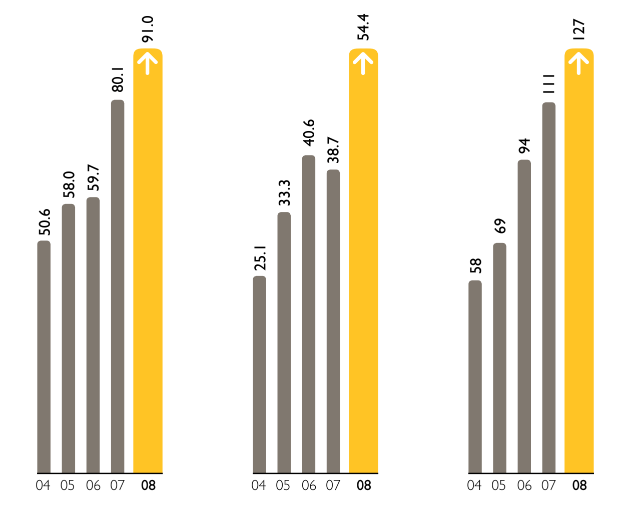
During 2008, Cochlear continued to strengthen its direct presence in the region.

A wholly-owned subsidiary was established in South Korea. There are now 12 Cochlear employees who are working in conjunction with the local sales distributor in Seoul. This will bring Cochlear closer to its customers in this market which has strong growth potential.

Elsewhere, our presence in Singapore was strengthened by opening a branch there and a liaison office was established in Mumbai, India to support the growth in this important market.

Outlook

The focus for F09 remains on the execution of the growth initiatives and the bedding down of the offices where Cochlear has gone direct.



Sales revenue ($million) | Total assets ($million) | Employees (number)

Financial amounts for 2005 to 2008 are in accordance with IFRS.
Financial amounts for 2004 are in accordance with previous GAAP.

Recipient
Rod Saunders

Hearing solution
Unilateral Cochlear Implant

Location
Melbourne, Australia

1931-2007

Rod Saunders, 1931-2007 Pioneering Recipient

Rod Saunders, who sadly passed away in December 2007, was the world's first cochlear implant recipient.

At the age of 46, Rod lost his hearing in a car accident. His devotion to his family made him want to hear again. Almost 30 years ago, he was Professor Graeme Clark's first research cochlear implant recipient.

His pioneering spirit and perseverance with the initial prototype, made further technological advances possible which over 100,000 people globally, now benefit from. That first cochlear implant surgery took eight hours, and it was only at the third session that Rod heard sound. Many months of arduous programming sessions followed to develop an appropriate speech coding strategy.

Rod continued to be involved in further trials and testing, to reduce the size of the extensive electronics where sound was processed. Through his dedication, a compact speech processor was made possible.

Over the years, Rod remained dedicated to playing his part in advancing cochlear implant technology and continued to participate in clinical research.

"It's just amazing how the cochlear implant has worked and how it has helped thousands of people to hear again."

Cochlear would like to acknowledge Rod for his courage and significant contribution in the cochlear implant field. His legacy stays with us. He was a pioneer in the truest sense of the word.

Research, Development and Operations

Sound outcomes

Innovative engineering ensures that Cochlear's implant recipients have access to ongoing technological advances for life. Our operations strategy is to ensure we use best practice production methods and have the capacity to meet the growing demand for our products. Our ongoing commitment to strengthen our internal capability is fundamental to sustainable growth.

Research and development

Cochlear's research and development activities set the benchmark in the development of implantable solutions for the hearing impaired. Significant investment, coupled with scientific discipline and global reach, ensures Cochlear stays at the forefront of technological innovation in the implantable hearing solutions field.

Cochlear is currently involved in over 79 collaborative research programs involving 131 centres across 19 countries. These research and development programs span our four main areas of implantable hearing solutions as outlined on pages 2 and 3. These programs focus on continually improving hearing performance outcomes for existing implant recipients and new candidates alike. Basic scientific research is also being conducted, examining novel mechanisms to improve all aspects of implantable hearing solutions.

In 2008, Cochlear continued to grow and strengthen its internal research and development capability. An investment of $80.0 million constituting 13.3% of revenue was made. Cochlear now has approximately 250 direct research and development employees globally.

Operations

The on-site manufacture of our implantable hearing systems is a core competency and a source of sustainable competitive advantage to Cochlear. Products are manufactured at three locations, two in Australia and one in Sweden, with 836 people employed in manufacturing and quality assurance globally.

Cochlear's operations strategy is to ensure we employ best practice production capabilities and capacity to meet the growing demand for our products.

Our three year operations improvement program was successfully concluded in 2008 with the integration of "Lean Manufacturing" principles and a new Oracle ERP system implemented throughout manufacturing. The integration of the Brisbane manufacturing business, acquired in January 2007, was also completed in 2008. This improvement program has resulted in improved capacity, flexibility and responsiveness to demand.

The next stage of operational improvement will involve introducing new manufacturing technologies to further streamline our manufacturing processes.

Highest quality commitment

Cochlear is committed to the highest level of quality and has an integrated global quality management system in place to assure the highest quality for our products and services. This system complies with the applicable regulatory requirements around the world. The regulations are enforced and confirmed by inspections and audits by independent authorities.

Cochlear operates in a highly regulated environment with new regulatory requirements continually coming into force. Cochlear actively participates and supports the Global Harmonization Task Force, whose aim is convergence in regulatory practices related to ensuring safety, effectiveness and quality of medical devices. This is achieved through promotion of technological innovation, facilitating international trade and the exchange of information.

Intellectual property

Our patent acquisition creation and maintenance policies aim to maximise the strategic business value of our overall patent portfolio. Cochlear continues to generate key intellectual property in its fields. We currently hold approximately 800 patents and patent applications worldwide.

Cochlear employees are passionate about their work, delivering value to our recipients and customers, through innovative products and services around the globe.

To deliver on our promise of "Hear now. And always", we are strengthening our internal capabilities through enhancing people related processes and systems, creating a culture to support sustained growth and drive continual improvement.

Attracting and keeping the best people

In an increasingly competitive global talent market, Cochlear's key priority is not only attracting but also retaining the best people. This year, we have:

- recruited and integrated over 200 new employees globally, using enhanced recruitment processes to ensure we attract the brightest and most innovative talent available in the world. We ensure recruited staff are in alignment with Cochlear's culture and values;
- continued to facilitate talent movement on a global basis, with nine current employees having relocated; and
- implemented a number of new people management and development programs.

Our workforce continues to reflect Cochlear's emphasis on encouraging diversity. There are over 60 nationalities represented in the Sydney workplace alone. In 2008, 36% of new employees in Sydney were female.

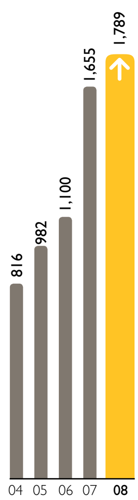
During the year, our Sydney based manufacturing employees converted to individual employment contracts following the termination of the 2005 Employee Partnership agreement. These individual contracts reflect the higher wages negotiated internally and the move to a new classification matrix providing further opportunities for advancement of people.

Continually investing in individual, team and organisational capability…

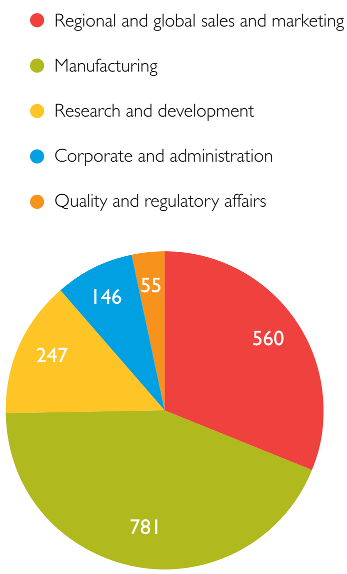
To support employees' learning and development, a combination of on-the-job development, formal training courses and flexible e-learning options based on six key learning pathways, are central to employment at Cochlear. The range of learning solutions covers job-specific and technical areas, as well as general areas such as communication, time management and self-leadership. We have invested in e-learning platforms to meet a variety of business needs in 2008.

The Sydney office alone provided 15,659 hours of training during 2008, up from 14,341 hours last year. Our Get Equipped induction program is a valuable learning tool to ensure a minimum global standard of knowledge for all employees.

We have had over 250 successful graduates of the Workplace English Language and Literacy (WELL) program since commencing the program in March 2006 (over 60 in 2008). A Leadership Development program, designed specifically for Cochlear in conjunction with the Macquarie Graduate School of Management, is also being implemented.



Employees (number)



Employee numbers

Sound company

Throughout 2008, the Women in Leadership network continued to operate. As part of this program, Cochlear invites females in senior roles to speak at lunchtime sessions. Speakers this year included the Dean of Engineering UNSW, NSW Minister for Women, Minister for Science and Medical Research, NSW Deputy Leader of the Opposition and parliamentary colleagues. Cochlear also held an International Women's Day breakfast, a Senior Women's dinner with the CEO/President and a Senior Women's breakfast with the Regional Presidents of Cochlear.

Ensuring the health and safety of employees

Cochlear continues to be committed to providing and maintaining a safe and healthy workplace for all employees. Occupational health and safety training for new employees was again implemented. Cochlear also implemented e-learning modules on ergonomics to build understanding of, and commitment to, workplace safety.

Wellness programs offered by Cochlear include: an ergonomic consultant assessing workstation layout for individuals; free flu vaccinations; free eye screening; and in-house pilates classes.

Supporting the community

The Cochlear Foundation was established following a donation from Cochlear Limited. This philanthropic entity supports various longer-term programs promoting research and awareness of treatments for significant hearing impairment. During 2008, this independent Foundation continued to support specific projects to the amount of approximately $0.3 million.

Cochlear also supports its employees' participation in community fundraising activities. Among the events that Cochlear and its employees supported this year were the City to Surf fun run, the Sydney to Wollongong bike ride, the BRW Corporate Triathlon, and Australia's Biggest Morning Tea. Funds were also donated to the recent China earthquake appeal.

Cochlear continued its involvement in the NSW Young Achiever Awards (YAA). A group of students participating in the YAA create, run and then liquidate a fictional company over a 26 week period. Cochlear's sponsorship includes providing mentors to help guide the students through the process. In 2008, the student group Cochlear mentored won six awards including the National Award for Environmental Sustainability.

Environmental responsibility

Cochlear participated in the Carbon Disclosure Project again this year where companies disclose their risks and opportunities from climate change. For the 2007 calendar year, Cochlear's greenhouse gas emission equivalent was 11,693 tonnes from its facilities in Sydney and Brisbane. Currently, compulsory greenhouse gas reporting thresholds under the Energy Efficiency Opportunities program are five times above Cochlear's emission levels.

Cochlear supports an internal group of employees called "greenFEVER" whose goals are to raise awareness on climate change and environmental issues, promote sustainable living at work and at home, and identify areas for consideration to further reduce Cochlear's greenhouse gas emission.

New Sydney international headquarters

Cochlear has begun planning the development of its new international corporate headquarters and principal manufacturing facilities at Macquarie University's North Ryde campus. The purpose-designed facilities will be developed over four stages, meeting the current and future operational requirements of Cochlear. Stage 1 will comprise an A-Grade office building and high tech manufacturing facility totalling approximately 23,000 square metres. The project is expected to be completed in late 2010.

On completion, Cochlear will lease the building for an initial term of 15 years, with options to extend this for a further 10 and five years. Under the terms of the agreement, Macquarie University will also reserve adequate land for future buildings to accommodate Cochlear's long-term expansion plans.

The project is expected to deliver synergies in research and training for both Cochlear and Macquarie University.

1. Mr Tommie CE Bergman

Chairman

Age 63. DipEng, GradDipMarketing, FAICD, FAIM

Appointed Chairman 22 October 2002

Appointed director and Deputy Chairman 1 January 2002

Former director of Rinker Group Limited (2007 – April 2008) and Smorgon Steel Group Limited (1999 – 2007). Former Chairman (2003 – 2005) and Deputy Chairman (2001 – 2002) of WMC Resources Limited and director of Amcor Limited (1997 – 2003) and Atlas Copco Australia Pty Limited. Former Chairman and Managing Director of Asea Brown Boveri Australasia Pty Limited (1991 – 2002). Prior to that held CEO and Chairman positions in the ABB Group in Singapore, India, Portugal and the United States.

Chairman of the Nominations Committee and Technology and Innovation Committee. Member of the Audit Committee and Remuneration Committee.

2. Dr Chris G Roberts

CEO/President

Age 54. BE (Hons), MBA, PhD, FAICD, FTSE

Appointed 1 February 2004

Chief Executive Officer of Cochlear Limited. Director of ResMed Inc since 1992 and Chairman of Research Australia. Dr Roberts has worked in the medical device industry for more than 30 years in a number of senior management positions.

Member of the Medical Science Committee and Technology and Innovation Committee.

3. Mr Paul R Bell

Age 62. BA, MA (Hons)

Appointed 1 August 2005

Director of Bio-Link Partners Limited since 2005 and Biota Holdings Limited since 2006. Former director of GroPep Limited (2003 – 2006). Extensive executive career spanning 30 years with the international pharmaceutical company, Merck & Co Inc (Managing Director – Australia, 1988 – 1997; President of the Asia Pacific Human Health division, 1997 – 2002). Member of the Global Merck Management Committee.

Chairman of the Remuneration Committee. Member of the Nominations Committee and Technology and Innovation Committee.

Sound leadership

4. Prof Edward Byrne, AO

Age 56. DSc, MD, MBA, FRCP, FRACP

Appointed 1 July 2002

Executive Dean of the Faculty of Biomedical Sciences and Head of the Medical School at University College, London and Head of the Royal Free and University College Medical School. Member of the Advisory Board and former Dean of Faculty of Medicine, Nursing and Health Sciences at Monash University, Melbourne (2003 – 2007), Deputy Chair of Neurosciences Victoria Limited. Director of BUPA since May 2008. Former director of Neurosciences Australia Limited, the Baker Medical Research Institute, Burnet Medical Research Institute, Prince Henry's Medical Research Institute, Southern Health and Mental Health Research Institute.

Chairman of the Medical Science Committee. Member of the Nominations Committee and Technology and Innovation Committee.

5. Mr Andrew Denver

Age 59. BSc (Hons) MBA, FAICD

Appointed 1 February 2007

Chairman of Universal Biosensor Pty Limited. Director of CathRx Limited, Anzon Australia Limited and Principals Funds Management Pty Limited. Former Managing Director of Memtec Limited and President Asia for Pall Corporation.

Member of the Audit Committee, Nominations Committee and Technology and Innovation Committee.

6. Mr Rick Holliday-Smith

Age 58. BA (Hons), FAICD

Appointed 1 March 2005

Director of St George Bank Limited since February 2007, Servcorp Limited since 1999 and ASX Limited since 2006. Chairman of Snowy Hydro Limited (not listed) since 2006. Chairman of SFE Corporation Limited since 1999 until de-listing in 2006. Former director of Exco Resources NL (1999 – 2006), DCA Group Limited (2004 – 2006) and MIA Group Limited (2000 – 2004). Former President of NationsBank-CRT, Chicago and Managing Director of Hong Kong Bank Limited, London.

Chairman of the Audit Committee. Member of the Nominations Committee and Remuneration Committee.

7. Mr Donal P O'Dwyer

Age 55. BE Civil, MBA

Appointed 1 August 2005

Chairman of Atcor Medical since 2004 and a director of Sunshine Heart Inc since 2004, Mesoblast Limited since 2004 and Angioblast Systems Inc since 2005. President of Cordis Cardiology (Johnson & Johnson medical device business unit with annual turnover of over USD 2 billion) between 2000 and 2004.

Member of the Audit Committee, Medical Science Committee, Nominations Committee and Technology and Innovation Committee.

1. Dr Chris Roberts

CEO/President

See "Board of Directors" on page 22.

2. Richard Brook

President, European Region

BSc Management, MBA

Richard is responsible for the development and execution of the strategic direction for all our operations in Europe, the Middle East and Africa. This includes sales in over 60 countries. Operations in Europe include sales, marketing, distribution, service, finance, regulatory and administration across this complex and diverse region.

Before joining Cochlear in 2003, Richard held senior roles in Guidant Corporation and Alaris Medical Systems. He has over 15 years' experience in the medical device industry.

3. Dr Bronwyn Evans

Senior Vice President, Quality and Regulatory

BE (Hons), PhD

Bronwyn is responsible for ensuring continued high quality of Cochlear's products together with coordinating the regulatory approval processes around the world for its products.

She joined the Company in 2005 after more than 20 years' experience in engineering and management roles in power generation and distribution, engineering education and the medical industry. Most recently, she worked as Asia Service Manager for GE Healthcare, Ultrasound based in Singapore.

4. Dig Howitt

Senior Vice President, Manufacturing and Logistics

BE (Hons), MBA

Dig is responsible for the leadership of the manufacturing and logistics groups. He and his team are responsible for the manufacture of all Cochlear products and all aspects of the supply chain together with the introduction of new products from research and development into commercial production.

Prior to joining Cochlear in 2000, Dig had gained general management experience at Boral and Sunstate Cement as well as being a consultant for Boston Consulting Group.

5. Jan Janssen

Senior Vice President, Design and Development

MSc Elec Eng

Jan leads a team of over 200 highly qualified engineers and scientists who implement the research and development strategy. This includes responsibility for identifying and developing cutting-edge technologies and commercial products.

Jan joined Cochlear in 2000 as head of the Cochlear Technology Centre based in Belgium, having previously worked with Philips Electronics where he was involved in research and development in the fields of high technology electronics and cochlear implants. Jan was promoted to Senior Vice President, Design and Development in 2005.

6. Michael Kavanagh

Senior Vice President, Global Marketing

BSc, MBA (Advanced)

Michael is responsible for the development of global marketing initiatives for Cochlear's product portfolio. This spans the identification of new product development opportunities through to product introduction and lifecycle management. This requires coordination and interpretation of research and then translating this into a relevant product portfolio together with marketing programs to drive disciplined growth.

Michael joined Cochlear in 2003, having held senior sales and marketing positions both locally and internationally in the pharmaceutical industry.

7. Anne-Marie Leslie

Senior Vice President, Human Resources

BA (Hons), EMHRL

Anne-Marie joined Cochlear in April 2007 and is responsible for global human resources management, focusing on people strategies to meet

Sound management

the demands of a fast growing, global company. She has over 25 years' experience in local, regional and global human resource management, most recently with Bristol-Myers Squibb in the USA. Earlier experience included quality management at Kodak as winners of the Australian Quality Prize and as an evaluator with Business Excellence Awards in Australia and the USA.

8. Neville Mitchell

Chief Financial Officer and Company Secretary

BComm, CA (SA), CA

Neville is responsible for accounting, corporate finance, treasury and audit, together with investor relations, company secretarial and the corporate legal function for Cochlear.

He joined the Company in 1990 and has been Chief Financial Officer since listing in 1995. Prior to joining Cochlear, he was a senior manager with KPMG in Johannesburg.

9. David Morris

President, Bone Anchored Solutions

BBus, BAppSc

David is responsible for the Bone Anchored Solutions division, which is based in Gothenburg, Sweden. This division includes marketing, research, product design and development, quality and regulatory, manufacturing, distribution and administration for all the Baha and Vistafix products.

He was appointed as President, Bone Anchored Solutions in 2005, having joined the Company in 2002 as Senior Vice President, Business Development. David is the Chairman of the Australian Medical Device Industry Action Agenda and has extensive international and Australian experience in strategy and operational consulting.

10. Jim Patrick

Senior Vice President, Chief Scientist

MSc

Jim is responsible for the global research portfolio of projects that feed into the commercial development stream. In addition, Jim is responsible for clinical trials around the globe.

One of the original researchers involved with the cochlear implant program in Melbourne from 1975, Jim has worked in a number of senior managerial positions at Cochlear since its inception in 1981. Jim is an Associate Professor at the Department of Otolaryngology at the University of Melbourne.

11. Mark Salmon

President, Asia Pacific Region

MBA (Executive)

Mark is responsible for the development and execution of the strategic direction for all our operations in Australia, Asia and the South Pacific. This high growth region has complex regulatory sales and marketing drivers which require coordination of sales, marketing, third party distribution, regulatory and clinical infrastructure development activities.

He joined Cochlear in 2004, after more than 20 years' experience in the medical industry, most recently as President and CEO of Asia Growth Markets and Australia, New Zealand and South East Asia for GE Medical Systems.

12. Chris Smith

President, Americas Region

BSc

Chris is responsible for the development and execution of the strategic direction for our operations in the Americas region, comprising North America, Central America and South America. Operations in the Americas include sales, marketing, distribution, service, finance, regulatory and administration across this fast growing region.

He joined Cochlear in 2004, after more than 20 years' experience in the medical device industry specifically and healthcare in general in the United States including Warburg Pincus, and as Group President for Gyrus Group (ENT and Surgical divisions).

Dr Chris Roberts reports to the Board of directors and all other members of the senior executive team report to Dr Chris Roberts.

Cochlear is committed to ensuring that its policies and practices reflect good corporate governance and that there is compliance with all corporate governance requirements applicable to Australian listed companies.

In this Corporate Governance Report, Cochlear sets out the key governance principles and practices of Cochlear and reports against the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (August 2007) (Guidelines). A checklist of the recommendations made in the Guidelines is set out at the end of this report. References to recommendations in the Guidelines are made throughout this report in order to indicate how Cochlear complies with the recommendations. All policies and terms of reference referred to in this report are published on the Company's website www.cochlear.com in the Corporate Governance section, unless stated otherwise. Cochlear continues to refine and update its corporate governance policies and procedures.

Principle 1: Lay solid foundations for management and oversight

The Board of directors is responsible to Cochlear's shareholders and other stakeholders for the Company's overall business performance. The Board operates under a Board Charter that details its functions and the matters specifically reserved to it for decision (Rec 1.1). The charter is published in the Corporate Governance section of the Cochlear website.

The Board is responsible for adopting Cochlear's business strategies and for monitoring management's implementation of those strategies. The Board considers and sets the Company's goals and performance targets, appoints and removes the CEO/President, oversees succession plans and approves the accounts, budgets, Risk Management Policy (including internal control and compliance), Code of Business Conduct and major capital management and expenditure decisions.

There is a clear distinction between the role and responsibilities of the Board and the role and responsibilities of the CEO/President (Rec 1.1). The balance of responsibilities between the Board and the CEO/President is reviewed on a regular basis so as to ensure that the division of functions remains appropriate to the needs of the Company.

The Chairman is responsible for leading the Board in the performance of its duties. The Board's prime objectives are to improve shareholder returns and to achieve disciplined and sustainable growth. The full Board meets for at least eight scheduled meetings each year. Other meetings are called as and when necessary. A summary of meeting attendance (including committee meeting attendance) for the 2008 financial year is set out in the Directors' Report at page 34 (Recs 2.6, 4.4 and 8.3). At each Board meeting, the non-executive directors meet for a period without management or any executive directors present. Throughout the year, the Board has regular scheduled discussions on various aspects of the Company's strategy.

The CEO/President is responsible for the efficient and effective operation of Cochlear on a day-to-day basis. The CEO/President oversees the implementation of the strategies approved by the Board and is accountable to the Board for all authority delegated to the senior executive team. Notwithstanding these delegations by the Board, the CEO/President must consult the Chairman on matters that are sensitive, extraordinary or of a strategic nature. The CEO/President must bring all material matters to the Board's attention. The senior executive team briefs the Board regularly so as to keep the Board up to date and to assist the directors with monitoring the results of operations. Each month, directors receive operating reports prepared by senior management, covering each region and function. Directors also regularly visit and inspect operations in Australia and overseas.

The performance of senior executives is evaluated in accordance with the Performance Evaluation Process Overview. The Performance Evaluation Process Overview is published in the Corporate Governance section of the Cochlear website (Rec 1.2). All employees, including senior executives, participate in biannual performance reviews, where achievement of key goals is discussed and assessed and future goals are agreed upon. A performance evaluation for senior executives has taken place in the reporting period and was carried out in accordance with the process disclosed (Rec 1.3).

Principle 2: Structure the Board to add value

Composition of the Board

As at 30 June 2008, the Board comprised six non-executive directors, including the Chairman, and one executive director, the CEO/President. The directors consider that, between them, they possess the necessary skills, knowledge and experience to allow the Board to perform its duties appropriately. Between them, the directors bring to the Board scientific, medical, technical and financial expertise, as well as international business experience. Summaries of the relevant skills, experience and expertise of each director are set out on pages 22 and 23 (Rec 2.6).

The policy for appointment of directors and the selection process are outlined in the Nominations Committee Terms of Reference, which are published in the Corporate Governance section of the Cochlear website (Rec 2.6). The Nominations Committee assesses the necessary and desirable competencies of candidates for directorship. The selection process includes obtaining advice from an external consultant to assist in identifying suitable candidates who meet the required specifications. Upon appointment of a new director, the key terms and conditions and the Company's expectations of the appointee are set out in a letter to the new director.

New non-executive directors are provided with an induction program specifically tailored to the needs of individual appointees. That program includes product training, one-on-one meetings with members of the senior executive team and visits to key functional areas. Directors participate in continuous improvement and education programs from time to time, as considered appropriate.

The Company's Constitution requires one third of the directors to retire from office at the AGM each year. Retiring directors are eligible for re-election. The CEO/President is excluded from this requirement. Mr Tommie Bergman and Mr Paul Bell will retire at the 2008 AGM and will stand for re-election at that meeting. A review of the performance of the Board, its committees and individual directors is performed at least every two years, with the most recent

Sound fundamentals

being undertaken in 2008. The Chairman undertook individual interviews and questionnaires and subsequently held evaluations with each individual director as to their performance over the past year. The findings of these reviews were then discussed at the Nominations Committee meeting held in May 2008. The Performance Evaluation Process Overview gives details of performance evaluation for the Board, its committees and individual directors (Rec 2.5). The Performance Evaluation Process Overview is published in the Corporate Governance section of the Cochlear website.

Mr Tommie Bergman, the Chairman, is an independent non-executive director (Rec 2.2). Mr Bergman is not and has not previously been the CEO of the Company (Rec 2.3). Details of the division of responsibility between the Chairman and the CEO/President are set out above under Principle 1: Lay solid foundations for management and oversight.

Independence

The Board has assessed the independence of the non-executive directors in light of their interests and relationships and considers that all of the non-executive directors are independent (Rec 2.1). With the exception of the CEO/President, all directors on the Board are independent directors (Rec 2.1). An independent director is a non-executive director who is not a member of management and who is free of any business or other relationship with Cochlear that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement. The Nominations Committee Terms of Reference outline criteria used to determine the independence of the directors. The criteria used follow the criteria set out in the Guidelines.

Each year, the Board assesses the independence of the non-executive directors in the light of the interests and circumstances disclosed by them. Independence is reassessed in the event of any material change of interests and circumstances. Any loss of independence by a non-executive director will immediately be disclosed to the market.

None of the non-executive directors has any business relationship with Cochlear. The total number of shares owned by Cochlear non-executive directors is 23,850. This is considered immaterial.

The Board believes arbitrary limits on tenure may cause loss of experience and expertise that are important contributors to the efficient working of the Board. The Board does not currently believe that any non-executive directors have served on the Board for a period that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of the relevant director's judgement. The period of office of each director is disclosed at pages 22 and 23. Currently, no director has served longer than seven years on the Board.

With the consent of the Chairman, individual directors may seek independent professional advice, at the expense of Cochlear, on any matter connected with their responsibilities (Rec 2.6). No individual directors exercised this right during the year.

Board committees

The Board has established five permanent committees to assist in the execution of its responsibilities. Each such committee reports to the Board. Each committee has terms of reference under which authority is delegated to it from the Board. The terms of reference for each committee can be viewed in the Corporate Governance section of the Cochlear website.

Committee meeting agendas, papers and minutes are made available to all members of the Board. The Chairman of each committee is free to use whatever resources they consider necessary to discharge the committee's responsibilities. The number of committee meetings held during the year and the attendance at these meetings by members is set out in the Directors' Report at page 34 (Recs 2.6, 4.4 and 8.3). With the exception of the Medical Science Committee and the Technology and Innovation Committee, all members of the committees are independent non-executive directors. Executive director, Dr Chris Roberts, is a member of the Medical Science Committee and the Technology and Innovation Committee.

The composition and role of each committee are set out below:

Audit Committee (Rec 4.1)

The Audit Committee meets at least four times a year. In accordance with the trends in international practice, the Audit Committee consists entirely of independent non-executive directors (Rec 4.2). Mr Rick Holliday-Smith chairs the Committee, with the other members at 30 June 2008 being Mr Tommie Bergman, Mr Andrew Denver and Mr Donal O'Dwyer (Recs 4.2 and 4.4). Mr Holliday-Smith is not the Chairman of the Board. The Board considers that the Audit Committee is of a sufficient size and independence and possesses sufficient technical expertise to discharge its mandate effectively. An assessment of the technical expertise of the Committee's members occurs on an annual basis. The external and internal auditors, the CEO/President and the Chief Financial Officer (CFO) are invited to the meetings at the discretion of the Committee. At each Committee meeting they attend, the external auditor reports on the outcome of their audit and other work. The Committee meets with the external auditor in the absence of members of management at every meeting that the external auditor attends. Summaries of the Committee members' technical expertise are set out at pages 22 and 23 (Rec 4.4). The Audit Committee Terms of Reference set out the Committee's role and responsibilities, composition, structure and membership requirements. The Audit Committee Terms of Reference can be viewed in the Corporate Governance section of the Cochlear website (Recs 4.3 and 4.4).

The principal role of the Audit Committee is to advise and assist the Board in relation to the reporting of financial information.

The Committee's primary responsibilities include:

- ensuring the Company adopts, maintains and applies appropriate accounting and reporting processes and procedures;
- facilitating the independence of the external audit process and addressing issues arising from the audit process; and
- ensuring the Company maintains effective risk management and internal control systems.

Processes relating to financial reporting are set out below at Principle 4: Safeguard integrity in financial reporting. Processes relating to risk management and internal control are set out below at Principle 7: Recognise and manage risk.

Remuneration Committee (Recs 8.1 and 8.2)

The Remuneration Committee meets at least three times a year. The Committee is chaired by Mr Paul Bell. As at 30 June 2008, the other members of the Committee were Mr Tommie Bergman and Mr Rick Holliday-Smith. All members of the Remuneration Committee are independent non-executive directors (Rec 8.3). As the need arises, the CEO/President, CFO, Senior Vice President, Human Resources and other executives are invited to meetings at the discretion of the Committee.

The Remuneration Committee Terms of Reference set out the Committee's role and responsibilities, composition, structure and membership requirements. The Remuneration Committee Terms of Reference can be viewed in the Corporate Governance section of the Cochlear website (Rec 8.3).

The Remuneration Committee's responsibilities include making recommendations to the Board in relation to the Remuneration Policy and the amounts and composition of remuneration for the CEO/President and the senior executive team. This includes long-term performance requirements and incentives. Remuneration levels are set at competitive levels to attract and retain qualified and experienced staff. Independent advice is taken on the appropriateness of remuneration packages.

The Committee's role includes responsibility for the remuneration and incentive policies (including the Performance Appraisal Policy) for the Chairman and other non-executive directors as well as for Cochlear generally. The Committee also approves the recruitment, retention and termination policies and practices as well as superannuation arrangements and makes recommendations to the Board in accordance with the Cochlear Executive Long Term Incentive Plan (CELTIP).

Further details on Cochlear's remuneration policies and the principles upon which they are based are set out below at Principle 8: Remunerate fairly and responsibly and in the Remuneration Report at pages 37 to 45 (Rec 8.3).

Nominations Committee (Rec 2.4)

The Nominations Committee is chaired by Mr Tommie Bergman (the Company Chairman) and is comprised entirely of independent non-executive directors. In addition to the Chairman, the members of the Committee as at 30 June 2008 were Mr Paul Bell, Prof Edward Byrne, AO, Mr Andrew Denver, Mr Rick Holliday-Smith and Mr Donal O'Dwyer (Rec 2.6).

The Nominations Committee was established in July 2003. The Committee's role is to assist the directors in ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of a director, having regard to the law and the highest standards of governance, by:

- assessing the skills, knowledge, experience and diversity required on the Board and the extent to which each is represented;
- establishing processes for the review of the performance of individual directors and the Board as a whole;
- establishing processes for the identification of suitable candidates for appointment to the Board;
- reviewing skills required to be maintained by existing directors; and
- overseeing succession planning for the Board.

The Nominations Committee Terms of Reference set out the Committee's role and responsibilities, composition, structure and membership requirements. The Nominations Committee Terms of Reference can be viewed in the Corporate Governance section of the Cochlear website (Rec 2.6). The Nominations Committee Terms of Reference include a description of the procedure for the selection and appointment of new directors and the criteria used to determine director independence (Rec 2.6).

As a part of the appointment process, prospective directors must disclose existing and proposed directorships, as well as any other commitments they have. These commitments are assessed to determine whether the prospective director has adequate time to perform their duties. The Nominations Committee assesses the time commitments of the Chairman and all other non-executive directors on an ongoing basis so as to ensure that adequate time is available to discharge Board duties. The current members of the Board are all considered to have sufficient time available to them in order to discharge their responsibilities to Cochlear.

Medical Science Committee

The Medical Science Committee was established during the 2003 financial year and meets at least biannually. The Committee is chaired by Prof Edward Byrne, AO, with the other members as at 30 June 2008 being Mr Donal O'Dwyer and Dr Chris Roberts.

The Committee may invite any Cochlear executive to attend its meetings at its discretion.

The Medical Science Committee Terms of Reference set out the Committee's role and responsibilities, composition, structure and membership requirements. The Medical Science Committee Terms of Reference can be viewed in the Corporate Governance section of the Cochlear website.

The Medical Science Committee considers any matters relating to medical aspects of Cochlear's businesses and related technologies. This includes a watching brief on medical developments in these fields and the findings of independent medical experts.

Technology and Innovation Committee

The Technology and Innovation Committee was established during the 2003 financial year and is chaired by Mr Tommie Bergman. As at 30 June 2008, the other members of the Committee were Mr Paul Bell, Prof Edward Byrne, AO, Mr Andrew Denver, Mr Donal O'Dwyer and Dr Chris Roberts. Executives of the Company are invited to meetings at the discretion of the Committee. The Technology and Innovation Committee Terms of Reference set out the Committee's role and responsibilities, composition, structure and membership requirements. The Technology and Innovation Committee Terms of Reference can be viewed in the Corporate Governance section of the Cochlear website. The Committee oversees the strategic direction of the Company's technology research and product development programs with an emphasis on priority and resource allocation in line with the Company's agreed corporate strategy.

Principle 3: Promote ethical and responsible decision making

All Cochlear personnel, including the directors and the senior executive team are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of Cochlear. Cochlear's values are enunciated in the Code of Business Conduct and are reflected in Cochlear's mission statement and strategic plan (Rec 3.1). The Code guides the directors, the senior executive team and all employees as to:

- the practices which are necessary to maintain confidence in the Company's integrity;
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practice.

The Code requires strict compliance with high standards of honesty, integrity and fairness in all conduct relating to Cochlear and its products. The Code outlines formal procedures relating to anti-corruption, confidentiality/privacy, trade practices, documentation management, workplace and other compliance issues for the purpose of ensuring that the Company meets best practice in these areas. The Code also provides for clear and confidential reporting mechanisms concerning any potential breach. In 2006, the Company introduced a whistleblower policy to ensure that the confidentiality, investigation and reporting of any allegations relating to improper conduct are properly maintained. The whistleblower policy is an internal document and is not available on the Cochlear website.

The Code of Business Conduct can be viewed in the Corporate Governance section of the Cochlear website (Rec 3.3).

The Company has documented policies on equal opportunity, occupational health and safety and standards of workplace behaviour, which are communicated to employees at the time of employment. These policies are reinforced by continuous performance management and employee training programs.

Directors and the senior executive team are subject to the Non-Executive Directors and Executives Share Ownership Policy. This policy specifies minimum levels of shareholdings for directors and the senior executive team. This policy has been in effect since 1 July 2007. The Non-Executive Directors and Executives Share Ownership Policy is an internal document and is not available on the Cochlear website.

All directors, senior executives and employees are subject to Cochlear's Dealing in Securities Policy (Rec 3.2). Under this policy, directors are required to obtain the consent of the Chairman before dealing in Cochlear securities. The policy requires direct reports of the CEO/President and other senior employees to seek consent from the Company prior to trading in the Company's securities.

The policy gives guidance as to the windows of time during which it is most appropriate for directors, senior executives and employees to trade in the Company's securities. Consistent with the Corporations Act 2001, directors, senior executives and employees are prohibited from dealing in the Company's securities whilst in possession of "inside information". Compliance with the Dealing in Securities Policy is monitored. Employees are encouraged to seek advice from the Company Secretary prior to trading if they are in any doubt as to whether they are in possession of inside information. The Audit Committee receives a report at each of its meetings regarding trading in the Company's securities by the CEO/President and the senior executive team. Share dealings by directors are promptly notified to the ASX in accordance with the ASX Listing Rules.

Executives who are granted shares under the CELTIP are provided with recommended share trading periods and guidelines on what constitutes insider trading. The Cochlear Dealing in Securities Policy can be viewed in the Corporate Governance section of the Cochlear website (Recs 3.2 and 3.3).

Principle 4: Safeguard integrity in financial reporting

The directors are committed to the preparation of financial statements that present a balanced and clear assessment of the Company's financial performance, position and prospects.

Accounting and financial control policies and procedures have been established and are monitored by the Audit Committee (Rec 4.1). The Committee approves any new material accounting policies. Compliance with these procedures and policies is subject to review by the external and internal auditors. The Committee provides a link between the external auditor and the Board and monitors compliance with statutory responsibilities. The Audit Committee is responsible for making recommendations on the appointment, evaluation and dismissal of the external auditor, setting fees and ensuring that the external auditor reports to the Committee and the Board (Rec 4.4). The Audit Committee reviews the performance, independence and objectives of the external auditor on an annual basis. Details relating to the selection and appointment of the Company's external auditors are included in the Audit Committee Terms of Reference (Rec 4.4).

Additional detail relating to the Audit Committee and the Audit Committee Terms of Reference can be found above at Principle 2: Structure the board to add value (Rec 4.4).

Cochlear is committed to auditor independence. The Cochlear audit engagement partner must rotate every five years, with the last rotation occurring in July 2006. The Audit Committee reviews the independence of the external auditor at each of its meetings. All non-audit services provided by the Company's external audit firm must be approved or ratified by the Audit Committee.

Cochlear has a highly structured six monthly reporting process, culminating in Board sign-off and release of financial results to the market. In accordance with section 295A of the Corporations Act 2001, the CEO/President and the CFO provide a written statement to the Board that the Company's published financial reports present a true and fair view, in all material respects, of the Company's financial condition and that the operational results are in accordance with relevant accounting standards.

Principle 5: Make timely and balanced disclosure

Cochlear is committed to effective communication with its investors so as to give them equal and timely access to accurate, balanced and understandable information.

Cochlear's Continuous Disclosure Policy and Procedures set out the Company's policies and procedures in relation to the disclosure of information (Rec 5.1). The Continuous Disclosure Policy and Procedures aim to ensure full and timely disclosure to the market of all material issues relating to Cochlear and to ensure all stakeholders have an equal opportunity to access that information. The Policy and Procedures are designed to ensure that the disclosure requirements set out in the ASX Listing Rules and the Corporations Act 2001 are complied with and to ensure accountability at a senior management level for that compliance. The Policy and Procedures are reviewed on a regular basis.

The Continuous Disclosure Policy and Procedures can be viewed in the Corporate Governance section of the Company website (Rec 5.2).

Principle 6: Respect the rights of shareholders

The Board and senior executive team are committed to formulating and implementing Company strategy. The shareholders of Cochlear play a key role in the governance of the Company. The directors recognise that shareholders must receive timely information about the Company in order to play their role effectively. The directors appreciate that information communicated to shareholders needs to be of high quality, relevant, balanced and understandable. The Company's Shareholder Communications Policy is published at the Corporate Governance section of the Cochlear website (Recs 6.1 and 6.2). The Policy is designed to promote effective communications with shareholders and to encourage shareholders to participate in general meetings of the Company.

The principal channels of communication with the Company's shareholders are the provision of the annual and half yearly reports, periodic analyst and media briefings, the distribution of specific material covering major transactions and events, Company announcements and the AGM. Cochlear offers its shareholders the ability to receive distributed materials in either electronic or hard copy format.

The Board's philosophy is to encourage full participation of shareholders at the AGM to ensure a high level of accountability and identification with Cochlear's strategy and goals. The Company provides a forum to address individual shareholders' questions at each AGM. The external auditor attends the AGM and is available to answer questions about the conduct of the audit and the preparation and content of the Audit Report. At the 2007 AGM, the members voted to adopt changes to the Company's Constitution in order to allow for the introduction of direct voting. In December 2007, the Board approved rules for direct voting at the Company's general meetings and resolved to introduce a system of direct voting.

In addition, shareholders may at any time direct questions or requests for information to the Company Secretary, the CEO/President or the Chairman. Shareholders can also gain access to information about Cochlear, including annual reports, key policies and the Terms of Reference of its Board committees through the Cochlear website.

Principle 7: Recognise and manage risk

Cochlear views risk management as integral to its objectives of effective management of Company assets and the creation and maintenance of shareholder value. The Board has established a Risk Management Policy. This policy provides a framework for the oversight and management on a continuing basis of the material business risks associated with Cochlear's activities (Rec 7.1). The Risk Action Plans puts the Risk Management Policy into effect. The Risk Action Plans were designed and are implemented so as to provide a comprehensive risk management system which identifies, assesses and appropriately manages Cochlear's material business risks (Rec 7.2). Cochlear focuses on effective management of material business, operational, financial, human resources and legal risks. Within these categories, specific identified risks arise from matters such as actions by competitors, technological developments, government policy changes and exchange rate movements. The Risk Action Plans are compliant with the Australian and New Zealand Standard of Risk Management AS/NZS 4360.

The Board, Audit Committee and senior executive team are together accountable for monitoring risk and implementing the Risk Management Policy. The Board oversees implementation of the Risk Management Policy and the Risk Action Plans. The Board ensures that investors are informed of material changes to the Company's risk profile.

The Audit Committee advises the Board and reports on the status of major risks to the Company through the integrated risk management programs. Day-to-day implementation of the Risk Action Plans is delegated to the Risk Management Committee. The Risk Management Committee is made up of senior executives. The Risk Management Committee reports on the effectiveness of the Company's management of its material business risks at each Audit Committee meeting, including minutes of all Risk Management Committee meetings (Rec 7.2). The Risk Management Committee is responsible for identification of areas of risk, prioritisation of these risks and adoption of cost effective strategies, where appropriate, to manage Cochlear's exposure. Senior executives charged with the responsibility for identifying and managing these risks are required to sign off on them on a quarterly basis. The Risk Management Committee has reported to the Board on the effectiveness of the Company's management of business risks (Rec 7.2).

The Audit Committee advises the Board on risk management and is responsible for reviewing the effectiveness of Cochlear's approach to risk management and the establishment and maintenance of internal compliance and control systems within the risk management framework. This includes the scope of the internal audit function. The Audit Committee is responsible for the appointment and removal of the internal auditor and for ensuring that the internal auditor is independent from the external auditor.

Whilst particular internal audit programs may be outsourced, the internal and external audit functions are separate and independent of each other. The Audit Committee approves the internal audit program for each year and the effectiveness of the function is kept under review. All reports issued by the internal auditor are tabled at Audit Committee meetings.

The Board has received assurance from the CEO/President and the CFO that the declarations provided by each of the CEO/President and CFO in accordance with section 295A of the Corporations Act 2001, regarding the integrity of the financial statements, are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks (Rec 7.3). The Risk Management Policy can be viewed at the Corporate Governance section of the Company website (Rec 7.4).

Principle 8: Remunerate fairly and responsibly

The Board has established a Remuneration Committee to focus on appropriate remuneration policies which are designed to enhance corporate and individual performance (Rec 8.1). The Remuneration Committee Terms of Reference are published in the Corporate Governance section of the Cochlear website. These Terms of Reference set out the Remuneration Committee's role and responsibilities, composition, structure and membership requirements (Rec 8.3). Further detail relating to the Remuneration Committee, including a record of attendance at its meetings, can be found above at Principle 2: Structure the board to add value (Rec 8.3).

Cochlear's Remuneration Policy and practices are designed to attract, motivate and retain high quality people.

The Remuneration Policy is built around principles that:

- remuneration be linked to Cochlear's performance and the creation of shareholder value;
- directors' remuneration be competitive and reflect good corporate governance;
- executive and employee rewards be competitive in the markets in which Cochlear operates;
- executive and relevant employee remuneration be an appropriate balance of fixed and variable reward;
- variable remuneration for senior management be comprised of short and long-term components; and
- a significant proportion of executive and employee reward be dependent upon performance assessed against key business measures, both financial and non-financial.

Details of the 2008 financial year remuneration of the directors (including retirement benefits), the five highest paid executive officers of the Consolidated Entity and Company and specified executives are included in the Remuneration Report on pages 37 to 45. Further disclosure in relation to the remuneration philosophy is included in the Remuneration Report.

Non-executive directors' remuneration policy (Recs 8.2 and 8.3)

Fees for non-executive directors are based on the nature of their work and their responsibilities. In determining levels of fees, survey data on comparable companies is considered. Non-executive directors' fees are recommended by the Remuneration Committee and determined by the Board within the aggregate amount approved by shareholders at the 2007 AGM of $1,500,000 a year.

The structure of non-executive directors' remuneration is clearly distinguished from that of executive directors and senior executives (Rec 8.2). Non-executive directors do not receive any options, performance shares or other performance related remuneration. All non-executive directors receive the statutory superannuation awards only. Any amounts due under the closed directors' retirement scheme have been frozen and are indexed by reference to the bank bill rate (Rec 8.3).

Senior executives' remuneration policy (Recs 8.2 and 8.3)

Remuneration for Cochlear executives includes both fixed and variable incentive components. Equity based executive remuneration is made in accordance with the thresholds set out in the CELTIP. The CELTIP was approved by shareholders at the 2003 AGM. The exercise periods for the CELTIP are timed to coincide with the guidance on trading windows set out in the Company's Dealing in Securities Policy.

ASX Corporate Governance Council's Corporate Governance Principles and Recommendations checklist

Number	Requirement	Compliant
Pr 1	**Lay solid foundations for management and oversight**	
Rec 1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	✓
Rec 1.2	Companies should disclose the process for evaluating the performance of senior executives.	✓
Rec 1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	✓
Pr 2	**Structure the board to add value**	
Rec 2.1	A majority of the board should be independent directors.	✓
Rec 2.2	The chairman should be an independent director.	✓
Rec 2.3	The roles of chairman and chief executive officer should not be exercised by the same individual.	✓
Rec 2.4	The board should establish a nomination committee.	✓
Rec 2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	✓
Rec 2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	✓
Pr 3	**Promote ethical and responsible decision making**	
Rec 3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the company's integrity; • the practices necessary to take account of their legal obligations and the reasonable expectations of their stakeholders; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	✓
Rec 3.2	Companies should establish a policy concerning trading in company securities by directors, officers and employees and disclose the policy or a summary of that policy.	✓
Rec 3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3.	✓
Pr 4	**Safeguard integrity in financial reporting**	
Rec 4.1	The board should establish an audit committee.	✓
Rec 4.2	The audit committee should be structured so that it: • consists only of non-executive directors; • consists of a majority of independent directors; • is chaired by an independent chair, who is not chair of the board; and • has at least three members.	✓
Rec 4.3	The audit committee should have a formal charter.	✓
Rec 4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	✓
Pr 5	**Make timely and balanced disclosure**	
Rec 5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	✓
Rec 5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	✓
Pr 6	**Respect the rights of shareholders**	
Rec 6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	✓
Rec 6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	✓
Pr 7	**Recognise and manage risk**	
Rec 7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	✓
Rec 7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	✓
Rec 7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	✓
Rec 7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	✓
Pr 8	**Remunerate fairly and responsibly**	
Rec 8.1	The board should establish a remuneration committee.	✓
Rec 8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	✓
Rec 8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	✓

Annual Report 2008

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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 (Cochlear), being the Company and its controlled entities, for the year ended 30 June 2008, and the Auditors' Report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year were Mr PR Bell, Mr TCE Bergman, Prof E Byrne, AO, Mr A Denver, Mr R Holliday-Smith, Mr DP O'Dwyer and Dr CG Roberts.

Information on the directors is presented in the Annual Report.

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		Audit Committee		Medical Science Committee		Nominations Committee		Remuneration Committee		Technology and Innovation Committee	
	Held(i)	Attended(ii)	Held(i)	Attended(ii)	Held(i)	Attended(ii)	Held(i)	Attended(ii)	Held(i)	Attended(ii)	Held(i)	Attended(ii)
Mr TCE Bergman	9	9	5	5	-	-	2	2	3	3	2	2
Mr PR Bell	9	9	-	-	-	-	2	2	3	3	2	2
Prof E Byrne, AO	9	9	-	-	2	2	2	2	-	-	2	2
Mr A Denver	9	9	5	5	-	-	2	2	-	-	2	2
Mr R Holliday-Smith	9	9	5	5	-	-	2	2	3	3	-	-
Mr DP O'Dwyer	9	9	5	5	2	2	2	2	-	-	2	2
Dr CG Roberts	9	9	-	-	2	2	-	-	-	-	2	2

(i) Number of meetings during the time the director held office during the financial year.
(ii) Number of meetings attended.

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 2008, and the results of these operations are set out in the CEO/President's Report and the Financial discussion and analysis sections of the Annual Report.

Other than as discussed in the CEO/President's Report and the Financial discussion and analysis, there were no significant changes in the nature of those activities during the year ended 30 June 2008.

Consolidated results

The consolidated results for the financial year are:

	2008 $000	2007 $000
Revenue	601,725	559,412
Profit before income tax	156,717	143,481
Net profit attributable to equity holders of the parent	115,234	100,131
Basic earnings per share (cents)	208.1	182.9
Diluted earnings per share (cents)	206.6	180.1

Dividends

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

Type	Cents per share	Total amount $000	Date of payment	Tax rate for franking credit
In respect of the previous financial year:				
Final – ordinary shares	70.0	38,916	27 September 2007	30%
In respect of the current financial year:				
Interim – ordinary shares	70.0	38,936	18 March 2008	30%

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

The final dividend in respect of the current financial year has not been provided for in the Financial Report as it was not declared until after 30 June 2008. Since the end of the financial year, the directors declared a final 80.0 cents per share dividend, 100% franked at the tax rate of 30%, amounting to a total of $44,498,280.

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.

Non-audit services

During the year, KPMG, the Company's auditor, has performed certain other services in addition to its statutory duties. The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure that they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Accounting Professional and Ethical Standards Board Statement (APES)110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services during the year are set out below:

	Consolidated	
	2008 $	2007 $
Audit services		
Auditors of the Company:		
KPMG Australia:		
- audit and review of financial reports	499,000	428,000
- other regulatory audit services	10,700	21,500
Overseas KPMG firms:		
- audit and review of financial reports	529,130	591,762
- other regulatory audit services	25,176	51,855
Total audit services	**1,064,006**	**1,093,117**
Non-audit services		
Auditors of the Company:		
KPMG Australia:		
- taxation services	469,410	355,760
- international taxation services	732,210	783,394
- other assurance services	40,485	19,500
Overseas KPMG firms:		
- taxation services	399,551	334,027
- international taxation services	112,479	108,467
- other assurance services	-	52,827
Total non-audit services	**1,754,135**	**1,653,975**

State of affairs

There were no significant changes to the state of affairs of the Consolidated Entity during the financial year.

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 Directors' 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.

Remuneration Report - audited

Remuneration Committee

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

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

Remuneration policies

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

- a competitive Total Remuneration Strategy provided to attract, motivate and retain senior executive talent;
- a significant proportion (up to 50% of total fixed remuneration) of total senior executive remuneration linked to financial performance and business objectives, under the Cochlear Management Short Term Incentive Plan (CMSTIP);
- a significant proportion (up to 50% of total fixed remuneration) of total senior executive remuneration linked to the creation of long-term value for shareholders under the Cochlear Executive Long Term Incentive Plan (CELTIP); and
- a requirement that all directors and members of the Senior Executive Team achieve and then maintain a holding of shares or vested options equivalent to or greater than one year's fixed remuneration through direct acquisition of shares or by acquiring and retaining rights to vested options and performances shares.

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

Remuneration structure

Senior executives

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

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

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

Service contracts

Cochlear does not enter into service contracts for senior executives, other than the CEO/President. Senior executives operate under standard termination and redundancy conditions with the following exceptions:

- the President, Asia Pacific Region has a notice period of three months and the President, European Region has a notice period of six months; and
- the President, European Region will receive a maximum of Swiss francs (CHF) 30,000 for repatriation costs in the case of termination or resignation.

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

Base salary and benefits

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

In addition to base salary, selected overseas based executives receive additional benefits including health insurance, a car allowance and a relocation allowance. In Australia, retirement benefits are paid in line with the statutory Superannuation Guarantee legislation levels. In July 2005, members of the legacy defined benefit plan (Plan) were given the opportunity to transfer to the accumulation fund. Ongoing contributions are based on the estimated required company contributions, using the Plan actuarial assessments to ensure that employees are not adversely prejudiced by the move. The transfer of all members was completed in the first half of the 2006 financial year.

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

Variable remuneration

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

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

Cochlear Management Short Term Incentive Plan

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

The percentage of total remuneration that is allocated to short-term incentives varies according to the senior executive's position and the range is 30% to 50% of total fixed remuneration for achieving all budgeted targets. In years of exceptional performance, the short-term incentives could increase to 100% of total fixed remuneration.

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

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

The Remuneration Committee also evaluates the proposed short-term incentive awards in aggregate and determines their appropriateness having regard to Cochlear's overall financial results. After this assessment, the Remuneration Committee makes its recommendation to the Board for payment. Once approved by the Board, the short-term incentive awards are paid to participants. This occurs on a half and full year basis.

Cochlear Executive Long Term Incentive Plan

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

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

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

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

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

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

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

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

There are no voting or dividend rights attached to options. There are no voting rights attached to the unvested ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised. Performance shares are held in trust for the senior executives.

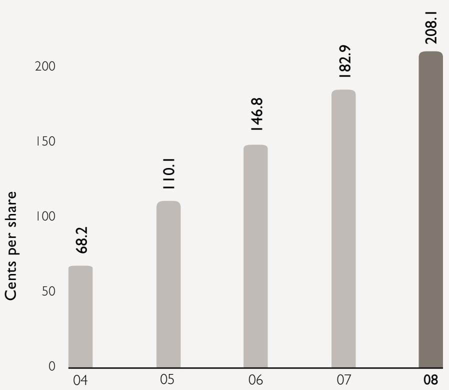
Dividends paid to the trust are subsequently paid to the relevant senior executives upon share issuance. Voting rights are not transferred but are attached to the performance shares once ownership is transferred. Dividends are no longer payable once shares are forfeited.

The following factors and assumptions were used in determining the fair value of options on grant date using the Black-Scholes model:

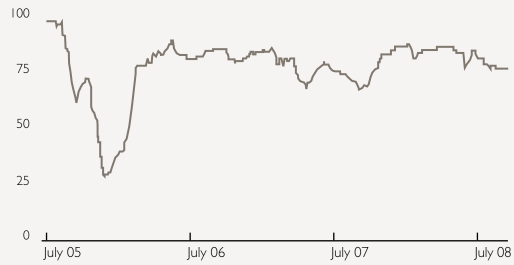
Grant date	Option life	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate per annum	Dividend yield per annum
20 August 2007	3 – 5 years	$8.15	$63.18	$64.50	26.5%	6.135%	1.7%

Performance of Cochlear in current CELTIP cycle

Depicted in the charts below is a comparison of basic EPS for financial years 2004 to 2008 and the TSR performance of Cochlear relative to the S&P/ASX 100 for financial years 2006 to 2008:



Comparison of Cochlear Limited's basic EPS performance



Percentile ranking of Cochlear's TSR performance from 1 July 2005 to 30 June 2008

Financial amounts for 2005 to 2008 are in accordance with IFRS.
Financial amounts for 2004 are in accordance with previous GAAP.

For the year ended 30 June 2008, the growth in basic EPS was 14% and the decline in total return to Cochlear Limited shareholders (as measured from the change in share price plus dividends paid) was 26%.

Consequences of performance on shareholder wealth

In considering Cochlear's performance and benefits for shareholder wealth, the Remuneration Committee has regard to the following indices in respect of the current financial year and the previous four financial years:

Amounts $	2008	2007	2006	2005	2004
Net profit attributable to equity holders of the parent (million)	115.2	100.1	80.0	59.6	36.8
Dividends paid (million)	77.9	60.4	49.1	42.8	42.3
Share price	43.65	61.00	54.63	39.20	22.72

The net profit amount for 2004 was calculated in accordance with previous Australian Generally Accepted Accounting Principles (previous GAAP). Net profit for 2005 to 2008 has been calculated in accordance with International Financial Reporting Standards (IFRS).

Executive director

At the date of this Remuneration Report, there is one executive director in office, Dr CG Roberts.

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

Dr CG Roberts was appointed for a fixed term of three years from the commencement date of 1 February 2004. Effective 1 February 2007, Dr CG Roberts' appointment was continued. In line with best market practice, Dr CG Roberts' appointment was continued with no fixed term and a notice period of six months. If Cochlear terminates Dr CG Roberts' employment without cause, he will be entitled to receive an amount equivalent to 12 months of his total fixed remuneration plus the amount of benefits under the CMSTIP pro-rated to the date of termination.

Dr CG Roberts participates in the CMSTIP at a value equal to 50% of total fixed remuneration.

Dr CG Roberts participates in the CELTIP at a value equal to 50% of total fixed remuneration. The proportion of CELTIP that is provided between options and performance shares is determined by the Board.

Non-executive directors

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

Fees are within the aggregate amount approved by shareholders at the AGM in October 2007 of $1,500,000 a year.

The Chairman of Cochlear is Mr TCE Bergman. His director's fees are set at three times the base fee for non-executive directors. He does not receive any additional fees for serving on committees of the Board.

From 2003, no new non-executive director was entitled to join the Cochlear Limited directors' retirement scheme. Non-executive directors appointed prior to this were members of the scheme, which provided directors with more than five years' service, retirement benefits of up to three times their annual remuneration over the previous three years.

On 23 October 2006, the Board determined that it should implement changes to non-executive director remuneration consistent with developing market practice and guidelines by discontinuing the ongoing accrual of benefits under the existing retirement scheme once the remaining members of the scheme reached their five year service period. The benefits accrued to that date will be indexed by reference to the bank bill rate.

All directors transitioned from the retirement scheme during the year ended 30 June 2007.

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

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

Directors' and senior executives' remuneration details

The following table provides the details of all the directors and the executives of the Company and the Consolidated Entity with the authority and responsibility for planning, directing and controlling the activities of the Company and the Consolidated Entity (key management personnel), including the five most highly remunerated executives of the Company and the Consolidated Entity.

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

	Year	Short-term				Post-employment			Other long-term	Equity compensation(i), (iv)			Total	Performance related remuneration as a proportion of total %	Value of equity compensation as a proportion of remuneration %
Amounts $		Salary and fees	Bonuses(i)	Non-monetary benefits(ii)	Total	Super-annuation benefits	Termination benefits(iii)	Total	Long service leave	Value of options	Value of perform-ance shares	Total			
Directors															
Non-executive															
Mr TCE Bergman Chairman	2008	374,711	-	-	374,711	13,129	55,261	68,390	-	-	-	-	443,101	-	-
	2007	320,423	-	-	320,423	13,205	97,380	110,585	-	-	-	-	431,008	-	-
Mr PR Bell	2008	139,904	-	-	139,904	12,380	-	12,380	-	-	-	-	152,284	-	-
	2007	134,865	-	-	134,865	12,050	-	12,050	-	-	-	-	146,915	-	-
Prof E Byrne, AO	2008	144,423	-	-	144,423	12,588	22,629	35,217	-	-	-	-	179,640	-	-
	2007	114,711	-	-	114,711	10,324	83,541	93,865	-	-	-	-	208,576	-	-
Mr A Denver (appointed 1 February 2007)	2008	136,904	-	-	136,904	12,145	-	12,145	-	-	-	-	149,049	-	-
	2007	50,769	-	-	50,769	4,569	-	4,569	-	-	-	-	55,338	-	-
Mr R Holliday-Smith	2008	154,904	-	-	154,904	13,003	-	13,003	-	-	-	-	167,907	-	-
	2007	149,577	-	-	149,577	13,037	-	13,037	-	-	-	-	162,614	-	-
Mr DP O'Dwyer	2008	144,904	-	-	144,904	12,588	-	12,588	-	-	-	-	157,492	-	-
	2007	139,634	-	-	139,634	12,379	-	12,379	-	-	-	-	152,013	-	-
Executive															
Dr CG Roberts CEO/President	2008	950,000	397,091	-	1,347,091	13,129	-	13,129	18,634	393,938	45,660	439,598	1,818,452	46.0%	24.2%
	2007	863,363	475,816	-	1,339,179	12,636	-	12,636	13,208	323,425	71,925	395,350	1,760,373	49.5%	22.5%

	Year	Short-term				Post-employment			Other long-term	Equity compensation(i), (iv)			Total	Performance related remuneration as a proportion of total %	Value of equity compensation as a proportion of remuneration %
Amounts $		Salary and fees	Bonuses(i)	Non-monetary benefits(ii)	Total	Superannuation benefits	Termination benefits(iii)	Total	Long service leave	Value of options	Value of performance shares	Total			
Executives															
Consolidated Entity															
Mr R Brook(v), (vi) President, European Region	2008	372,585	147,249	122,180	642,014	26,153	-	26,153	-	139,479	19,702	159,181	827,348	37.0%	19.2%
	2007	355,517	147,148	67,516	570,181	22,291	-	22,291	-	120,458	28,450	148,908	741,380	39.9%	20.1%
Mr NJ Mitchell(v), (vi), (vii) Chief Financial Officer and Company Secretary	2008	356,127	105,391	-	461,518	93,315	-	93,315	13,358	113,584	15,050	128,634	696,825	33.6%	18.5%
	2007	326,832	127,062	-	453,894	87,088	-	87,088	13,371	92,497	21,265	113,762	668,115	36.0%	17.0%
Mr DN Morris(v), (vii) President, Bone Anchored Solutions	2008	346,269	90,436	-	436,705	13,129	-	13,129	8,302	96,303	12,683	108,986	567,122	35.2%	19.2%
	2007	319,118	109,164	-	428,282	13,662	-	13,662	6,768	81,203	18,897	100,100	548,812	38.1%	18.2%
Mr MD Salmon(v), (vi), (vii) President, Asia Pacific Region	2008	390,991	112,887	-	503,878	13,129	-	13,129	5,687	109,931	14,690	124,621	647,315	36.7%	19.3%
	2007	367,576	110,679	-	478,255	13,662	-	13,662	3,882	90,593	20,907	111,500	607,299	36.6%	18.4%
Mr CM Smith(v), (vi) President, Americas Region	2008	437,253	114,323	20,606	572,182	12,922	-	12,922	-	149,651	32,294	181,945	767,049	38.6%	23.7%
	2007	460,251	197,783	19,673	677,707	13,692	-	13,692	-	191,023	13,303	204,326	895,725	44.9%	22.8%
Company															
Mr J Janssen(v), (vi) Senior Vice President, Design and Development	2008	349,761	90,024	-	439,785	13,129	-	13,129	6,862	92,548	8,633	101,181	560,957	34.1%	18.0%
	2007	310,876	108,448	-	419,324	13,662	-	13,662	-	55,741	11,112	66,853	499,839	35.1%	13.4%
Mr MC Kavanagh(v) Senior Vice President, Global Marketing	2008	315,190	81,101	-	396,291	13,129	-	13,129	6,947	90,686	12,355	103,041	519,408	35.5%	19.8%
	2007	295,699	100,635	-	396,334	13,662	-	13,662	5,321	76,356	17,885	94,241	509,558	38.2%	18.5%

(i) Short-term and long-term incentive bonuses are granted annually. The grant date is tied to the performance appraisal, which, for the current year was completed by 30 June 2008. The service and performance criteria are set out in this report.

(ii) Benefits include the provision of car allowances, health insurance and relocation costs.

(iii) Amounts accrued during the financial year to the directors' retirement scheme.

(iv) The value disclosed above is the proportion of the fair value of the options and performance shares allocated to the reporting period. The ability to exercise the options and performance shares is conditional on Cochlear achieving certain performance hurdles. The estimated value of options for the current financial year is calculated at the date of grant using the Black-Scholes model. Further details of options granted during the financial year are set out below. The value of performance shares for the current financial year is calculated as the share price at the date of issue discounted for vesting probabilities.

(v) Executive is included as one of the five named Company executives or Consolidated Entity executives who received the highest remuneration in the current financial year in accordance with section 300A of the Corporations Act 2001.

(vi) Executive is included as a key management person in accordance with AASB 124 Related Party Disclosures.

(vii) Denotes Consolidated Entity and Company executives.

Exercise of options granted as remuneration

During the reporting period, the following shares were issued on the exercise of options previously granted as compensation:

	Number of shares	Amount paid $/share
Executive director		
Dr CG Roberts	164,321	18.97
Executives		
Mr R Brook	5,736	18.97
Mr MC Kavanagh	34,605	18.97
Mr NJ Mitchell	38,886	18.97
Mr DN Morris	30,269	18.97
Mr MD Salmon	38,904	18.97
Mr CM Smith	165,830	18.97

During the previous financial year, 55,060 options were exercised. There are no amounts unpaid on the shares issued as a result of the exercise of the options in prior years.

Analysis of bonuses included in remuneration

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

	Short-term incentive bonus		
Amounts $	Included in remuneration	% vested in the financial year(i)	% forfeited during the financial year(ii)
Executive director			
Dr CG Roberts	397,091	82.5%	17.5%
Executives			
Consolidated Entity			
Mr R Brook	147,249	98.8%	1.2%
Mr NJ Mitchell	105,391	82.7%	17.3%
Mr DN Morris	90,436	83.5%	16.5%
Mr MD Salmon	112,887	69.8%	30.2%
Mr CM Smith	114,323	65.4%	34.6%
Company			
Mr J Janssen	90,024	82.5%	17.5%
Mr MC Kavanagh	81,101	82.1%	17.9%

(i) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance goals. No amounts vest in future financial years in respect of the CMSTIP for the 2008 financial year.

(ii) The amounts forfeited in short-term incentive bonuses are due to the personal and specified performance service goals not being met in the current financial year.

Analysis of share based payments granted as remuneration

Details of the vesting profile of the options and performance shares granted as remuneration to each director of the Company and each of the five named Company executives and relevant Consolidated Entity executives are set out below:

			Options					Performance shares				
	Date of grant	Financial years in which grant vests	Number granted	% vested in financial year	% forfeited in financial year(i)	Value yet to vest Min(ii) $	Value yet to vest Max(iii) $	Number granted	% vested in financial year	% forfeited in financial year(i)	Value yet to vest Min(ii) $	Value yet to vest Max(iii) $
Executive director												
Dr CG Roberts	23 August 2004	30 June 2008	164,321	100%	-	-	-	10,595	100%	-	-	-
	22 August 2005	30 June 2009	79,468	-	-	-	374,238	5,923	-	-	-	128,722
	21 August 2006	30 June 2010	70,422	-	-	-	438,025	-	-	-	-	-
	20 August 2007	30 June 2011	59,088	-	-	-	481,565	-	-	-	-	-
Executives												
Consolidated Entity												
Mr R Brook	23 August 2004	30 June 2008	54,736	100%	-	-	-	3,529	100%	-	-	-
	22 August 2005	30 June 2009	36,138	-	-	-	170,210	2,694	-	-	-	58,541
	21 August 2006	30 June 2010	23,239	-	-	-	144,547	-	-	-	-	-
	20 August 2007	30 June 2011	17,422	-	-	-	141,987	-	-	-	-	-
Mr NJ Mitchell	23 August 2004	30 June 2008	38,886	100%	-	-	-	2,507	100%	-	-	-
	22 August 2005	30 June 2009	27,949	-	-	-	131,620	2,083	-	-	-	45,269
	21 August 2006	30 June 2010	18,980	-	-	-	118,057	-	-	-	-	-
	20 August 2007	30 June 2011	15,644	-	-	-	127,501	-	-	-	-	-
Mr DN Morris	23 August 2004	30 June 2008	30,269	100%	-	-	-	2,507	100%	-	-	-
	22 August 2005	30 June 2009	22,843	-	-	-	107,591	1,703	-	-	-	37,006
	21 August 2006	30 June 2010	16,157	-	-	-	100,497	-	-	-	-	-
	20 August 2007	30 June 2011	13,296	-	-	-	108,361	-	-	-	-	-
Mr MD Salmon	23 August 2004	30 June 2008	38,904	100%	-	-	-	2,508	100%	-	-	-
	22 August 2005	30 June 2009	27,174	-	-	-	127,990	2,025	-	-	-	44,003
	21 August 2006	30 June 2010	18,422	-	-	-	114,585	-	-	-	-	-
	20 August 2007	30 June 2011	14,891	-	-	-	121,362	-	-	-	-	-
Mr CM Smith	23 August 2004	30 June 2008	165,830	100%	-	-	-	-	-	-	-	-
	22 August 2005	30 June 2009	28,646	-	-	-	134,923	2,135	-	-	-	46,394
	21 August 2006	30 June 2010	28,849	-	-	-	179,441	-	-	-	-	-
	20 August 2007	30 June 2011	12,577	-	-	-	102,500	2,377	-	-	-	68,333
Company												
Mr J Janssen	23 August 2004	30 June 2008	-	-	-	-	-	1,000	100%	-	-	-
	22 August 2005	30 June 2009	16,814	-	-	-	79,193	1,253	-	-	-	27,228
	21 August 2006	30 June 2010	21,217	-	-	-	131,969	-	-	-	-	-
	20 August 2007	30 June 2011	13,396	-	-	-	109,174	-	-	-	-	-
Mr MC Kavanagh	23 August 2004	30 June 2008	34,605	100%	-	-	-	2,231	100%	-	-	-
	22 August 2005	30 June 2009	22,635	-	-	-	106,595	1,687	-	-	-	36,663
	21 August 2006	30 June 2010	15,005	-	-	-	93,331	-	-	-	-	-
	20 August 2007	30 June 2011	12,127	-	-	-	98,833	-	-	-	-	-

(i) The percentage forfeited in the financial year represents the reduction from the maximum number of options and performance shares available to vest due to EPS, TSR or employee service periods not being met.
(ii) The minimum value of options and performance shares yet to vest is nil as the performance criteria may not be met and consequently, the options and performance shares may not vest.
(iii) The maximum value of options and performance shares yet to vest is not determinable as it depends on the market price of shares of the Company on the ASX at the date the option and performance shares vest. The maximum values disclosed above are based on the valuations as per this report.

Analysis of movements in options

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

	Value of options			
Amounts $	Granted in year(i)	Exercised in year(ii)	Forfeited in year(ii)	Total option value in year
Executive director				
Dr CG Roberts	481,565	7,892,338	-	8,373,903
Executives				
Consolidated Entity				
Mr R Brook	141,987	294,429	-	436,416
Mr NJ Mitchell	127,501	1,743,259	-	1,870,760
Mr DN Morris	108,361	1,356,959	-	1,465,320
Mr MD Salmon	121,362	1,744,066	-	1,865,428
Mr CM Smith	102,500	7,434,159	-	7,536,659
Company				
Mr J Janssen	109,174	-	-	109,174
Mr MC Kavanagh	98,833	1,551,342	-	1,650,175

(i) The value of options granted in the year is the fair value of the options calculated at grant date using a Black-Scholes model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years 30 June 2008 to 30 June 2011).

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

Other items - unaudited

Unissued shares under option

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

Number of options	Plan	Exercise price per share	Exercise period
49,000	CELTIP	$18.97	August 2007 – September 2009
677,855	CELTIP	$39.93	August 2008 – September 2010
483,172	CELTIP	$49.43	August 2009 – September 2011
390,917	CELTIP	$63.18	August 2010 – September 2012

The closing share price at 30 June 2008 was $43.65.

During the financial year, the Company granted 411,089 options over ordinary shares to employees under the CELTIP. The options are exercisable in the two years following lodgement with the ASX of the Company's preliminary financial report for the year ending 30 June 2010. The number of options which will be exercisable is dependent on the performance measures and retention requirements set out in this Remuneration Report.

During the year, 82,047 options granted by the Company were forfeited.

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Directors' interests

The relevant interest of each director in the share capital of the Company, as notified by the directors to the ASX in accordance with section 205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Cochlear Limited ordinary shares	Options over ordinary shares
Mr TCE Bergman	12,000	-
Mr PR Bell	2,500	-
Prof E Byrne, AO	2,000	-
Mr A Denver	1,500	-
Mr R Holliday-Smith	2,500	-
Mr DP O'Dwyer	3,350	-
Dr CG Roberts	596,934	208,978

Indemnification and insurance of officers

Indemnification

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 Directors' 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
- cost and expenses of successfully defending legal proceedings in which relief under the Corporations Act 2001 is granted to the relevant officer.

Insurance premiums

During the financial year, the Company paid a premium for Directors' and Officers' Liability Insurance policy and a Supplementary Legal Expenses Insurance policy. The insurance provides cover for the directors named in this Directors' Report, the Company Secretary, and officers and former directors and officers of the Company. The insurance also provides cover for present and former directors and officers of other companies in 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.

Events subsequent to reporting date

Other than the matter noted below, there has not arisen in the interval between the end of the financial year and the date of this Directors' 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.

Dividends

For dividends declared after 30 June 2008, see Note 9 to the financial statements.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 47 and forms part of the Directors' Report for the financial year ended 30 June 2008.

Rounding off

The Company is of a kind referred to in Australian Securities and Investments Commission (ASIC) 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 12th day of August 2008.

Signed in accordance with a resolution of the directors:

Director

Director

AUDITOR'S INDEPENDENCE DECLARATION

Lead auditor's independence declaration under section 307C of the Corporations Act 2001

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2008 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Sydney, 12 August 2008

Kevin Leighton, Partner

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$000	$000	$000	$000
Revenue	5(a)	601,725	559,412	441,648	403,182
Cost of sales	5(b)	(169,013)	(161,334)	(205,699)	(183,561)
Gross profit		**432,712**	**398,078**	**235,949**	**219,621**
Other income	5(c)	2,510	1,133	2,259	1,980
Selling and general expenses		(156,487)	(141,046)	(26,072)	(21,993)
Administration expenses		(36,092)	(38,635)	(30,679)	(30,664)
Research and development expenses	5(b)	(80,017)	(65,949)	(67,232)	(53,138)
Results from operating activities		**162,626**	**153,581**	**114,225**	**115,806**
Finance income	6	6,113	2,199	2,815	3,181
Finance expense	6	(12,022)	(12,299)	(7,063)	(4,937)
Net finance expense		**(5,909)**	**(10,100)**	**(4,248)**	**(1,756)**
Profit before income tax		**156,717**	**143,481**	**109,977**	**114,050**
Income tax expense	8	(41,483)	(45,805)	(29,585)	(29,363)
Net profit (including minority interest)		**115,234**	**97,676**	**80,392**	**84,687**
Attributable to:					
Equity holders of the parent		**115,234**	**100,131**	**80,392**	**84,687**
Minority interest		-	(2,455)	-	-
Net profit (including minority interest)		115,234	97,676	80,392	84,687
Basic earnings per share (cents)	11	208.1	182.9		
Diluted earnings per share (cents)	11	206.6	180.1		

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 52 to 101.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE Cochlear Limited and its controlled entities for the year ended 30 June 2008

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$000	$000	$000	$000
Foreign exchange translation differences for foreign operations	23	(4,258)	(5,072)	(4)	420
Effective portion of changes in fair value of cash flow hedges	23	22,607	23,428	22,607	23,428
Net change in fair value of cash flow hedges transferred to the income statement	23	(14,898)	(11,568)	(14,898)	(11,568)
Net income recognised directly in equity		**3,451**	**6,788**	**7,705**	**12,280**
Net profit (including minority interest)		115,234	97,676	80,392	84,687
Total recognised income and expense		**118,685**	**104,464**	**88,097**	**96,967**
Attributable to:					
Equity holders of the parent		118,685	106,705	88,097	96,967
Minority interest		-	(2,241)	-	-
Total recognised income and expense		**118,685**	**104,464**	**88,097**	**96,967**

Other movements in equity arising from transactions with equity participants as equity participants are set out in Note 23. The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 52 to 101.

BALANCE SHEETS Cochlear Limited and its controlled entities as at 30 June 2008

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$000	$000	$000	$000
Assets					
Cash and cash equivalents	24(a)	36,687	83,382	14,804	43,917
Trade and other receivables	12	173,266	143,076	119,941	99,275
Inventories	13	99,169	91,890	60,368	58,425
Current tax assets		4,157	299	781	-
Prepayments		8,817	5,390	4,769	2,787
Total current assets		**322,096**	**324,037**	**200,663**	**204,404**
Trade and other receivables	12	15,963	6,655	11,574	6,305
Other financial assets	14	-	-	65,656	63,989
Property, plant and equipment	15	43,219	40,565	31,423	31,879
Intangible assets	16	208,959	196,268	23,272	13,533
Deferred tax assets	17	17,679	18,769	-	770
Total non-current assets		**285,820**	**262,257**	**131,925**	**116,476**
Total assets		**607,916**	**586,294**	**332,588**	**320,880**
Liabilities					
Trade and other payables		60,830	61,923	27,058	33,381
Loans and borrowings	18	15,438	161,337	-	30,223
Current tax liabilities		2,803	8,296	-	1,165
Provisions	21	31,516	30,953	22,114	20,872
Other	19	14,358	17,338	263	848
Total current liabilities		**124,945**	**279,847**	**49,435**	**86,489**
Loans and borrowings	18	154,545	37,552	20,000	-
Provisions	21	8,633	7,828	6,901	6,399
Deferred tax liabilities	17	452	258	316	-
Total non-current liabilities		**163,630**	**45,638**	**27,217**	**6,399**
Total liabilities		**288,575**	**325,485**	**76,652**	**92,888**
Net assets		**319,341**	**260,809**	**255,936**	**227,992**
Equity					
Share capital	23	82,972	69,998	82,972	69,998
Reserves	23	13,035	9,584	23,062	15,357
Retained earnings	23	223,334	181,227	149,902	142,637
Total equity	23	**319,341**	**260,809**	**255,936**	**227,992**

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 52 to 101.

STATEMENTS OF CASH FLOWS Cochlear Limited and its controlled entities for the year ended 30 June 2008

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$000	$000	$000	$000
Cash flows from operating activities					
Cash receipts from customers		543,493	506,589	427,996	407,018
Cash payments to suppliers and employees		(397,215)	(367,238)	(317,507)	(263,108)
Dividends received		-	-	-	1,608
Grant and other income received		1,871	151	1,871	151
Interest received		1,576	2,353	944	3,204
Interest paid		(11,810)	(8,892)	(3,029)	(802)
Income taxes paid		(53,367)	(56,127)	(33,749)	(43,397)
Net cash provided by operating activities	24(b)	**84,548**	**76,836**	**76,526**	**104,674**
Cash flows from investing activities					
Acquisition of property, plant and equipment		(17,831)	(18,596)	(10,706)	(13,506)
Acquisition of enterprise resource planning system		(9,819)	(7,805)	(9,052)	(7,805)
Proceeds from sale of non-current assets		4	7,574	1	292
Investment in controlled entities		-	(7,953)	(26)	(30,000)
Acquisition of intangible asset		(1,500)	-	(1,500)	-
Acquisition of distributor businesses		(1,011)	-	-	-
Acquisition of manufacturing business		(9,286)	(9,972)	(9,286)	(9,972)
Development expenditure		-	(375)	-	(375)
Net cash used in investing activities		**(39,443)**	**(37,127)**	**(30,569)**	**(61,366)**
Cash flows from financing activities					
Repayment of borrowings		(90,623)	(38,487)	(72,000)	(5,000)
Proceeds from borrowings		64,938	57,822	62,000	35,000
Proceeds from issue of share capital		12,974	3,335	12,974	3,335
Dividends paid by the parent		(77,852)	(60,383)	(77,852)	(60,383)
Net cash used in financing activities		**(90,563)**	**(37,713)**	**(74,878)**	**(27,048)**
Net (decrease)/increase in cash and cash equivalents		**(45,458)**	**1,996**	**(28,921)**	**16,260**
Cash and cash equivalents, net of overdrafts at 1 July		81,737	85,326	43,694	27,458
Effects of exchange fluctuation on cash held		408	(5,585)	31	(24)
Cash and cash equivalents, net of overdrafts at 30 June	24(a)	**36,687**	**81,737**	**14,804**	**43,694**

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 52 to 101.

1. Reporting entity

Cochlear Limited is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2008 comprise the Company and its subsidiaries (together referred to as the Consolidated Entity). The Consolidated Entity operates in the implantable hearing device industry.

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The financial report of the Consolidated Entity and the financial report of the Company comply with International Financial Reporting Standards and Interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of directors on 12 August 2008.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value. The method used to measure the fair value of derivative instruments is discussed further in Note 3.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

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, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(d) Use of judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is described in Note 3.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all entities in the Consolidated Entity.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Basis of consolidation

Controlled entities

Controlled entities are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of controlled entities have been changed when necessary to align them with the policies adopted by the Consolidated Entity.

Acquisitions of a minority interest in a controlled entity are treated as a transaction with owners. Consequently, the difference between the purchase consideration and the carrying amount of the Consolidated Entity's interest in the net assets of the subsidiary is treated as goodwill.

Investments in controlled entities are carried at their cost of acquisition in the Company's financial statements.

Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Special purpose entities

The Consolidated Entity has established five special purpose entities (SPEs) for trading and investment purposes. An SPE is consolidated if, based upon an evaluation of the substance of its relationship with the Consolidated Entity and the SPE's risks and rewards, the Consolidated Entity concludes that it controls the SPE.

(b) Income 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. Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or if there is a risk of return of goods or there is continuing management involvement with the goods. Revenue from the sale of services is recognised when the service has been provided to the customer and where there are no continuing unfulfilled service obligations.

The accounting policy for foreign exchange gains/losses arising from hedges of forecast sales transactions is set out in accounting policy (f).

Other income

Other income, including government grants, is recognised on a systematic basis over the periods necessary to match it with the related costs for which it is intended to compensate or, if the costs have already been incurred, in the period in which it becomes receivable. The income is deemed to be receivable when the entitlement is confirmed. Dividend income from subsidiaries is recognised by the parent when the dividends are declared by the subsidiary.

(c) 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 taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part 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 relevant taxation authority is included as a current asset or liability in the balance sheet.

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 relevant taxation authority are classified as operating cash flows.

(d) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of controlled entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rates ruling at the date the fair value was determined.

Foreign exchange differences arising on translation are recognised in the income statement.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, generally are translated to the functional currency at foreign exchange rates ruling at the reporting date.

The revenues and expenses of foreign operations are translated to the functional currency at rates approximating the foreign exchange rates ruling at the dates of transactions.

Foreign currency differences arising from translation of controlled entities with a different functional currency to that of the Consolidated Entity are recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount of its FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

(e) Derivative financial instruments

The Consolidated Entity holds derivative financial instruments to hedge its exposure to foreign exchange risk arising from operating, investing and financing activities. In accordance with its treasury policy, the Consolidated Entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy (f)).

(f) Hedges

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

For cash flow hedges, other than those covered by the preceding statement, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects the income statement and on the same line item as that hedged forecast transaction. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the Company revokes designation of the hedge relationship but the hedged forecast transaction still is expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

Hedges of monetary assets and liabilities

When a derivative financial instrument is used to hedge the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss on the hedging instrument is recognised in the income statement.

Hedges of net investment in foreign operations

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in the income statement. When the hedged net investment is disposed of, the cumulative amount in equity is transferred to the income statement.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Consolidated Entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(h) Provisions

A provision is recognised in the balance sheet when the Consolidated Entity has a present legal or constructive obligation as a result of a past event that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Warranties

Provisions for warranty claims are made for claims in relation to sales made prior to the reporting date, based on historical claim rates and respective product populations. The provision is determined on a discounted cash flow basis. Warranty periods on hardware products extend for three to 10 years. The Consolidated Entity is expected to incur the majority of the liability over the next 10 years.

Restructuring, employee termination benefits and surplus lease space

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

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

Self-insurance

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

Make good lease costs

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

A provision for make good lease costs is recognised at the time it is determined that it is probable that such costs will be incurred in a future period, measured at the expected cost of returning the asset to the lessor in its original condition. An offsetting asset of the same value is also recognised and is classified in property, plant and equipment. This asset is amortised to the income statement over the life of the lease.

(i) Intangible assets

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment (see accounting policy (j)). Negative goodwill arising on an acquisition is recognised directly in the income statement.

Enterprise resource planning system

The expenditure incurred on hardware and software and the costs necessary for the implementation of the system are recognised as an intangible asset, to the extent that the Consolidated Entity controls future economic benefits as a result of the costs incurred, and are stated at cost less accumulated amortisation. Costs include expenditure that is directly attributable to the development and implementation of the system and includes direct labour.

Research and development expenditure

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Consolidated Entity has sufficient resources to complete development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (j)).

Other intangible assets

Other intangible assets, comprising technology acquired, customer and technology relationships and intellectual property, are acquired individually or through business combinations and are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (j)). Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment annually. The estimated useful lives for the current and comparative periods are as follows:

Acquired technology	4 years
Enterprise resource planning system	2.5 – 5 years
Customer relationships	4 years
Licences	12 years
Capitalised development expenditure	1 – 3 years.

(j) Impairment

The carrying amounts of the Consolidated Entity's assets, other than inventories (see accounting policy (l)), employee benefit assets (see accounting policy (m)), and deferred tax assets (see accounting policy (o)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below).

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit or a group of units and then, to reduce the carrying amount of the other assets in the unit or a group of units on a pro-rata basis.

Calculation of recoverable amount

Receivables

The recoverable amount of the Consolidated Entity's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets).

Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment.

Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The allowance for impairment is calculated with reference to the profile of debtors in the Consolidated Entity's sales and marketing regions.

Other assets

The recoverable amount of other assets is the greater of their fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of the cash flows of other assets or groups of assets (cash generating units). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to the cash generating units that are expected to benefit from the synergies of the combination.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (j)). An asset's cost is determined as the consideration provided plus incidental costs directly attributable to the acquisition.

The cost of self-constructed assets includes the cost of material and direct labour, an appropriate share of fixed and variable overheads, and capitalised interest and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Subsequent costs in relation to replacing a part of property, plant and equipment are recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Consolidated Entity and its cost can be measured reliably. All other costs are recognised in the income statement as incurred.

Leased assets

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. Minimum lease payments include fixed rate increases.

Depreciation

Depreciation is recognised in the income statement on a straight-line basis. Items of property, plant and equipment, including leasehold assets, are depreciated using the straight-line method over their estimated useful lives, taking into account estimated residual values. Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Depreciation rates and methods, useful lives and residual values are reviewed at each balance sheet date. When changes are made, adjustments are reflected prospectively in current and future financial periods only. The estimated useful lives in the current and comparative periods are as follows:

Leasehold improvements	5 – 12 years
Plant and equipment	3 – 8 years.

(l) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and selling, marketing and distribution expenses.

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.

(m) Employee benefits

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

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

When the calculation results in plan assets exceeding liabilities to the Consolidated Entity, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match the estimated future cash flows.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

The full amount of actuarial gains and losses that arise are recognised directly in equity.

Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

Wages, salaries and annual leave

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

Long service leave

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

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

Share based payments

The Company has granted options and performance shares to certain employees under the Cochlear Executive Long Term Incentive Plan (CELTIP).

The fair value of options and shares granted is recognised as an employee benefits expense with a corresponding increase in equity. The fair value is measured at the date the options or shares are granted taking into account market based criteria and expensed over the vesting period after which the employees become unconditionally entitled to the options and shares. The fair value of the options granted is measured using the Black-Scholes method, taking into account the terms and conditions attached to the options.

The fair value of the performance shares granted is measured using the weighted average share price of ordinary shares in the Company, taking into account the terms and conditions attached to the shares.

The amount recognised as an expense is adjusted to reflect the actual number of options and shares that vest except where forfeiture is due to market related conditions.

When the Company grants options over its shares to employees of controlled entities, the fair value at grant date is recognised as an increase in the investment in subsidiaries, with a corresponding increase in equity over the vesting period of the grant.

Treasury shares

The Company operates the Cochlear Executive Long Term Incentive Plan (Performance Shares) Trust (Trust). The main purpose of the Trust is to hold unvested performance shares as part of the CELTIP. Under IFRS, the Trust qualifies as an equity compensation plan special purpose entity and its results are included in those for the Company and the Consolidated Entity.

Any shares held by the Trust are accounted for as treasury shares and treated as a reduction in the share capital of the Company and the Consolidated Entity.

(n) Receivables

Trade and other receivables are stated at amortised cost less impairment losses (see accounting policy (j)).

(o) Taxation

Income tax expense in the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of goodwill and other assets or liabilities in a transaction that affects neither accounting nor taxable profit, or differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based upon the laws that have been enacted at reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on a different tax entity but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Tax consolidation

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity from that date. The head entity within the tax-consolidated group is Cochlear Limited.

Current tax expenses/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the separate taxpayer within group approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities or assets and deferred tax assets arising from unused tax losses of subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable/receivable to/from other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts. Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the assets can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability are recognised by the head entity only.

(p) Payables

Trade and other payables are stated at amortised cost.

(q) Loans and borrowings

Loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between amortised cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

(r) Finance income and expense

Interest income is recognised as it accrues in the income statement using the effective interest method. Finance expenses include interest and finance charges in respect of financing activities. Debt establishment costs are capitalised and recognised as a reduction in loans and borrowings. They are calculated based on the effective interest rate method and are amortised over the period of the loan. Foreign exchange differences net of the effect of hedges on borrowings are recognised in net finance expense.

(s) Earnings per share

The Consolidated Entity presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the net profit attributable to equity holders of the parent for the financial period, after excluding any costs of servicing equity (other than ordinary shares) by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated using the basic EPS earnings as the numerator. The weighted average number of shares used as the denominator is adjusted by the after-tax effect of financing costs associated with the dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares adjusted for any bonus issue.

(t) Segment reporting

A segment is a distinguishable component of the Consolidated Entity that is engaged either in providing products or services within a particular economic environment (geographical segment), or in providing products or services (business segment), which is subject to risks and rewards that are different from those of other segments.

The Consolidated Entity's primary format for segment reporting is based on geographical segments. The geographical segments are determined on the Consolidated Entity's management and internal reporting structure.

(u) Accounting judgements and estimates

Management discussed with the Audit Committee the development, selection and disclosure of the Consolidated Entity's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in the following notes:

Note 16 – Intangible assets

Note 21 – Provisions

Note 22 – Contingent liabilities

Note 27 – Employee benefits

Note 28 – Financial instruments

(v) Share capital

Ordinary shares

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any income tax benefit.

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity, net of any tax effects. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are subsequently sold or reissued, the amount received is recognised as an increase in equity, and the surplus or deficit on the transaction is transferred to or from retained earnings.

Dividends

A liability for dividends payable is recognised in the financial period in which the dividends are declared.

(w) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report:

• AASB 3 Business Combinations;

• AASB 8 Operating Segments;

• AASB 101 Presentation of Financial Statements;

• AASB 123 Borrowing Costs;

• AASB 127 Consolidated and Separate Financial Statements;

- AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations;
- AI 12 Service Concession Arrangements;
- AI 13 Customer Loyalty Programmes; and
- AI 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The impact of these standards is yet to be determined but they will be applied by the Consolidated Entity on the relevant application date.

4. Financial risk management

Overview

The Company and Consolidated Entity have exposure to the following risks from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk.

This note presents information about the Company's and the Consolidated Entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of directors has overall responsibility for the establishment and oversight of the risk management framework. The fundamentals of risk management are set by the risk policy. Under instruction of the Board, management has established a Risk Committee which is responsible for monitoring operational and financial risk management throughout the Consolidated Entity. Monitoring risk management includes ensuring appropriate policies and procedures are published and adhered to. The Risk Committee reports to the Audit Committee on a regular basis.

A Treasury Committee has been established to administer aspects of risk management involving currency exposure and cash and funding management in accordance with the treasury risk policy. The treasury risk policy aims to manage the impact of short-term fluctuations on the Company's and the Consolidated Entity's earnings. Over the longer term, permanent changes in market rates will have an impact on earnings.

The Company and the Consolidated Entity are exposed to risks from movements in exchange rates and interest rates that affect revenues, expenses, assets, liabilities and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments are used for this purpose.

Exposure to credit, foreign exchange and interest rate risks arises in the normal course of the Company's and the Consolidated Entity's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates.

The Company only hedges the risks that affect the cash flows between the Company and controlled entities. The Consolidated Entity does not enter, hold or issue derivative financial instruments for trading purposes. Hedging transactions are only concluded with leading financial institutions whose credit rating is at least A on the Standard & Poor's rating index.

The Audit Committee oversees how management monitors compliance with the Company's and Consolidated Entity's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and the Consolidated Entity. The Audit Committee is assisted in its oversight by Internal Audit. Internal Audit undertakes regular reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Company or the Consolidated Entity if a customer, controlled entity or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's and the Consolidated Entity's receivables from customers.

Trade and other receivables

The Company's and Consolidated Entity's exposure to credit risk is influenced mainly by the geographical location and characteristics of individual customers. The Consolidated Entity does not have a significant concentration of credit risk with a single customer.

Policies and procedures of credit management and administration of receivables are established and executed at a regional level. Individual regions deliver reports to management and the Board on debtor ageing and collection activities on a monthly basis.

In monitoring customer credit risk, the ageing profile of total receivables balances and individually significant debtors is reported by geographic region to the Board of directors on a monthly basis. Regional management are responsible for identifying high risk customers and placing restrictions on future trading, including suspending future shipments and administering dispatches on a prepayment basis. These actions are also reported to the Board on a monthly basis.

The Company and the Consolidated Entity have established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of assets meeting certain ageing profiles and customer types.

Guarantees

Details of guarantees provided by the Company and the Consolidated Entity are provided in Note 22.

Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

The Consolidated Entity monitors cash flow requirements and produces cash flow projections for the short and long term with a view to optimising return on investments. Typically, the Consolidated Entity ensures that it has sufficient cash on demand to meet expected operational net cash flows for a period of at least 30 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Consolidated Entity maintains lines of credit which are set out in Note 18.

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's and the Consolidated Entity's net profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company and Consolidated Entity buy and sell derivatives in accordance with the treasury risk policy, and also incur financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set out by the treasury risk policy. Generally, the Company and the Consolidated Entity seek to apply hedge accounting in order to manage volatility in earnings.

Currency risk

The Consolidated Entity is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the controlled entities, primarily Australian dollars (AUD), but also United States dollars (USD), Euros (EUR), Sterling (GBP), Swedish kroner (SEK), Swiss francs (CHF) and Japanese yen (JPY). The currencies in which these transactions primarily are denominated are AUD, USD, EUR, GBP, SEK and JPY.

Over 90% of the Consolidated Entity's revenues and over 50% of costs are denominated in currencies other than AUD. Currency risk is hedged in accordance with the treasury risk policy. Risk resulting from the translation of assets and liabilities of foreign operations into the Consolidated Entity's reporting currency is generally not hedged.

Interest rate risk

The Consolidated Entity is exposed to interest rate risks in Australia, Sweden, Europe, the United States, the United Kingdom and Japan. See Note 28 for effective interest rates, repayment and repricing analysis of outstanding debt.

Capital management

The Consolidated Entity's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns to shareholders, to provide benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Board aims to maintain and develop a capital base appropriate to the Consolidated Entity's objectives and monitors a number of qualitative metrics as follows:

- debt to equity ratio – defined as net debt as a proportion of total net debt and equity;
- dividend payout ratio – defined as dividends as a proportion of net profit after tax for a given period;
- growth in EPS – defined as a compound annual growth percentage in EPS over a three year period; and
- total shareholder return (TSR) – defined as the percentage growth in share price over a three year period plus the cumulative three year dividend return calculated against the opening share price in the same three year period;

In order to maintain or adjust the capital structure, the Consolidated Entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Senior management track, manage and report against these capital management metrics periodically as part of broader corporate governance responsibilities. In addition, the Board of directors undertakes periodic reviews of the Consolidated Entity's capital management position to assess whether the metrics continue to be appropriate and to assess whether the capital management structure is appropriate to meet the Consolidated Entity's medium and long-term strategic requirements.

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

There were no significant changes in the Consolidated Entity's approach to capital management during the year.

	Consolidated		Company	
	2008	2007	2008	2007
	$000	$000	$000	$000
5. Revenue and expenses				
(a) Revenue				
Sale of goods revenue before hedging	578,845	539,711	419,594	386,414
Foreign exchange gains on hedged sales	21,283	16,526	21,283	16,526
Revenue from the sale of goods	**600,128**	**556,237**	**440,877**	**402,940**
Rendering of services revenue	1,597	3,175	771	242
Total revenue	**601,725**	**559,412**	**441,648**	**403,182**
(b) Expenses				
Cost of sales:				
Carrying amount of inventories recognised as an expense	163,660	156,045	151,056	143,785
Other	2,978	3,415	53,145	38,744
Write-down in value of inventories	2,375	1,874	1,498	1,032
Total cost of sales	**169,013**	**161,334**	**205,699**	**183,561**
Research and development expenses:				
Research and development expenditure	78,374	63,753	65,589	50,942
Development expenditure capitalised	-	(375)	-	(375)
Capitalised development expenditure – amortisation expense	1,643	2,571	1,643	2,571
Total research and development expenses	**80,017**	**65,949**	**67,232**	**53,138**
(c) Other income				
Grant received or due and receivable	1,391	151	1,391	151
Dividends from controlled entities	-	-	-	1,608
Other income	1,119	982	868	221
Total other income	**2,510**	**1,133**	**2,259**	**1,980**
(d) Employee benefits expense				
Wages and salaries	146,457	125,466	79,164	65,165
Contributions to superannuation plans	9,528	7,366	6,309	4,782
Increase in leave liabilities	2,315	3,367	1,530	2,579
Share based payments	4,725	3,615	3,148	2,376
Total employee benefits expense	**163,025**	**139,814**	**90,151**	**74,902**
(e) Profit before income tax has been arrived at after charging/(crediting) the following items:				
Operating lease rental expense	10,322	7,611	3,853	3,510
Decrease in provisions	(1,277)	(171)	(140)	(137)
Loss/(gain) on disposal of property, plant and equipment	644	1,125	48	(27)

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
6. Net finance expense				
Interest income	1,410	2,199	2,815	3,181
Net foreign exchange gain	4,703	-	-	-
Finance income	**6,113**	**2,199**	**2,815**	**3,181**
Interest expense	(12,022)	(8,892)	(3,866)	(887)
Net foreign exchange loss	-	(3,407)	(3,197)	(4,050)
Finance expense	**(12,022)**	**(12,299)**	**(7,063)**	**(4,937)**
Net finance expense	**(5,909)**	**(10,100)**	**(4,248)**	**(1,756)**

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
7. Auditors' remuneration				
Audit services				
Auditors of the Company:				
KPMG Australia:				
- audit and review of financial reports	499,000	428,000	499,000	428,000
- other regulatory audit services	10,700	21,500	10,700	21,500
Overseas KPMG firms:				
- audit and review of financial reports	529,130	591,762	-	-
- other regulatory audit services	25,176	51,855	3,486	35,472
Total audit services	**1,064,006**	**1,093,117**	**513,186**	**484,972**
Non-audit services				
Auditors of the Company:				
KPMG Australia:				
- taxation services	469,410	355,760	469,410	355,760
- international taxation services	732,210	783,394	732,210	783,394
- other assurance services	40,485	19,500	40,485	19,500
Overseas KPMG firms:				
- taxation services	399,551	334,027	17,411	21,319
- international taxation services	112,479	108,467	112,479	100,077
- other assurance services	-	52,827	-	52,827
Total non-audit services	**1,754,135**	**1,653,975**	**1,371,995**	**1,332,877**

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$000	$000	$000	$000
8. Income tax expense					
Recognised in the income statement					
Current tax expense					
Current year		45,194	37,669	33,081	31,275
Adjustment for prior years		(1,703)	1,463	(1,290)	(1,131)
		43,491	**39,132**	**31,791**	**30,144**
Deferred tax (expense)/benefit					
Origination and reversal of temporary differences		(3,765)	4,062	(2,206)	(781)
Tax losses utilised		1,757	2,611	-	-
	17	(2,008)	6,673	(2,206)	(781)
Total income tax expense in the income statement		**41,483**	**45,805**	**29,585**	**29,363**
Numerical reconciliation between income tax expense and profit before income tax					
Profit before income tax		156,717	143,481	109,977	114,050
Income tax expense using the Company's domestic tax rate of 30% (2007: 30%)		47,015	43,044	32,993	34,215
Increase in income tax expense due to:					
Non-deductible expenses		3,238	4,080	1,113	685
Effect of tax rate in foreign jurisdictions		-	1,949	969	807
Decrease in income tax expense due to:					
Research and development allowance		(3,720)	(4,731)	(3,720)	(4,731)
Share based payment deductions		(3,120)	-	(480)	-
Non-assessable dividends from controlled entities		-	-	-	(482)
Effect of tax rate in foreign jurisdictions		(227)	-	-	-
		43,186	**44,342**	**30,875**	**30,494**
Adjustment for prior years		(1,703)	1,463	(1,290)	(1,131)
Income tax expense on profit before income tax		**41,483**	**45,805**	**29,585**	**29,363**
Deferred tax recognised directly in equity relating to derivative financial instruments	17	3,292	5,083	3,292	5,083

	Cents per share	Total amount $000	Franked/unfranked	Date of payment

9. Dividends

Dividends recognised in the current financial year by the Company are:

	Cents per share	Total amount $000	Franked/unfranked	Date of payment
2008				
Interim 2008 ordinary	70.0	38,936	Franked	18 Mar 2008
Final 2007 ordinary	70.0	38,916	Franked	27 Sep 2007
Total amount		**77,852**		
2007				
Interim 2007 ordinary	55.0	30,208	Franked	20 Mar 2007
Final 2006 ordinary	55.0	30,175	Franked	21 Sep 2006
Total amount		**60,383**		

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

Subsequent events

Since the end of the financial year, the directors declared the following dividends:

	Cents per share	Total amount $000	Franked/unfranked	Date of payment
Final 2008 ordinary	80.0	44,498	Franked	25 Sep 2008
Total amount		**44,498**		

The financial effect of the 2008 final dividend has not been brought to account in the financial statements for the year ended 30 June 2008 and will be recognised in the subsequent financial period.

There are no further tax consequences as a result of paying dividends other than a reduction in the franking account as shown below:

	Company	
	2008 $000	2007 $000
Dividend franking account		
30% franking credits available to shareholders of Cochlear Limited for subsequent financial periods	16,351	16,008

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

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

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after balance sheet date but not recorded as a liability is to reduce it by $19,070,691 (2007: $16,678,076).

No additional current tax liability will arise to the extent that franking credits are available with which to pay fully franked dividends. Dividends in excess of the balance of the dividend franking account will either be unfranked or result in a franking deficit tax liability payable by the Company to the extent that franking credits are provided that do not exist. The Company's policy is not to pay dividends with franking credits that will result in a franking deficit tax liability.

10. Segment reporting

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

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

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

The Consolidated Entity's geographical segments are as follows:

	Americas		Europe		Asia Pacific		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Revenue										
External revenue	232,155	249,768	257,204	212,992	91,083	80,126	-	-	580,442	542,886
Inter-segment revenue	-	-	-	-	362,745	328,888			-	-
Total segment revenue	232,155	249,768	257,204	212,992	453,828	409,014			580,442	542,886
Foreign exchange gains on hedged sales									21,283	16,526
Total revenue										**559,412**
Segment result	68,328	77,201	82,507	63,407	21,485	20,298	-	-	172,320	160,906
Unallocated net expenses									(9,694)	(7,325)
Net finance expense									(5,909)	(10,100)
Profit before income tax									156,717	143,481
Income tax expense									(41,483)	(45,805)
Net profit (including minority interest)									**115,234**	**97,676**
Segment depreciation and amortisation	3,638	4,257	3,615	2,663	1,148	902	-	-	8,401	7,822
Unallocated depreciation and amortisation									12,931	9,283
Total depreciation and amortisation									**21,332**	**17,105**
Segment non-cash (expenses)/income other than depreciation and amortisation	(701)	(131)	874	2,598	434	717	-	-	607	3,184
Unallocated non-cash expenses other than depreciation and amortisation									2,682	2,045
Total non-cash expenses other than depreciation and amortisation									**3,289**	**5,229**
Write-down in value of inventories	**1,287**	**900**	**647**	**842**	**441**	**132**	**-**	**-**	**2,375**	**1,874**
Segment assets	149,206	154,392	260,112	258,181	54,380	38,748	(80,392)	(89,220)	383,306	362,101
Unallocated assets									224,610	224,193
Total assets									**607,916**	**586,294**
Segment liabilities	64,707	78,269	62,625	63,995	17,575	9,535	(78,484)	(64,014)	66,423	87,785
Unallocated liabilities									222,152	237,700
Total liabilities									**288,575**	**325,485**
Segment acquisition of non-current assets	2,102	1,870	4,080	6,449	1,360	999	-	-	7,542	9,318
Unallocated acquisition of non-current assets									20,108	17,083
Total acquisition of non-current assets									**27,650**	**26,401**

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

	Consolidated	
	2008	2007
11. Earnings per share		
Basic earnings per share		
The calculation of basic earnings per share for the year ended 30 June 2008 was based on net profit attributable to equity holders of the parent of $115,234,000 (2007: $100,131,000) and a weighted average number of ordinary shares on issue during the year ended 30 June 2008 of 55,372,469 (2007: 54,742,745) calculated as follows:		
Net profit attributable to equity holders of the parent	$115,234,000	$100,131,000
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 July (number)	54,769,632	54,636,995
Effect of share options and performance shares exercised (number)	593,696	96,795
Effect of shares issued under Employee Share Plan (number)	9,141	8,955
Weighted average number of ordinary shares (basic) at 30 June	**55,372,469**	**54,742,745**
Basic earnings per share (cents)	**208.1**	**182.9**
Diluted earnings per share		
The calculation of diluted earnings per share for the year ended 30 June 2008 was based on net profit attributable to equity holders of the parent of $115,234,000 (2007: $100,131,000) and a weighted average number of ordinary shares on issue during the year ended 30 June 2008 of 55,787,184 (2007: 55,582,822) calculated as follows:		
Net profit attributable to equity holders of the parent	$115,234,000	$100,131,000
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic) (number)	55,372,469	54,742,745
Effect of options and performance shares (number)	414,715	840,077
Weighted average number of ordinary shares (diluted) at 30 June	**55,787,184**	**55,582,822**
Diluted earnings per share (cents)	**206.6**	**180.1**

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$000	$000	$000	$000
12. Trade and other receivables					
Current					
Trade receivables net of allowance for impairment loss		143,833	116,897	22,033	13,359
Other receivables		7,914	10,277	2,788	6,043
Amount receivable from controlled entities	26	-	-	73,601	63,971
Forward exchange contracts		21,519	15,902	21,519	15,902
Total current trade and other receivables		**173,266**	**143,076**	**119,941**	**99,275**
Non-current					
Forward exchange contracts		11,574	6,178	11,574	6,178
Other receivables		446	477	-	127
Deferred expenditure		3,943	-	-	-
Total non-current trade and other receivables		**15,963**	**6,655**	**11,574**	**6,305**

The Company's and Consolidated Entity's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 28.

13. Inventories					
Raw materials and stores		30,702	38,372	30,449	35,259
Work in progress		14,174	7,271	11,296	4,922
Finished goods		54,293	46,247	18,623	18,244
Total inventories		**99,169**	**91,890**	**60,368**	**58,425**
14. Other financial assets					
Shares in unlisted controlled entities, at cost		-	-	65,656	63,989
Total other financial assets		**-**	**-**	**65,656**	**63,989**

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
15. Property, plant and equipment				
Leasehold improvements				
At cost	26,935	24,537	23,198	22,218
Accumulated amortisation	(17,393)	(13,324)	(16,530)	(12,797)
	9,542	**11,213**	**6,668**	**9,421**
Plant and equipment				
At cost	78,008	65,038	57,952	48,303
Accumulated depreciation	(44,331)	(35,686)	(33,197)	(25,845)
	33,677	**29,352**	**24,755**	**22,458**
Total property, plant and equipment, at net book value	**43,219**	**40,565**	**31,423**	**31,879**
Reconciliations				
Reconciliations of the carrying amounts of each class of property, plant and equipment are set out below:				
Leasehold improvements				
Carrying amount at beginning of financial year	11,213	11,664	9,421	9,815
Additions	2,700	1,764	1,009	1,488
Disposals	(162)	(10)	-	-
Amortisation	(4,145)	(3,445)	(3,768)	(3,122)
Acquisitions through business combinations	-	1,166	-	1,166
Effect of movements in foreign exchange	(64)	74	6	74
Carrying amount at end of financial year	**9,542**	**11,213**	**6,668**	**9,421**
Plant and equipment				
Carrying amount at beginning of financial year	29,352	19,169	22,458	11,566
Additions	15,131	16,832	9,697	12,018
Disposals	(484)	(2,415)	(50)	(265)
Depreciation	(10,245)	(7,284)	(7,392)	(4,854)
Acquisitions through business combinations	-	3,824	-	3,824
Effect of movements in foreign exchange	(77)	(774)	42	169
Carrying amount at end of financial year	**33,677**	**29,352**	**24,755**	**22,458**

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
16. Intangible assets				
Intangible assets with indefinite useful lives				
Goodwill, at cost	187,741	182,401	4,226	4,146
Technology relationship, at cost	1,800	-	1,800	-
	189,541	**182,401**	**6,026**	**4,146**
Intangible assets with definite useful lives				
Acquired technology				
At cost	3,507	3,398	-	-
Accumulated amortisation	(3,232)	(1,982)	-	-
	275	**1,416**	**-**	**-**
Enterprise resource planning system				
At cost	29,774	20,366	26,036	16,984
Accumulated amortisation	(14,547)	(12,005)	(11,541)	(9,441)
	15,227	**8,361**	**14,495**	**7,543**
Customer relationships				
At cost	4,543	4,801	-	-
Accumulated amortisation	(3,567)	(2,838)	-	-
	976	**1,963**	**-**	**-**
Capitalised development expenditure				
At cost	7,759	7,759	7,759	7,759
Accumulated amortisation	(7,558)	(5,915)	(7,558)	(5,915)
	201	**1,844**	**201**	**1,844**
Other intangible assets				
At cost	3,209	496	3,000	-
Accumulated amortisation	(470)	(213)	(450)	-
	2,739	**283**	**2,550**	**-**
Total intangible assets with definite useful lives	**19,418**	**13,867**	**17,246**	**9,387**
Total intangible assets	**208,959**	**196,268**	**23,272**	**13,533**

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Reconciliations				
Reconciliations of the carrying amounts of each class of intangible assets are set out below:				
Goodwill				
Carrying amount at beginning of financial year	182,401	185,352	4,146	-
Acquisitions through business combinations	545	12,099	80	4,146
Effect of movements in foreign exchange	4,795	(15,050)	-	-
Carrying amount at end of financial year	**187,741**	**182,401**	**4,226**	**4,146**
Technology relationship				
Carrying amount at beginning of financial year	-	-	-	-
Acquisition	1,800	-	1,800	-
Carrying amount at end of financial year	**1,800**	**-**	**1,800**	**-**
Acquired technology				
Carrying amount at beginning of financial year	1,416	2,468	-	-
Amortisation	(1,185)	(850)	-	-
Effects of movements in foreign exchange	44	(202)	-	-
Carrying amount at end of financial year	**275**	**1,416**	**-**	**-**
Enterprise resource planning system				
Carrying amount at beginning of financial year	8,361	2,546	7,543	86
Acquisitions	9,819	7,805	9,052	7,805
Amortisation	(2,876)	(1,659)	(2,100)	(348)
Effect of movements in foreign exchange	(77)	(331)	-	-
Carrying amount at end of financial year	**15,227**	**8,361**	**14,495**	**7,543**
Customer relationships				
Carrying amount at beginning of financial year	1,963	3,607	-	-
Amortisation	(682)	(1,201)	-	-
Effect of movements in foreign exchange	(305)	(443)	-	-
Carrying amount at end of financial year	**976**	**1,963**	**-**	**-**
Intellectual property capitalised, at cost				
Carrying amount at beginning of financial year	-	6,788	-	-
Disposals	-	(6,274)	-	-
Effect of movements in foreign exchange	-	(514)	-	-
Carrying amount at end of financial year	**-**	**-**	**-**	**-**
Capitalised development expenditure				
Carrying amount at beginning of financial year	1,844	4,040	1,844	4,040
Development phase expenditure	-	375	-	375
Amortisation	(1,643)	(2,571)	(1,643)	(2,571)
Carrying amount at end of financial year	**201**	**1,844**	**201**	**1,844**

	Consolidated		Company	
	2008	2007	2008	2007
	$000	$000	$000	$000
Other intangible assets				
Carrying amount at beginning of financial year	283	437	-	-
Acquisitions	3,000	-	3,000	-
Amortisation	(556)	(95)	(450)	-
Effect of movements in foreign exchange	12	(59)	-	-
Carrying amount at end of financial year	**2,739**	**283**	**2,550**	**-**

Amortisation charge

The amortisation charge is recognised in the administration expenses line except for amortisation of capitalised development expenditure which is recognised in the research and development expenses line in the income statement.

Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill:

	Consolidated		Company	
	2008	2007	2008	2007
	$000	$000	$000	$000
Americas	67,564	65,437	1,694	1,940
Europe	113,433	109,603	1,759	1,488
Asia Pacific	6,744	7,361	773	718
	187,741	**182,401**	**4,226**	**4,146**

The recoverable amount of each cash generating unit is based on value-in-use calculations. Those calculations use cash flow projections based on actual operating results and the three year business plan. Cash flows for further periods are extrapolated using a 3.5% per annum growth rate and are appropriate because this growth rate is consistent with the long-term average growth rate for the industry. The related acquisitions are long-term businesses. A post-tax discount rate of 9.4% per annum has been used in discounting the projected post-tax cash flows.

The key assumptions and the approach to determining their value in the current period are:

Assumption	How determined
Discount rate	Based on weighted average cost of capital
Sales volume growth rate	Based on a three year forecast taking into account historical growth rates and product lifecycle
Terminal value growth rate	Based on a three year forecast taking into account historical growth rates and product lifecycle

The recoverable amount of each cash generating unit including unallocated corporate assets is in excess of their carrying amounts and therefore no impairment charge was required. Any adverse change in assumptions could reduce the recoverable amount below the carrying amount.

	Assets		Liabilities		Net	
	2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000
17. Deferred tax assets and liabilities						
Recognised deferred tax assets and liabilities						
Consolidated						
Property, plant and equipment	881	127	(76)	(310)	805	(183)
Intangible assets	-	-	(284)	(1,187)	(284)	(1,187)
Inventories	12,309	11,790	(136)	-	12,173	11,790
Prepayments	-	-	(114)	(95)	(114)	(95)
Employee benefits	1,394	538	-	-	1,394	538
Provisions	10,308	9,514	-	-	10,308	9,514
Deferred revenue	-	1,782	-	-	-	1,782
Forward exchange contracts	-	-	(9,927)	(6,635)	(9,927)	(6,635)
Other	1,804	-	(531)	(369)	1,273	(369)
Tax value of loss carry-forwards	1,599	3,356	-	-	1,599	3,356
Deferred tax assets/(liabilities)	**28,295**	**27,107**	**(11,068)**	**(8,596)**	**17,227**	**18,511**
Set off of tax	(10,616)	(8,338)	10,616	8,338	-	-
Net deferred tax assets/(liabilities)	**17,679**	**18,769**	**(452)**	**(258)**	**17,227**	**18,511**
Company						
Property, plant and equipment	388	-	-	(285)	388	(285)
Intangible assets	-	-	-	(594)	-	(594)
Inventories	1,050	769	-	-	1,050	769
Provisions	8,704	7,515	-	-	8,704	7,515
Forward exchange contracts	-	-	(9,927)	(6,635)	(9,927)	(6,635)
Other	-	-	(531)	-	(531)	-
Deferred tax assets/(liabilities)	**10,142**	**8,284**	**(10,458)**	**(7,514)**	**(316)**	**770**
Set off of tax	(10,142)	(7,514)	10,142	7,514	-	-
Net deferred tax assets/(liabilities)	**-**	**770**	**(316)**	**-**	**(316)**	**770**

Unrecognised deferred tax liabilities

At 30 June 2008, a deferred tax liability of $25.0 million (2007: $17.4 million) relating to an investment in a subsidiary has not been recognised because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Current tax assets and liabilities

The current tax asset for the Consolidated Entity of $4.2 million (2007: $0.3 million) and for the Company of $0.8 million (2007: nil) represents the amount of income taxes recoverable in respect of prior periods and arises from the payment of tax in excess of the amounts due to the relevant tax authority. The current tax liability for the Consolidated Entity of $2.8 million (2007: $8.3 million) and for the Company of nil (2007: $1.2 million) represents the amount of income taxes payable in respect of current and prior financial periods.

Movement in temporary differences during the year

	Consolidated				Company			
Amounts $000	Balance at 1 July	Recognised in income	Recognised in equity	Balance at 30 June	Balance at 1 July	Recognised in income	Recognised in equity	Balance at 30 June
2007								
Property, plant and equipment	1,793	(1,976)	-	(183)	1,103	(1,388)	-	(285)
Intangible assets	(3,072)	1,885	-	(1,187)	(1,212)	618	-	(594)
Inventories	9,682	2,108	-	11,790	854	(85)	-	769
Prepayments	(101)	6	-	(95)	-	-	-	-
Employee benefits	754	(216)	-	538	-	-	-	-
Provisions	8,535	979	-	9,514	5,983	1,532	-	7,515
Deferred revenue	7,396	(5,614)	-	1,782	-	-	-	-
Foreign exchange contracts	(1,541)	(11)	(5,083)	(6,635)	(1,541)	(11)	(5,083)	(6,635)
Other	854	(1,223)	-	(369)	(115)	115	-	-
Tax loss carry-forwards	5,967	(2,611)	-	3,356	-	-	-	-
	30,267	**(6,673)**	**(5,083)**	**18,511**	**5,072**	**781**	**(5,083)**	**770**
2008								
Property, plant and equipment	(183)	988	-	805	(285)	673	-	388
Intangible assets	(1,187)	903	-	(284)	(594)	594	-	-
Inventories	11,790	383	-	12,173	769	281	-	1,050
Prepayments	(95)	(19)	-	(114)	-	-	-	-
Employee benefits	538	856	-	1,394	-	-	-	-
Provisions	9,514	794	-	10,308	7,515	1,189	-	8,704
Deferred revenue	1,782	(1,782)	-	-	-	-	-	-
Foreign exchange contracts	(6,635)	-	(3,292)	(9,927)	(6,635)	-	(3,292)	(9,927)
Other	(369)	1,642	-	1,273	-	(531)	-	(531)
Tax loss carry-forwards	3,356	(1,757)	-	1,599	-	-	-	-
	18,511	**2,008**	**(3,292)**	**17,227**	**770**	**2,206**	**(3,292)**	**(316)**

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
18. Loans and borrowings				
Current				
Bank overdrafts	-	1,645	-	223
Secured bank loans	15,438	159,692	-	30,000
Total current loans and borrowings	**15,438**	**161,337**	**-**	**30,223**
Non-current				
Secured bank loans	154,545	37,552	20,000	-
Total non-current loans and borrowings	**154,545**	**37,552**	**20,000**	**-**
Financing arrangements				
The Consolidated Entity had access to the following lines of credit at reporting date:				
Bank overdrafts	2,148	4,782	2,000	2,000
Bank loans	246,299	198,230	96,000	30,000
Standby letters of credit	1,000	227	1,000	227
Bank guarantee facility	1,520	1,100	1,000	605
	250,967	**204,339**	**100,000**	**32,832**
Facilities utilised at reporting date				
Bank overdrafts	-	1,645	-	223
Bank loans	169,983	197,244	20,000	30,000
Standby letters of credit	198	191	198	191
Bank guarantee facility	690	725	584	604
	170,871	**199,805**	**20,782**	**31,018**
Facilities not utilised at reporting date				
Bank overdrafts	2,148	3,137	2,000	1,777
Bank loans	76,316	986	76,000	-
Standby letters of credit	802	36	802	36
Bank guarantee facility	830	375	416	1
	80,096	**4,534**	**79,218**	**1,814**

Unsecured bank overdrafts

Certain unsecured bank overdrafts are payable on demand and are subject to annual review. Interest on unsecured bank facilities is variable and is charged at prevailing market rates.

Bank loans

The bank loans are secured by a letter of guarantee provided by the Company and are payable within one to five years. Refer to Note 28 for details.

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
19. Other liabilities				
Deferred revenue	14,358	17,338	263	848
Total current other liabilities	**14,358**	**17,338**	**263**	**848**
20. 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	11,110	6,953	3,711	2,919
Later than one year but not later than five years	19,967	23,394	1,657	3,917
Later than five years	16,804	7,236	-	-
Total commitments	**47,881**	**37,583**	**5,368**	**6,836**
Capital expenditure commitments				
Contracted but not provided for and payable:				
Not later than one year	3,235	1,790	2,341	1,507
Later than one year but not later than five years	913	1,826	913	1,826
Total commitments	**4,148**	**3,616**	**3,254**	**3,333**

The Consolidated Entity leases property under non-cancellable operating leases expiring from one to 12 years. Leases generally provide the Consolidated Entity with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on movements in the Consumer Price Index.

		Consolidated		Company	
	Note	2008 $000	2007 $000	2008 $000	2007 $000
21. Provisions					
Current					
Employee benefits	27	18,854	17,267	12,103	11,027
Warranties		8,798	8,482	8,798	8,482
Legal and other		3,864	5,204	1,213	1,363
Total current provisions		**31,516**	**30,953**	**22,114**	**20,872**
Non-current					
Employee benefits	27	3,748	3,167	2,182	1,841
Warranties		2,339	2,256	2,339	2,256
Directors' retirement scheme	27	1,147	1,069	1,147	1,069
Make good lease costs		1,399	1,336	1,233	1,233
Total non-current provisions		**8,633**	**7,828**	**6,901**	**6,399**
Reconciliations					
Reconciliations of the carrying amounts of each class of provision, except for the employee benefits provision, are set out below:					
Warranties					
Carrying amount at beginning of financial year		10,738	8,683	10,738	7,795
Provisions made		13,786	11,554	13,786	12,371
Provisions used		(13,387)	(9,428)	(13,387)	(9,428)
Effects of movements in foreign exchange		-	(71)	-	-
Carrying amount at end of financial year		**11,137**	**10,738**	**11,137**	**10,738**
Legal and other					
Carrying amount at beginning of financial year		5,204	5,415	1,363	1,500
Provisions made		1,580	1,741	838	185
Provisions used		(2,826)	(1,599)	(988)	(322)
Effects of movements in foreign exchange		(94)	(353)	-	-
Carrying amount at end of financial year		**3,864**	**5,204**	**1,213**	**1,363**
Directors' retirement scheme					
Carrying amount at beginning of financial year		1,069	1,457	1,069	1,457
Provisions made		78	91	78	91
Provisions used		-	(587)	-	(587)
Unwind of discount		-	108	-	108
Carrying amount at end of financial year		**1,147**	**1,069**	**1,147**	**1,069**
Make good lease costs					
Carrying amount at beginning of financial year		1,336	1,296	1,233	1,233
Provisions made		63	52	-	-
Provisions used		-	(12)	-	-
Carrying amount at end of financial year		**1,399**	**1,336**	**1,233**	**1,233**

Employee benefits

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

Warranties

Refer to Note 3(h) for details of how the provision balance is determined.

Legal and other

For details of legal costs relating to the Office of Inspector General inquiry, refer to Note 22. For details on the self-insurance provision, refer to Note 3(h).

Directors' retirement scheme

Non-executive directors appointed prior to 2003 were entitled to retirement benefits of up to three times their annual remuneration over the previous three years once they had more than five years' service. The ongoing accrual of benefits under the directors' retirement scheme ceased from 30 June 2007. The benefits accrued to that date are indexed by reference to the bank bill rate.

Make good lease costs

Refer to Note 3(h) for details of how the provision balance is determined.

22. Contingent liabilities

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

Office of Inspector General inquiry

In March 2004, the Company was informed by the US Department of Justice (DOJ) that Cochlear Americas, a wholly-owned subsidiary, is subject to an inquiry under federal healthcare laws in the US that deal with the Medicare and Medicaid programs, including some with potential criminal and civil sanctions.

During the year ended 30 June 2007, the DOJ advised the inquiry was being transferred to the Office of Inspector General (OIG) for administrative processing. The DOJ will no longer proceed with the inquiry and the matter is being handled by the OIG.

Discussions with the OIG are ongoing. The Company is cooperating fully with the inquiry and has engaged a nationally recognised law firm with specialised expertise in US healthcare law.

In prior years, the Company has recorded a provision in respect of estimated costs of responding to the investigation.

Based on the information available at the date of this report, the financial impact of those costs of responding to the investigation has been adequately provided for in the financial statements.

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

Patent infringement complaint

During the year ended and 30 June 2008 the Company was served with a complaint for patent infringement by the Alfred E. Mann Foundation for Scientific Research (Mann Foundation). The complaint, filed in a US District Court of California, alleges that one of six identified patents has been infringed, specifically United States Patent No 5,609,616 entitled Physician's Testing System and Method for Testing Implantable Cochlear Stimulator, issued 11 March 1997.

The Company believes that the Mann Foundation's allegations of infringement are without merit and intends to vigorously defend against the complaint. As at the date of this report, the litigation is in the early stages of discovery and, based upon the information available, the financial impacts of the costs of responding to the request for discovery have been provided for in the financial statements.

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

Guarantees

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

The Cochlear Sweden Holdings facility is a multi currency facility with a limit of EUR 60.8 million, or the equivalent thereof. The outstanding balance of the loan at reporting date was SEK 572.2 million (EUR 60.8 million).

The Cochlear Americas facility is for USD 30.0 million. The outstanding balance of the loan at reporting date was USD 30.0 million.

The Cochlear Europe Limited facility is for GBP 7.5 million. The outstanding balance of the loan at reporting date was GBP 5.2 million and EUR 2.8 million.

23. Capital and reserves

Reconciliation of movement in capital, reserves and retained earnings

	Consolidated								
Amounts $000	Issued capital	Treasury reserve	Translation reserve	General reserve	Hedging reserve	Retained earnings	Total	Minority interest	Total equity
2007									
Balance as at 1 July 2006	68,034	(1,371)	(662)	76	3,596	137,864	207,537	2,241	209,778
Total recognised income and expense	-	-	(5,446)	160	11,860	100,131	106,705	(2,241)	104,464
Shares issued	3,335	-	-	-	-	-	3,335	-	3,335
Share based payments	-	-	-	-	-	3,615	3,615	-	3,615
Dividends to shareholders	-	-	-	-	-	(60,383)	(60,383)	-	(60,383)
Balance at 30 June 2007	**71,369**	**(1,371)**	**(6,108)**	**236**	**15,456**	**181,227**	**260,809**	**-**	**260,809**
2008									
Balance at 1 July 2007	71,369	(1,371)	(6,108)	236	15,456	181,227	260,809	-	260,809
Total recognised income and expense	-	-	(4,258)	-	7,709	115,234	118,685	-	118,685
Shares issued	13,695	(721)	-	-	-	-	12,974	-	12,974
Share based payments	-	-	-	-	-	4,725	4,725	-	4,725
Dividends to shareholders	-	-	-	-	-	(77,852)	(77,852)	-	(77,852)
Reclassification	-	-	236	(236)	-	-	-	-	-
Balance at 30 June 2008	**85,064**	**(2,092)**	**(10,130)**	**-**	**23,165**	**223,334**	**319,341**	**-**	**319,341**

	Company					
Amounts $000	Issued capital	Treasury reserve	Translation reserve	Hedging reserve	Retained earnings	Total equity
2007						
Balance as at 1 July 2006	68,034	(1,371)	(519)	3,596	115,957	185,697
Total recognised income and expense	-	-	420	11,860	84,687	96,967
Shares issued	3,335	-	-	-	-	3,335
Share based payments	-	-	-	-	2,376	2,376
Dividends to shareholders	-	-	-	-	(60,383)	(60,383)
Balance at 30 June 2007	**71,369**	**(1,371)**	**(99)**	**15,456**	**142,637**	**227,992**

2008						
Balance at 1 July 2007	71,369	(1,371)	(99)	15,456	142,637	227,992
Total recognised income and expense	-	-	(4)	7,709	80,392	88,097
Shares issued	13,695	(721)	-	-	-	12,974
Share based payments	-	-	-	-	4,725	4,725
Dividends to shareholders	-	-	-	-	(77,852)	(77,852)
Balance at 30 June 2008	**85,064**	**(2,092)**	**(103)**	**23,165**	**149,902**	**255,936**

Treasury reserve

The treasury reserve comprises the cost of shares acquired by the Trust at the date of purchase.

Translation reserve

The translation reserve records the foreign currency differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity. Refer to Note 3(d) for further details.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to underlying transactions that have not yet occurred.

Share capital

	Issued shares in market circulation		Shares held in Trust under CELTIP		Total issued shares	
	2008 (number)	2007 (number)	2008 (number)	2007 (number)	2008 (number)	2007 (number)
On issue 1 July – fully paid	54,769,632	54,636,995	153,519	175,845	54,923,151	54,812,840
Issued for nil consideration under the Employee Share Plan	13,454	12,768	-	-	13,454	12,768
Shares issued into Trust	-	-	10,072	-	10,072	-
Issued from the exercise of options	676,173	97,543	-	-	676,173	97,543
Performance shares vesting from Trust	65,487	22,326	(65,487)	(22,326)	-	-
On issue 30 June – fully paid	**55,524,746**	**54,769,632**	**98,104**	**153,519**	**55,622,850**	**54,923,151**

The Consolidated Entity has also issued share options (see Note 27).

The Company does not have authorised capital or par value in respect of its issued shares.

The 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.

24. Notes to the statements of cash flows

Cash assets

The operating account received an average interest rate of:

- Company 6.5% (2007: 5.6%) per annum; and
- Consolidated 4.0% (2007: 1.4%) per annum.

Cash held on deposit for periods not exceeding 90 days received an average interest rate of:

- Company 6.8% (2007: 6.2%) per annum; and
- Consolidated 5.9% (2007: 6.2%) per annum.

(a) Reconciliation of cash and cash equivalents

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

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$000	$000	$000	$000
Cash on hand		35,379	41,165	13,870	1,700
Cash on deposit		1,308	42,217	934	42,217
		36,687	**83,382**	**14,804**	**43,917**
Bank overdrafts	18	-	(1,645)	-	(223)
		36,687	**81,737**	**14,804**	**43,694**
(b) Reconciliation of net profit to net cash provided by operating activities					
Net profit (including minority interest)		115,234	97,676	80,392	84,687
Add items classified as investing activities					
Loss/(gain) on disposal of non-current property, plant and equipment		644	1,125	48	(27)
Add non-cash items					
Amounts set aside to provisions		31,007	30,054	22,529	21,807
Depreciation and amortisation		21,332	17,105	15,353	10,895
Share based payments		4,725	3,615	3,148	2,376
Increase in investment in controlled entities		-	-	1,577	-
Net cash provided by operating activities before changes in assets and liabilities		**172,942**	**149,575**	**123,047**	**119,738**
Changes in assets and liabilities					
(Increase)/decrease in receivables		(31,864)	(23,687)	(18,301)	20,496
Increase in inventories		(6,734)	(4,987)	(1,943)	(1,135)
(Increase)/decrease in prepayments		(3,427)	443	(3,623)	(553)
(Increase)/decrease in deferred tax assets		(2,020)	7,271	(2,218)	(183)
Increase/(decrease) in payables		8,193	(4,575)	2,963	(4,109)
Decrease in current tax liabilities		(9,351)	(16,984)	(1,946)	(13,242)
Decrease in provisions		(29,639)	(25,231)	(20,784)	(16,300)
Decrease in deferred revenue		(2,980)	(6,187)	(585)	(9)
Effects of movements in foreign exchange		(10,572)	1,198	(84)	(29)
Net cash provided by operating activities		**84,548**	**76,836**	**76,526**	**104,674**

25. Controlled entities

(a) Particulars in relation to controlled entities

	Note	Interest held 2008 %	Interest held 2007 %	Country of incorporation/ formation
Company				
Cochlear Limited				Australia
Controlled entities				
Cochlear Executive Long Term Incentive Plan (Performance Shares) Trust		100	100	Australia
Cochlear Incentive Plan Pty Limited		100	100	Australia
Cochlear Europe Limited	(i)	100	100	UK
Cochlear Research and Development Limited (previously Cochlear Acoustics Limited)	(i)	100	100	UK
Cochlear AG	(i)	100	100	Switzerland
Cochlear (UK) Limited	(i), (ii)	100	100	UK
Cochlear GmbH	(i)	100	100	Germany
Cochlear Americas	(i)	100	100	USA
Cochlear (HK) Limited	(i)	99.99	99.99	Hong Kong
Nihon Cochlear Co Limited	(i)	100	100	Japan
Neopraxis Pty Limited	(ii)	100	100	Australia
Cochlear Technologies Pty Limited	(ii)	100	100	Australia
Medical Insurance Pte Limited	(i)	100	100	Singapore
Cochlear Holdings NV	(i)	100	100	Belgium
Miaki NV	(i)	100	100	Belgium
Cochlear Benelux NV	(i)	100	100	Belgium
Cochlear Bone Anchored Solutions AB	(i)	100	100	Sweden
Cochlear France SAS (previously Cochlear Holdings France SAS)	(i)	100	100	France
Cochlear Italia SRL	(i)	100	100	Italy
Cochlear Sweden Holdings AB	(i)	100	100	Sweden
Cochlear Canada Inc		100	100	Canada
Cochlear Nordic AB	(i)	100	100	Sweden
Cochlear Manufacturing Corporation	(i)	100	-	USA
Cochlear Korea Limited	(i)	100	-	Korea
Cochlear Tibbi Cihazlar ve Saglik Hizmetleri Limited Sirketi	(i)	100	-	Turkey
Lachlan Project Holdings Pty Ltd		100	-	Australia
Lachlan Project Development Pty Ltd		100	-	Australia
Lachlan Project Security Holdings Pty Ltd		100	-	Australia

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

(b) Acquisition of distributor businesses

During the year ended 30 June 2008 the Consolidated Entity acquired distribution rights and networks from third party distributors of product in Korea and Germany. The acquisitions involved the purchase of inventories held and certain lower value sundry net assets. Total cash disbursed relating to these acquisitions was $1.0 million. The transactions generated goodwill of $0.5 million representing exclusive rights to operate in the locations and synergies to be generated from the revised arrangements.

(c) Acquisition of manufacturing business

On 2 January 2007, the Company acquired the Cochlear related manufacturing operations and assets of Crystalaid Manufacture Pty Limited.

Details of the acquisition are as follows:

	$000
Consideration	
Total consideration paid to 30 June 2007	9,972
Further consideration paid to 30 June 2008	9,286
Total consideration	**19,258**
Represented by:	
Inventories	10,081
Property, plant and equipment	4,990
Other assets	375
Other provisions	(467)
Goodwill on acquisition	4,279
	19,258

(d) Acquisition of minority interest in controlled entity

On 30 April 2007, the Consolidated Entity increased its shareholding in its subsidiary Cochlear Acoustics Limited (CAL) to 100% by acquiring the remaining 25% of shares in CAL from Phonak AG (Phonak) for consideration of $7.5 million. This resulted in goodwill being recognised of $8.0 million. The Consolidated Entity sold certain assets to Phonak for consideration of $8.5 million. The Consolidated Entity also received $7.2 million from Phonak in reimbursement of research and development expenditure incurred in return for equal access to the intellectual property generated by CAL since its inception. These transactions gave rise to a net gain before tax of $6.9 million ($4.8 million after tax) to the Consolidated Entity.

On 14 May 2008 CAL changed its name to Cochlear Research and Development Limited.

26. Related parties

Key management personnel disclosures

Key management personnel

The following were key management personnel of the Company and the Consolidated Entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors

Mr TCE Bergman (Chairman)
Mr PR Bell
Prof E Byrne, AO
Mr A Denver
Mr R Holliday-Smith
Mr DP O'Dwyer

Executive director

Dr CG Roberts

Executives

Mr R Brook
Mr J Janssen
Mr NJ Mitchell
Mr MD Salmon
Mr CM Smith

Key management personnel disclosures

The key management personnel compensation is included in employee benefits expense as follows:

	Consolidated		Company	
	2008 $	2007 $	2008 $	2007 $
Short-term employee benefits	5,062,218	5,342,744	3,848,022	4,094,856
Post-employment benefits	325,500	817,352	286,425	781,369
Other long-term benefits	44,541	70,039	44,541	70,039
Equity compensation benefits	1,135,160	1,157,989	794,034	804,755
	6,567,419	**7,388,124**	**4,973,022**	**5,751,019**

Information regarding individual directors' and executives' remuneration and some equity instruments disclosures as permitted by section 300A of the Corporations Act 2001 is provided in the Remuneration Report in the Directors' Report on pages 37 to 45.

Options and performance shares granted as compensation

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

	Held at 1 July 2007	Granted as remuneration	Vested and exercised	Forfeited	Held at 30 June 2008	Vested and exercisable at 30 June 2008
Option holdings						
Executive director						
Dr CG Roberts	314,211	59,088	(164,321)	-	208,978	-
Executives						
Mr R Brook	114,113	17,422	(5,736)	-	125,799	49,000
Mr J Janssen	38,031	13,396	-	-	51,427	-
Mr NJ Mitchell	85,815	15,644	(38,886)	-	62,573	-
Mr MD Salmon	84,500	14,891	(38,904)	-	60,487	-
Mr CM Smith	223,325	12,577	(165,830)	-	70,072	-
Performance share holdings						
Executive director						
Dr CG Roberts	16,518	-	(10,595)	-	5,923	-
Executives						
Mr R Brook	8,086	-	(5,392)	-	2,694	-
Mr J Janssen	2,809	-	(1,556)	-	1,253	-
Mr NJ Mitchell	4,590	-	(2,507)	-	2,083	-
Mr MD Salmon	4,533	-	(2,508)	-	2,025	-
Mr CM Smith	2,135	2,377	-	-	4,512	-

	Held at 1 July 2006	Granted as remuneration	Vested and exercised	Forfeited	Held at 30 June 2007	Vested and exercisable at 30 June 2007
Option holdings						
Executive directors						
Dr CG Roberts	243,789	70,422	-	-	314,211	-
Dr JL Parker (retired 31 March 2007)(i)	91,180	18,862	(11,445)	(9,139)	89,458	
Executives						
Mr R Brook	116,920	23,239	(14,482)	(11,564)	114,113	-
Mr J Janssen	16,814	21,217	-	-	38,031	-
Mr NJ Mitchell	85,796	18,980	(10,542)	(8,419)	85,815	-
Mr MD Salmon	66,078	18,422	-	-	84,500	-
Mr CM Smith	194,476	28,849	-	-	223,325	-
Performance share holdings						
Executive directors						
Dr CG Roberts	16,518	-	-	-	16,518	-
Dr JL Parker (retired 31 March 2007)(i)	7,485	-	(1,472)	(1,176)	4,837	-
Executives						
Mr R Brook	9,573	-	-	(1,487)	8,086	-
Mr J Janssen	3,253	-	-	(444)	2,809	-
Mr NJ Mitchell	7,029	-	(1,356)	(1,083)	4,590	-
Mr MD Salmon	4,533	-	-	-	4,533	-
Mr CM Smith	2,135	-	-	-	2,135	-

(i) Closing position reflects balance at date of retirement.

No options held by key management personnel were vested but not exercisable at 30 June 2007 or 2008.

All options and performance shares granted in the 2008 financial year were granted on 20 August 2007 and vest in August 2010. Options have an expiration date of 30 June 2012. No options or performance shares have been granted since the end of the financial year. The options and performance shares were provided at no cost to the recipients.

All options granted during the financial year have an exercise price of $63.18 per share and a fair value of $8.19 per share at grant date for options with performance based conditions and $8.12 per share at grant date for options with market based conditions. The performance shares granted during the financial year had a fair value at grant date of $33.99 per share for performance shares with performance based conditions and $23.52 per share at grant date for performance shares with market based conditions.

Movement in shares

The movement during the financial year in the number of ordinary shares of Cochlear Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2007	Purchases	Received on exercise of options and performance shares	Sales	Held at 30 June 2008
Directors					
Non-executive					
Mr TCE Bergman	12,000	-	-	-	12,000
Mr PR Bell	2,500	-	-	-	2,500
Prof E Byrne, AO	1,000	1,000	-	-	2,000
Mr A Denver	500	1,000	-	-	1,500
Mr R Holliday-Smith	2,500	-	-	-	2,500
Mr DP O'Dwyer	2,950	400	-	-	3,350
Executive					
Dr CG Roberts	422,018	-	174,916	-	596,934
Executives					
Mr R Brook	-	-	11,128	-	11,128
Mr J Janssen	-	-	1,556	(1,000)	556
Mr NJ Mitchell	30,000	-	41,393	(11,393)	60,000
Mr MD Salmon	14		41,412	(33,699)	7,727
Mr CM Smith	-	-	165,830	(135,830)	30,000

	Held at 1 July 2006	Purchases	Received on exercise of options and performance shares	Sales	Held at 30 June 2007
Directors					
Non-executive					
Mr TCE Bergman	12,000	-	-	-	12,000
Mr PR Bell	1,500	1,000	-	-	2,500
Prof E Byrne, AO	1,000	-	-	-	1,000
Mr A Denver (appointed 1 February 2007)	-	500	-	-	500
Mr R Holliday-Smith	1,000	1,500	-	-	2,500
Mr PJ North, AM(i) (retired 24 October 2006)	13,000	-	-	-	13,000
Mr DP O'Dwyer	2,450	500	-	-	2,950
Mr JH Veeneklaas(i) (retired 24 October 2006)	1,000	-	-	-	1,000
Executive					
Dr CG Roberts	237,000	185,018	-	-	422,018
Dr JL Parker(i) (retired 31 March 2007)	25,000	-	12,917	(32,917)	5,000
Executives					
Mr R Brook	-	-	14,482	(14,482)	-
Mr NJ Mitchell	35,000	-	11,898	(16,898)	30,000
Mr MD Salmon	2,457	-	-	(2,443)	14

(i) Closing position reflects balance at date of retirement.

Controlled entity related parties

The Company engages in purchases and sales of goods with its controlled entities and pays a licence fee for the use of intellectual property. These transactions are in the ordinary course of business at arm's length on a transfer pricing basis and 45 day terms apply.

	Company	
	2008	2007
	$000	$000
The aggregate amounts included in the profit before income tax for the Company that resulted from transactions with non-director related parties are:		
Revenue from the sale of goods	362,745	328,888
Licence fee costs (included in cost of sales)	52,691	38,862
Interest income	1,928	1,673
Dividends from controlled entities	-	1,608
Interest expense	794	499
The aggregate amounts receivable from wholly-owned controlled entities by the Company at reporting date are:		
Current receivables	73,601	63,971

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$000	$000	$000	$000
27. Employee benefits					
Current					
Provision for long service leave		2,862	2,433	2,765	2,354
Provision for annual leave		10,154	8,683	6,882	5,972
Provision for short-term incentives		5,838	6,151	2,456	2,701
	21	**18,854**	**17,267**	**12,103**	**11,027**
Salary and wages accrued		2,707	2,638	1,678	1,296
Total current employee benefits		**21,561**	**19,905**	**13,781**	**12,323**
Non-current					
Provision for long service leave	21	3,748	3,167	2,182	1,841
Directors' retirement scheme	21	1,147	1,069	1,147	1,069
Total non-current employee benefits		**4,895**	**4,236**	**3,329**	**2,910**
Total employee benefits		**26,456**	**24,141**	**17,110**	**15,233**

The Company and the Consolidated Entity have defined benefit plans that provide pension benefits to employees upon retirement. These defined benefit plans cover, in aggregate, 67 employees. The Consolidated Entity contributed $0.7 million (2007: $0.6 million) to defined benefit plans in the year ended 30 June 2008 and expects to contribute $0.7 million in the year ending 30 June 2009. The net liability of the plans at 30 June 2008 was $0.1 million (2007: $0.1 million).

(a) Defined contribution superannuation plans

The Consolidated Entity makes contributions to defined contribution plans. The amount recognised as expense was $9.4 million for the year ended 30 June 2008 (2007: $7.1 million).

(b) Share based payments

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

The CELTIP was approved and adopted at the Annual General Meeting on 20 October 2003 and replaced the Executive Share Option Plan. 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 EPS achieved by the Consolidated Entity, and the other half against the TSR as measured against the S&P/ASX 100. If the minimum compound annual growth rate in EPS of 10% is not achieved, 50% of shares will not be issued or released to the executives. If the TSR of the Consolidated Entity is below the 50th percentile against the S&P/ASX 100 over the three years, the remaining 50% of shares will not be issued or released.

To achieve a 100% allocation of options and shares, compound annual growth rate in EPS of 20% must be achieved and the TSR of the Consolidated Entity must be in at least the 75th percentile against the S&P/ASX 100.

At the date of this report, unissued ordinary shares of the Company under option and issued shares held in the Trust and the terms and conditions of the grants and issues are as follows:

Grant date	Number of instruments	Conditions for minimum vesting	Contractual life of options
Option grant in August 2004	24,500	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	24,500	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Option grant in August 2005	338,927	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	338,928	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Option grant in August 2006	241,586	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	241,586	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Option grant in August 2007	195,458	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	195,459	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Total options	**1,600,944**		

Issue date	Number of instruments	Conditions for minimum vesting	Contractual life of shares in the Trust
Performance shares issued in August 2005	29,010	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	29,011	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Performance shares issued in August 2006	8,384	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	8,384	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Performance shares issued in August 2007	10,192	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	10,193	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Total performance shares	**95,174**		

The number and weighted average exercise prices of options are as follows:

	Weighted average exercise price $	Number of options	Weighted average exercise price $	Number of options
	2008	2008	2007	2007
Outstanding at beginning of financial year	34.69	1,948,074	30.10	1,634,204
Forfeited during the financial year	48.60	(82,047)	38.20	(125,968)
Exercised during the financial year	19.19	(676,172)	34.19	(97,543)
Granted during the financial year	63.18	411,089	49.43	537,381
Outstanding at end of financial year	**47.83**	**1,600,944**	**34.69**	**1,948,074**
Exercisable at end of financial year	18.97	49,000	18.97	715,540

The weighted average share price at date of exercise was $65.51 (2007: $51.81).

The estimated value of options for the current financial year is calculated at the date of grant using the Black-Scholes model, applying a 26.5% volatility, as reflected in the historical volatility.

For options outstanding at the end of the year, 49,000 options have an exercise price of $18.97, 1,161,027 options have an exercise price falling within the range of $39.93 – $49.43, and 390,917 options have an exercise price of $63.18 (2007: 715,540 options at $18.97 and the remainder falling within the range of $34.19 – $49.43). The weighted average remaining contractual life of options outstanding at the end of the year is three years (2007: three years).

28. Financial instruments

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Cash and cash equivalents	36,687	83,382	14,804	43,917
Trade receivables and other receivables	152,193	127,651	24,821	19,529
Forward exchange contracts used for hedging	33,093	22,080	33,093	22,080
	221,973	**233,113**	**72,718**	**85,526**

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Americas	43,666	43,354	-	-
Europe	69,346	54,861	-	-
Asia Pacific	30,821	18,682	22,033	13,359
	143,833	**116,897**	**22,033**	**13,359**

Impairment losses

The ageing of the Consolidated Entity's trade receivables at the reporting date was:

	2008 $000	2007 $000
Gross receivables		
Not past due	95,219	68,847
Past due 0 – 30 days	17,255	18,634
Past due 31 – 120 days	22,579	20,087
Past due 121 – 270 days	6,643	7,120
Past due 271 days and over	4,880	4,146
	146,576	**118,834**
Impairment	(2,743)	(1,937)
Trade receivables net of impairment loss	**143,833**	**116,897**

There are certain jurisdictions in which the Consolidated Entity operates where it is customary practice for customers to extend the terms for payment beyond 270 days. As such, the Consolidated Entity discloses the balance as overdue, however it is not indicative of a higher than normal credit risk as payments typically flow to the Consolidated Entity within the extended timeframes.

The ageing of the Company's trade receivables at the reporting date was:

	2008 $000	2007 $000
Gross receivables		
Not past due	14,636	8,333
Past due 0 – 30 days	2,975	1,740
Past due 31 – 120 days	3,386	1,783
Past due 121 – 270 days	551	282
Past due 271 days and over	693	1,334
	22,241	**13,472**
Impairment	(208)	(113)
Trade receivables net of impairment loss	**22,033**	**13,359**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Balance at 1 July	(1,937)	(2,885)	(113)	(120)
Impairment loss (recognised)/utilised	(1,041)	616	(95)	7
Effect of movements in foreign exchange	235	332	-	-
Balance at 30 June	**(2,743)**	**(1,937)**	**(208)**	**(113)**

Impairment losses recognised in the year relate to significant individual customers or portfolios of customers which have been assessed as impaired under the Consolidated Entity's accounting policy as detailed in Note 3(j).

Based upon past experience, the Consolidated Entity believes that no impairment allowance is necessary in respect of trade receivables not past due.

The allowance accounts used in respect of trade receivables are used to record impairment losses unless the Consolidated Entity is satisfied that no recovery of the amount owing is possible; at that point, the amount considered non-recoverable is written off against the financial asset directly.

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Consolidated							
	Effective interest rate per annum	Carrying amount $000	Contractual cash flows $000	6 months or less $000	6-12 months $000	1-2 years $000	2-5 years $000	More than 5 years $000
Non-derivative financial liabilities 2008								
GBP floating rate loan	6.2%	10,820	11,491	336	11,155	-	-	-
EUR floating rate loan	5.0%	4,618	4,854	118	4,736	-	-	-
SEK floating rate loan	5.9%	100,207	110,641	1,521	2,971	106,149	-	-
USD floating rate loan	3.2%	31,400	32,232	251	498	31,483	-	-
AUD floating rate loan	8.1%	20,000	21,321	247	806	20,268	-	-
JPY floating rate loan	2.3%	2,938	3,086	33	33	66	2,954	-
Trade and other payables	-	60,830	60,830	60,830	-	-	-	-
Total		**230,813**	**244,455**	**63,336**	**20,199**	**157,966**	**2,954**	**-**

	Effective interest rate per annum	Carrying amount $000	Contractual cash flows $000	6 months or less $000	6-12 months $000	1-2 years $000	2-5 years $000	More than 5 years $000
Non-derivative financial liabilities 2007								
GBP floating rate loan	6.2%	12,169	12,921	376	12,545	-	-	-
EUR floating rate loan	4.5%	4,396	4,597	100	4,497	-	-	-
SEK floating rate loan	4.6%	115,347	122,483	2,653	79,255	1,727	38,848	-
USD floating rate loan	5.8%	35,332	37,382	1,025	36,357	-	-	-
AUD floating rate loan	7.0%	30,000	30,279	30,279	-	-	-	-
JPY bank overdraft	2.0%	1,422	1,422	1,422	-	-	-	-
AUD bank overdraft	9.5%	223	223	223	-	-	-	-
Trade and other payables	-	61,923	61,923	61,923	-	-	-	-
Total		**260,812**	**271,230**	**98,001**	**132,654**	**1,727**	**38,848**	**-**

	Company							
	Effective interest rate per annum	Carrying amount $000	Contractual cash flows $000	6 months or less $000	6-12 months $000	1-2 years $000	2-5 years $000	More than 5 years $000
Non-derivative financial liabilities 2008								
AUD floating rate loan	8.1%	20,000	21,321	247	806	20,268	-	-
Trade and other payables	-	27,058	27,058	27,058	-	-	-	-
Total		**47,058**	**48,379**	**27,305**	**806**	**20,268**	**-**	**-**

	Effective interest rate per annum	Carrying amount $000	Contractual cash flows $000	6 months or less $000	6-12 months $000	1-2 years $000	2-5 years $000	More than 5 years $000
Non-derivative financial liabilities 2007								
AUD floating rate loan	7.0%	30,000	30,279	30,279	-	-	-	-
AUD bank overdraft	9.5%	223	223	223	-	-	-	-
Trade and other payables	-	33,381	33,381	33,381	-	-	-	-
Total		**63,604**	**63,883**	**63,883**	**-**	**-**	**-**	**-**

Cash flow hedges

In the year ended 30 June 2008, the Consolidated Entity designated some sales and purchases of various currencies as cash flow hedges to hedge the amount converted into AUD for forecast future transactions. These are hedges of forecast future transactions to manage the currency risk arising from exchange rate fluctuations. The hedged items were highly probable foreign currency transactions.

The effectiveness of the hedging relationship is calculated prospectively using regression analysis on market values. An effectiveness test is carried out retrospectively using the cumulative dollar offset method. For this, the changes in the fair values of the hedged item and the hedging instrument attributable to spot rate changes are calculated and a ratio is created. If this ratio is between 80% and 125%, the hedge is effective.

All material hedges were effective as at the reporting date.

The following table indicates the periods in which the cash flows associated with the Company's and the Consolidated Entity's derivatives that are cash flow hedges are expected to occur:

30 June 2008

Amounts $000	Carrying amount	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Forward exchange contracts	33,093	34,150	13,360	8,515	9,871	2,404

30 June 2007

Amounts $000	Carrying amount	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Forward exchange contracts	22,080	23,139	10,525	5,955	6,881	(222)

The expected impact on the income statement is not considered to be significantly different to the cash flow impact noted above.

Currency risk

Exposure to currency risk

The Consolidated Entity's exposure to foreign currency risk was as follows, based upon notional amounts:

Amounts local currency thousands	USD	EUR	GBP	SEK	JPY
2008					
Trade receivables	49,346	34,904	3,665	4,376	527,681
Secured bank overdrafts	-	-	-	-	-
Secured bank loans	(30,000)	(2,800)	(5,200)	(571,479)	(300,000)
Trade payables	(9,614)	(2,316)	(4,986)	(19,966)	(38,315)
Gross balance sheet exposure	**9,732**	**29,788**	**(6,521)**	**(587,069)**	**189,366**

Amounts local currency thousands	USD	EUR	GBP	SEK	JPY
2007					
Trade receivables	42,354	26,066	2,972	4,022	471,672
Secured bank overdrafts	-	-	-	-	(150,000)
Secured bank loans	(30,000)	(2,800)	(5,200)	(457,903)	-
Trade payables	(7,808)	(2,121)	(3,543)	(30,100)	(53,072)
Gross balance sheet exposure	**4,546**	**21,145**	**(5,771)**	**(483,981)**	**268,600**

The Company's exposure to foreign currency risk was as follows, based upon notional amounts:

Amounts local currency thousands	USD	GBP	SEK	JPY
2008				
Trade receivables	4,381	-	-	-
Amounts receivable from controlled entities	17,867	9,305	226,217	50,075
Gross balance sheet exposure	**22,248**	**9,305**	**226,217**	**50,075**

Amounts local currency thousands	USD	GBP	SEK	JPY
2007				
Trade receivables	2,776	-	-	-
Amounts receivable from controlled entities	20,892	9,011	119,621	109,383
Gross balance sheet exposure	**23,668**	**9,011**	**119,621**	**109,383**

The Company enters into forward exchange contracts to hedge anticipated sales and purchases in USD, EUR, JPY and SEK.

The amounts of forward cover taken are in accordance with approved policy and internal forecasts.

The following table sets out the gross value to be received (sell) or paid (buy) under forward exchange contracts and the weighted average contracted exchange rates of outstanding contracts:

	Foreign exchange rates		Consolidated and Company	
	2008	2007	2008 $000	2007 $000
Sell USD				
Not later than one year			141,599	135,043
Later than one year but not later than two years			78,951	72,287
Later than two years but not later than three years			17,615	8,640
Weighted average exchange rates contracted	0.83	0.78		
Sell EUR				
Not later than one year			129,394	118,250
Later than one year but not later than two years			78,650	61,289
Later than two years but not later than three years			15,914	6,750
Weighted average exchange rates contracted	0.57	0.59		
Sell JPY				
Not later than one year			10,725	9,396
Later than one year but not later than two years			5,248	3,771
Later than two years but not later than three years			1,270	1,287
Weighted average exchange rates contracted	86.52	82.99		
Buy SEK				
Not later than one year			-	36,600
Weighted average exchange rates contracted	-	5.29		

The following significant exchange rates applied to the Company and the Consolidated Entity during the year:

	Average rate		Reporting date spot rate	
AUD 1 =	2008	2007	2008	2007
USD	0.897	0.789	0.956	0.849
EUR	0.612	0.610	0.606	0.637
GBP	0.449	0.411	0.481	0.427
SEK	5.706	5.602	5.703	5.886
JPY	99.290	94.425	102.110	105.450
CHF	0.997	0.977	0.978	1.047

Interest rate risk

Profile

At the reporting date, the interest rate profile of the Company's and Consolidated Entity's interest-bearing financial instruments was:

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Carrying amount				
Variable rate instruments				
Financial assets	36,687	83,382	14,804	43,917
Financial liabilities	169,983	198,889	20,000	30,223

Sensitivity analysis

In managing interest rate and currency risks, the Consolidated Entity aims to reduce the impact of short-term fluctuations on the Consolidated Entity's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates will have an impact on profit.

For the year ended 30 June 2008, it is estimated that a general increase of one percent in interest rates would have decreased the Consolidated Entity's profit after income tax and equity by approximately $0.9 million (2007: $0.8 million). A one percent decrease in interest rates would have had the equal but opposite effect on the Consolidated Entity's profit and equity.

It is estimated that a general increase of ten percent in the value of the AUD against other foreign currencies would have decreased the Consolidated Entity's profit for the year ended 30 June 2008, including hedging results and after income tax by approximately $5.7 million (2007: $4.6 million) and increased the Consolidated Entity's equity by $1.0 million (2007: $6.0 million). A ten percent decrease in the value of the AUD against other foreign currencies would have had the equal but opposite effect on the Consolidated Entity's profit and equity.

Fair values

The fair values of financial assets and liabilities, together with carrying amounts shown in the balance sheet, are as follows:

		Consolidated			
		2008		2007	
	Note	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Cash and cash equivalents		36,687	36,687	83,382	83,382
Trade and other receivables – current	12	173,266	173,266	143,076	143,076
Trade and other receivables – non-current	12	15,963	15,963	6,655	6,655
Trade and other payables		(60,830)	(60,830)	(61,923)	(61,923)
Bank overdrafts	18	-	-	(1,645)	(1,645)
Secured bank loans	18	(169,983)	(169,983)	(197,244)	(197,244)
Total		**(4,897)**	**(4,897)**	**(27,699)**	**(27,699)**

		Company			
		2008		2007	
	Note	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Cash and cash equivalents		14,804	14,804	43,917	43,917
Trade and other receivables – current	12	119,941	119,941	99,275	99,275
Trade and other receivables – non-current	12	11,574	11,574	6,305	6,305
Other financial assets	14	65,656	65,656	63,989	63,989
Trade and other payables		(27,058)	(27,058)	(33,381)	(33,381)
Bank overdrafts	18	-	-	(223)	(223)
Secured bank loans	18	(20,000)	(20,000)	(30,000)	(30,000)
Total		**164,917**	**164,917**	**149,882**	**149,882**

Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

Derivatives

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free rate (based on government bonds). These fair values are provided by independent third parties.

Non-derivative financial assets and liabilities

The fair value of cash, receivables, payables and short-term borrowings is considered to approximate their carrying amount because of their short maturity.

The directors consider the carrying amount of long-term borrowings recorded in the financial statements approximates their fair value.

29. Events subsequent to reporting date

Other than the matters noted below, there has not arisen in the interval between reporting date and the date of this Financial Report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years:

Dividends

For dividends declared after 30 June 2008, see Note 9.

1 In the opinion of the directors of Cochlear Limited (the Company):

(a) the financial statements and notes that are contained in the Remuneration Report in the Directors' Report, set out on pages 37 to 101, are in accordance with 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 2008 and of their performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a); and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 There are reasonable grounds to believe that the Company and the consolidated entities identified in Note 25 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.

3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2008.

Dated at Sydney this 12 day of August 2008.

Signed in accordance with a resolution of the directors:

Director

Director

INDEPENDENT AUDIT REPORT to the Members of Cochlear Limited

Report on the financial report

We have audited the accompanying financial report of Cochlear Limited (the Company), which comprises the balance sheets as at 30 June 2008, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory Notes 1 to 29 and the directors' declaration of the Consolidated Entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion the financial report of Cochlear Limited is in accordance with 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 2008 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

Report on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2008. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the Remuneration Report of Cochlear Limited for the year ended 30 June 2008, complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

Sydney, 12 August 2008

Kevin Leighton, Partner

Additional information required by Australian Securities Exchange Listing Rules and not disclosed elsewhere in this report – the information presented is as at 1 August 2008:

Shareholdings

Substantial shareholders

Shareholder	Number of ordinary shares held	%
Capital (Institutional Group)	3,506,999	6.30
Total	**3,506,999**	**6.30**

Distribution of shareholders

Number of shares held	Number of ordinary shareholders
1 – 1,000	20,729
1,001 – 5,000	3,296
5,001 – 10,000	211
10,001 – 100,000	124
100,001 – over	24
Total	**24,384**

Non-marketable parcels – 163 shareholders held less than a marketable parcel of ordinary shares

Twenty largest shareholders

Name	Number of ordinary shares held	%
HSBC Custody Nominees (Australia) Limited	10,189,292	18.32
JP Morgan Nominees Australia Limited	9,456,841	17.00
National Nominees Limited	6,569,072	11.81
Queensland Investment Corporation	1,862,684	3.35
Citicorp Nominees Pty Limited	1,582,092	2.84
ANZ Nominees Limited (Cash Income a/c)	1,432,751	2.58
Cogent Nominees Pty Limited	1,232,260	2.22
Dr Christopher Graham Roberts	574,339	1.03
Cogent Nominees Pty Limited (SMP accounts)	524,448	0.94
Australian Reward Investment Alliance	385,860	0.69
Citicorp Nominees Pty Limited (CFS WSLE Geared Share Fund a/c)	381,158	0.69
Citicorp Nominees Pty Limited (CFSIL Cwlth Aust SHS 19 a/c)	366,398	0.66
UBS Wealth Management Australia Nominees Pty Ltd	288,894	0.52
Citicorp Nominees Pty Limited (Cwlth Bank Off Super a/c)	250,703	0.45
Citicorp Nominees Pty Limited (CFS WSLE Industrial Share a/c)	250,196	0.45
AMP Life Limited	216,289	0.39
The Australian National University	175,000	0.31
Sandhurst Trustees Ltd (JM Asset Management a/c)	169,375	0.30
Perpetual Trustee Company Limited	156,675	0.28
UCA Growth Fund Ltd	150,000	0.27
		65.10

The 20 largest shareholders held 65.10% of the ordinary shares of the Company.

On market buy-back

There is no current on market buy-back.

Glossary

Advance Off-Stylet™ technique A surgical technique used with the Contour Advance™ electrode, is designed to facilitate smooth movement through the cochlea, minimising lateral wall forces, and thereby protecting the delicate cochlear structures.

AGM Annual General Meeting.

ASIC Australian Securities and Investments Commission.

ASX Australian Securities Exchange.

Binaural hearing Hearing with both ears.

BTE Behind-the-ear speech processor.

Channel/Multi-channel Pairs of electrodes that stimulate the cochlea. A multi-channel implant that has multiple pairs of electrodes that give implant recipients more options for choosing the most responsive hearing nerve fibres, providing richer pitch information and improving hearing in noisy environments.

DACS Direct acoustic cochlear stimulator.

ERP Enterprise resource planning.

F06 Financial Year 2006: 1 July 2005 to 30 June 2006.

F07 Financial Year 2007: 1 July 2006 to 30 June 2007.

F08 Financial Year 2008: 1 July 2007 to 30 June 2008.

F09 Financial Year 2009: 1 July 2008 to 30 June 2009.

FDA United States Food and Drug Administration.

IFRS International Financial Reporting Standards.

MAP The term used to describe an individual's "listening program". It is stored in the memory of the speech processor and tells the implant how to activate electrodes in the array depending on the incoming signal.

Previous GAAP Previous Australian Generally Accepted Accounting Principles.

Processor/speech processor/sound processor The externally worn part of the cochlear implant.

R&D Research and development.

SmartSound Set of sound processing algorithms which enhance hearing performance.

TSR Total shareholder return.

Company ASX announcement record

22 FEBRUARY 2008 *FDA warning letter*
Cochlear Limited advised that its Swedish subsidiary, had received a warning letter from the United States Food and Drug Administration (FDA). An import alert was issued relating to the import of Baha® products from Sweden into the USA.

12 FEBRUARY 2008 *Record financial results for half year ended 31 December 2007*
Cochlear Limited announced record revenue for the six months of $298 million, an 8% increase over the 31 December 2006 half year and core earnings of $61.9 million, an increase of 17% over the 31 December 2006 half year.

21 DECEMBER 2007 *Patent infringement complaint*
Cochlear Limited advised that a complaint for patent infringement has been filed by the Alfred E. Mann Foundation for Scientific Research. Cochlear believes that the allegations are without merit and intends to vigorously defend against the complaint.

23 OCTOBER 2007 *Plans for new global headquarters*
Cochlear Limited announced that it plans to relocate its global headquarters and principal manufacturing facilities to the south precinct of Macquarie University's North Ryde campus. This will be a new purpose-designed building, which should be completed during 2010.

23 OCTOBER 2007 *Chairman's address*
Cochlear Limited Chairman, Mr Tommie Bergman, addressed shareholders at the Annual General Meeting.

14 AUGUST 2007 *Record financial results for year ended 30 June 2007*
Cochlear Limited announced total revenue for the year of $559.4 million, a 24% increase over the prior financial year, and core earnings of $107.6 million, a 24% increase over the prior financial year. The final dividend was 70 cents per share fully franked.

Company Information

Stock exchange listing
Australian Securities Exchange
ASX code COH

Share registrar
Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000, Australia
Tel: +61 2 8234 5000

Solicitors
Clayton Utz

Auditor
KPMG

Bankers
Australia Westpac Banking Corporation
Japan The Bank of Tokyo-Mitsubishi UFJ, Limited
Sweden Skandinaviska Enskilda Banken AB (publ)
United Kingdom NatWest Bank
United States Wells Fargo Bank West, NA

Annual General Meeting
The Annual General Meeting will be held at 10am on Tuesday 21 October 2008 at the Four Points by Sheraton, 161 Sussex Street, Sydney. A Notice of Meeting and Proxy Form are enclosed with this Annual Report.

Financial calendar
2008

Dividend record date	4 September
Payment of final dividend	25 September
Annual General Meeting	21 October

2009

Interim profit announcement	10 February
Interim dividend record date	27 February*
Payment of interim dividend	17 March*
Final profit announcement	11 August
Annual General Meeting	20 October

* Indicative dates only.

Design
Cross Media Communications Pty Ltd

Cochlear™

Cochlear Ltd (ABN 96 002 618 073) 14 Mars Road, Lane Cove NSW 2066, Australia Tel: 61 2 9428 6555 Fax: 61 2 9428 6353
Cochlear Bone Anchored Solutions AB Konstruktionsvägen 14, SE - 435 33 Mölnlycke, Sweden Tel: 46 31 792 44 00 Fax: 46 41 792 46 95
Cochlear Americas 13059 E Peakview Avenue, Centennial, CO 80111, USA Tel: 1 303 790 9010 Fax: 1 303 792 9025
Cochlear AG European Headquarters, Peter Merian-Weg 4, CH - 4052 Basel, Switzerland Tel: 41 61 205 0404 Fax: 41 61 205 0405
Cochlear GmbH Karl-Wiechert-Allee 76A, D-30625 Hannover, Germany Tel: 49 511 542 770 Fax: 49 511 542 7770
Cochlear Europe Ltd 9 Weybridge Business Park, Addlestone Road, Addlestone, Surrey KT15 2UF, United Kingdom Tel: 44 1932 87 1500 Fax: 44 1932 87 1526
Nihon Cochlear Co Ltd Ochanomizu-Motomachi Bldg, 2-3-7 Hongo, Bunkyo-Ku, Tokyo 113-0033, Japan Tel: 81 3 3817 0241 Fax: 81 3 3817 0245
Cochlear (HK) Ltd Rm 2106, 21/F Wing On Centre, 111 Connaught Rd, Central, Hong Kong Tel: 852 2530 5773 Fax: 852 2530 5183
Cochlear (HK) Ltd Beijing Representative Office Room 2301, Building 1, Blue Castle International Centre, No.3 Xi Da Wang Lu, Chaoyang District Beijing 100026, P.R. China Tel: 8610 8599 9924 Fax: 8610 8599 9804
Cochlear Limited (Singapore Branch) 6 Sin Ming Road, #01-16 Sin Ming Plaza Tower 2, Singapore 575585 Tel: 65 6553 3814 Fax: 65 6451 4105
Cochlear Benelux NV Schaliënhoevedreef 20 I, B - 2800 Mechelen, Belgium Tel: 32 15 36 28 77 Fax: 32 15 36 28 70
Cochlear France S.A.S. Route de l'Orme aux Merisiers, Z.I. Les Algorithmes - Bât Homère, 91190 St Aubin, France Tel: 33 811 111 993 Fax: 33 160 196 499
Cochlear Italia SRL Via Augusto Murri, 45/L, 40137 Bologna, Italy Tel: 39 051 7419811 Fax: 39 051 392062
Cochlear Nordic AB Konstruktionsvägen 14, SE - 435 33 Mölnlycke, Sweden Tel: 46 31 335 14 61 Fax: 46 31 335 14 60
Cochlear Canada Inc 2500-120 Adelaide Street West, Toronto, ON M5H 1T1 Canada Tel: 1 416 972 5082 Fax: 1 416 972 5083

www.cochlear.com

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