

COCHLEAR ANNUAL REPORT

## 2015 Hearing Performance



Hear now. And always



Cochlear®

# Life is wireless. And so is hearing.

In F15, Cochlear released many products including True Wireless for Nucleus® 6, one of the most exciting developments in the cochlear implant industry. With True Wireless, sound can be streamed directly to recipients' sound processors, without the wires or neck-worn components required by other systems.

For some recipients, True Wireless means easier conversations in noisy restaurants or on the phone. For others, it means more enjoyment simply watching television with family.

## For Holly Taylor, it means music.

Holly loves music. She has it playing nearly all day, often using True Wireless to stream it straight from her phone. For Holly, it's music as it should be – effortless, wireless and fun.

*Life has its own  
and I'm*



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soundtrack,  
not missing  
any of it!

Holly Taylor  
Recipient since 1987



# Holly

## One implant – six sound processor upgrades

1987  
○

One of the first children in the world to receive a Nucleus cochlear implant

1988  
○

Started mainstream school, which she attended for 13 years

2000  
○

Graduated from high school in top 2% of students in the state

2006  
○

Graduated from university with First Class Honours in Law



Now



Working as a lawyer and  
living life to the full.

Holly Taylor  
Recipient since 1987

*I want to get out  
with friends and  
family, and enjoy  
what's around me.  
I don't need  
wires for that!*

## 2015 Performance Overview

Sales revenue up 15%

**\$941.9m**

### New products launched in F15

- Nucleus Profile with Slim Straight electrode
- Baha® 5 Sound Processor
- Aqua+ in Europe
- SmartSound® iQ for Nucleus 6 and Hybrid™ Hearing in the US
- True Wireless for Nucleus 6

Net profit up 56%

**\$145.8m**  
net profit after tax

Net cash up 102%

**\$160.3m**  
net cash from operating  
and investing activities

## Key Highlights

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Cochlear implant system sales (units)	26,838	25,997	26,674	23,087	24,661	21,023	18,553	18,228	15,947	12,901
Total revenue (\$million)	925.6	804.9	752.7	779.0	809.6	734.8	694.7	601.7	559.4	452.3
R&D expenses (\$million)	128.0	127.6	124.7	119.3	108.9	94.9	96.7	80.0	65.9	56.7
Net profit after tax (NPAT) (\$million)	145.8	93.7	132.6	56.8	180.1	155.2	130.5	115.2	100.1	80.0
EBITDA (\$million)	236.7	176.5 <sup>2</sup>	201.9	239.4 <sup>1</sup>	270.1	243.6	205.5	193.3	170.9	130.2
EBIT (\$million)	206.4	149.6 <sup>2</sup>	178.9	215.3 <sup>1</sup>	242.7	220.5	183.3	167.3	150.2	111.5
NPAT (\$million)	145.8	109.5 <sup>2</sup>	132.6	158.1 <sup>1</sup>	180.1	155.2	130.5	115.2	100.1	80.0
Basic EPS (cents)	256.1	164.6	233.0	100.0	318.2	275.7	233.7	208.1	182.9	146.8
Dividends per share (cents)	190.0	254.0	252.0	245.0	225.0	200.0	175.0	150.0	125.0	100.0
Closing share price as at 30 June (\$)	80.15	61.70	61.71	65.84	72.00	74.32	57.70	43.65	61.00	54.63
Market capitalisation as at 30 June (\$million)	4,565	3,513	3,512	3,744	4,081	4,198	3,230	2,423	3,341	2,985
Number of permanent employees	2,632	2,536	2,531	2,390	2,319	2,006	1,888	1,789	1,655	1,100

1. Excludes product recall costs of \$138.8 million before tax and \$101.3 million after tax.

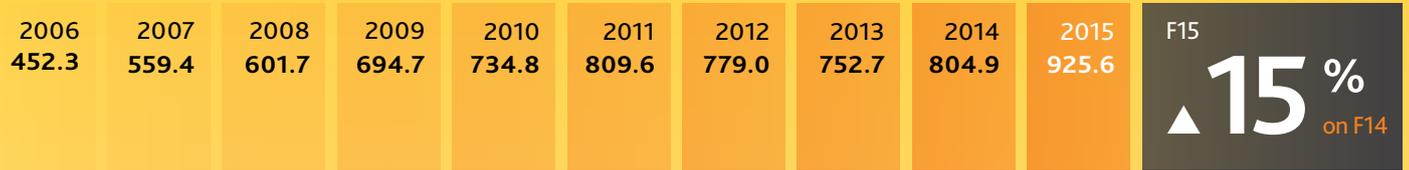
2. Excludes patent dispute provision of \$22.5 million before tax and \$15.8 million after tax.

The following non-International Financial Reporting Standards (IFRS) financial measures are included in this report:

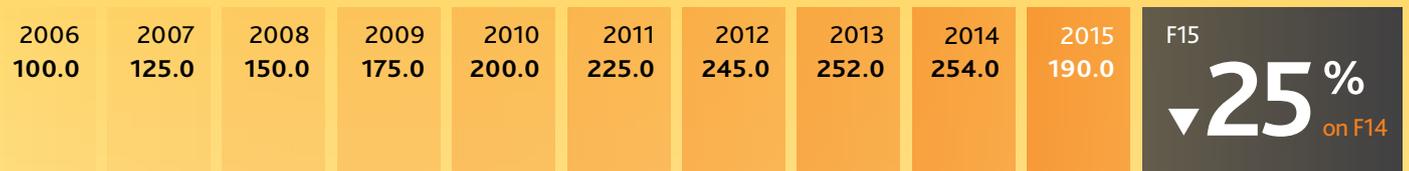
- excluding patent dispute provision;
- excluding product recall costs; and
- constant currency.

Refer to page 109 for a discussion of these items.

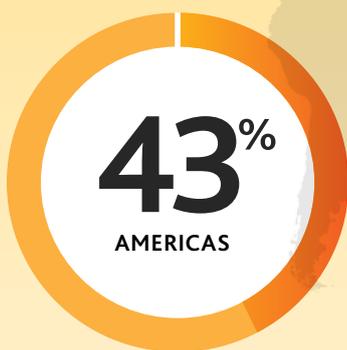
## 10 year total revenue performance (\$million)



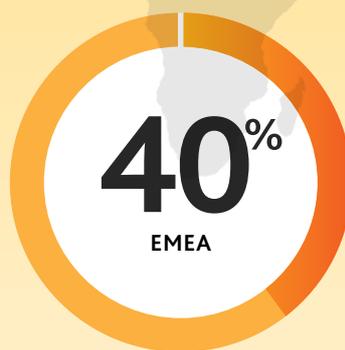
## 10 year dividends per share performance (cents)



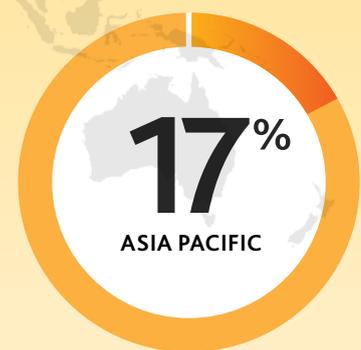
## Regional Split of Sales Revenue



- F15 sales revenue up 26% on F14 (up 15% in constant currency)
- F15 EBIT up 37% on F14



- F15 sales revenue up 5% on F14 (up 6% in constant currency)
- F15 EBIT up 3% on F14



- F15 sales revenue up 14% on F14 (up 9% in constant currency)
- F15 EBIT up 9% on F14

## Chairman's 2015 Report

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The year to 30 June 2015 was one of steady progress and in my view sets the Company in a strong position moving forward. This is consistent with the general comments made in February with the half year results.

I am extremely pleased we now have a full set of products in all significant markets, with a pipeline of new solutions on the way.

Chris Roberts has played a very important role for many years but, in my view, none more important than F15. During the year, we have seen the introduction of a range of new implants and products, the creation of strong momentum across the business, and the successful implementation of the CEO renewal process advised to the market in May 2015. His commitment and effort is acknowledged and greatly appreciated.

As announced on 26 May 2015, Chris Smith becomes CEO/President on 1 September 2015. He has accepted responsibility for our F16 performance and has been working closely with the executive team from the beginning of the new financial year.

I note that Chris Roberts had responsibility for delivering the F15 result, and for preparing the Company to fulfil our strategic plan and our long-term financial objectives. He has achieved a lot and leaves a positive legacy to the new CEO/President.

I will say more about this later.

### The Board

Consistent with my comments last year, we have implemented a board renewal process.

Paul Bell retired in October 2014 after nine years; we thank him again for his years of support and effort, and in particular his wise counsel. We wish him well in his retirement.

In December we announced the appointment two new directors, Alison Deans and Glen Boreham, AM. Both bring valuable skills, and related experience, in a range of digital, software and innovation technologies that will be relevant and valuable in the future. They have international experience and have blended into the board structure very well in a short time.

As a significant proportion of our activities are overseas we normally hold one Board meeting each year in one of our global regions. This year we travelled to South America and gained a much better understanding of the region generally and the issues facing emerging markets in particular.

In addition, I made a number of trips to the US and Europe to stay in touch with these areas of operation, to meet their senior executive teams, and as part of the process of preparing for executive succession.

Last year, I raised the issue of non-executive director remuneration that has remained unchanged for several years now.

A market review identified that we are out of step, on the low side, with both director fees and committee fees. We decided to bring the committee fees into better alignment for F16 and to deal with director fees next year.

At the 2015 AGM, I propose to ask for an increase in the non-executive director fee cap from \$2.0 million to \$2.5 million. The current limit is sufficient for the next two years of expected change but does not give flexibility to easily add new directors, if that is deemed appropriate by the Board, for succession planning. I personally believe the Board is now at the right size, but I also

think periods of overlap and knowledge transfer are valuable options to consider.

I believe the Board has functioned well over the last few years, and especially over the last year. I have carried out a series of review discussions and there are two way interactions. As a group there is consensus that we are satisfied and positive about our roles and performance.

At the same time I propose that in the coming year, we will involve an external consultant for an independent board review and evaluation; that process is already underway.

### Succession

One of the most important roles for any board is the appointment of a new CEO.

We have discussed this matter every six months for some time now. In May, we announced the appointment of Chris Smith as incoming CEO/President effective 1 September 2015.

Chris Smith has been with the Company for over 10 years and is President, Cochlear Americas Region. He has a deep understanding of our business, our customers and our hearing healthcare professionals. Chris Smith will bring new ideas that complement our present orientations, particularly around customer and service. This is consistent with our existing strategic plans.

This succession process involved many stages. It included external consultants to help the Board carefully understand and evaluate the skills and characteristics for the role, and to help us evaluate internal and external candidate considerations.

It was our strong desire to have an internal candidate, and we are pleased with the process and the final outcome.

Chris Roberts was actively involved in these discussions as a Board member; he has acted in a very professional way and been supportive of the complex arrangements for stepping down and renewal.

The Board acknowledges Chris Roberts' incredible contribution to the Company over a period of more than 11 years; we recognise and appreciate his significant contribution to our business success over that time, the resulting substantial growth in share price, and his efforts to strengthen our standing in the healthcare community. We also acknowledge his personal commitment to every person who has a hearing need that we can help. We wish him every success in his new future.

### Remuneration

Remuneration oversight of the CEO/President, the key management personnel, and the staff generally, is an important aspect of the Board's responsibilities. The role is carried out by the Human Resources Committee now chaired by Glen Boreham, AM. The Remuneration Report sets out our approach to remuneration, and provides the F15 details.

We are well aware that remuneration practices are continually evolving. We intend to take a close look at all aspects of remuneration but in particular short-term incentives. We will consider our approach relative to best market practice, noting we are a global company, to ensure our processes keep us competitive, ensure we can attract the best people, and effectively contribute to aligning performance and effort to our key business objectives.

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## Employees

We all recognise Cochlear has a diverse global workforce focused on our business and on transforming the lives of people with hearing loss. We employ some 2,800 people from over 75 nationalities, and we operate in 20 different countries. Their knowledge, expertise and passion are key to our future and their focus on delivering excellence for our customers are an important part of our success and our market leadership position.

The Board thanks all our employees for their outstanding efforts.

## Dividend

Consistent with our results the Board has declared a final dividend of \$1.00 per share, franked to 100%. This brings the full year dividend to \$1.90 which is consistent with our broad payout guidance of approximately 70% of net profit after tax (NPAT).

## The Future

Cochlear operates in a complex global environment with growing competitive pressure. In F15, we made steady progress and now have a strong product portfolio across most geographies.

We are focused on improving our global marketing messages, to drive improved sales performance in all aspects of the business, including cochlear implant and bone conduction/acoustic sales, upgrade sales and services generally.

Clearly the emerging wireless message is important over the next three years. We are pleased with the progress in the Baha business, and with our new products becoming iPhone compatible. This capability is important for the cochlear implant business and we are focused on our new products incorporating these features to the full extent possible as soon as is practical. This involves many considerations including a strong and ongoing relationship with GN ReSound. We are committed to this relationship that should be positive for us both and our customers.

Given our longer term objectives we will continue to invest to grow the market, we expended targeted funds in F15, and will repeat that into F16 and beyond, to support total market growth.

We are committed to continuing to spend in the area of design and development; we see this as another long-term commitment to support our future. Over the coming years we will increase our focus on how we spend those funds and make continued effort to ensure there is sound commercial returns from the total business as a result. This should reinforce our position as market leader, and that is our clear goal.

Finally, we are not inclined to the provision of earnings guidance but we are well aware of the wide range of differing views expressed by the analyst community. In consideration of the current CEO succession process, the wide variance in external analyst opinions, and the volatile currency environment, we have decided to give guidance for F16.

The incoming CEO has committed to the F16 guidance and will make his first public appearance as CEO/President at the Annual General Meeting in October 2015. He will be available after that for normal meetings with analysts and shareholders, as has been past practice.

The guidance for F16 is for continued steady progress with a NPAT range of \$165 million to \$175 million at FX rates of USD/AUD of approximately 75 cents.



**Rick Holliday-Smith** Chairman



## CEO/President's Letter to Shareholders

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F15 was a year of sales momentum driven by the ongoing roll-out of new products supported by market growth activities. Sales momentum started in F14 with the launch of important new products across all product categories. More regulatory approvals were received in F15, continuing the global product roll-out.

Full year sales revenue increased 15% to \$941.9 million. In constant currency terms (i.e. restating F14 at F15 foreign exchange rates), sales revenue was up 10%. Full year cochlear implant unit sales were up 3% to 26,838. Cochlear implant unit growth was stronger in developed countries, for example Western Europe up 7% and North America up 15%. This was offset by weaker cochlear implant unit tender sales in developing countries. Full year bone conduction/acoustic implant sales of \$115.1 million were up 15% (up 9% in constant currency).

Net profit after tax of \$145.8 million increased 56% from F14 (increased 33% excluding the patent dispute provision cost in F14).

Net cash generated from operating and investing activities was \$160.3 million in F15, up from \$79.5 million in F14.

Net debt fell by \$40.8 million (23%) to be \$140.5 million at 30 June 2015. This was after the payment of \$123.8 million in dividends during F15.

### New products

In the Nucleus cochlear implant (CI) category, we released SmartSound iQ pre-processing technology for Nucleus 6 in the United States, where it has been received very positively. The Aqua+ water accessory was released in Europe, opening up a whole new world of water related activities for CI recipients. This product had previously been released in the US. Nucleus 6 True Wireless was introduced, delivering true wireless freedom to recipients to explore high quality digital audio streaming without the need for wires and bulky components. Towards the end of F15, the Nucleus 6 System was made available to a limited number of Nucleus 22 recipients. These are our earliest recipients. This product will be more generally available in F16, demonstrating our ongoing commitment to giving earlier implant recipients access to the latest technologies.

The Cochlear Nucleus Profile implant with the Contour Advance® electrode continued its global roll-out and was joined by the Cochlear Nucleus Profile implant with Slim Straight electrode. We also started clinical investigations of the Cochlear Nucleus Profile implant with Slim Modiolar electrode, the thinnest perimodiolar electrode array ever developed.

In the Baha bone conduction implant category, we released the Baha 5 Sound Processor, the smallest bone conduction sound processor on the market and the industry's first Made for iPhone sound processor. This was supported by the introduction of the Baha 5 Smart App for iPhone, providing users with easy control of the Baha 5 Sound Processor and a way to personalise their hearing experience. The choice provided by both Baha Attract and Baha Connect system has proved successful.

In the acoustic implant space, the Carina® and Codacs™ implants continued providing excellent clinical outcomes.

### Market growth activities

In F15, Cochlear continued building on market growth initiatives. Expanding implant criteria, for example the hybrid indication, has been particularly important in the US. Much progress has been made on new digital based tools for new clinical models, improving efficiency for clinicians, empowering patients and engaging referring professionals. Other activities include social media, awareness and education websites, our own company website, dedicated online portals servicing recipients and our professional partners and our easy to use online store.

### Total shareholder return

At the heart of Cochlear is the promise of 'Hear now. And always' – which encompasses our commitment to connect people with hearing loss to a world of sound, and our lifelong partnership with them. It means that our day-to-day business requires balancing short and long-term considerations.

Total shareholder return (TSR) is a key management metric and three year TSR is one of the performance measures for management's long-term incentive program (specifically TSR relative to the S&P/ASX 100). Three year TSR to 30 June 2015 was 42%, which placed Cochlear 56th out of the S&P/ASX 100 companies.

### Thank you

This is my last letter to you, Cochlear shareholders. Thank you for your support over more than 11 years and your ongoing dedication to Cochlear helping people hear.

I would also like to thank Cochlear's management team and Board of Directors for their support and commitment to our mission. They are wonderful people.

It has been a special privilege to interact with so many talented healthcare professionals globally. Thank you for your inspiration.

I hand over to Chris Smith as part of a well-planned succession, something that is critical to our success and sustainability. Also, it is that long-term sustainability that is so important to you, Cochlear shareholders, and to our recipients.



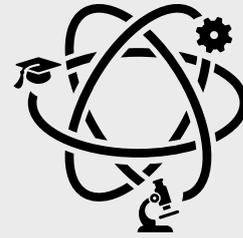
Dr Chris Roberts CEO/President



## Environment, Social and Governance (ESG)



### Supporting environment awareness activities



### Engaging with universities and research groups

Cochlear's approach to ESG is central to the Company's commitment to excellence. Everything we do to deliver quality, innovative products and services reflects the importance we place on ESG.

In this section of the Annual Report, we highlight some of the activities and initiatives Cochlear is involved in, especially in regard to the environment and social issues.

Strict legal compliance and high performance on environmental, privacy and safety issues are also integral to our culture. For more information on our Governance reporting, see our Corporate Governance Statement 2015 on page 18.

We know that our products and performance are reflective of the quality of our people. We seek the best people and support them to be successful in their work. We are proud of our environmental and governance record as well as our social contribution.

At Cochlear, we follow a global Code of Business Conduct, which helps us best serve our recipients and ensure we can deliver a lifetime of great hearing.

#### Environmental awareness

Cochlear is committed to improving the lives of its recipients, driving technologic innovation within the medical device industry, and in doing so, promoting best practice business principles.

#### Property footprint

Cochlear seeks to ensure that all of our offices reflect responsible environmental practice. As we open new offices, we make sure they use environmentally sustainable materials and operate to good construction practice.

#### Cochlear Limited global headquarters

The Company's global headquarters in Sydney, which also houses our Asia Pacific regional headquarters, was awarded a 4 Star Green Star rating by the Green Building Council of Australia, confirming good practice in environmentally sustainable design/construction of the building.

The building achieved a rating equivalent to a 5 star NABERS rating<sup>1</sup> (carbon emissions associated with electricity and gas consumption are 270% better than those for an "average performance" building). This high rating was achieved through a high efficiency façade design, energy efficient lighting and an innovative air conditioning system.

Water efficient fittings and fixtures have been used throughout the building. The building reuses rainwater that is collected from the roof and is stored in underground reuse tanks. The tanks have a capacity of 350 cubic metres. The water is filtered and then used to supply all the toilets and the cooling towers within the building and used to irrigate the landscape outside.

The waste recycling systems in place at the Sydney headquarters include:

- commingle recycle waste collection in all breakout and kitchen areas, collecting approximately 20 tonnes a year;
- paper recycling collection at workstations and utility areas;
- cardboard compactus;
- battery recycle collection, collecting approximately 225 kilograms of waste a year;
- e-waste recycle collection, collecting approximately 600 kilograms of waste a year;
- fluorescent tube recycling, collecting approximately 280 kilograms of waste a year; and
- 240 litre capacity security paper destruction bins, collecting approximately 180 bins a year.

To maximise office recycling, for instance with batteries, toner cartridges and used IT equipment, instructions are provided to employees as well as clear stations for materials to be collected.

To encourage cycling to work and reduce the use of cars, Cochlear provides 160 bicycle parking spaces as well as showers and lockers.

Cochlear's Procurement Policy states the principle of sustainable procurement, which requires the consideration of economic, social and environmental impacts when acquiring goods or services. Strategies, where appropriate, are adopted to avoid unnecessary consumption. Sustainably procured goods and services must:

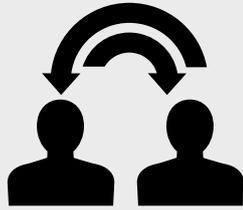
- be fit for purpose and meet the end users' needs; and
- maximise economic benefits and represent value for money through the consideration of whole of life costs and quality.

Consideration where appropriate is given to energy usage, emissions, water usage, resource use, waste generation, recyclability, toxicity, biodiversity, land use, social responsibility, economic viability, innovation and health and safety.

1. NABERS (National Australian Built Environment Rating System) is a national rating scheme managed by the NSW Government in Australia.

## Environment, Social and Governance (ESG)

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Encouraging participation  
in national debate



Increasing global  
awareness of hearing loss

### *Cochlear Bone Anchored Solutions headquarters*

Extensive efforts are made in Cochlear Bone Anchored Solutions' headquarters in Mölnlycke, Sweden, to reduce electricity use and waste.

Cochlear Bone Anchored Solutions works with Sweden's leading competence company in recycling and environmental, Ragn-Sells, to ensure best environmental practice. This involves a commitment to continuously improve waste separation and make sure that whenever possible waste products are reused, recycled or used for energy recovery before being disposed of.

Waste sorting includes for:

- combustibles;
- office and confidential paper;
- corrugated paper;
- metallic packaging;
- shrink and stretch film;
- glass;
- sharps;
- electronics;
- small batteries;
- light bulbs;
- wood;
- mixed waste (metal, wood);
- dangerous goods (chemicals); and
- toners.

A focus is also placed on our supply chain so that all transport is conducted in an environmentally safe and efficient manner.

### *Cochlear Americas headquarters*

Cochlear's regional headquarters in Denver, US, runs an extensive ongoing program to boost environmental sustainability and ensure compliance with the requirements of local authorities. Some of these activities include:

- installation of sink fixture aerators in the rest rooms that reduce water consumption by 30%\*;
- single source recycling in all kitchens, break rooms and printer stations to keep an estimated 15 tonnes of waste out of landfill\*;
- use of a cardboard compactor for all used boxes, which produces approximately 2 to 3 tonnes per month\*; recycling of all fluorescent bulbs (per United States Environmental Protection Agency mandate), totalling approximately half a tonne per year\*; and
- recycling all used or out of date batteries and e-waste, totalling approximately 2 tonnes per year\*.

\* Estimates only.

The office has locker rooms with shower facilities to allow individuals to cycle to work or exercise during off hours.

### *Cochlear Europe, Middle East and Africa (EMEA) headquarters*

Two key initiatives have been undertaken to promote environmental sustainability in our EMEA headquarters in Basel, Switzerland. These include:

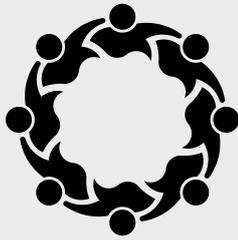
- a new agreement with an energy provider to use power from renewable energy sources; and
- office-wide education programs to reduce workspace and IT energy usage.

### *Manufacturing*

As a manufacturer of medical devices, Cochlear actively manages all inputs and outputs to promote environmental best practice.

Cochlear holds environmental licences governing generation and control of waste and pollution in Australia. Cochlear retains or recycles nearly all of its waste product material from manufacturing in Australia.

Cochlear employs the 'lean' philosophy in its manufacturing process, which is a systematic method for the elimination of waste. This enables Cochlear to reduce overproduction, reprocessing and defects, and increase recycling and paperless operation documentation. Redesigned packaging and flexible printing have also reduced packaging waste.



## Supporting employee participation in community fundraising and activities



## Educating visitors to headquarters with facility tours

### Social support

#### *Supporting the tertiary education sector*

Being a knowledge based organisation, Cochlear strongly supports and engages with the tertiary education sector.

Adjacent to Cochlear's global headquarters at Macquarie University is the Australian Hearing Hub building. The Hub brings together over 2,000 people, across a range of disciplines, dedicated to promoting hearing health.

The Cochlear Clinical Skills Institute, a world-class surgical training centre in the Australian Hearing Hub, was recently opened and Cochlear's Australian and New Zealand sales office has moved there to be close to key customers.

Cochlear engages with Macquarie University across a range of other activities, including staff lecturing at the University and the provision of internship opportunities for students.

Cochlear has research agreements and arrangements with over 100 external research partners around the world. Cochlear's support is focused on increasing the understanding and treatment of hearing loss.

Cochlear is a core member of the HEARing Cooperative Research Centre based in Australia, which combines academic, business and government interests to further understanding and development of technologies for diagnosis and remediation of hearing loss. Since 2007, 38 students have engaged in postgraduate doctoral studies in hearing related topics under this scheme.

#### *Supporting the community*

The Cochlear Foundation was established in 2007 to promote community leadership and the awareness of, and research into, treatments for hearing loss. Support has been provided for many projects including STELR (Science and Technology Education Leveraging Relevance), an initiative to advance Science, Technology, Engineering and Mathematics (STEM) education. An initiative of the Australian Academy of Technological Sciences and Engineering, STELR shows students that STEM subjects are relevant to their lives, encourages participation in them at school and provides career profiles for those studying the subjects.

In F15, the Cochlear Foundation also supported other Australian educational awareness activities as well as charity events and clinical research associated with the treatment of hearing loss.

Cochlear supports its employees' participation in community fundraising and corporate sporting activities through sponsoring or supporting its employees in a number of activities. In Europe, community activities were supported in several countries in F15 through team involvement and financial help.

In the United States, Cochlear continues its support of several non-profit hearing loss organisations including the Hearing Loss Association of America, AG Bell, Ear Community, Songs for Sound and the American Cochlear Implant Alliance. During the year, scholarships were awarded to eight gifted students in the US who have overcome hearing loss and achieved academic and personal success. Cochlear has awarded more than US\$504,000 in scholarships to 72 college students in the US since 2002.

#### *Supporting employees*

Cochlear supports its global team by providing a safe and healthy work environment. This includes numerous workplace health and safety activities as well as support for healthy living and access to a range of health services.

More information can be found in the Our People section of this Annual Report.

#### *Industry and advocacy*

Many of Cochlear's professional staff are involved in helping relevant research and community programs in their regions, partnering with academic, industry and health professionals to assist Cochlear recipients and the institutions that support them. This is particularly relevant in developing countries. Employees who are engaged in eligible community service activities are granted time off to perform their required duties.

Cochlear encourages executives to participate in forums and bodies that advance Australia's competitiveness and the promotion of innovation and technology. Cochlear CEO/President, Chris Roberts, is a member of the Business Council of Australia; New South Wales Innovation and Productivity Council; the University of Technology Sydney Vice-Chancellor's Industry Advisory Board; the University of New South Wales (UNSW) Faculty of Medicine Advisory Council; Monash Industry Council of Advisers (MICA); and Board of Governors of the Centenary Institute of Cancer Medicine and Cell Biology.

Outside Australia, Cochlear's representation in the medical device industry includes membership of the Japan Association of Medical Devices.

No contributions to political parties were made in F15.



## Introducing Cochlear Global Hearing Ambassador



## Offering tiered products in developing markets

### *Hearing loss awareness*

Hearing loss is a global public health issue and Cochlear is engaged in raising awareness of it and the relevant treatments available to address it.

In Australia and New Zealand, Cochlear sponsored the Power of Speech public speaking competition for deaf children to challenge the common perceptions of what a deaf child can achieve. Cochlear has also set up and works closely with the Cochlear Awareness Network of volunteers who connect candidates in the community and offer support.

In March, Cochlear supported 'Disable the Hearing Disability: Our Future', a workshop in Auckland, New Zealand, for adult recipients and hearing health professionals to share insights and discuss hearing loss treatment and access to implantable hearing technologies.

Every August in Australia is Hearing Awareness Week, which Cochlear supports to drive awareness of hearing loss, especially amongst senior citizens.

In F15, retired Australian cricketer, Brett Lee, became the first Cochlear Global Hearing Ambassador to help increase international public awareness of hearing loss and the solution of a cochlear implant. Cochlear also supported the Australian feature film, *unIndian*, which stars Brett Lee alongside international actress Tannishtha Chatterjee. Some scenes of *unIndian* were filmed at Cochlear's global headquarters in Sydney, featuring Cochlear implant recipients.

Cochlear makes an effort to educate visitors to its headquarters by giving tours of the facility and providing information about the significant medical, social and economic impacts of hearing loss. Plans are underway for a new hi-tech, interactive tour to enhance this experience.

In February, Cochlear Americas held its bi-annual Celebration event in Florida for its Nucleus and Baha implant recipients. The two day event, attended by over 1,000 recipients, included various social and educational activities to bring the Cochlear recipient community together and share information and advice to improve their hearing experience.

Cochlear Americas teamed up with the Hearing Loss Association of America in May (Better Speech and Hearing Month) to urge television viewers across several US states to get their hearing checked and to promote Cochlear products. The team also had a booth at a health fair at Scott Air Force Base, Illinois, to encourage people to protect their ears and highlight the need for regular hearing tests.

On International Ear Care Day in March, comprehensive education activities also took place in Benelux, Poland, Ukraine, Russia and Lebanon. During the year, Cochlear in the Middle East hosted 10 successful patient and awareness events for candidates and recipients.

### *Access to healthcare*

Cochlear sells its products in over 100 countries. Cochlear provides, particularly in emerging markets, support to professionals in the healthcare area. We facilitate partnering of surgeons and supporting education of local professionals. Part of enabling access to our products in developing markets is our ability to provide tiered products to suit the needs and financial ability of customers.

### *Governance*

Cochlear's key corporate governance principles and practices are outlined in the Corporate Governance Statement 2015 included within this Annual Report.

## Our People

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Cochlear has a highly dedicated, passionate team of approximately 2,800 people across 20 countries, all focused on delivering the very best hearing outcomes for our recipients.

Being a global medical technology company, Cochlear has a team made up of a diverse range of disciplines, nationalities and working styles. Our people strategies focus on engaging everyone to help us to deliver better technologies for our recipients and future growth for the Company.

### Talent strategy

Cochlear places great emphasis on attracting and retaining the best people. Our work is interesting and challenging and there are numerous opportunities for development within a growing business. Most important though is a common, shared passion for helping people around the world with hearing loss. We have a high level of engagement built on our shared goals to improve the experience we provide our recipients.

We continued to be an employer of choice in F15, attracting over 13,500 applications for just approximately 250 permanent positions globally. The Company maintains high staff retention levels with global voluntary turnover at 8.0% and for Cochlear in Australia at 6.3% in F15.

In F15, the Company continued to focus on developing the capabilities of our workforce by promoting from within and providing employees with opportunities to build their careers. Over the year, internal candidates filled 25% of positions available and 13% of our workforce made applications for internal roles. The number of employees moving across departments to broaden their experience also increased in F15.

Cochlear continued to develop a strong talent pipeline to support future growth, employing 20 engineering summer students as well as five exceptional engineering graduates. Cochlear also hired employees into new and specialised skill areas to support key global customer experience projects.

Cochlear retains a highly skilled and flexible workforce in our manufacturing department by enabling continuous improvement and regular employee consultation. Our Employee Consultative Committee provides valuable monthly representation from across Cochlear's manufacturing operations.

### Ongoing learning

In F15, Cochlear continued to build and enhance both individual and organisational capabilities by investing in effective and engaging employee development programs. New programs and resources were offered to empower employees to progress their own career development. This includes a focus on building the skills of People Managers to better support their teams through short, targeted skill-building sessions that can be easily applied in their work.

Cochlear continued to build leadership capability amongst its global executive team with 28 Cochlear executives completing the Leading Innovative Change program delivered by University of California, Berkeley and the Leading Strategic Growth program delivered by the Columbia Business School. Cochlear Academy, the Company's learning management system continues to provide employees with

access to an expanding range of learning programs through different media, including over 3,500 online video based courses. Cochlear's Manufacturing Academy supported the delivery of training and skill-building processes in our manufacturing environment.

### Diversity

Cochlear continues to encourage diversity across the business in order to support our leadership and innovation strategies. Employees at the Company's Australian offices represent 75 different nationalities with approximately 80% of our workforce being born outside Australia.

Forty nine percent of our global workforce and 39% of our managers globally (29% in Australia) are women. In our professional workforce (including Principals, Senior Professionals and Professionals), 49% are women. Of the new permanent employees recruited globally in F15, 49% were women.

Cochlear promoted diversity in its workforce during F15 through numerous initiatives including support for Women in Leadership programs aimed at developing the pipeline of female leaders at Cochlear and talent planning. We consider gender and STEM talent needs in all human resources process design and monitor outcomes to continuously improve our employee value proposition. The Company also minimises any potential sources of bias in areas like selection, promotion and performance management.

### Health and safety

Employee health and safety are a priority for Cochlear. During F15, new safety performance measures and reporting capabilities were implemented in our Australian operations to strengthen the monitoring of safety prevention activities and injury management. We are currently implementing a new enterprise risk management technology solution that will provide a platform for improved monitoring globally.

Cochlear continued to focus on improving capabilities in key risk areas (e.g. chemical management and ergonomic risk management). Early intervention during injury management has helped drive down the total compensation costs for workplace falls over the past three years.

A variety of health and wellbeing initiatives were offered to employees during F15 including provision of flu vaccinations, access to an employee assist program, discounted gym membership, mental health awareness campaigns and support for stopping smoking.

In F15, Cochlear supported various employee sports and wellness activities including running and sports instruction, fun runs, cycling events, football and tennis tournaments, step challenges and sports psychology sessions.

## Innovation for Life

Cochlear innovates and brings to market a range of products and services that deliver a lifetime of hearing. Over the past five years, the Company has invested more than \$600 million in global R&D activities. In F15, Cochlear's total R&D investment was \$128 million, which was 13.8% of total revenue.



### reddot award

Baha 5 Red Dot Award



Aqua+ Good Design Award

The Company employs more than 300 specialists in its design and development department from a range of technical disciplines. These teams are based in Australia, Belgium, Sweden and the United States. Cochlear also works with over 100 external research partners based in 20 countries.

Cochlear's technology teams around the world continue to develop solutions to drive better hearing performance outcomes, improved lifestyle solutions and expanded indications for candidates for and recipients of Cochlear's products. Research spans scientific research, new technology developments and new product developments. This includes work on Cochlear's sound processing algorithms, electrode technology, totally invisible hearing implants, wireless connectivity, biology research and the continued expansion of Cochlear's portfolio of implantable hearing devices.

Cochlear also continues to expand its offering of clinical care tools that support professionals with a growing set of options to manage their customers, including cloud based connection technologies.

Highlights during F15 included:

- market introduction of Cochlear Nucleus 6 True Wireless products;
- FDA approval for the advanced Nucleus 6 SmartSound iQ pre-processing technology;
- roll-out of Cochlear Nucleus Profile implant with Contour Advance® electrode, including regulatory approval and roll-out in the US;
- market introduction of the Cochlear Nucleus Profile implant with Slim Straight electrode in Europe, Australia and other countries – FDA approval received in June 2015 for release July 2015;
- regulatory approval and market introduction of Cochlear Nucleus Aqua+ in Europe, the second generation behind-the-ear fully reusable waterproof accessory, with further roll-out in the US following approval in F14;
- start of clinical investigation of Cochlear Nucleus Profile implant with Slim Modiolar electrode, the thinnest perimodiolar electrode array with 60% less volume compared to the Contour Advance electrode;
- continued expanded treatment indication for the US market to those with "ski-slope" hearing loss using Hybrid Hearing introduced in F14;
- market introduction of Baha 5 Sound Processor, the smallest Baha sound processor on the market and the first Made for iPhone sound processor in the implantable space;

- market introduction of Baha 5 Smart App for iPhone, providing users with easy control of the Baha 5 Sound Processor and ability to personalise their hearing experience;
- market introduction of Baha Fitting Software 5.0. Built on a totally new platform, the Baha Fitting Software 5.0 is designed to make bone conduction fittings easier and faster than ever before;
- market introduction of new Baha Attract Sound Processor magnets and colour covers designed for maximum discretion; and
- continued market roll-out of Codacs™ and Carina® acoustic implants in Europe and Latin America.

### Manufacturing and supply chain operations

Cochlear sells into more than 100 countries, making its supply chain truly global. Components are sourced across Europe, Asia and the Americas. Manufacturing operations are primarily located in Australia and Sweden, with smaller sites in Belgium and the US. Suppliers and the manufacturing sites are aligned to enable the Company to deliver products of the highest quality and reliability. The structure and execution of the supply chain play an important part in our productivity drive as well as for the introduction of new products. Over 900 people are currently employed in Cochlear's manufacturing facilities around the world. The Company's manufacturing strategy is to make sure that capacity production methods deliver the highest quality products to meet demand whilst at the same time improving operational efficiency. To achieve this, Cochlear adopts continuous improvement programs, which incorporate lean manufacturing principles and ongoing investment in new manufacturing technologies. These programs are designed to deliver the capacity, flexibility and productivity to meet our customer requirements.

### Non-military use

Other than where our products are used by military personnel, Cochlear produces or contributes to no products or services designed or used for military purposes.

### Quality management system

Cochlear has implemented a quality management system to ensure the quality of its products and services. This system is regularly assessed by external regulators. Certificates include (but are not limited to): ISO 13485, ISO 9001, Medical Device Directive and Active Implantable Medical Device Directive.

### Device approvals

Medical devices must be approved by relevant regulatory authorities. At present, Cochlear (or an affiliate or distributor/representative) has the necessary licences and approvals to enable the marketing of each product in the jurisdictions in which the product is marketed. Ongoing approvals are regularly being sought for new products in a variety of jurisdictions.

### Intellectual property

The creation and protection of our intellectual property remain a key strategic imperative for the business. Cochlear currently holds over 1,100 patents and patent applications globally, and filed many new patent applications in F15.

## Board of Directors

### 1. Mr Rick Holliday-Smith

Age 65. BA (Hons), FAICD, CA  
*Appointed 1 March 2005.*  
*Ten years' service.*

Director of Servcorp Limited since 1999. Director of ASX Limited since 2006 and Chairman since March 2012. Former Chairman of Snowy Hydro Limited (not publicly listed) 2006 – 2012 and 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 Board of Directors and Nomination Committee. Member of the Audit Committee and Human Resources Committee.

### 2. Dr Chris G Roberts

*CEO/President*

Age 61. BE (Hons), MBA, PhD, Hon DSc (Macq), Hon DSc (UNSW), FAICD, FTSE, FIEAust  
*Appointed 1 February 2004.*  
*Eleven years' service.*

Chief Executive Officer/ President of Cochlear Limited. Director of ResMed Inc. Dr Roberts has worked in the medical device industry for more than 39 years in a number of senior management positions.

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

### 3. Mrs Yasmin Allen

Age 51. BCom, FAICD

*Appointed 2 August 2010.*  
*Five years' service.*

Director of Insurance Australia Group Limited (IAG) since 2004 and member of IAG Audit Committee, People and Remuneration Committee and Risk Committee. Director of

Santos Limited and member of the Santos Environment, Safety and Sustainability Committee and member of the Santos Audit Committee. Director of ASX Limited and member of ASX Audit Committee and member of ASX Clearing and Settlement Board.

National director of the Australian Institute of Company Directors since 2010 and director of National Portrait Gallery since 2013. Member of the George Institute for Global Health Board. Former member of The Salvation Army Advisory Board. Former Chair of Macquarie Specialised Asset Management. 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 Human Resources Committee and Nomination Committee.

### 4. Mr Glen Boreham, AM

Age 50. BEc, FAICD

*Appointed 1 January 2015.*  
*Less than one year's service.*

Director of Southern Cross Austereo since 2014 and Data#3 Limited since 2011. Chairman of Advance since 2012 and the Industry Advisory Board for the University of Technology, Sydney, since 2010. Former (and inaugural) Chairman of Screen Australia (2008 – 2014). Former Managing Director of IBM Australia and New Zealand (2006 – 2010).

Chairman of the Human Resources Committee. Member of the Nomination Committee.

### 5. Prof Edward Byrne, AC

Age 63. DSc, MD, MBA, FRCP, FRACP, FTSE

*Appointed 1 July 2002.*  
*Thirteen years' service.*

President and Principal of King's College London since 1 September 2014. Former Deputy Chairman of Group

of Eight Vice Chancellors, Australia, and Chairman of Global Foundation. Former director of Bupa Group Board, London and Bupa Australia Pty Limited. Former Vice Chancellor of Monash University (June 2009 – August 2014).

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).

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

### 6. Ms Alison Deans

Age 47. BA, MBA, GAICD

*Appointed 1 January 2015.*  
*Less than one year's service.*

Director of Westpac Banking Corporation since 2014, IAG since 2013 and kikki.K Holdings Pty Limited. Former Chief Executive Officer of the technology based investment company Netus Pty Limited (2006 – 2013), Hoyts Cinemas (2003 – 2004), eCorp Limited (2000 – 2003) and eBay Australia and New Zealand (1999 – 2000).

Member of the Nomination Committee and Technology and Innovation Committee.

### 7. Mr Andrew Denver

Age 66. BSc (Hons), MBA, FAICD

*Appointed 1 February 2007.*  
*Eight years' service.*

Chairman of Universal Biosensor Pty Limited since 2005 (director since 2002) and SpeeDx Pty Limited since 2009. Director of Vaxxas Pty Limited since 2012. Former director of Principals Cornerstone Management Pty Limited. Former Managing Director of Memtec Limited and President Asia for Pall Corporation.

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

### 8. Mr Donal P O'Dwyer

Age 62. BE Civil, MBA

*Appointed 1 August 2005.*  
*Ten years' service.*

Chairman of Atcor Medical since 2004 and a director of Mesoblast Limited since 2004 and Fisher & Paykel Healthcare Limited since 2012. Former director of Sunshine Heart Inc (2004 – 2013). Former Worldwide President of Cordis Cardiology (Johnson & Johnson medical device business unit) between 2000 and 2004.

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

### 9. Mr Paul R Bell

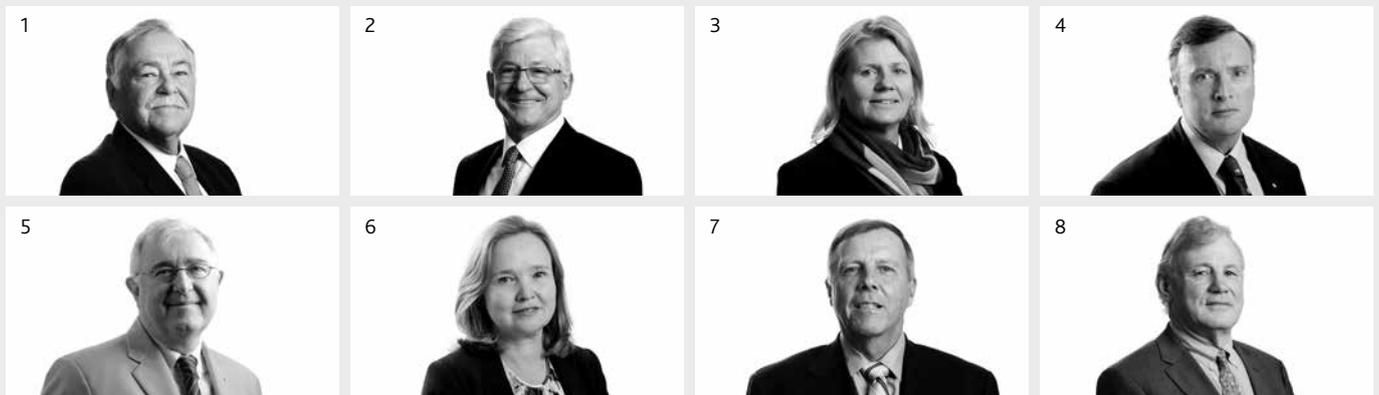
Age 69. BA, MBA (Hons)

*Appointed 1 August 2005.*  
*Nine years' service.*  
*Retired from this position with effect from 17 October 2014.*

Director of Westmead Millennium Institute for Medical Research. Former director of Biota Holdings Limited (2006 – 2013) and Bio-Link Partners Limited (2005 – 2009). Extensive executive career spanning over 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).

Former Chairman of the Human Resources Committee. Former member of the Nomination Committee.

## Board of Directors



## Senior Executive Team



### 1. Dr Chris Roberts

#### *CEO/President*

See "Board of Directors" on page 15.

### 2. Greg Bodkin

#### *Senior Vice President, Manufacturing and Logistics*

BE (Hons), MComm

Greg is responsible for the development and execution of the strategic direction for the Cochlear supply chain.

He leads the global supply chain team, which is responsible for the manufacture of all Cochlear products, with the introduction of new products from R&D into commercial production and the strategic sourcing of direct and

indirect goods and services that support Cochlear's operations.

Greg joined Cochlear in 2007 with 20 years' prior experience in supply chain and operations management positions across industrial equipment manufacturing and financial services industries in Australia.

### 3. Richard Brook

#### *President, European, Middle East and African Regions*

BSc Management, MBA

Richard is responsible for the development and execution of the strategic direction for all our operations in Europe, Middle East, Africa (EMEA) and Latin America. This includes sales in over 60 countries.

Operations in EMEA and Latin America include sales, marketing, distribution, service, finance, clinical, regulatory and administration across these complex and diverse regions.

Before joining Cochlear in 2003, Richard held senior roles in Guidant Corporation and Alaris Medical Systems. He has over 20 years' experience in the medical device industry.

### 4. Dig Howitt

#### *President, Asia Pacific Region*

BE (Hons), MBA

Dig 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. Dig joined Cochlear in 2000 as Engineering Manager in R&D. In 2002, he was promoted to Senior Vice President, Manufacturing and Logistics. In 2014, Dig was appointed President, Asia Pacific Region.

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

## Senior Executive Team — continued

### 5. Jan Janssen

*Senior Vice President,  
Design and Development,  
Clinical and Regulatory*

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. Since August 2013, Jan has also had responsibility for Clinical and Regulatory.

### 6. Amanda Lampe

*Senior Vice President,  
Global Marketing and  
Corporate Affairs*

BPE, GAICD

Amanda has responsibility for brand, product marketing and communications, customer experience, marketing technology and corporate and public affairs.

Before joining Cochlear in 2014, Amanda was Group Executive for Corporate Affairs and Government Relations

for ASX Limited. She has previously worked at the most senior advisory levels for the Australian and New South Wales Governments.

### 7. Anne-Marie Leslie

*Senior Vice President,  
Human Resources*

BA (Hons), EMHRL

Anne-Marie is responsible for global human resources management. Her focus is on building people strategies to develop organisation capabilities that support the business.

She has both broad and deep experience in this area working in local, regional and global human resources management roles, with Bristol-Myers Squibb and Kodak in the US and Asia. Her background includes expertise in quality management at Kodak where she led efforts to win the Australian Quality Prize. She has also worked as a Business Excellence Awards Evaluator in Australia and the US.

### 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. He is a Director of Osprey Medical Inc., President of the Group of 100 and a member of the Board of Taxation.

### 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, AO

*Senior Vice President,  
Chief Scientist*

DEng, MSc, FTSE, FIEAust, CPE

Jim is responsible for a global portfolio of research 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 and Macquarie University.

### 11. Chris Smith

*President,  
Americas Region*

BSc

Chris is responsible for the development and execution of the strategic direction for our operations in North America. Operations include sales, marketing, distribution, service, finance, regulatory and administration. Chris is also responsible for Cochlear Bone Anchored Solutions and Global Support Operations.

He joined Cochlear in 2004, after more than 25 years' experience in the medical device industry specifically and healthcare in general in the US including Warburg Pincus, and as Group President for Cyrus Group (ENT and Surgical divisions).

### 12. Mark Salmon

*Former President,  
Asia Pacific Region*

MBA (Executive)

Mark retired from his position with effect on 29 September 2014.

## Corporate Governance Statement 2015

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Cochlear Limited (Cochlear or the Company) 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. This Corporate Governance Statement is current as at 10 August 2015. This Corporate Governance Statement was approved by the Board of directors of Cochlear (Board) on 10 August 2015.

In this Corporate Governance Statement, 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 (3rd Edition), March 2014 (Guidelines). A checklist of the recommendations made in the Guidelines is set out at the end of this statement. References to recommendations in the Guidelines are made throughout this statement in order to indicate how Cochlear follows the recommendations. All policies and terms of reference referred to in this statement are published on the Company's website, [www.cochlear.com](http://www.cochlear.com), in the Corporate Governance section, unless stated otherwise. The Corporate Governance section is located in the Investor Centre area of the Company's website (Rec 6.1). The Investor Centre is found under the Investors tab on the website home page. Cochlear's corporate governance policies and procedures are reviewed on a regular basis and are updated where appropriate.

### Principle 1: Lay solid foundations for management and oversight

There is a clear distinction between the role and responsibilities of the Board and the role and responsibilities of the Company's Chief Executive Officer (CEO)/President and his senior executive team (Rec 1.1). The balance of responsibilities between the Board and the executives is reviewed on a regular basis so as to ensure that the division of functions remains appropriate to the needs of the Company.

The Board is responsible to Cochlear's shareholders and other stakeholders for the Company's overall business performance. The Board's prime objectives are to improve shareholder returns and to achieve disciplined and sustainable growth. The Board operates under a Board Charter that details its functions and the matters specifically reserved to it for decision (Rec 1.1). The Board Charter is published in the Corporate Governance section of the Cochlear website. The Board is responsible for setting Cochlear's strategic objectives and for monitoring management's performance and implementation of the strategy. The Board also provides input into management's development of corporate strategy and performance objectives. The Board 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.

The CEO/President is responsible for the implementation of Cochlear's strategic objectives and operating within the risk appetite set by the Board and for all other aspects of the day-to-day running of Cochlear (Rec 1.1). The CEO/President is assisted by the senior executive team. The CEO/President is accountable to the Board for all authority delegated to the senior executive team. Notwithstanding these delegations by the Board, the CEO/President is expected to consult the Chairman on matters that are sensitive, extraordinary or of a strategic nature and to 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 visit and inspect operations in Australia and overseas from time to time.

The Board may seek independent professional advice at the expense of Cochlear whenever the Board judges such advice to be necessary for its members to discharge their responsibilities as directors. Individual directors may also seek independent professional advice at the expense of Cochlear where the Chairman agrees (in advance) that separate representation is appropriate. All professional advisors must be suitably qualified and experienced and must be acceptable to Cochlear. No individual directors exercised this right during the year.

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. The selection process may include obtaining advice from an external consultant to assist in identifying suitable candidates who meet the required specifications. Before appointing a person as a director, Cochlear performs checks as to the person's character, experience and education (Rec 1.2). These checks may be carried out by Cochlear or by an external consultant. The Chairman separately carries out reference checks for candidates and makes appropriate enquiries in the business community (Rec 1.2).

As a part of the appointment process, prospective directors are asked to disclose existing and proposed directorships as well as any other commitments they have and to confirm that they have sufficient time to fulfil their duties as a director. These commitments are assessed by the Nomination Committee to determine whether it also considers the prospective director has adequate time to perform their duties.

The Nomination Committee regularly reviews the time required from non-executive directors. The Nomination Committee assesses the 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. The Board's practice and expectation are that non-executive directors consult with the Chairman prior to accepting any significant new appointment.

The Company's Constitution requires that one third of the directors retire from office at the AGM each year and that no director serve longer than three years without re-election. The CEO/President is excluded from these requirements. Directors appointed by the Board during a year are required to resign at the AGM next following their appointment. Retiring directors are eligible for re-election. Mr Glen Boreham, AM, Prof Edward Byrne, AC and Ms Alison Deans will retire at the 2015 AGM and will stand for re-election at that meeting.

Cochlear provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director (Rec 1.2). This information includes biographical details, details of other material directorships and information with regard to the Board's assessment of the director's independence. The information is typically provided in the relevant notice of meeting.

Cochlear has a detailed written agreement with each director and senior executive setting out the terms of their appointment or employment (as applicable) including details of their role, responsibilities, remuneration and their disclosure/compliance obligations (Rec 1.3).

The Company Secretary advises the Board on governance matters and is accountable directly to the Board, through the Chairman of the Board, on all matters to do with the proper functioning of the Board (Rec 1.4). The Company Secretary is also Secretary of the Audit Committee, the Nomination Committee and the Technology and Innovation Committee. The Board appoints and removes the Company Secretary. Each director is able to contact the Company Secretary directly and to meet in person with the Company Secretary.

### **Diversity**

As a global business, Cochlear is committed to providing an inclusive workplace that attracts the best employees to support the Company's growth business. The Company 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 1.5). The Diversity Policy can be viewed in the Corporate Governance section of

the Cochlear website (Rec 1.5). The Diversity Policy sets out the following Workforce Objectives:

- grow the diversity of our workforce to reflect our business needs and the global community we serve;
- continue to implement programs that prepare women to take on senior roles within the business both in operational and specialist support areas;
- continue to implement programs to attract a diverse workforce; and
- invest in initiatives to enable our People Managers to provide an inclusive working environment to retain staff.

These Workforce Objectives are supported through 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 1.5). The outcomes of all annual initiatives are assessed as part of the annual workforce demographics review by the Human Resources Committee (Rec 1.5). A summary of the F15 annual initiatives to implement Cochlear's Workforce Objectives, together with the progress achieved for each initiative, is set out below in Table 1 (Rec 1.5).

**Table 1: F15 Annual Initiatives and Progress**

<b>Workforce Objectives</b>	<b>Annual Initiative and Progress</b>
Grow the diversity of our workforce to reflect our business needs and the global community we serve	<p><b>Science, Technology, Engineering and Mathematics (STEM)</b></p> <p>As a technology company, Cochlear needs to attract and maintain key skills for innovation in STEM areas. 63% 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.</p> <p><b>Increase the representation of women in the workforce</b></p> <p>49% of Cochlear's total permanent full-time workforce is female. 32% of Senior Executive roles (Bands 1–3) are filled by females.</p> <p>In F15:</p> <ul style="list-style-type: none"> <li>• females made up 27% of all recorded job applications (note: around 4% of candidates opt not to disclose their gender);</li> <li>• 17% of permanent new hires at Band 2 level were female;</li> <li>• 43% of permanent new hires at Band 3 level were female;</li> <li>• 50% of permanent new hires at Band 4 level were female; and</li> <li>• 55% of permanent new hires at Band 5 level were female.</li> </ul> <p>Overall, of 294 permanent and fixed term staff recruited (globally) in F15, 48.5% were female, a slight decrease on the prior year in which 50% were female.</p> <p><b>Global diversity</b></p> <p>As a global business, Cochlear's workforce is ethnically diverse with staff from 75 nationalities working in the Company's domestic offices. The top 4 most highly represented nationalities in the Cochlear workforce are: Australia: 24.2%, China: 12.2%, Philippines: 9.0% and Vietnam: 8.8%.</p> <p>In the past year, Cochlear has recruited from around the globe. The Company also recruits people with hearing impairment to ensure that customers' needs are understood.</p> <p>This diversity enriches Cochlear's business and helps the Company create an inclusive culture that attracts and retains the best talent. Cochlear's global annualised voluntary turnover is 8.0% and is 6.3% in Australia. These rates are very competitive for a medical device business.</p>

## Corporate Governance Statement 2015

Table 1: F15 Annual Initiatives and Progress — continued

Workforce Objectives	Annual Initiative and Progress
Grow the diversity of our workforce to reflect our business needs and the global community we serve	<p><b>Human resource process design</b></p> <p>Cochlear considers diversity (particularly gender and STEM talent needs) in all human resource process design and measures and monitors outcomes to continuously improve delivery of value to employees and minimise any potential sources of bias in attraction, selection, promotion, development, performance management and remuneration. Monitoring Cochlear's processes helps to ensure equity and in F15, for example, the performance rating distribution by gender was virtually indistinguishable between males and females. In F15, Cochlear joined the Diversity Council Australia to ensure we can leverage best practice across Australia in supporting a diverse workplace.</p>
Continue to implement programs that prepare women to take on senior roles within the business both in operational and specialist support areas	<p><b>Human capital planning for executive roles</b></p> <p>Cochlear's talent planning ensures it has female staff being developed across the strategic capabilities we need to execute our strategy and they are part of the talent pools so that they are prepared for key roles for the Company's business.</p> <p><b>Development programs</b></p> <p>Cochlear maintains a range of Leadership development programs and has been recognised by the Australian HR Awards for its Learning and Development Strategy. Cochlear has also been recognised by the Corporate Executive Board as best practice for its efforts to support the development of female leaders with the "Leadership Presence" program for high performers. In F15, 7 females participated in the program.</p> <p><b>Department leadership initiative and Women in Leadership network</b></p> <p>Support and sponsorship for development of women for senior roles are provided through department manager support for key external events and programs for individuals and internally through the Women in Leadership network. In F15, there were 9 events held (compared to 5 in F14) and approximately 55 participants attended each event.</p>
Continue to implement programs to attract a diverse workforce	<p><b>Promotion of science and engineering careers</b></p> <p>During F15, Cochlear promoted science and engineering careers in a variety of functions and activities but most notably by becoming the sponsor of the Cochlear Engineering Autumn School with Engineers Australia Sydney Division and hosting a group of visiting students from the National Youth Science Forum. Cochlear also supports Science 50:50 and actively participated in the Women in Science Symposium. Cochlear promoted careers programs at universities in Queensland, New South Wales and Victoria.</p> <p><b>Building of Cochlear's graduate pipeline</b></p> <p>Cochlear has continuously invested in graduate recruitment to build engineering leaders of the future. 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. Students complete an internship during their penultimate year of study. Students who complete the Summer Internship Program become eligible to apply for a place on the Graduate Engineering Program. During F15, the Summer Internship Program attracted over 400 applicants. Out of these applicants, 7 females and 13 males were accepted into the internship program which ran from December 2014 to February 2015. The F15 Graduate Engineering Program started in February 2015 and attracted 11 applicants for 5 places. One of these places was filled by a female applicant. Cochlear looks forward to welcoming 5 female and 5 male engineers to the graduate program commencing in February 2016.</p> <p><b>External promotion of science and engineering employment opportunities</b></p> <p>During F15, Cochlear contributed to the community by actively promoting opportunities for science and engineering employment by:</p> <ul style="list-style-type: none"> <li>• sponsoring the Cochlear Autumn School of Engineering with Engineers Australia Sydney Division;</li> <li>• promoting the Cochlear Engineering Summer Student Program at all universities in Australia;</li> <li>• producing a range of videos that show what makes working for Cochlear special and why people should study science and engineering;</li> <li>• joining First10, the leading provider of careers information to 98% of school careers advisors across Australia; and</li> <li>• being included in the inaugural publication of The Australian Top 100 Graduate Employers.</li> </ul>
Invest in initiatives to enable our People Managers to provide an inclusive working environment to retain staff	<p><b>Leadership development</b></p> <p>Cochlear continues to deploy learning tools and interventions that support its leaders in building a culture that supports diversity and inclusion. Over the past year, females represented 40% of participants in Cochlear's People Manager Leadership Development programs. The Company has also engaged in a major learning initiative for Cochlear's Senior Leaders focused on innovation and strategy, with 32 Senior Leaders participating in the program of which 14 were female.</p> <p>Cochlear currently has 56 people in the Manager of Managers pathway, and 245 in the People Manager learning pathway to ensure ongoing self-directed learning to support world-class leadership for a competitive and changing world.</p>

Cochlear is a "relevant employer" under the *Workplace Gender Equality Act 2012* ("WGEA"). Cochlear's most recent Gender Equality Indicators (as defined in and published under the WGEA) are set out

below in Table 2 (Rec 1.5). It should be noted that this data covers Australian based staff only and does not represent Cochlear's global workforce.

**Table 2: Cochlear's Gender Equality Indicators**

Workforce Gender Profile	Cochlear Limited - 31 March 2015 (Source: Cochlear WGEA submission)											
	Permanent Full-Time		% Permanent Part-Time		% Contract/Casual		% Total Employees					
	Female	Male	Female	Female	Male	Female	Female	Male	Female	Female	Male	Female
CEO/President	0	1	0%	0	0	0%	0	0	0%	0	1	0%
Other key management personnel	0	3	0%	0	0	0%	0	0	0%	0	3	0%
Other executives/general managers	2	3	40%	0	0	0%	0	0	0%	2	3	40%
Senior managers	6	24	20%	1	1	50%	0	0	0%	7	25	22%
Other managers	45	108	29%	4	2	67%	0	0	0%	49	110	31%
Sales	7	2	78%	2	1	67%	0	0	0%	9	3	75%
Professionals	163	277	37%	33	9	79%	8	4	67%	204	290	41%
Technicians and trade	4	43	9%	0	1	0%	0	0	0%	4	44	8%
Clerical and administrative	32	6	84%	11	0	100%	6	3	67%	49	9	84%
Machinery operators and drivers	346	239	59%	2	0	100%	1	0	100%	349	239	59%
<b>Total Australia</b>	<b>605</b>	<b>706</b>	<b>46%</b>	<b>53</b>	<b>14</b>	<b>79%</b>	<b>15</b>	<b>7</b>	<b>68%</b>	<b>673</b>	<b>727</b>	<b>48%</b>

The performance of the Board, committees, individual directors and senior executives is evaluated in accordance with the Performance Evaluation Process Overview (Recs 1.6 and 1.7). The Performance Evaluation Process Overview is published in the Corporate Governance section of the Cochlear website (Recs 1.6 and 1.7).

The Nomination Committee is responsible for the review of the Board's performance. The procedure involves the discussion of the objectives of the Board at the start of the relevant period and then assessing the outcomes at the end of the period. The Chairman assesses the performance of individual directors in accordance with a process agreed with the members of the Nomination Committee. The Chairman undertakes individual interviews and questionnaires and subsequently holds evaluations with each individual director as to their performance. The performance of the Board and individual directors is evaluated at least every two years, with the most recent reviews being undertaken during the reporting period in July 2014 (Rec 1.6). The key findings of these reviews were then discussed at the Nomination Committee meeting held in July 2014. Each committee of the Board annually reviews its performance and makes recommendations to the Board for improving the effectiveness of the committee.

All employees, including the senior executive team, participate in biannual performance reviews, where achievement of key goals is discussed and assessed and future goals are agreed upon. A performance evaluation for all members of the senior executive team took place during the reporting period and was carried out in accordance with the process disclosed in this statement and the Performance Evaluation Process Overview (Rec 1.7). The Chairman of the Board facilitates the performance evaluation of the CEO/President with ultimate oversight by the Board.

## Principle 2: Structure the board to add value

### *Composition of the Board*

The Board comprises seven non-executive directors (including the Chairman) and one executive director, the CEO/President. 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 F15 is set out in the Directors' Report at page 33 (Recs 2.1, 4.1, 7.1 and 8.1). At each Board meeting, the non-executive directors meet for a period without management or any executive directors present (Rec 2.4). Throughout the year, the Board has regular scheduled discussions on the various aspects of the Company's strategy.

### *Board committees*

The Board has established five permanent committees to assist in the execution of its responsibilities. Each 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 committee members are set out in the Directors' Report at page 33 (Recs 2.1, 4.1, 7.1 and 8.1). With the exception of the Medical Science Committee and the Technology and Innovation Committee, all committees are comprised entirely of independent non-executive directors. Executive director Dr Chris Roberts is a member of the Medical Science Committee and the Technology and Innovation Committee.

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Details in relation to each committee including as to composition and role 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 (Recs 4.1 and 7.1). Mrs Yasmin Allen chairs the committee with the other members being Mr Andrew Denver, the Chairman of the Board Mr Rick Holliday-Smith and Mr Donal O'Dwyer (Recs 4.1 and 7.1). Mrs Yasmin Allen is an independent director and is not the chair of the Board (Recs 4.1 and 7.1). 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 Audit Committee meeting they attend, the external auditor reports on the outcome of their audit and other work. The Audit Committee meets with the external auditor in the absence of members of management at every meeting that the external auditor attends. The Audit Committee members' relevant qualifications and experience are set out in their respective biographies on page 15 (Recs 4.1 and 7.1). 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 4.1 and 7.1).

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. In particular, the Audit Committee assists the Board in ensuring that the Company maintains appropriate accounting and reporting practices, maintains an independent external audit process and maintains effective risk management and internal control systems.

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

### **Human Resources Committee (Rec 8.1)**

The Human Resources Committee meets at least three times a year. Mr Glen Boreham, AM chairs the committee with the other members being Mrs Yasmin Allen and the Chairman of the Board Mr Rick Holliday-Smith (Rec 8.1). Mr Glen Boreham, AM is an independent director (Rec 8.1). All members of the Human Resources Committee are independent non-executive directors (Rec 8.1). 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 8.1).

The Human Resources Committee's responsibilities include making recommendations to the Board in relation to 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 Human Resources Committee considers and, if thought fit, approves any agreement for independent advice before it is entered into. This includes any remuneration consultancy contract (within the meaning of the *Corporations Act 2001* (Corporations Act)). To the extent that any remuneration recommendation (for the purpose of the Corporations Act) is made by a remuneration consultant, an appropriate disclosure is made in the Remuneration Report as required by the Corporations Act.

The Human Resources Committee's role also includes responsibility for making recommendations to the Board in relation to remuneration for the Chairman and other non-executive directors. The committee approves the Cochlear remuneration, recruitment, retention, incentive and termination policies and practices as well as superannuation arrangements. In addition, the Human Resources Committee makes recommendations to the Board for the purpose of the Cochlear Executive Incentive Plan (CEIP).

The Human Resources Committee's role encompasses responsibility for the Cochlear Diversity Policy including the implementation and monitoring of the policy. Further information on Cochlear's Diversity Policy can be found above at Principle 1: Lay solid foundations for management and oversight.

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 41 to 65 (Rec 8.1).

### ***Nomination Committee (Rec 2.1)***

The Nomination Committee is chaired by the Chairman of the Board Mr Rick Holliday-Smith, who is an independent director. The other members of the Nomination Committee are Mrs Yasmin Allen, Mr Glen Boreham, AM, Prof Edward Byrne, AC, Ms Alison Deans, Mr Andrew Denver and Mr Donal O'Dwyer (Rec 2.1). The Nomination Committee is comprised entirely of independent non-executive directors (Rec 2.1). The Nomination Committee Terms of Reference require a separate chair who is an independent director to be appointed when the committee is dealing with the appointment of a successor to the Chairman of the Board.

The Nomination 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 also establishes processes for the identification of suitable candidates for appointment to the Board and oversees 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 2.1). 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.

### ***Medical Science Committee***

Prof Edward Byrne, AC chairs the Medical Science Committee with the other members being Mr Andrew Denver, Mr Donal O'Dwyer and Dr Chris Roberts (Rec 7.1). Prof Edward Byrne, AC is an independent director (Rec 7.1). The committee may invite any Cochlear executive to attend its meetings at its discretion. A majority of the members of the Medical Science Committee are independent non-executive directors (Rec 7.1).

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 Medical Science Committee to meet on an "as needs" basis, but at least twice each year. The Medical Science Committee Terms of Reference can be viewed in the Corporate Governance section of the Cochlear website (Rec 7.1).

The Medical Science Committee considers any matters relating to the medical aspects of Cochlear's businesses and related technologies. This includes monitoring risk management and

internal controls with respect to medical risks associated with the Company's activities. In this regard, the Medical Science Committee liaises with and provides input to the Audit Committee for the purpose of the Audit Committee's reviews of the Company's Risk Management Framework (as defined below at Principle 7: Recognise and manage risk). The Medical Science Committee also keeps a watching brief on developments in relevant medical 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 closely monitored developments for quality and regulatory implications.

### ***Technology and Innovation Committee***

The Technology and Innovation Committee is chaired by Mr Andrew Denver with the other members being Prof Edward Byrne, AC, Ms Alison Deans, Mr Donal O'Dwyer and Dr Chris Roberts (Rec 7.1). Mr Andrew Denver is an independent director (Rec 7.1). With the exception of Dr Chris Roberts, all members of the Technology and Innovation Committee are independent non-executive directors (Rec 7.1). 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 (Rec 7.1). 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. The Technology and Innovation Committee also monitors risk management and internal control systems with respect to risks associated with the technology and research and development aspects of Cochlear's business. In this regard, the Technology and Innovation Committee liaises with and provides input to the Audit Committee for the purpose of the Audit Committee's reviews of the Company's Risk Management Framework.

### ***Skills Matrix***

The mix of skills and diversity that the Board is looking to achieve in its membership is set out in the Board Skills Matrix below (Rec 2.2). The Nomination Committee considers that the members of the Board possess the necessary skills, knowledge and experience to allow the Board to perform its duties appropriately. Information relating to the experience and qualifications of the directors is set out in their respective biographies on page 15.

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<b>Skills and experience</b> The Board currently comprises 7 non-executive directors and 1 executive director.	<b>Board</b>  (8 directors)	<b>Audit Committee</b>  (4 directors)	<b>Medical Science Committee</b>  (4 directors)	<b>Nomination Committee</b>  (7 directors)	<b>Human Resources Committee</b>  (3 directors)	<b>Technology and Innovation Committee</b>  (5 directors)
<b>Executive leadership/ strategic thinking capabilities</b> Sustainable success in business at a very senior executive level in a successful career. Track record of developing and implementing successful strategy and profit and loss outcomes. Excellent judgement and communication skills.	8	4	4	7	3	5
<b>Global experience</b> Board, senior management or equivalent experience in multiple global locations, exposed to a range of political, cultural, regulatory and business environments.	8	4	4	7	3	5
<b>Governance</b> Commitment to the highest standards of governance including experience with a major organisation that is subject to rigorous governance standards. Ability/willingness to probe management in the context of the board acting collegiately in constructive debate.	8	4	4	7	3	5
<b>Financial acumen</b> Board, senior executive or equivalent experience in financial accounting and reporting, corporate finance and internal financial controls, including an ability to probe the adequacies of financial and risk controls.	8	4	4	7	3	5
<b>Human resources</b> Board remuneration committee membership or management experience in relation to remuneration, including incentive programs and pensions/superannuation and the legislation and contractual framework governing remuneration. An ability to assess the effectiveness of senior management for succession and talent planning. Experience related to workplace health and safety, environmental and social responsibility and community.	8	4	4	7	3	5
<b>Technology and digital expertise</b> Ability to generate innovative and fresh forward thinking and ideas. Board, senior executive or equivalent experience in development and commercialisation of technology, innovation processes and/or digital businesses.	8	4	4	7	3	5
<b>Public and regulatory policy</b> Experience in public and regulatory policy, including how it affects corporations and implications for product development and commercialisation.	5	2	2	4	3	2

The Nomination Committee's role includes annually reviewing the mix of skills, knowledge and expertise (by reference to the Board Skills Matrix), personal qualities, ability to exercise independent judgement and diversity required to discharge the Board's duties and making recommendations in relation to same. The Nomination Committee also recommends to the Chairman ways in which the skills, experience and expertise levels of existing directors can be enhanced through learning and continuing professional development.

#### **Independence**

A director of Cochlear is only characterised as an "Independent" director if he or she is free of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect his or her capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of Cochlear and its security holders generally. The Nomination Committee Terms of Reference outline how Cochlear determines the independence of directors. The matters to be considered include the factors set out in Box 2.3 in the Guidelines.

The Nomination Committee 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 2.3). Ms Alison Deans is an independent non-executive director of Westpac Banking Corporation. Westpac Banking Corporation is Cochlear's principal banker and provider of debt finance. The Board does not consider that Ms Deans' position compromises her independence because, as an independent non-executive director, she is not involved in any commercial decisions at a business level.

The Board believes arbitrary limits on tenure may cause loss of experience and expertise that are important to the efficient and effective working of the Board. The Board does not 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 length of service of each director is disclosed at page 15 (Rec 2.3). Currently, no director has served longer than 14 years on the Board. The longest serving director is Prof Edward Byrne, AC who was appointed in 2002. The Board does not believe that Prof Edward Byrne, AC's length of tenure compromises his independence. At all times whilst he has been a director of Cochlear, Prof Edward Byrne, AC has also held other high profile positions and appointments at a management and/or board level.

Except as set out above, none of the non-executive directors has any interest, position, association or relationship of the type described in Box 2.3 in the Guidelines. With the exception of the CEO/President, all directors on the Board are independent directors (Rec 2.4).

The Nomination Committee assesses the independence of the non-executive directors at least annually, in light of the interests, positions, associations and relationships disclosed by the directors

(Rec 2.3). Independence is reassessed as soon as practicable after the Nomination Committee becomes aware of any change in the interests, positions, associations and relationships of a non-executive director. Any loss of independence by a non-executive director will immediately be disclosed to the market. Non-executive directors are required to notify the Chairman of the Board of any change in their interests, positions, associations and relationships. The total number of shares in the Company owned by non-executive directors is 28,000. This is considered immaterial.

#### **The Chair**

The Chairman of the Board Mr Rick Holliday-Smith is responsible for leading the Board in the performance of its duties. The role of the Chairman includes facilitating the effective contribution of all directors and promoting communication and respectful relations between directors and between the Board and management. Cochlear's Chairman is also responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. Mr Rick Holliday-Smith is an independent non-executive director (Rec 2.5). Mr Rick Holliday-Smith is not and has not previously been the CEO of the Company (Rec 2.5).

New non-executive directors are provided with an induction program (Rec 2.6). The program includes the provision of a briefing pack, online and face-to-face product training, one-on-one meetings with the CEO/President and other 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 (Rec 2.6). From time to time, the Board receives updates from the Company's professional advisors on developments and changes to accounting standards and the ASX Listing Rules. The Nomination Committee also recommends to the Chairman ways in which the skills, experience and expertise levels of existing directors can be enhanced through learning and continuing professional development.

#### **Principle 3: Act ethically and responsibly**

All Cochlear personnel, including the directors and the senior executive team, are expected to act with integrity and at all times to seek 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 of Business Conduct is the most important document issued by the Company. The Code of Business Conduct guides the directors, the senior executive team and all employees as to how to act in order to protect the Company's reputation for integrity. The Code of Business Conduct requires adherence to high standards of honesty, integrity and fairness in all conduct relating to Cochlear and its products. The Code of Business Conduct includes standards relating to safe work environments, respect for the law, anti-corruption, confidentiality, trade practices as well as other compliance issues.

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Cochlear is committed to conducting operations in every country where the Company does business, in full compliance with each country's laws (including the laws against bribery and corruption). If any local laws or regional Cochlear policies/codes set higher standards than those in the Code of Business Conduct, the higher standards apply. Both the Code of Business Conduct and the Cochlear Anti-Bribery Policy prohibit bribery and other corrupt practices. The Anti-Bribery Policy provides more detailed guidance as to what constitutes a bribe and the responsibilities of Cochlear employees, representatives and business partners in relation to the prevention of bribery.

There are clear avenues for reporting suspected potential breaches of either the Code of Business Conduct or the Anti-Bribery Policy. The Company has a Whistleblower Policy to ensure that allegations relating to improper conduct can be reported and investigated on a confidential basis. The Whistleblower Policy is an internal document and is not available on the Cochlear website.

The Code of Business Conduct and the Anti-Bribery Policy can be viewed in the Corporate Governance section of the Cochlear website (Rec 3.1).

With effect from 1 August 2013, the *Physician Payments Sunshine Act* (Sunshine Act) requires medical device and pharmaceutical companies operating in the United States of America to track and publicly report payments and transfers of value provided to physicians and teaching hospitals in the USA. The Centers for Medicare & Medicaid Services has been tasked with overseeing the Sunshine Act in the USA and has called it the Open Payments Program. As part of this program, Cochlear is required to submit annual data on payments and other transfers of value made to physicians and teaching hospitals, unless otherwise excluded under applicable law. The majority of Cochlear's Open Payments transactions have been in the Research category, consistent with Cochlear's efforts to lead the industry in research and development. Cochlear maintains an enterprise-wide tracking and reporting process to ensure compliance with regulatory requirements.

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 Guideline. This document provides direction as to minimum levels of shareholdings for directors and the senior executive team. The Non-Executive Directors and Executives Share Ownership Guideline is an internal document and is not available on the Cochlear website; however, compliance with the guideline is disclosed in the Remuneration Report. The document seeks to further align the interests of the directors and the senior executive team with the interests of Cochlear's shareholders.

All directors, senior executives and employees are subject to Cochlear's Trading Policy. Consistent with the Corporations Act, 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 Trading Policy suggests that employees trade in the Company's securities only during the trading windows. Employees are encouraged to seek guidance from the Company Secretary or Group General Counsel if they have questions about the policy.

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 any non-executive director, the CEO/President or any 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 equity based awards under the CEIP 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.

### Principle 4: Safeguard integrity in corporate reporting

The directors are committed to the preparation of financial statements that comply with Australian Accounting Standards and present a true and fair view of the Company financial performance and position in respect of or as at the end of the relevant financial period.

Cochlear has established accounting and financial control policies and procedures and these are monitored by the Audit Committee (Rec 4.1). Detail relating to the Audit Committee's role, composition, terms of reference, meetings and attendance can be found above at Principle 2: Structure the board to add value.

The Audit Committee approves any material new accounting policies or material changes to existing accounting policies. The Audit Committee provides a link between the external auditor and the Board. The Audit Committee monitors compliance with statutory requirements in relation to the audit process and ensures that the half year review and annual audit are conducted in an effective manner. The Audit Committee is responsible for appointing, evaluating and dismissing the external auditor, setting the external auditor's fees and ensuring that the external auditor reports to the Audit Committee and the Board. The Audit Committee reviews the performance and objectives of the external auditor on an annual basis.

Cochlear is committed to auditor independence. The Cochlear audit engagement partner must rotate every five years, with the last rotation occurring in August 2013. The Audit Committee reviews any matters relating to the independence of the external auditor. 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. Before the Board approves the Company's financial statements for a half year or full year, the CEO/President, CFO and Group Financial Controller provide a written statement to the Board that, in their opinion, the financial records of the Company have been properly maintained and that the financial statements comply with Australian Accounting Standards and give a true and fair view of the financial position and performance of the Company and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively (Rec 4.2).

As required by the Corporations Act, Cochlear's external auditor attends each AGM and is available to answer questions about the conduct of the audit and the preparation and content of the Audit Report (Rec 4.3).

Cochlear seeks to ensure that it complies fully with all other reporting requirements applicable to it. Reports, disclosures and announcements are carefully prepared and reviewed so as to ensure that they are factual, complete, balanced and clearly expressed.

#### **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 to ensure compliance with its continuous disclosure obligations and to provide accountability at a senior management level for that compliance (Rec 5.1). The Continuous Disclosure Policy and Procedures aim to ensure full and timely disclosure to the market of all material issues relating to Cochlear in a clear, factual, complete and balanced manner and to ensure all stakeholders have an equal opportunity to access that information. Amongst other things, the Continuous Disclosure Policy and Procedures address the issues of confidentiality, media contact/comment and analyst briefings. Cochlear also has a separate Media Policy dealing specifically with who may provide comment on the Company's behalf.

The Continuous Disclosure Policy and Procedures can be viewed in the Corporate Governance section of the Cochlear website (Rec 5.1). The Media Policy is an internal document and is not available on Cochlear's website.

#### **Principle 6: Respect the rights of security holders**

Cochlear's main website has an Investor Centre area which is found under the Investors tab of the home page. The Investor Centre contains a dedicated Corporate Governance section (Rec 6.1). The Corporate Governance section includes information about the directors and senior executives as well as links to the Company's Constitution, the Board Charter, each Board committee's terms of reference and all policies referred to in this Corporate Governance Statement (other than internal documents). The Cochlear website also provides links to the Company's annual reports, financial statements, ASX announcements, notices of AGM and webcasts of previous AGMs.

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 the 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 aims to promote effective two-way communication with shareholders and to encourage shareholders to participate in general meetings of the Company (Rec 6.2). 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 ASX/media announcements and the AGM. The Company continues to seek ways to improve its communications with investors and recently retained an external consultant to survey and obtain independent feedback from investors in this regard.

The Board's philosophy is to encourage full participation of shareholders at general meetings of the Company (including 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 (Rec 6.3). 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 (Recs 4.3 and 6.3). In addition to attending the AGM in person, shareholders may view a webcast of the AGM online (Rec 6.3). 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 (Recs 6.1 and 6.3). Shareholders who are unable to attend the AGM are able to submit questions and comments to Cochlear and/or the external auditor in advance of the meeting (Rec 6.3).

Cochlear offers its shareholders the ability to receive distributed materials in either electronic or hard copy format. Cochlear's share registry is managed by Computershare Investor Services Pty Limited (Computershare). Cochlear shareholders can access standard

## Corporate Governance Statement 2015

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forms, check shareholding details and contact Computershare electronically. Cochlear shareholders can also register on Cochlear's website to receive all shareholder information electronically (Rec 6.4). In addition, shareholders may at any time direct questions or requests for information to the Company Secretary, the CEO/President or the Chairman (Rec 6.2). This may be done through the Cochlear website's Contact Us facility which has an Investors option in the drop down menu for the Feedback field (Rec 6.4).

### 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 (Risk Management Framework). Cochlear assesses its Risk Management Framework against the International Standard for Risk Management ISO 31000. The Risk Register puts the Risk Management Framework 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 and monitors Cochlear's material business risks. Cochlear focuses on effective management of material business, operational, financial 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, Medical Science Committee, Technology and Innovation Committee and Risk Management Committee are together accountable for monitoring risk and implementing the Risk Management Policy.

The Board oversees the Risk Management Policy, reviews and ratifies systems of risk management and addresses specific issues escalated to it.

The Audit Committee is the principal committee of the Board responsible for overseeing risk (Rec 7.1). The Audit Committee advises the Board on risk management and reviews the Company's Risk Management Framework (at least annually) to ensure that it continues to be sound. In this regard, the Audit Committee liaises with and receives input from both the Medical Science Committee and the Technology and Innovation Committee (Rec 7.1). The Audit Committee reviewed the Risk Management Framework during F15 (Rec 7.2). The Audit Committee also reports on the status of major risks to the Company through the integrated risk management programs.

Details in relation to each of the Audit Committee, Medical Science Committee and Technology and Innovation Committee and their respective roles, composition, terms of reference, meetings and attendance can be found above at Principle 2: Structure the

board to add value. The Risk Management Policy can also be viewed at the Corporate Governance section of the Cochlear website (Rec 7.1).

Day-to-day management of the Risk Register is delegated to the Risk Management Committee (Rec 7.1). 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 7.1). 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.

The Audit Committee oversees the Company's internal audit function. The internal audit function carries out independent risk based reviews to determine the adequacy and effectiveness of key internal control, risk and governance processes. The internal audit function is structured as a global function. Internal audit personnel are based in Sydney and travel to overseas Cochlear operations in the conduct of internal audit reviews (Rec 7.3). The Audit Committee is responsible for the appointment and removal of the head internal auditor (Manager, Group Risk and Audit) and for ensuring that the internal audit function 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 reviews and approves the annual internal audit plan and monitors and reviews the overall effectiveness of the internal audit activities. All internal audit reports are reviewed by the CFO, CEO/President and the Audit Committee as a minimum. The Manager, Group Risk and Audit reports to the CFO and has unrestricted access to executive management and to the Board Audit Committee Chair. Other internal audit personnel report directly or indirectly to the Manager, Group Risk and Audit.

Prior to approving the Company's financial statements for any half year or full year, the Board receives an assurance from the CEO/President, CFO and Group Financial Controller that the declarations provided by each of them as to the integrity of the financial statements, are founded on a sound system of risk management and internal control which is operating effectively.

Cochlear currently does not have any material exposure to economic, environmental and social sustainability risks within the meaning of the Guidelines (Rec 7.4). Material business risks are disclosed in the business risks section in the Directors' Report in the Annual Report and environmental and social considerations are disclosed in the Environment, Social and Governance (ESG) section of the Annual Report.

### 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. Detail in relation to the role, composition, terms of reference, meetings and attendance during F15 can be found above at Principle 2: Structure the board to add value.

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 F15 remuneration (including retirement benefits) of the directors and specified executives are included in the Remuneration Report on pages 41 to 65. Further disclosure in relation to the remuneration philosophy is included in the Remuneration Report.

#### **Non-executive directors' remuneration policy (Rec 8.2)**

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

At the 2014 AGM, the shareholders approved the payment to Prof Edward Byrne, AC of his retirement allowance upon his retirement from the Board. This approval was required to allow the Company to comply with the terms of Prof Edward Byrne, AC's appointment as a director, due to a change in law subsequent to his appointment. In this regard, the shareholders also agreed at the 2014 AGM to a temporary and one-off increase in the directors' fee pool for the purpose of permitting payment of the retirement allowance to Prof Edward Byrne, AC in the year in which he retires. The increase is only effective in the year Prof Edward Byrne, AC retires. In subsequent years, the directors' fee pool will revert to the amount applicable in the financial year prior to the year in which Prof Edward Byrne, AC retires.

The structure of non-executive directors' remuneration is clearly distinguished from that of executive directors and senior executives (Rec 8.2). Non-executive directors do not receive any options, performance rights 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. Prof Edward Byrne, AC is the only director with any entitlement under this scheme.

#### **Senior executives' remuneration policy (Rec 8.2)**

Remuneration for Cochlear executives includes both fixed and variable incentive components. Up to and including F13, equity based executive remuneration awards were made pursuant to the Cochlear Executive Long Term Incentive Plan (CELTIP). From F14 onwards, equity based executive remuneration awards are made pursuant to the CEIP. The exercise periods for the CELTIP and CEIP are timed to coincide with the trading windows provided in the Company's Trading Policy.

It is the Company's policy that participants in the CEIP and CELTIP are not permitted to enter into transactions (whether through the use of derivatives or otherwise) to limit the economic risk of participating in these schemes (Rec 8.3). The Trading Policy and the CEIP documents include provisions to reflect this position. The Trading Policy is published in the Corporate Governance section of Cochlear's website. The CEIP documents are not published as they are internal documents.

## Corporate Governance Statement 2015

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

Number	Requirement	Followed?	Pr 2	Structure the board to add value	
<b>Pr 1</b>	<b>Lay solid foundations for management and oversight</b>		Rec 2.1	The board of a listed entity should:	✓
Rec 1.1	A listed entity should disclose: <ul style="list-style-type: none"> <li>a. the respective roles and responsibilities of its board and management; and</li> <li>b. those matters expressly reserved to the board and those delegated to management.</li> </ul>	✓		a. have a nomination committee which: <ol style="list-style-type: none"> <li>1. has at least three members, a majority of whom are independent directors; and</li> <li>2. is chaired by an independent director, and disclose: <ol style="list-style-type: none"> <li>3. the charter of the committee;</li> <li>4. the members of the committee; and</li> <li>5. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ol> </li> <li>b. if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</li> </ol>	
Rec 1.2	A listed entity should: <ul style="list-style-type: none"> <li>a. undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and</li> <li>b. provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.</li> </ul>	✓	Rec 2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	✓
Rec 1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	✓	Rec 2.3	A listed entity should disclose: <ul style="list-style-type: none"> <li>a. the names of the directors considered by the board to be independent directors;</li> <li>b. if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and</li> <li>c. the length of service of each director.</li> </ul>	✓
Rec 1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	✓	Rec 2.4	A majority of the board of a listed entity should be independent directors.	✓
Rec 1.5	A listed entity should: <ul style="list-style-type: none"> <li>a. have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;</li> <li>b. disclose that policy or a summary of it; and</li> <li>c. disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either: <ol style="list-style-type: none"> <li>1. the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or</li> <li>2. if the entity is a "relevant employer" under the <i>Workplace Gender Equality Act</i>, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.</li> </ol> </li> </ul>	✓	Rec 2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	✓
Rec 1.6	A listed entity should: <ul style="list-style-type: none"> <li>a. have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and</li> <li>b. disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</li> </ul>	✓	Rec 2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	✓
Rec 1.7	A listed entity should: <ul style="list-style-type: none"> <li>a. have and disclose a process for periodically evaluating the performance of its senior executives; and</li> <li>b. disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</li> </ul>	✓	<b>Pr 3</b>	<b>Act ethically and responsibly</b>	
			Rec 3.1	A listed entity should: <ul style="list-style-type: none"> <li>a. have a code of conduct for its directors, senior executives and employees; and</li> <li>b. disclose that code or a summary of it.</li> </ul>	✓
			<b>Pr 4</b>	<b>Safeguard integrity in corporate reporting</b>	
			Rec 4.1	The board of a listed entity should: <ul style="list-style-type: none"> <li>a. have an audit committee which: <ol style="list-style-type: none"> <li>1. has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and</li> <li>2. is chaired by an independent director, who is not the chair of the board,</li> </ol> </li> </ul> and disclose:	✓

	<ul style="list-style-type: none"> <li>3. the charter of the committee;</li> <li>4. the relevant qualifications and experience of the members of the committee; and</li> <li>5. in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ul> <p>b. if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>	
Rec 4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	✓
Rec 4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	✓
<b>Pr 5</b>	<b>Make timely and balanced disclosure</b>	
Rec 5.1	A listed entity should: <ul style="list-style-type: none"> <li>a. have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and</li> <li>b. disclose that policy or a summary of it.</li> </ul>	✓
<b>Pr 6</b>	<b>Respect the rights of security holders</b>	
Rec 6.1	A listed entity should provide information about itself and its governance to investors via its website.	✓
Rec 6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	✓
Rec 6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	✓
Rec 6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	✓
<b>Pr 7</b>	<b>Recognise and manage risk</b>	
Rec 7.1	The board of a listed entity should: <ul style="list-style-type: none"> <li>a. have a committee or committees to oversee risk, each of which: <ol style="list-style-type: none"> <li>1. has at least three members, a majority of whom are independent directors; and</li> <li>2. is chaired by an independent director, and disclose: <ol style="list-style-type: none"> <li>3. the charter of the committee;</li> <li>4. the members of the committee; and</li> <li>5. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ol> </li> </ol> </li> <li>b. if it does not have a risk committee or committees that satisfy a. above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</li> </ul>	✓
Rec 7.2	The board or a committee of the board should: <ul style="list-style-type: none"> <li>a. review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and</li> <li>b. disclose, in relation to each reporting period, whether such a review has taken place.</li> </ul>	✓
Rec 7.3	A listed entity should disclose: <ul style="list-style-type: none"> <li>a. if it has an internal audit function, how the function is structured and what role it performs; or</li> <li>b. if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</li> </ul>	✓
Rec 7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	✓
<b>Pr 8</b>	<b>Remunerate fairly and responsibly</b>	
Rec 8.1	The board of a listed entity should: <ul style="list-style-type: none"> <li>a. have a remuneration committee which: <ol style="list-style-type: none"> <li>1. has at least three members, a majority of whom are independent directors; and</li> <li>2. is chaired by an independent director, and disclose: <ol style="list-style-type: none"> <li>3. the charter of the committee;</li> <li>4. the members of the committee; and</li> <li>5. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</li> </ol> </li> </ol> </li> <li>b. if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</li> </ul>	✓
Rec 8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	✓
Rec 8.3	A listed entity which has an equity-based remuneration scheme should: <ul style="list-style-type: none"> <li>a. have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</li> <li>b. disclose that policy or a summary of it.</li> </ul>	

## Financial Report Cochlear Limited ACN 002 618 073 and its controlled entities for the year ended 30 June 2015

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## Directors' Report Cochlear Limited for the year ended 30 June 2015

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 2015, 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 (Chairman), Mrs YA Allen, Mr PR Bell, Mr G Boreham, AM, Prof E Byrne, AC, Ms A Deans, 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		Human Resources Committee		Medical Science Committee		Nomination Committee		Technology and Innovation Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr R Holliday-Smith	10	10	5	5	3	3	-	-	4	4	-	-
Mrs YA Allen	10	9	5	5	3	3	-	-	4	3	-	-
Mr PR Bell <sup>1</sup>	5	5	-	-	1	1	-	-	3	3	-	-
Mr G Boreham, AM <sup>2</sup>	3	3	-	-	1	1	-	-	-	-	-	-
Prof E Byrne, AC	10	10	-	-	-	-	1	1	4	4	3	2
Ms A Deans <sup>2</sup>	3	3	-	-	-	-	-	-	-	-	1	1
Mr A Denver	10	10	5	5	-	-	1	1	4	4	3	3
Mr DP O'Dwyer	10	10	5	5	-	-	1	1	4	4	3	3
Dr CG Roberts	10	10	-	-	-	-	1	1	-	-	3	3

1. Mr PR Bell retired 17 October 2014.

2. Mr G Boreham, AM and Ms A Deans were appointed on 1 January 2015.

## Principal activities and review of operations and results

### Operations

#### Strategy

Cochlear's mission is:

"We help people hear and be heard. We empower people to connect with others and live a full life. We transform the way people understand and treat hearing loss. We innovate and bring to market a range of implantable hearing solutions that deliver a lifetime of hearing outcomes."

To deliver its mission, Cochlear has five business objectives. These are:

- customer experience;
- operational excellence;
- product innovation;
- people engagement; and
- value creation.

These objectives are detailed through a strategic roadmap.

Cochlear's **customer experience** strategy is to provide customers throughout their hearing journey with a convenient, seamless and consistent experience, delivering a lifetime of positive hearing outcomes. Cochlear aims to actively grow the market for implantable hearing solutions. Part of this strategy is increasing Cochlear's support for the market. This is being done through directed programs including greater direct to consumer connection, and increased consumer awareness.

Cochlear's **operational excellence** strategy is to establish a dynamic, agile operation with scalable, compliant and performance focused processes, designed to deliver a positive experience for professionals and customers.

## Directors' Report Cochlear Limited for the year ended 30 June 2015

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Cochlear's **product innovation** strategy is to create and bring to market an extensive segmented portfolio of innovative and quality products that combine leading technology with a strong focus on the context and needs of the professional and the customer to advance hearing outcomes. Cochlear offers a range of advanced solutions to address different types of hearing loss such as:

- cochlear implants, designed to help those people with moderate to profound sensorineural hearing loss;
- bone conduction implants, designed to help those people with conductive hearing loss, mixed hearing loss or single-sided deafness; and
- acoustic implants, designed to help those people with moderate to severe sensorineural or mixed hearing loss.

Cochlear's **people engagement** strategy is to establish an organisation that attracts and retains the best people. Cochlear aims to engage and empower them to take initiative and be accountable to deliver a positive experience for professionals and customers.

Cochlear's **value creation** strategy is to create sustainable shareholder value, delivering high growth and strong returns today and into the future, while making a significant contribution to social good.

### *Business model*

Cochlear's implant systems comprise an implant which is inserted during surgery and an external sound processor. This external sound processor can be upgraded with new technology as it becomes available.

For the financial year ended 30 June 2015 (F15), 88% of Cochlear's sales revenue was from cochlear implant (Nucleus) products and 12% from bone anchored and acoustic implant (Baha) products. Cochlear implant sound processor upgrade sales revenue accounted for 17% of total sales revenue (20% of the cochlear implant products sales).

The barriers to increasing the penetration of the candidate base include:

- awareness of implantable solutions as a viable option;
- patient motivation;
- lack of clear referral paths;
- affordability and funding availability; and
- clinic capacity.

Cochlear operates in a global environment. Each of the over 100 countries that Cochlear sells into has differing penetration rates and reasons for that level of penetration owing to differing cultural and economic situations.

Cochlear estimates that over 400,000 ears have been implanted with one of its implants. Cochlear's business model includes supporting its customers with innovative and compatible products, through the sale of sound processor upgrades and accessories and ongoing product support. The launch of the Nucleus<sup>®</sup> 6 Sound Processor into major markets in F14 led to an increase in upgrade sales in F15, as customers upgraded to the new technology.

Cochlear aims to remain the market leader in implantable hearing solutions. There is no independent published market share data but Cochlear estimates it has a market leading share of implantable hearing solutions.

Cochlear's global headquarters is based on the Macquarie University campus in Sydney, Australia. At this location are the corporate offices, manufacturing, research and development as well as the Asia Pacific regional headquarters.

Cochlear manages its sales and distribution through three geographical regions. There are several principal regional head offices plus many local offices:

- Americas, which includes the United States of America (US), Canada and Latin America;
- EMEA, which includes Europe, Middle East and Africa; and
- Asia Pacific, which includes Australasia and Asia.

Cochlear has a deep geographical reach, selling in over 100 countries. Cochlear has a direct presence in approximately 20 countries and uses distributors and agents in other areas.

Manufacturing for the cochlear implant product range is based in Australia, at three sites: Lane Cove and Macquarie University, in Sydney, and Brisbane. Lane Cove continues to manufacture Cochlear's legacy products. New implant ranges are manufactured at Cochlear's Macquarie University headquarters including the Nucleus Profile implant. The Brisbane site is responsible for manufacturing non-implant components.

The bone conduction implant product range is manufactured in Sweden.

The acoustic implant product range is manufactured across sites in Australia, the US and Belgium.

Cochlear's supply chain operates with product being distributed from its manufacturing sites in Australia and Sweden to its regional distribution centres in the US, the United Kingdom and Panama. The product is then further distributed to the end customer.

The proportion of Cochlear's sales revenue to end customers by region is approximately: Americas 43%, EMEA 40% and Asia Pacific 17%.

Foreign exchange has a significant impact on Cochlear's consolidated results. Cochlear has a partial natural hedge with over 90% of revenues in foreign currency and over 50% of costs in currencies other than the Australian dollar (AUD). 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 AUD strengthened during the year against the Japanese yen (JPY), weakened against the US dollar (USD) and was largely unchanged compared to the Euro (EUR). These are hedged currencies.

## Operating result F15

### Revenue

A focus for F15 was continuing the momentum for products launched in F14.

In addition, further products were launched during F15 including:

- Nucleus Profile with Slim Straight electrode in Europe;
- Nucleus Profile with Contour Advance<sup>®</sup> electrode in the US;
- Wireless Accessories for Nucleus 6 in all regions;
- SmartSound<sup>®</sup> iQ for Nucleus 6 Hybrid in the US;
- Aqua+ Accessory for Nucleus 6 in Europe; and
- Baha<sup>®</sup> 5 Sound Processor.

Feedback on these new products has been positive. These products continue to improve the lives of the hearing impaired in line with Cochlear's mission.

F15 total revenue, which includes losses on FX contracts, was \$925.6 million, up 15% on F14. Sales revenue was also up 15% from last year to \$941.9 million. In constant currency terms (i.e. restating F14 at F15 foreign exchange rates), sales revenue was up 10%.

Cochlear implant sales revenue, which included sound processor upgrades, was up 15% to \$826.8 million, and up 11% in constant currency.

Revenue from sound processor upgrades (i.e. sales of new sound processors to existing recipients) can be cyclical.

In F15, sound processor upgrade sales were up 50% to \$162.1 million from those for the prior year and up 45% in constant currency. This reflects strong market uptake of the Nucleus 6 Sound Processor.

Sales of cochlear implant units were up 3% to 26,838 for the year. Cochlear implant unit growth was stronger in developed countries, for example Western Europe up 7% and North America up 15%. This was offset by weaker cochlear implant unit tender sales in developing countries, particularly in the Middle East.

Bone anchored and acoustic implant sales of \$115.1 million were up 15% and up 9% in constant currency, again reflecting the impact of the Baha<sup>®</sup> 4 and Baha Attract Systems. Baha 5 was released late in the fourth quarter of F15.

The AUD depreciated against the USD during the year which benefits foreign sales when translated into AUD. From a translation perspective, sales benefited by net \$32.7 million. Offsetting this was a loss on FX contract losses of \$16.3 million for F15 (loss of \$16.0 million in F14).

Future foreign exchange contracts are detailed in Note 6.4 to the financial statements and indicate future foreign exchange contract rates close to the current spot rates for the EUR and JPY. USD contract rates are at 0.84.

### Regional sales

- Americas sales revenue of \$403.0 million increased 26% (up 15% in constant currency). The launch of the Nucleus 6, Aqua+ Accessory and the Hybrid System drove strong sales in the second half (H2) of F14 and the momentum continued into F15.
- EMEA sales revenue of \$377.6 million increased 5% (increased 6% in constant currency). EMEA revenue growth continues to reflect the portfolio of geographies in the region, with varying growth rates in different countries. Sales in Western Europe grew 11%, with Middle East sales below F14 levels.
- Asia Pacific sales revenue of \$161.3 million increased 14% (increased 9% in constant currency). Asia Pacific revenue growth continues to reflect the portfolio of geographies in the region, with varying growth rates in different countries.

A Central Government tender sale into China of approximately 1,900 units was recognised in F15 (in line with the amount recognised in F14).

### Profit

Cost of goods sold (COGS) of \$275.3 million gave a COGS to sales revenue margin of 29.2% (F14: 30.2%). COGS in F15 includes a write-down in value for obsolete and slow moving inventories of \$10.1 million (F14: \$1.5 million).

Expenses of \$443.9 million were up 9% on F14, excluding the F14 patent dispute provision of \$22.5 million.

A provision of \$22.5 million was expensed in F14 in relation to the patent dispute lawsuit by the Alfred E. Mann Foundation for Scientific Research (AMF) and Advanced Bionics LLC (AB) in the US. No further amount has been expensed or released from this provision during F15.

## Directors' Report Cochlear Limited for the year ended 30 June 2015

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Selling, general and administration (SG&A) expenses were up 15% to \$320.3 million, up 12% in constant currency, including an increase for short and long-term incentives, and costs incurred to support the products launched during the year. Incentives in F14 were less than 100% of target. In F15, an additional provision of \$2.2 million was made for doubtful debts including in developing countries.

Investment in research and development (R&D) of \$128.0 million was flat with F14. This reflects the deliberate strategy to hold the F15 R&D expenditure at approximately the F13 levels. R&D expenses for F15 were 13.8% of total revenue compared to 15.8% of total revenue for F14 and 16.6% in F13.

Full year earnings before interest and tax (EBIT) of \$206.4 million was 62% higher than that for the prior year. EBIT to total revenue was 22.3%, higher than last year's 15.8%.

Excluding the patent dispute provision in F14, EBIT in F15 of \$206.4 million was 38% higher than F14. EBIT to total revenue was 22.3%, higher than last year's 18.6%.

Net interest expense increased 1% to \$10.1 million. Interest cover was 20 times (2014: 13 times).

The effective tax rate was 25.7% (F14: 20.0%). Excluding the patent dispute provision in F14, the effective tax rate increased by 4.1 percentage points in F15, reflecting mainly a reduction in the R&D tax concession benefit, based on Australian legislation changes to reduce the rate of benefit.

Net profit after tax (NPAT) increased 56% to \$145.8 million.

Excluding the patent dispute provision made in F14, NPAT increased 33%.

Overall, NPAT was positively impacted by \$24.9 million due to both translation and transaction movements in foreign exchange rates during the year.

### *Financial position*

Inventories of \$145.9 million at 30 June 2015 were up 13% from 30 June 2014 (\$128.6 million). Inventory days increased to 193 days (30 June 2014: 189 days). The increase reflects timing on a build-up of inventories ahead of tender shipments due in H1 F16.

Trade receivables of \$236.7 million were up 18% from 30 June 2014 (\$201.3 million). In constant currency, trade receivables were up 10%. Debtors days increased to 83 days (30 June 2014: 74 days), reflecting the timing of tender sales which have extended credit terms.

The net liability associated with forward exchange contracts at 30 June 2015 was \$29.4 million compared to a net asset at 30 June 2014 of \$0.7 million, reflecting the fall in the AUD against the USD.

The product recall provision was utilised by a net \$5.7 million, with \$15.9 million remaining at 30 June 2015. No further amount has been recognised as a charge or released as a credit in F15.

The provision for patent dispute was set in AUD based on the value at 30 June 2014. The provision at 30 June 2015 remained unchanged at \$21.3 million.

Intangible assets of \$228.5 million (30 June 2014: \$234.1 million) are a significant proportion of Cochlear's total assets. Amortisation accounted for \$10.4 million of the decrease. Some \$170.5 million of the total for intangible assets relates to goodwill arising from the earlier acquisitions of businesses, principally the Entific business in 2005. All intangible assets are tested for impairment on an annual basis. There were no impairments or write-downs of intangible assets in F15.

The Board has declared a final dividend of \$1.00 per share, franked to 100%, which will be paid on 1 October 2015 based on a record date of 10 September 2015. This brings the full year dividend to \$1.90 per share. This is consistent with the August and October 2014 payout guidance of approximately 70% of NPAT.

Net debt was \$140.5 million at 30 June 2015 (30 June 2014: \$181.3 million). The decrease in net debt was driven by:

- cash generated from operating activities of \$188.7 million; used for
- payment of dividends of \$123.8 million.

At 30 June 2015, debt facilities of \$350.0 million were in place. The \$250.0 million facility matures in June 2016 and is classified as current, with the \$100.0 million facility having a remaining term of three years. At 30 June 2015, the unused portion of the facilities was \$135.0 million. All bank covenants were met at year end.

Net cash generated from operating and investing activities for F15 was \$160.3 million, up from \$79.5 million in F14.

## Outlook

There continues to be more people in the world that are born or go deaf who could benefit from Cochlear's products, than are treated each year. There remains a significant, unmet and addressable clinical need which will continue to underpin long-term sustainable growth.

The clinical and business environments in which Cochlear operates are dynamic and evolving. Cochlear is committed to identifying and supporting the clinical trends as they will shape its future operating environment.

The impact of recently launched products as well as the impact of new products to be launched in F16 will continue to underpin demand and sales growth for the business.

Cochlear benefits from a geographic portfolio effect, selling into a range of countries. In any year, some countries experience strong growth, some remain flat and some experience a slowdown. Overall, the trend is for long-term sustainable growth.

Cochlear's strong relationships with its customers and professionals will continue to underpin demand and sales growth for the business.

Several of the emerging markets are heavily biased to tender sales, including the Central Government of China's tenders. Cochlear reviews these tenders carefully and participates at a level that makes commercial sense. In F15, the Chinese tender of approximately 1,900 units was delivered in H2. The future outcome of tender sales is uncertain, but Cochlear has been awarded a tender of 2,000 units for delivery in H1 F16.

Cochlear operates in a complex global environment and in F15 Cochlear made steady progress across its portfolio of products and geographies. This resulted in improved sales performance and profitability, and, more importantly, significant improvements in Cochlear's recipients' hearing experience.

Cochlear anticipate that it will again make steady progress in F16 and will continue to underpin the long-term growth of the Company by ongoing investments in technology and market expansion activities.

The profit guidance for F16 is for an NPAT range of \$165 million to \$175 million at FX rates of USD/AUD of approximately 75 cents.

At 30 June 2015, Cochlear had foreign currency equivalent of \$563.3 million in foreign exchange contracts. In F16, the average exchange rate for the USD contracts is 0.87 and the average for EUR contracts is 0.67. At rates applicable on 30 June 2015, a loss on foreign exchange contracts in F16 is forecast.

## Business risks

Cochlear has a sound and robust Risk Management Framework to identify, assess and appropriately manage risks. Details of Cochlear's Risk Management Framework can be found in the Corporate Governance Statement 2015 on page 18.

Cochlear's principal business risks are outlined below. These are significant risks that may materially adversely affect Cochlear's business strategy, financial position or future performance. It is not possible to identify every risk that could affect Cochlear's business, and the actions taken to mitigate the risks described below cannot provide absolute assurance that a risk will not materialise.

Risk	Description and potential consequences	Strategies used by Cochlear to mitigate the risk
Product innovation and competition	Cochlear is exposed to the risk of failing to develop and produce innovative products for customers. Increased competition exposes Cochlear to the risk of losing market share as well as a decrease in average selling prices in the industry. Cochlear is also exposed to the risk of medical, biological and/or technological advancement by third parties where alternative products or treatments are developed and commercialised that render Cochlear's products obsolete. This could result in a loss of business.	In F15, Cochlear invested nearly 14% of total revenue in R&D. Cochlear also works with over 100 external research partners. The creation of new intellectual property and the protection of new and existing intellectual property are a key focus for Cochlear. Cochlear has a comprehensive patent portfolio across its technologies.
Infringement litigation	Cochlear operates in an industry that has substantial intellectual property and patents, designs and trademarks protecting that intellectual property. Cochlear is exposed to the risk that it will be litigated against for claims of infringement. This could result in Cochlear paying royalties to be able to continue to manufacture product, or injunctions preventing Cochlear selling products it had developed.	In F14, a provision was expensed in relation to a patent infringement lawsuit by AMF and AB in the US. The directors are of the opinion that the facts and the law do not support the Judgment and Cochlear has appealed the Judgment to the United States Court of Appeals for the Federal Circuit. No amount has been provided or released in relation to this patent dispute provision during F15.

## Directors' Report Cochlear Limited for the year ended 30 June 2015

Misappropriation of know-how and intellectual property	Cochlear is exposed to the risk of its know-how and intellectual property being misappropriated either through hacking of its systems or by employees, consultants and others who from time to time have access to Cochlear's know-how and intellectual property. This could result in competitors using this information and increasing their competitiveness. Cochlear could lose market share as a result of this.	Cochlear monitors its systems and has appropriate safeguards and processes in place. Confidentiality agreements are in place with key employees and third parties that are exposed to Cochlear's know-how and intellectual property.
Regulation	Cochlear operates in a highly regulated industry. Medical devices are subject to strict regulations, including data security, of regulatory bodies in the US, Europe, Asia and Australia as well as many other local bodies in countries where Cochlear's products are sold. Regulatory bodies periodically perform audits at Cochlear's manufacturing sites.  If Cochlear or a third-party supplier fails to satisfy regulatory requirements or the regulations change and modifications are not made, this could result in the imposition of sanctions or Cochlear's products being subject to recall and/or the loss of sales and reputational harm.  Delays in achieving regulatory approval can impact Cochlear's ability to sell its latest technology.	Cochlear has a worldwide quality assurance system in place.
Reimbursement	The majority of Cochlear's customers rely on a level of reimbursement from insurers and government health authorities to fund their purchases. There is increasing pressure on healthcare budgets globally. Cochlear may also be subject to healthcare related taxes imposed by government agencies and this could negatively impact the ability of candidates to access Cochlear's products.	Cochlear continues to work with reimbursement and government agencies throughout the world to emphasise the benefits and cost effectiveness of the intervention.
Product liability	The manufacturing, testing, marketing and sale of Cochlear's products involve product liability risk. As the developer, manufacturer, marketer and distributor of certain products, Cochlear may be held liable for damages arising from use of its products during development or after the product has been approved for sale.	Cochlear maintains product liability insurance and operates a worldwide quality assurance system related to the design, testing and manufacture of its products.
Interruption to product supply	Cochlear relies on third-party suppliers for the supply of key materials and services. This carries the risk of delays and disruptions in supplies. Certain materials are available from a single source only and regulatory requirements make substitution costly, time-consuming or commercially unviable.  Cochlear manufactures its cochlear implant products from two sites in Sydney. The latest generation products are manufactured at Cochlear's Macquarie University headquarters and legacy products at a manufacturing site in Lane Cove. Cochlear manufactures its bone conduction implant products in Sweden. The acoustic implant product range is manufactured across sites in Australia, the US and Belgium.  There is the potential risk of disruption to sales should a manufacturing facility be unable to operate. Any new manufacturing facility will require regulatory approval prior to being able to produce and sell product from it. This approval could take many months.	Cochlear monitors its suppliers and identifies any available second-source supply. Inventories are managed and purchased in sufficient quantities for continued product supply in the short term. Where appropriate, lifetime buys, strategic raw materials purchases and supply chain interventions are made.  Cochlear also regularly reviews its disaster recovery plans for its manufacturing sites.  Two discreet approved manufacturing sites for implants will be maintained.

Political, economic or social instability	<p>Cochlear sells in over 100 countries. Several of the emerging markets are heavily biased to tender sales, including the Central Government of China's tenders. The future outcome of tender sales is uncertain.</p> <p>Regional political, economic or social instability could negatively impact sales and the receipt of payment for sales.</p>	<p>Cochlear assesses the countries it sells into and does not have a significant concentration of sales in countries impacted by political, economic or social instability.</p> <p>Cochlear utilises a global scanning software to assess partners, distributors and suppliers against sanctions and police checklists on an ongoing basis.</p> <p>Cochlear reviews tenders carefully and participates at a level that makes commercial sense.</p>
Foreign exchange rates	<p>Cochlear is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the legal entities.</p> <p>The currencies in which these transactions primarily are denominated are AUD, USD, EUR, JPY, Sterling, Swedish kroner (SEK) and Swiss francs (CHF). Over 90% of Cochlear's revenues and over 50% of costs are denominated in currencies other than AUD.</p>	<p>Currency risk is hedged in accordance with the Board approved treasury risk policy. The treasury risk policy aims to manage the impact of short-term fluctuations on Cochlear's earnings.</p> <p>Over the longer term, permanent changes in market rates will have an impact on earnings. Derivative financial instruments (forward exchange contracts) are used to hedge exposure to fluctuations in foreign exchange rates in a declining level of cover out to three years.</p>
Credit	<p>Cochlear's exposure to credit risk is influenced by the geographical location and characteristics of individual customers. Cochlear does not have a significant concentration of credit risk with a single customer. The majority of debtors are government supported clinics or major hospital chains.</p>	<p>Policies and procedures for credit management and administration of receivables are established and executed at a regional level.</p> <p>In monitoring customer credit risk, the ageing profile of total receivables balances and individually significant debtors is reported by geographic region to the Board 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.</p> <p>In addition, where appropriate, absolute country limits are in place and Chief Financial Officer approval is required to increase a limit. These limits are periodically reviewed by the Audit Committee.</p>
Interest rates	<p>Cochlear is exposed to interest rate risks in Australia.</p>	<p>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.</p> <p>Hedging against interest rate risk is achieved by entering into interest rate swaps. At 30 June 2015, no hedging had been entered into.</p>
Operations	<p>Operational risk is the risk of direct and indirect loss arising from a wide variety of causes associated with Cochlear's processes, personnel (including executive transitions), technology and infrastructure and generally accepted standards of corporate behaviour.</p> <p>Operational risks arise from all of Cochlear's operations. These risks could result in the loss of sales and reputational harm.</p>	<p>Standards for the management of operational risk are in place in the following areas:</p> <ul style="list-style-type: none"> <li>• requirements for appropriate segregation of duties, including the independent authorisation of transactions;</li> <li>• requirements for the reconciliation and monitoring of transactions;</li> <li>• documentation of controls and procedures;</li> <li>• requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;</li> <li>• internal and external audit programs;</li> <li>• development of contingency plans;</li> <li>• succession planning for key management personnel;</li> <li>• training and professional development; and</li> <li>• ethical and business standards.</li> </ul>

Note: Given the significance of the patent dispute and foreign exchange movements, the directors believe the presentation of non-International Financial Reporting Standards (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 patent dispute provision: IFRS measures adjusted for the expense of the patent dispute provision; and
- constant currency: restatement of IFRS measures in comparative years using F15 foreign exchange rates.

These non-IFRS financial measures have not been subject to review or audit. However, KPMG has separately undertaken a set of procedures to agree the non-IFRS financial measures disclosed to the books and records of the Consolidated Entity.

## Directors' Report Cochlear Limited for the year ended 30 June 2015

### Consolidated results

The consolidated results for the financial year are:

	2015 \$000	2014 \$000
Revenue	925,630	804,936
Profit before income tax	196,303	117,114
Net profit after tax but before patent dispute provision <sup>1</sup>	145,840	109,490
Patent dispute provision, net of tax <sup>1</sup>	-	15,781
Net profit	145,840	93,709
Basic earnings per share (cents)	256.1	164.6
Diluted earnings per share (cents)	254.8	164.2

1. The patent dispute provision was nil for F15 and was \$22,545,000 before tax and \$15,781,000 after tax for F14.

### Dividends

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

	Cents per share	Total amount \$000	Franked/unfranked	Date of payment
Interim 2015 ordinary	90.0	51,374	35% Franked	26 March 2015
Final 2014 ordinary	127.0	72,469	20% Franked	25 September 2014
<b>Total amount</b>	<b>217.0</b>	<b>123,843</b>		
<b>Subsequent event</b>				
Since the end of the financial year, the directors declared the following dividends:				
Final 2015 ordinary	100.0	57,082	100% Franked	1 October 2015
<b>Total amount</b>	<b>100.0</b>	<b>57,082</b>		

The financial effect of the 2015 final dividend will be recognised in the subsequent financial year as it was declared after 30 June 2015. Franked dividends paid or declared during the financial year were franked at the tax rate of 30% (2014: 30%).

### Environmental regulations

Cochlear's operations are subject to environmental regulations under the Commonwealth of Australia and State/Territory legislation. 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, 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	
	2015	2014
	\$	\$
<b>Audit services</b>		
– audit and review of financial reports	1,559,738	1,422,391
– other regulatory compliance services	72,094	42,875
<b>Total audit services</b>	<b>1,631,832</b>	<b>1,465,266</b>
<b>Non-audit services</b>		
– taxation compliance services	988,156	818,282
<b>Total non-audit services</b>	<b>988,156</b>	<b>818,282</b>

#### State of affairs

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

## Remuneration Report

### Contents

Section	Title	Description
1.0	Introduction	Describes the scope of the Remuneration Report and the individuals whose remuneration details are disclosed.
2.0	Remuneration governance	Describes the role of the Board and the Human Resources Committee, and the use of remuneration consultants when making remuneration decisions.
3.0	Non-executive director remuneration	Provides details regarding the fees paid to non-executive directors.
4.0	Executive remuneration	Outlines the principles applied to executive remuneration decisions and the framework used to deliver the various components of remuneration, including explanation of the performance and remuneration linkages.
5.0	Employee share scheme and other share information	Provides details regarding Cochlear's employee equity plans including that information required by the <i>Corporations Act 2001</i> and applicable accounting standards.
6.0	Service contracts and employment agreements	Provides details regarding the contractual arrangements between Cochlear and the executives whose remuneration details are disclosed.

## Directors' Report Cochlear Limited for the year ended 30 June 2015

### 1.0 Introduction

Cochlear is a geographically diverse business, subject to rapid and changing competitive forces, including currency variations, and with a long history of growth. The Board remains committed to a strong growth focus and designs its executive remuneration strategies to direct behaviours towards achieving sustainable growth in shareholder value over the long term. Cochlear's policies must also be flexible enough to enable the Company to attract, motivate and retain high performing executives in many locations in a dynamic environment.

The Board's philosophy and approach to executive remuneration have always been to balance fair remuneration for skills and expertise with a risk and reward framework that supports longer-term growth of Cochlear as a global business.

The remuneration policies in respect of Cochlear's executive key management personnel (KMP) are reviewed annually. During F15, we had the retirement of our President, Asia Pacific Region, Mark Salmon, and the appointment of Dig Howitt on 29 September 2014, an internal replacement. Cochlear also announced the transition of the Chief Executive Officer (CEO)/President role from Chris Roberts to Chris Smith on 1 September 2015. Chris Smith will also replace Chris Roberts as the executive director on 1 September 2015. This report provides shareholders with information about the way we are managing the related end of service payments. Dr Roberts was appointed on 1 February 2004 and his end of service payments reflect the contractual obligations established at that time and are compliant with the *Corporations Act 2001* (Corporations Act) limits.

During F15, the Company grew net profit after tax (NPAT) by 56% and sales revenue grew by 15%, representing strong year-on-year performance and overachievement against our business targets. The Board believes Cochlear's approach to Board and executive KMP remuneration remains balanced, fair and equitable and rewards and motivates a successful and experienced executive team to deliver ongoing business growth which meets the expectations of shareholders over the long term.

The Board also changed its composition with Paul Bell stepping down and the appointment of two new Board members, Glen Boreham and Alison Deans, bringing new skills and expertise to support the business.

### 1.1 Scope

This Remuneration Report sets out, in accordance with the relevant Corporations Act and accounting standard requirements, the remuneration arrangements in place for KMP of Cochlear during F15.

### 1.2 Key management personnel

Key management personnel have authority and responsibility for planning, directing and controlling the activities of Cochlear and comprise the non-executive directors (NEDs), and executive KMP (being the executive director and other senior executives named in this report). Details of the KMP during the year are set out in the table below:

	Title	Change in F15
<b>Non-executive directors</b>		
Rick Holliday-Smith	Chairman Member, Audit Committee Member, Human Resources Committee Chairman, Nomination Committee	No change. Full year
Yasmin Allen	Director Chairman, Audit Committee Member, Human Resources Committee Member, Nomination Committee	No change. Full year
Paul Bell	Director Chairman, Human Resources Committee Member, Nomination Committee	Retired on 17 October 2014
Glen Boreham, AM	Director Chairman, Human Resources Committee Member, Nomination Committee	Appointed director on 1 January 2015

	<b>Title</b>	<b>Change in F15</b>
Edward Byrne, AC	Director Chairman, Medical Science Committee Member, Nomination Committee Member, Technology and Innovation Committee	No change. Full year
Alison Deans	Director Member, Nomination Committee Member, Technology and Innovation Committee	Appointed director on 1 January 2015
Andrew Denver	Director Member, Audit Committee Member, Medical Science Committee Member, Nomination Committee Chairman, Technology and Innovation Committee	No change. Full year
Donal O'Dwyer	Director Member, Audit Committee Member, Medical Science Committee Member, Nomination Committee Member, Technology and Innovation Committee	No change. Full year
<b>Executive director</b>		
Chris Roberts	CEO/President Member, Medical Science Committee Member, Technology and Innovation Committee	No change. Full year
<b>Other executive KMP</b>		
Richard Brook	President, European, Middle East and African Regions	No change. Full year
Dig Howitt	President, Asia Pacific Region	Appointed on 29 September 2014
Jan Janssen	Senior Vice President, Design and Development, Clinical and Regulatory	No change. Full year
Neville Mitchell	Chief Financial Officer and Company Secretary	No change. Full year
Mark Salmon	President, Asia Pacific Region	Retired on 26 September 2014
Chris Smith	President, Americas Region	No change. Full year



## 2.2 Use of remuneration consultants

During F15, remuneration consultancy contracts were entered into by Cochlear and accordingly the disclosures required under section 300A(1)(h) of the Corporations Act are set out as follows:

Advisor/consultant — F15	Services provided	Remuneration consultant for the purpose of the Corporations Act
Ian Crichton, Remuneration Consultant, Crichton & Associates Pty Limited	Review of F15 Remuneration Report	No

### Key questions regarding use of remuneration consultants

Did the remuneration consultant provide remuneration recommendations in relation to any of the KMP for F15?	No
How much was the remuneration consultant paid by Cochlear for remuneration related and other services?	Crichton & Associates Pty Limited – review of F15 Remuneration Report \$8,118; other services nil.
What arrangements did Cochlear make to ensure that the making of the remuneration recommendations would be free from undue influence by the executive KMP?	Cochlear maintains a protocol which governs the procedure for procuring advice relating to KMP remuneration. The protocol contains a summary of the process for the engagement of the remuneration consultant, the provision of information to the remuneration consultant and the communication of remuneration recommendations.
Is the Board satisfied that the remuneration information provided was free from any such undue influence? What are the reasons for the Board being so satisfied?	Yes, the Board is satisfied. The reasons are as follows: the Chairman of the HRC had oversight of all requests for remuneration information; and the protocol with respect to the procurement of remuneration related advice remains in place.

## 3.0 Non-executive director remuneration

### 3.1 NED remuneration

Principle	Comment
Fees are set by reference to key considerations	Fees for NEDs are based on the nature of the NEDs' 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. NEDs' fees are recommended by the HRC and determined by the Board. Shareholders approve the aggregate amount available for the remuneration of NEDs.
Remuneration is structured to preserve independence whilst creating alignment (see also section 3.4)	To preserve independence and impartiality, NEDs are not entitled to any form of incentive payments including options and the level of their fees is not set with reference to measures of Cochlear performance. However, to create alignment between NEDs and shareholders, the Board has adopted guidelines that request NEDs to hold (or have a benefit in) shares in Cochlear equivalent in value to one year's fees. Cochlear does not offer loans to fund share ownership.
Aggregate Board and committee fees are approved by shareholders	The total amount of fees paid to NEDs in F15 amounted to \$1,528,625 in total which is 76.4% of the aggregate amount approved by shareholders at the AGM in October 2011 of \$2,000,000 per year.

## Directors' Report Cochlear Limited for the year ended 30 June 2015

### 3.2 NED fees and other benefits

Elements	Details		
Board/committee fees per annum – F15	Board Chairman fee <sup>1</sup>	\$438,000	
	Board NED base fee	\$146,000	
	<b>Committee fees</b>	<b>Committee Chair</b>	<b>Committee member</b>
	Audit	\$40,000	\$20,000
	Human Resources	\$30,000	\$10,000
	Medical Science	\$20,000	\$10,000
	Nomination	No fee	No fee
	Technology and Innovation	\$20,000	\$10,000
<b>Post-employment benefits</b>			
Superannuation	Superannuation contributions have been made at a rate of 9.5% of the base fee (but only up to the Australian Government's prescribed maximum contributions limit) which satisfies the Company's statutory superannuation contributions. Contributions are not included in the base fee.		
Retirement scheme	<p>From 2003, no new NED was entitled to join the Cochlear directors' retirement scheme. NEDs appointed prior to this were members of the scheme, which provided NEDs with more than five years' service, retirement benefits of up to three times their annual remuneration over the previous three years.</p> <p>On 23 October 2006, the Board determined that it should implement changes to NED 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 are indexed by reference to the bank bill rate.</p> <p>All directors transitioned from the retirement scheme during F07. As at 30 June 2015, Edward Byrne is the only NED entitled to this benefit. The accrued entitlement for Edward Byrne under the Cochlear directors' retirement scheme as at 30 June 2015 was \$432,448.</p>		
<b>Other benefits</b>			
Equity instruments	NEDs do not receive any performance related remuneration, options or performance shares/rights.		
Other fees/benefits	NEDs receive reimbursement for costs directly related to Cochlear business.		

1. Committee fees are not paid to the Chairman of the Board.

### 3.3 NED total remuneration

Amounts \$	Short-term benefits		Post-employment benefits		Total
	Year	Fees	Accrued interest <sup>1</sup>	Superannuation benefits	
Rick Holliday-Smith (Chairman)	F15	438,000	-	18,783	456,783
	F14	438,000	-	17,775	455,775
Yasmin Allen	F15	196,000	-	17,986	213,986
	F14	196,000	-	17,255	213,255
Glen Boreham <sup>2</sup>	F15	85,969	-	8,167	94,136
Paul Bell <sup>3</sup>	F15	54,154	-	5,145	59,299
	F14	176,000	-	16,280	192,280
Edward Byrne	F15	176,000	10,729	16,720	203,449
	F14	176,000	10,902	16,280	203,182
Alison Deans <sup>2</sup>	F15	76,200	-	7,239	83,439
Andrew Denver	F15	196,000	-	17,986	213,986
	F14	196,000	-	17,255	213,255
Donal O'Dwyer	F15	186,000	-	17,547	203,547
	F14	186,000	-	16,828	202,828
<b>Total<sup>4</sup></b>	F15	1,408,323	10,729	109,573	1,528,625
	F14	1,368,000	10,902	101,673	1,480,575

1. Amounts accrued for interest during the financial year relating to the directors' retirement scheme.

2. Appointed 1 January 2015.

3. Retired 17 October 2014.

4. The year-on-year changes in Board fees reflect the increased superannuation guarantee levy and the appointment of an additional director. There have been no increases in Board NED base fees for four years.

### 3.4 Minimum shareholding guidelines

The Board has approved minimum shareholding guidelines for NEDs, the CEO/President and those executives who report directly to the CEO/President. Under these guidelines, all NEDs are requested to accumulate a minimum shareholding in Cochlear shares equivalent in value to the prior year's fees and all executive KMP are requested to accumulate a minimum shareholding in Cochlear shares or vested options equivalent to the prior year's total fixed remuneration, calculated based on the 365 day average Cochlear Limited closing share price for the prior year.

The guidelines were implemented in March 2007. By the completion of the August 2015 trading window, all NEDs and executive KMP are anticipated to be compliant with the policy for the F16 requirements.

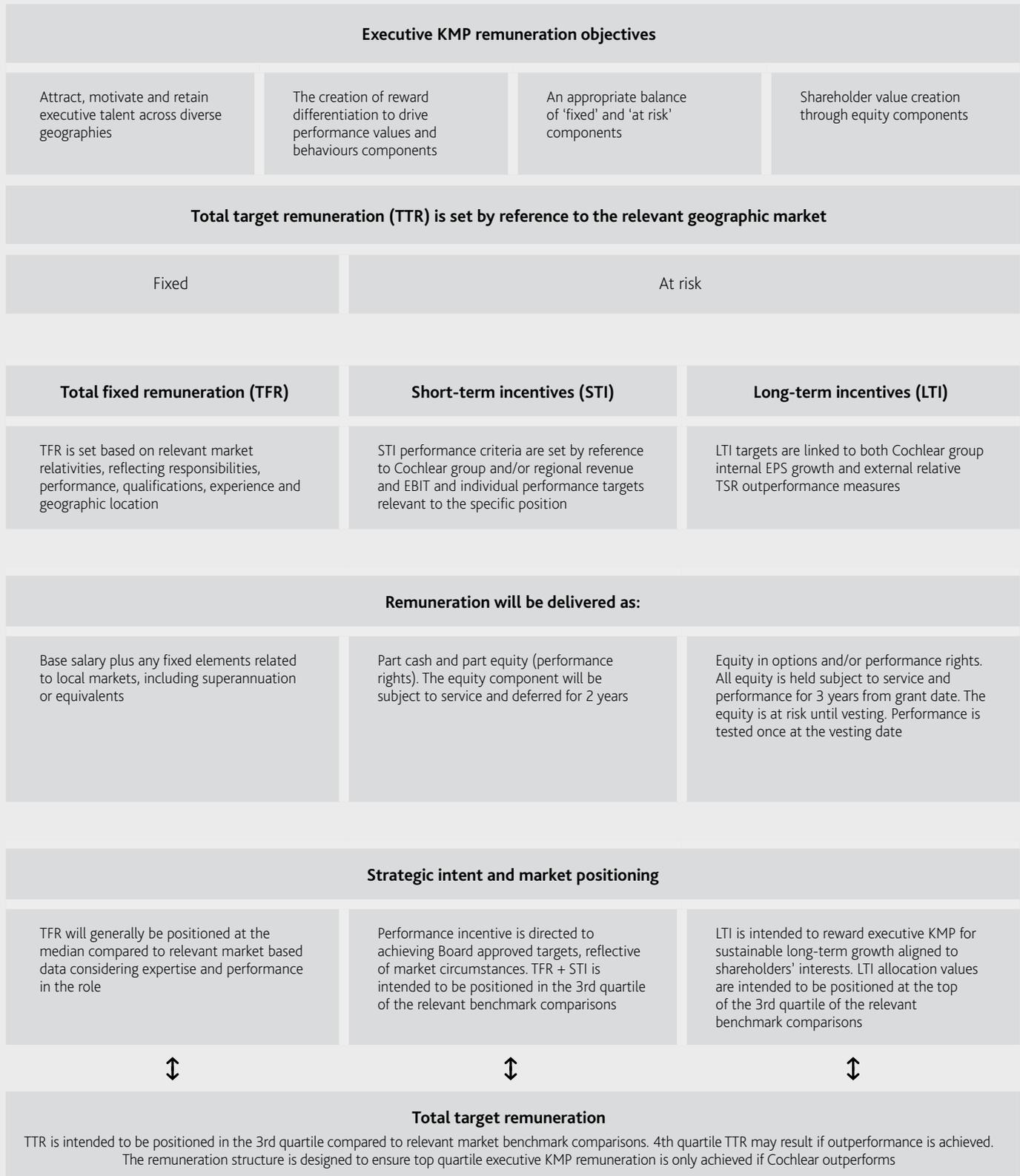
## 4.0 Executive remuneration

### 4.1 Executive KMP remuneration

Cochlear's executive remuneration policies are designed to attract, motivate and retain a highly qualified and experienced group of executives employed across diverse geographies. Fixed remuneration components are determined having regard to the specific skills and competencies of the executive KMP with reference to both internal and external relativities, particularly local market conditions. The 'at risk' components of remuneration are strategically directed to encourage management to strive for superior (risk balanced) performance by rewarding the achievement of targets that are challenging, clearly defined, understood and communicated within the ambit of accountability of the relevant executive KMP.

## Directors' Report Cochlear Limited for the year ended 30 June 2015

Executive KMP remuneration objectives are exemplified through three categories of remuneration, as illustrated below:



## 4.2 Remuneration composition mix and timing of receipt

### 4.2.1 Current remuneration mix

Cochlear endeavours to provide an appropriate and competitive mix of remuneration components balanced between fixed and at risk and paid in both cash and deferred equity. The broad remuneration composition mix for executive KMP can be illustrated as follows:

#### Remuneration mix for F15

The remuneration mix for F15 is illustrated below:

Position	TFR (cash) at target	STI at target	LTI at target
CEO/President	33.4% of TTR	33.3% of TTR	33.3% of TTR
Other executive KMP	At least 45.1% of TTR	Up to 32.3% of TTR	Up to 22.6% of TTR

The mix of remuneration for the CEO/President and other executive KMP will remain unchanged in F16.

#### Total fixed remuneration (TFR)

Cochlear's approach to TFR settings is to aim to position all executives between the median and 75th percentile, but at the lower end of this range where possible to control fixed costs, exchange rate movements notwithstanding. Only modest increases in TFR were approved in F15 to maintain this balanced approach. Cochlear's approach to TFR settings will remain largely unchanged in F16.

#### Short-term incentives (STI)

Cochlear has consistently focused STI on achieving sales revenue and EBIT targets and personal objectives. To support Cochlear's balanced approach to TFR, Cochlear has set STI targets aimed at achieving a market competitive TFR + STI between the median and the 75th percentile when budgets are met and provides for a capped level of overachievement to encourage outperformance. Deferred STI is equivalent to 30% of STI cash earned, deferred into equity. Cochlear's approach to STI settings will remain largely unchanged in F16, but during F16 Cochlear will conduct a review of the structure of our STI plan and LTI plan.

#### Long-term incentives (LTI)

The LTI opportunity is calculated using the 'gross contract value', which refers to a Black-Scholes-Merton pricing model without discounting for service or performance hurdles. Cochlear's approach to LTI settings will remain largely unchanged in F16, but during F16 Cochlear will conduct a review of the structure of our STI plan and LTI plan.

#### Total target remuneration (TTR)

TTR under the remuneration mix adopted will, in the opinion of the Board, deliver an overall risk adjusted reward opportunity which is fair and market competitive.

Shareholders should note that Cochlear has performance hurdles, particularly for LTI that are at the higher end of the market (S&P/ASX 100 companies) in terms of degree of difficulty. Further, any LTI award will only have value to the executive if the performance hurdles are met to enable vesting to occur, and for option related awards, the equity outcomes are positive in terms of share price movement (i.e. the share price on vesting exceeds the exercise price). In F15, the LTI program granted in F12 delivered a nil outcome. The STI program outcome was within a range at or above target achievement, driven by achievement of revenue and EBIT targets based on budgets set by the Board.

## Directors' Report Cochlear Limited for the year ended 30 June 2015

### 4.2.2 Remuneration – Timing of receipt of remuneration

The three complementary components of executive KMP remuneration are 'earned' over multiple time ranges. This is illustrated in the following chart:



Note: LTI is awarded in year 1 and earned at the end of year 3 but expensed over the three year service period.

As illustrated, executive KMP remuneration is delivered on a cascading basis, with a material component deferred for two (STI) and three (LTI) years and awarded as equity. This remuneration mix is designed to ensure executive KMP are focused on delivering results over the short, medium and long term if they are to maximise their remuneration opportunity. The Board believes this approach aligns executive KMP remuneration to shareholder interests and expectations.

### 4.3 Total fixed remuneration explained

Total fixed remuneration (TFR) includes all remuneration and benefits paid to executive KMP calculated on a total employment cost basis. In addition to base salary, selected overseas executives receive benefits that may include health insurance, car allowances and relocation allowances. In Australia, retirement benefits are generally paid in line with the statutory superannuation guarantee legislation prevailing. Globally, retirement benefits are generally paid in line with local legislation and practice.

Executive KMP TFR is tested regularly for market competitiveness by reference to appropriate independent and externally sourced comparable benchmark information, including for comparable ASX listed companies, and based on a range of size criteria including market capitalisation, taking into account an executive's responsibilities, performance, qualifications, experience and geographic location.

Job evaluation methodologies are applied to assist with managing internal relativities.

TFR adjustments, if any, are made with reference to individual performance, an increase in job role or responsibility, and changing market circumstances as reflected through independent benchmark assessments or promotion.

Any adjustments to executive KMP remuneration are approved by the Board, based on HRC and CEO/President recommendations.

#### 4.4 Variable (at risk) remuneration explained

As set out in section 4.2, variable remuneration forms a significant portion of the CEO/President and other executive KMP remuneration opportunity. Apart from being market competitive, the purpose of variable remuneration is to direct executives' behaviours towards maximising Cochlear's short, medium and long-term performance. The key aspects are summarised below:

##### 4.4.1 Short-term incentives (STI)

Purpose	<p>The STI arrangements at Cochlear are designed to reward executives for the achievement against annual performance targets set by the Board at the beginning of the performance period. The STI program is reviewed annually by the HRC and approved by the Board.</p> <p>Any STI award in excess of the 100% budget opportunity is individually approved by the HRC. All STI awards to the CEO/President and other executive KMP are approved by the HRC and Board.</p>
Performance targets	<p>The key performance objectives of Cochlear are currently directed to achieving Board approved sales revenue and EBIT targets, and the achievement of individual performance goals.</p> <p>For the current year (F15), sales revenue and EBIT targets had equal weighting. The weighting between Cochlear group and regional sales revenue and EBIT will depend on the responsibilities and scope of influence of the individual executive KMP. Individual performance goals account for a 20% weighting for executive KMP based on a range of individual performance objectives including strategic objectives determined each year.</p> <p>80% of STI is based on financial targets set by the Board and having regard to prior year performance, global market conditions, competitive environment, future prospects and the Board approved budgets. The specific targets are not detailed in this report due to their commercial sensitivity.</p> <p>Validation of performance against the measures set for:</p> <ul style="list-style-type: none"> <li>• the CEO/President involves an independent review and endorsement by the Chief Financial Officer (CFO), reviewed and approved by the HRC and Board; and</li> <li>• other executive KMP involves a review by the CEO/President based on inputs from the CFO. Final review is undertaken by the HRC and Board.</li> </ul> <p>Any anomalies or discretionary elements are validated and approved by the Board.</p>
Rewarding performance	<p>The STI performance ratings are determined under a predetermined matrix, with the Board determination final.</p>
Mandatory deferral of STI	<p>A mandatory deferral of a portion of STI (in the form of performance rights) is intended to reinforce alignment with shareholder interests. Grants are calculated at the end of each year based on sales revenue, EBIT and individual performance outcomes and then held for two years until vesting. This achieves additional retention and alignment of executives with shareholder interests.</p> <p>The deferred STI component related to F14 was granted in August 2014 in performance rights subject to a two year deferral period. The deferred STI component for F15 will be calculated based on 30% of the STI cash amount earned and will also be delivered as performance rights.</p> <p>The equity component will be independently determined based on the gross contract value using Cochlear's five day volume weighted average price following the announcement of full year results in August 2015, that is, based on a Black-Scholes-Merton pricing model without discounting for service or performance hurdles.</p> <p>Once the STI awarded as performance rights has been granted, there are no further performance measures attached to the performance rights other than continued tenure for the vesting period (two years).</p>

## Directors' Report Cochlear Limited for the year ended 30 June 2015

**Table 1 – Executive KMP STI opportunity and actual F15 STI awarded<sup>1</sup>**

Executive KMP	Position	Target STI as a % of F15 TTR	STI awarded as a % of target STI	STI forfeited in F15 as a % of target STI	Actual cash and deferred STI award in F15 (\$)
Chris Roberts	CEO/President	33.3%	120.0%	-	1,740,000
Richard Brook	President, European, Middle East and African Regions <sup>2,3</sup>	31.4%	101.8%	-	445,497
Dig Howitt	President, Asia Pacific Region	32.3%	97.9%	2.1%	276,136
Jan Janssen	Senior Vice President, Design and Development, Clinical and Regulatory	32.3%	106.6%	-	404,625
Neville Mitchell	CFO and Company Secretary	32.3%	106.8%	-	496,222
Mark Salmon	Former President, Asia Pacific Region	32.3%	100.0%	-	23,397
Chris Smith	President, Americas Region <sup>3</sup>	31.3%	109.4%	-	604,248

1. Includes the monetary value of STI cash combined with the monetary value of STI deferral.

2. STI opportunity was increased for the President, European Middle East and African Regions to align his target opportunity with that of other executive KMP.

3. European and US based Regional Presidents' total target remuneration is benchmarked and paid in local currency.

F15 STI payments are higher than those paid in F14 for the KMP due to the fact that last year payments reflected lower than target performance and this year payments reflect outperformance against targets. The increases reflect:

- strong business performance with sales revenue growth of 15%, EBIT growth of 62% and accomplishment of individual outcomes to support long-term growth resulting in payments within a range between 97.9% and 120.0% of target; and
- currency fluctuations impact year-on-year comparisons for Mr Brook and Mr Smith.

The increase in target STI for Mr Brook and base salary for both Mr Brook and Mr Smith in F15 also increased the STI target opportunity. These outcomes are consistent with the Board's aim to reward executives between the median and 75th percentile for strong business performance.

### 4.4.2 Long-term incentives (LTI)

The LTI provides an annual opportunity for executive KMP and other selected senior executives (based on their ability to influence and execute strategy) to receive an equity award deferred for three years, that is intended to align a significant portion of executives' overall remuneration to shareholder value over the longer term. All LTI awards remain at risk and subject to forfeiture or lapse until vesting and must meet or exceed EPS growth rates and/or relative TSR performance hurdles over the vesting period.

Purpose	To align executive KMP remuneration opportunity with shareholder value and provide retention stimulus.
Types of equity awarded	LTI up to F13 was provided under the Cochlear Executive Long Term Incentive Plan (CELTIP). See section 5.1 for further details. The Cochlear Executive Incentive Plan (CEIP) was introduced in July 2013. See section 5.1 for further details. Under the CEIP, selected senior executives are offered options (being an option at a pre-set exercise price to acquire ordinary shares of Cochlear Limited) or performance rights (being a nil exercise price right to fully paid ordinary shares of Cochlear Limited) or a combination of both.
Time of grant	All equity grants will be made after the AGM each year but based on values determined in the preceding August.
Time restrictions	Equity grants awarded to the CEO/President and other executive KMP are tested against the performance hurdles set, at the end of three financial years. If the performance hurdles are not met at the vesting date, options or performance rights lapse.

Performance hurdles and vesting schedule	Equity grants to the CEO/President and other executive KMP are in two equal tranches assigned 50% to compound annual growth in EPS and 50% subject to ranking of TSR against the S&P/ASX 100. The performance conditions applying to the latest grant (F15) were as follows:																				
	<table border="1"> <thead> <tr> <th colspan="2">Compound annual growth in EPS (3 years)</th> <th colspan="2">Ranking of TSR against S&amp;P/ASX 100 (3 years)</th> </tr> <tr> <th>Performance</th> <th>% of equity to vest</th> <th>Performance</th> <th>% of equity to vest</th> </tr> </thead> <tbody> <tr> <td>&lt; 10%</td> <td>0%</td> <td>&lt; 50th percentile</td> <td>0%</td> </tr> <tr> <td>10% to 20%</td> <td>50% to 100% pro-rata</td> <td>50th to 75th percentile</td> <td>40% to 100% pro-rata</td> </tr> <tr> <td>&gt; 20%</td> <td>100%</td> <td>&gt; 75th percentile</td> <td>100%</td> </tr> </tbody> </table> <p>Options and performance rights vest if the time restrictions and relevant performance hurdles are met. The Board must approve any special provisions, in accordance with Company policies, in the event of termination of employment or a change of control. After the three year vesting schedule, any vested options expire after seven months if they have not been exercised.</p>	Compound annual growth in EPS (3 years)		Ranking of TSR against S&P/ASX 100 (3 years)		Performance	% of equity to vest	Performance	% of equity to vest	< 10%	0%	< 50th percentile	0%	10% to 20%	50% to 100% pro-rata	50th to 75th percentile	40% to 100% pro-rata	> 20%	100%	> 75th percentile	100%
Compound annual growth in EPS (3 years)		Ranking of TSR against S&P/ASX 100 (3 years)																			
Performance	% of equity to vest	Performance	% of equity to vest																		
< 10%	0%	< 50th percentile	0%																		
10% to 20%	50% to 100% pro-rata	50th to 75th percentile	40% to 100% pro-rata																		
> 20%	100%	> 75th percentile	100%																		
Dividends	No dividends are attached to options or performance rights.																				
Voting rights	There are no voting rights attached to options or performance rights.																				
Retesting	There is no retesting of performance hurdles under Cochlear LTI.																				
LTI allocation	<p>The size of individual LTI grants for the CEO/President and other executive KMP is determined in accordance with the Board approved remuneration strategy mix. See section 4.2.</p> <p>The target LTI dollar value for each executive is converted to options and/or performance rights according to LTI allocation values independently determined based on the gross contract value of the relevant equity instrument and based on a Black-Scholes-Merton pricing model without discounting for service or EPS and TSR performance hurdles:</p> <ul style="list-style-type: none"> <li>• performance option allocation = LTI dollar value/Black-Scholes-Merton value before service or EPS and TSR performance discounts; and/or</li> <li>• performance right allocation = LTI dollar value/Black-Scholes-Merton value before service or EPS and TSR performance discounts.</li> </ul>																				

**Table 2 – Vesting outcomes (performance shares and options granted F11 to F13)**

**Performance shares**

Grant date	Vesting timeframe <sup>1</sup>	EPS 3 year CAGR <sup>2</sup>	% vested <sup>3</sup>	% forfeited <sup>3</sup>	Relative 3 year TSR ranking percentile	% vested <sup>3</sup>	% forfeited <sup>3</sup>	Market price as at 30 June
16-Aug-10	Vested June 2013	-5.5%	0.0%	100.0%	28th	0.0%	100.0%	N/A
15-Aug-11	Vested June 2014	-19.7%	0.0%	100.0%	32nd	0.0%	100.0%	N/A
13-Aug-12 <sup>4</sup>	Vested June 2015	36.8%	100.0%	0.0%	38th	0.0%	100.0%	\$80.15

**Options**

Grant date	Vesting timeframe <sup>1</sup>	Exercise price	EPS 3 year CAGR <sup>2</sup>	% vested <sup>3</sup>	% forfeited <sup>3</sup>	Relative 3 year TSR ranking percentile	% vested <sup>3</sup>	% forfeited <sup>3</sup>	Net market value as at 30 June
16-Aug-10	Vested June 2013	\$69.80	-5.5%	0.0%	100.0%	28th	0.0%	100.0%	N/A
15-Aug-11	Vested June 2014	\$68.56	-19.7%	0.0%	100.0%	32nd	0.0%	100.0%	N/A
13-Aug-12 <sup>4</sup>	Vested June 2015	\$62.78	36.8%	100.0%	0.0%	38th	0.0%	100.0%	\$17.37

1. While the vesting period ends on 30 June of each year, participants are not able to exercise any awards until the Board approves the opening of the first trading window under the Cochlear Trading Policy (typically immediately following the Cochlear full-year results announcement).

2. Compound annual growth rate.

3. All plan participants had the same vesting and forfeiture percentage outcome.

4. The performance hurdles for the LTI plans are considered demanding such that this is the first time in the last three years that the plan has provided executives with an award.

## Directors' Report Cochlear Limited for the year ended 30 June 2015

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### 4.5 Other remuneration elements and disclosures relevant to executive KMP

#### 4.5.1 Clawback

Cochlear implemented a clawback policy to take effect from 1 July 2014 to ensure compliance with ASX requirements. There have been no circumstances to date where the policy would have applied.

#### 4.5.2 Hedging and margin lending prohibition

Under the Cochlear Trading Policy and in accordance with the Corporations Act, equity granted under Cochlear equity incentive schemes must remain at risk until vested, or until exercised if options or performance rights. It is a specific condition of grant that no schemes are entered into, by an individual or their associates that specifically protect the unvested value of performance shares, options or performance rights allocated.

Cochlear also prohibits the CEO/President or 'Designated Persons' (including other executive KMP) providing Cochlear securities in connection with a margin loan or similar financing arrangement unless that person has received a specific notice of no objection in compliance with the policy.

Cochlear, in line with good corporate governance, has a formal policy setting down how and when employees of Cochlear may deal in Cochlear securities.

Cochlear's Trading Policy is available on the Cochlear website, [www.cochlear.com](http://www.cochlear.com), under Investor Centre, Corporate Governance.

#### 4.5.3 Cessation of employment provisions

The provisions that apply for STI and LTI awards in the case of cessation of employment are detailed in sections 6.1 (Service contracts) and 6.2 (Employment agreements).

Mark Salmon, former President, Asia Pacific Region, retired on 26 September 2014. His final arrangements included the payment of previously expensed statutory entitlements due to accrued long service of \$97,303 and annual leave entitlements of \$39,233.

The Board used its discretion to permit Mr Salmon to retain 8,016 performance shares in the 2012 CELTIP subject to existing performance hurdles and timeframes. Existing awards from the 2013 CEIP were forfeited (see the table in section 5.2.1 for more details).

Paul Bell, former NED, retired on 17 October 2014. Mr Bell was not entitled to any termination related payments.

On 26 May 2015, the Company announced that Dr Roberts would be stepping down as CEO/President on 31 August 2015. This report includes details of the proposed end of service payments to Dr Roberts. In keeping with the terms of Dr Roberts' executive service contract entered into on 1 February 2004, Dr Roberts is entitled to an end of service payment of \$137,617 in statutory entitlements and \$1,410,801 in accordance with Cochlear's contractual obligations. In line with IFRS, these were accrued at 30 June 2015 and will be paid on 31 August 2015.

The Board plans to use its discretion to permit Dr Roberts to retain 123,023 options from the 2013 CEIP and 2,781 performance rights from the 2013 CEIP (STI Deferral) subject to existing performance hurdles and timeframes. Existing awards from the 2014 CEIP LTI grant will be forfeited when Dr Roberts departs on 31 August 2015 (see the table in section 5.2.1 for more details).

#### 4.5.4 Conditions of LTI grants

The conditions under which LTI (performance rights and options) are granted, and are approved by the Board in accordance with the relevant scheme rules, are as summarised in section 5.

#### 4.5.5 Minimum shareholding guidelines

The purpose of the Cochlear NED and executive share ownership guidelines is to ensure appropriate alignment of the interests of Cochlear's KMP with the financial interests of Cochlear's shareholders.

The guidelines aim to create a share ownership focus and culture and to build long-term commitment to the Company by providing direction to KMP as to minimum levels of share ownership.

Each executive KMP should hold Cochlear Limited shares or vested options to an amount that is equivalent to the prior year's TFR, or one year's fees for NEDs, based on the 365 day average Cochlear Limited closing share price for the prior year.

The guidelines were introduced in March 2007 and all executive KMP were expected to acquire the relevant number of shares over three years from implementation of the guidelines. During the year, Cochlear's NED and executive share ownership guidelines were reviewed and amended to align with ASX practice. By the completion of the August 2015 trading window, all NEDs and executive KMP are anticipated to be compliant with the policy for the F16 requirements.

## 4.6 Relationship between Cochlear performance and executive KMP remuneration

### 4.6.1 Cochlear financial performance (F11 to F15)

	F11	F12 <sup>1</sup>	F13	F14 <sup>2</sup>	F15
Sales revenue (\$million)	732.2	704.6	715.0	820.9	941.9
EBIT (\$million)	242.7	76.5	178.9	127.1	206.4
NPAT (\$million)	180.1	56.8	132.6	93.7	145.8
Basic EPS (cents)	318.2	100.0	233.0	164.6	256.1
Total dividend per share (cents)	225.0	245.0	252.0	254.0	190.0
Share price as at 30 June (\$)	72.00	65.84	61.71	61.70	80.15

1. F12 includes product recall expenses of \$138.8 million before tax and \$101.3 million after tax.

2. F14 includes the patent dispute provision of \$22.5 million before tax and \$15.8 million after tax.

For further explanation of details on Cochlear performance, see the principal activities and review of operations and results section of the Directors' Report on pages 33 to 41.

### 4.6.2 Cochlear current year performance and relationship to executive KMP remuneration

Cochlear sales revenue grew 15% year on year. New product launches combined with investments in market growth initiatives drove this growth. Earnings per share in F15 of 256.1 cents was 56% above that for F14.

The STI payouts to KMP this year ranged from 97.9% to 120.0% of their target STI opportunity, reflecting the strong performance against targets.

The executive KMP again performed at expectations with respect to their personal objectives.

The payout ratios on STI in F15 reflect individual, business and Cochlear performance against targets in accordance with plan rules. The Board has worked to ensure the overall executive KMP remuneration recognises Company performance and enables the business to retain a talented leadership team, of 11 executives and allowing Cochlear to promote internal candidates to three KMP roles (including one new KMP for F16).

### 4.6.3 Cochlear EPS and TSR performance (F11 to F15) and relationship to executive KMP remuneration

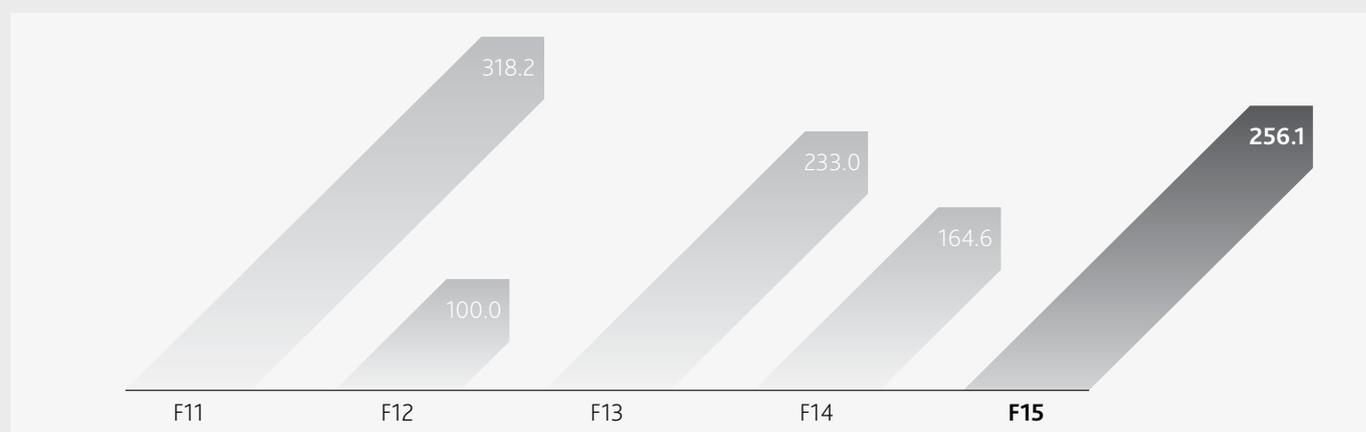
As explained in section 4.1, Cochlear's remuneration framework aims to incentivise executive KMP towards long-term sustainable growth of the business internationally and the creation of shareholder value in the short, medium and long term. This is developed in two ways:

- cash (and equity) STI, whether paid immediately or deferred, depend on sales revenue and EBIT performance and outcomes for the completed performance year (as explained in section 4.4.1); and
- LTI, in the form of options and performance rights, are linked to compound annual growth in EPS and relative TSR performance (as explained in section 4.4.2).

EPS (internal) and relative TSR (external) are generally accepted proxies for creation of shareholder value. It is the Board's intention to review the suitability of these performance criteria and settings on a regular basis to ensure they best serve shareholders' interests.

#### Earnings per share (EPS)

Cochlear's basic EPS over the last five years is displayed in the graph below:



For more information, see the principal activities and review of operations and results section of the Directors' Report.

## Directors' Report Cochlear Limited for the year ended 30 June 2015

The table below illustrates Cochlear's compound annual growth in basic EPS in respect of performance for grants from F11 to F13:

Grant date	Compound annual EPS growth					EPS vesting performance
	F11	F12	F13	F14	F15	
16-Aug-10	15.4%	-39.8%	-5.5%			0.0%
15-Aug-11		-68.6%	-14.4%	-19.7%		0.0%
13-Aug-12			133.0%	28.3%	36.8%	100.0%

Refer the principal activities and review of operations and results section of the Directors' Report on pages 33 to 41 for details on the performance of Cochlear.

As a result of Cochlear meeting the EPS growth targets set, 100% of the 2012 equity grants related to EPS hurdles vested. The achievement of 256.1 cents per share demonstrates positive momentum for the business and achievement against performance hurdles.

### Total shareholder return (TSR) – Unaudited

Cochlear's relative TSR performance over the relevant performance periods up to 30 June 2015 in respect of vested equity grants is set out below. This information is unaudited.

Grant date	Relative 3 year TSR percentile ranking	TSR vesting performance
16-Aug-10	28th	0.0%
15-Aug-11	32nd	0.0%
13-Aug-12	38th	0.0%

TSR is a function of share price growth and dividends reinvested. Cochlear's performance over time is affected by a range of variables, including currency volatility, global economic and geopolitical conditions, market growth for its products and variability in other sectors.

Cochlear did not meet the minimum threshold of TSR performance for the 2012 equity grants, therefore none of the 2012 equity grants related to TSR hurdles vested.

## 4.7 Executive remuneration table – Audited statutory disclosure (accounting cost to Cochlear)

Amounts \$	Year	Fixed remuneration				Variable remuneration				End of service <sup>8</sup>	Total	Proportion of total remuneration		
		Short-term	Other employment costs		Total	Short-term <sup>2</sup>	Long-term <sup>5,6,7</sup>		Total				Performance related	
Name		Salary	Non-monetary benefits <sup>1</sup>	Super-annuation benefits	Long service leave	Bonus	Deferred STI <sup>3,4</sup>	Value of options	Value of performance shares/rights				%	
Chris Roberts <sup>9</sup>	F15	1,431,029	-	18,783	32,349	1,482,161	1,338,462	518,549	1,055,244	-	2,912,255	1,548,418	5,942,834	49.0%
	F14	1,384,305	-	17,775	40,218	1,442,298	585,055	58,506	767,593	-	1,411,154	-	2,853,452	49.5%
Richard Brook <sup>10</sup>	F15	611,858	91,970	103,860	-	807,688	342,690	55,609	141,217	58,134	597,650	-	1,405,338	42.5%
	F14	550,499	77,685	90,433	-	718,617	213,405	21,340	126,994	27,480	389,219	-	1,107,836	35.1%
Dig Howitt <sup>11</sup>	F15	387,709	-	14,088	-	401,797	212,412	21,145	51,190	104,771	389,518	-	791,315	49.2%
Jan Janssen	F15	515,161	-	18,783	6,416	540,360	311,250	46,396	115,591	85,174	558,411	-	1,098,771	50.8%
	F14	487,444	-	17,775	17,165	522,384	152,708	15,271	82,980	71,230	322,189	-	844,573	38.1%
Neville Mitchell <sup>12</sup>	F15	543,609	-	157,325	17,325	718,259	381,709	56,973	78,902	168,892	686,476	-	1,404,735	48.9%
	F14	524,363	-	129,280	15,001	668,644	188,025	18,803	90,228	103,626	400,682	-	1,069,326	37.5%
Mark Salmon <sup>13</sup>	F15	143,181	-	5,743	9,852	158,776	23,397	(15,737)	(10,692)	145,943	142,911	-	301,687	47.4%
	F14	567,844	-	17,775	28,534	614,153	157,372	15,737	64,668	131,483	369,260	-	983,413	37.5%
Chris Smith <sup>14</sup>	F15	786,650	26,797	16,290	-	829,737	464,806	72,305	186,605	81,625	805,341	-	1,635,078	49.3%
	F14	670,243	22,264	13,562	-	706,069	258,245	25,824	140,147	59,964	484,180	-	1,190,249	40.7%
<b>Total<sup>15</sup></b>	<b>F15</b>	<b>4,419,197</b>	<b>118,767</b>	<b>334,872</b>	<b>65,942</b>	<b>4,938,778</b>	<b>3,074,726</b>	<b>755,240</b>	<b>1,618,057</b>	<b>644,539</b>	<b>6,092,562</b>	<b>1,548,418</b>	<b>12,579,758</b>	<b>48.4%</b>
Total	F14	4,184,698	99,949	286,600	100,918	4,672,165	1,554,810	155,481	1,272,610	393,783	3,376,684	-	8,048,849	42.0%

- Benefits include car allowances and health insurance which are market based payments.
- Short-term and long-term incentive bonuses are awarded annually. The service and performance criteria are set out in this report. See section 4.4.1 table 1 for more detail on F15 STI payments delivery. For F15, STI paid represent 97.9% to 120.0% of executive KMP opportunity.
- Deferred STI is granted in performance rights and deferred for two years. The cost of the plan is expensed across three years. The F15 amount represents the portion of the F14 and F15 STI deferral expensed in F15. The F14 amount represents the portion of the F14 STI deferral expensed in F14.
- Deferred STI for Chris Roberts includes an expense of \$298,234 that would normally have been amortised over future years for awards that remain subject to vesting timeframes. Also includes a credit of \$15,737 for Mark Salmon, reversing prior years' expenses on plans that have been forfeited.
- The value of options and performance shares/rights is calculated at the date of grant using the Black-Scholes-Merton pricing model discounted for vesting probabilities of performance criteria. The value of options and performance shares/rights is allocated to each reporting period evenly over the period from grant date to vesting date. The amount expensed each reporting period includes adjustments to the life-to-date expense of grants based on the reassessed estimate of achieving non-market performance criteria and final vesting amounts for the non-market performance criteria of options and performance shares/rights. The value disclosed above is the portion of the value of the options and performance shares/rights recognised as an expense in the financial year. The ability to exercise the options and performance shares/rights is conditional on Cochlear achieving certain performance hurdles. Further details of options and performance rights granted during the financial year are set out in this report.
- Includes an expense of \$391,834 for Chris Roberts and \$34,179 for Mark Salmon that would normally have been amortised over future years for awards that remain subject to vesting hurdles and timeframes and may not be paid out. Also includes a credit of \$46,401 for Mark Salmon, reversing prior years' expenses on plans that have been forfeited.
- The total value of options and performance shares/rights recognised in F15 for each executive KMP (excluding Mark Salmon) is higher than in F14 due to higher vesting probabilities related to plans that are yet to vest.
- Accrual of contractual end of service payments of approximately one year of salary for Chris Roberts, payable at the end of his employment, and statutory entitlements. In F16, Dr Roberts will not accrue any more end of service amounts.
- Chris Roberts is an executive director.
- Richard Brook's STI opportunity was increased to 55% of base salary from F15 to align with that of other executive KMP.
- Dig Howitt became a KMP on 29 September 2014. Values in this table relate only to the period he was a KMP.
- Neville Mitchell remains on a defined contribution superannuation plan based on a fixed percentage of salary.
- Mark Salmon retired on 26 September 2014.
- Chris Smith's remuneration increase reflects an increase in base salary, overachievement on STI and USD/AUD currency variations.
- The increase in total remuneration from F14 reflects improved STI performance with underachievement against target last year and overachievement in F15, incremental salary package increases and accrual of end of service payments to Chris Roberts.

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### 4.8 Executive remuneration table – Unaudited

This table represents the value to the executive of cash paid and vested equity awards (intrinsic value) received during the year and unvested equity awards (IFRS-2 value) granted during the financial year, at risk. The LTI equity granted is a value determined under IFRS-2 discounted for vesting probabilities of performance criteria which may or may not vest depending on future outcomes that are uncertain. Accordingly, this table incorporates data that could represent the accumulation of outcomes arising from multiple years.

Amounts \$	Year	Fixed remuneration and cash incentives received			Past at risk remuneration received during year		Actual remuneration received	Future at risk remuneration received		
		Fixed remuneration <sup>1</sup>	Incentives <sup>2</sup>	Total cash	Intrinsic value of vested options <sup>3</sup>	Intrinsic value of vested performance shares <sup>3</sup>		Incentives (deferred as cash) <sup>4</sup>	Deferred STI <sup>5</sup>	LTI (equity) granted during year <sup>6,7</sup>
Chris Roberts	F15	1,449,812	818,068	2,267,880	-	-	2,267,880	895,877	401,538	1,300,967
	F14	1,402,080	509,264	1,911,344	-	-	1,911,344	375,483	175,517	1,030,699
Richard Brook	F15	807,688	264,801	1,072,489	-	-	1,072,489	208,619	102,807	249,928
	F14	718,617	167,620	886,237	-	-	886,237	130,730	64,021	170,649
Dig Howitt <sup>8</sup>	F15	401,797	86,034	487,831	-	-	487,831	126,378	63,724	234,804
Jan Janssen	F15	533,944	213,287	747,231	-	-	747,231	195,834	93,375	238,188
	F14	505,219	114,439	619,658	-	-	619,658	97,871	45,813	156,874
Neville Mitchell	F15	700,934	262,827	963,761	-	-	963,761	239,497	114,513	281,347
	F14	653,643	141,000	794,643	-	-	794,643	120,615	56,408	204,133
Mark Salmon <sup>9</sup>	F15	148,924	112,690	261,614	-	-	261,614	23,397	-	-
	F14	585,619	160,541	746,160	-	-	746,160	112,690	47,212	185,579
Chris Smith	F15	829,737	318,067	1,147,804	-	-	1,147,804	294,791	139,442	329,947
	F14	706,069	161,941	868,010	-	-	868,010	148,052	77,473	222,477
<b>Total</b>	<b>F15</b>	<b>4,872,836</b>	<b>2,075,774</b>	<b>6,948,610</b>	<b>-</b>	<b>-</b>	<b>6,948,610</b>	<b>1,984,393</b>	<b>915,399</b>	<b>2,635,181</b>
Total	F14	4,571,247	1,254,805	5,826,052	-	-	5,826,052	985,441	466,444	1,970,411

1. Represents the value of base salary, non-monetary benefits and superannuation received during the year (excludes the accrued value of long service leave).

2. Represents STI payments received during the financial year. For example, F15 data includes F14 second half-year STI and F15 first half-year STI payments.

3. Reflects the intrinsic value of vested employee share scheme benefits at the end of the financial year.

4. Reflects STI payments related to the current financial year but paid in future years. For example, F15 data includes the F15 second half-year STI payment scheduled for payment during F16.

5. Deferred STI in F15 reflects STI achievement of between 97.9% and 120.0%, whereas deferred STI in F14 reflected STI achievement of between 49.1% and 54.9% with the exception of the President of the Americas Region and the President of the European, Middle East and African Regions who earned 70.3% and 86.1% of their opportunity respectively.

6. Represents the value of equity grants (options and/or performance rights) calculated at the date of grant using the Black-Scholes-Merton pricing model discounted for vesting probabilities of performance criteria. These grants were awarded during the year, are unvested and will be subject to achievement of future performance hurdles.

7. The value of LTI granted during the year for each KMP (excluding Mark Salmon) is higher than that in the previous financial year due to a higher vesting probability of the plan granted during the current financial year.

8. Dig Howitt became a KMP on 29 September 2014. Values included in this table relate only to the period he was a KMP. Both the deferred STI value (scheduled for conversion to performance rights in August 2015) and the LTI value (granted in October 2014) are included as they were granted after he became a KMP.

9. Mark Salmon retired on 26 September 2014.

## 5.0 Employee share scheme and other share information

This section provides:

1. a description of the employee share schemes (ESS) Cochlear uses to provide equity rewards to Cochlear employees;
2. disclosures required in relation to ESS grants provided to executive KMP;
3. disclosures required in relation to ESS instruments that Cochlear has issued; and
4. disclosures required in relation to Cochlear Limited shares and other ESS instruments held by executive KMP.

### 5.1 Employee share schemes operated by Cochlear

Plan details	Type of instruments	Details	Purpose
Cochlear Employee Share Plan (CESP) Date established: 1999	Ordinary shares	Issue of ordinary shares annually to eligible employees.	The purpose of the CESP is to encourage general employee equity participation through tax concessional legislation which currently facilitates tax effective issues of up to \$1,000 worth of shares annually per eligible employee. Under the September 2014 (F15) grant, 1,317 employees each received an award of 15 shares. Executive KMP and other executives rewarded under the Cochlear Executive Incentive Plan are not eligible for this program.
Cochlear Executive Long Term Incentive Plan (CELTIP) Date established: 2003 AGM	Ordinary shares (options and/or performance shares)	A long-term performance incentive scheme designed to reward participants for achieving market competitive EPS growth and relative TSR hurdles, as approved. Participants receive options and/or performance shares based on a predetermined formula.	The purpose of the CELTIP is to encourage employees and executives of Cochlear to receive options or performance shares. Vesting of options or performance shares occurs only if Cochlear achieves challenging and market competitive EPS growth and relative TSR hurdles. Target allocations are made based on seniority, the ascribed LTI remuneration value and a value formula approved by shareholders in 2003. No grants have been made under the CELTIP since F13.
Cochlear Executive Incentive Plan (CEIP) Date established: July 2013	Awards consisting of ordinary shares; performance rights; options; and/or share appreciation rights	A performance incentive scheme designed to reward participants for achieving market competitive business outcomes. Participants receive an award based on a predetermined formula, as approved by the Board from time to time based on market standards and trends.	The purpose of the CEIP is to develop the principles established with the CELTIP but to create greater flexibility in award structure to cater for Cochlear's expanding geography and to meet changing market standards and expectations. The offer terms for CEIP awards are flexible but meet contemporary LTI design standards. The first grant of options and performance rights under this plan was made on 15 October 2013, and a grant of options and performance rights was made on 14 October 2014. Also refer to section 4.4.2.

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### 5.2 Employee share scheme grants to executive KMP

#### 5.2.1 Analysis of share based payments granted as remuneration

Details of vesting profile of the options and performance shares/rights granted as remuneration to each executive KMP are set out below:

	Grant date	Options				Performance shares/rights <sup>2</sup>			
		Number granted	Number vested	Number forfeited/lapsed	Intrinsic value of exercised options (\$)¹	Number granted	Number vested	Number forfeited/lapsed	Intrinsic value of vested performance shares/rights (\$)³
Chris Roberts	15-Aug-11	117,620	-	117,620	-	-	-	-	-
	13-Aug-12	231,161	-	-	-	-	-	-	-
	15-Oct-13	123,023	-	-	-	-	-	-	-
	12-Aug-14 <sup>4</sup>	-	-	-	-	2,781	-	-	-
	14-Oct-14 <sup>5</sup>	60,771	-	-	-	11,821	-	-	-
	<b>Total</b>	<b>532,575</b>	-	<b>117,620</b>	-	<b>14,602</b>	-	-	-
Richard Brook	15-Aug-11	23,495	-	23,495	-	-	-	-	-
	13-Aug-12	41,448	-	-	-	-	-	-	-
	15-Oct-13	7,249	-	-	-	3,617	-	-	-
	12-Aug-14 <sup>4</sup>	-	-	-	-	993	-	-	-
	14-Oct-14	7,256	-	-	-	3,293	-	-	-
	<b>Total</b>	<b>79,448</b>	-	<b>23,495</b>	-	<b>7,903</b>	-	-	-
Dig Howitt	15-Aug-11	21,942	-	21,942	-	-	-	-	-
	13-Aug-12	-	-	-	-	6,095	-	-	-
	15-Oct-13	21,900	-	-	-	-	-	-	-
	12-Aug-14 <sup>4</sup>	-	-	-	-	714	-	-	-
	14-Oct-14	10,970	-	-	-	2,133	-	-	-
	<b>Total</b>	<b>54,812</b>	-	<b>21,942</b>	-	<b>8,942</b>	-	-	-
Jan Janssen	15-Aug-11	11,128	-	11,128	-	2,234	-	2,234	-
	13-Aug-12	26,491	-	-	-	2,473	-	-	-
	15-Oct-13	6,664	-	-	-	3,325	-	-	-
	12-Aug-14 <sup>4</sup>	-	-	-	-	725	-	-	-
	14-Oct-14	11,127	-	-	-	2,164	-	-	-
	<b>Total</b>	<b>55,410</b>	-	<b>11,128</b>	-	<b>10,921</b>	-	<b>2,234</b>	-
Neville Mitchell	15-Aug-11	27,538	-	27,538	-	-	-	-	-
	13-Aug-12	10,928	-	-	-	6,120	-	-	-
	15-Oct-13	13,723	-	-	-	2,934	-	-	-
	12-Aug-14 <sup>4</sup>	-	-	-	-	893	-	-	-
	14-Oct-14	8,168	-	-	-	3,707	-	-	-
	<b>Total</b>	<b>60,357</b>	-	<b>27,538</b>	-	<b>13,654</b>	-	-	-
Mark Salmon	15-Aug-11	28,859	-	28,859	-	-	-	-	-
	13-Aug-12	-	-	-	-	8,016	-	-	-
	15-Oct-13	10,239	-	10,239	-	3,284	-	3,284	-
	12-Aug-14 <sup>4</sup>	-	-	-	-	-	-	-	-
	14-Oct-14	-	-	-	-	-	-	-	-
	<b>Total</b>	<b>39,098</b>	-	<b>39,098</b>	-	<b>11,300</b>	-	<b>3,284</b>	-
Chris Smith	15-Aug-11	20,823	-	20,823	-	1,045	-	1,045	-
	13-Aug-12	45,063	-	-	-	1,577	-	-	-
	15-Oct-13	14,955	-	-	-	3,198	-	-	-
	12-Aug-14 <sup>4</sup>	-	-	-	-	1,199	-	-	-
	14-Oct-14	15,412	-	-	-	2,998	-	-	-
	<b>Total</b>	<b>96,253</b>	-	<b>20,823</b>	-	<b>10,017</b>	-	<b>1,045</b>	-

1. The intrinsic value of exercised options calculated as the closing market price of shares of the Company on the ASX on the date of exercise less the applicable exercise price times the number of options.
2. For grants made under the CELTIP from 2011 to 2012, participants were granted either options or performance shares, so all holdings referred to under the "Performance shares/rights" columns granted from 2011 to 2012 represent performance shares. Under the CEIP, participants were granted either options or performance rights, so all holdings referred to under "Performance shares/rights" columns granted from 2013 onwards represent performance rights.
3. The intrinsic value of vested performance shares calculated as the closing market price of shares of the Company on the ASX on the date of vesting times the number of performance shares.
4. The 12 August 2014 grant represented the grant of performance rights under the CEIP STI Deferral.
5. This award is planned to be forfeited at the discretion of the Board at the end of Dr Roberts' service on 31 August 2015.

The options granted in F15 have an exercise price of \$68.56 and an expiration date of 9 March 2018. The options granted during the year have a fair value (IFRS-2) of \$11.93 at grant date for options with EPS performance based conditions and \$11.33 at grant date for options with TSR based conditions. The performance rights granted during F15 had a fair value (IFRS-2) at grant date of \$61.33 for performance rights with EPS performance based conditions and \$39.21 at grant date for performance rights with TSR based conditions.

### 5.2.2 Exercise of options and performance shares/rights granted as remuneration

During F15, no options were exercised by the CEO/President or other executive KMP. The F12 CELTIP grant did not meet the performance hurdles so there was no vesting from this grant.

There are no amounts unpaid on the shares issued as a result of the exercise of the options in prior years.

### 5.2.3 Analysis of movement in options and shares

The movement in number and value during F15 of options over ordinary shares of Cochlear Limited acquired under the CELTIP and CEIP LTI held by executive KMP is detailed below:

	Opening	Granted in year		Exercised in year		Forfeited/lapsed in year	Closing
	Number	Number	Value (\$) <sup>1</sup>	Number	Intrinsic value (\$) <sup>2</sup>	Number	Number
Chris Roberts <sup>3</sup>	471,804	60,771	706,767	-	-	117,620	414,955
Richard Brook	72,192	7,256	84,382	-	-	23,495	55,953
Dig Howitt	43,842	10,970	127,573	-	-	21,942	32,870
Jan Janssen	44,283	11,127	129,399	-	-	11,128	44,282
Neville Mitchell	52,189	8,168	94,988	-	-	27,538	32,819
Mark Salmon <sup>4</sup>	39,098	-	-	-	-	39,098	N/A
Chris Smith	80,841	15,412	179,231	-	-	20,823	75,430
<b>Total</b>	<b>804,249</b>	<b>113,704</b>	<b>1,322,340</b>	<b>-</b>	<b>-</b>	<b>261,644</b>	<b>656,309</b>

The movement in number and value during F15 of performance shares/rights acquired under the CELTIP, CEIP LTI and CEIP STI Deferral held by executive KMP is detailed below:

	Opening	Granted in year				Exercised in year		Forfeited/lapsed in year	Closing
	Number	LTI number	LTI value (\$) <sup>1</sup>	Deferred STI number	Deferred STI value (\$) <sup>5</sup>	Number	Intrinsic value (\$) <sup>6</sup>	Number	Number
Chris Roberts <sup>3</sup>	-	11,821	594,242	2,781	175,509	-	-	-	14,602
Richard Brook	3,617	3,293	165,546	993	62,668	-	-	-	7,903
Dig Howitt	6,095	2,133	107,231	714	45,061	-	-	-	8,942
Jan Janssen	8,032	2,164	108,789	725	45,755	-	-	2,234	8,687
Neville Mitchell	9,054	3,707	186,359	893	56,357	-	-	-	13,654
Mark Salmon <sup>4</sup>	11,300	-	-	-	-	-	-	3,284	N/A
Chris Smith	5,820	2,998	150,716	1,199	75,669	-	-	1,045	8,972
<b>Total</b>	<b>43,918</b>	<b>26,116</b>	<b>1,312,883</b>	<b>7,305</b>	<b>461,019</b>	<b>-</b>	<b>-</b>	<b>6,563</b>	<b>62,760</b>

1. The value derived under IFRS-2 of options and performance rights granted during the financial year is the value of the options and performance rights calculated at grant date using the Black-Scholes-Merton pricing model discounted for vesting probabilities of performance criteria. The total value of the options and rights granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in each of F15 to F17).

2. The intrinsic value of exercised options is calculated as the closing market price of shares of the Company on the ASX on the date of exercise less the applicable exercise price times the number of options.

3. The "Granted in year" LTI options and performance rights are likely to be forfeited at the discretion of the Board at the end of Dr Roberts' service on 31 August 2015.

4. For Mark Salmon, the closing balance as at 30 June 2015 has not been disclosed as he retired on 26 September 2014.

5. Deferred STI value represents performance rights under the CEIP STI Deferral plan.

6. The intrinsic value of vested performance shares calculated as at the closing market price of shares of the Company on the ASX on the date of vesting times the number of performance shares.

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### 5.3 Potential dilution if options vest and ordinary shares issued – Unaudited

At the date of this report, the number of ordinary shares that would be issued if all options were vested, having met the service and performance conditions, and exercised and assuming ordinary shares were issued, is as follows:

Grant date	Number of options				Exercise price per share (\$)	Exercise period	Current net value of outstanding options as at 30 June 2015 (\$) <sup>1</sup>
	Issued	Exercised	Forfeited/lapsed	At report date			
15-Aug-11 <sup>2</sup>	484,887	-	484,887	-	68.56	Aug-14 to 30-Jun-16	-
13-Aug-12 <sup>3</sup>	707,127	-	21,331	685,796	62.78	Aug-15 to 30-Jun-17	11,912,277
15-Oct-13 <sup>4</sup>	224,314	-	10,239	214,075	59.13	Aug-16 to 10-Mar-17	4,499,857
14-Oct-14	138,963	-	-	138,963	68.56	Aug-17 to 9-Mar-18	1,610,581
<b>Total</b>	<b>1,555,291</b>	<b>-</b>	<b>516,457</b>	<b>1,038,834</b>			<b>18,022,715</b>

1. Share price as at 30 June 2015 was \$80.15.

2. No options from the F12 grant vested.

3. Lapsed options from unvested grants relate to plan members who have departed Cochlear.

4. Lapsed options from unvested grants relate to plan members who have departed Cochlear.

### 5.4 KMP equity interests – Audited

In accordance with the Corporations Act (section 205G(1)), Cochlear is required to notify the interests (shares and rights to shares) of directors to the ASX.

In the interests of transparency and completeness of disclosure, this information is provided for each NED (as required under the Corporations Act) and all executive KMP as well.

Please refer sections 4.5.2 (Hedging and margin lending prohibition) and 4.5.5 (Minimum shareholding guidelines).

The table below indicates Cochlear Limited shareholding:

NEDs	Held at 1 July 2014	Purchases	Sales	Cochlear Limited ordinary shares held as at 30 June 2015	Total intrinsic value of Cochlear Limited securities as at year end (\$) <sup>1</sup>
Rick Holliday-Smith	9,250	-	-	9,250	741,388
Yasmin Allen	2,950	550	-	3,500	280,525
Glen Boreham	-	-	-	-	-
Paul Bell <sup>2</sup>	3,000	N/A	N/A	N/A	N/A
Edward Byrne	3,250	-	-	3,250	260,488
Alison Deans	-	2,000	-	2,000	160,300
Andrew Denver	4,000	-	-	4,000	320,600
Donal O'Dwyer	6,000	-	-	6,000	480,900
<b>Total NEDs</b>	<b>28,450</b>	<b>2,550</b>	<b>-</b>	<b>28,000</b>	<b>2,244,201</b>

The table below indicates Cochlear Limited shareholding including any vested but unexercised options and performance shares:

Executive KMP	Held at 1 July 2014	Purchases	Received on exercise of options and performance shares	Sales	Cochlear Limited ordinary shares held as at 30 June 2015	Vested options over Cochlear Limited ordinary shares <sup>3</sup>	Vested performance shares over Cochlear Limited ordinary shares <sup>4</sup>	Total intrinsic value of Cochlear Limited securities as at year end (\$)¹
<b>Executive director</b>								
Chris Roberts	719,803	-	-	108,534	611,269	-	-	48,993,210
<b>Other executive KMP</b>								
Richard Brook	7,700	-	-	-	7,700	-	-	617,155
Dig Howitt	34,151	-	-	12,800	21,351	-	-	1,711,283
Jan Janssen	5,898	-	-	-	5,898	-	-	472,725
Neville Mitchell	10,000	1,000	-	-	11,000	-	-	881,650
Mark Salmon <sup>5</sup>	8,148	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Chris Smith <sup>6</sup>	-	-	-	-	-	-	-	-
<b>Total executive KMP</b>	<b>785,700</b>	<b>1,000</b>	<b>-</b>	<b>121,334</b>	<b>657,218</b>	<b>-</b>	<b>-</b>	<b>52,676,023</b>

1. The intrinsic value of Cochlear Limited ordinary shares and vested performance shares calculated as the closing Cochlear Limited share price on the ASX on 30 June 2015 times the number of shares and performance shares, plus the intrinsic value of vested options calculated as at the closing Cochlear Limited share price on the ASX on 30 June 2015 less the applicable exercise price times the number of options (negative values are treated as zero in the totals). Please note the share ownership guidelines apply an average share price to NEDs' and executive KMP's holdings, not intrinsic value at year end.
2. For Paul Bell, the closing balance as 30 June 2015 has not been disclosed as he retired on 17 October 2014.
3. The number of vested but unexercised options.
4. The number of vested but unexercised performance shares.
5. For Mark Salmon, the closing balance as of 30 June 2015 has not been disclosed as he retired on 26 September 2014.
6. At the completion of the August 2015 trading window, vested awards and purchased shares will result in compliance with the minimum shareholding requirements.

The table below indicates any unvested options and performance shares/rights issued to executive KMP but still subject to performance hurdles and STI deferral service conditions:

	Unvested options over Cochlear Limited ordinary shares¹	Unvested performance shares/LTI rights over Cochlear Limited ordinary shares²	Unvested STI Deferral rights over Cochlear Limited ordinary shares³	Total intrinsic value of unvested options and performance shares/rights as at year end (\$)⁴
<b>Executive director</b>				
Chris Roberts	414,955	11,821	2,781	8,475,896
<b>Other executive KMP</b>				
Richard Brook	55,953	6,910	993	1,589,848
Dig Howitt	32,870	8,228	714	1,304,182
Jan Janssen	44,282	7,962	725	1,425,451
Neville Mitchell	32,819	12,761	893	1,667,312
Mark Salmon <sup>5</sup>	N/A	N/A	N/A	N/A
Chris Smith	75,430	7,773	1,199	1,994,829
<b>Total executive KMP</b>	<b>656,309</b>	<b>55,455</b>	<b>7,305</b>	<b>16,457,518</b>

1. The number of unvested options.
2. The number of unvested CELTIP performance shares and CEIP LTI performance rights.
3. The number of unvested CEIP STI Deferral performance rights.
4. The intrinsic value of unvested performance shares/rights calculated as at the closing Cochlear Limited share price on the ASX on 30 June 2015 times the number of performance shares/rights and the intrinsic value of unvested options calculated as at the closing Cochlear Limited share price on the ASX on 30 June 2015 less the applicable exercise price times the number of options (negative values are treated as zero in the totals).
5. For Mark Salmon, the closing balance as of 30 June 2015 has not been disclosed as he retired on 26 September 2014.

## Directors' Report Cochlear Limited for the year ended 30 June 2015

### 6.0 Service contracts and employment agreements – Audited

#### 6.1 Service contracts

Cochlear does not enter into service contracts for executive KMP, other than the CEO/President.

The following sets out details of the service contract terms for the current CEO/President, Dr Roberts, which is also reflected in his end of service payment:

Length of contract	Dr Roberts is on a permanent contract, which is an ongoing employment contract until notice is given by either party.
Notice periods	In order to terminate the employment arrangements, Dr Roberts is required to provide Cochlear with six months' written notice. Cochlear must provide Dr Roberts with 12 months' written notice.
Termination on notice by Cochlear	<p>Cochlear may terminate employment by providing six months' written notice or payment in lieu of the notice period based on total fixed remuneration (TFR). On termination on notice by Cochlear, unless the Board determines otherwise Dr Roberts shall receive:</p> <ul style="list-style-type: none"> <li>• payment equivalent to 12 months' TFR;</li> <li>• pro-rated STI benefits for the months of service in the financial year to which the plan relates; and</li> <li>• if determined by the Board, in its sole discretion, the entitlements (if any) to LTI benefits.</li> </ul>
Death or total and permanent disability	<p>If Cochlear terminates employment for reasons of death or total and permanent disability, a severance payment will be made that is equal to 12 months' TFR.</p> <p>All STI and LTI benefits are either:</p> <ul style="list-style-type: none"> <li>• released in full or on a pro-rata basis; or</li> <li>• remain subject to performance requirements clawback and are released at the original vesting date, at the discretion of the Board with regard to the circumstances.</li> </ul> <p>On death or total and permanent disability, the Board has discretion to allow unvested STI and LTI benefits to vest.</p>
Statutory entitlements	Payment of statutory entitlements of long service leave and annual leave applies in all events of separation.
Post-employment restraints	For a period of 12 months after termination date without the consent of Cochlear for engagement in business competition or to induce Cochlear NEDs or staff to terminate their employment.

## 6.2 Employment agreements

Other executive KMP operate under employment agreements.

The following sets out details of the employment agreements relating to other executive KMP. The terms for all other executive KMP are similar but do, on occasion, vary to suit different needs.

Length of contract	All other executive KMP are on permanent contracts, which is an ongoing employment contract until notice is given by either party.
Notice periods	In order to terminate the employment arrangements, other executive KMP are required to provide Cochlear with between 60 days' and six months' written notice.
Resignation	On resignation, unless the Board determines otherwise: <ul style="list-style-type: none"> <li>• all unvested STI or LTI benefits are forfeited.</li> </ul>
Termination on notice by Cochlear	Cochlear may terminate employment by providing between 60 days' and 12 months' written notice or payment in lieu of the notice period based on TFR. On termination by Cochlear, unless the Board determines otherwise: <ul style="list-style-type: none"> <li>• unvested STI or LTI benefits may be exercised or paid within 30 days of notice being given.</li> </ul>
Redundancy	If Cochlear terminates employment for reasons of redundancy, under Cochlear policy a severance payment will be made of up to 12 months' TFR. All STI and LTI benefits are either: <ul style="list-style-type: none"> <li>• released in full or on a pro-rata basis; or</li> <li>• remain subject to performance criteria and vesting date, at the discretion of the Board with regard to the circumstances.</li> </ul>
Death or total and permanent disability	On death or total and permanent disability, the Board has discretion to allow all unvested STI and LTI benefits to vest.
Termination for serious misconduct	Cochlear may immediately terminate employment at any time in the case of serious misconduct, and other executive KMP will only be entitled to payment of TFR up to the date of termination. On termination without notice by Cochlear in the event of serious misconduct: <ul style="list-style-type: none"> <li>• all unvested STI or LTI benefits will be forfeited; and</li> <li>• any ESS instruments provided to the employee on vesting of STI or LTI awards that are held in trust, will be forfeited.</li> </ul>
Statutory entitlements	Payment of statutory entitlements of long service leave and annual leave applies in all events of separation.
Other arrangements	Richard Brook – President, European, Middle East and African Regions will receive: <ul style="list-style-type: none"> <li>• a maximum of CHF 30,000 for repatriation costs in the case of termination or resignation.</li> </ul>
Post-employment restraints	All other executive KMP are subject to post-employment restraints for up to 12 months.

## Directors' Report Cochlear Limited for the year ended 30 June 2015

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### 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 a Directors' and Officers' Liability 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 matter noted below, there has not arisen in the interval between the end of the financial year and the date of this Directors' Report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of Cochlear, the results of those operations, or the state of affairs of Cochlear in future financial years:

#### Dividends

For dividends declared after 30 June 2015, see Note 2.6 to the financial statements.

### Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 67 and forms part of the Directors' Report for the financial year ended 30 June 2015.

### 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 11th day of August 2015.

Signed in accordance with a resolution of the directors:



Director



Director



## Lead Auditor's Independence Declaration

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### 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 2015 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.

A handwritten signature of 'KPMG' in black ink.

KPMG

Sydney, 11 August 2015

A handwritten signature in black ink, appearing to read 'C. Slapp'.

Cameron Slapp, Partner

## Income Statement Cochlear Limited and its controlled entities for the year ended 30 June 2015

	Note	2015 \$000	2014 \$000
Revenue	2.2	925,630	804,936
Cost of sales	2.3(a)	(275,320)	(248,285)
<b>Gross profit</b>		<b>650,310</b>	<b>556,651</b>
Selling and general expenses		(266,483)	(234,711)
Administration expenses		(53,862)	(44,162)
Patent dispute provision	5.4	-	(22,545)
Research and development expenses		(127,985)	(127,562)
Other income	2.4	4,428	2,532
Other expenses	2.3(b)	-	(3,112)
<b>Results from operating activities</b>		<b>206,408</b>	<b>127,091</b>
Finance income – interest		300	324
Finance expense – interest		(10,405)	(10,301)
<b>Net finance expense</b>		<b>(10,105)</b>	<b>(9,977)</b>
<b>Profit before income tax</b>		<b>196,303</b>	<b>117,114</b>
Income tax expense	3.1	(50,463)	(23,405)
<b>Net profit</b>		<b>145,840</b>	<b>93,709</b>
Basic earnings per share (cents)	2.5	256.1	164.6
Diluted earnings per share (cents)	2.5	254.8	164.2

The notes on pages 73 to 102 are an integral part of these consolidated financial statements.

## Statement of Comprehensive Income Cochlear Limited and its controlled entities for the year ended 30 June 2015

	2015 \$000	2014 \$000
<b>Net profit</b>	<b>145,840</b>	<b>93,709</b>
<b><i>Other comprehensive (loss)/income</i></b>		
Items that will not be reclassified subsequently to the income statement:		
Defined benefit plan actuarial (losses)/gains	(1,806)	306
Total items that will not be reclassified subsequently to the income statement	(1,806)	306
Items that may be reclassified subsequently to the income statement:		
Foreign currency translation differences	20,089	2,344
Effective portion of changes in fair value of cash flow hedges, net of tax	(32,412)	6,007
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	11,389	11,149
Total items that may be reclassified subsequently to the income statement	(934)	19,500
<b>Other comprehensive (loss)/income for the period, net of tax</b>	<b>(2,740)</b>	<b>19,806</b>
<b>Total comprehensive income</b>	<b>143,100</b>	<b>113,515</b>

The notes on pages 73 to 102 are an integral part of these consolidated financial statements.

## Balance Sheet

Cochlear Limited and its controlled entities as at 30 June 2015

	Note	2015 \$000	2014 \$000
<b>Assets</b>			
Cash and cash equivalents	2.7(a)	72,208	56,127
Trade and other receivables	6.4(b)	249,744	210,394
Forward exchange contracts		3,853	4,559
Inventories	5.1	145,861	128,613
Current tax assets	3.2	3,606	8,600
Prepayments		13,754	12,586
<b>Total current assets</b>		<b>489,026</b>	<b>420,879</b>
Other receivables		63	55
Forward exchange contracts		1,910	5,450
Property, plant and equipment	5.2	80,809	75,776
Intangible assets	5.3	228,531	234,115
Deferred tax assets	3.2	68,717	52,761
<b>Total non-current assets</b>		<b>380,030</b>	<b>368,157</b>
<b>Total assets</b>		<b>869,056</b>	<b>789,036</b>
<b>Liabilities</b>			
Trade and other payables		99,858	78,644
Forward exchange contracts		24,162	6,643
Loans and borrowings	6.3	168,159	3,141
Current tax liabilities	3.2	20,645	8,442
Employee benefit liabilities	4.2	43,223	31,065
Provisions	5.4	26,652	26,492
Deferred revenue		20,585	15,151
<b>Total current liabilities</b>		<b>403,284</b>	<b>169,578</b>
Forward exchange contracts		10,961	2,624
Loans and borrowings	6.3	44,552	234,274
Employee benefit liabilities	4.2	11,479	8,752
Provisions	5.4	43,394	44,603
<b>Total non-current liabilities</b>		<b>110,386</b>	<b>290,253</b>
<b>Total liabilities</b>		<b>513,670</b>	<b>459,831</b>
<b>Net assets</b>		<b>355,386</b>	<b>329,205</b>
<b>Equity</b>			
Share capital		144,136	144,136
Reserves		(26,201)	(32,191)
Retained earnings		237,451	217,260
<b>Total equity</b>		<b>355,386</b>	<b>329,205</b>

The notes on pages 73 to 102 are an integral part of these consolidated financial statements.

## Statement of Changes in Equity

Cochlear Limited and its controlled entities for the year ended 30 June 2015

Amounts \$000	Issued capital	Treasury reserve	Translation reserve	Hedging reserve	Share based payment reserve	Retained earnings	Total equity
<b>2014</b>							
Balance at 1 July 2013	128,196	(9,408)	(54,974)	(16,680)	39,221	268,156	354,511
<i>Total comprehensive income</i>							
Net profit	-	-	-	-	-	93,709	93,709
<i>Other comprehensive income</i>							
Defined benefit plan actuarial gains	-	-	-	-	-	306	306
Foreign currency translation differences	-	-	2,344	-	-	-	2,344
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	6,007	-	-	6,007
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	-	-	-	11,149	-	-	11,149
<b>Total other comprehensive income</b>	-	-	<b>2,344</b>	<b>17,156</b>	-	<b>306</b>	<b>19,806</b>
<b>Total comprehensive income</b>	-	-	<b>2,344</b>	<b>17,156</b>	-	<b>94,015</b>	<b>113,515</b>
<i>Transactions with owners, recorded directly in equity</i>							
Transfer between reserves	24,403	-	-	-	(24,403)	-	-
Treasury shares issued to employees	-	945	-	-	(945)	-	-
Share based payment transactions	-	-	-	-	4,971	-	4,971
Deferred tax recognised in equity	-	-	-	-	1,119	-	1,119
Dividends to shareholders	-	-	-	-	-	(144,911)	(144,911)
<b>Balance at 30 June 2014</b>	<b>152,599</b>	<b>(8,463)</b>	<b>(52,630)</b>	<b>476</b>	<b>19,963</b>	<b>217,260</b>	<b>329,205</b>
<b>2015</b>							
Balance at 1 July 2014	152,599	(8,463)	(52,630)	476	19,963	217,260	329,205
<i>Total comprehensive income/(loss)</i>							
Net profit	-	-	-	-	-	145,840	145,840
<i>Other comprehensive (loss)/income</i>							
Defined benefit plan actuarial losses	-	-	-	-	-	(1,806)	(1,806)
Foreign currency translation differences	-	-	20,089	-	-	-	20,089
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(32,412)	-	-	(32,412)
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	-	-	-	11,389	-	-	11,389
<b>Total other comprehensive income/(loss)</b>	-	-	<b>20,089</b>	<b>(21,023)</b>	-	<b>(1,806)</b>	<b>(2,740)</b>
<b>Total comprehensive income/(loss)</b>	-	-	<b>20,089</b>	<b>(21,023)</b>	-	<b>144,034</b>	<b>143,100</b>
<i>Transactions with owners, recorded directly in equity</i>							
Share based payment transactions	-	-	-	-	6,004	-	6,004
Deferred tax recognised in equity	-	-	-	-	920	-	920
Dividends to shareholders	-	-	-	-	-	(123,843)	(123,843)
<b>Balance at 30 June 2015</b>	<b>152,599</b>	<b>(8,463)</b>	<b>(32,541)</b>	<b>(20,547)</b>	<b>26,887</b>	<b>237,451</b>	<b>355,386</b>

The notes on pages 73 to 102 are an integral part of these consolidated financial statements.

## Statement of Cash Flows Cochlear Limited and its controlled entities for the year ended 30 June 2015

	Note	2015 \$000	2014 \$000
<b><i>Cash flows from operating activities</i></b>			
Cash receipts from customers		919,280	809,039
Cash paid to suppliers and employees		(694,288)	(665,370)
Grant and other income received		3,250	2,532
Interest received		297	344
Interest paid		(7,627)	(10,558)
Income taxes paid		(32,211)	(24,570)
<b>Net cash provided by operating activities</b>	2.7(b)	<b>188,701</b>	<b>111,417</b>
<b><i>Cash flows from investing activities</i></b>			
Acquisition of property, plant and equipment		(23,897)	(23,497)
Acquisition of enterprise resource planning system		(4,530)	(6,997)
Acquisition of other intangible assets		-	(1,452)
<b>Net cash used in investing activities</b>		<b>(28,427)</b>	<b>(31,946)</b>
<b><i>Cash flows from financing activities</i></b>			
Repayments of borrowings		(148,701)	(79,500)
Proceeds from borrowings		123,701	146,500
Dividends paid	2.6	(123,843)	(144,911)
<b>Net cash used in financing activities</b>		<b>(148,843)</b>	<b>(77,911)</b>
<b>Net increase in cash and cash equivalents</b>		<b>11,431</b>	<b>1,560</b>
Cash and cash equivalents, net of overdrafts at 1 July		56,127	52,689
Effect of exchange rate fluctuations on cash held		4,650	1,878
<b>Cash and cash equivalents, net of overdrafts at 30 June</b>	2.7(a)	<b>72,208</b>	<b>56,127</b>

The notes on pages 73 to 102 are an integral part of these consolidated financial statements.

## Notes to the Financial Statements Cochlear Limited and its controlled entities for the year ended 30 June 2015

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### 1. Basis of preparation

This section sets out the Company's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

#### 1.1 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 2015 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.

#### 1.2 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 Board of directors approved the consolidated financial statements on 11 August 2015.

##### (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 fair value measurement method of derivative instruments is discussed further in Note 6.4(d).

##### (c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars (AUD), 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 AUD has been rounded to the nearest one thousand dollars unless otherwise stated.

##### (d) Foreign currency

###### *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of 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 are translated to the Company's functional currency at foreign exchange rates ruling at the reporting date.

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

Foreign currency differences arising from translation of controlled entities are recognised in the foreign currency translation reserve (translation reserve) in equity. 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 in other comprehensive income, and presented in the translation reserve.

##### (e) 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 the 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 financial year in which the estimate is revised and in any future years affected.

## Notes to the Financial Statements Cochlear Limited and its controlled entities for the year ended 30 June 2015

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### 1. Basis of preparation (continued)

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 critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

Note 4.2 – Employee benefit liabilities

Note 4.3 – Share based payments

Note 5.3 – Intangible assets

Note 5.4 – Provisions

Note 5.5 – Contingent liabilities

Note 6.4 – Financial risk management.

#### (f) Basis of consolidation

##### *Controlled entities*

The Consolidated Entity controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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.

##### *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised 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 investment purposes. A SPE is consolidated if 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.

#### (g) Changes to the presentation of the financial statements and notes to the financial statements

To make the financial statements and notes easier to understand, Cochlear has changed the location and wording used to describe certain accounting policies within the notes, reordered certain sections and removed immaterial disclosures. In applying materiality to financial statement disclosures, Cochlear consider both the nature and amount of each item.

#### (h) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST. Where the amount of GST incurred is not recoverable from the taxation authority, 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.

## 2. Performance for the year

### 2.1 Operating segments

Cochlear's three reportable segments, determined on a geographical basis, are the strategic business units of Cochlear. Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items comprise corporate and other net expenses and corporate and manufacturing assets and liabilities.

Performance is measured based on segment earnings before interest and income tax (EBIT) as included in the internal management reports that are reviewed by Cochlear's CEO/President, who is also the chief operating decision-maker.

## Information about reportable segments

	Americas		EMEA <sup>1</sup>		Asia Pacific		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Reportable segment revenue	402,962	320,800	377,633	358,459	161,305	141,604	<b>941,900</b>	<b>820,863</b>
Reportable segment EBIT	204,879	149,083	172,113	167,182	47,292	43,464	<b>424,284</b>	<b>359,729</b>
Reportable segment assets	149,767	111,592	225,300	194,073	89,096	81,231	<b>464,163</b>	<b>386,896</b>
Reportable segment liabilities	41,524	24,029	42,721	39,174	18,719	13,009	<b>102,964</b>	<b>76,212</b>
<b>Other material items</b>								
Depreciation and amortisation	865	850	2,097	1,997	1,180	920	<b>4,142</b>	<b>3,767</b>
Write-down in value of inventories	14	310	534	112	308	133	<b>856</b>	<b>555</b>
Acquisition of non-current assets	351	478	1,842	2,547	347	568	<b>2,540</b>	<b>3,593</b>

1. Europe, Middle East and Africa.

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

Revenues	Cochlear implants excluding sound processor upgrades \$000	Sound processor upgrades \$000	Total Cochlear implants \$000	Bone anchored and acoustic implants \$000	Reportable segment revenue \$000	Foreign exchange losses on hedged sales \$000	Consolidated revenue \$000
2015	664,680	162,124	<b>826,804</b>	115,096	<b>941,900</b>	(16,270)	<b>925,630</b>
2014	612,738	108,024	<b>720,762</b>	100,101	<b>820,863</b>	(15,927)	<b>804,936</b>
Profit or loss	Reportable segment EBIT \$000	Corporate and other net expenses \$000	Foreign exchange losses on hedged sales \$000	Patent dispute provision \$000	Net finance expense \$000	Consolidated profit before income tax \$000	
2015	424,284	(201,606)	(16,270)	-	(10,105)	<b>196,303</b>	
2014	359,729	(194,166)	(15,927)	(22,545)	(9,977)	<b>117,114</b>	
Assets and liabilities	Reportable segment assets \$000	Corporate and manufacturing assets \$000	Consolidated total assets \$000	Reportable segment liabilities \$000	Corporate and manufacturing liabilities \$000	Consolidated total liabilities \$000	
2015	464,163	404,893	<b>869,056</b>	102,964	410,706	<b>513,670</b>	
2014	386,896	402,140	<b>789,036</b>	76,212	383,619	<b>459,831</b>	
Other material items	Reportable segment total		Corporate and manufacturing total		Consolidated total		
	2015 \$000	2014 \$000	2015 \$000	2014 \$000	2015 \$000	2014 \$000	
Depreciation and amortisation	4,142	3,767	26,110	23,088	<b>30,252</b>	<b>26,855</b>	
Write-down in value of inventories	856	555	9,269	981	<b>10,125</b>	<b>1,536</b>	
Acquisition of non-current assets	2,540	3,593	25,887	28,353	<b>28,427</b>	<b>31,946</b>	

## Notes to the Financial Statements Cochlear Limited and its controlled entities for the year ended 30 June 2015

### 2.2 Revenue

Sales revenue is revenue earned from the provision of products or services, net of returns, discounts and allowances.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

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 Note 6.4.

	2015 \$000	2014 \$000
Sale of goods before hedging	931,390	813,004
Foreign exchange losses on hedged sales	(16,270)	(15,927)
<b>Revenue from sale of goods</b>	<b>915,120</b>	<b>797,077</b>
Rendering of services	10,510	7,859
<b>Total revenue</b>	<b>925,630</b>	<b>804,936</b>

### 2.3 Expenses

	2015 \$000	2014 \$000
<b>(a) Cost of sales</b>		
Carrying amount of inventories recognised as an expense	256,593	239,462
Other	8,602	7,287
Write-down in value of inventories	10,125	1,536
<b>Total cost of sales</b>	<b>275,320</b>	<b>248,285</b>
<b>(b) Other expenses</b>		
Net foreign exchange loss	-	3,112
<b>Total other expenses</b>	<b>-</b>	<b>3,112</b>
<b>(c) Profit before income tax has been arrived at after charging the following item:</b>		
Operating lease rental expense	24,420	20,415

## 2.4 Other income

Other income, including government grants, is recognised on a systematic basis over the years necessary to match it with the related costs for which it is intended to compensate. If the costs have already been incurred, the amount is recognised in the year the entitlement is confirmed.

	2015	2014
	\$000	\$000
Grant received or due and receivable	1,809	1,378
Net foreign exchange gain	1,178	-
Other income	1,441	1,154
<b>Total other income</b>	<b>4,428</b>	<b>2,532</b>

## 2.5 Earnings per share

Cochlear presents basic and diluted earnings per share (EPS) for its ordinary shares.

### Basic earnings per share

The calculation of basic EPS has been based on the following net profit attributable to equity holders of the parent entity and weighted average number of ordinary shares of the Company:

	2015	2014
Net profit attributable to equity holders of the parent entity	\$145,840,000	\$93,709,000
<i>Weighted average number of ordinary shares (basic):</i>		
Issued ordinary shares at 1 July (number)	56,937,519	56,915,289
Effect of options and performance shares exercised (number)	-	599
Effect of shares issued under Employee Share Plan (number)	13,693	14,848
<b>Weighted average number of ordinary shares (basic) at 30 June</b>	<b>56,951,212</b>	<b>56,930,736</b>
<b>Basic earnings per share (cents)</b>	<b>256.1</b>	<b>164.6</b>

### Diluted earnings per share

The calculation of diluted EPS has been based on the following net profit attributable to equity holders of the parent entity and weighted average number of shares outstanding after adjustments for the effects of all dilutive potential ordinary shares:

	2015	2014
Net profit attributable to equity holders of the parent entity	\$145,840,000	\$93,709,000
<i>Weighted average number of ordinary shares (diluted):</i>		
Weighted average number of shares (basic) (number)	56,951,212	56,930,736
Effect of options and performance shares and rights unvested (number)	277,028	124,501
<b>Weighted average number of ordinary shares (diluted) at 30 June</b>	<b>57,228,240</b>	<b>57,055,237</b>
<b>Diluted earnings per share (cents)</b>	<b>254.8</b>	<b>164.2</b>

## Notes to the Financial Statements Cochlear Limited and its controlled entities for the year ended 30 June 2015

### 2.6 Dividends

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

	Cents per share	Total amount \$000	Franked/unfranked	Date of payment
Dividends recognised in the current financial year by the Company are:				
<b>2015</b>				
Interim 2015 ordinary	90.0	51,374	35% Franked	26 March 2015
Final 2014 ordinary	127.0	72,469	20% Franked	25 September 2014
<b>Total amount</b>	<b>217.0</b>	<b>123,843</b>		
<b>2014</b>				
Interim 2014 ordinary	127.0	72,469	0% Franked	27 March 2014
Final 2013 ordinary	127.0	72,442	30% Franked	19 September 2013
<b>Total amount</b>	<b>254.0</b>	<b>144,911</b>		
<b>Subsequent event</b>				
Since the end of the financial year, the directors declared the following dividends:				
Final 2015 ordinary	100.0	57,082	100% Franked	1 October 2015
<b>Total amount</b>	<b>100.0</b>	<b>57,082</b>		

The financial effect of the 2015 final dividend will be recognised in the subsequent financial year as it was declared after 30 June 2015.

#### Dividend franking account

Franked dividends paid during the financial year were franked at the tax rate of 30% (2014: 30%). There are no further tax consequences as a result of paying dividends other than a reduction in the franking account.

At 30 June 2015, there are \$21,820,000 franking credits (2014: \$2,392,000) available to shareholders of Cochlear Limited for subsequent financial years.

The dividend franking account at year end is 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 \$24,463,618 (2014: \$6,211,608).

Dividends in excess of the dividend franking account balance will be unfranked.

## 2.7 Notes to the statement of cash flows

### (a) 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.

Cash and cash equivalents at the reporting date as shown in the statement of cash flows are as follows:

	2015 \$000	2014 \$000
Cash on hand	46,864	41,432
Cash on deposit	25,344	14,695
<b>Cash and cash equivalents</b>	<b>72,208</b>	<b>56,127</b>
<b>(b) Reconciliation of net profit to net cash provided by operating activities</b>		
Net profit	145,840	93,709
<i>Add items classified as investing activities:</i>		
Loss on disposal of property, plant and equipment	617	2,611
<i>Add non-cash items:</i>		
Depreciation and amortisation	30,252	26,855
Reversal of impairment of property, plant and equipment	-	(6,346)
Equity settled share based payment transactions	6,004	4,971
<b>Net cash provided by operating activities before changes in assets and liabilities</b>	<b>182,713</b>	<b>121,800</b>
<i>Changes in assets and liabilities:</i>		
Change in trade and other receivables	(39,358)	(10,119)
Change in inventories	(17,248)	2,961
Change in prepayments	(1,168)	(1,582)
Change in deferred tax assets	(5,536)	(2,706)
Change in trade and other payables	21,214	(3,230)
Change in current tax assets/liabilities	17,197	47
Change in employee benefit liabilities	14,885	2,206
Change in provisions	(1,049)	6,965
Change in deferred revenue	5,434	(7,355)
Effects of movements in foreign exchange	11,617	2,430
<b>Net cash provided by operating activities</b>	<b>188,701</b>	<b>111,417</b>

The operating cash account received an average interest rate of 0.58% (2014: 0.58%) per annum. Cash held on deposit for periods not exceeding 90 days received an average interest rate of 1.70% (2014: 1.77%) per annum.

## Notes to the Financial Statements Cochlear Limited and its controlled entities for the year ended 30 June 2015

### 3. Income taxes

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

#### 3.1 Income tax expense

Income tax expense includes current and deferred tax. Current and deferred tax are recognised in the income statement except to the extent that they relate to items recognised directly in other comprehensive income or equity.

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

#### Income tax expense recognised in the income statement

	Current year	Adjustment for prior years	Total current tax expense	Origination and reversal of temporary differences	Total deferred tax benefit	Total income tax expense
	\$000	\$000	\$000	\$000	\$000	\$000
2015	54,051	1,028	55,079	(4,616)	(4,616)	50,463
2014	25,412	(420)	24,992	(1,587)	(1,587)	23,405

#### Consolidated Entity – Numerical reconciliation between income tax expense and profit before income tax

	Reported 2015 \$000	Reported 2014 \$000	Patent dispute provision 2014 \$000	Before patent dispute provision 2014 \$000
<b>Profit before income tax</b>	<b>196,303</b>	<b>117,114</b>	<b>22,545</b>	<b>139,659</b>
Tax at the Australian tax rate of 30% (2014: 30%)	58,891	35,134	6,764	41,898
<i>Increase in income tax expense due to:</i>				
Non-deductible expenses	1,252	1,080	-	1,080
<i>Decrease in income tax expense due to:</i>				
Research and development allowances	(9,029)	(11,221)	-	(11,221)
Effect of tax rate in foreign jurisdictions	(1,679)	(1,168)	-	(1,168)
	49,435	23,825	6,764	30,589
Adjustment for prior years	1,028	(420)	-	(420)
<b>Income tax expense on profit before income tax</b>	<b>50,463</b>	<b>23,405</b>	<b>6,764</b>	<b>30,169</b>

#### Tax expense relating to items relating to other comprehensive (loss)/income or equity

	Note	2015 \$000	2014 \$000
Total deferred tax recognised in other comprehensive (loss)/income relating to derivative financial instruments	3.2	(9,010)	7,353
Total deferred tax recognised directly in equity relating to share based payments	3.2	(920)	(1,119)

Cochlear Limited's Australian tax-consolidated group – Numerical reconciliation between income tax expense and profit before income tax

	Reported 2015 \$000	Reported 2014 \$000	Patent dispute provision 2014 \$000	Before patent dispute provision 2014 \$000
<b>Profit before income tax (excluding dividends from wholly owned foreign subsidiaries)</b>	<b>154,528</b>	<b>65,608</b>	<b>22,545</b>	<b>88,153</b>
Add: Dividends from wholly owned foreign subsidiaries	14,068	71,570	-	71,570
<b>Profit before income tax</b>	<b>168,596</b>	<b>137,178</b>	<b>22,545</b>	<b>159,723</b>
Tax at the Australian tax rate of 30% (2014: 30%)	50,579	41,153	6,764	47,917
<b>Increase in income tax expense due to:</b>				
Controlled foreign company income	851	1,086	-	1,086
<b>Decrease in income tax expense due to:</b>				
Research and development allowances	(8,417)	(10,507)	-	(10,507)
Exempt foreign sourced dividends from wholly owned subsidiaries	(4,220)	(21,471)	-	(21,471)
Other non-assessable income	(1,037)	(372)	-	(372)
	37,756	9,889	6,764	16,653
Adjustment for prior years	(321)	(1,210)	-	(1,210)
<b>Income tax expense on profit before income tax</b>	<b>37,435</b>	<b>8,679</b>	<b>6,764</b>	<b>15,443</b>

### 3.2 Current and deferred tax assets and liabilities

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes.

The measurement of deferred tax mirrors the tax consequences that the Consolidated Entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse.

A deferred tax asset is recognised 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 if it is no longer probable that the related tax benefit will be realised.

#### Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2015 \$000	2014 \$000	2015 \$000	2014 \$000	2015 \$000	2014 \$000
Property, plant and equipment	98	3,608	(1,523)	(977)	(1,425)	2,631
Intangible assets	57	53	(1,893)	(1,610)	(1,836)	(1,557)
Inventories	23,575	17,519	-	-	23,575	17,519
Provisions	30,338	29,665	-	-	30,338	29,665
Deferred revenue	1,380	792	-	-	1,380	792
Forward exchange contracts	8,808	-	-	(229)	8,808	(229)
Other	10,244	5,806	(2,930)	(2,984)	7,314	2,822
Tax losses carried forward	563	1,118	-	-	563	1,118
<b>Deferred tax assets/(liabilities)</b>	<b>75,063</b>	<b>58,561</b>	<b>(6,346)</b>	<b>(5,800)</b>	<b>68,717</b>	<b>52,761</b>
Set off of tax	(6,346)	(5,800)	6,346	5,800	-	-
<b>Net deferred tax assets</b>	<b>68,717</b>	<b>52,761</b>	<b>-</b>	<b>-</b>	<b>68,717</b>	<b>52,761</b>

## Notes to the Financial Statements Cochlear Limited and its controlled entities for the year ended 30 June 2015

### 3.2 Current and deferred tax assets and liabilities (continued)

#### Unrecognised deferred tax liabilities

At 30 June 2015, a deferred tax liability of \$16.7 million (2014: \$37.6 million) relating to investments in subsidiaries has not been recognised because the Company controls whether the asset will be recovered or the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

#### Movement in temporary differences during the year

	Note	2015 \$000	2014 \$000
Carrying amount at beginning of financial year		52,761	57,422
Recognised in the income statement	3.1	4,616	1,587
Recognised in other comprehensive (loss)/income	3.1	9,010	(7,353)
Recognised directly in equity	3.1	920	1,119
Effects of movements in foreign exchange		1,410	(14)
<b>Carrying amount at end of financial year</b>		<b>68,717</b>	<b>52,761</b>

#### Current tax assets and liabilities

The current tax assets for the Consolidated Entity of \$3.6 million (2014: \$8.6 million) represent the amount of income taxes recoverable in respect of current and prior years 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 \$20.6 million (2014: \$8.4 million) represent the amount of income taxes payable in respect of current and prior financial years.

## 4. Employee benefits

### 4.1 Employee expenses

	2015 \$000	2014 \$000
Wages and salaries	243,822	233,432
Contributions to superannuation plans	19,007	17,633
Increase in leave liabilities	2,806	488
Equity settled share based payment transactions	6,004	4,971
End of service payment	1,548	-
<b>Total employee expenses</b>	<b>273,187</b>	<b>256,524</b>

### 4.2 Employee benefit liabilities

#### Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave are recognised in other payables and provisions if Cochlear has a present obligation to pay an amount as a result of past services provided by the employee. The liability is calculated on remuneration rates as at the reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

#### Long service leave

The provision for long service leave is the present value of the estimated future cash outflows as a result of services provided by the employee 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 corporate bond rates which most closely match the terms to maturity of the related liabilities.

### Defined benefit plans

The defined benefit obligations are calculated annually by a qualified actuary using the projected unit credit method. Remeasurements of the net defined benefit liability (excluding interest) are recognised immediately in other comprehensive income.

The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the opening net defined benefit liability (asset), adjusted for any changes in the net defined benefit liability (asset) during the period resulting from contributions and benefit payments. Net interest expense related to defined benefit plans is recognised in the income statement.

These defined benefit plans cover, in aggregate, 91 employees. Cochlear contributed cash of \$1.3 million (2014: \$1.1 million) to defined benefit plans in the year ended 30 June 2015 and expects to contribute \$2.0 million in the year ending 30 June 2016.

### 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 2015, Prof E Byrne, AC is the only non-executive director entitled to this benefit.

	2015 \$000	2014 \$000
<b>Current</b>		
Provision for long service leave	7,370	6,016
Provision for annual leave	18,582	17,035
Provision for short-term incentives	15,723	8,014
Provision for end of service	1,548	-
<b>Total current employee benefit liabilities</b>	<b>43,223</b>	<b>31,065</b>
<b>Non-current</b>		
Provision for long service leave	5,105	5,200
Defined benefit plan	5,941	3,130
Provision for directors' retirement scheme	433	422
<b>Total non-current employee benefit liabilities</b>	<b>11,479</b>	<b>8,752</b>
<b>Total employee benefit liabilities</b>	<b>54,702</b>	<b>39,817</b>

### 4.3 Share based payments

From 1 July 2013, the Company grants options and performance rights to certain employees under the Cochlear Executive Incentive Plan (CEIP). Prior to July 2013, the Company granted options and performance shares to certain employees under the Cochlear Executive Long Term Incentive Plan (CELTIP).

The fair value of options, performance shares and performance rights granted is recognised as an employee expense, with a corresponding increase in equity. The expense is adjusted by the actual number of options, shares and rights that are expected to vest except where forfeiture is due to market related conditions.

The fair value is measured using the Black-Scholes-Merton pricing model at the date the options, performance shares or performance rights are granted, taking into account market based criteria and the terms and conditions attached to the instruments. The options, performance shares or performance rights are expensed over the vesting period after which the employees become unconditionally entitled to them.

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 in the Company's accounts.

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.

## Notes to the Financial Statements Cochlear Limited and its controlled entities for the year ended 30 June 2015

### 4.3 Share based payments (continued)

At 30 June 2015, unissued ordinary shares of the Company under option and rights, and issued shares held in the Trust and the terms and conditions of the grants and issues are as follows:

Grant date	Exercise price of options	Number of options	Number of performance shares	Number of performance rights	Contractual life
August 2012 <sup>1</sup>	\$62.78	685,796	62,092	-	5 years
October 2013 <sup>1</sup>	\$59.13	214,075	-	16,419	4 years
August 2014 <sup>2</sup>	N/A	-	-	33,952	2 years
October 2014 <sup>1</sup>	\$68.56	138,963	-	30,523	4 years
<b>Total</b>		<b>1,038,834</b>	<b>62,092</b>	<b>80,894</b>	

1. Options and performance shares/rights offered under long-term incentives.

2. Performance rights offered under deferred short-term incentives.

Grants are split between short-term incentives (STI) and long-term incentives (LTI). For STI, certain employees under the CEIP are granted performance rights based on achievement of a mandatory portion of their STI. Grants are calculated at the end of each year and then held for two years until vesting.

Grants under LTI are in two equal tranches assigned to compound annual growth in EPS and ranking of TSR against the S&P/ASX 100. The conditions for minimum vesting are three years of service and:

- a minimum compound annual growth rate in EPS of 10% assigned to 50% of grant; or
- the Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years assigned to 50% of grant.

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

	14 October 2014		12 August 2014	15 October 2013	
	EPS performance based conditions	TSR based conditions	STI deferral service based conditions	EPS performance based conditions	TSR based conditions
Fair value of options at grant date	\$11.93	\$11.33	-	\$11.38	\$9.93
Fair value of performance rights at grant date	\$61.33	\$39.21	\$63.11	\$53.22	\$28.85
Share price at valuation date	\$67.85	\$67.85	\$67.85	\$58.42	\$58.42
Option exercise price	\$68.56	\$68.56	-	\$59.13	\$59.13
Expected volatility (weighted average volatility)	29.49%	29.49%	29.49%	31.83%	31.83%
Option life	3 - 4 years	3 - 4 years	2 years	3 - 4 years	3 - 4 years
Expected dividends	3.48%	3.48%	3.48%	3.20%	3.20%
Risk free interest rate (based on government bonds)	2.54%	2.54%	2.54%	2.51%	2.51%

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
	2015	2015	2014	2014
Outstanding at 1 July	\$64.18	1,416,328	\$65.98	1,738,000
Forfeited	\$68.13	(516,457)	\$67.83	(545,986)
Exercised	-	-	-	-
Granted	\$68.56	138,963	\$59.13	224,314
<b>Outstanding at 30 June</b>	<b>\$62.80</b>	<b>1,038,834</b>	<b>\$64.18</b>	<b>1,416,328</b>
Exercisable at 30 June	-	-	-	-

No options were exercised in 2015 (2014: no options were exercised). The weighted average remaining contractual life of options outstanding at the end of the year is three years (2014: three years).

#### Employee Share Plan

Cochlear's Employee Share Plan (Plan) was approved by special resolution at the AGM 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. In practice, the directors issue shares worth up to the tax concessional limit, currently \$1,000 per eligible employee each 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 2015, the Company issued 19,755 shares under the Plan; see Note 6.2.

#### 4.4 Key management personnel

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

##### Non-executive directors

Mr R Holliday-Smith (Chairman), Mrs YA Allen, Mr PR Bell<sup>1</sup>, Mr G Boreham, AM<sup>2</sup>, Prof E Byrne, AC, Ms A Deans<sup>2</sup>, Mr A Denver and Mr DP O'Dwyer.

##### Executive director

Dr CG Roberts

##### Other executive KMP

Mr R Brook, Mr D Howitt<sup>3</sup>, Mr J Janssen, Mr NJ Mitchell, Mr MD Salmon<sup>4</sup> and Mr CM Smith.

1. Retired on 17 October 2014, therefore only KMP for the period from 1 July 2014 to 17 October 2014.

2. KMP for the period from 1 January 2015 to 30 June 2015.

3. KMP for the period from 29 September 2014 to 30 June 2015.

4. Retired on 26 September 2014, therefore only KMP for the period from 1 July 2014 to 26 September 2014.

#### Key management personnel disclosures

The KMP compensation is included in employee expenses as follows:

	Short-term employee benefits	Post-employment benefits	Other long-term benefits	Directors' retirement benefits	Share based payments	End of service provision	Total
	\$	\$	\$	\$	\$	\$	\$
2015	9,021,013	444,445	65,942	10,729	3,017,836	1,548,418	<b>14,108,383</b>
2014	7,207,457	388,273	100,918	10,902	1,821,874	-	<b>9,529,424</b>

Information regarding individual KMP 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 41 to 65.

The KMP have not received any loans from Cochlear and there have been no other related party transactions with any of Cochlear's KMP.

## Notes to the Financial Statements Cochlear Limited and its controlled entities for the year ended 30 June 2015

### 5. Operating assets and liabilities

#### 5.1 Inventories

Inventories are measured at the lower of cost and net realisable value.

Cost is based on the first-in-first-out principle including 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 production overheads based on normal operating capacity.

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.

	Raw materials \$000	Work in progress \$000	Finished goods \$000	Total inventories \$000
2015	40,315	20,162	85,384	<b>145,861</b>
2014	40,593	19,214	68,806	<b>128,613</b>

#### 5.2 Property, plant and equipment

##### Owned assets

The value of property, plant and equipment is measured as the cost of the asset, minus accumulated depreciation and impairment losses (see Note 5.3). The cost of the asset is the consideration provided plus incidental costs directly attributable to the acquisition.

The value of self-constructed assets includes the cost of material and direct labour 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 capitalised in the carrying amount of the item if it is probable that future economic benefits will flow to Cochlear and its cost can be measured reliably. All other costs are recognised in the income statement as incurred.

##### Leased assets

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 to expense the cost of items of property, plant and equipment less their estimated residual values on a straight-line basis over their estimated useful lives. The estimated useful lives in the current and comparative years are as follows: leasehold improvements between one to 15 years and plant and equipment three to 14 years.

Depreciation is recognised in the income statement from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Depreciation rates and methods, useful lives and residual values are reviewed at each balance sheet date. When changes are made, adjustments are reflected prospectively in current and future financial years only.

### Total property, plant and equipment at net book value

	Leasehold improvements		Plant and equipment		Total net book value	
	2015 \$000	2014 \$000	2015 \$000	2014 \$000	2015 \$000	2014 \$000
At cost	32,325	26,458	193,703	180,780	226,028	207,238
Accumulated depreciation	(20,941)	(18,511)	(124,278)	(112,951)	(145,219)	(131,462)
<b>Net book value</b>	<b>11,384</b>	<b>7,947</b>	<b>69,425</b>	<b>67,829</b>	<b>80,809</b>	<b>75,776</b>
<i>Reconciliations of the carrying amounts are:</i>						
Opening balance	7,947	6,444	67,829	59,454	75,776	65,898
Additions	4,796	3,256	19,101	20,241	23,897	23,497
Disposals	-	-	(617)	(2,611)	(617)	(2,611)
Depreciation	(1,867)	(1,868)	(18,005)	(15,580)	(19,872)	(17,448)
Impairment reversal	-	-	-	6,346	-	6,346
Effect of movements in foreign exchange	508	115	1,117	(21)	1,625	94
<b>Net book value</b>	<b>11,384</b>	<b>7,947</b>	<b>69,425</b>	<b>67,829</b>	<b>80,809</b>	<b>75,776</b>

#### Impairment reversal

During the year ended 30 June 2014, plant and equipment previously impaired due to the product recall was reassessed. Of the \$14.0 million impaired, \$6.3 million was reversed as it can be used with the Nucleus Profile cochlear implant. Cochlear increased the product recall provision by this amount to cover the uncertain outcomes.

For the year ended 30 June 2015, there was no further reversal of impairment.

### 5.3 Intangible assets

#### Goodwill

All business combinations are accounted for by applying the acquisition 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 tested annually for impairment.

#### Enterprise resource planning system

System costs are recognised as an intangible asset where Cochlear controls future economic benefits as a result of the costs incurred, and are stated at cost less accumulated amortisation. Costs include expenditure directly related to the development and implementation (hardware and software costs) of the system including direct labour.

#### Other intangible assets

Other intangible assets, comprising acquired technology, patents and licences, customer relationships, capitalised development expenditure and intellectual property, are acquired individually or through business combinations and are stated at cost less accumulated amortisation and impairment losses (see below).

Both customer relationships and capitalised development expenditure had a written down value of nil as at 30 June 2015.

#### Amortisation

Amortisation is calculated to expense the cost of the intangible asset less its estimated residual values on a straight-line basis over their estimated useful lives. The estimated useful lives for the current and comparative years are as follows: acquired technology, patents and licences are between four to 15 years and enterprise resource planning system between two to seven years.

Amortisation is recognised in the income statement from the date the assets are available for use unless their lives are indefinite.

Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment annually.

## Notes to the Financial Statements Cochlear Limited and its controlled entities for the year ended 30 June 2015

### 5.3 Intangible assets (continued)

	Intangible assets with indefinite useful life		Intangible assets with finite useful life			Intangible assets
	Goodwill	Technology relationship	Enterprise resource planning system	Acquired technology, patents and licences	Other intangible assets	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>2015</b>						
At cost	170,503	1,800	73,278	64,110	16,936	<b>326,627</b>
Accumulated amortisation	-	-	(47,419)	(34,802)	(15,875)	<b>(98,096)</b>
<b>Net book value</b>	<b>170,503</b>	<b>1,800</b>	<b>25,859</b>	<b>29,308</b>	<b>1,061</b>	<b>228,531</b>
<i>Reconciliations of the carrying amounts are:</i>						
Opening balance	170,259	1,800	28,243	32,498	1,315	<b>234,115</b>
Acquisitions	-	-	4,530	-	-	<b>4,530</b>
Amortisation	-	-	(6,920)	(3,165)	(295)	<b>(10,380)</b>
Effect of movements in foreign exchange	244	-	6	(25)	41	<b>266</b>
<b>Net book value</b>	<b>170,503</b>	<b>1,800</b>	<b>25,859</b>	<b>29,308</b>	<b>1,061</b>	<b>228,531</b>
<b>2014</b>						
At cost	170,259	1,800	67,968	64,176	16,224	<b>320,427</b>
Accumulated amortisation	-	-	(39,725)	(31,678)	(14,909)	<b>(86,312)</b>
<b>Net book value</b>	<b>170,259</b>	<b>1,800</b>	<b>28,243</b>	<b>32,498</b>	<b>1,315</b>	<b>234,115</b>
<i>Reconciliations of the carrying amounts are:</i>						
Opening balance	170,959	1,800	27,327	34,078	1,610	<b>235,774</b>
Acquisitions	-	-	6,997	1,452	-	<b>8,449</b>
Amortisation	-	-	(6,086)	(3,030)	(291)	<b>(9,407)</b>
Effect of movements in foreign exchange	(700)	-	5	(2)	(4)	<b>(701)</b>
<b>Net book value</b>	<b>170,259</b>	<b>1,800</b>	<b>28,243</b>	<b>32,498</b>	<b>1,315</b>	<b>234,115</b>

#### Impairment

Cochlear annually tests goodwill and other intangible assets with indefinite useful life for impairment. Other non-financial assets, other than inventories (see Note 5.1) and deferred tax assets (see Note 3.2), are tested if there is any indication of impairment or if there is any indication that an impairment loss recognised in a prior period may no longer exist or may have decreased.

Assets are impaired if their carrying value exceeds their recoverable amount. The asset's recoverable amount is estimated based on its value in use.

An asset that does not generate independent cash flows and its individual value in use cannot be estimated is tested for impairment as part of a cash generating unit (CGU).

An impairment loss is recognised in the income statement when the carrying amount of an asset or CGU exceeds its recoverable amount. 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. An impairment loss in respect of goodwill is not reversed.

### Impairment tests for CGUs

Cochlear allocates goodwill and other intangible assets to CGUs based on the expected benefits that each CGU will receive from use of those assets.

The aggregate carrying amounts of goodwill allocated to each CGU are:

	Americas \$000	EMEA \$000	Asia Pacific \$000	Total \$000
2015	85,540	74,918	10,045	170,503
2014	85,808	74,553	9,898	170,259

The recoverable amount of each CGU is based on value-in-use calculations. Those calculations use five year cash flow projections based on actual operating results, the next year's budget and the mid-term business plan. Cash flows for year 6 onwards are extrapolated using a conservative terminal growth rate of 3.0% (2014: 3.0%) per annum which is consistent with long-term economic growth rates. The pre-tax discount rate for each CGU is as follows: Americas 14.7% (2014: 14.4%), EMEA 12.3% (2014: 12.1%) and Asia Pacific 14.1% (2014: 12.3%).

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

Assumption	How determined
Discount rate	Based on weighted average cost of capital reflecting current market assessments of the time value of money and risks specific to the CGU.
Sales volume growth rate	Based on a five year cash flow projection taking into account historical growth rates and product lifecycle.
Terminal value growth rate	Based on a five year cash flow projection taking into account historical growth rates and product lifecycle.

The recoverable amount of each CGU including unallocated corporate assets is in excess of the 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.

### 5.4 Provisions

A provision is recognised in the balance sheet when:

- Cochlear has a present obligation (legal or constructive) as a result of a past event;
- a reliable estimate can be made of the amount of the obligation; 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.

2015	Warranties \$000	Legal and insurance \$000	Product recall \$000	Make good lease costs \$000	Patent dispute \$000	Total \$000
Opening balance	21,551	4,465	21,607	2,139	21,333	71,095
Provision made	32,249	2,055	-	65	-	34,369
Provision used	(29,598)	(1,534)	(5,689)	-	-	(36,821)
Effect of movements in foreign exchange	1,371	26	-	6	-	1,403
<b>Total provisions</b>	<b>25,573</b>	<b>5,012</b>	<b>15,918</b>	<b>2,210</b>	<b>21,333</b>	<b>70,046</b>
<i>Represented by:</i>						
Current	17,884	5,012	3,691	65	-	26,652
Non-current	7,689	-	12,227	2,145	21,333	43,394
<b>Total provisions</b>	<b>25,573</b>	<b>5,012</b>	<b>15,918</b>	<b>2,210</b>	<b>21,333</b>	<b>70,046</b>

## Notes to the Financial Statements Cochlear Limited and its controlled entities for the year ended 30 June 2015

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### 5.4 Provisions (continued)

#### **Warranties**

A provision for warranty claims is recognised 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.

#### **Legal and insurance**

##### ***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. They 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.

##### **Product recall**

On 11 September 2011, the Company initiated a worldwide voluntary recall of its unimplanted Nucleus CI500 cochlear implant range. 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.

No amount has been recognised as a charge or released as a credit in the year ended 30 June 2015.

##### **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 their original condition. The operating lease payments do not include an element for the repairs and overhauls.

##### **Patent dispute**

In a trial of the patent infringement lawsuit by the Alfred E. Mann Foundation for Scientific Research and Advanced Bionics LLC in January 2014, a Jury found that Cochlear Limited and its US subsidiary Cochlear Americas infringed four claims across two patents, the infringement was wilful and awarded United States dollars (USD) 131,216,325 in damages.

On 1 April 2015, a Judge in the United States District Court in Los Angeles, California held that three of the four patent claims were invalid and Cochlear's infringement of the remaining claim was not wilful. The Judge overturned the damages awarded because three of the four claims were held to be invalid. On 21 April 2015, the Court entered Judgment on liability only and stayed a new trial on damages pending the outcome of the appeal by all parties from the Judgment to the United States Court of Appeals for the Federal Circuit.

As the patents have expired, the Judgment will not disrupt Cochlear's business or customers in the United States.

The directors have obtained external advice and are of the opinion that the facts and the law do not support the Court's decision on infringement of the one remaining claim.

The nature of the above legal process is such that final future outcomes are uncertain. The directors have made judgements and assumptions relating to their best estimate of the outcome of this litigation and actual outcomes may differ from the estimated liability.

A provision was expensed in the half year ended 31 December 2013 in relation to this dispute. No additional amount has been provided since that initial provision. For the purpose of determining this provision, Cochlear considered its independent damages expert's assessment prepared for the trial to estimate the liability that could result from the dispute.

### 5.5 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 is currently and is likely from time to time to be involved in claims and lawsuits incidental to the ordinary course of business, including claims for damages relating to its products and services.

In addition, Cochlear has received (and is likely to continue to receive in diminishing numbers) legal claims in various countries and lawsuits in the United States by recipients who have had Cochlear implant CI500 series devices stop functioning for the reason that led to the September 2011 voluntary recall of unimplanted CI500 series devices. The substantial majority of claims and lawsuits received have been settled, leaving a minority still pending.

Cochlear carries product liability insurance and has sought indemnification against claims under the policies. The insurers have agreed to indemnify Cochlear in accordance with the terms and conditions of the policies 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.

## 6. Capital and financial structure

### 6.1 Capital management

Cochlear's capital management objectives are to safeguard its ability to continue as a going concern, provide returns to shareholders, provide benefits to other stakeholders and 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 gearing 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
- 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.

Senior management tracks, manages and reports against these capital management metrics periodically as part of broader corporate governance responsibilities. The Board undertakes periodic reviews 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.

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.

Neither the Company 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 gearing ratio was as follows:

	Note	2015 \$000	2014 \$000
Net debt	6.3	140,503	181,288
Total equity		355,386	329,205
<b>Net gearing ratio at 30 June</b>		<b>28%</b>	<b>36%</b>

### 6.2 Capital and reserves

#### Share capital

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

	Number of issued shares in market circulation		Number of shares held in Trust		Total number of issued shares	
	2015	2014	2015	2014	2015	2014
On issue 1 July – fully paid	56,937,519	56,915,289	124,501	125,643	57,062,020	57,040,932
Issued for nil consideration under Employee Share Plan	19,755	21,088	-	-	19,755	21,088
Performance shares issued from Trust	-	1,142	-	(1,142)	-	-
<b>On issue 30 June – fully paid</b>	<b>56,957,274</b>	<b>56,937,519</b>	<b>124,501</b>	<b>124,501</b>	<b>57,081,775</b>	<b>57,062,020</b>

Cochlear has also issued shares to employees under the Employee Share Plan (see Note 4.3).

Ordinary shares are classified as equity and 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.

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.

## Notes to the Financial Statements Cochlear Limited and its controlled entities for the year ended 30 June 2015

### 6.2 Capital and reserves (continued)

#### 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. Shares purchased by the Trust 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 the share based payment reserve.

#### 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 1.2(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, options, performance shares and performance rights granted to eligible executives under the CELTIP and CEIP, as detailed in Note 4.3 less any payments made to meet Cochlear's obligations through the acquisition of shares on market, together with any deferred tax asset/liability on such payments.

### 6.3 Net debt and finance costs

#### (a) Net debt

Loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequently, 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.

Debt establishment costs are capitalised and recognised as a reduction in loans and borrowings. They are recorded initially at cost and are amortised over the period of the loan. Included within loans and borrowings is an amount of \$448,093 (2014: \$725,606) in relation to unamortised loan establishment fees.

	Note	2015 \$000	2014 \$000
<b>Loans and borrowings:</b>			
Current		168,159	3,141
Non-current		44,552	234,274
Total loans and borrowings		212,711	237,415
Less: Cash and cash equivalents	2.7(a)	(72,208)	(56,127)
<b>Net debt</b>		<b>140,503</b>	<b>181,288</b>

**(b) Financing arrangements**

	Multi-option bank facilities			Other credit facilities		
	Secured bank loan	Standby letters of credit	Bank guarantees	Unsecured bank overdrafts	Secured bank loan	Bank guarantees
	\$000	\$000	\$000	\$000	\$000	\$000
<b>2015</b>						
Utilised at reporting date	210,000	4,926	2,218	-	3,159	1,370
Not utilised at reporting date	135,000	12,856	-	292	1,579	224
<b>Total facilities</b>	<b>345,000</b>	<b>17,782</b>	<b>2,218</b>	<b>292</b>	<b>4,738</b>	<b>1,594</b>
<b>2014</b>						
Utilised at reporting date	235,000	3,374	2,295	-	3,141	1,066
Not utilised at reporting date	110,000	14,331	-	363	1,570	390
<b>Total facilities</b>	<b>345,000</b>	<b>17,705</b>	<b>2,295</b>	<b>363</b>	<b>4,711</b>	<b>1,456</b>

**Multi-option bank facilities – Secured bank loan**

Cochlear has two bank loan facilities. The first was amended and extended in June 2013 for a period of three years and a total commitment limit of AUD 200.0 million. In December 2013, the total commitment limit was increased to AUD 250.0 million. The facility has an option to allocate a letter of credit sub-facility limit of up to AUD 30.0 million for the purpose of drawing either bank guarantees or letters of credit. This letter of credit sub-limit currently is AUD 5.0 million.

In June 2013, Cochlear negotiated a second loan facility for a period of five years. The facility has a total commitment limit of AUD 115.0 million, made up of an AUD 100.0 million loan sub-facility limit and incorporates an AUD 15.0 million letter of credit facility that was negotiated in August 2011.

Both facilities are secured by interlocking guarantees provided by certain controlled entities. Interest on the facilities is variable and charged at prevailing market rates.

**Other credit facilities****Unsecured bank overdrafts**

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

**Secured bank loan**

Cochlear has a Japanese yen (JPY) 450.0 million loan facility. It is secured by a letter of guarantee and reviewed annually. Interest is charged at prevailing market rates.

**Bank guarantees**

As at 30 June 2015, Cochlear had additional contingent liability facilities denominated in United States dollars (USD), Euros (EUR), Sterling (GBP), Indian rupees and New Zealand dollars totalling AUD 1.6 million (2014: AUD 1.5 million).

**(c) Finance costs**

Interest income is recognised as it accrues in the income statement. Borrowing costs are recognised as they accrue in the income statement as a finance expense.

## Notes to the Financial Statements Cochlear Limited and its controlled entities for the year ended 30 June 2015

### 6.4 Financial risk management

The activities of Cochlear are exposed to a variety of risks, including market risk (comprising currency and interest rate risk), credit risk and liquidity risk. Cochlear's overall risk management program considers the unpredictability of financial markets and seeks to appropriately manage the potential adverse effects on financial performance.

The Board of directors has overall responsibility for the establishment and oversight of the risk management framework. Under instruction of the Board, management has established a Risk Management Committee which is responsible for identifying, assessing and appropriately managing risk throughout Cochlear. Key risks are reported to the Audit Committee on a regular basis.

A Treasury Management Committee has been established to administer aspects of risk management involving currency exposure, cash and funding to manage the impact of short-term fluctuations on Cochlear's earnings.

The Audit Committee oversees how management monitors compliance with Cochlear's risk management framework, policies and procedures and is assisted by Internal Audit which undertakes reviews of key management controls and procedures.

#### (a) 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 by buying and selling forward exchange contracts and incurring financial liabilities, within acceptable parameters, whilst optimising the return, all in accordance with the treasury risk policy.

#### Currency risk

Cochlear is exposed to currencies other than the respective functional currencies of the controlled entities, primarily AUD, USD, EUR, GBP, Swedish kroner (SEK), JPY and Swiss francs (CHF).

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 not hedged.

Cochlear's exposure to foreign currency risk in relation to non-derivative financial instruments was as follows, based upon notional amounts:

Amounts local currency thousands	USD	EUR	GBP	SEK	JPY	CHF
<b>30 June 2015</b>						
Trade receivables	64,746	47,484	6,824	10,384	670,937	881
Secured bank loan	-	-	-	-	(300,000)	-
Trade payables	(14,535)	(4,657)	(5,029)	(58,466)	(87,752)	(2,446)
<b>Gross balance sheet exposure</b>	<b>50,211</b>	<b>42,827</b>	<b>1,795</b>	<b>(48,082)</b>	<b>283,185</b>	<b>(1,565)</b>
<b>30 June 2014</b>						
Trade receivables	65,453	35,167	5,955	5,662	765,565	519
Secured bank loan	-	-	-	-	(300,000)	-
Trade payables	(10,572)	(4,299)	(5,919)	(33,040)	(60,776)	(2,631)
<b>Gross balance sheet exposure</b>	<b>54,881</b>	<b>30,868</b>	<b>36</b>	<b>(27,378)</b>	<b>404,789</b>	<b>(2,112)</b>

### **Derivative assets and liabilities – Forward exchange contracts**

In order to reduce the impact of short-term fluctuations on Cochlear's earnings, Cochlear enters into forward exchange contracts to hedge anticipated sales and purchases in USD, EUR and JPY. The amounts of forward cover taken are in accordance with approved policy and internal forecasts.

In the year ended 30 June 2015, Cochlear designated all forward exchange contracts as cash flow hedges. 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.

At the start of a hedge relationship, Cochlear designates and documents the relationship between the hedging instrument and hedged item. This includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how Cochlear will assess the effectiveness of the hedging relationship. Cochlear regularly assesses whether the hedging instruments are expected to be highly effective in offsetting the changes in the cash flows of the respective hedged items.

Forward exchange contracts are recognised initially at fair value. Subsequently, forward exchange contracts are measured at fair value. Changes in the fair value are recognised directly in equity to the extent that the hedge is effective. The ineffective part of any hedging instrument is recognised immediately in the income statement.

If the forward exchange contract 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.

For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period the hedged forecast transaction affects the income statement and on the same line item as that hedged forecast transaction.

For the year ended 30 June 2015, all cash flow hedges were effective at the reporting date.

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

	Weighted average rate	< 1 year \$000	1 - 2 years \$000	2 - 5 years \$000
<b>30 June 2015</b>				
Sell USD	0.84	164,538	91,800	27,079
Sell EUR	0.67	151,143	87,390	24,167
Sell JPY	89.17	10,335	5,392	1,447
<b>30 June 2014</b>				
Sell USD	0.91	137,518	70,077	20,014
Sell EUR	0.68	102,714	67,665	18,320
Sell JPY	87.27	9,724	4,626	1,220

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 2015, including hedging results and after income tax, by approximately \$2.3 million (2014: \$4.7 million) and decreased Cochlear's equity by \$16.6 million (2014: \$12.9 million). A 10 percent general decrease in the value of the AUD against other foreign currencies would have increased Cochlear's profit by \$8.1 million (2014: \$5.8 million) and increased equity by \$11.6 million (2014: \$14.1 million).

## Notes to the Financial Statements Cochlear Limited and its controlled entities for the year ended 30 June 2015

### 6.4 Financial risk management (continued)

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

AUD 1 =	Average rate		Reporting date spot rate	
	2015	2014	2015	2014
USD	0.844	0.922	0.766	0.937
EUR	0.697	0.679	0.686	0.689
GBP	0.532	0.567	0.487	0.552
SEK	6.483	6.022	6.367	6.311
JPY	95.725	92.916	94.969	95.514

#### **Interest rate risk**

Cochlear is exposed to interest rate risks in Australia and Japan. See Note 6.4(c) for effective interest rates, repayment and repricing analysis of outstanding debt.

At the reporting date, the interest rate profile of Cochlear's interest-bearing financial instruments is financial assets of \$72.2 million (2014: \$56.1 million) and financial liabilities of \$212.7 million (2014: \$237.4 million).

For the year ended 30 June 2015, 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 \$1.3 million (2014: \$1.3 million). A one percent general decrease in interest rates would have had the equal but opposite effect on Cochlear's profit and equity.

#### **(b) 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. Cochlear is exposed to credit risk from its operating activities (primarily from trade and other receivables) and from financing activities, including deposits with financial institutions and foreign exchange contracts. The carrying amounts of these financial assets at year end represent Cochlear's maximum exposure to credit risk.

#### **Credit risk management – Trade and other receivables**

Customer credit risk is managed at a regional level, subject to Board approved policies and procedures. The ageing profile of total receivables balances, individually significant debtors by geographic region, high risk customers and collection activities are reported to management and the Board of directors on a monthly basis. Where high risk customers are identified, regional management is responsible for placing restrictions on future trading, including suspending future shipments and administering dispatches on a prepayment basis.

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.

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

	Americas \$000	EMEA \$000	Asia Pacific \$000	Total \$000
2015	74,153	108,374	54,201	<b>236,728</b>
2014	56,979	91,991	52,325	<b>201,295</b>

Depending on the region, Cochlear's credit terms are generally 30 days; however, there are certain jurisdictions where it is customary practice for customers to make payment beyond 270 days. Although Cochlear discloses the balance as overdue, it is not indicative of a higher than normal credit risk as payments are typically received by Cochlear within the extended timeframes.

At each reporting date, Cochlear assesses the collectability of trade and other receivables by reference to historical collection trends and timing of recoveries and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

Cochlear has established an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables based on individually significant exposures, a collective loss component established for groups of assets meeting certain ageing profiles and customer types which have been assessed as impaired under Cochlear's accounting policy.

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

Trade and other receivables are stated at amortised cost less impairment losses. The ageing of Cochlear's trade receivables at the reporting date was:

	2015 \$000	2014 \$000
<b>Trade receivables</b>		
Not past due	174,413	152,076
Past due 0 – 30 days	18,143	18,373
Past due 31 – 120 days	21,859	19,102
Past due 121 – 270 days	9,526	6,805
Past due 271 days and over	18,480	8,464
	<b>242,421</b>	<b>204,820</b>
Impairment losses	(5,693)	(3,525)
<b>Trade receivables net of allowance for impairment losses</b>	<b>236,728</b>	<b>201,295</b>
Other receivables – current	13,016	9,099
<b>Trade and other receivables</b>	<b>249,744</b>	<b>210,394</b>

**Credit risk management – Cash deposits and forward exchange contracts**

The majority of Cochlear's cash deposits and all hedging transactions are only executed with leading financial institutions whose credit rating is at least A on the Standard & Poor's rating index.

**(c) Liquidity risk**

Liquidity risk is the risk that Cochlear will not be able to meet its financial obligations as they fall due. Cochlear manages liquidity risk by ensuring, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

**Non-derivative liabilities**

Contractual maturities of non-derivative financial liabilities, including estimated interest payments and excluding the impact of netting agreements, are as follows:

	Effective interest rate Per annum	Carrying amount \$000	Contractual cash flows \$000	< 1 year \$000	1 - 2 years \$000	2 - 5 years \$000
<b>30 June 2015</b>						
AUD floating rate loan	3.99%	209,552	221,698	173,122	1,798	46,778
JPY floating rate loan	0.64%	3,159	3,172	3,172	-	-
Trade and other payables	-	99,858	99,858	99,858	-	-
<b>Total</b>		<b>312,569</b>	<b>324,728</b>	<b>276,152</b>	<b>1,798</b>	<b>46,778</b>
<b>30 June 2014</b>						
AUD floating rate loan	4.04%	234,274	256,496	9,504	209,176	37,816
JPY floating rate loan	0.65%	3,141	3,154	3,154	-	-
Trade and other payables	-	78,644	78,644	78,644	-	-
<b>Total</b>		<b>316,059</b>	<b>338,294</b>	<b>91,302</b>	<b>209,176</b>	<b>37,816</b>

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

## Notes to the Financial Statements Cochlear Limited and its controlled entities for the year ended 30 June 2015

### 6.4 Financial risk management (continued)

#### *Derivative assets and liabilities - Forward exchange contracts*

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:

	Carrying amount	Contractual cash flows	< 1 year	1 - 2 years	2 - 5 years
	\$000	\$000	\$000	\$000	\$000
<b>30 June 2015</b>					
Assets	5,763	5,877	3,899	1,897	81
Liabilities	(35,123)	(35,807)	(24,422)	(9,445)	(1,940)
<b>Total</b>	<b>(29,360)</b>	<b>(29,930)</b>	<b>(20,523)</b>	<b>(7,548)</b>	<b>(1,859)</b>
<b>30 June 2014</b>					
Assets	10,009	10,358	4,627	4,118	1,613
Liabilities	(9,244)	(9,456)	(6,721)	(1,670)	(1,065)
<b>Total</b>	<b>765</b>	<b>902</b>	<b>(2,094)</b>	<b>2,448</b>	<b>548</b>

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

#### **(d) Fair value**

The carrying amounts and estimated fair value of Cochlear's financial assets and liabilities are materially the same.

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 benchmark bill futures and swap rates. These fair values are provided by independent third parties.

#### **Valuation of financial assets and liabilities**

For financial asset and liabilities measured and carried at fair value, Cochlear uses the following levels to categorise the valuation methods used:

- 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).

All of Cochlear's forward exchange contracts were valued using observable market inputs (Level 2) and there were no transfers between levels during the year.

## 7. Other notes

### 7.1 Auditors' remuneration

	2015	2014
	\$	\$
<b>Audit services</b>		
<i>Auditors of the Company – KPMG:</i>		
– audit and review of financial reports	1,559,738	1,422,391
– other regulatory compliance services	72,094	42,875
<b>Total audit services</b>	<b>1,631,832</b>	<b>1,465,266</b>
<b>Non-audit services</b>		
<i>Auditors of the Company – KPMG:</i>		
– taxation compliance and other services	988,156	818,282
<b>Total non-audit services</b>	<b>988,156</b>	<b>818,282</b>

### 7.2 Commitments

#### Operating lease commitments

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.

Future non-cancellable operating lease rentals not provided for in the financial statements are payable as follows:

	2015	2014
	\$000	\$000
Not later than one year	22,028	20,716
Later than one year but not later than five years	79,308	74,934
Later than five years	88,387	97,163
<b>Total operating lease commitments</b>	<b>189,723</b>	<b>192,813</b>

#### Capital expenditure commitments

As at 30 June 2015, Cochlear entered into contracts to purchase property, plant and equipment for \$5,408,000 (2014: \$1,972,000).

## Notes to the Financial Statements Cochlear Limited and its controlled entities for the year ended 30 June 2015

### 7.3 Controlled entities

	Interest held		Country of incorporation/formation
	2015 %	2014 %	
<b>Company</b>			
Cochlear Limited			Australia
<b>Controlled entities</b>			
Acoustic Implants Limited	100	100	UK
Cochlear AG	100	100	Switzerland
Cochlear Americas	100	100	USA
Cochlear Austria GmbH	100	-	Austria
Cochlear Benelux NV	100	100	Belgium
Cochlear Bone Anchored Solutions AB	100	100	Sweden
Cochlear Boulder LLC	100	100	USA
Cochlear Canada Inc	100	100	Canada
Cochlear Clinical Services LLC	100	100	USA
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 Latinoamerica S.A.	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 Middle East FZ-LLC	100	100	UAE
Cochlear Nordic AB	100	100	Sweden
Cochlear NZ Limited	100	100	New Zealand
Cochlear Research and Development Limited	100	100	UK
Cochlear Shared Services S.A.	100	-	Panama
Cochlear Sweden Holdings AB	100	100	Sweden
Cochlear Technologies Pty Limited (i)	-	100	Australia
Cochlear Tempe LLC	100	-	USA
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 (ii)	100	100	UK

	Interest held		Country of incorporation/formation
	2015 %	2014 %	
Isitme Implantlari Tibbi Cihazlar ve Saglik Hizmetleri Ltd Sti	100	100	Turkey
Lachlan Project Development Pty Ltd	100	100	Australia
Lachlan Project Holdings Pty Ltd (i)	-	100	Australia
Lachlan Project Security Holdings Pty Ltd (i)	-	100	Australia
Medical Insurance Pte Limited	100	100	Singapore
Miaki NV	100	100	Belgium
Neopraxis Pty Limited (i)	-	100	Australia
Nihon Cochlear Co Limited	100	100	Japan

(i) Deregistered during the year ended 30 June 2015.

(ii) Dormant.

#### 7.4 Parent entity disclosures

At, and throughout the financial year ended, 30 June 2015, the parent company of Cochlear was Cochlear Limited.

	2015 \$000	2014 \$000
<b><i>Result of the parent entity</i></b>		
Net profit	118,597	136,541
Other comprehensive (loss)/income	(20,967)	17,155
<b>Total comprehensive income</b>	<b>97,630</b>	<b>153,696</b>
<b><i>Financial position of the parent entity at year end:</i></b>		
Current assets	387,569	209,772
Total assets	713,614	683,453
Current liabilities	306,808	85,981
Total liabilities	461,904	412,679
<b><i>Total equity of the parent entity comprising of:</i></b>		
Issued capital	152,599	152,599
Treasury reserve	(8,463)	(8,463)
Translation reserve	69	13
Hedging reserve	(20,547)	476
Share based payment reserve	26,887	19,963
Retained earnings	101,165	106,186
<b>Total equity</b>	<b>251,710</b>	<b>270,774</b>

Dividend income from subsidiaries is recognised by the parent entity when the dividends are declared by the subsidiary.

## Notes to the Financial Statements Cochlear Limited and its controlled entities for the year ended 30 June 2015

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### 7.4 Parent entity disclosures (continued)

#### Parent entity contingencies

The details of all contingent liabilities in respect to Cochlear Limited are disclosed in Note 5.5.

#### Parent entity capital commitments for acquisition of plant and equipment

As at 30 June 2015, the parent entity entered into contracts but had not provided for or paid to purchase plant and equipment for \$4,823,000 (2014: \$1,972,000).

### 7.5 Changes in accounting policies

There have been no changes to accounting standards impacting Cochlear in the current financial year.

### 7.6 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for financial years beginning after 1 July 2014, and have not been applied in preparing these consolidated financial statements. Of the new standards, only the following are expected to have an effect on the consolidated financial statements of Cochlear:

- AASB 9 Financial Instruments, which becomes mandatory for Cochlear's 2019 consolidated financial statements; and
- AASB 15 Revenue from Contracts with Customers, which becomes mandatory for Cochlear's 2019 consolidated financial statements.

Cochlear is currently assessing the impact of the changes in the above standards and it is not expected that the changes will have a significant impact on Cochlear. As such, Cochlear does not plan to adopt this standard early.

### 7.7 Events subsequent to the reporting date

Other than the matter 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:

#### Dividends

For dividends declared after 30 June 2015, see Note 2.6.

## Directors' Declaration Cochlear Limited and its controlled entities for the year ended 30 June 2015

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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 41 to 65, 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 2015 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 2015.
3. The directors draw attention to Note 1.2(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 11th day of August 2015.



Director



Director



## Independent Audit Report to the Members of Cochlear Limited

### Report on the financial report

#### Opinion

We have audited the accompanying financial report of Cochlear Limited (the Company), which comprises the balance sheet as at 30 June 2015, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes 1 to 7.7, comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Consolidated Entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion:

- (a) the accompanying financial report of the Consolidated Entity 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 2015 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 1.2(a).

#### Emphasis of matter

We draw attention to note 5.4 to the financial statements which describes the uncertainty related to the outcome of the lawsuit filed against the Consolidated Entity for alleged patent infringement. Our audit report is not modified in respect of this matter.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's responsibility* section of our report. We are independent of the Consolidated Entity in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Patent dispute provision \$21.3 million</b> Refer to note 5.4 Provisions</p> <p>The patent dispute provision relates to a specific claim that has been made against the Consolidated Entity.</p> <p>We focused on this area as a key audit matter due to the amounts involved being material as well as the inherent uncertainty in the application of the measurement aspects of accounting standards to determine the amount, if any, to be provided for and the disclosures to be made in respect of this matter.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Making enquiries of management and the directors to obtain their view on this significant legal matter;</li> <li>• Reviewing the information held by the Consolidated Entity and assessing the impact of this evidence on the appropriateness of the provision;</li> <li>• Assessing correspondence from the Consolidated Entity's external lawyers in response to our requests for confirmation of all significant litigation; and</li> <li>• Assessing whether the Consolidated Entity's disclosures adequately reflect the quantitative and qualitative considerations in relation to the matter in accordance with accounting standards.</li> </ul>



#### CI500 product recall provision \$15.9 million

Refer to note 5.4 Provisions

As a developer, manufacturer, marketer and distributor of medical devices, the Consolidated Entity in certain circumstances may be held liable for damages arising from use of its product.

On 11 September 2011, the Consolidated Entity announced the voluntary recall of unimplanted Nucleus CI500 implantable devices as a consequence of an increase in the number of Nucleus CI512 implant failures. Certain assumptions have been made by the Consolidated Entity in providing for costs associated with the recall. The amounts involved are potentially material and require the application of judgement and estimation to determine the adequacy of the amount provided.

We focused on this area as a key audit matter due to the inherent subjectivity and difficulty to reliably measure the key forward looking assumptions including the estimated device return rates, estimated warranty and associated claim costs and level of insurance cover.

Our procedures included, amongst others:

- Assessing, challenging and comparing with historical actuals, the key forward looking assumptions including estimated device return rates and estimated warranty and associated claim costs, used by the Consolidated Entity in their model to estimate the provision. We have also considered any impact on the provision of insurance cover;
- Assessing correspondence from the Consolidated Entity's external lawyers in response to our requests for information on claims regarding known or alleged CI512 implant failures to assist us in challenging the adequacy of the provision;
- Performing sensitivity analysis in relation to the key forward looking assumptions including estimated device return rates and estimated warranty and associated claim costs, used by the Consolidated Entity in their model to estimate the provision; and
- Assessing the adequacy of the Consolidated Entity's disclosures of estimation uncertainties in respect of the product recall provision.

#### Recoverability of trade receivables \$236.7 million

Refer to note 6.4(b) Financial risk management, credit risk

Due to the Consolidated Entity operating in a large number of different geographical locations and the wide ranging characteristics of individual customers within those locations, some customers and locations have a higher days sales outstanding than the Cochlear average days sales outstanding, consequently there is an inherent exposure to credit risk for these customers and/or locations.

The key elements of judgement associated with assessing the recoverability of trade receivables include assessing the credit risk of non-standard contract receivables, which have longer than average payment terms, and determining credit risk in specific locations based on relative exposure and location characteristics.

This area is a key audit matter due to the inherent subjectivity that is involved in the Consolidated Entity making judgements in relation to credit risk exposures to determine the recoverability of trade receivables.

Our procedures included, amongst others:

- Testing key controls within the credit control and approval processes;
- Assessing the recoverability of a sample of non-standard contracts by comparing management's views of recoverability of amounts outstanding to historical patterns of receipts, in conjunction with reviewing cash received subsequent to year end for its effect in reducing amounts outstanding at year end;
- Challenging management's view of credit risk in certain specific locations and noting the historical patterns for long outstanding trade receivables in those locations. We used these relative exposure and location patterns to specifically test a sample of large overdue customer balances for recoverability by: reviewing cash received subsequent to year end for its effect in reducing amounts outstanding at year end, reviewing other evidence including customer correspondence, and holding discussions with management personnel to challenge knowledge of future conditions that may impact expected customer receipts; and
- Assessing the adequacy of the Consolidated Entity's disclosures in respect of credit risk.



## Independent Audit Report to the Members of Cochlear Limited

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### *Other information*

The directors are responsible for the other information. The other information comprises the information in the Consolidated Entity's annual report for the year ended 30 June 2015, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

### *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 gives a true and fair view and is free from material misstatement, whether due to fraud or error. In note 1.2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the directors are responsible for assessing the Consolidated Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Consolidated Entity or to cease operations, or have no realistic alternative but to do so.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

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.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of 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 conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Consolidated Entity to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.



We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Consolidated Entity audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on the remuneration report**

We have audited the Remuneration Report included in pages 41 to 65 of the Directors' Report for the year ended 30 June 2015. 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 Australian Auditing Standards.

#### **Opinion**

In our opinion, the Remuneration Report of Cochlear Limited for the year ended 30 June 2015, complies with Section 300A of the *Corporations Act 2001*.

KPMG  
Sydney, 11 August 2015

Cameron Slapp, Partner

## Additional information

Additional information required by Australian Securities Exchange Listing Rules and not disclosed elsewhere in this report – the information presented is as at 31 July 2015:

### Shareholdings

#### Substantial shareholders

Investor	Number of ordinary shares	%
Baillie Gifford & Co	7,489,453	13.12
Schroders PLC	3,705,018	6.49
<b>Total</b>	<b>11,194,471</b>	<b>19.61</b>

#### Distribution of shareholders

Number of shares held	Number of ordinary shareholders
1 – 1,000	25,145
1,001 – 5,000	2,720
5,001 – 10,000	165
10,001 – 100,000	70
100,001 and over	14
<b>Total</b>	<b>28,114</b>

Non-marketable parcels – 176 shareholders held less than a marketable parcel of ordinary shares.

#### Twenty largest shareholders

Shareholder	Number of ordinary shares held	%
HSBC Custody Nominees (Australia) Limited	16,267,629	28.50
JP Morgan Nominees Australia Limited	9,642,973	16.89
National Nominees Limited	9,471,339	16.59
Citicorp Nominees Pty Limited	2,829,202	4.96
BNP Paribas Noms Pty Ltd (DRP)	1,259,854	2.21
Dr Christopher Graham Roberts	611,269	1.07
AMP Life Limited	488,031	0.85
Citicorp Nominees Pty Limited (Colonial First State Inv a/c)	381,958	0.67
RBC Investor Services Australia Nominees Pty Limited (Bkcust a/c)	375,118	0.66
UBS Nominees Pty Limited	222,791	0.39
National Nominees Limited (DB a/c)	147,508	0.26
HSBC Custody Nominees (Australia) Limited – a/c 3	138,948	0.24
Cochlear Incentive Plan Pty Ltd	124,501	0.22
BNP Paribas Nominees Pty Ltd (Agency Lending DRP a/c)	124,348	0.22
PGA (Investments) Pty Ltd	100,000	0.18
HSBC Custody Nominees (Australia) Limited (NT-Comnwlth Super Corp a/c)	92,605	0.16
National Nominees Limited (DB a/c)	81,974	0.14
USB Wealth Management Australia Nominees Pty Ltd	78,491	0.14
Merrill Lynch (Australia) Nominees Pty Limited	69,306	0.12
Navigator Australia Ltd (MLC Investment Sett a/c)	57,225	0.10
		<b>74.57</b>

The 20 largest shareholders held 74.57% of the ordinary shares of the Company.

#### On market buy-back

There is no current on market buy-back.

## Glossary, Key Company ASX Announcement Record and Company Information

### Glossary

<b>AGM</b> Annual General Meeting.	<b>F15</b> Financial year 2015: 1 July 2014 to 30 June 2015.
<b>ASIC</b> Australian Securities & Investments Commission.	<b>F16</b> Financial year 2016: 1 July 2015 to 30 June 2016.
<b>ASX</b> Australian Securities Exchange.	<b>FDA</b> United States Food and Drug Administration.
<b>EBIT</b> Earnings before interest and tax.	<b>FX</b> Foreign exchange.
<b>EBITDA</b> Earnings before interest, tax, depreciation and amortisation.	<b>IFRS</b> International Financial Reporting Standards.
<b>EMEA</b> Europe, Middle East and Africa.	<b>KMP</b> Key management personnel.
<b>EPS</b> Earnings per share.	<b>NPAT</b> Net profit after tax.
<b>F11</b> Financial year 2011: 1 July 2010 to 30 June 2011.	<b>Processor/sound processor</b> The externally worn part of the cochlear implant.
<b>F12</b> Financial year 2012: 1 July 2011 to 30 June 2012.	<b>R&amp;D</b> Research and development.
<b>F13</b> Financial year 2013: 1 July 2012 to 30 June 2013.	<b>STEM</b> Science, Technology, Engineering and Mathematics.
<b>F14</b> Financial year 2014: 1 July 2013 to 30 June 2014.	<b>TSR</b> Total shareholder return.

### Key Company ASX Announcement Record

#### 26 May 2015

*Chris Smith announced as incoming CEO of Cochlear*

Cochlear Limited announced that Mr Chris Smith is appointed Chief Executive Officer/ President effective 1 September 2015. Dr Chris Roberts, who has been Chief Executive Officer/ President since 1 February 2004, will step down at the end of August 2015.

#### 21 April 2015

*Judgment entered in US patent infringement case*

Cochlear Limited announced, further to its 1 April announcement, that a US District Court in California has now entered Judgment in the patent infringement lawsuit by the Alfred E. Mann Foundation for Scientific Research and Advanced Bionics LLC against Cochlear Limited and its US subsidiary Cochlear Americas.

#### 1 April 2015

*Decision in US patent infringement case*

Cochlear Limited announced that a Court decision has

partially overturned the jury verdict in the patent infringement lawsuit by the Alfred E. Mann Foundation for Scientific Research and Advanced Bionics LLC against Cochlear Limited and its US subsidiary Cochlear Americas. A Judge in the United States District Court in Los Angeles, California, determined that 3 of the 4 patent claims that the jury found Cochlear had infringed were actually invalid.

#### 26 March 2015

*Half year report 2015*

Cochlear Limited provided an F15 half year report to shareholders listing half year revenues and sales.

#### 10 February 2015

*Half year results announced*

Cochlear Limited announced revenue up 18% to \$438.3 million, with cochlear implant sales of 11,698, in line with the first half F14. The interim dividend was \$0.90 per share.

#### 9 December 2014

*Two directors' appointments announced*

Cochlear Limited announced the appointment of Glen Boreham, AM and Alison Deans as non-executive directors for the Company, effective 1 January 2015.

#### 14 October 2014

*Chairman's address*

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

#### 5 August 2014

*Full year results for year ended 30 June 2014*

Cochlear Limited announced that sales revenue was up 15% on the previous financial year to a record \$820.9 million. Major product launches in the first half had a big effect on sales momentum in the second half of the year. The final dividend was \$1.27 per share (20% franked).

### 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 20 October 2015 at the Australian Securities Exchange, Exchange Square Auditorium, 20 Bridge Street, Sydney. A Notice of Annual General Meeting and Proxy Form are enclosed with this Annual Report.

#### Financial calendar

##### 2015

Dividend record date 10 September  
Payment of final dividend 1 October  
Annual General Meeting 20 October

##### 2016

Interim profit announcement 9 February\*  
Interim dividend record date 10 March\*  
Payment of interim dividend 31 March\*  
Final profit announcement 9 August\*  
Annual General Meeting 18 October\*

\* Indicative dates only.

ACE, Advance Off-Stylet, AOS, AutoNRT, Autosensitivity, Beam, Button, Carina, Cochlear, コクレア, Codacs, Contour, Contour Advance, Custom Sound, ESPrit, Freedom, Hear now. And always, Hybrid, inHear, Invisible Hearing, MET, MP3000, myCochlear, NRT, Nucleus, Nucleus in Chinese characters, Off-Stylet, SmartSound, Softip, SPrint, the elliptical logo and Whisper are either trademarks or registered trademarks of Cochlear Limited. Ardium, Baha, Baha Divino, Baha Intenso, Baha PureSound, Baha SoftWear, DermaLock, Vistafix and WindShield are either trademarks or registered trademarks of Cochlear Bone Anchored Solutions AB. iPhone is a trademark of Apple Inc.

#### Design

Cross Media Communications Pty Ltd

### Non-IFRS financial measures

Given the significance of the patent dispute, 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 patent dispute provision: IFRS measures adjusted for the expense of the patent dispute provision;
- excluding product recall costs: IFRS measures adjusted for the costs of the product recall; and
- constant currency: restatement of IFRS financial measures in comparative years using F15 FX rates.

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

# Hear now. And always

As the global leader in implantable hearing solutions, Cochlear is dedicated to bringing the gift of sound to people with moderate to profound hearing loss. We have helped over 400,000 people of all ages live full and active lives by reconnecting them with family, friends and community.

We give our recipients the best lifelong hearing experience and access to innovative future technologies. For our professional partners, we offer the industry's largest clinical, research and support networks.

That's why more people choose Cochlear than any other hearing implant company.