ANNUAL REPORT 2012

Cochlear™ 30 Years of changing lives

Graham Carrick

The first commercial cochlear implant recipient (1982)

Hear now. And always

Cochlear®

This year marks the 30th anniversary of the first commercial multichannel cochlear implant. The recipient, Graham Carrick, was 37 in 1982 and profoundly deaf. Graham finds it hard to explain quite how much the implant has changed his life, but he is clear that nearly every aspect of it, from his family life, to his social life to his career, has improved more than he ever thought possible.

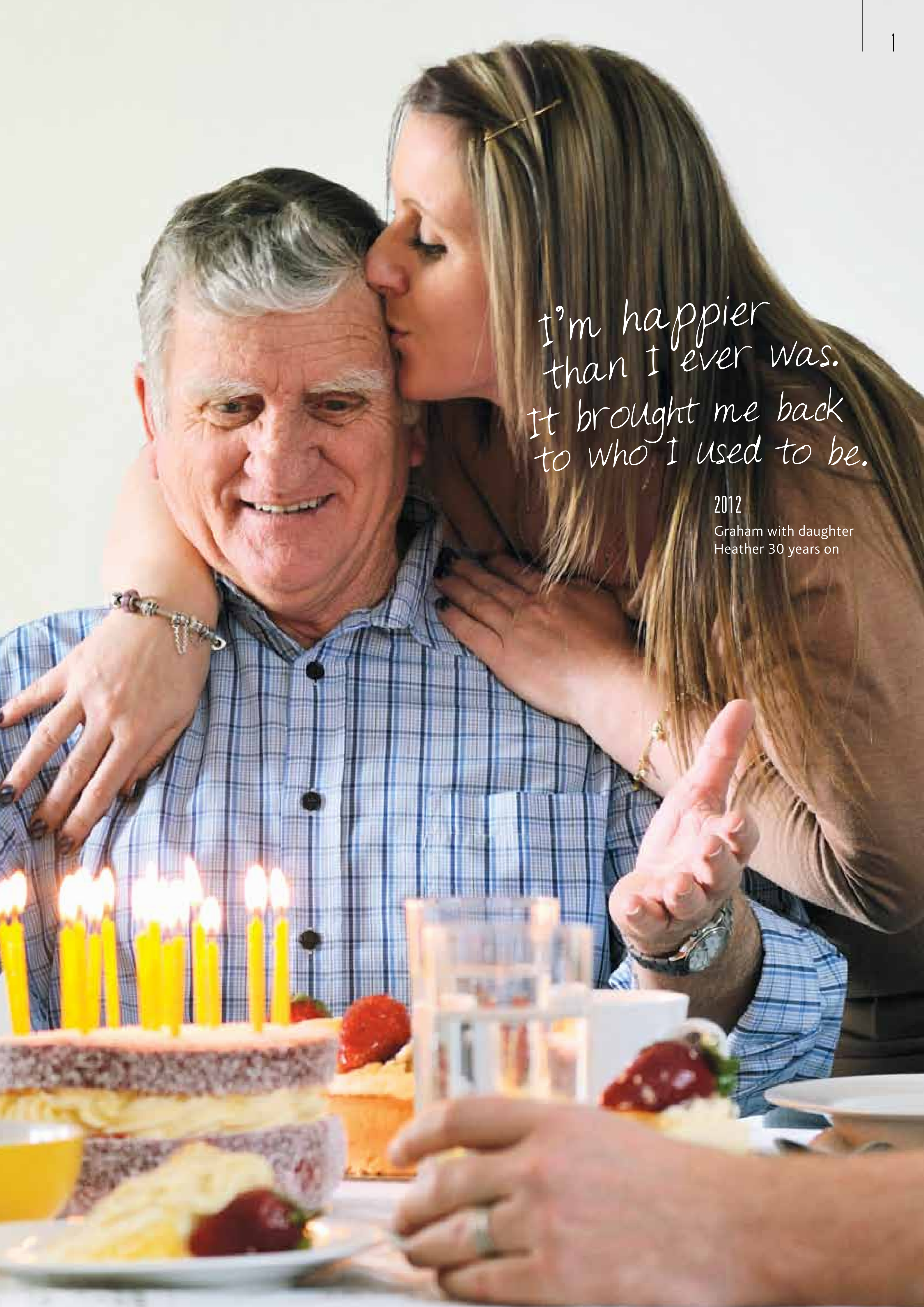
Since that first implant, Cochlear has delivered the gift of sound to more than a quarter of a million people around the world. Our hearing solutions have helped people of all ages from all walks of life reconnect to families, friends and communities.

To our recipients, we are a lifelong hearing partner and remain committed to delivering advanced solutions and ongoing support, to ensure a lifetime of the best possible hearing.

Hear now. And always

1982

Graham hearing his daughter's voice shortly after implantation

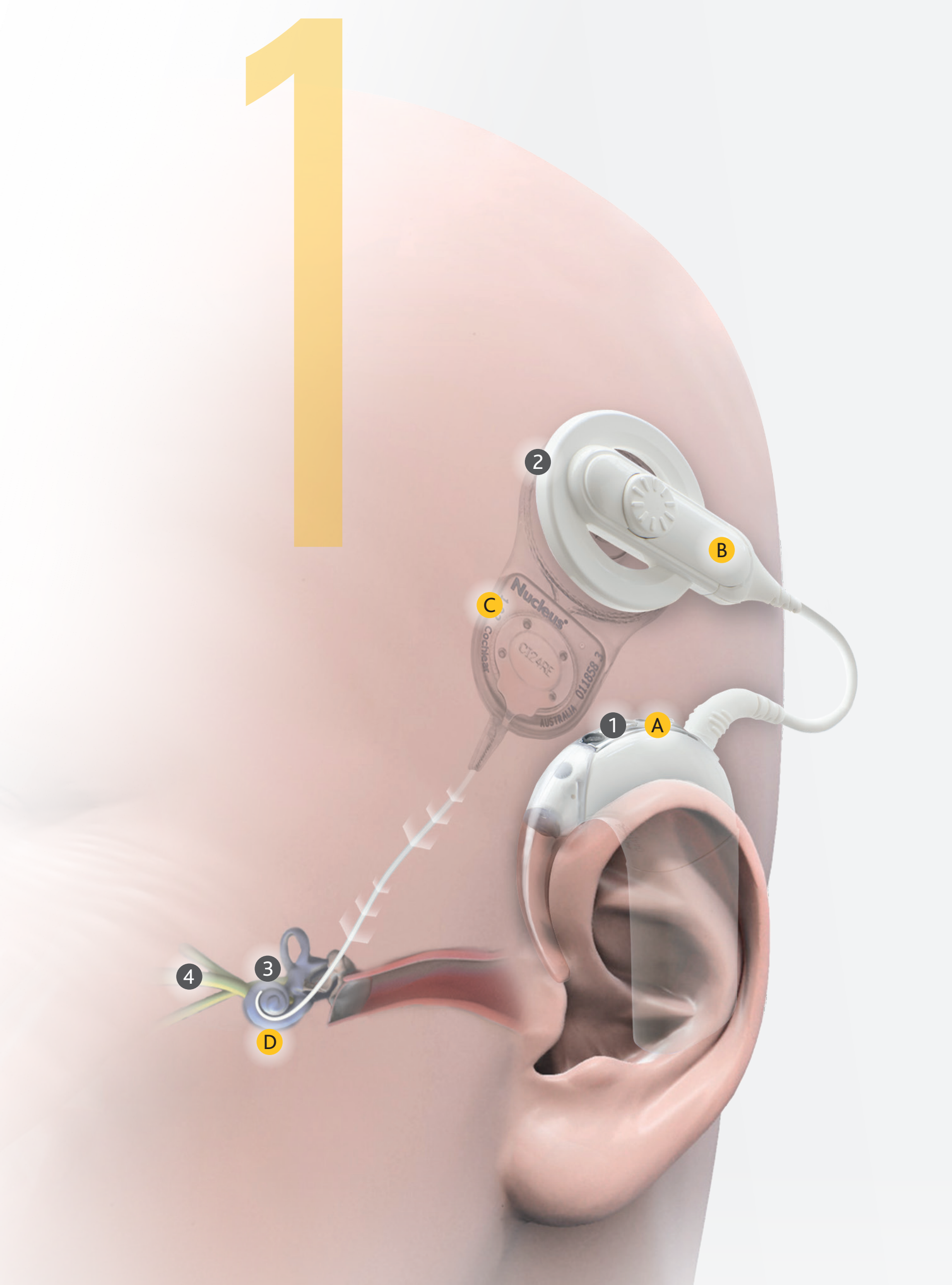


I'm happier than I ever was. It brought me back to who I used to be.

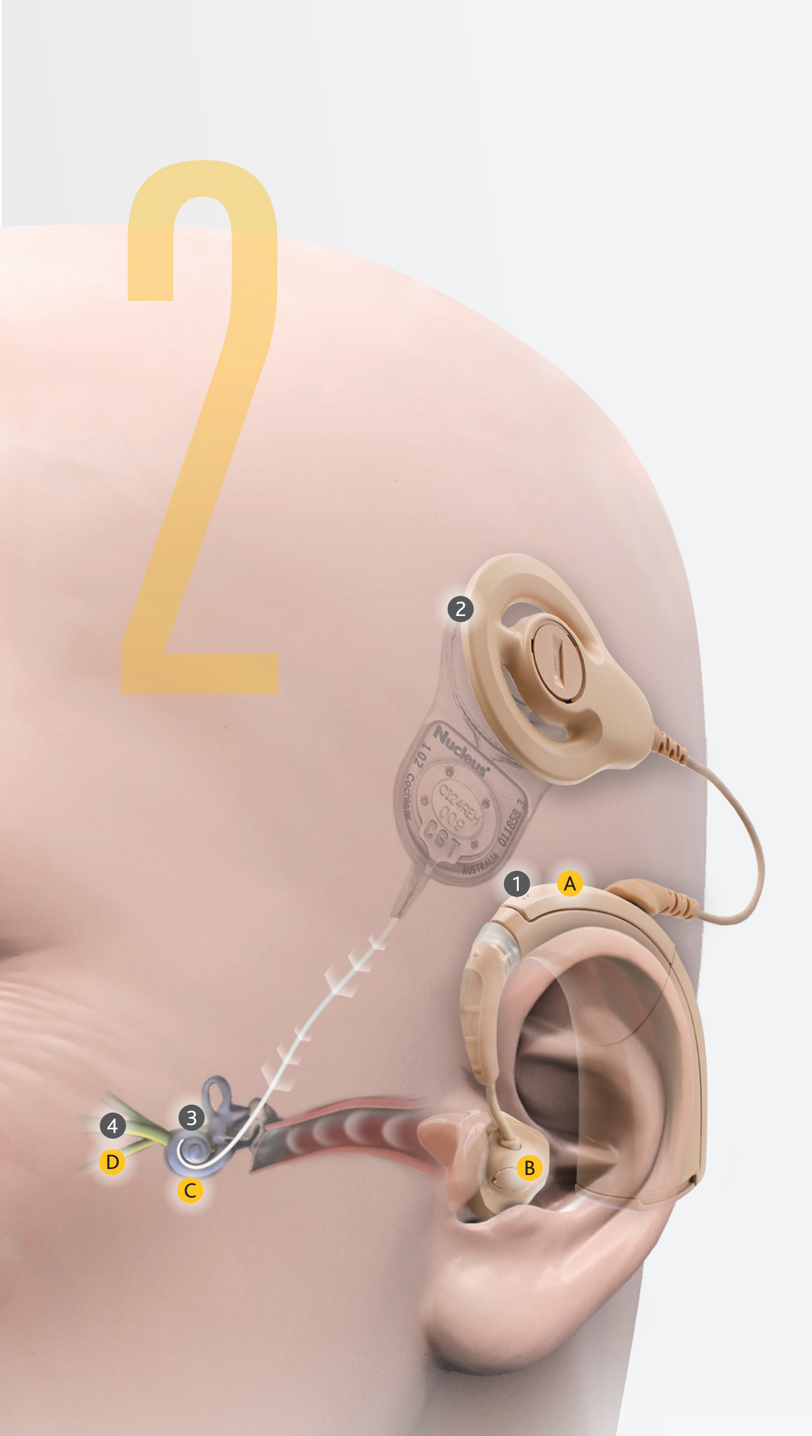
2012

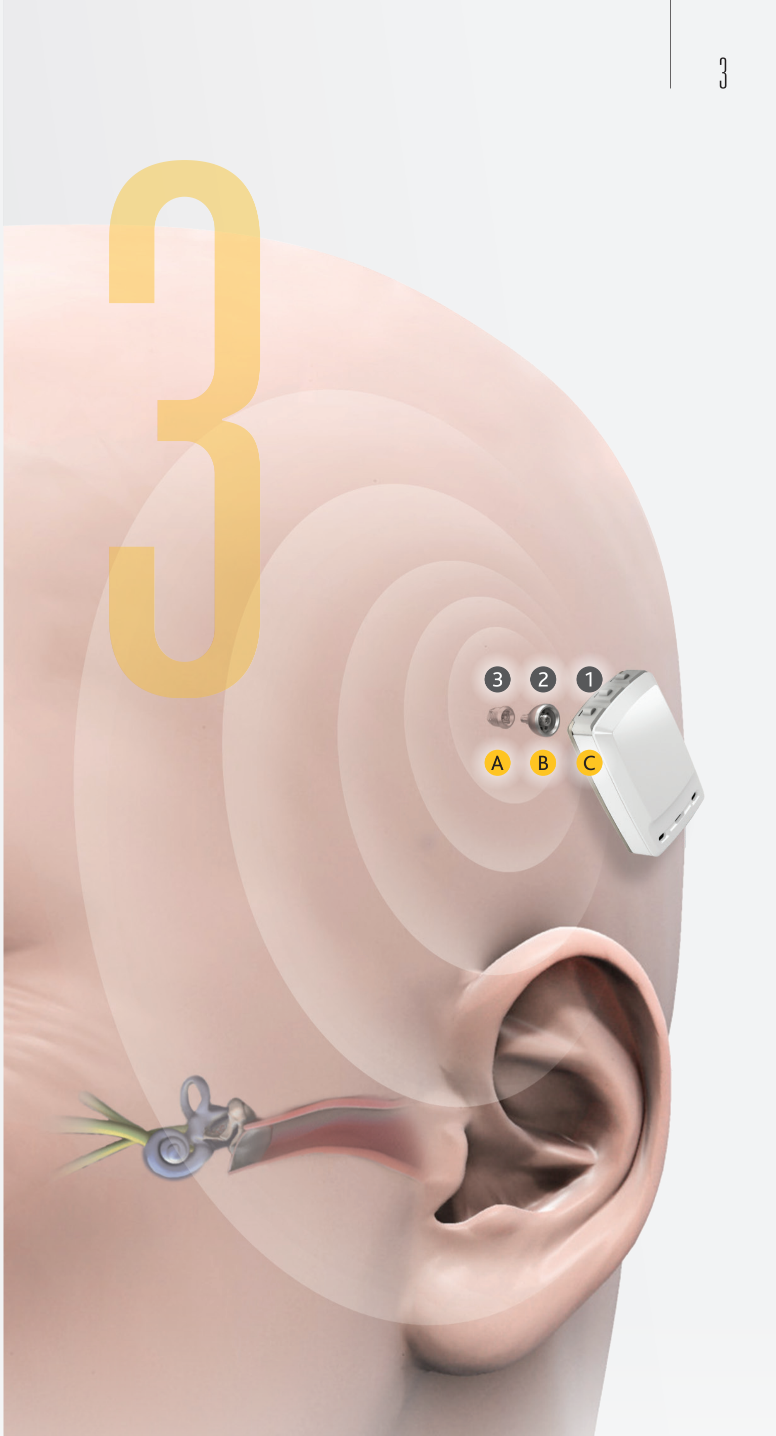
Graham with daughter Heather 30 years on

We offer three advanced solutions to address different types of hearing loss, and upgrades without the need for further surgery.



OUR THREE PRODUCTS	COCHLEAR™ NUCLEUS® SYSTEM
Type of hearing solution	Electrical stimulation
How our implantable hearing solutions work	The ear is implanted with a cochlear implant system which has both external and internal parts: A. the sound processor and B. the coil are worn behind the ear; and C. the implant is placed just under the skin, behind the ear; and D. the electrode array is positioned in the cochlea. Cochlear implants in both ears result in a more balanced sound which makes it easier to understand speech in noisy environments or locate where sound is coming from. How the cochlear implant system works 1. The sound processor captures sound and converts it into digital code. 2. The sound processor transmits the digitally coded sound via the coil to the implant just under the skin. 3. The implant converts the digitally coded sound to electrical signals and sends them to the electrode array. 4. The implant's electrodes stimulate the hearing nerve which relays the sound to the brain.





COCHLEAR™ HYBRID™ SYSTEM

Electro-acoustic stimulation

Acoustic pathway

A. The external sound processor sends low frequency sounds to the acoustic component.

B. The acoustic component amplifies the low frequency sounds and sends them via the normal hearing pathway.

C. The amplified sounds activate the hearing nerves.

D. The nerve hearing response caused by acoustic stimulation is sent to the brain which combines with electrical stimulation into a perceived sound.

Electrical pathway

1. The sound processor captures sound and converts it into digital code.
2. The sound processor transmits the digitally coded sound via the coil to the implant just under the skin.
3. The implant converts the digitally coded sound to electrical signals and sends them to the electrode array, which is positioned in the cochlea.
4. The implant's electrodes stimulate the hearing nerve which relays the sound to the brain.

COCHLEAR™ BAHA® 3 SYSTEM

Bone conduction

The Baha System combines:

A. a small titanium implant;

B. a connecting abutment; and

C. a detachable high performance sound processor.

The implant osseointegrates with bone (implant 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 or middle – are bypassed.

How the 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 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.

Advanced hearing solutions

Cochlear Baha

The Cochlear Baha 3 System continues to set performance benchmarks in direct bone conduction hearing.

In F12, the Baha BP110 Power Sound Processor continued its global rollout. The reliability and performance of the BP110 Power have been well received in the market, with studies showing that it provides better hearing performance over previous generation processors[1,2].

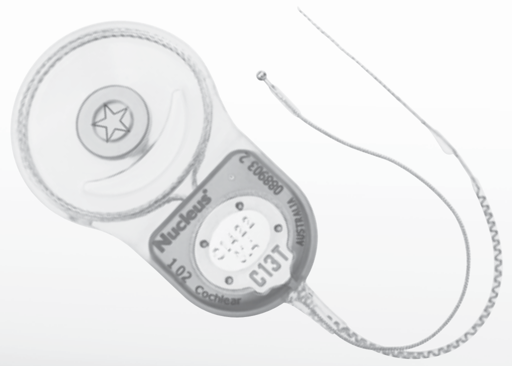
At the end of F12, the Company received CE Marking approval for the next generation Cochlear Baha BA400 Abutment, which is designed to improve soft tissue stability, leading to better patient outcomes and a reduction in surgery time. The BA400 will be released commercially to selected clinics in Europe in early F13. United States Food and Drug Administration (FDA) approval is expected in F13, followed by full commercial availability later in that financial year.

Nucleus CI422 with Straight Electrode

In F12, the Cochlear Nucleus CI422 with Slim Straight electrode, the world's thinnest full length electrode, was launched in Australia, the Americas and Asia Pacific.

Clinical studies verify excellent patient hearing preservation and hearing performance with the Slim Straight and confirm a substantial improvement in speech and hearing in noise[1,2,3]. The electrode also suits a range of surgical approaches, making it a popular choice for surgeons.

The addition of the new Slim Straight further strengthens Cochlear's unique electrode portfolio and is testament to the Company's ongoing collaboration with surgeons and hearing health professionals to help meet the individual needs of recipients.



1 Pfiffner F, Caversaccio MD and Kompis M. Comparisons of sound processors based on osseointegrated implants in patients with conductive or mixed hearing loss, 2011.

2 Flynn MC, Hedin A, Halvarson G, Good T and Sadeghi A. Hearing performance benefits of a programmable power Baha sound processor with a directional microphone for patients with a mixed hearing loss, 2012.

1 Skarzynski H, Lorens A, Matusiak M, Porowski M, Skarzynski PH and James CJ. Partial Deafness Treatment with the Nucleus Straight Research Array Cochlear Implant. Audiology and Neurotology, 2012.

2 Lesinski-Schiedat A, Buechner A, Schuessler M and Lenarz T. Hybrid-L and CI422 for treatment of partial deafness. Medizinische Hochschule Hannover (MHH), 2011.

3 Briggs RJS, Plant KL, English R, Hollow R and Cowan R. Initial Clinical Experience with the Nucleus Straight Research Array CI422. The 8th Asia Pacific Symposium on Cochlear Implant and Related Sciences, 2011.

Cochlear Nucleus

Cochlear's hearing solutions are designed to give recipients the best possible hearing outcomes for the lives they lead.

The Nucleus CP810 Sound Processor contains our unique Dual-Microphone technology and advanced sound input processing technologies that are designed to improve recipients' hearing in a wide range of environments. It is also water-resistant and highly durable and has easy to use buttons for maximum convenience.

The Nucleus CR110 Remote Assistant is the industry's only bi-directional hand held remote assistant, which helps recipients manage their hearing more easily and helps parents of young recipients check their children's systems are working properly, for extra peace of mind.

Cochlear has increased the final dividend to $1.25 a share, making an increase for the year of 9%

The past financial year has been a period in two parts. A successful and momentum building first three months and then a very challenging and sobering time following the voluntary recall of CI500 series implants in September 2011.

The recall impacted the whole Cochlear family, most of all our healthcare providers and many of our recipients, as well as our staff. We are very conscious of their difficulties and appreciate their understanding as we did our very best to respond to the recall and its consequences. Together, we worked through a complex range of issues and we continue our commitment to improve the lives of the hearing impaired.

Results

Cochlear achieved a credible 2012 financial year (F12) result in the context of the recall. Revenue in constant currency was up 1%, but net profit after tax fell to $56.8 million, reflecting the significant charge to profit of $138.8 million for recall costs before tax.

Dividends

At the AGM in October 2011, I reported that it was the Board's intention to support shareholders through the recall process by at least maintaining the dividend at existing levels. This we did and in March 2012, we paid an interim dividend of $1.20 per share, unchanged on the September 2011 payment.

In view of the strong ongoing cash flows generated by Cochlear in F12 and given a positive outlook over the longer term, the Board has determined to increase the final dividend to $1.25 a share, making an increase for the year of 9%. The Company has now increased its dividend each year since listing in 1995.

We will continue to monitor both free cash flow and earnings as we make future dividend decisions and will strive to manage carefully the impact of the recall on the Company's financial stability and the ability to look after our shareholders through the dividend process.

As tax paid in Australia was lower this year, the franking is reduced to 35% (F11 final dividend franked to 70%).

World economic conditions

Cochlear is a global company with a direct presence in over 20 countries and sales into over 100 countries. World events have an impact on our results, as do fluctuating foreign exchange rates.

Cochlear's portfolio of products and geography are important in managing our overall performance in an uncertain world. Inevitably, some countries are better placed for growth than others, but together the mix is well placed to deliver sustainable growth.

The continued economic uncertainty in Europe during F12 impacted the growth in certain developed countries, but reimbursement levels in the major countries have been maintained.

The emerging markets continue to be a focus and accounted for 34% of unit sales in F12 (up from 24% in the 2002 financial year). These markets, particularly China and India, continue to be a focus.

Negative foreign exchange impacts continued to be significant in F12. Cochlear has a comprehensive hedging strategy that assists in smoothing currency fluctuations in the short term, but the continued strength of the Australian dollar against the major operating currencies has been and will be a continual headwind.

Cochlear's net profit after tax would have been $23.7 million higher in F12 if F11 foreign exchange rates had prevailed.

Director and Board activities

The Board has played a major role in the oversight of the recall activities. In particular, the Medical Science Committee has taken on additional responsibilities in monitoring the progress of the recall. Under the experienced leadership of director Prof Byrne, the Medical Science Committee formally met 15 times during the year and its members also frequently met with executives outside of the Committee meetings to understand the detail of this complex and multifaceted issue.

In addition, we have had regular updates on the impact of the recall on other parts of the business. The Board has been insistent that the recall is dealt with in an urgent and transparent manner, but at the same time, it is critical that the ongoing business operations continue to operate at a high level.

I believe the Board has worked hard and diligently in difficult circumstances and I thank them for their teamwork and effort. Notwithstanding that effort, we will not consider changing the current directors' fee structure until we see a more stable financial performance, and then we will review fees in terms of fair market levels based on that future situation.

To further understand the impact of the recall events and how the business and market were responding, I undertook a comprehensive tour of our worldwide operations. I believe the right balance has been reached between ongoing operations and comprehensively dealing with the recall.

I believe we have made every attempt to deal openly with the recall issues and have accepted our responsibilities face on. I thank all our team members for their commitment to a difficult task, and our recipients for their understanding.

I am also pleased to see that we continue extending our commitment and orientation to recipient services and believe that is an important part of achieving our longer term objectives and success.

During my trip, I was made aware of new early stage but credible research concerning hearing and dementia. This research suggests the importance of a hearing strategy as a major component of adult health management. If there is, in fact, a relationship between maintaining hearing and delaying dementia, then this could have longer term implications for our adult market. Chris Roberts covers this more fully in his CEO/President's Report.

Our people

Cochlear employs approximately 2,500 people in some 25 countries. In our Australian operations alone, we are represented by over 60 nationalities.

This diversity has been a feature of Cochlear's workforce since the Company's inception. The global understanding that it brings has been an important element in Cochlear's success.

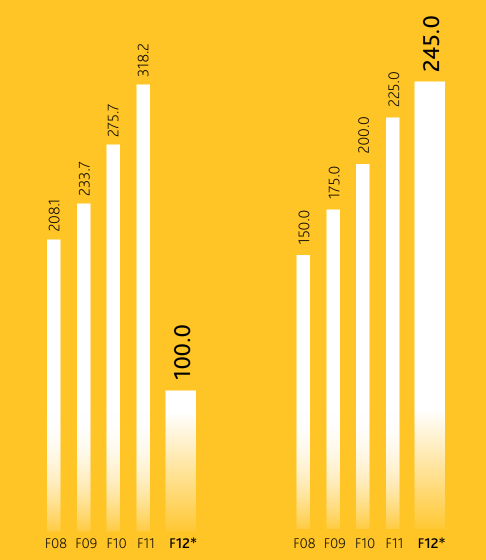
I would like to thank all our employees for their dedication, passion and hard work over the last year. The extra work created by the recall has been handled well and I am proud of the contribution everyone has made to ensuring that recipients remain our priority.

Conclusion

F12 was a difficult year for the Company, but we have maintained an ongoing focus on retaining our long-term market leadership.

I still believe Cochlear is well positioned for the longer term but we need to be diligent and attentive as we continue on a challenging journey.

Mr Rick Holliday-Smith Chairman



Basic earnings per share (cents)

Dividends per share (cents)

* Financial years.

F12 was a challenging year, but one which leaves us stronger as we enter F13

F12 was characterised by decisive action taken in September 2011 to recall unimplanted Nucleus CI500 series implants and switch the implant component in Cochlear's flagship cochlear implant system to the Nucleus CI24RE implant. Given an increase in observed field failures of CI500 series implants, a quick decision was in the best interest of recipients, and hence all stakeholders.

The ramp-up of CI24RE manufacturing (and consequences along the entire supply chain), management of inventory such that no surgeries were missed, and extensive communication and support, particularly by Cochlear's field staff, were critical success factors. Cochlear's people and partners worked closely with healthcare professionals globally managing a difficult situation. To all those people who helped and supported the situation, thank you. To all the healthcare professionals who were inconvenienced, we apologise and thank you for your support and understanding. And to those implant recipients who experienced an implant failure, we apologise unreservedly. We are committed to supporting our recipients for life, and our promise "Hear now. And Always" is very important to us.

Swapping the CI500 series implants for the CI24RE implant in the Nucleus cochlear implant system does not compromise hearing performance because the two implants provide identical hearing performance when used with the Nucleus CP810 Sound Processor (Nucleus 5 externals). The Nucleus 5 externals, released in 2009, have been very well received by recipients globally. For example, Dual-Microphone technology, along with advanced pre-processing of sound, provides unmatched hearing performance particularly in difficult hearing conditions such as speech in noise. In addition, ergonomics, cosmesis, and usability of the system have been embraced by our recipients. Overall, the swap of CI500 series implants to CI24RE implant was well accepted in the market with minimal market share loss.

For a number of months post recall, inventory of the CI24RE was limited, and while no surgeries were missed, there was destocking of inventory from hospital shelves. Cochlear implant unit sales for F12 were 23,087 units, down 6% on F11. We also experienced a reduction of tender sales in the People's Republic of China (PRC) where no cochlear implants were supplied to donation or national tender markets - this was unrelated to the CI500 series recall, as the CI500 has never been sold in the PRC.

Financial results

Total revenue for F12 was $779.0 million, down 4% over F11. An appreciating Australian dollar (average rates in F12 up 5% against the USD and 5% against the Euro) masked underlying sales growth, with sales in constant currency (e.g. restating F11 at F12 FX rates) up 1%.

Net profit after tax was $56.8 million, down 68%. This was after an expense provision of $138.8 million for the CI500 series recall ($101.3 million after tax).

Bone Anchored Solutions (BAS) product sales (e.g. Baha) were $77.9 million (down 4% in constant currency). This result was impacted by distraction from the cochlear implant recall as well as increased competition in the bone conduction segment. The BAS team continues innovating, and global launch of the Baha 3 Power was successfully completed in F12, with more innovation planned for F13.

In constant currency terms, the Americas sales of $297 million were down 2%, with EMEA (Europe, Middle East and Africa) up 2% to $285 million, and Asia Pacific with sales of $123 million up 4%.

Free cash flow of $143 million, down on the $166 million free cash flow in F11, was impacted by the recall. F12 debtor days at 73 days were similar to the 74 days at the end of F11, while F12 inventory levels at $101.3 million (182 days) was down 5% from F11 ($106.1 million (173 days)). The balance sheet remains strong, with net cash at 30 June 2012 of $3 million (and $128 million of a $200 million facility unused). The final dividend was increased 4% to $1.25 per share, giving a full year dividend of $2.45 per share, up 9%.

Growth through helping people hear

Cochlear enters F13, a stronger, improved company with an exciting pipeline of products and opportunities to drive growth over many years.

There remains a large unmet clinical need in terms of people with a significant hearing loss requiring implantable technology such as cochlear implants or bone conduction implants. Hearing is not only important for language and communication; for adults, maintaining hearing is integral to healthy ageing. Hearing loss is an independent risk factor for cognitive decline. Data published by Lin et al[1] in 2011 looked at 10 year follow-up data on 639 adults in the Baltimore Longitudinal Study of Ageing. These data showed that even after correcting for various risk factors (such as age, gender, smoking and the like), a mild hearing loss doubled the risk of developing dementia, a moderate loss trebled the risk and a severe loss increased the risk of developing dementia by a factor of five. The brain remains neuroplastic over one's life, and the adage "use it or lose it" is a reminder to all about the consequences of hearing loss. Encouragingly, in the developed economies, cochlear implantation in the over 65s is the fasting growing demographic. Indeed, in countries such as the USA, Germany and Australia, there were more new recipients over the age of 65 than children receiving cochlear implants in those countries. Cochlear implantation is for all ages.

Another important clinical trend includes the benefits of preserving auditory structure and function and combining acoustic amplification (at lower frequencies) with electrical stimulation (at higher frequencies). Bilateral cochlear implantation remains an important trend, driven by excellent clinical outcomes, as does the growth in children receiving cochlear implantation in the developing economies.

With Cochlear's market leadership, strong balance sheet and global footprint, there remains significant opportunity for Cochlear to address these global trends. Technologic innovation remains key, and research and development was up 10% to $119 million for F12. Technological building blocks, including new chipsets, new electrodes, wireless communication, transducers for acoustic implants, implantable microphones, implantable power sources and the like, form the basis for a range of products being developed.

Cochlear implantation as an intervention is very multidisciplinary, much more so than many other medical device areas, and placing Cochlear within a hearing precinct at Macquarie University helps ensure Cochlear remains close to advances relevant to the field.

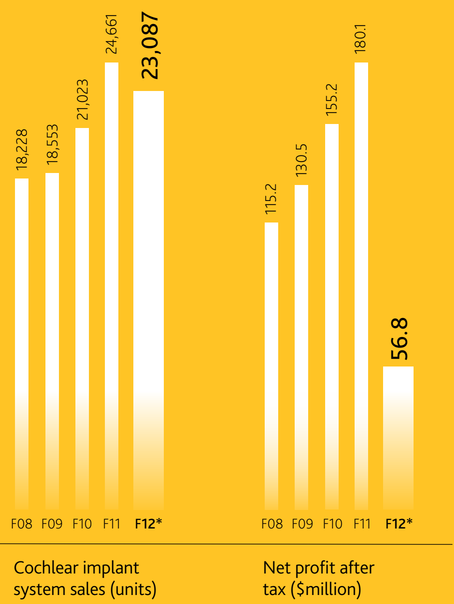
Aligning stakeholders interests: total shareholder return

The business of developing, manufacturing and supplying implantable devices for the hearing impaired, involves a lifelong commitment of support to recipients. For example, ensuring future external sound processors are backwards compatible to previous generation implants is fundamental to making sure each recipient has a lifelong benefit from the implant. This lifelong commitment we take very seriously, hence our tag line: "Hear now. And always." This means, for example, that the long-term consequences of seemingly short-term decisions must be factored into everything we do.

From a shareholder perspective that is good news, as the day-to-day business is truly about balancing the short and long term. It also makes it easier to ensure our business plans are linked with what drives shareholder returns. Total shareholder return (TSR) (both absolute and relative) is a key management metric. Three year TSR is one of the performance hurdles for management's long-term incentive program (specifically TSR relative to the S&P/ASX 100). Three year TSR to 30 June 2012 was 24.1%, which placed Cochlear 36th out of the S&P/ASX 100 companies. While there are many variables impacting share price over which management has no control, over the longer term share price does reflect management actions, and significant thought is given to connecting business strategy with shareholder returns.

Finally, and as expressed in the past, the passion and commitment of the 2,500 employees of Cochlear are palpable, and remain a key success factor for Cochlear, and to all our employees, thank you. There is no less passion and commitment in the thousands of healthcare professionals globally that implant and support our products. Together, we truly change the world of the hearing impaired.

Dr Chris Roberts CEO/President



1 Lin FR et al. Hearing Loss and Incident Dementia. Arch Neurol, 2011.

* Financial years.

Sales revenue was up 1% in constant currency. Recall costs of $138.8 million were recognised

Sales up in constant currency

- Total revenue down 4% to $779.0 million.
- In constant currency terms, sales revenue up 1%.
- Sales of cochlear implant units were down 6% to 23,087. Unit sales in the second half of the current financial year were up 15% over the first half.
- Revenues in constant currency terms increased in EMEA 2% and Asia Pacific 4% but were down in Americas 2%.
- The portfolio effect of selling in over 100 countries was still evident this year. There were no donation or tender sales in China in the current year (2011: approximately 1,000 units).
- Destocking of approximately 1,000 units followed the CI500 series implant recall.

Recall costs

- The CI500 series of implants was recalled in September 2011.
- Recall costs of $138.8 million were recognised in the current year as a charge to cost of sales ($101.3 million after tax).

Profit

- Gross margin (excluding product recall expense of $138.8 million) to total revenue at 74% was two percentage points above last year. This was driven by the mix of sales to higher priced markets and manufacturing efficiency and cost containment.
- Selling, general and administration expenses were up just 1% (4% in constant currency) as a result of a disciplined approach to expenditure, particularly following the recall.
- R&D expenses of $119.3 million increased 10%, reflecting the deliberate strategy to maintain momentum in the future development work of R&D.
- Net interest expense decreased $3.3 million to $4.3 million due to lower borrowings and lower unused line fees due to a reduction in the facility. Interest cover was 18 times (2011: 32 times).
- The tax rate of 21.3% fell by 2.1 percentage points. Excluding the impact of the product recall, the tax rate was 25.1%, up 1.7 percentage points. The change to the Australian R&D tax concession legislation effective 1 July 2011 led to a decrease in the benefit from the prior year of $5.1 million (2.4 percentage points excluding the impact of the product recall).
- NPAT decreased 68% to $56.8 million. Excluding the product recall costs, NPAT decreased 12% to $158.1 million.

Foreign exchange

- Foreign exchange was again an important aspect of the result.
- Cochlear has a partial natural hedge with over 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.
- The Australian dollar strengthened again during the year against the USD and Euro, both hedged currencies.
- Foreign currency contracts applied against foreign cash inflows, resulted in a gain of $74.4 million this year (2011: gain of $77.4 million) recognised in revenue. This was in line with the movement in foreign currency rates according to our hedging policy.
- At 30 June 2012, Cochlear had foreign currency equivalent of $509 million in foreign exchange contracts. In the coming year, F13, the average exchange rate for the US dollar contracts is 0.92 and the average for Euro contracts is 0.69.
- During the year, there was a net loss of $0.3 million (2011: gain of $2.5 million) on the translation of foreign assets. This is reported through Note 5 (Other income and other expenses) to the financial statements.
- Overall, NPAT was negatively impacted by $23.7 million due to the movements in foreign exchange rates during the year.

Increased dividends

- The final dividend of 125 cents per share brought the full year dividend to 245 cents per share. The full year dividend is up 9% on 2011.
- The final dividend is 35% franked, with 25% being Conduit Foreign Income.

Strong capital management

Strong cash generation

- Net cash provided by operating activities was $168.3 million. There was net cash of $2.9 million at 30 June 2012 (2011: $9.4 million).
- The debt facility was increased by $50 million to $200 million, of which $42 million was drawn as current and $20 million drawn as non-current at 30 June 2012.
- Cochlear continues to meet all its debt covenant conditions.

Debtors

- Debtor days decreased slightly to 73 days (2011: 74 days). Debtor days reduced in all regions as focus was made on cash collections.

Inventories

- Inventories of $101.3 million were down 5% (2011: $106.1 million). Days inventory increased to 182 days (2011: 173 days), reflecting a build-up of finished goods inventory.

Intangible assets

- Intangible assets of $206.7 million (2011: $208.6 million) are a significant proportion of Cochlear's total assets. Some $151.1 million of this total relates to goodwill arising from the earlier acquisition of businesses.
- As a result of the recall, $13.8 million of intangible assets were determined impaired and written down.
- All intangible assets are tested for impairment on an annual basis. There were no write-downs in 2012 other than the $13.8 million related to the recall.

	2012 IFRS	2011 IFRS	2010 IFRS	2009 IFRS	2008 IFRS	2007 IFRS	2006 IFRS	2005 IFRS	2004 previous GAAP	2003 previous GAAP
Cochlear implant system sales (units)	23,087	24,661	21,023	18,553	18,228	15,947	12,901	10,802	9,306	9,328
Total revenue ($million)	779.0	809.6	734.8	694.7	601.7	559.4	452.3	349.0	282.8	306.1
R&D expenses ($million)	119.3	108.9	94.9	96.7	80.0	65.9	56.7	44.6	44.5	37.0
NPAT ($million)	56.8	180.1	155.2	130.5	115.2	100.1	80.0	59.6	36.8	58.2
EBITDA ($million)*	239.4	270.1	243.6	205.5	193.3	170.9	130.2	96.8	54.9	87.9
EBIT ($million)*	215.3	242.7	220.5	183.3	167.3	150.2	111.5	82.5	45.5	80.1
NPAT ($million)*	158.1	180.1	155.2	130.5	115.2	100.1	80.0	59.6	36.8	58.2
Basic EPS (cents)	100.0	318.2	275.7	233.7	208.1	182.9	146.8	110.1	68.2	110.0
DPS (cents)	245.0	225.0	200.0	175.0	150.0	125.0	100.0	80.0	79.0	77.0
Closing share price ($)	65.84	72.00	74.32	57.70	43.65	61.00	54.63	39.20	22.72	32.30
Market capitalisation as at 30 June ($million)	3,744	4,081	4,198	3,230	2,423	3,341	2,985	2,123	1,231	1,714
Number of employees	2,390	2,319	2,006	1,888	1,789	1,655	1,100	982	816	814

* Excludes product recall expenses of $138.8 million before tax and $101.3 million after tax in 2012

The following non-IFRS financial measures are included in this document:

- Excluding recall costs
- Constant currency
- Free cash flow.

Refer to page 105 for a discussion of these items.

Cochlear continues to build its capabilities with a global team of approximately 2,500 people, based in 25 countries.

Of these, approximately 500 are engineers from a range of technical fields, supporting both development and manufacturing activities.

Attracting and keeping the best people

In a competitive global talent market, Cochlear continues to maintain staff retention levels above the medical device industry average, with annualised voluntary turnover at 8.7% in F12.

As Cochlear grows, there is an increasing emphasis on internal career development for employees. During F12, Cochlear further developed programs to encourage internal career movement for employees, doubling the positions filled by internal candidates to 15%. Cochlear maintained its commitment to developing a strong talent pipeline, building our Graduate Engineering Program and Summer Internship Program, from which the very best graduates are attracted to Cochlear. These graduates participate in a broad development program as they rotate throughout the various aspects of Cochlear's business.

Ongoing learning

To support individuals and to enhance team capability development, Cochlear continues to invest in employee learning and training development programs. Cochlear's Learning Management development system, Cochlear Academy, is deployed globally and provides employees with a range of flexible and multi-lingual learning options, modules, documents and webinars. There are now approximately 400 online learning modules on topics ranging from workplace health and safety, quality compliance to Cochlear products.

Diversity

As a global company selling into over 100 countries, diversity is strongly encouraged at Cochlear and over 60 ethnic groups are represented in the Company's Sydney offices alone. This diversity is important in gaining a global understanding of the industry's complex issues.

Another area of emphasis is the advancement of female employees. Globally, 35% of our senior executive positions and 48% of employees are now women. Importantly, the proportion of female executive managers at Cochlear (22%) is higher than for other top 200 ASX organisations (which average 11%).

During F12, Cochlear maintained active programs to promote diversity in our workforce. This was recognised by winning the Australian HR Award for our work in promoting diversity. In addition, Cochlear continues to support the Women in Leadership network, aimed at fostering the development of female leaders at Cochlear. Our Leadership Presence program for high performing female specialists has enabled women in Cochlear to grow their careers and was recognised by the Corporate Leadership Council as global best practice in promoting diversity.

Ensuring the health and safety of employees

Cochlear remains committed to providing a healthy and safe workplace for all employees. Our workplace health and safety team has been active in promoting wellness programs and improved safety reporting, which has led to a reduction in the amount of accident related lost time and to improved safety investigation and auditing.

Supporting the community

The Cochlear Foundation, established in 2007, continues its activities. The Foundation supports various programs promoting research and awareness of treatments for people with significant hearing impairment.

Cochlear supports community fundraising and corporate sporting activities, both financially and through direct involvement by employees.

Cochlear supports its employees' participation in community fundraising activities and corporate sporting activities. Among the events that Cochlear and its employees supported this year were the City2Surf Fun Run, the Sydney to Gong Bike Ride, the BRW Corporate Triathlon and Australia's Biggest Morning Tea.

In Europe, community activities were supported in several countries in F12 through team involvement and financial support. These include a range of different charities, mostly focused on helping the hearing impaired.

Environmental responsibility

Cochlear supports a group of employees called "greenFEVER" whose goals are to raise awareness of environmental issues, promote sustainable living at work and at home, and identify possible activities to further reduce the Company's environmental impact. The group has been active in promoting alternative transport options and sharing energy saving ideas with employees.

Currently, Cochlear's emissions levels are significantly below the compulsory greenhouse gas reporting thresholds set out in the Energy Efficiency Opportunities program.

Cochlear continues to focus on technologic innovation, a key growth driver

Cochlear's investment in research and development (R&D) remains a source of competitive advantage for the Company. In F12, Cochlear invested $119.3 million, representing 15.3% of revenue, in its R&D activities.

Approximately 350 specialists from a range of engineering technology disciplines and backgrounds worldwide, make up Cochlear's design and development department. These highly specialised teams are based in Australia, Sweden, Belgium and the United States, and work together with over 100 external research partners based in 20 countries.

Focused technology groups continue work to improve hearing performance outcomes for recipients. Research spans basic scientific research, new technology developments and new product developments. This includes work on Cochlear's unique Dual-Microphone and input processing technologies, totally implantable cochlear implants, simplification through automation and wireless connectivity.

In F12, R&D continued work on advancing the Company's three in-market product lines: the Cochlear Nucleus range of cochlear implant systems, the Cochlear Baha range of bone conduction systems and the Cochlear Hybrid electro-acoustic hearing solution.

Clinical trials in Europe continue to show very encouraging results for the Company's fourth product line: the Cochlear Codacs range of direct acoustic cochlear implant systems.

In F12, Cochlear launched the Nucleus CI422 cochlear implant with Slim Straight electrode, the thinnest full length electrode on the market and an important addition to the Company's market leading electrode portfolio. The new Slim Straight electrode, which is specifically designed to help preserve cochlear structures and therefore residual hearing in recipients, has been approved by the FDA in America and the TUV in Europe.

A significant level of detailed investigation into the root cause of the CI500 series implant failure was also conducted in F12. In addition, further development work into the CI500 series implant was conducted and is ongoing to support the reintroduction of the product to market.

Manufacturing operations

The manufacturing operations at Cochlear, located in Australia and Sweden, continue to allow the Company to deliver products of the highest quality and reliability.

Cochlear's manufacturing strategy is to ensure that production methods and capacity meet the ongoing reliability requirements but are also simplified to allow for improved efficiencies. Cochlear continues to run an operations improvement program, which incorporates "lean manufacturing" principles, and with ongoing investment in new manufacturing technologies which support flexibility and productivity improvements. In F12, this was demonstrated when production of Nucleus CI24RE implants was rapidly scaled up following the voluntary recall of Nucleus CI500 series implants.

Approximately 800 people are currently employed across Cochlear's manufacturing facilities.

Quality assurance

Cochlear has a worldwide quality assurance system in place to ensure the quality of its products and services. This system complies with all applicable regulatory requirements around the world.

Device approvals

Prior to commercial release, all medical devices must be approved by the relevant regulatory authorities. At present, Cochlear has all the necessary licences and approvals to enable the marketing of our products in the jurisdictions in which we operate. Ongoing approvals are regularly being sought for new products in a variety of jurisdictions.

Cochlear has recently been notified by a number of Regulatory Authorities, including TGA, FDA and European Competent Authorities that all necessary actions associated with the recall have been completed and the recall is now considered closed. The CI500 series implant will be submitted for reapproval as soon as the ongoing redesign and revalidation work is complete.

Intellectual property

The creation of new intellectual property and the protection of that as well as our existing intellectual property remain key strategic imperatives for the business. In F12, Cochlear filed many new patent applications and currently holds more than 950 patents and patent applications globally.

Cochear's presence expanded in Latin America through its Panama based subsidiary

Performance

- Revenue in the Americas region declined 2% in constant currency to $297 million in large part due to the voluntary recall of the Nucleus CI500 series implant in September 2011.
- Upgrade revenue continued to increase as recipients took advantage of the Nucleus CP810 Sound Processor.

Launches

- In June this year, after a successful controlled market release, Cochlear launched the Nucleus CI422 implant with Slim Straight electrode in the Americas region. Market feedback has been extremely positive.
- Cochlear significantly expanded its customer base in F12 with the Cochlear Baha 3 System. The Baha BI300 implant is the platform for future technology expansion and positions the Americas region well for growth.
- Cochlear continued to invest in recipient services and support including:
  - new recipient options were launched in F12 including 24/7 education, rehabilitation, new support web pages with video assets, electronic newsletters, applications for iPhone and Android devices and self-service tools; and
  - enhancements continue to improve the online recipient store, which is rapidly growing, now accounting for approximately 30% of all recipient orders.
- A new concierge program was launched connecting candidates with a team of audiologists to support and help the candidates in their decision-making.

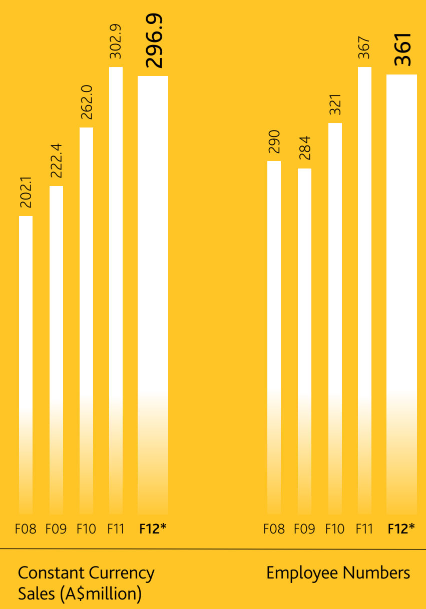
Emerging market footprint

- Cochlear's presence expanded in Latin America through its Panama based subsidiary which serves 18 countries in Central America, South America and the Caribbean.

Market growth

- In F12, Cochlear worked to expand clinical indications for the Nucleus system through the initiation of several clinical market research studies.
- Cochlear's growth strategy in the Americas region includes raising awareness of the technology and benefits of Cochlear solutions. In F12, the region expanded its consumer outreach program in 32 cities in the United States specifically targeting adults, the fastest growing population with hearing loss. This integrated program leveraged public relations, advertising, direct mail and educational events, providing an informative approach to awareness.
- The Cochlear Awareness Network continues to grow and provide support to both our current recipient base as well as to the regional awareness initiatives at the grass roots level.

Americas Region



* Financial years.

Revenue in the EMEA region increased 2% in constant currency to $285 million

Performance

- The EMEA region includes Europe, the Middle East and Africa.
- Revenue in the EMEA region increased 2% in constant currency to $285 million.
- Nucleus cochlear implant technology continued to be well received following the recall of the CI500 series implant. Sales were quickly substituted for other Nucleus implants across the region. Upgrade revenue from Nucleus CP810 Sound Processors performed very well.

Launches

- The launch of Baha 3 Power Sound Processor was well received, continuing Cochlear's leadership in this important market segment.
- Cochlear launched its newest implant, the Nucleus CI422 implant with Slim Straight electrode, in EMEA in F12. This was the first region to launch the new implant, which is designed to preserve residual hearing. Early research work on the implant had originated in EMEA and the device rapidly gained market acceptance among surgeons.

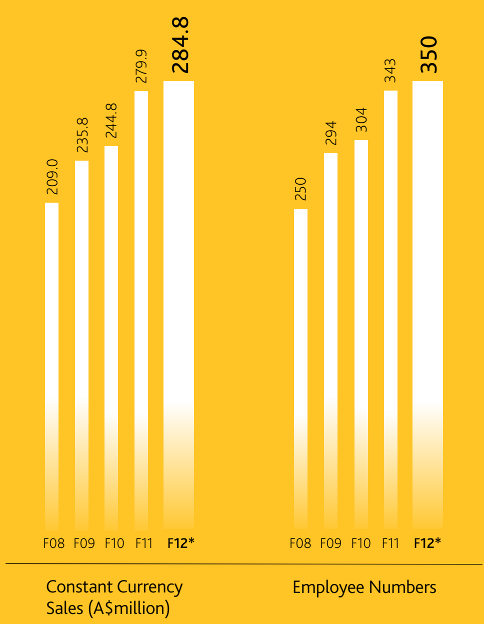
Regional footprint

- Cochlear's online strategy is an important part of growing the market through improved awareness and access. In F12, a French online store was launched. It is designed to increase access for recipients to order spares and accessories more conveniently.
- A Cochlear website for healthcare professionals was launched, including an online newsletter, to ensure easy access to clinical and product information.
- A branch office in Prague (Czech Republic) was opened to service Cochlear's expanding presence in Central and Eastern Europe.

Market growth

- Cochlear continued to promote its products and showcase its technologies at a number of important industry events including the International Congress of Hearing Aid Acousticians (EUHA) in Nuremberg, Germany, the largest hearing technology congress in Europe.
- Leading healthcare professionals were brought together to discuss various clinical topics at Cochlear's 'Science and Research Seminars'. These included the first such seminar for public health bodies across the region to cover the increasingly significant topic of "Aging and Cochlear Implantation".
- A number of country-specific European Medical Advisory Board meetings were held with key EMEA opinion leaders who were to provide comment and direct input into Cochlear technologies and their applications. This is a crucial part of Cochlear's development process.

EMEA Region



* Financial years.

Revenue in the Asia Pacific region grew 4% in constant currency to a record $123 million

Performance

- Revenue in the Asia Pacific region grew 4% in constant currency to a record $123 million.
- Growth was driven by strong overall results from Australia, Japan and India, supported by improved Nucleus sound processor sales.

Driving growth in China and India

- China and India remained a focus in F12. The development of infrastructure is an important success factor in both markets and resources continued to be targeted at programs to advance surgery, audiology and rehabilitation expertise as well as after sales service.
- The private pay segment in China grew during F12 and showed strong surgery rates in the provincial clinics, with a transition from paediatric to adult recipients demonstrating the opportunity of this segment.
- In its second year of direct operations, Cochlear's business in India continued to refine its operational footprint and increase its competitiveness in the high growth market. A focus on education and the benefits of the premium Nucleus CP810 Sound Processor's Dual-Microphone technology proved a compelling proposition for upgrading.

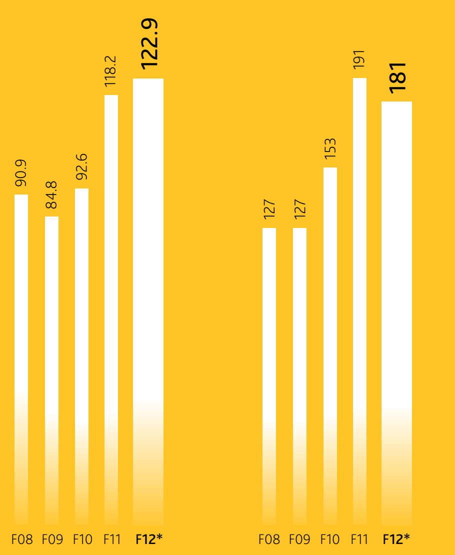
Upgrading to new technology

- Upgrades of sound processors were a focus for F12. Public policy in Australia improved, allowing the Australian Government to assist young adult recipients in the upgrade of sound processors up to the age of 26. Many Australian recipients took advantage of this opportunity.

Executing strategy

- In F12, online projects to improve customer experience were launched including computerised recipient registration and product services. In Australia, an online store was launched, allowing customers to purchase items such as batteries and accessories over the internet.
- A policy unit was established to optimise reimbursement for both cochlear and bone conduction implants. New sources of funding were secured in China, India and Australia, with reimbursement now expected for Baha systems in both Korea and Japan in F13.
- Cochlear participated in the Asia Pacific Symposium on Cochlear Implant and Related Sciences, the region's biennial industry conference where the Company engaged with key industry leaders and demonstrated the benefits of Cochlear's unique Dual-Microphone technology.
- Three Research and Technology Labs were also held at Cochlear's Sydney headquarters to share and discuss new and future technologies with 70 of the region's key opinion leaders.

Asia Pacific Region



Constant Currency Sales (A$million)

Employee Numbers

* Financial years.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1. Mr Rick Holliday-Smith

Age 62. BA (Hons), FAICD, CA
Appointed 1 March 2005

Director of Servcorp Limited since 1999. Director ASX Limited since 2006 and Chairman since March 2012. Chairman of Snowy Hydro Limited (not publicly listed) 2006 – 2012. Chairman of SFE Corporation Limited since 1999 until it merged with ASX Limited in 2006. Former director of St George Bank Limited (2007 – 2008), 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 Nomination Committee and Technology and Innovation Committee. Member of the Audit Committee and Human Resources Committee.

2. Dr Chris G Roberts CEO/President

Age 58. BE (Hons), MBA, PhD, Hon DSc (Macq), FAICD, FTSE, FIEAust
Appointed 1 February 2004

Chief Executive Officer/President of Cochlear Limited. Director of ResMed Inc since 1992 and Director of Research Australia (since 2003). Dr Roberts has worked in the medical device industry for more than 36 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 66. BA, MA (Hons)
Appointed 1 August 2005

Director of Biota Holdings Limited since 2006 and director of Westmead Medical Research. Former director of Bio-Link Partners Limited (2005 – 2009) and 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).

Chairman of the Human Resources Committee. Member of the Nomination Committee and Technology and Innovation Committee.

4. Prof Edward Byrne, AO

Age 60. DSc, MD, MBA, FRCP, FRACP
Appointed 1 July 2002

Vice Chancellor of Monash University. Former director of Neurosciences Victoria Limited and UCL Hospital Group, London. Former executive Dean of the Faculty of Biomedical Sciences, Vice Provost and Head of the Medical School at University College, London. Former Dean of Faculty of Medicine, Nursing and Health Sciences at Monash University, Melbourne (2003 – 2006). Former director of Bupa Group Board, London, 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. Current director of Bupa Australia Pty Ltd.

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

5. Mr Andrew Denver

Age 63. BSc (Hons) MBA, FAICD
Appointed 1 February 2007

Chairman of Universal Biosensor Pty Limited since 2005 (director since 2002). Chairman of Speedx Pty Ltd since May 2009 and Principals Cornerstone Management Pty Limited (not publicly listed). Former Managing Director of Memtec Limited and President Asia for Pall Corporation.

Member of the Audit Committee, Human Resources Committee, Nomination Committee and Technology and Innovation Committee.

6. Mr Donal P O'Dwyer

Age 59. BE Civil, MBA
Appointed 1 August 2005

Chairman of Atcor Medical since 2004 and a director of Sunshine Heart Inc since 2004 and Mesoblast Limited since 2004. He also served as a director of Angioblast Systems Inc from 2005 through its acquisition in 2010. Former President of Cordis Cardiology (Johnson & Johnson medical device business unit) between 2000 and 2004.

Member of the Audit Committee, Human Resources Committee, Medical Science Committee, Nomination Committee and Technology and Innovation Committee.

7. Mrs Yasmin Allen

Age 48. BCom, FAICD
Appointed 2 August 2010

Director of Insurance Australia Group Limited (IAG) since 2004, member of IAG Audit, Risk Management and Compliance Committee and Chair of IAG Nomination, Remuneration and Sustainability Committee. Chair of Macquarie Specialised Asset Management (not publicly listed) since 2003. Director of the Australian Institute of Company Directors since 2010. Former non-executive director of Film Australia (2004 – 2008), Export Finance and Insurance Corporation (2001 – 2007) and Australian Red Cross Blood Service (2002 – 2005). Former Vice President of Deutsche Bank AG, Director of ANZ Investment Bank and Associate Director, HSBC London.

Chairman of the Audit Committee. Member of the Nomination Committee and Technology and Innovation Committee.

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1. Dr Chris Roberts – CEO/President

See "Board of Directors" on page 17.

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, 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 19 years' experience in the medical device industry.

3. Dr Bronwyn Evans – Senior Vice President, Global Quality, Clinical and Regulatory

BE (Hons), PhD, FIEAust

Bronwyn is responsible for ensuring the 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. Bronwyn is a non-executive director of John Holland Group, Chair of the Medical Technology Association of Australia (MTAA), Chair of the National Board of the Engineers Australia Centre for Learning and Management (CELM) and Chair of the Advisory Board for Robogals.

4. Dig Howitt – Senior Vice President, Manufacturing and Logistics

BE (Hons), MBA

Dig is responsible for the development and execution of the strategic direction for the Cochlear supply chain. 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 R&D 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

MScEE

Jan leads a team of over 300 highly qualified engineers and scientists who implement the R&D 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 R&D 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 the global marketing strategy 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 February 2007 and is responsible for global human resources management. Her focus is on building people strategies to meet the demands of a fast growing, global company.

She has over 25 years' experience in local, regional and global human resource management roles, most recently with Bristol-Myers Squibb in the US. 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 US.

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

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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 functions at 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 – Chief Strategy Officer

BBus, BAppSc

David is responsible for the development and execution of the global business strategy.

David was appointed as Chief Strategy Officer in 2011, having served as President, Cochlear Bone Anchored Solutions since 2005. He joined the Company in 2002 as Senior Vice President, Business Development.

Prior to joining Cochlear, he worked with Accenture in strategy and operational consulting, and has extensive international and Australian experience in the healthcare, consumer products, utilities and financial services industries.

10. Prof Jim Patrick – Senior Vice President, Chief Scientist

DEng, MSc

Jim is responsible for the global research portfolio of projects that feed into the commercial development stream. 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 and Adjunct Professor at La Trobe University.

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 potential region has complex regulatory sales and marketing drivers which require coordination of sales, marketing, third party distribution, regulatory and clinical infrastructure development activities. Mark also has global responsibility for Cochlear's information technology strategy and systems.

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.

In September 2011, responsibility for Cochlear Bone Anchored Solutions was transferred to Chris in addition to his existing responsibilities.

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

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 with 2010 Amendments 2nd Edition (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. The Corporate Governance section is located under the Investor Relations tab on the Company's website. Cochlear's corporate governance policies and procedures are reviewed on a regular basis and updated where appropriate.

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 (Rec 1.3). 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 F12 is set out in the Directors' Report at page 29 (Recs 2.6, 4.4 and 8.4). At each Board meeting, the non-executive directors meet for a period without management or any executive directors present (Rec 2.1). 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 took 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 2012, the Board comprised six non-executive directors (including the Chairman) and one executive director, the CEO/President. The Board is looking for directors to bring to the Board a mix of scientific, medical, technical and financial expertise as well as international business experience. The directors consider that, between them, they possess the necessary skills, knowledge and experience to allow the Board to perform its duties appropriately. Summaries of the relevant skills, experience and expertise of each director are set out on page 17 (Rec 2.6).

The policy for appointment of directors and the selection process are outlined in the Nomination Committee Terms of Reference, which are published in the Corporate Governance section of the Cochlear website (Rec 2.6). The Nomination 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. The Nomination Committee actively considers gender diversity in carrying out its role. For further information on Cochlear's Diversity Policy, please see Principle 3: Promote ethical and responsible decision-making, below.

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. Prof Edward Byrne, AO and Mr Andrew Denver will retire at the 2012 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 in accordance with the Performance Evaluation Process. The most recent review is being undertaken in 2012. The Chairman Mr Rick Holliday-Smith undertook individual interviews and questionnaires and subsequently held evaluations with each individual director as to their performance over the past year. The key findings of these reviews will be discussed at the Nomination Committee meeting held in October 2012. 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.

The Chairman Mr Rick Holliday-Smith is an independent non-executive director (Rec 2.2). Mr Rick Holliday-Smith 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 (Rec 2.6).

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 that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement. The Nomination Committee Terms of Reference outline the criteria used to determine the independence of the directors (Rec 2.6). The criteria used follow the criteria set out in the Guidelines.

Each year, the Board assesses the independence of the non-executive directors in 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 in the Company owned by non-executive directors is 21,770. 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 page 17 (Rec 2.6). Currently, no director has served longer than 11 years on the Board. The longest serving director is Prof Edward Byrne, AO, who was appointed in 2002.

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 Chair 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 are set out in the Directors' Report at page 29 (Recs 2.6, 4.4 and 8.4). 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. The Audit Committee consists entirely of independent non-executive directors (Rec 4.2). As at 30 June 2012, Mrs Yasmin Allen chaired the Committee, with the other members being the Chairman of the Board Mr Rick Holliday-Smith, Mr Andrew Denver and Mr Donal O'Dwyer (Recs 4.2 and 4.4). 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) and other executives 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 page 17 (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 and management of risk and to assist the Board in:

- 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.

Cochlear's processes relating to financial reporting are outlined below at Principle 4: Safeguard integrity in financial reporting. Cochlear's processes relating to risk management and internal control are outlined below at Principle 7: Recognise and manage risk.

Human Resources Committee

The Human Resources Committee (which was formerly known as the Remuneration Committee) meets at least three times a year. As at 30 June 2012, Mr Paul Bell chaired the Committee, with the other members being the Chairman of the Board Mr Rick Holliday-Smith, Mr Andrew Denver and Mr Donal O'Dwyer. All members of the Human Resources Committee are independent non-executive directors (Rec 8.4). 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 Human Resources Committee Terms of Reference set out the Committee's role and responsibilities, composition, structure and membership requirements. The Human Resources Committee Terms of Reference can be viewed in the Corporate Governance section of the Cochlear website (Rec 8.4).

The Human Resources 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 other members of 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). The Human Resources Committee's role includes responsibility for the Cochlear Diversity Policy including the implementation and monitoring of the policy. Further information on Cochlear's Diversity Policy can be found below at Principle 3: Promote ethical and responsible decision-making.

The Human Resources Committee is authorised to seek any information it requires from internal resources and to take independent professional advice as it considers necessary.

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 32 to 42 (Rec 8.4).

Nomination Committee (Rec 2.4)

The Nomination Committee is chaired by the Chairman of the Board Mr Rick Holliday-Smith and, as at 30 June 2012, the other members of the Committee were Mrs Yasmin Allen, Mr Paul Bell, Prof Edward Byrne, AO, Mr Andrew Denver and Mr Donal O'Dwyer (Rec 2.6). The Nomination Committee is comprised entirely of independent non-executive directors.

The Nomination 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. The Nomination Committee's role includes:

- annually assessing the skills, knowledge, experience, independence and diversity required on the Board and the extent to which each is represented and making recommendations to the Board;
- 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 recommending ways in which the skills of directors can be enhanced; and
- overseeing succession planning for the Board and the CEO/President.

The Nomination Committee Terms of Reference set out the Committee's role and responsibilities, composition, structure and membership requirements. The Nomination Committee Terms of Reference can be viewed in the Corporate Governance section of the Cochlear website (Rec 2.6). The Nomination 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 Nomination 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. As at 30 June 2012, Prof Edward Byrne, AO chaired the Committee, with the other members 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 Terms of Reference provide for the Committee to meet on an "as needs" basis, but at least biannually. 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. The Medical Science Committee has provided oversight and guidance in relation to the recall of the unimplanted Nucleus CI500 series implants. The Committee has met on a number of occasions since the recall and has closely monitored developments for quality and regulatory implications.

Technology and Innovation Committee

The Technology and Innovation Committee was established during the 2003 financial year. As at 30 June 2012, the Committee was chaired by the Chairman of the Board Mr Rick Holliday-Smith, with the other members being Mrs Yasmin Allen, 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

Conduct

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 requirements 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. The Company has 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 3.5).

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. These policies are internal documents and are not available on the Cochlear website.

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. 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 Trading Policy, Consistent with the Corporations Act 2001, directors, senior executives and employees are prohibited by the Trading Policy from dealing in the Company's securities whilst in possession of "inside information". Subject to certain limited exceptions, the Trading Policy prohibits "Designated Persons" (which includes the Company's key management personnel and certain other persons) from dealing in Cochlear securities outside of set trading windows. During the trading windows, Designated Persons must still seek "no objection" from the Company prior to trading in Cochlear securities. Employees who are not Designated Persons are not restricted to dealing within the trading windows. However, in order to mitigate the risk of inadvertently trading whilst in possession of inside information, the Policy advises employees to trade in the Company's securities only during the trading windows. 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.

Compliance with the Trading Policy is monitored. The Audit Committee receives a report at each of its meetings regarding trading in the Company's securities by the CEO/President and other members of 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 details of the Trading Policy and the trading windows as well as guidelines on what constitutes insider trading. The Trading Policy can be viewed in the Corporate Governance section of the Cochlear website.

Diversity

As a global business, Cochlear is committed to providing an inclusive workplace that attracts the best employees to support its growth business. Cochlear therefore needs people with a diverse range of skills, expertise and diversity in terms of gender, age and ethnicity. To this end, the focus of the Company's workforce demographics objectives is to continuously build organisational capabilities to achieve Cochlear's business vision and mission.

Cochlear's policy is to recruit and manage on the basis of competence and performance regardless of age, nationality, race, gender or cultural background. As a business founded on technology leadership, the Company places a particular focus on attracting and retaining staff with science, technology, engineering and mathematical skills to drive long-term value creation in the business.

To ensure the Company meets its ongoing commitment to diversity, Cochlear has established a Diversity Policy (Rec 3.2). The Diversity Policy can be viewed in the Corporate Governance section of the Cochlear website (Rec 3.5). The Diversity Policy sets out the following Workforce Objectives:

- growing the diversity of Cochlear's workforce to reflect the Company's business needs and the global community it serves;
- implementing programs that prepare women to take on senior roles within the business both in operational and specialist support areas;
- implementing programs to attract a diverse workforce; and
- investing in initiatives to enable Cochlear's People Managers to provide an inclusive working environment to retain staff.

These Workforce Objectives will each have annual initiatives which are approved and monitored by the Board's Human Resources Committee. These annual initiatives include initiatives with measurable objectives for achieving gender diversity (Rec 3.2). The outcomes of all annual initiatives are assessed as part of the annual workforce demographics review by the Board's Human Resources Committee (Rec 3.2). A summary of the F12 annual initiatives to implement Cochlear's Workforce Objectives, together with the progress achieved for each initiative, is set out below in Table 1 (Rec 3.3). Cochlear's gender profile, including the percentage of women employees in the whole organisation, women in senior executive positions and women on the Board, is set out below in Table 2 (Rec 3.4).

Table 1: F12 Annual Initiatives and Progress

Workforce Objectives	Annual Initiative and Progress
Growing the workforce to meet Cochlear's business needs in a global community	***Science Technology Engineering and Mathematics (STEM)*** As a technology company, Cochlear needs to attract and maintain key skills for innovation in STEM areas. 64% of senior employees at Cochlear (Band 1 and their direct reports in Australia) have a STEM qualification and need this in order to perform their role. ***Increase the representation of women in the workforce*** 47% of Cochlear's total permanent full-time workforce is female. 34% of managerial roles (Bands 1–3) are filled by females. Presently, in Australia one third of new hires in executive roles and more than half of new hires in Senior Manager roles are female. In F12, 45.7% of new recruits were female. In F12, Cochlear recruited two female Senior Managers, four female Line Managers, four female Principal Specialists and 13 female Senior Specialists. These new hires increased the representation of females in all categories with the exception of the Principal Specialists, where the proportion of females remained stable. 31% of Cochlear's top and emerging talent are female and so, across key roles and pipelines, Cochlear is above the manufacturing industry average of 25.6% female. Cochlear's annualised voluntary turnover is 8.7% globally and 6.6% in Australia. These rates are very competitive for a medical device business.
Implementing programs that prepare women for senior roles	***Human capital planning for recruitment and development for executive roles*** During F12, females were appointed to two country manager roles and to two senior level support roles. ***Development programs*** Cochlear introduced a "Leadership Presence" program for high performing women during F12. Of 30 participants, 68% assumed greater business responsibility following completion of the program and 30% were promoted. The program has been selected as a global best practice by the Corporate Leadership Council. ***Women in Leadership network*** Support and sponsorship through the Women in Leadership network continued in F12 with external presenters, mentoring events and sponsorship for involvement in external networks.
Attracting diverse talent to meet Cochlear's business needs	***Promotion of science and engineering careers*** During F12, Cochlear has promoted science and engineering careers through its support of Engineering Australia, support and sponsorship for Robogals (an organisation committed to fostering female participation in science and engineering programs in schools) and participation in career programs for the University of Wollongong and Macquarie University. ***Building Cochlear's graduate pipeline*** Cochlear has continuously invested in graduate recruitment. Since 2006, Cochlear has operated a formal graduate development program to ensure the Company attracts the top talent from Australian universities so as to build a pipeline of people for product development, manufacturing and quality roles within the business. The Summer Internship Program during F12 attracted 342 applicants. Four females and 10 males were accepted into the program. The F12 Graduate Engineering Program attracted 14 applicants for six places. Two of these places were filled by female applicants. ***Promotion of Cochlear's Employee Value Proposition*** Cochlear was the winner of the 2011 Australian HR Award for "Best Employee Value Proposition". Of 254 staff recruited in F12, 45.7% were female. The Company received a 5% increase in applications when compared to the previous year. 24% of applications received in F12 were from females, and 39% of successful candidates were female. Overall, females represented a higher proportion of successful applicants (2.7% of female applicants were successful compared to 1.5% male applicants). During F12, Cochlear further developed programs to encourage internal career movement for employees. During F12, the percentage of positions filled internally increased to 15%, with one in 10 internal applications being successful. Men and women were equally represented in internal promotions and had the same success rate.
Investing in people manager development	***Leadership Development*** 199 managers (136 People Managers and 63 Managers of Managers) are enrolled and completing self-directed learning in Cochlear's Learning Management development system. A total of 31 leadership development workshops were conducted during F12. During F12 the Company introduced a new leadership assessment and development approach and 20 People Managers completed the assessment.

Table 2: Cochlear's workforce gender profile

Workplace Profile	Cochlear Limited – 30 June 2012								
Occupational Category	Permanent Full-Time		%	Permanent Part-Time		%	Total Employees		%
	Female	Male	Female	Female	Male	Female	Female	Male	Female
Board (including CEO/President)	1	6	14%	0	0	0%	1	6	14%
Senior Executive Positions	61	128	32%	8	1	89%	69	129	35%
Whole Organisation	1,071	1,220	47%	83	16	84%	1,154	1,236	48%

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 policies and procedures 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 auditor 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 2011. 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 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 the Company 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 in 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 half yearly and annual 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. In addition to attending the AGM in person, shareholders may view a webcast of the AGM online. Advance notice of the timing of half year and full year results announcements is provided on the Cochlear website. Copies of results presentations are made available via the Cochlear and ASX websites.

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). Cochlear assesses its risk management framework against the International Standard for Risk Management ISO 31000. The Risk Register puts the Risk Management Policy into effect. The Risk Register was designed and is 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 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 Register. 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 management of the Risk Register 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 (Recs 7.2 and 7.4).

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 Cochlear website (Rec 7.4).

Principle 8: Remunerate fairly and responsibly

The Board has established the Human Resources Committee to focus on appropriate remuneration policies which are designed to enhance corporate and individual performance (Rec 8.1). The Human Resources Committee Terms of Reference are published in the Corporate Governance section of the Cochlear website. These Terms of Reference set out the Human Resources Committee's role and responsibilities, composition, structure and membership requirements (Rec 8.4).

Further detail relating to the Human Resources Committee, including a signpost to the record of attendance at its meetings, can be found above at Principle 2: Structure the board to add value (Rec 8.4).

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 F12 remuneration (including retirement benefits) of the directors and specified executives are included in the Remuneration Report on pages 32 to 42. Further disclosure in relation to the remuneration philosophy is included in the Remuneration Report.

Non-executive directors' remuneration policy

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 Committee and determined by the Board within the aggregate amount approved by shareholders at the 2011 AGM of $2,000,000 a year.

The structure of non-executive directors' remuneration is clearly distinguished from that of executive directors and senior executives (Rec 8.3). 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 8.4).

Senior executives' remuneration policy

Remuneration for Cochlear executives includes both fixed and variable incentive components. Equity based executive remuneration is made in accordance with the CELTIP. The CELTIP was approved by shareholders at the 2003 AGM. The exercise periods for the CELTIP are timed to coincide with the trading windows provided in the Company's Trading Policy. In line with the Corporations Act 2001, the Trading Policy prohibits executives from hedging unvested CELTIP awards (Rec 8.4).

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 diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	✓
Rec 3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	✓
Rec 3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	✓
Rec 3.5	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	The remuneration committee should be structured so that it: • consists of a majority of independent directors; • is chaired by an independent chair; and • has at least three members.	✓
Rec 8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	✓
Rec 8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	✓

Contents

The directors present their report, together with the Consolidated Financial Report of the Consolidated Entity (Cochlear), being Cochlear Limited (the Company) and its controlled entities, for the year ended 30 June 2012, and the Auditor's Report thereon.

Directors

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

Information on the directors is presented in the Annual Report. This information includes the qualifications, experience and special responsibilities of each director. It also gives details of the directors' other directorships. Information on the Company Secretary including his qualifications and experience 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		Nomination Committee		Human Resources Committee		Technology and Innovation Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr R Holliday-Smith	11	11	5	5	-	-	2	2	4	4	3	3
Mrs YA Allen	11	11	5	5	-	-	2	2	-	-	3	3
Mr PR Bell	11	11	-	-	-	-	2	2	4	4	3	3
Prof E Byrne, AO	11	11	-	-	15	15	2	2	-	-	3	3
Mr A Denver	11	11	5	5	-	-	2	2	4	4	3	3
Mr DP O'Dwyer	11	10	5	5	15	13	2	2	4	4	3	3
Dr CG Roberts	11	10	-	-	15	13	-	-	-	-	3	3

Principal activities and review of operations and results

The principal activities and a review of the operations of Cochlear during the year ended 30 June 2012, 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 2012.

Consolidated results

The consolidated results for the financial year are:

	2012 $000	2011 $000
Revenue	778,996	809,646
Profit before income tax	72,157	235,137
Net profit after tax but before product recall costs	158,139	180,114
Product recall costs net of tax	101,336	-
Net profit	56,803	180,114
Basic earnings per share (cents)	100.0	318.2
Diluted earnings per share (cents)	99.8	316.1

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	120.0	68,171	22 September 2011	30%
In respect of the current financial year:				
Interim – ordinary shares	120.0	68,315	13 March 2012	30%

All the dividends paid or declared by the Company since the end of the previous financial year were franked at 70% and 60% respectively.

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 2012. Since the end of the financial year, the directors declared a final 125.0 cents per share dividend, 35% franked at the tax rate of 30%, amounting to a total of $71,161,790.

Environmental regulations

Cochlear's operations are not subject to any significant environmental regulations under either Commonwealth of Australia or State/Territory legislation. However, the Board believes that Cochlear 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 Cochlear.

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 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	
	2012	2011
	$	$
Audit services		
Auditors of the Company:		
KPMG:		
- audit and review of financial reports	1,156,960	1,129,668
- other audit services	129,950	106,000
- other regulatory compliance services	69,672	25,038
Total audit services	**1,356,582**	**1,260,706**
Non-audit services		
Auditors of the Company:		
KPMG:		
- taxation compliance services	1,128,460	1,462,766
Total non-audit services	**1,128,460**	**1,462,766**

State of affairs

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

Likely developments

Further information as to likely developments in the operations of Cochlear 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 Cochlear.

Remuneration Report – audited

Key management personnel have authority and responsibility for planning, directing and controlling the activities of Cochlear, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and senior executives for Cochlear.

Human Resources Committee

The Human Resources Committee operates under delegated authority of the Board. The Human Resources Committee approves the remuneration policy and structure for senior executives (being the executive director and other executives named in this report) 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 Human Resources 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 75% 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 75% 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 senior executives 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 Human Resources 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.

Services from remuneration consultants

From 1 July 2011, all proposed remuneration consultancy contracts (within the meaning of section 206K of the Corporations Act 2001) are subject to prior approval by the Board or the Human Resources Committee in accordance with the Corporations Act 2001.

During the year ended 30 June 2012, no remuneration consultancy contracts were entered into by Cochlear and accordingly there are no disclosures required under section 300A(1)(h) of the Corporations Act 2001.

Remuneration structure

CEO/President and other senior executives

Remuneration of the CEO/President and other 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. The table below details the percentage remuneration components of the directors and senior executives at target levels of performance:

	Fixed	Variable or at risk remuneration	
	Base salary	Short-term bonus	Long-term equity
Directors			
Mr R Holliday-Smith (Chairman)	100%	-	-
Mrs YA Allen	100%	-	-
Mr PR Bell	100%	-	-
Prof E Byrne, AO	100%	-	-
Mr A Denver	100%	-	-
Mr DP O'Dwyer	100%	-	-
Dr CG Roberts (CEO/President)	40%	30%	30%
Executives			
Mr R Brook (President, European Region)	62%	19%	19%
Mr J Janssen (Senior Vice President, Design and Development)	56%	22%	22%
Mr NJ Mitchell (Chief Financial Officer and Company Secretary)	56%	22%	22%
Mr MD Salmon (President, Asia Pacific Region)	52%	24%	24%
Mr CM Smith (President, Americas Region)	54%	23%	23%

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; the President, European Region has a notice period of six months; and the President, Americas Region has a notice period of 60 calendar days;
- the President, European Region will receive a maximum of Swiss francs (CHF) 30,000 for repatriation costs in the case of termination or resignation; and
- the President, Americas Region will be entitled to 12 months' base pay if his employment is terminated for reasons other than serious misconduct.

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 including comparable Australian Securities Exchange (ASX) listed companies based on market capitalisation, 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 were given the opportunity to transfer to the accumulation fund. Ongoing contributions are based on the estimated required company contributions as at July 2005, using the plan actuarial assessments. The transfer of all executive 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 the financial performance of Cochlear and the achievement of individual performance goals linked to the business strategy and objectives. Financial measures include targets of revenue and earnings before interest and tax. 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 75% of total fixed remuneration for achieving all budgeted targets. In years of exceptional performance, the short-term incentives could increase to 135% 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 Human Resources 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 Human Resources Committee reviews, and the Board approves, these assessments prior to any payment.

The Human Resources 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 Human Resources 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.

The product recall had a material impact on the financial targets for the CMSTIP in the 2012 financial year. In place of the first half CMSTIP payment, the Board used its discretion and awarded a discretionary bonus to the CEO/President and key management personnel of approximately 18% of their first half total potential in recognition of their efforts involved in managing the product recall in the first half of the 2012 financial year.

The financial targets for the senior executives CMSTIP for the second half of the 2012 financial year were refocused with reference to the recall at levels below the original potential. The potential quantum of the second half CMSTIP was significantly reduced and potential achievement was capped in recognition of revised second half 2012 financial targets.

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 options (being options to acquire ordinary shares of Cochlear Limited), performance shares (being fully paid ordinary shares of Cochlear Limited) or a combination of options and performance shares.

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 volume weighted average price of Cochlear Limited's shares traded during the five business days following the date of the provision of the preliminary final report to the 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.

Options and performance shares granted under the CELTIP are subject to vesting conditions. Under these vesting conditions, participants are restricted from any trading of options and performance shares until vesting conditions are met. Cochlear also prohibits CELTIP participants from hedging unvested options and performance shares. Entering into such arrangements has been prohibited by law since 1 July 2011. Additionally, Cochlear has general policy restricting all employees from "short selling" Cochlear securities.

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 the relevant 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 as follows:

Compound annual growth rate of EPS over a three year period		Ranking of TSR 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 time qualifications and relevant performance hurdles are met or on death of the employee.

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. Participants may direct the plan trustee to exercise votes attaching to vested shares held in trust for them.

Dividends paid to the trust in respect of performance shares are, in turn, paid to the relevant senior executives during the vesting period. Voting rights are not transferred but are attached to the performance shares once ownership is transferred. Dividends are not payable once shares are forfeited.

To comply with long-term incentive obligations, the Board has discretion to issue new shares or purchase shares from the open market.

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	Average fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate per annum	Dividend yield per annum
15 August 2011	3 – 5 years	$8.39	$68.56	$73.75	22.02%	3.89%	2.84%
24 October 2011	3 – 5 years	$2.94	$68.56	$56.61	23.78%	3.90%	3.90%

Options granted to Dr CG Roberts in the 2012 financial year were granted on 24 October 2011, following shareholder approval at the AGM in October 2011 and vest in August 2014.

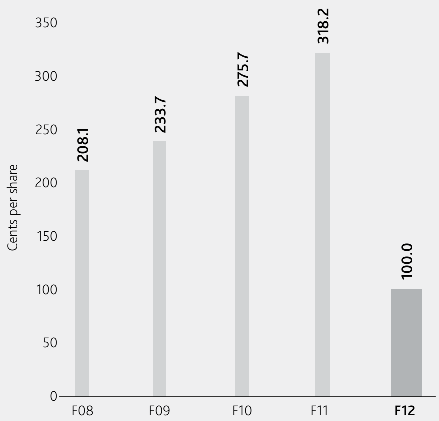
All other options and performance shares granted in the 2012 financial year were granted on 15 August 2011 and vest in August 2014. These options have an expiration date of 1 July 2016. No options or performance shares have been granted since the end of the financial year. The options and performance shares were provided at no cost to the recipients.

Performance shares granted on 15 August 2011 have a fair value of $41.79. Upon termination of employment, options and performance shares are forfeited by the exiting employee, unless special approval is granted by the Human Resources Committee for the employee to retain rights.

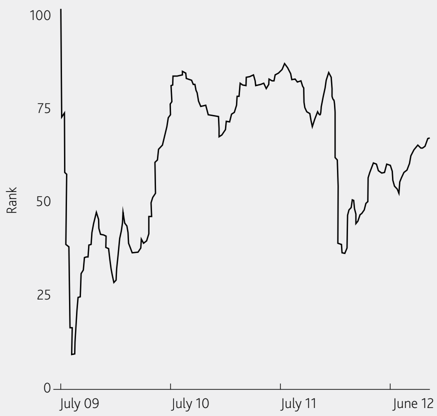
Performance of Cochlear in current CELTIP cycle

Depicted in the charts below is a comparison of basic EPS of Cochlear for the financial years 2008 to 2012 and the TSR performance of Cochlear relative to the S&P/ASX 100 for financial years 2010 to 2012:

Cochlear EPS performance



Cochlear TSR performance



For the year ended 30 June 2012, the decline in basic EPS was 69% and the decrease in total return to Cochlear Limited shareholders (as measured from the change in share price plus dividends paid) was 8%. Cochlear's TSR position relative to the S&P/ASX 100 for the period of financial years 2010 to 2012 is at number 36.

Consequences of performance on shareholder wealth

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

Amounts $	2012	2011	2010	2009	2008
Net profit after tax but before product recall costs (million)	158.1	180.1	155.2	130.5	115.2
Product recall costs net of tax (million)	101.3	-	-	-	-
Net profit attributable to equity holders of the parent entity (million)	56.8	180.1	155.2	130.5	115.2
Dividends paid (million)	136.5	118.9	107.1	89.5	77.9
Share price at 30 June	65.84	72.00	74.32	57.70	43.65
Change in share price	(6.16)	(2.32)	16.62	14.05	(17.35)

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' appointment has 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 75% of total fixed remuneration.

Dr CG Roberts participates in the CELTIP at a value equal to 75% of total fixed remuneration. The proportion of the 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 Human Resources Committee and determined by the Board. Shareholders approve the aggregate amount available for the remuneration of non-executive directors.

The total amount of fees paid to non-executive directors in the year ended 30 June 2012 is within the aggregate amount approved by shareholders at the AGM in October 2011 of $2,000,000 a year.

At the date of this report, the Chairman of Cochlear Limited is Mr R Holliday-Smith. 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. As at 30 June 2012, Prof E Byrne, AO is the only non-executive director entitled to this benefit.

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

Details of the nature and amount of each major element of remuneration of each director of the Company, and other key management personnel of the Consolidated Entity are:

	Year	Fixed remuneration						Variable remuneration				Total	Proportion of total remuneration	
		Short-term		Long-term			Total	Short-term	Equity compensation(i), (iv)		Total		Performance related	Equity related
Amounts $		Salary and fees	Non-monetary benefits(ii)	Super-annuation benefits	Termination benefits(iii)	Long service leave		Bonus(i)	Value of options	Value of perform-ance shares			%	%
Directors														
Non-executive														
Mr R Holliday-Smith (Chairman)	2012	438,000	-	15,775	-	-	453,775	-	-	-	-	453,775	-	-
	2011	439,943	-	15,199	-	-	455,142	-	-	-	-	455,142	-	-
Mrs YA Allen	2012	181,000	-	15,295	-	-	196,295	-	-	-	-	196,295	-	-
	2011	163,846	-	13,657	-	-	177,503	-	-	-	-	177,503	-	-
Mr PR Bell	2012	171,000	-	14,880	-	-	185,880	-	-	-	-	185,880	-	-
	2011	171,043	-	14,703	-	-	185,746	-	-	-	-	185,746	-	-
Prof E Byrne, AO	2012	166,000	-	14,672	16,485	-	197,157	-	-	-	-	197,157	-	-
	2011	166,135	-	14,507	18,288	-	198,930	-	-	-	-	198,930	-	-
Mr A Denver	2012	176,000	-	15,088	-	-	191,088	-	-	-	-	191,088	-	-
	2011	180,620	-	15,222	-	-	195,842	-	-	-	-	195,842	-	-
Mr DP O'Dwyer	2012	186,000	-	15,503	-	-	201,503	-	-	-	-	201,503	-	-
	2011	186,135	-	15,263	-	-	201,398	-	-	-	-	201,398	-	-
Executive Director														
Dr CG Roberts (CEO/President)	2012	1,300,385	-	15,775	-	39,809	1,355,969	403,878	321,406	-	725,284	2,081,253	34.8%	15.4%
	2011	1,200,388	-	15,199	-	25,647	1,241,234	741,411	512,648	-	1,254,059	2,495,293	50.3%	20.5%

	Year	Fixed remuneration						Variable remuneration				Total	Proportion of total remuneration	
		Short-term		Long-term			Total	Short-term	Equity compensation[i, iv]		Total		Performance related	Equity related
Amounts $		Salary and fees	Non-monetary benefits[ii]	Super-annuation benefits	Termination benefits[iii]	Long service leave		Bonus[i]	Value of options	Value of performance shares			%	%
Executives														
Mr R Brook (President, European Region)	2012	468,104	93,708	81,225	-	-	643,037	104,804	89,442	-	194,246	837,283	23.2%	10.7%
	2011	440,286	89,441	37,659	-	-	567,386	175,914	142,603	-	318,517	885,903	36.0%	16.1%
Mr J Janssen (Senior Vice President, Design and Development)	2012	453,401	-	15,775	-	12,390	481,566	96,412	69,133	23,340	188,885	670,451	28.2%	13.8%
	2011	416,498	-	15,199	-	10,238	441,935	150,385	117,973	-	268,358	710,293	37.8%	16.6%
Mr NJ Mitchell (Chief Financial Officer and Company Secretary)	2012	483,915	-	119,417	-	28,318	631,650	113,705	110,631	-	224,336	855,986	26.2%	12.9%
	2011	440,899	-	116,532	-	15,336	572,767	183,697	160,034	-	343,731	916,498	37.5%	17.5%
Mr MD Salmon (President, Asia Pacific Region)	2012	523,181	-	15,775	-	16,472	555,428	117,324	117,977	-	235,301	790,729	29.8%	14.9%
	2011	474,221	-	15,199	-	9,279	498,699	211,141	154,437	-	365,578	864,277	42.3%	17.9%
Mr CM Smith (President, Americas Region)	2012	488,741	20,404	11,760	-	-	520,905	104,417	21,212	92,954	218,583	739,488	29.6%	15.4%
	2011	468,875	21,948	12,997	-	-	503,820	182,804	111,084	69,149	363,037	866,857	41.9%	20.8%

(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 2012. 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 for interest 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 financial year. 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.

Exercise of options granted as remuneration

During the financial year, 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	88,736	49.91
Executives		
Mr R Brook	26,499	49.91
Mr J Janssen	21,717	49.91
Mr NJ Mitchell	31,346	49.91
Mr MD Salmon	42,183	53.97
Mr CM Smith	25,910	52.94

During the previous financial year, 201,762 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 other key management personnel are below:

	Short-term incentive bonus		
Amounts $	Included in remuneration	% vested in financial year(i)	% forfeited during financial year(ii)
Executive director			
Dr CG Roberts	403,878	40.9%	59.1%
Executives			
Mr R Brook	104,804	56.0%	44.0%
Mr J Janssen	96,412	51.6%	48.4%
Mr NJ Mitchell	113,705	49.2%	50.8%
Mr MD Salmon	117,324	48.5%	51.5%
Mr CM Smith	104,417	47.0%	53.0%

(i) Amounts included in remuneration for the financial year represent the amounts 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 2012 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 other key management personnel are set out below:

		Options			Performance shares		
	Date of grant[(i)]	Number granted	% vested in financial year	% forfeited in financial year[(ii)]	Number granted	% vested in financial year	% forfeited in financial year[(ii)]
Executive director							
Dr CG Roberts	18 August 2008	101,412	87.5%	12.5%	-	-	-
	17 August 2009	58,599	-	-	-	-	-
	16 August 2010	86,272	-	-	-	-	-
	24 October 2011	117,620	-	-	-	-	-
Executives							
Mr R Brook	18 August 2008	30,285	87.5%	12.5%	-	-	-
	17 August 2009	19,663	-	-	-	-	-
	16 August 2010	17,674	-	-	-	-	-
	15 August 2011	23,495	-	-	-	-	-
Mr J Janssen	18 August 2008	24,819	87.5%	12.5%	-	-	-
	17 August 2009	14,358	-	-	-	-	-
	16 August 2010	17,559	-	-	-	-	-
	15 August 2011	11,128	-	-	2,234	-	-
Mr NJ Mitchell	18 August 2008	35,824	87.5%	12.5%	-	-	-
	17 August 2009	20,686	-	-	-	-	-
	16 August 2010	21,302	-	-	-	-	-
	15 August 2011	27,538	-	-	-	-	-
Mr MD Salmon	18 August 2008	33,446	87.5%	12.5%	-	-	-
	17 August 2009	19,344	-	-	-	-	-
	16 August 2010	22,363	-	-	-	-	-
	15 August 2011	28,859	-	-	-	-	-
Mr CM Smith	18 August 2008	29,714	87.5%	12.5%	1,726	87.5%	12.5%
	17 August 2009	22,379	-	-	-	-	-
	16 August 2010	-	-	-	5,781	-	-
	15 August 2011	20,823	-	-	1,045	-	-

(i) Options and performance shares vest three years after their initial grant date.
(ii) 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.

Analysis of movements in options

The movement in value during the financial year of options over ordinary shares of Cochlear Limited held by each Company director and other key management personnel is detailed below:

	Value of options		
Amounts $	Granted in year(i)	Exercised in year(ii)	Forfeited in year(ii)
Executive director			
Dr CG Roberts	345,803	1,010,703	280,266
Executives			
Mr R Brook	197,123	294,090	33,468
Mr J Janssen	93,364	414,602	68,585
Mr NJ Mitchell	231,044	690,239	39,586
Mr MD Salmon	242,127	854,469	36,960
Mr CM Smith	174,705	530,213	32,832

(i) The value of options granted in the year is the fair value of the options calculated at grant date using the 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 2012 to 30 June 2015).

(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

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
114,258	CELTIP	$63.18	August 2010 – 1 July 2012
184,204	CELTIP	$49.91	August 2011 – 1 July 2013
396,679	CELTIP	$60.04	August 2012 – 1 July 2014
409,737	CELTIP	$69.80	August 2013 – 1 July 2015
530,562	CELTIP	$68.56	August 2014 – 1 July 2016

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

The closing share price at 30 June 2012 was $65.84.

During the financial year, the Company granted 542,948 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 final report for the year ending 30 June 2014. 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, 149,571 options granted by the Company were forfeited.

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 R Holliday-Smith	7,020	-
Mrs YA Allen	2,500	-
Mr PR Bell	2,500	-
Prof E Byrne, AO	3,250	-
Mr A Denver	2,500	-
Mr DP O'Dwyer	4,000	-
Dr CG Roberts	715,803	313,750

Indemnification of officers

Under the terms of Article 35 of the Company's Constitution, and to the extent permitted by law, the Company has indemnified the directors of the Company named in this 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
- costs 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 in this report 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 the reporting date

Other than the matters 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 Cochlear, the results of those operations, or the state of affairs of Cochlear in future financial years:

Purchase of intellectual property from Otologics LLC

On 23 July 2012, Otologics LLC made a petition to Missouri Bankruptcy Court to commence voluntary bankruptcy under United States Bankruptcy Code Title 11. Prior to the bankruptcy, Otologics LLC defaulted on a loan of USD10.0 million with Wells Fargo Bank guaranteed by Cochlear Limited.

Cochlear has subsequently settled the loan and has made a bid to acquire intellectual property and certain other assets of Otologics LLC for a total consideration of USD14.0 million. This will be settled with approximately USD4.0 million in cash payments during 2013 and recognition of the USD10.0 million loan settlement with Wells Fargo Bank by Cochlear.

In the event an alternate, higher offer is made for these assets and Cochlear is not successful with its bid, Cochlear will receive full repayment of the loan settlement.

At 30 June 2012, Cochlear has recorded a liability of USD10.0 million, being the amount payable to Wells Fargo Bank, and an asset "Right to acquire intellectual property" of the same value to reflect its security interest in the intellectual property assets of Otologics LLC.

Dividends

For dividends declared after 30 June 2012, see Note 9 to the financial statements.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 45 and forms part of the Directors' Report for the financial year ended 30 June 2012.

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 Directors' Report and Financial Report have been rounded off to the nearest one thousand dollars, unless otherwise indicated.

Dated at Sydney this 7th day of August 2012.

Signed in accordance with a resolution of the directors:

Director

Director

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

To: the directors of Cochlear Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2012 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, 7 August 2012

Bruce Phillips, Partner

	Note	2012 $000	2011 $000
Revenue	5(a)	778,996	809,646
Cost of sales	5(b)	(203,260)	(228,486)
Cost of sales – product recall	29	(138,835)	-
Gross profit		**436,901**	**581,160**
Selling and general expenses		(197,091)	(196,237)
Administration expenses		(45,429)	(43,699)
Research and development expenses		(119,322)	(108,935)
Other income	5(c)	1,745	10,409
Other expenses	5(d)	(349)	-
Results from operating activities		**76,455**	**242,698**
Finance income	6	1,852	1,105
Finance expense	6	(6,150)	(8,666)
Net finance expense		**(4,298)**	**(7,561)**
Profit before income tax		**72,157**	**235,137**
Income tax expense	8	(15,354)	(55,023)
Net profit		**56,803**	**180,114**
Basic earnings per share (cents)	11	100.0	318.2
Diluted earnings per share (cents)	11	99.8	316.1

The notes on pages 51 to 101 are an integral part of these consolidated financial statements.

	Note	2012 $000	2011 $000
Net profit		**56,803**	**180,114**
Other comprehensive (loss)/income			
Foreign currency translation differences	6	(18,304)	(15,073)
Effective portion of changes in fair value of cash flow hedges, net of tax	6	26,639	64,923
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	6	(52,108)	(54,188)
Total other comprehensive loss		**(43,773)**	**(4,338)**
Total comprehensive income		**13,030**	**175,776**

The notes on pages 51 to 101 are an integral part of these consolidated financial statements.

	Note	2012 $000	2011 $000
Assets			
Cash and cash equivalents	22(a)	68,486	72,423
Trade and other receivables	12	189,085	238,276
Inventories	13	101,298	106,126
Current tax assets	16	5,763	3,936
Prepayments		9,249	9,123
Total current assets		**373,881**	**429,884**
Trade and other receivables	12	11,840	17,184
Property, plant and equipment	14	59,611	69,357
Intangible assets	15	206,715	208,550
Deferred tax assets	16	50,495	16,072
Total non-current assets		**328,661**	**311,163**
Total assets		**702,542**	**741,047**
Liabilities			
Trade and other payables		100,218	85,047
Loans and borrowings	17	45,744	60,000
Current tax liabilities	16	19,526	17,288
Provisions	19	78,366	42,393
Deferred revenue		18,089	18,732
Total current liabilities		**261,943**	**223,460**
Trade and other payables		735	-
Loans and borrowings	17	19,928	3,040
Provisions	19	35,056	11,264
Total non-current liabilities		**55,719**	**14,304**
Total liabilities		**317,662**	**237,764**
Net assets		**384,880**	**503,283**
Equity			
Share capital		121,136	119,737
Reserves		(16,762)	23,357
Retained earnings		280,506	360,189
Total equity		**384,880**	**503,283**

The notes on pages 51 to 101 are an integral part of these consolidated financial statements.

Amounts $000	Issued capital	Treasury reserve	Translation reserve	Hedging reserve	Share based payment reserve	Retained earnings	Total equity
2011							
Balance at 1 July 2010	119,842	(2,826)	(50,776)	45,644	27,401	299,023	438,308
Total comprehensive income							
Net profit	-	-	-	-	-	180,114	180,114
Other comprehensive income							
Foreign currency translation differences	-	-	(15,073)	-	-	-	(15,073)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	64,923	-	-	64,923
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	-	-	-	(54,188)	-	-	(54,188)
Total other comprehensive (loss)/income	**-**	**-**	**(15,073)**	**10,735**	**-**	**-**	**(4,338)**
Total comprehensive (loss)/income	**-**	**-**	**(15,073)**	**10,735**	**-**	**180,114**	**175,776**
Transactions with owners, recorded directly in equity							
Shares issued	3,384	(663)	-	-	-	-	2,721
Share based payment transactions	-	-	-	-	5,426	-	5,426
Dividends to shareholders	-	-	-	-	-	(118,948)	(118,948)
Balance at 30 June 2011	**123,226**	**(3,489)**	**(65,849)**	**56,379**	**32,827**	**360,189**	**503,283**
2012							
Balance at 1 July 2011	123,226	(3,489)	(65,849)	56,379	32,827	360,189	503,283
Total comprehensive income							
Net profit	-	-	-	-	-	56,803	56,803
Other comprehensive income							
Foreign currency translation differences	-	-	(18,304)	-	-	-	(18,304)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	26,639	-	-	26,639
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	-	-	-	(52,108)	-	-	(52,108)
Total other comprehensive loss	**-**	**-**	**(18,304)**	**(25,469)**	**-**	**-**	**(43,773)**
Total comprehensive (loss)/income	**-**	**-**	**(18,304)**	**(25,469)**	**-**	**56,803**	**13,030**
Transactions with owners, recorded directly in equity							
Shares issued	2,639	(1,240)	-	-	-	-	1,399
Share based payment transactions	-	-	-	-	3,654	-	3,654
Dividends to shareholders	-	-	-	-	-	(136,486)	(136,486)
Balance at 30 June 2012	**125,865**	**(4,729)**	**(84,153)**	**30,910**	**36,481**	**280,506**	**384,880**

The notes on pages 51 to 101 are an integral part of these consolidated financial statements.

	Note	2012 $000	2011 $000
Cash flows from operating activities			
Cash receipts from customers		724,842	724,443
Cash paid to suppliers and employees		(512,963)	(468,257)
Grant and other income received		1,745	1,742
Interest received		1,746	821
Interest paid		(5,972)	(6,879)
Income taxes paid		(41,118)	(50,593)
Net cash provided by operating activities	22(b)	**168,280**	**201,277**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(20,843)	(39,918)
Acquisition of enterprise resource planning system		(9,972)	(5,426)
Acquisition of other intangible assets		(6,629)	(4,213)
Payments for construction of Headquarters		-	(40,957)
Proceeds from sale of construction of Headquarters	28	-	130,302
Net cash (used in)/provided by investing activities		**(37,444)**	**39,788**
Cash flows from financing activities			
Proceeds of borrowings – multi-option credit facility		143,000	129,000
Repayments of borrowings – multi-option credit facility		(141,000)	(149,000)
Proceeds of borrowings – construction of Headquarters		-	24,533
Repayments of borrowings – construction of Headquarters		-	(98,344)
Proceeds from issue of share capital		1,399	2,721
Dividends paid by the parent entity	9	(136,486)	(118,948)
Net cash used in financing activities		**(133,087)**	**(210,038)**
Net (decrease)/increase in cash and cash equivalents		**(2,251)**	**31,027**
Cash and cash equivalents, net of overdrafts at 1 July		72,423	42,808
Effects of exchange fluctuation on cash held		(1,686)	(1,412)
Cash and cash equivalents, net of overdrafts at 30 June	22(a)	**68,486**	**72,423**

The notes on pages 51 to 101 are an integral part of these consolidated financial statements.

1. Reporting entity

Cochlear Limited (the Company) is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2012 comprise the Company and its controlled entities (together referred to as Cochlear or the Consolidated Entity). Cochlear is a for-profit entity and 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) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) and Interpretations adopted by the International Accounting Standards Board.

The consolidated financial statements were approved by the Board of directors on 7 August 2012.

(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(e).

(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 one thousand dollars unless otherwise stated.

(d) Use of judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and then 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.

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

Note 15 – Intangible assets

Note 19 – Provisions

Note 20 – Contingent liabilities

Note 25 – Employee benefits

Note 26 – Financial instruments

Note 29 – Product recall.

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 Cochlear.

(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 Cochlear's interest in the net assets of the controlled entity is treated as goodwill.

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

Cochlear has established 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 Cochlear and the SPE's risks and rewards, Cochlear concludes that it controls the SPE. SPEs controlled by Cochlear were established under terms that impose strict limitations on decision-making powers of the SPE's management.

(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 (e).

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 entity 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 Cochlear are recognised in the foreign currency translation reserve (translation reserve). When a foreign operation is disposed of, in part or in full, the relevant amount of its translation reserve is transferred to the income statement and reported as part of the gain or loss on disposal.

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 translation reserve.

(e) Financial instruments

Derivative financial instruments

Cochlear holds derivative financial instruments to hedge its exposure to foreign exchange risk and interest rate risk arising from operating, investing and financing activities. In accordance with its treasury policy, Cochlear 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.

On initial designation of the hedge, Cochlear formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. Cochlear makes an assessment, both at inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80% to 125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately occur.

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 measured at fair value with changes in fair value accounted for as described below.

Non-derivative financial assets

Cochlear initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which Cochlear becomes a party to the contractual provisions of the instrument.

Cochlear derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by Cochlear is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, Cochlear has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cochlear has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if Cochlear manages such investments and makes purchase and sale decisions based on their fair value in accordance with Cochlear's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables, including service concession receivables.

Non-derivative financial liabilities

Cochlear initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which Cochlear becomes a party to the contractual provisions of the instrument.

Cochlear derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, Cochlear has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cochlear classified non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise bank overdrafts, other loans and borrowings and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of Cochlear's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in accounting policy (q).

Determination of fair values

The fair value of forward exchange contracts is based upon the listed market price, if available. If a listed market price is not available, the fair value 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 interest rate based upon government bonds.

The fair value of interest rate swaps is based upon broker quotes which are then tested for reasonableness by discounting future estimated cash flows based upon the terms and maturity of each contract and using market interest rates for similar instruments.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest rate method, less any impairment losses.

Cash flow hedges

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

If the derivative financial instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs or when cash flows arising from the transaction are received.

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 transferred to the 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 previously 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.

Hedges of net investment in foreign operations

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the translation reserve. To the extent that the hedge is ineffective, such differences are recognised in the income statement. When the hedged part of a net investment is disposed of, the relevant amount in the translation reserve is transferred to the income statement as part of the profit or loss on disposal.

(f) 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 Cochlear's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(g) Provisions

A provision is recognised in the balance sheet when Cochlear 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. The unwinding of the discount rate is recognised as a finance expense.

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. Warranty periods on hardware products extend for three to 10 years.

Onerous contracts

A provision for onerous contracts is recognised when expected benefits to be derived by Cochlear from a contract are lower than the unavoidable cost of meeting contractual obligations. The provision is measured at the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, Cochlear recognises any impairment loss on the assets associated with the contract.

Self-insurance

Cochlear 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 Cochlear 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

Cochlear 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.

(h) 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 (i)). 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 Cochlear 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.

Development activities involve a plan or design for production of new or substantially improved products or processes before the start of commercial production or use. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and Cochlear intends to and has sufficient resources to complete development and use or sell the asset.

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 (i)).

Other intangible assets

Other intangible assets, comprising acquired technology, patents and licences, customer 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 (i)). 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 calculated over the cost of the asset, or an other amount substituted for cost, less its residual value.

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, patents and licences	4 – 15 years
Enterprise resource planning system	2.5 – 5 years
Customer relationships	4 years
Capitalised development expenditure	1 – 3 years.

(i) Impairment

Non-financial assets

The carrying amounts of Cochlear's non-financial assets, other than inventories (see accounting policy (k)), employee benefit assets (see accounting policy (l)), and deferred tax assets (see accounting policy (n)), 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 and intangible assets that have indefinite useful lives, and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

The recoverable amount of an asset or cash generating unit is the greater of its value in use, and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets (cash generating unit). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash generating units that are expected to benefit from the processes, intellectual property acquired and synergies of the combination.

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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for indications that the loss has decreased or no longer exists. An impairment loss is reversed if 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.

Financial assets

Cochlear's financial assets (cash and cash equivalents, trade and other receivables, and investments in controlled entities) are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

The recoverable amount of financial assets 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). Financial assets with a short duration are not discounted. An impairment loss of a financial asset is measured as the difference between the asset's carrying amount and its recoverable amount.

Impairment of financial assets is not recognised until objective evidence is available that a loss event has occurred. Individual significant financial assets are individually assessed for impairment. Impairment testing of financial assets not assessed individually is performed by placing them into portfolios of similar risk profiles and undertaking a collective assessment of impairment based on objective evidence from historical experience adjusted for any effects of conditions existing at the balance date.

All impairment losses are recognised in the income statement. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. The reversal of impairment losses on financial assets is recognised in the income statement.

In assessing collective impairment, Cochlear uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

(j) 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 (i)). 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 Cochlear and its cost can be measured reliably. All other costs are recognised in the income statement as incurred.

In respect of borrowing costs relating to qualifying assets, Cochlear capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

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 calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

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. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that Cochlear will obtain ownership by the end of the lease term.

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	2 – 15 years
Plant and equipment	3 – 14 years.

(k) 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.

(l) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Prepaid contributions are recognised as an asset. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

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

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 at the reporting date adjusted for 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 Cochlear, 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.

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 the reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that Cochlear expects to pay as at the reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

Long service leave

The provision for employee benefits for 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 the 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 the reporting date, which most closely match the terms to 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 performance 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.

(m) Receivables

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

(n) Taxation

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

- temporary differences related to investments in controlled entities and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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

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 different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income tax expenses that arise from the distribution of cash dividends are recognised at the same time that the liability to pay the related dividend is recognised. Cochlear does not distribute non-cash assets as dividends to its shareholders.

Cochlear 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. The head entity within the tax-consolidated group is Cochlear Limited.

(o) Payables

Trade and other payables are stated at amortised cost.

(p) 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.

(q) Finance income and expense

Interest income is recognised as it accrues in the income statement using the effective interest rate method. Borrowing costs are recognised as they accrue in the income statement as a finance expense except to the extent that borrowing costs relate to the purchase of qualifying assets in which case they are capitalised into the purchase cost of the qualifying asset as permitted by AASB 123 Borrowing Costs (2007). 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 income/(expense).

(r) Earnings per share

Cochlear 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 entity 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.

(s) Segment reporting

Determination and presentation of operating segments

An operating segment is a component of Cochlear that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Cochlear's other components if separately reported and monitored. An operating segment's operating results are reviewed regularly by the CEO/President to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO/President include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate head office results.

(t) 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.

(u) Construction contracts

Construction contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, construction contract revenue and expenses are recognised in the income statement.

Construction contract revenue and expenses are estimated and recognised in accordance with the percentage of completion method which is assessed by reference to surveys of work performed.

When the outcome of a construction contract cannot be reliably estimated, construction contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the income statement.

Construction activities are not part of the ordinary course of Cochlear's business. Cochlear is exposed to the usual risks associated with construction.

(v) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of Cochlear, except for AASB 9 Financial Instruments, which becomes mandatory for Cochlear's 2016 consolidated financial statements and could change the classification and measurement of financial assets. Cochlear does not plan to adopt this standard early and the extent of the impact has not been determined.

4. Financial risk management

Overview

Cochlear has exposure to the following risks from the use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

This note presents information about Cochlear's exposure to each of the above risks, its 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 Management Committee which is responsible for monitoring operational and financial risk management throughout Cochlear. Monitoring risk management includes ensuring appropriate policies and procedures are published and adhered to. The Risk Management Committee reports to the Audit Committee on a regular basis.

A Treasury Management 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 Cochlear's earnings. Over the longer term, permanent changes in market rates will have an impact on earnings.

Cochlear is 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 Cochlear's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

The Company only hedges the risks that affect the cash flows between the parent entity and the controlled entities. Cochlear 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 Cochlear's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by Cochlear. 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 Cochlear if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from Cochlear's receivables from customers.

Trade and other receivables

Cochlear's exposure to credit risk is influenced mainly by the geographical location and characteristics of individual customers. Cochlear 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 is 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.

Cochlear has established an allowance for impairment that represents its 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 Cochlear are provided in Note 20.

Liquidity risk

Liquidity risk is the risk that Cochlear will not be able to meet its financial obligations as they fall due. Cochlear'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 Cochlear's reputation.

Cochlear monitors cash flow requirements and produces cash flow projections for the short and long term with a view to optimising return on investments. Typically, Cochlear ensures that it has sufficient funds 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, Cochlear maintains lines of credit which are set out in Note 17.

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect Cochlear'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.

Cochlear buys and sells derivatives in accordance with the treasury risk policy, and also incurs 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, Cochlear seeks to apply hedge accounting in order to manage volatility in earnings.

Currency risk

Cochlear 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), United States dollars (USD), Euros (EUR), Sterling (GBP), Swedish kroner (SEK), Japanese yen (JPY) and Swiss francs (CHF). The currencies in which these transactions primarily are denominated are AUD, USD, EUR, GBP, SEK and JPY.

Over 90% of Cochlear'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 Cochlear's reporting currency is generally not hedged.

Interest rate risk

Cochlear is exposed to interest rate risks in Australia and Japan. See Note 26 for effective interest rates, repayment and repricing analysis of outstanding debt.

Interest rate risk is hedged on a case-by-case basis by assessing the term of borrowings and the purpose for which the funds are obtained. Hedging against interest rate risk is achieved by entering into interest rate swaps.

Operational risk

Operational risk is the risk of direct and indirect loss arising from a wide variety of causes associated with Cochlear's processes, personnel, technology and infrastructure, and from external factors other than credit, liquidity and market risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of Cochlear's operations.

Cochlear's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to Cochlear's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Risk Management Committee. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of Cochlear.

Capital management

Cochlear'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 Cochlear's objectives and monitors a number of qualitative metrics as follows:

- net debt to equity ratio – defined as net debt as a proportion of net debt plus total equity;
- dividend payout ratio – defined as dividends as a proportion of net profit after tax for a given period;
- growth in EPS – defined as the 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, Cochlear may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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

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

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

Cochlear's net debt to equity ratio was as follows:

	2012 $000	2011 $000
Total loans and borrowings	65,672	63,040
Less: Cash and cash equivalents	(68,486)	(72,423)
Net cash	**(2,814)**	**(9,383)**
Total equity	384,880	503,283
Net cash to equity ratio at 30 June	**(1%)**	**(2%)**

	Note	2012 $000	2011 $000
5. Revenue and expenses			
(a) Revenue			
Sale of goods before hedging		698,525	726,010
Foreign exchange gains on hedged sales		74,441	77,411
Revenue from the sale of goods		**772,966**	**803,421**
Rendering of services		6,030	6,225
Revenue		**778,996**	**809,646**
(b) Expenses			
Cost of sales			
Carrying amount of inventories recognised as an expense		198,421	221,753
Write-down in value of inventories		4,839	6,733
Total cost of sales (excluding product recall)		**203,260**	**228,486**
(c) Other income			
Grant received or due and receivable		896	828
Construction profit net of relocation expense	28	-	6,130
Net foreign exchange gain		-	2,503
Other income		849	948
Total other income		**1,745**	**10,409**
(d) Other expenses			
Net foreign exchange loss		349	-
Total other expenses		**349**	**-**
(e) Employee benefits expense			
Wages and salaries		191,025	179,641
Contributions to superannuation plans		14,379	12,928
Increase in leave liabilities		2,871	3,050
Equity settled share based payment transactions		3,654	5,426
Total employee benefits expense		**211,929**	**201,045**
(f) Profit before income tax has been arrived at after charging the following items:			
Operating lease rental expense		16,028	17,036
Increase in provisions		56,556	1,444
Loss on disposal of property, plant and equipment		1,652	857
Impairment of property, plant and equipment		14,006	-
Impairment of intangible assets		13,840	-

	2012	2011
	$000	$000
6. Net finance expense		
Recognised in the income statement		
Interest income	1,852	1,105
Finance income	**1,852**	**1,105**
Interest expense	(6,150)	(8,666)
Finance expense	**(6,150)**	**(8,666)**
Net finance expense recognised in the income statement	**(4,298)**	**(7,561)**
Recognised in other comprehensive income		
Foreign currency translation differences	(18,304)	(15,073)
Effective portion of changes in fair value of cash flow hedges, net of tax	26,639	64,923
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	(52,108)	(54,188)
Net finance expense recognised in other comprehensive income, net of tax	**(43,773)**	**(4,338)**

	2012	2011
	$	$
7. Auditors' remuneration		
Audit services		
Auditors of the Company		
KPMG:		
- audit and review of financial reports	1,156,960	1,129,668
- other audit services	129,950	106,000
- other regulatory compliance services	69,672	25,038
Total audit services	**1,356,582**	**1,260,706**
Non-audit services		
Auditors of the Company		
KPMG:		
- taxation compliance services	1,128,460	1,462,766
Total non-audit services	**1,128,460**	**1,462,766**

	Note	2012 $000	2011 $000
8. Income tax expense			
Recognised in the income statement			
Current tax expense			
Current year		45,335	63,406
Adjustment for prior years		(2,578)	(3,858)
		42,757	**59,548**
Deferred tax benefit			
Origination and reversal of temporary differences		(27,403)	(4,525)
	16	**(27,403)**	**(4,525)**
Total income tax expense		**15,354**	**55,023**

	2012 Total Reported $000	2012 Total Recall $000	2012 Total Adjusted $000	2011 $000
Numerical reconciliation between income tax expense and profit before income tax				
Net profit/(loss)	56,803	(101,336)	158,139	180,114
Income tax expense/(benefit)	15,354	(37,499)	52,853	55,023
Profit/(loss) before income tax	**72,157**	**(138,835)**	**210,992**	**235,137**
Income tax expense/(benefit) using the Company's domestic tax rate of 30% (2011: 30%)	21,647	(41,651)	63,298	70,541
Increase in income tax expense due to:				
Non-deductible expenses	6,274	4,152	2,122	1,707
Effect of tax rate in foreign jurisdictions	-	-	-	219
Decrease in income tax expense due to:				
Research and development allowances	(8,127)	-	(8,127)	(13,267)
Share based payment deductions	(327)	-	(327)	(319)
Effect of tax rate in foreign jurisdictions	(1,535)	-	(1,535)	-
	17,932	**(37,499)**	**55,431**	**58,881**
Adjustment for prior years	(2,578)	-	(2,578)	(3,858)
Income tax expense/(benefit) on profit before income tax	**15,354**	**(37,499)**	**52,853**	**55,023**

	Note	2012 $000	2011 $000
Deferred tax recognised in other comprehensive income relating to derivative financial instruments		(10,545)	3,475
Total deferred tax recognised in other comprehensive income	16	**(10,545)**	**3,475**
Deferred tax recognised directly in equity relating to share based payments		3,733	1,164
Total deferred tax recognised directly in equity	16	**3,733**	**1,164**

9. Dividends

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

	Cents per share	Total amount $000	Franked/unfranked	Date of payment
2012				
Interim 2012 ordinary	120.0	68,315	60% Franked	13 March 2012
Final 2011 ordinary	120.0	68,171	70% Franked	22 September 2011
Total amount	**240.0**	**136,486**		
2011				
Interim 2011 ordinary	105.0	59,544	60% Franked	15 March 2011
Final 2010 ordinary	105.0	59,404	60% Franked	23 September 2010
Total amount	**210.0**	**118,948**		

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 2012 ordinary	125.0	71,162	35% Franked	20 September 2012
Total amount	**125.0**	**71,162**		

The financial effect of the 2012 final dividend has not been brought to account in the financial statements for the year ended 30 June 2012 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	
	2012	2011
	$000	$000
Dividend franking account		
30% franking credits available to shareholders of Cochlear Limited for subsequent financial years	13,042	18,941

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 account credits is dependent upon the ability to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recorded as a liability is to reduce it by $10,711,769 (2011: $20,428,208).

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. Operating segments

Cochlear has three reportable segments, which are determined on a geographical basis and are the strategic business units of Cochlear. Segment results, assets and liabilities include items directly attributable to a segment. Unallocated items comprise corporate and other net expenses and corporate and manufacturing assets and liabilities.

Information about each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by Cochlear's CEO/President, who is also the chief operating decision maker. Segment profit before income tax is used to measure performance as management believes that such information is the most relevant in evaluating the results of each operating segment.

Information about reportable segments

	Americas		Europe		Asia Pacific		Total	
	2012	2011*	2012	2011*	2012	2011*	2012	2011*
	$000	$000	$000	$000	$000	$000	$000	$000
External revenues excluding hedging	296,948	316,962	284,691	293,331	122,916	121,942	704,555	732,235
Reportable segment profit before income tax	144,720	150,889	132,795	134,227	43,893	37,424	321,408	322,540
Reportable segment assets	91,081	82,995	143,081	159,668	72,093	51,958	306,255	294,621
Reportable segment liabilities	23,853	20,930	52,612	45,537	16,482	15,927	92,947	82,394
Other material items								
Depreciation and amortisation	627	683	1,800	1,574	948	599	3,375	2,856
Write-(up)/down in value of inventories excluding product recall	-	(74)	111	(18)	278	510	389	418
Segment acquisition of non-current assets	534	633	922	2,516	821	341	2,277	3,490

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

	2012	2011*
	$000	$000
Revenues		
Total segment revenue	704,555	732,235
Foreign exchange gains on hedged sales	74,441	77,411
Consolidated revenue	**778,996**	**809,646**
Profit or loss		
Total segment profit before income tax	321,408	322,540
Corporate and other net expenses	(106,118)	(79,842)
Cost of sales - product recall	(138,835)	-
Net finance expense	(4,298)	(7,561)
Consolidated profit before income tax	**72,157**	**235,137**
Assets		
Reportable segment assets	306,255	294,621
Unallocated corporate and manufacturing assets	396,287	446,426
Consolidated total assets	**702,542**	**741,047**
Liabilities		
Reportable segment liabilities	92,947	82,394
Unallocated corporate and manufacturing liabilities	224,715	155,370
Consolidated total liabilities	**317,662**	**237,764**

* 2011 has been restated to reflect the most current method of reporting to the chief operating decision maker.

	Reportable segment total $000	Corporate and manufacturing total $000	Consolidated total $000
2012			
Other material items			
Depreciation and amortisation	3,375	20,726	24,101
Write-down in value of inventories excluding product recall	389	4,450	4,839
Acquisition of property, plant and equipment and enterprise resource planning system	2,277	28,538	30,815
2011			
Other material items			
Depreciation and amortisation	2,856	24,539	27,395
Write-down in value of inventories excluding product recall	418	6,315	6,733
Acquisition of property, plant and equipment and enterprise resource planning system	3,490	41,854	45,344

Revenue by product

	2012 $000	2011 $000
Cochlear implants	626,684	647,995
Bone anchored hearing aids (Baha)	77,871	84,240
Total	**704,555**	**732,235**

	2012	2011
11. Earnings per share		
Basic earnings per share		
The calculation of basic earnings per share for the year ended 30 June 2012 was based on net profit attributable to equity holders of the parent entity of $56,803,000 (2011: $180,114,000) and a weighted average number of ordinary shares on issue during the year ended 30 June 2012 of 56,824,604 (2011: 56,596,077) calculated as follows:		
Net profit attributable to equity holders of the parent entity	$56,803,000	$180,114,000
Weighted average number of ordinary shares (basic):		
Issued ordinary shares at 1 July (number)	56,680,142	56,482,346
Effect of options and performance shares exercised (number)	126,686	102,036
Effect of shares issued under Employee Share Plan (number)	17,776	11,695
Weighted average number of ordinary shares (basic) at 30 June	**56,824,604**	**56,596,077**
Basic earnings per share (cents)	**100.0**	**318.2**
Diluted earnings per share		
The calculation of diluted earnings per share for the year ended 30 June 2012 was based on net profit attributable to equity holders of the parent entity of $56,803,000 (2011: $180,114,000) and a weighted average number of ordinary shares on issue during the year ended 30 June 2012 of 56,922,674 (2011: 56,989,026) calculated as follows:		
Net profit attributable to equity holders of the parent entity	$56,803,000	$180,114,000
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic) (number)	56,824,604	56,596,077
Effect of options and performance shares (number)	98,070	392,949
Weighted average number of ordinary shares (diluted) at 30 June	**56,922,674**	**56,989,026**
Diluted earnings per share (cents)	**99.8**	**316.1**

	2012 $000	2011 $000
12. Trade and other receivables		
Current		
Trade receivables net of allowance for impairment losses	144,727	165,911
Other receivables	11,721	9,714
Forward exchange contracts	32,637	62,651
Total current trade and other receivables	**189,085**	**238,276**
Non-current		
Other receivables	50	739
Forward exchange contracts	11,790	16,445
Total non-current trade and other receivables	**11,840**	**17,184**

Cochlear's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 26.

	2012 $000	2011 $000
13. Inventories		
Raw materials and stores	25,300	40,075
Work in progress	13,746	13,641
Finished goods	62,252	52,410
Total inventories	**101,298**	**106,126**

	2012 $000	2011 $000
14. Property, plant and equipment		
Leasehold improvements		
At cost	22,583	22,398
Accumulated amortisation	(17,117)	(15,671)
	5,466	**6,727**
Plant and equipment		
At cost	135,726	134,645
Accumulated depreciation and impairment	(81,581)	(72,015)
	54,145	**62,630**
Total property, plant and equipment, at net book value	**59,611**	**69,357**
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	6,727	8,146
Additions	1,259	2,648
Disposals	-	(373)
Amortisation	(2,429)	(3,472)
Effect of movements in foreign exchange	(91)	(222)
Carrying amount at end of financial year	**5,466**	**6,727**
Plant and equipment		
Carrying amount at beginning of financial year	62,630	41,451
Additions	19,584	37,270
Impairment	(14,006)	-
Disposals	(150)	(484)
Depreciation	(13,397)	(15,063)
Effect of movements in foreign exchange	(516)	(544)
Carrying amount at end of financial year	**54,145**	**62,630**

	2012 $000	2011 $000
15. Intangible assets		
Intangible assets with indefinite useful lives		
Goodwill, at cost	151,066	159,137
Technology relationship, at cost	1,800	1,800
Total intangible assets with indefinite useful lives	**152,866**	**160,937**
Intangible assets with definite useful lives		
Acquired technology, patents and licences		
At cost	49,505	39,705
Accumulated amortisation and impairment	(25,340)	(8,897)
	24,165	**30,808**
Enterprise resource planning system		
At cost	47,011	41,601
Accumulated amortisation	(29,290)	(27,305)
	17,721	**14,296**
Customer relationships		
At cost	4,020	4,013
Accumulated amortisation	(4,020)	(4,013)
	-	-
Capitalised development expenditure		
At cost	7,759	7,759
Accumulated amortisation	(7,759)	(7,759)
	-	-
Other intangible assets		
At cost	13,918	4,059
Accumulated amortisation	(1,955)	(1,550)
	11,963	**2,509**
Total intangible assets with definite useful lives	**53,849**	**47,613**
Total intangible assets	**206,715**	**208,550**

	2012 $000	2011 $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	159,137	159,877
Effect of movements in foreign exchange	(8,071)	(740)
Carrying amount at end of financial year	**151,066**	**159,137**
Technology relationship		
Carrying amount at beginning of financial year	1,800	1,800
Carrying amount at end of financial year	**1,800**	**1,800**
Acquired technology, patents and licences		
Carrying amount at beginning of financial year	30,808	33,569
Acquisitions	10,174	436
Impairment	(13,840)	-
Amortisation	(2,823)	(3,219)
Effect of movements in foreign exchange	(154)	22
Carrying amount at end of financial year	**24,165**	**30,808**
Enterprise resource planning system		
Carrying amount at beginning of financial year	14,296	14,158
Acquisitions	9,972	5,426
Amortisation	(5,047)	(5,263)
Disposals	(1,502)	-
Effect of movements in foreign exchange	2	(25)
Carrying amount at end of financial year	**17,721**	**14,296**
Other intangible assets		
Carrying amount at beginning of financial year	2,509	2,435
Acquisitions*	9,934	521
Amortisation	(405)	(378)
Effect of movements in foreign exchange	(75)	(69)
Carrying amount at end of financial year	**11,963**	**2,509**

* 2012 acquisition represents an asset "Right to acquire intellectual property". For details, see Note 27.

Amortisation charge

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

Impairment tests for cash generating units

Impairment testing is performed assessing carrying amounts of goodwill, other intangible assets and property, plant and equipment at Cochlear's operating divisions (cash generating units).

For the purpose of impairment testing, goodwill is allocated to Cochlear's operating divisions which represent the lowest level within Cochlear at which the goodwill is monitored for internal management purposes, which is not higher than Cochlear's operating segments as reported in Note 10.

The aggregate carrying amounts of goodwill allocated to each cash generating unit are as follows:

	2012 $000	2011 $000
Americas	76,224	80,155
Europe	66,012	69,811
Asia Pacific	8,830	9,171
	151,066	**159,137**

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 conservative growth rate of 3.0% (2011: 3.0%) per annum which is consistent with long-term economic growth rates. A pre-tax discount rate of 13.5% (2011: 13.4%) per annum has been used in discounting the projected pre-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 amount and therefore no impairment charge was required. The excess of recoverable amount over carrying amount is such that a reasonably possible change in assumptions is unlikely to reduce the recoverable amount below the carrying amount.

	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
	$000	$000	$000	$000	$000	$000

16. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

	Assets 2012 $000	Assets 2011 $000	Liabilities 2012 $000	Liabilities 2011 $000	Net 2012 $000	Net 2011 $000
Property, plant and equipment	5,294	1,667	(345)	(268)	4,949	1,399
Intangible assets	57	57	(55)	-	2	57
Inventories	24,327	15,814	-	-	24,327	15,814
Provisions	30,186	13,712	-	-	30,186	13,712
Deferred revenue	1,428	1,468	-	-	1,428	1,468
Forward exchange contracts	-	-	(13,636)	(24,151)	(13,636)	(24,151)
Other	11,268	13,592	(8,029)	(5,819)	3,239	7,773
Deferred tax assets/(liabilities)	**72,560**	**46,310**	**(22,065)**	**(30,238)**	**50,495**	**16,072**
Set off of tax	(22,065)	(30,238)	22,065	30,238	-	-
Net deferred tax assets	**50,495**	**16,072**	**-**	**-**	**50,495**	**16,072**

Unrecognised deferred tax liabilities

At 30 June 2012, a deferred tax liability of $24.5 million (2011: $20.2 million) relating to investments in subsidiaries 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 assets for the Consolidated Entity of $5.8 million (2011: $3.9 million) represent the amount of income taxes recoverable in respect of prior periods and arise from the payment of tax in excess of the amounts due to the relevant taxation authority. The current tax liabilities for the Consolidated Entity of $19.5 million (2011: $17.3 million) represent the amount of income taxes payable in respect of current and prior financial periods.

Movement in temporary differences during the year

	Note	2012 $000	2011 $000
Carrying amount at beginning of financial year		16,072	17,252
Recognised in the income statement	8	27,403	4,525
Recognised in other comprehensive income	8	10,545	(3,475)
Recognised directly in equity	8	(3,733)	(1,164)
Effects of movements in foreign exchange		208	(1,066)
Carrying amount at end of financial year		**50,495**	**16,072**

	2012 $000	2011 $000
17. Loans and borrowings		
Current		
Secured bank loan	45,744	60,000
Total current loans and borrowings	**45,744**	**60,000**
Non-current		
Secured bank loans(i)	19,928	3,040
Total non-current loans and borrowings	**19,928**	**3,040**
Financing arrangements		
Cochlear had access to the following lines of credit at the reporting date:		
Unsecured bank overdrafts	508	396
Secured bank loan	3,744	3,539
Secured bank loan – multi-option credit facility	170,000	120,000
Standby letters of credit	44,673	30,018
Bank guarantees	4,311	4,882
	223,236	**158,835**
Facilities utilised at the reporting date		
Unsecured bank overdrafts	-	-
Secured bank loan	3,744	3,539
Secured bank loan – multi-option credit facility	62,000	60,000
Standby letters of credit	16,175	10,545
Bank guarantees	978	1,116
	82,897	**75,200**
Facilities not utilised at the reporting date		
Unsecured bank overdrafts	508	396
Secured bank loan	-	-
Secured bank loan – multi-option credit facility	108,000	60,000
Standby letters of credit	28,498	19,473
Bank guarantees	3,333	3,766
	140,339	**83,635**

(i) Included within secured bank loans is an amount of $71,875 (2011: $499,019) in relation to unamortised loan establishment fees.

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.

Secured bank loans

Cochlear has a JPY300.0 million bank facility maturing September 2012, which is secured by a letter of guarantee. Interest is charged at prevailing market rates.

Secured bank loans – multi-option credit facility

Cochlear's corporate debt facility was amended and restated in April 2011. The facility now has two tranches. Tranche A is a $75.0 million loan facility which may be extended for periods of 12 months, up until 20 April 2014. The Tranche B limit was increased to $125.0 million in October 2011 and matures 20 April 2014. Tranche B provides Cochlear with the option to reallocate a sub-limit of up to $30.0 million for the purpose of drawing either bank guarantees or letters of credit. The facility is secured by interlocking guarantees provided by certain controlled entities. Interest on the facility is variable and is charged at prevailing market rates.

Secured bank loans – bank guarantee facility

In December 2009, Cochlear secured a GBP1.0 million bank guarantee line which is supported by corporate indemnities and guarantee of up to GBP2.0 million.

In May 2012, Cochlear secured a standalone bank guarantee facility for New Zealand dollars (NZD) 0.1 million.

Unsecured bank loan – bank guarantee facility

In August 2011, Cochlear established a revolving guarantee facility for the purpose of issuing letters of credit or bank guarantees globally. The facility limit is $15.0 million.

	2012 $000	2011 $000
18. 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	20,702	21,474
Later than one year but not later than five years	67,018	66,650
Later than five years	109,857	122,085
Total operating lease commitments	**197,577**	**210,209**
Capital expenditure commitments		
Contracted but not provided for and payable:		
Not later than one year	3,410	3,800
Total capital expenditure commitments	**3,410**	**3,800**

Cochlear leases property under non-cancellable operating leases expiring from one to 15 years. Leases generally provide Cochlear 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.

	Note	2012 $000	2011 $000
19. Provisions			
Current			
Employee benefits	25	30,068	26,795
Warranties		11,053	9,336
Legal and other		7,523	5,294
Make good lease costs		312	968
Product recall	29	29,410	-
Total current provisions		**78,366**	**42,393**
Non-current			
Employee benefits	25	4,447	4,528
Warranties		2,938	2,482
Directors' retirement scheme	25	399	382
Make good lease costs		3,712	3,872
Product recall	29	23,560	-
Total non-current provisions		**35,056**	**11,264**
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		11,818	10,813
Provisions made		21,874	22,870
Provisions used		(19,701)	(21,865)
Carrying amount at end of financial year		**13,991**	**11,818**
Legal and other			
Carrying amount at beginning of financial year		5,294	4,907
Provisions made		3,547	2,307
Provisions used		(1,316)	(1,905)
Effects of movements in foreign exchange		(2)	(15)
Carrying amount at end of financial year		**7,523**	**5,294**
Make good lease costs			
Carrying amount at beginning of financial year		4,840	4,788
Provisions made		-	1,247
Provisions used		(818)	(1,182)
Effects of movements in foreign exchange		2	(13)
Carrying amount at end of financial year		**4,024**	**4,840**

	Note	2012 $000	2011 $000
Directors' retirement scheme			
Carrying amount at beginning of financial year		382	1,252
Provisions made		17	22
Provisions used		-	(892)
Carrying amount at end of financial year		**399**	**382**
Product recall			
Carrying amount at beginning of financial year		-	-
Provisions made	29	76,130	-
Provisions used		(23,160)	-
Carrying amount at end of financial year	29	**52,970**	**-**

Employee benefits
Employee benefits include entitlements measured at the present value of future amounts expected to be paid, based on a 4% 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 3% per annum based on national government securities with similar maturity terms.

Warranties
See Note 3(g) for details of how the provision balance is determined.

Legal and other
See Note 3(g) for details of how the provision balance is determined.

Make good lease costs
See Note 3(g) for details of how the provision balance is determined.

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. As at 30 June 2012, Prof E Byrne, AO is the only non-executive director entitled to this benefit.

Product recall
See Note 3(g) for details of how the provision balance is determined.

20. Contingent liabilities

The details 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.

Product liability claims

Cochlear has received various legal claims and law suits including a putative class action in the USA by recipients who have had Cochlear implant CI500 series devices surgically removed. These devices had stopped functioning for the reason that led to the September 2011 voluntary recall of unimplanted CI500 series devices. The claims are being negotiated and the law suits defended by Cochlear.

Cochlear carries product liability insurance and has made claims under the policy. The insurers have agreed to indemnify Cochlear in accordance with the terms and conditions of the policy including deductibles and exclusions. In the opinion of the directors, the details of the product liability insurance policies are commercially sensitive and any disclosure of these details may be prejudicial to the interests of Cochlear.

Patent infringement complaints

Alfred E. Mann Foundation

During the year ended 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 the US District Court of California, alleges that two patents have been infringed.

The Company believes the Mann Foundation's allegations are without merit and is vigorously defending the complaint.

At the date of this report, the litigation process is ongoing. No provision has been established against settlement because the probability of a significant outflow is considered unlikely.

Adaptive Sonics LLC

During the year ended 30 June 2012, the Company was served with a complaint for patent infringement by Adaptive Sonics LLC in the US District Court, Eastern District of Texas.

The complaint names Cochlear Limited and its USA subsidiary Cochlear Americas as defendants.

Adaptive Sonics LLC alleges that one identified patent has been infringed, specifically United States Patent no 5,473,701 entitled "Adaptive Microphone Array" filed in November 1993.

Cochlear believes the allegations are without merit and intends to vigorously defend against the complaint. No provision has been established against settlement because the probability of a significant outflow is considered unlikely.

Guarantees - operations

Cochlear amended and restated its multi-option credit facility in April 2011. The facility now has two tranches with a total facility limit of $200.0 million and provides Cochlear with a loan sub-facility limit, which may not exceed $30.0 million for the purpose of drawing either bank guarantees or letters of credit. The loan sub-facility limit forms part of Tranche B of the facility, which matures 20 April 2014.

In December 2009, Cochlear secured a GBP1.0 million bank guarantee line which is supported by corporate indemnities and guarantee of up to GBP2.0 million.

Cochlear established a revolving guarantee facility in August 2011 with a limit of $15.0 million; under this facility, letters of credit and bank guarantees can be drawn to support Cochlear's global activities.

In May 2012, Cochlear secured a standalone bank guarantee facility for NZD0.1 million.

21. Capital and reserves

Share capital

	Number of issued shares in market circulation		Number of shares held in Trust under CELTIP		Total number of issued shares	
	2012	2011	2012	2011	2012	2011
On issue 1 July – fully paid	56,680,142	56,482,346	64,881	61,055	56,745,023	56,543,401
Issued for nil consideration under Employee Share Plan	25,023	15,694	-	-	25,023	15,694
Shares purchased from the market	(17,021)	(19,736)	17,021	19,736	-	-
Issued from the exercise of options	159,386	185,928	-	-	159,386	185,928
Performance shares vesting from Trust	18,348	15,910	(18,348)	(15,910)	-	-
On issue 30 June – fully paid	**56,865,878**	**56,680,142**	**63,554**	**64,881**	**56,929,432**	**56,745,023**

Cochlear has also issued options (see Note 25(b)).

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.

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 as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary, where their functional currency is different to the presentation currency of the reporting entity. See 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 based payment reserve

The share based payment reserve comprises the cost of shares distributed to eligible executives under the CELTIP, as detailed in Note 25(b).

22. Notes to the statement of cash flows

Cash assets

The operating account received an average interest rate of 1.66% (2011: 1.68%) per annum.

Cash held on deposit for periods not exceeding 90 days received an average interest rate of 2.94% (2011: 3.09%) per annum.

(a) Reconciliation of cash and cash equivalents

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

	2012 $000	2011 $000
Cash on hand	56,905	40,658
Cash on deposit	11,581	31,765
Cash and cash equivalents	**68,486**	**72,423**
(b) Reconciliation of net profit to net cash provided by operating activities		
Net profit	56,803	180,114
Add/(less) items classified as investing activities		
Loss on disposal of property, plant and equipment	1,652	857
Construction profit net of relocation expense	-	(6,130)
Add non-cash items		
Amounts set aside to provisions	128,363	53,453
Depreciation and amortisation	24,101	27,395
Impairment of property, plant and equipment and intangible assets	27,846	-
Equity settled share based payment transactions	3,654	5,426
Net cash provided by operating activities before changes in assets and liabilities	**242,419**	**261,115**
Changes in assets and liabilities		
Change in trade and other receivables	19,866	(9,259)
Change in inventories	4,828	(3,511)
Change in prepayments	300	(752)
Change in deferred tax assets	(34,423)	1,180
Change in trade and other payables	1,517	7,171
Change in current tax liabilities	411	8,417
Change in provisions	(68,597)	(50,965)
Change in deferred revenue	(643)	(316)
Effects of movements in foreign exchange	2,602	(11,803)
Net cash provided by operating activities	**168,280**	**201,277**

		Interest held		Country of incorporation/formation
		2012 %	2011 %	
23. Controlled entities				
Particulars in relation to controlled entities				
Company				
Cochlear Limited				Australia
Controlled entities				
Cochlear AG		100	100	Switzerland
Cochlear Americas		100	100	USA
Cochlear Benelux NV		100	100	Belgium
Cochlear Bone Anchored Solutions AB		100	100	Sweden
Cochlear Canada Inc		100	100	Canada
Cochlear Deutschland GmbH & Co KG		100	100	Germany
Cochlear Employee Share Trust		100	100	Australia
Cochlear Europe Finance GmbH		100	100	Germany
Cochlear Europe Limited		100	100	UK
Cochlear Executive Long Term Incentive Plan (Performance Shares) Trust		100	100	Australia
Cochlear Finance Pty Limited		100	100	Australia
Cochlear France SAS		100	100	France
Cochlear German Holdings Pty Limited		100	100	Australia
Cochlear Holdings NV		100	100	Belgium
Cochlear Incentive Plan Pty Limited		100	100	Australia
Cochlear Investments Pty Ltd		100	100	Australia
Cochlear Italia SRL		100	100	Italy
Cochlear Korea Limited		100	100	Korea
Cochlear Latino America Sociedad Anonima		100	100	Panama
Cochlear Malaysia Sdn. Bhd.		100	100	Malaysia
Cochlear Manufacturing Corporation		100	100	USA
Cochlear Medical Device (Beijing) Co., Ltd		100	100	China
Cochlear Medical Device Company India Private Limited		100	100	India
Cochlear Nordic AB		100	100	Sweden
Cochlear NZ Limited		100	-	New Zealand
Cochlear Research and Development Limited		100	100	UK
Cochlear Sweden Holdings AB		100	100	Sweden
Cochlear Technologies Pty Limited	(i)	100	100	Australia
Cochlear Tibbi Cihazlar ve Saglik Hizmetleri Limited Sirketi		100	100	Turkey
Cochlear Verwaltungs GmbH		100	100	Germany
Cochlear (HK) Limited		100	100	Hong Kong
Cochlear (UK) Limited	(i)	100	100	UK
Lachlan Project Development Pty Ltd		100	100	Australia
Lachlan Project Holdings Pty Ltd		100	100	Australia
Lachlan Project Security Holdings Pty Ltd		100	100	Australia
Medical Insurance Pte Limited		100	100	Singapore
Miaki NV		100	100	Belgium
Neopraxis Pty Limited	(i)	100	100	Australia
Nihon Cochlear Co Limited		100	100	Japan
Percutis AB		100	100	Sweden

(i) Dormant.

24. Related parties

Key management personnel

The following were key management personnel of Cochlear at any time during the financial year and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors

Mr R Holliday-Smith (Chairman)

Mrs YA Allen

Mr PR Bell

Prof E Byrne, AO

Mr A Denver

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:

	2012 $	2011 $
Short-term employee benefits	6,090,379	6,513,066
Post-employment benefits	350,940	301,336
Other long-term benefits	96,989	60,788
Directors' retirement benefits	16,485	18,288
Share based payments	846,095	1,268,988
	7,400,888	**8,162,466**

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 32 to 42.

The key management personnel have not received any loans from Cochlear and there have been no other related party transactions with any of Cochlear's key management personnel unless where noted throughout this Financial Report.

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 2011	Granted as remuneration	Vested and exercised	Forfeited	Held at 30 June 2012	Vested and exercisable at 30 June 2012
Option holdings						
Executive director						
Dr CG Roberts	297,542	117,620	(88,736)	(12,676)	313,750	-
Executives						
Mr R Brook	67,623	23,495	(26,499)	(3,786)	60,833	-
Mr J Janssen	56,736	11,128	(21,717)	(3,102)	43,045	-
Mr NJ Mitchell	77,812	27,538	(31,346)	(4,478)	69,526	-
Mr MD Salmon	88,071	28,859	(42,183)	(4,181)	70,566	-
Mr CM Smith	58,004	20,823	(25,910)	(3,714)	49,203	6,000
Performance share holdings						
Executive director						
Dr CG Roberts	-	-	-	-	-	-
Executives						
Mr R Brook	-	-	-	-	-	-
Mr J Janssen	-	2,234	-	-	2,234	-
Mr NJ Mitchell	-	-	-	-	-	-
Mr MD Salmon	-	-	-	-	-	-
Mr CM Smith	7,507	1,045	(1,510)	(216)	6,826	-

	Held at 1 July 2010	Granted as remuneration	Vested and exercised	Forfeited	Held at 30 June 2011	Vested and exercisable at 30 June 2011
Option holdings						
Executive director						
Dr CG Roberts	283,817	86,272	(64,718)	(7,829)	297,542	51,259
Executives						
Mr R Brook	88,726	17,674	(36,469)	(2,308)	67,623	-
Mr J Janssen	72,072	17,559	(31,120)	(1,775)	56,736	-
Mr NJ Mitchell	89,597	21,302	(31,014)	(2,073)	77,812	-
Mr MD Salmon	84,610	22,363	(16,929)	(1,973)	88,071	12,918
Mr CM Smith	81,182	-	(21,512)	(1,666)	58,004	5,910
Performance share holdings						
Executive director						
Dr CG Roberts	-	-	-	-	-	-
Executives						
Mr R Brook	-	-	-	-	-	-
Mr J Janssen	-	-	-	-	-	-
Mr NJ Mitchell	-	-	-	-	-	-
Mr MD Salmon	-	-	-	-	-	-
Mr CM Smith	4,103	5,781	(2,062)	(315)	7,507	-

No options held by key management personnel were vested but not exercisable at 30 June 2012 or 2011.

Options granted to Dr CG Roberts in the 2012 financial year were granted on 24 October 2011, following shareholder approval at the AGM in October 2011 and vest in August 2014.

All other options and performance shares granted in the 2012 financial year were granted on 15 August 2011 and vest in August 2014. These options have an expiration date of 1 July 2016. 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, including those granted to Dr CG Roberts, during the financial year have an exercise price of $68.56 per share. Dr CG Roberts' options had a fair value of $3.33 per share at grant date for options with performance based conditions and $2.55 per share at grant date for options with market based conditions. All other options have a fair value of $9.49 per share at grant date for options with performance based conditions and $7.29 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 $48.39 per share for performance shares with performance based conditions and $35.19 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 2011	Purchases	Received on exercise of options and performance shares	Sales	Held at 30 June 2012
Directors					
Non-executive					
Mr R Holliday-Smith	5,500	1,520	-	-	7,020
Mrs YA Allen	2,500	-	-	-	2,500
Mr PR Bell	2,500	-	-	-	2,500
Prof E Byrne, AO	2,000	1,250	-	-	3,250
Mr A Denver	2,500	-	-	-	2,500
Mr DP O'Dwyer	3,350	650	-	-	4,000
Executive					
Dr CG Roberts	725,310	-	88,736	(98,243)	715,803
Executives					
Mr R Brook	8,806	1,194	26,499	(26,499)	10,000
Mr J Janssen	32,921	-	21,717	(23,390)	31,248
Mr NJ Mitchell	33,571	-	31,346	(28,571)	36,346
Mr MD Salmon	9,740	-	42,183	(42,183)	9,740
Mr CM Smith	10,000	-	27,420	(27,420)	10,000

	Held at 1 July 2010	Purchases	Received on exercise of options and performance shares	Sales	Held at 30 June 2011
Directors					
Non-executive					
Mr R Holliday-Smith	2,500	3,000	-	-	5,500
Mrs YA Allen*	1,000	1,500	-	-	2,500
Mr PR Bell	2,500	-	-	-	2,500
Prof E Byrne, AO	2,000	-	-	-	2,000
Mr A Denver	2,500	-	-	-	2,500
Mr DP O'Dwyer	3,350	-	-	-	3,350
Executive					
Dr CG Roberts	660,592	-	64,718	-	725,310
Executives					
Mr R Brook	8,806	-	36,469	(36,469)	8,806
Mr J Janssen	1,801	-	31,120	-	32,921
Mr NJ Mitchell	20,000	-	31,014	(17,443)	33,571
Mr MD Salmon	9,740	-	16,929	(16,929)	9,740
Mr CM Smith	3,964	-	23,574	(17,538)	10,000

* Shareholding at 1 July 2010 represents holding before appointment as director.

	Note	2012 $000	2011 $000
25. Employee benefits			
Current			
Provision for long service leave		6,317	5,107
Provision for annual leave		14,930	13,188
Provision for short-term incentives		8,821	8,500
	19	30,068	26,795
Salary and wages accrued		409	4,073
Total current employee benefits		**30,477**	**30,868**
Non-current			
Provision for long service leave		4,447	4,528
Provision for directors' retirement scheme		399	382
Total non-current employee benefits	19	**4,846**	**4,910**
Total employee benefits		**35,323**	**35,778**

Cochlear has benefit plans that provide pension benefits to employees upon retirement. These defined benefit plans cover, in aggregate, 65 employees. Cochlear contributed cash of $0.8 million (2011: $0.8 million) to defined benefit plans in the year ended 30 June 2012 and expects to contribute $0.9 million in the year ending 30 June 2013.

(a) Defined contribution superannuation plans

Cochlear makes contributions to defined contribution plans. The amount recognised as expense was $14.4 million for the year ended 30 June 2012 (2011: $12.9 million).

(b) Share based payments

Cochlear'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 financial year 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. For the year ended 30 June 2012, the Company issued 25,023 shares under this plan.

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 performance shares exercisable by the executives will depend on the performance of Cochlear over the vesting period. Half of the offer will be assessed against the compound annual growth rate of the EPS achieved by Cochlear, and the other half against the TSR as measured against the S&P/ASX 100 comparator group. 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 Cochlear is below the 50th percentile against the S&P/ASX 100 comparator group over the three years, the remaining 50% of shares will not be issued or released.

To achieve a 100% allocation of options and shares, a compound annual growth rate in EPS of more than 20% over three years must be achieved and the TSR of Cochlear must be above 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 2007	57,129	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	57,129	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 2008	92,102	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	92,102	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 2009	198,339	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	198,340	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 2010	204,868	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	204,869	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 and October 2011	265,281	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	265,281	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Total options	**1,635,440**		

Issue date	Number of instruments	Conditions for minimum vesting	Contractual life of shares in the Trust
Performance shares issued in August 2008	649	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	649	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 2009	8,355	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	8,355	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 2010	10,552	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	10,552	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 2011	12,051	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	12,051	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Total performance shares	**63,214**		

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
	2012	2012	2011	2011
Outstanding at 1 July	58.72	1,719,451	55.00	1,818,601
Forfeited	56.59	(149,571)	63.35	(70,728)
Exercised	51.37	(477,388)	54.09	(471,920)
Granted	68.56	542,948	69.80	443,498
Outstanding at 30 June	**64.33**	**1,635,440**	**58.72**	**1,719,451**
Exercisable at 30 June	54.99	298,462	63.18	168,756

The weighted average share price at date of exercise was $69.41 (2011: $74.28).

The estimated value of options for the current financial year is calculated at the date of grant using the Black-Scholes model.

For options outstanding at 30 June 2012, 114,258 options have an exercise price of $63.18, 184,204 options have an exercise price of $49.91, 396,679 options have an exercise price of $60.04, 409,737 options have an exercise price of $69.80 and 530,562 options have an exercise price of $68.56 (2011: 168,756 options at $63.18, 696,113 options at $49.91, 418,905 options at $60.04 and 435,677 options at $69.80). The weighted average remaining contractual life of options outstanding at the end of the year is three years (2011: three years).

Inputs for measurement of grant date fair values

The grant date fair value of options and performance shares was measured based on the Black-Scholes model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date are the following:

	15 August 2011	24 October 2011	16 August 2010
Fair value of options at grant date	$8.39	$2.94	$9.86
Fair value of performance shares at grant date	$41.79	N/A*	$41.26
Share price at grant date	$73.75	$56.61	$68.84
Exercise price	$68.56	$68.56	$69.80
Expected volatility (weighted average volatility)	22.0%	23.8%	34.6%
Option life	3 – 5 years	3 – 5 years	3 – 5 years
Expected dividends	2.84%	3.90%	2.60%
Risk free interest rate (based on government bonds)	3.89%	3.90%	4.49%

* No performance shares were issued.

26. 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:

	2012 $000	2011 $000
Cash and cash equivalents	68,486	72,423
Trade receivables and other receivables	156,498	176,364
Forward exchange contracts	44,427	79,096
	269,411	**327,883**

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

	2012 $000	2011 $000
Americas	51,548	48,814
Europe	66,364	82,968
Asia Pacific	26,815	34,129
	144,727	**165,911**

Impairment losses

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

	2012 $000	2011 $000
Gross receivables		
Not past due	101,827	117,604
Past due 0 – 30 days	20,666	19,365
Past due 31 – 120 days	12,510	20,643
Past due 121 – 270 days	6,147	8,717
Past due 271 days and over	6,347	4,481
	147,497	**170,810**
Impairment losses	(2,770)	(4,899)
Trade receivables net of allowance for impairment losses	**144,727**	**165,911**

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

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

	2012 $000	2011 $000
Balance at 1 July	(4,899)	(5,824)
Net impairment losses utilised/(recognised)	2,261	6
Effect of movements in foreign exchange	(132)	919
Balance at 30 June	**(2,770)**	**(4,899)**

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

Based upon past experience, Cochlear 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 Cochlear 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 non-derivative financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	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 30 June 2012								
AUD floating rate loan	5.93%	42,000	44,491	1,256	43,235	-	-	-
	5.92%	19,928	22,139	597	588	20,954	-	-
JPY floating rate loan	0.68%	3,744	3,750	3,750	-	-	-	-
Trade and other payables	-	100,953	100,953	100,218	-	735	-	-
Total		**166,625**	**171,333**	**105,821**	**43,823**	**21,689**	**-**	**-**

	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 30 June 2011								
AUD floating rate loan	7.23%	59,501	64,353	2,188	62,165	-	-	-
JPY floating rate loan	1.41%	3,539	3,599	25	25	3,549	-	-
Trade and other payables	-	85,047	85,047	85,047	-	-	-	-
Total		**148,087**	**152,999**	**87,260**	**62,190**	**3,549**	**-**	**-**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Derivative assets and liabilities designated as cash flow hedges

In the year ended 30 June 2012, Cochlear 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 at the reporting date.

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

30 June 2012

Amounts $000	Carrying amount	Expected cash flows	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years
Forward exchange contracts						
Assets	44,427	44,602	19,768	12,935	9,435	2,464
Liabilities	(141)	(141)	(53)	(48)	(23)	(17)
Total	**44,286**	**44,461**	**19,715**	**12,887**	**9,412**	**2,447**

30 June 2011

Amounts $000	Carrying amount	Expected cash flows	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years
Forward exchange contracts	79,096	79,320	33,424	29,325	16,534	37

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

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

Amounts local currency thousands	USD	EUR	GBP	SEK	JPY
30 June 2012					
Trade receivables	55,311	35,053	2,368	6,039	539,297
Secured bank loans	-	-	-	-	(300,000)
Trade payables	(12,797)	(4,267)	(8,129)	(49,531)	(70,009)
Gross balance sheet exposure	**42,514**	**30,786**	**(5,761)**	**(43,492)**	**169,288**

Amounts local currency thousands	USD	EUR	GBP	SEK	JPY
30 June 2011					
Trade receivables	70,674	41,143	3,580	9,229	439,519
Secured bank loans	-	-	-	-	(300,000)
Trade payables	(12,506)	(4,740)	(5,887)	(36,106)	(102,405)
Gross balance sheet exposure	**58,168**	**36,403**	**(2,307)**	**(26,877)**	**37,114**

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

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		Gross value	
	2012	2011	2012	2011
			$000	$000
Sell USD				
Not later than one year			159,957	165,732
Later than one year but not later than two years			77,290	75,802
Later than two years but not later than five years			23,768	5,154
Weighted average exchange rates contracted	0.93	0.82		
Sell EUR				
Not later than one year			132,671	146,798
Later than one year but not later than two years			72,903	69,938
Later than two years but not later than five years			28,689	-
Weighted average exchange rates contracted	0.69	0.64		
Sell JPY				
Not later than one year			7,540	6,792
Later than one year but not later than two years			4,317	2,500
Later than two years but not later than five years			1,821	130
Weighted average exchange rates contracted	75.98	75.35		

The following significant exchange rates applied to Cochlear during the year:

	Average rate		Reporting date spot rate	
AUD 1 =	2012	2011	2012	2011
USD	1.030	0.984	1.007	1.048
EUR	0.766	0.725	0.806	0.732
GBP	0.649	0.622	0.645	0.656
SEK	6.897	6.629	7.113	6.738
JPY	81.109	82.010	80.118	84.764

Interest rate risk

Profile

At the reporting date, the interest rate profile of Cochlear's interest-bearing financial instruments was as follows:

	2012 $000	2011 $000
Carrying amount		
Variable rate instruments		
Financial assets	68,486	72,423
Financial liabilities	65,672	63,040

Sensitivity analysis

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

For the year ended 30 June 2012, it is estimated that a general increase of one percent in interest rates would have decreased Cochlear's profit after income tax and equity by approximately $0.1 million (2011: $0.2 million). A one percent decrease in interest rates would have had the equal but opposite effect on Cochlear's profit and equity.

It is estimated that a general increase of 10 percent in the value of the AUD against other foreign currencies would have decreased Cochlear's profit for the year ended 30 June 2012, including hedging results and after income tax, by approximately $2.3 million (2011: $10.8 million) and decreased Cochlear's equity by $2.3 million (2011: $13.2 million). A 10 percent decrease in the value of the AUD against other foreign currencies would have increased Cochlear's profit by $5.6 million (2011: $7.5 million) and increased equity by $4.4 million (2011: $8.8 million)

Fair values

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

		2012		2011	
	Note	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Cash and cash equivalents	22(a)	68,486	68,486	72,423	72,423
Trade and other receivables – current	12	189,085	189,085	238,276	238,276
Trade and other receivables – non-current	12	11,840	11,840	17,184	17,184
Trade and other payables – current		(100,218)	(100,218)	(85,047)	(85,047)
Trade and other payables – non-current		(735)	(735)	-	-
Secured bank loans – current	17	(45,744)	(45,744)	(60,000)	(60,000)
Secured bank loans – non-current	17	(19,928)	(20,000)	(3,040)	(3,539)
Total		**102,786**	**102,714**	**179,796**	**179,297**

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 interest 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.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 2 $000	Total $000
30 June 2012		
Derivative financial assets		
Forward exchange contracts used for hedging	44,427	44,427
Total assets	**44,427**	**44,427**
Derivative financial liabilities		
Forward exchange contracts used for hedging	(141)	(141)
Other forward exchange contracts	(768)	(768)
Total liabilities	**(909)**	**(909)**
30 June 2011		
Derivative financial assets		
Forward exchange contracts used for hedging	79,096	79,096
Total assets	**79,096**	**79,096**

There have been no transfers between levels during the year. There are no other financial instruments carried at fair value or valued using a Level 1 or Level 3 valuation method.

27. Events subsequent to the reporting date

Other than the matters noted below, there has not arisen in the interval between the 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 Cochlear, the results of those operations, or the state of affairs of Cochlear in future financial years:

Purchase of intellectual property from Otologics LLC

On 23 July 2012, Otologics LLC made a petition to Missouri Bankruptcy Court to commence voluntary bankruptcy under United States Bankruptcy Code Title 11. Prior to the bankruptcy, Otologics LLC defaulted on a loan of USD10.0 million with Wells Fargo Bank guaranteed by Cochlear Limited.

Cochlear has subsequently settled the loan and has made a bid to acquire intellectual property and certain other assets of Otologics LLC for a total consideration of USD14.0 million. This will be settled with approximately USD4.0 million in cash payments during 2013 and recognition of the USD10.0 million loan settlement with Wells Fargo Bank by Cochlear.

In the event an alternate, higher offer is made for these assets and Cochlear is not successful with its bid, Cochlear will receive full repayment of the loan settlement.

At 30 June 2012, Cochlear has recorded a liability of USD10.0 million, being the amount payable to Wells Fargo Bank, and an asset "Right to acquire intellectual property" of the same value to reflect its security interest in the intellectual property assets of Otologics LLC.

Dividends

For dividends declared after 30 June 2012, see Note 9.

28. Construction of Headquarters

Cochlear completed construction work on its new Headquarters at Macquarie University (MU) site during the year ended 30 June 2011. Upon practical completion, MU paid Cochlear a development fee of $130.3 million and ownership of the building was transferred to MU. No progress payments were made during the course of development which commenced in 2009.

The Headquarters was constructed on land owned by MU by a special purpose entity, Lachlan Project Development Pty Ltd. Adjacent land has been reserved by MU for possible future expansion by Cochlear over the next 25 years.

Construction activities are not part of the ordinary course of Cochlear's business and Cochlear was exposed to the usual risks associated with construction.

Construction contract expense was determined as the sum of costs incurred plus interest capitalised during the relevant year. Revenue was recognised on a percentage of completion basis throughout the project.

Cochlear now leases the premises for a minimum of 15 years from a MU entity.

Cochlear also incurred certain relocation related expenses pertaining to its Headquarters relocation. These expenses were included in net construction profit and mainly related to running two sites whilst obtaining regulatory approval for manufacturing at the new Headquarters.

The total project construction revenue and expenses were brought to account over the years ended 30 June 2009, 2010 and 2011. The total project construction profit was recognised in the year ended 30 June 2011.

	Total project $000	2012 $000	2011 $000
Construction contract revenue	130,302	-	66,606
Construction contract expense	(118,712)	-	(55,016)
Relocation related expenditure	(5,460)	-	(5,460)
Construction profit net of relocation expense	**6,130**	**-**	**6,130**

29. Product recall

On 11 September 2011, the Company initiated a worldwide voluntary recall of its unimplanted Nucleus CI500 cochlear implant range. The Company had identified a recent increase in the number of Nucleus CI512 implant failures.

In the event of a Nucleus CI500 series implant failure, recipients may be re-implanted with the Nucleus CI24RE implant range which remains available and continues to be sold with Nucleus 5 externals.

Relevant healthcare professionals and regulatory authorities were advised of this action and management continues to work with these authorities.

On 20 December 2011, the Company announced to healthcare professionals and the ASX that it had identified the root cause of the failures and continued to work on resolving the problem.

An amount of $138.8 million has been recognised this year as a charge to cost of sales in the income statement, representing management's best estimate of probable costs based on current available data. This takes into account inventory write-downs, property, plant and equipment and intangible asset impairments, and warranty and other costs which include factors such as estimated return rates for the affected units, unit replacement costs, and consulting, logistical and administrative expenses directly associated with the recall.

Management has made judgements, estimates and assumptions related to probable costs arising from the recall which affect the reported amounts of assets, liabilities, income and expenses. Actual outcomes may differ from these estimates as further information is identified.

A provision of $53.0 million is included in current and non-current provisions related to the costs associated with the recall that are still to be incurred as at 30 June 2012.

Net loss includes the following items whose disclosure is relevant in explaining the financial performance of the Company:

Product recall

	2012 $000	2011 $000
Write-down in value of inventories	34,859	-
Impairment of property, plant and equipment	14,006	-
Impairment of intangible assets	13,840	-
Provision for warranty and other costs	76,130	-
Total cost of sales – product recall	**138,835**	**-**
Income tax benefit	(37,499)	-
Total product recall cost after tax	**101,336**	**-**

30. Parent entity disclosures

At, and throughout the financial year ended, 30 June 2012, the parent company of Cochlear was Cochlear Limited.

	Company	
	2012	2011
	$000	$000
Result of the parent entity		
Net profit	28,445	138,705
Other comprehensive (loss)/income	(21,905)	7,281
Total comprehensive income	**6,540**	**145,986**
Financial position of the parent entity at year end		
Current assets	195,340	244,909
Total assets	606,049	642,810
Current liabilities	181,887	155,348
Total liabilities	320,353	230,452
Total equity of the parent entity comprising of:		
Issued capital	125,865	123,226
Treasury reserve	(4,729)	(3,489)
Hedging reserve	30,892	56,288
Share based payment reserve	35,837	28,652
Retained earnings	97,831	207,681
Total equity	**285,696**	**412,358**

Parent entity contingencies

The details of all contingent liabilities in respect to Cochlear Limited are disclosed in Note 20.

Parent entity capital commitments for acquisition of plant and equipment

	Company	
	2012	2011
	$000	$000
Plant and equipment		
Contracted but not yet provided for and payable:		
Within one year	3,089	3,495
Total parent entity capital commitments for acquisition of plant and equipment	**3,089**	**3,495**

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

   (a) the consolidated financial statements and notes and the Remuneration Report in the Directors' Report set out on pages 32 to 101, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and

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

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

2. The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the CEO/President and Chief Financial Officer for the financial year ended 30 June 2012.

3. The directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Sydney this 7th day of August 2012.

Director

Director

Report on the financial report

We have audited the accompanying financial report of the Consolidated Entity comprising Cochlear Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the consolidated balance sheet as at 30 June 2012, and consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 30 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements of the Consolidated Entity comply 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 of the financial report that gives a true and fair view 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, a true and fair view which is consistent with our understanding of the Consolidated Entity's financial position and of its 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:

(a) the financial report of Cochlear Limited is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. 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 2012, complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

Bruce Phillips, Partner

Sydney, 7 August 2012

Additional information required by Australian Securities Exchange Listing Rules and not disclosed elsewhere in this report – the information presented is as at 31 July 2012:

Shareholdings

Substantial shareholders

Shareholder	Number of ordinary shares held	%
Baillie Gifford & Co	4,501,094	7.91
Wilson HTM Group Limited	4,344,149	7.63
The Capital Group Companies, Inc.	3,624,910	6.37
Harding Loevner LP	2,861,083	5.03
Total	**15,331,236**	**26.94**

Distribution of shareholders

Number of shares held	Number of ordinary shareholders
1 – 1,000	26,923
1,001 – 5,000	3,074
5,001 – 10,000	196
10,001 – 100,000	90
100,001 and over	20
Total	**30,303**

Non-marketable parcels – 166 shareholders held less than a marketable parcel of ordinary shares

Twenty largest shareholders

Shareholder	Number of ordinary shares held	%
HSBC Custody Nominees (Australia) Limited	13,531,393	23.77
JP Morgan Nominees Australia Limited	11,117,993	19.53
National Nominees Limited	8,845,559	15.54
Citicorp Nominees Pty Limited	1,696,346	2.98
Dr Christopher Graham Roberts	703,803	1.24
HSBC Custody Nominees (Australia) Limited (NT - Comnwlth Super Corp a/c)	574,954	1.01
Cogent Nominees Pty Limited	499,922	0.88
Citicorp Nominees Pty Limited (Colonial First State Inv a/c)	406,244	0.71
Cogent Nominees Pty Limited (DRP)	335,659	0.59
JP Morgan Nominees Australia Limited (Cash income a/c)	303,297	0.53
M F Custodians Limited	202,830	0.36
Citicorp Nominees Pty Limited (BHP Billiton ADR Holders a/c)	195,713	0.34
AMP Life Limited	188,108	0.33
Argo Investments Limited	128,000	0.22
UBS Wealth Management Australia Nominees Pty Limited	125,795	0.22
UBS Nominees Pty Limited	122,256	0.21
Perpetual Trustee Company Limited	117,067	0.21
Queensland Investment Corporation	116,250	0.20
HSBC Custody Nominees (Australia) Limited – GSCO ECA	105,296	0.18
PGA (Investments) Pty Limited	90,000	0.16
		69.21

The 20 largest shareholders held 69.21% of the ordinary shares of the Company.

On market buy-back

There is no current on market buy-back.

Glossary

AGM Annual General Meeting.

ASIC Australian Securities and Investments Commission.

ASX Australian Securities Exchange.

DPS Dividends per share.

EBIT Earnings before interest and tax.

EBITDA Earnings before interest, tax, depreciation and amortisation.

EMEA Europe, Middle East and Africa.

EPS Earnings per share.

F10 Financial Year 2010: 1 July 2009 to 30 June 2010.

F11 Financial Year 2011: 1 July 2010 to 30 June 2011.

F12 Financial Year 2012: 1 July 2011 to 30 June 2012.

FDA United States Food and Drug Administration.

IFRS International Financial Reporting Standards.

NPAT Net profit after tax.

Previous GAAP Previous Australian Generally Accepted Accounting Principles.

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

R&D Research and development.

TGA Therapeutic Goods Administration.

TSR Total shareholder return.

TUV Technical Überwachungs-Verein.

Company ASX Announcement Record

30 April 2012 *Cochlear to vigorously defend patent infringement complaint*

Cochlear Limited and its USA subsidiary Cochlear Americas have been named in a complaint filed by Adaptive Sonics LLC in Texas, USA. Cochlear believes that the allegations are without merit and intends to vigorously defend against the complaint.

13 March 2012 *Half year report 2012*

Cochlear Limited provided an F12 half year report to shareholders listing half year revenues and sales.

7 February 2012 *Record first half revenue*

Cochlear Limited announced revenue up 3% to $387.5 million, with sales up 5% in constant currency for the six months ended 31 December 2011. There was a net loss of $20.4 million after recall costs fully expensed. The interim dividend of $1.20 per share was up 14%.

7 February 2012 *Update on voluntary recall*

Cochlear Limited provided an update on the failure rate and mechanism related to the voluntary recall of the unimplanted Nucleus CI500 series implants.

20 December 2011 *Update on voluntary recall*

Cochlear Limited provided an update on the root cause of failure related to the voluntary recall of the unimplanted Nucleus CI500 series implants.

18 October 2011 *Chairman's address*

Cochlear Limited Chairman, Mr Rick Holliday-Smith, addressed shareholders at the Annual General Meeting.

26 September 2011 *Update on voluntary recall*

Cochlear Limited provided an update to shareholders on actions taken following the voluntary recall of the unimplanted Nucleus CI500 series implants.

11 September 2011 *Voluntary recall of Nucleus CI500 cochlear implant range announced*

Cochlear Limited announced the voluntary recall of the unimplanted Nucleus CI500 cochlear implant range following a rise in implant failures from that range.

9 August 2011 *Record financial results for year ended 30 June 2011*

Cochlear Limited announced revenue up 10% to $809.6 million, with sales up 17% in constant currency. Net profit after tax was $180.1 million, up 16%. The final dividend was $1.20 per share (70% franked), up 14%.

Non-IFRS financial measures

Given the significance of the product recall and FX movements the directors believe the presentation of non-IFRS financial measures is useful for the users of this document as they reflect the underlying financial performance of the business.

The non-IFRS financial measures included in this document have been calculated on the following basis:

- Excluding recall costs: IFRS measures adjusted for the costs of the product recall
- Constant currency: restatement of IFRS financial measures in comparative years using F12 FX rates
- Free cash flow: IFRS cash flow from operating and investing activities excluding interest and tax paid related to non-operating activities.

The above non-IFRS financial measures have not been subject to review or audit. However, KPMG have separately undertaken a set of procedures to agree the non-IFRS financial measures disclosed to the books and records of the consolidated entity.

Company Information

Stock exchange listing

Australian Securities Exchange

ASX code COH

Solicitors

Clayton Utz

Share registrar

Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street
Sydney NSW 2000, Australia

Tel: 61 3 9415 4000

Auditor

KPMG

Bankers

Australia Westpac Banking Corporation and HSBC Bank Australia Limited

Japan The Bank of Tokyo-Mitsubishi UFJ, Limited

Sweden Skandinaviska Enskilda Banken AB (publ)

United Kingdom HSBC Bank plc

United States Wells Fargo Bank West, NA

Annual General Meeting

The Annual General Meeting will be held at 10am on Tuesday 16 October 2012 at Australian Securities Exchange, Exchange Square Auditorium, 20 Bridge Street, Sydney. A Notice of Meeting and Proxy Form are enclosed with this Annual Report.

Financial calendar

2012	
Dividend record date	30 August
Payment of final dividend	20 September
Annual General Meeting	16 October
2013	
Interim profit announcement	5 February
Interim dividend record date	22 February*
Payment of interim dividend	12 March*
Final profit announcement	6 August*
Annual General Meeting	15 October*

* Indicative dates only.

Design

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Hear now. And always

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