Annual Report 2010

Innovation driving performance

Toni Vourantonis
Bilateral cochlear
implant recipient

Hear now. And always

Cochlear™

Toni, 24

Bilateral cochlear implant recipient

- Nucleus Freedom, 2002
- Nucleus 5, 2009

Before implant

- Could not use the phone
- Social difficulties at school
- Relied on subtitles when watching films

Achievements after implant

- Fulfilling career
- Confidence in groups
- Gets more out of watching films
- Zumba dancing

'I can have proper conversations on the phone with my family and friends. Everyone else takes it for granted – I really enjoy it.'

Cochlear Nucleus CP810 Sound Processor

Inspiring our innovations

Our recipients' personal accomplishments inspire all of us at Cochlear.

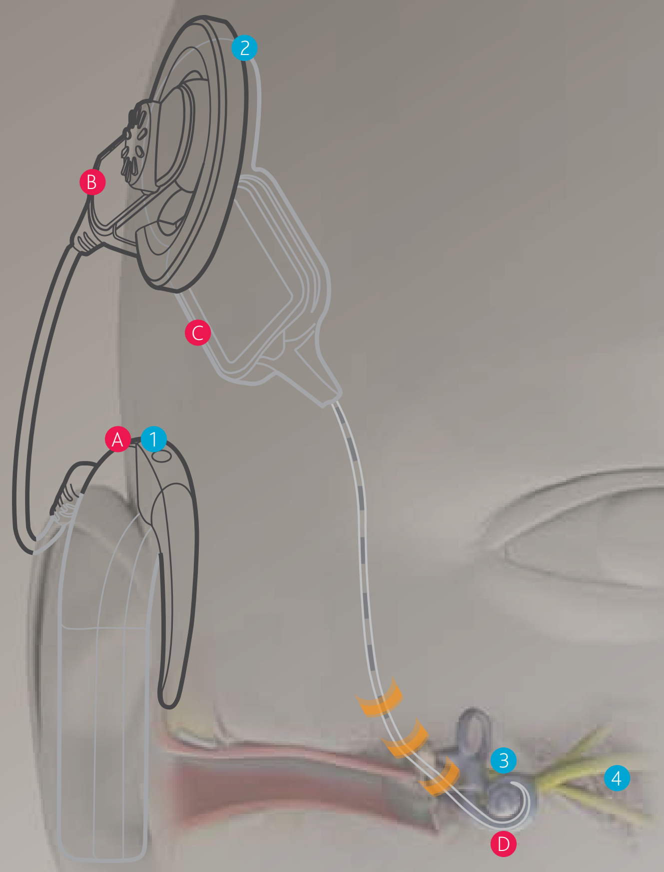
We are inspired to develop the most advanced hearing technologies; we are inspired to provide the very best hearing outcomes; and we are inspired to support our recipients for a lifetime of sound.

Hear now. And always

Dr Chris Roberts
CEO/President, Cochlear

Contents

Cochlear is the global leader in implantable hearing solutions. It has a dedicated global team of more than 2,000 people who deliver the gift of sound to the hearing impaired in over 100 countries around the world. Cochlear's vision is to connect people, young and old, to a world of sound by offering life enhancing hearing solutions.



How our implantable hearing solutions work

Cochlear Nucleus System

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

A. the sound processor and

B. the coil are worn behind the ear; and

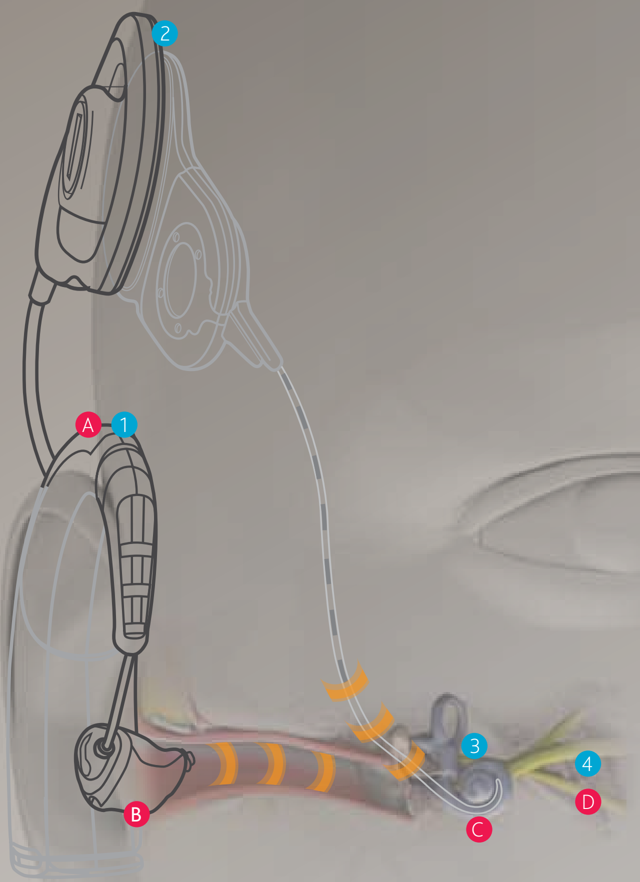
C. the implant is placed just under the skin, behind the ear; and

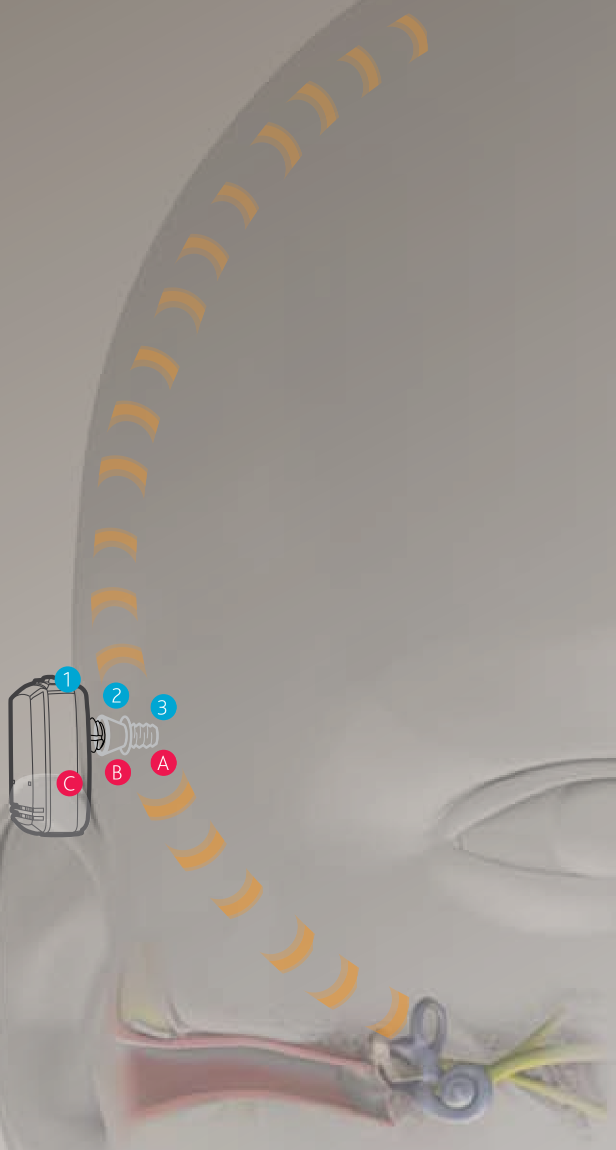
D. the electrode array is positioned in the cochlea.

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

How the cochlear implant system works

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





Cochlear Hybrid System

Acoustic pathway

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

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

C. The amplified sounds activate the hearing nerves.

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

Electrical pathway

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

Cochlear Baha System

The Baha System combines:

A. a small titanium implant;

B. a connecting abutment; and

C. a detachable high performance sound processor.

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

How the bone conduction implant system works

1. A sound processor picks up sound vibrations.
2. A connecting abutment transfers sound into mechanical vibrations from the Baha device to the implant.
3. A small implant, which is placed in the bone behind the ear, fuses with the living bone. This implant transfers the sound vibrations, via the skull, directly to the functioning cochlea.

Proven performance with Cochlear™ Nucleus® 5

The Cochlear™ Nucleus® 5 System was launched in the first half of the 2010 financial year and continues to build momentum owing to its proven superior hearing performance[1].

By year end, it had been launched in approximately 50 countries worldwide as regulatory and reimbursement approvals were obtained.

As the world's most advanced cochlear implant system, the Cochlear Nucleus 5 System has raised the technology bar in the cochlear implant industry and gained widespread praise from both recipients and hearing health professionals. The System comprises the world's thinnest and strongest cochlear implant, and delivers superior hearing performance outcomes with a next-generation sound processor and new feature-rich remote assistant.

Technically sophisticated and designed for style and ease of use, the System provides a smarter hearing solution to deliver superior hearing outcomes for both adults and children experiencing severe to profound hearing loss.

Utilising Cochlear's unique SmartSound™ technology, the new System optimises sound quality in a variety of listening environments and makes use of a sound processor that has been tested to withstand the most active lifestyle.

At only 3.9mm thin, the CI512 Cochlear Implant is 40% slimmer than Cochlear's previous generation implant, which makes it the world's thinnest cochlear implant. Also, the titanium based implant is 2.5 times more impact resistant than the previous generation Freedom™ implant.

Since its launch, the System has won several industry awards including the prestigious international design *red dot award: product design 2010* award for outstanding creative, innovative and high quality products.

In June 2010, the System also won the Australian International Design Award in the Medical and Scientific category, for its forward thinking design and innovation excellence.

Performance highlights

Proven implant reliability – 100% cumulative survival rate within one year[2]

The Nucleus 5 continues Cochlear's enviable record for implant reliability, meaning recipients can feel confident in the long-term performance of their implant.

Significant improvement of 30 percentage points with Zoom activated[3]

Understanding speech in noisy environments is often a challenge for the hearing impaired and with Nucleus 5, Cochlear has made advances in this area.

[1] Cochlear CP810 Sound Processor and CR110 Remote Assistant Validation Results, Cochlear (2009).
[2] Nucleus Reliability Report, Cochlear (June 2010).
[3] Cochlear CP810 Sound Processor and CR110 Remote Assistant Validation Results, Cochlear (2009). Zoom is a setting designed to assist speech understanding in noise.

Peter, 42

Cochlear Nucleus 5 recipient (Bilateral)

Before implant

- Struggled to work in corporate environments
- Could not relax when having conversations
- Wanted to hear his wife's voice

Achievements after implant

- More career options
- Can enjoy talking to people in all environments
- Greater family interaction

'My hearing has changed dramatically. The first one was fantastic – it was 100% better than my hearing before. But then to go bilateral is like another 100% better than that.'

Cochlear Nucleus 5 System

Cochlear™ Hybrid™ System continues roll-out to industry applause

The Cochlear™ Hybrid™ System, the world's first truly integrated electro-acoustic hybrid hearing solution, has continued its release.

The System provides an effective hearing solution for people with severe to profound high frequency hearing loss, giving them a better quality and clarity of hearing with a solution that integrates cochlear implant and hearing aid technologies.

Cochlear Hybrid continued its roll-out in the 2010 financial year in Europe.

The System has won six Australian industry awards, acknowledging its design and engineering excellence:

- Excellence in Innovation Award 2010, Australian Cooperative Research Centre;
- Australian Government Engineering Innovation Award 2009, Engineers Australia;
- 2009 Australian International Design Award, Standards Australia;
- Kerrin Rennie Award for Excellence in Medical Technology 2009, Medical Technology Association of Australia;
- Engineering Excellence Award for Software and Embedded Systems 2009, Engineers Australia, Sydney Division; and
- Engineering Excellence Award for Welfare, Health and Safety 2009, Engineers Australia, Sydney Division.

Performance highlights

Clinical trials demonstrated at least 70% of recipients experienced improved hearing in noise compared to hearing aids[1]

Many people who may not qualify for a standard cochlear implant still struggle to hear clearly when wearing a hearing aid. The Cochlear Hybrid System has given these individuals a new treatment alternative.

78% of patients have hearing preservation within 30db of pre-op level[1] one year after receiving a Hybrid L24 implant

The Hybrid implant has been specifically designed to bypass the damaged hair cells only in the high frequency region of a recipient's cochlea, whilst preserving existing low frequency hearing.

[1] Interim results of the European Cochlear Hybrid System Adult Clinical Trial (showing February 2009 German data), May 2009.

Bronwyn, 50

Cochlear Hybrid recipient

Before implant

- Difficulty communicating in noisy groups
- Limited hearing on the phone

Achievements after implant

- More confident about job opportunities
- Contributing more to conversations
- Beginning to hear higher-pitched music
- Greater appreciation when listening to singing

'My whole life is richer and I have gained courage, belief and trust in myself and others.'

Cochlear Hybrid System

Introducing the Cochlear™ Baha® 3 System – excellence through combined performance

At the end of the 2010 financial year, Cochlear launched the third generation bone conduction technology, the Cochlear™ Baha® 3 System. The new System and all its components are commercially available in Europe. The majority of the components are also available in Asia Pacific and the US, with roll-out of the BI300 Implant having started in July 2010.

The Cochlear Baha 3 System relies on a number of components that have been designed to deliver optimum performance: the BP100 Sound Processor, the BI300 Implant and the BA300 Abutment. The System's professional tools include the Baha Fitting Software and Baha surgical tools.

Proven performance

The BP100 Sound Processor is the industry's first moisture resistant and fully programmable, multi-channel sound processor. It is clinically proven to provide over 25% improved speech understanding in noise compared to the previous processor[1 to 4].

Optimised connection

The Baha 3 snap coupling connects to the inside of the BA300 Abutment to reduce risk of processor-to-skin contact. A helium-tight connection between the abutment and implant reduces the risk of microleakage.

Strong foundation

The BI300 Implant provides a strong foundation to the System by delivering unparalleled implant stability[5 and 6] that reduces time to fitting by 50%[7].

Simplified surgery

The new instrument organiser, surgical tools and packaging are designed to streamline the surgical process and non-invasive measurements facilitate easy assessment of implant stability.

Precise fitting

The Baha Fitting Software offers new capabilities in terms of fitting accuracy and simplicity. Innovative functionality, like BC Direct, make it easier to get actual bone conduction thresholds and provide better fitting outcomes.

Performance highlights

Speech understanding in noise

It is clinically proven to provide over 25% improved speech understanding in noise compared to the previous processor.

50% shorter time to fitting

The BI300 Implant provides a strong foundation to the Baha 3 System by delivering unparalleled implant stability that reduces time to fitting by 50%.

1 Davison, Leese, Marley & Johnson (2009). Clinical impressions of a new Bone Anchored Hearing Aid processor. Presented at 2nd International symposium on bone conduction hearing - craniofacial osseointegration; 11 to 13 June, Gothenburg, Sweden.
2 Kompis & Pfiffner (2010). A prospective comparative study of Baha BP100 and Baha Divino. Paper presented at CI 2010 (International Conference for Cochlear Implants and Other Auditory Implantable Technologies); 30 June to 3 July, Stockholm, Sweden.
3 Flynn, Sadeghi & Halvarsson (2009). Results of the first clinical evaluation of Cochlear Baha BP100, white paper; Cochlear Bone Anchored Solutions, Gothenburg, Sweden, E81511.
4 Hällgren, Larsby & Arlinger (2006). A Swedish version of the Hearing In Noise Test (HINT) for measurement of speech recognition. International Journal of Audiology; 45:227-37.
5 Gottlow, Sennerby, Rosengren & Flynn (2010). An experimental evaluation of a new craniofacial implant using the rabbit tibia model. Part I. Histological findings. Otology and Neurotology. Epub ahead of print.
6 Sennerby, Gottlow, Rosengren & Flynn (2010). An experimental evaluation of a new craniofacial implant using the rabbit tibia model. Part II. Biomechanical findings. Otology and Neurotology. Epub ahead of print.
7 Dun, de Wolf, Wigren, Eeg Olofsson, Granstrom, Green, Flynn, Staffors, Rothera, Mylanus & Cremers (2010). Development and Multi-centre Clinical Investigation of a Novel Baha Implant System. Technical and six month data. Paper presented at CI 2010; 30 June to 3 July, Stockholm, Sweden.

Anne-Marie, 63

Cochlear Baha BP100 recipient

Before implant

- Struggled with sound direction
- Difficulty communicating with family and work colleagues

Achievements after implant

- Can identify where noises are coming from
- Enjoys the richness of music
- Has a family which really notices the difference

'Before my Baha, I always looked the wrong way when I heard a noise, and I struggled to identify which direction it was coming from. With the BP100, I can immediately determine the location of any sound – even whispers coming from directly behind me!'

Cochlear Baha 3 System

Innovative product launches and developing internal capabilities helped Cochlear achieve another year of sustained growth

Financial performance

Record revenue of $734.8 million and a 19% increase in Net Profit after Tax (NPAT) to $155.2 million underlined another successful year for Cochlear.

The highlight of the year was the successful launch of the Cochlear Nucleus 5 System in approximately 50 countries.

This was an important milestone in the sustained growth and development of Cochlear and will be discussed further by the CEO/President in his report.

Sustained growth

Sustainable growth is a key strategic objective for the Company and, despite the recent economic uncertainty in the world, Cochlear's performance continued to place it in the top quartile of the ASX 100.

Cochlear is the clear world leader in the field of cochlear implants. Following the successful launch of the Cochlear Nucleus 5 System and with our portfolio of hearing solutions, if global health economics and reimbursements are maintained then we expect continued growth for Cochlear and the industry.

Increased dividends

The increase in NPAT, ongoing confidence in future growth, together with strong cash flows, enabled the Board to increase its final dividend to $1.05 per share (F09: 95 cents).

The total dividend for the year of $2.00 per share was up 14% on the previous year. The dividend payout ratio remained at around 70% of NPAT.

As foreshadowed at the half year results announcement, the final 2010 dividend was partially franked, to 60%. This partial franking reflects the growing overseas proportion of profits.

Cochlear has declared the unfranked portion of the dividend as conduit foreign income (CFI). This will assist our non-resident shareholders as dividends withholding tax on the unfranked amount will not apply.

It is anticipated that Cochlear's 2011 dividend payments will again be partially franked, and the unfranked amount will also be declared CFI.

Capital management

The continued uncertainty in the global capital markets has ensured continued focus on the Company's capital management by the Board.

At 30 June 2010, Cochlear had a $300 million corporate debt facility available, maturing in June 2012.

This was part of a conservative approach during the recent financial and world market difficulties. It was also deemed prudent to have substantial liquid firepower while we progressed our new headquarter project, financed by another special purpose project debt facility, through the early development phase. Excluding this special financing for the headquarter project, our corporate net debt was $41 million at year-end.

This corporate facility is continually reviewed and at Cochlear's instigation it was reduced to $200 million in August 2010. This still provides sufficient flexibility for all our forecast cash requirements.

The net debt attributable to the new headquarters project stood at $73 million at 30 June 2010. This project debt is under a separate facility. This project is on time and on budget. The project debt will all be repaid, with funds from Macquarie University, on practical completion of the building. The headquarters will then be leased by Cochlear from Macquarie University on commercial terms already agreed. Practical completion is estimated for the second quarter of F11.

Influences on Cochlear from world economic conditions

Cochlear sells into over 100 countries and has a direct presence in over 20. Approximately 95% of our sales are into countries other than Australia. World events are therefore important to our continued growth; Cochlear is influenced by events in the global economy and by currency fluctuations against the Australian dollar.

Cochlear has a comprehensive range of life changing products. Together with the positive health economics for our range of hearing solutions, in particular cochlear implantations, this range of products has supported ongoing growth in F10. We also benefit from the broad geographical spread of countries we sell into, which has to date helped ameliorate demand distortions that arise in individual countries from time to time.

Directors and Board activities

As you know Mr Tommie Bergman retired as Chairman of the Board of Cochlear with effect from the end of 30 June 2010, after nearly nine years on the Board. His positive contribution to the growth and development of Cochlear's business is well recognised.

Mr Rick Holliday-Smith
Chairman

Personally, and on behalf of the whole Board, I congratulate him on his achievements and years of exceptional service and we wish him well for his retirement.

I was very pleased to be selected to replace Mr Bergman as Chairman of the Board. Cochlear is a great company and I will do all I can to work with the management team and the Board to move us forward and continue to ensure we are strong and successful.

I have been on the Board for four years and I have a deep understanding of Cochlear's activities. The current growth strategy, our continuing focus on technical development and innovation, and our manufacturing initiatives are all appropriate for Cochlear. The Board and I will continue to support the CEO/President and the senior executives to ensure we have well founded strategies and development plans and that we do all we can to ensure that they are successfully executed.

I am delighted that Mrs Yasmin Allen joined the Board effective 2 August 2010. Mrs Allen has a strong background in finance and business, and is an experienced independent director. She will complement the skill set of the Board and I look forward to working with her.

Cochlear is a global company and the Board frequently travels overseas to visit our various business units and to stay in touch with the markets into which we sell.

In 2010, we travelled to Europe, including Poland where we have a growing business. The Board met key surgeons and opinion leaders and heard first hand their views of our business generally and our new products. It is clear that developing countries are likely to play an increasingly important part in our future growth.

On the same trip, the Board visited our Bone Anchored Solutions headquarters and manufacturing facility in Gothenburg, Sweden. These trips allow for detailed review of our overseas activities as well as providing access and insights to key staff and customers. This is an important part of our duties and I intend to continue these activities.

Executive team

We are very lucky to have a strong executive team capably led by the CEO/President, Dr Chris Roberts.

This team has been together for some time and its stability, commitment, knowledge and hard work, together with the many other important team members in Cochlear, have helped us to continually improve. It is also a vital part of meeting the challenging tasks of new product development, manufacturing improvements and volume achievements, and the successful launch of new products like Nucleus 5 and BP100 by our many sales oriented members.

The Board thanks all of the Cochlear team for a challenging but successful year.

Diversity

Cochlear is a diverse company. We employ over 2,000 employees in nearly 50 countries and in our Sydney office alone we are represented by over 60 nationalities. These combined energies and talents have made Cochlear the global success that it is.

This diversity has been important element in our success in the global market.

Executive remuneration and executive share option plans

There has been considerable discussion on executive pay and, in particular, share option plans during 2010. Cochlear continues to encourage employee ownership of the Company and did not cancel any of our option and share plan as a result of changes to legislation.

The Remuneration Committee has considered these matters and is satisfied that Cochlear's philosophy and practices regarding executive remuneration fully meet the standards required.

Over 150 executives and senior managers at Cochlear own options or performance shares. The employee share plan is a broad based scheme and over 1,000 employees are currently shareholders under the scheme.

Outlook

The outlook for Cochlear is positive. This is supported by the company's continued investment in research and development and marketing and sales growth initiatives. Internal capabilities necessary to support this growth are also being developed.

2010 was another successful year of growth, in which Cochlear Nucleus 5 was released in approximately 50 countries and received enthusiastically

Record revenues and earnings

Total revenue for F10 was $734.8 million, up 6% over F09. An appreciating Australian dollar masked the underlying sales growth, with sales in constant currency (i.e. restating F09 at F10 FX rates) up 12%.

Net profit after tax (NPAT) of $155.2 million, was up 19%, and earnings per share (EPS) of $2.76 was up 18%.

Cochlear implant unit sales were up 13% to 21,023 implants, with growth in the second half (June half) up 20% helped by the Nucleus 5 release.

Bone Anchored Solutions (BAS) product sales (e.g. Baha) were $92.5 million (up 9% in constant currency).

All regions grew: Americas was the fastest growing region, with sales of $307.6 million up 18% in local currency, with EMEA (Europe, Middle East, Africa) up 7% in local currency to $291.5 million, and Asia Pacific sales of $97.1 million up 13% in local currency.

Free cash flow grew strongly, up 50% to $166 million. Improvements in working capital underpinned this increase in free cash flow, with debtor days at 72 days (F09: 73 days), and inventory days at 192 days (F09: 198 days.) This free cash flow underpinned dividend increases, with final year dividend up 11% to $1.05 per share giving a full year dividend, of $2.00 per share, up 14%.

Cochlear Nucleus 5: A game changer

The highlight for F10 was the well executed launch of Cochlear Nucleus 5, which represents the future of cochlear implantation. From a design perspective, Nucleus 5 improves not only recipient hearing performance, but further advances ergonomics, useability, miniaturisation and reliability. The advanced microphone technology, digital signalling processing and other technologies improve hearing performance in a very meaningful way, particularly in difficult listening environments.

Nucleus 5 has been well received by recipients and clinicians. Many surgeons have commented on the benefits of the implant's new shape (and thinness), in terms of improved cosmesis and shortened surgical time. While the Nucleus 5 design has been very well received, the Cochlear team did an excellent job in rolling the product out across approximately 50 countries in F10. This included a range of activities from manufacturing ramp up (including many new manufacturing processes), training and excellent marketing material (not only multiple languages but multiple alphabets) supporting the key product positioning and messaging. A well executed launch can truly enhance a great design and this is what the Cochlear team has achieved. The opportunity over recent years to make significant investments in internal capability across all functions and regions has paid off with this well executed launch. My sincere congratulations to the entire Cochlear team.

Bone Anchored Solutions: Innovating across all Baha components

Bone anchored products remain an important implantable offering for certain types of hearing impairments, including single-sided deafness and conductive hearing loss. Our research and development efforts have been directed at innovating all system components. The next generation sound processor (BP100) and fitting software were released a year ago; however, a number of

Dr Chris Roberts
CEO/President

features have been enhanced and a new BP100 build standard released. A new implant (BI300), with an improved surface for promoting osseointegration and stability, has been developed (and launched as we enter F11), along with an improved abutment and the simplification of surgical tools. Importantly, the components have been optimised individually and as a complete system, which is now referred to as Cochlear Baha 3.

Innovation: The turbo charger of growth

Cochlear's product innovation also includes hybrid or electro-acoustic implants (where residual hearing at the low frequencies is preserved) and direct acoustic cochlear stimulation (DACS) for severe mixed hearing losses. Hybrid implants are steadily growing and DACS entered clinical trials in F10. The pipeline of products behind Nucleus 5, Baha 3, Hybrid and DACS is very full and while for competitive reasons we do not detail this pipeline, we do remain excited by the opportunity for technology to continue empowering clinicians to provide the gift of hearing.

Global HQ: Nearing completion

During F10, construction of Cochlear's new headquarter facilities at Macquarie University has gone to plan. All the activities currently at Lane Cove (manufacturing, R&D, Asia Pacific office, and head office functions) will move to the new 24,000m^2 facility expected to be open by the end of the 2010 calendar year. Forming a partnership with a leading university, which has strengths across a range of relevant disciplines, will create synergy for what is essentially a knowledge based business.

Aligning stakeholder interests

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

From a shareholder perspective, that is good news, as the day to day business is truly about balancing the short and long term. It also makes it easier to ensure our business plans are linked with what drives shareholder returns. Indeed, total shareholder returns (TSR) (both absolute and relative) remains a key management metric. For example, TSR for F10 was 38%, for the F09 – F10 two year period was 73% and for the three years (F08 – F10) was 36%. These TSR results place Cochlear in the top quartile performance against the ASX 100 companies for these time periods, specifically 6th (one year), 2nd (two year) and 18th (three years). Since the IPO in 1995, the share price is up over 30 times (and dividends have increased every year for those 15 years). While in the short term, there are a lot of variables impacting share price over which management has little control, over the long term the share price does reflect management actions. This is inculcated in how we think and act.

Finally, and as expressed in the past, the passion and commitment of the 2,200 plus employees and contractors of Cochlear are palpable, and remain a key success factor for Cochlear, and to all our employees, thank you. There is no less passion and commitment in the thousands of healthcare professionals globally that implant and support our products. Together, we can truly change the world of the hearing impaired.

Continued growth

Sales growth continues

- Total revenue was up 5.8% to $734.8 million.
- In constant currency terms, revenue was up 12%.
- Baha sales were $92.5 million and grew 9% in constant currency terms.
- Sales growth in cochlear implant units, including Hybrid implants, was up 13% to 21,023 for the full year. The second half unit sales grew 20%, reflecting the momentum of the launch of the Nucleus 5 which commenced in the first half of F10.
- The portfolio effect of selling in over 100 countries was less evident this year. Revenues in constant currency terms increased in all regions; Americas increased 18%, Europe 7% and Asia Pacific 13%. China donation sales were 500 units in the current year.

Profit

- Gross margin to revenue at 72% was consistent with last year. In constant currency terms, the gross margin improved by 1 percentage point and was particularly pleasing in a year of product launch where learning effects of new production were expected.
- R&D expenses of $94.9 million, reduced $1.8 million from F09. Removing the impacts of currency, R&D spend increased 1.8% on F09, but as a percentage of sales, reduced by 1 percentage point to 13%.
- Net interest expense increased $4.0 million to $11.1 million due to higher interest rates and higher unused line fees. Interest cover was a strong 20 times.
- The tax rate of 25.9% remained consistent with last year. Again this year, the tax expense was reduced by the impact of the tax concession on R&D spend. There is uncertainty as to the benefit Cochlear will receive in F11 due to the proposed new R&D incentive legislation not yet being passed.
- NPAT increased 19% to $155.2 million.

Foreign exchange

- Foreign exchange was again an important aspect of the result.
- Cochlear has a partial natural hedge with over 90% of sales in foreign currency and over 50% of expenses in foreign currency. To help manage the portion not covered by the natural hedge, foreign exchange contracts on foreign currency cash flows back to Australia are taken out. These contracts cover a three year period at a declining level of cover. The Australian dollar strengthened during the year against all hedged currencies.
- Foreign currency contracts resulted in a gain of $38.6 million this year (2009: loss of $17.1 million) recognised in revenue. This was in line with movement in foreign currency rates according to our hedging policy.
- At 30 June 2010, Cochlear had foreign currency equivalent of $644.9 million in foreign exchange contracts. In the coming year, F11, the average exchange rate for the US dollar contracts is 0.79 and the average for Euro contracts is 0.56.
- During the year, there was a net gain of $1.2 million (2009: $8.7 million) on the translation of foreign assets. This is reported through Note 6 (Net finance (expense)/income) to the financial statements.
- Overall, NPAT was negatively impacted by $15.1 million due to the movements in foreign exchange rates during the year.

Increased dividends

- The final dividend of 105 cents per share brought the full year dividend to 200 cents per share. The full year dividend is up 14% on 2009.
- The dividend reflects a payout ratio of approximately 70%. The final dividend is 60% franked, with the unfranked portion being conduit foreign income.

Strong capital management

Debt reduced

- Net debt for the underlying operations decreased to $41.1 million from $98.7 million in 2009. This is a result of the continued focus on working capital management particularly on collection of receivables discussed below.
- At 30 June 2010, the net debt for the construction of the new global headquarters was $72.8 million (2009: $9.9 million).
- Cochlear continues to meet all its debt covenant conditions.

Debtors

- Debtor days decreased to 72 days (2009: 73 days). Debtor days in the Americas and Asia Pacific regions reduced over last year due to a concerted effort at managing and collecting receivables. Europe debtor days increased as a result of going direct in certain countries.

Inventories

- Inventories of $104.4 million were down 1% (2009: $105.9 million). This decrease is pleasing given the sales increase. Days inventory decreased to 192 days (2009: 198 days), reflecting improved inventory management.

Intangible assets – no impairment charges

- Intangible assets of $211.8 million (2009: $208.3 million) are a significant proportion of Cochlear's total assets. Some $159.9 million of this total relates to goodwill arising from the earlier acquisition of businesses.
- All intangible assets are tested for impairment on an annual basis. There were no write-downs in 2010.

	2010 IFRS	2009 IFRS	2008 IFRS	2007 IFRS	2006 IFRS	2005 IFRS	2004 previous GAAP	2003 previous GAAP	2002 previous GAAP	2001 previous GAAP
Cochlear implant system sales (units)	21,023	18,553	18,228	15,947	12,901	10,802	9,306	9,328	7,845	6,482
Total revenue ($million)	734.8	694.7	601.7	559.4	452.3	349.0	282.8	306.1	255.0	220.1
R&D expenses ($million)	94.9	96.7	80.0	65.9	56.7	44.6	44.5	37.0	37.7[i]	27.7
EBITDA ($million)	243.6	205.5	193.3	170.9	130.2	96.8	54.9	87.9	56.2	49.0
EBIT ($million)	220.5	183.3	167.3	150.2	111.5	82.5	45.5	80.1	51.5	45.5
NPAT ($million)	155.2	130.5	115.2	100.1	80.0	59.6	36.8	58.2	40.1	31.2
Basic EPS (cents)	275.7	233.7	208.1	182.9	146.8	110.1	68.2	110.0	76.6	60.2
DPS (cents)	200.0	175.0	150.0	125.0	100.0	80.0	79.0	77.0	51.0	41.0
Closing share price ($)	74.32	57.70	43.65	61.00	54.63	39.20	22.72	32.30	34.05	39.00
Market capitalisation as at 30 June ($million)	4,198	3,230	2,423	3,341	2,985	2,123	1,231	1,714	1,788	2,029
Number of employees	2,006	1,888	1,789	1,655	1,100	982	816	814	722	639

[i] Excludes $5.2 million acquisition of core technology from Implex AG Hearing Technology.

The Americas region grew with revenue up 18% (constant currency) to $307.6 million as the market embraces new products

Record sales results

Revenue in the Americas region grew 18% in constant currency terms to a record $307.6 million. Growth was driven by the successful launch of the Nucleus 5 System, which commenced in the first half of F10.

We also launched the new Cochlear Baha BP100 Sound Processor in the first half of F10, which further drove revenue growth.

New products launch in the Americas

The launch of the Nucleus 5 System was the focus for the year. Clinicians, candidates and recipients enthusiastically embraced the new products.

In a multi-centre clinical study in the US, preliminary data indicates that people using the Nucleus 5 experienced statistically relevant performance improvements in the most difficult hearing environment (noise) compared to Freedom[1]. The new streamlined implant has been well received by surgeons in the market as it provides a lower profile for patients of all ages.

Initiatives to drive market growth

Initiatives to drive market growth continue to be a focus and Cochlear Americas has embarked on several key initiatives to ensure that implantable hearing technology becomes the standard of care for people with severe to profound hearing loss.

Ensuring best clinical practices and increasing access through legislative and public policy are key elements for successful market growth.

To increase awareness of implantable hearing technology, Cochlear Americas launched an online community, cochlearcommunity.com, where people can have conversations about the benefits of cochlear implants and support each other before, during and after the implant. Over 6,500 participants including volunteers connect with each other online and in person.

Cochlear Americas has initiated integrated market awareness campaigns in collaboration with clinics and hearing aid dispensers in select markets to increase awareness about the technology with potential candidates and their family members so that they are empowered to seek assistance from a clinic in their area.

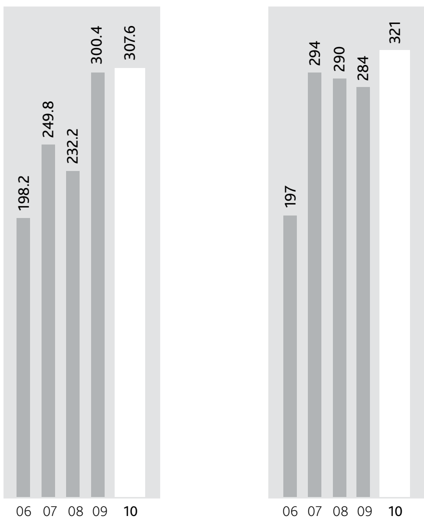
Educating both people with hearing aids and hearing aid providers is important because many of them know very little about the benefits or candidacy of implantable hearing technology. To access people who are in the hearing aid channel, Cochlear Americas has invested in a dedicated outreach program, including a specialised field force to educate hearing aid providers and Ear, Nose and Throat specialists as well as their patients.

Recipient Services – a new business unit established to support recipients

A new business unit was established to provide personalised, valuable, and efficient access to products, services and support for Nucleus and Baha recipients. Cochlear's vision is to provide the support each recipient needs to manage their hearing healthcare journey throughout their lifetime as well as providing new product releases specifically tailored to existing recipients. Our goal is to create a powerful recipient experience with Cochlear for continued long-term growth.

Outlook

The strategic focus for F11 will be on market growth through robust surgical training programs, continued outreach to hearing aid professionals, marketing campaigns targeted to raise awareness about our technology among medical professionals and consumers and an increased focus on providing services for our recipients.



Sales revenue ($million)

Employees (number)

[1] Multi-center conversion study, J Wolfe Cochlear Symposium, 11th International Conference on Cochlear Implants and Other Auditory Implantable Technologies, Stockholm, Sweden, 30 June 2010.

Revenue was up in the European region by 7% (constant currency) to $291.5 million

Revenue growth

Revenue has increased by 7% in constant currency to $291.5 million across the European region, which includes the Middle East and Africa.

This was driven by the successful launch of new products including Nucleus 5, as well as Baha System 3 and a full commercial launch of Hybrid. For the first time, marketing materials were translated into 30 languages at the time of launch and all products were well received into the market by hearing health professionals and candidates.

Approval of Nucleus 5 has now been gained in all western European markets, with registration and approval expected for remaining Central and Eastern Europe and Middle Eastern countries in the first half of F11.

F10 was also the first full year of direct commercial operation in Turkey.

World leading research

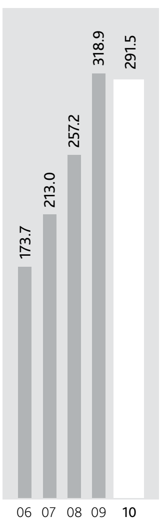
Collaborative research with leading academic organisations remains a focus for the European region, which continued its work with a range of leading research centres, including the Institute of Physiology and Pathology in Warsaw, the SRA Research Group and the Medizinische Hochschule Hannover in Germany, where research on Cochlear's new direct acoustic cochlear stimulator was also advanced during the year.

Technology showcases

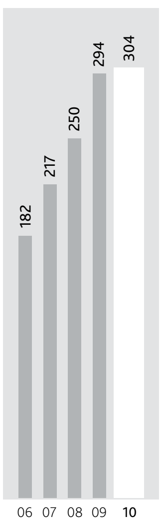
Cochlear attended several key industry conferences during F10 to meet with customers and to showcase and demonstrate its technologies to a wide range of leading industry specialists, audiologists and surgeons. These events included ESPO 2010 (the International Congress for the European Society of Pediatric Otorhinolayngology) in Pamplona, Spain, EAONO (European Academy of Otology & Neuro-Otology) in Parma, Italy, and CI 2010 (the International Conference on Cochlear Implants) in Stockholm, Sweden. The latter is a biannual event attracting over 1,600 professional delegates, where this year Cochlear presented a range of product performance data, receiving positive feedback.

Outlook

Despite market conditions remaining challenging across the European region, Cochlear expects ongoing growth and continued sales momentum from its recent product launches.



Sales revenue ($million)



Employees (number)

The Asia Pacific region experienced good growth in a year of change with overall revenue up 13% (constant currency) to $97.1 million

Good growth in a year of change

Sales in Asia Pacific region of $97.1 million were up 13% in constant currency. This included 500 units sold into China for the donation program.

Building regional infrastructure

During F10, Cochlear Asia Pacific continued to build its infrastructure in the region, broadening its presence in India with a new company to house direct operations. There are now over 30 employees in India working directly with customers in a market with excellent growth potential.

In China, a wholly-owned foreign entity was created to support our ongoing growth in this important region. In Beijing, a dedicated team of over 20 people work alongside a team of committed local distributors.

New products continue to roll out in Asia Pacific

Asia Pacific's complex regulatory environment continues to drive a staggered launch program throughout the region. Cochlear Nucleus 5 was launched in a number of countries in F10 and was a major contributor to the region's growth. Countries with access to Nucleus 5 include Australia, Hong Kong, India, Malaysia, New Zealand, Singapore and Thailand.

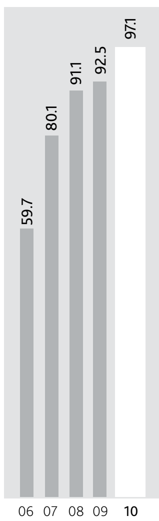
A number of other significant product launches occurred during the financial year including the introduction of Cochlear Baha BP100 and the limited release of Cochlear Hybrid following regulatory approval in both Australia and India. The Nucleus Freedom implant was launched in China and for the first time we were able to introduce Baha technology to that country following the approval of the Baha Intenso Sound Processor on Baha Softband.

Marketing initiatives

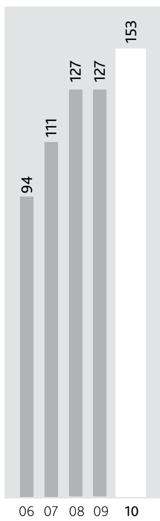
The Asia Pacific region leveraged the launch of its new products at the region's largest implantable hearing event, APSCI, held in Singapore in December 2009. This event, held every two years, attracted more than 700 implanting professionals from across the region and provided an opportunity to showcase Cochlear technologies to key industry customers.

Outlook

For F11, the focus remains on launching new products as regulatory approvals are gained and leveraging the direct presence Cochlear has established in F10 in India and China.



Sales revenue ($million)



Employees (number)

Cochlear has a focus on performance and learning, building its capability to deliver on its growth initiatives by building better teams and cross functional team work

Attracting and keeping the best people

In the competitive global talent market, Cochlear's priority is not only attracting but also retaining the best people. Over the past year, worldwide headcount grew by 224 to 2,239. Cochlear has also expanded its global business footprint with full time employees now working in offices in India and Turkey.

Investment in the Company's careers website and sourcing strategies have positioned Cochlear well for global recruiting and talent pool development. There is now an extensive database of talented people who have indicated an interest in working at Cochlear.

Cochlear's graduate engineering recruiting program, which is augmented by an active summer intern program, continues to attract high calibre recruits and builds the organisation's design and development and manufacturing capability for the future. Currently, Cochlear has 29 employees who joined the Company through this program.

Continually investing in individual, team and organisational capability

To support employees' learning and development, Cochlear has further developed its learning management system, Cochlear Academy, to provide a blend of flexible learning solutions. These include nearly 50 online learning modules on topics ranging from occupational health and safety to Cochlear products. This provides a range of learning options, modules and webinars, for employees around the globe and clinicians keen to learn more about our latest products.

Cochlear continued to deliver its Get Equipped induction program, which is a valuable learning tool to ensure a high global standard of knowledge for all employees. The Company continued to deploy its Leadership Architecture with learning interventions for individual leaders, people managers and managers of managers. In addition, investment continued to be made in global process improvement programs, which ensure Cochlear has a robust process management system and the capability to support its future growth.

Diversity is an important feature of Cochlear's working environment with over 60 nationalities represented at our Sydney office. Throughout F10, the Women in Leadership network continued to foster the development of female leaders at Cochlear. In addition to hosting lunchtime sessions with senior female speakers, the group has been active in university programs and has also piloted a program for high performing professionals and first level supervisors at Cochlear. In F10, 44% of new employees in Sydney were female. Over 47% of the global workforce is female and the proportion of executive managers at Cochlear (22%) is higher than the ASX benchmark (average 10.7%).

Ensuring the health and safety of employees

Cochlear remains committed to providing and maintaining a safe and healthy workplace for all employees. Occupational health and safety training is provided for new employees, including increased risk assessment training for changed and new processes. Wellness programs offered by Cochlear include an ergonomic assessment of workstation layout for individuals, free flu vaccinations, free eye screening and in-house Pilates classes.

Supporting the community

The Cochlear Foundation was established in 2007 and this philanthropic entity continued to support various programs promoting research and awareness of treatments for people with significant hearing impairment.

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

Promoting environmental responsibility

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

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

Technologic innovation is central to Cochlear's growth strategy and so ongoing investment in research and development remains a priority

In F10, the Company invested $94.9 million, which was 12.9% of revenue, in its R&D activities.

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

The fourth product line, the direct acoustic cochlear stimulator (DACS), was also advanced during year. A DACS clinical trial has commenced with the successful implantation of four recipients at the Medizinische Hochschule Hannover in Germany. The outcomes from these recipients are encouraging and confirm the design direction and viability of the DACS product.

Simplification of the use of Cochlear products remained a priority in F10, with development of clinical management tools and software used by hearing healthcare professionals in the ongoing care of Cochlear recipients.

The Cochlear Design and Development Department comprises approximately 300 specialists from a range of engineering technology disciplines and backgrounds worldwide. The work this group conducts builds on the research conducted in collaboration with over 130 research partners based in 20 countries.

Projects underway include work to improve hearing performance across each of Cochlear's product categories, optimisation of binaural hearing, miniaturisation, cosmetics, ease of use and totally implantable hearing solutions. The Design and Development Department also continues to work on improved connectivity and solutions to enable further market scalability and growth.

Clinical validation of the research is a key part of Cochlear's development work. This clinical validation is conducted in each of our sales regions in collaboration with leading clinics in the regions.

Manufacturing operations

Cochlear runs manufacturing operations in Australia and Sweden, which continue to deliver high quality, reliable products.

During F10, the Company successfully introduced two new product ranges into manufacturing. The cochlear implant manufacturing technicians have improved mechanisation, which has supported the delivery of the Nucleus 5. Today, approximately 800 people are employed across our manufacturing facilities.

Cochlear remains committed to ensuring that production methods and capacity meet the growing ongoing demand for our solutions. To support this, significant investment has been made to advance the manufacturing technologies we develop, which will drive scalability and productivity improvements. In F11, Cochlear will start its move to its new manufacturing facility and global headquarters at Macquarie Park in Sydney.

Quality assurance

To ensure the quality of all of its products, Cochlear operates within a quality assurance system, which complies with all applicable regulatory requirements around the world.

Device approvals

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

Intellectual property

Generating new intellectual property and protecting existing intellectual property are key strategic imperatives for Cochlear. As of June 2010, the Company had over 850 issued patents and pending patent applications worldwide.

1. Mr Rick Holliday-Smith, Chairman
Age 60. BA (Hons), FAICD – Appointed 1 March 2005

Director of Servcorp Limited since 1999 and ASX Limited since 2006. Chairman of Snowy Hydro Limited (not publicly listed) since 2006. Chairman of SFE Corporation Limited since 1999 until de-listing 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 Nominations Committee and Technology and Innovation Committee. Member of the Audit Committee and Remuneration Committee.

2. Dr Chris G Roberts, CEO/President
Age 56. BE (Hons), MBA, PhD, Hon DSc (Macq) FAICD, FTSE – Appointed 1 February 2004

Chief Executive Officer of Cochlear Limited. Director of ResMed Inc since 1992 and Chairman of Research Australia. Dr Roberts has worked in the medical device industry for more than 34 years in a number of senior management positions.

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

3. Mr Paul R Bell
Age 64. BA, MA (Hons) – Appointed 1 August 2005

Director of Biota Holdings Limited since 2006. Former director of Bio-Link Partners Limited (2005 – 2009) and GroPep Limited (2003 – 2006). Extensive executive career spanning 30 years with the international pharmaceutical company, Merck & Co Inc (Managing Director – Australia, 1988 – 1997; President of the Asia Pacific Human Health Division, 1997– 2002).

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

4. Prof Edward Byrne, AO
Age 58. DSc, MD, MBA, FRCP, FRACP – Appointed 1 July 2002

Vice Chancellor of Monash University. Board member of Neurosciences Victoria Limited. Former executive Dean of the Faculty of Biomedical Sciences, Vice Provost and Head of the Medical School at University College, London. Former Dean of Faculty of Medicine, Nursing and Health Sciences at Monash University, Melbourne (2003– 2006). Former director of BUPA, Neurosciences Australia Limited, the Baker Medical Research Institute, Burnet Medical Research Institute, Prince Henry's Medical Research Institute, Southern Health, and Mental Health Research Institute.

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

5. Mr Andrew Denver
Age 61. BSc (Hons), MBA, FAICD – Appointed 1 February 2007

Chairman of Universal Biosensor Pty Limited since 2005 (director since 2002). Director of CathRx Limited and Principals Cornerstone Management Pty Limited (not publicly listed). Former Managing Director of Memtec Limited and President Asia for Pall Corporation. Chairman of the Audit Committee. Member of the Nominations Committee, Remuneration Committee and Technology and Innovation Committee.

6. Mr Donal P O'Dwyer
Age 57. BE Civil, MBA – Appointed 1 August 2005

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

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

7. Mrs Yasmin Allen
Age: 46 – Appointed 2 August 2010

Director of Insurance Australia Group (IAG) since 2004 and Chair of IAG Audit Committee. Chair of Macquarie Specialised Asset Management (not listed) since 2003. Former non-executive director of Film Australia (2004 – 2008) and Export, Finance & Insurance Corporation (2001 – 2007) and Australian Red Cross Blood Service (2002 – 2005). Former Vice President of Deutsche Bank AG, Director of ANZ Investment Bank and Associate Director, HSBC, London.

Member of the Audit Committee, Nominations Committee and Technology and Innovation Committee.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1. Dr Chris Roberts – CEO/President

See “Board of Directors” on page 21.

2. Richard Brook – President, European Region

BSc Management, MBA

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

Before joining Cochlear in 2003, Richard held senior roles in Guidant Corporation and Alaris Medical Systems. He has 19 years’ experience in the medical device industry.

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

BE (Hons), PhD, FIEAust

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

She joined the Company in 2005 after more than 20 years’ experience in engineering and management roles in power generation and distribution, engineering education and the medical industry. Most recently, she worked as Asia Service Manager for GE Healthcare, Ultrasound based in Singapore. Bronwyn is Chair of the Medical Technology Association of Australia (MTAA), Chair of the National Board of the Engineers Australia Centre for Learning and Management (CELM) and a member of the Federal Government Future Manufacturing Industry Innovation Council.

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

BE (Hons), MBA

Dig is responsible for the development and execution of the strategic direction for the Cochlear supply chain. He and his team are responsible for the manufacture of all Cochlear products and all aspects of the supply chain, together with the introduction of new products from R&D into commercial production.

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

5. Jan Janssen – Senior Vice President, Design and Development

MScEE

Jan leads a team of over 250 highly qualified engineers and scientists who implement the R&D strategy. This includes responsibility for identifying and developing cutting-edge technologies and commercial products.

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

6. Michael Kavanagh – Senior Vice President, Global Marketing

BSc, MBA (Advanced)

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

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

7. Anne-Marie Leslie – Senior Vice President, Human Resources

BA (Hons), EMHRL

Anne-Marie joined Cochlear in February 2007 and is responsible for global human resources management. Her focus is on building people strategies to meet the demands of a fast growing, global company.

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

8. Neville Mitchell – Chief Financial Officer and Company Secretary

BComm, CA (SA), CA

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

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

9. David Morris – President, Bone Anchored Solutions

BBus, BAppSc

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

David was appointed as President, Bone Anchored Solutions in 2005, having 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. Jim Patrick – Senior Vice President, Chief Scientist

MSc

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

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

11. Mark Salmon – President, Asia Pacific Region

MBA (Executive)

Mark is responsible for the development and execution of the strategic direction for all our operations in Australia, Asia and the South Pacific. This high potential region has complex regulatory sales and marketing drivers which require coordination of sales, marketing, third party distribution, regulatory and clinical infrastructure development activities. Mark also has global responsibility for Cochlear's information technology strategy and systems.

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

12. Chris Smith – President, Americas Region

BSc

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

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

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

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

In this Corporate Governance Report, Cochlear sets out the key governance principles and practices of Cochlear and reports against the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (August 2007) (Guidelines). A checklist of the recommendations made in the Guidelines is set out at the end of this report. References to recommendations in the Guidelines are made throughout this report in order to indicate how Cochlear complies with the recommendations. All policies and terms of reference referred to in this report are published on the Company's website www.cochlear.com in the Corporate Governance section, unless stated otherwise. The Corporate Governance section is located under the Investor Relations tab on the Company's website. Cochlear's corporate governance policies and procedures are reviewed on a regular basis and updated where appropriate. Cochlear notes that an amended version of the Guidelines will come into effect on 1 January 2011 (Revised Guidelines).

Principle 1: Lay solid foundations for management and oversight

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

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

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

The Chairman is responsible for leading the Board in the performance of its duties. The Board's prime objectives are to improve shareholder returns and to achieve disciplined and sustainable growth. The full Board meets for at least eight scheduled meetings each year. Other meetings are called as and when necessary. A summary of meeting attendance (including committee meeting attendance) for F10 is set out in the Directors' Report at page 32 (Recs 2.6, 4.4 and 8.3). At each Board meeting, the non-executive directors meet for a period without management or any executive directors present. Throughout the year, the Board has regular scheduled discussions on various aspects of the Company's strategy.

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

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

Principle 2: Structure the board to add value

Composition of the Board

As at 30 June 2010, the Board comprised six non-executive directors and one executive director, the CEO/President. Mr Tommie Bergman retired as a director and as Chairman with effect from 30 June 2010. Mr Rick Holliday-Smith succeeded Mr Bergman as Chairman with effect from 1 July 2010. The Board appointed Mrs Yasmin Allen as a new non-executive director with effect from 2 August 2010. Mrs Yasmin Allen will hold office until the 2010 AGM and will then stand for election at that meeting. The directors consider that, between them, they possess the necessary skills, knowledge and experience to allow the Board to perform its duties appropriately. Between them, the directors bring to the Board scientific, medical, technical and financial expertise, as well as international business experience. Summaries of the relevant skills, experience and expertise of each director are set out on page 21 (Rec 2.6).

The policy for appointment of directors and the selection process are outlined in the Nominations Committee Terms of Reference, which are published in the Corporate Governance section of the Cochlear website (Rec 2.6). The Nominations Committee assesses the necessary and desirable competencies of candidates for directorship. The selection process includes obtaining advice from an external consultant to assist in identifying suitable candidates who meet the required specifications. Upon appointment of a new director, the key terms and conditions and the Company's expectations of the appointee are set out in a letter to the new director. Cochlear notes the new Recommendation 3 in the Revised Guidelines with regard to gender diversity. The Nominations Committee already actively considers gender diversity in carrying out its role.

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

The Company's Constitution requires one third of the directors to retire from office at the AGM each year. Retiring directors are eligible for re-election. The CEO/President is excluded from this requirement. Prof Edward Byrne, AO and Mr Donal O'Dwyer, will retire at the 2010 AGM and will stand for re-election at that meeting. In accordance with the Company's Constitution, Mrs Yasmin Allen will stand for election at the 2010 AGM, it being the first AGM since her appointment by the Board. A review of the performance of the Board, its committees and individual directors is performed at least every two years, with the most recent being undertaken in 2010. The new Chairman Mr Rick Holliday-Smith undertook individual interviews and questionnaires and subsequently held evaluations with each individual director as to their performance over the past year. The findings of these reviews were then discussed at the Nominations Committee meeting held in July 2010. The Performance Evaluation Process Overview gives details of performance evaluation for the Board, its committees and individual directors (Rec 2.5). The Performance Evaluation Process Overview is published in the Corporate Governance section of the Cochlear website.

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

Independence

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

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

None of the non-executive directors has any business relationship with Cochlear. The total number of shares owned by non-executive directors is 15,350. This is considered immaterial.

The Board believes arbitrary limits on tenure may cause loss of experience and expertise that are important contributors to the efficient working of the Board. The Board does not currently believe that any non-executive directors have served on the Board for a period that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of the relevant director's judgement. The period of office of each director (including the former Chairman Mr Tommie Bergman) is disclosed at page 21. Currently, no director has served longer than nine years on the Board.

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

Board committees

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

Committee meeting agendas, papers and minutes are made available to all members of the Board. The chairman of each committee is free to use whatever resources they consider necessary to discharge the committee's responsibilities. The number of committee meetings held during the year and the attendance at these meetings by members (including the former Chairman Mr Tommie Bergman) is set out in the Directors' Report at page 32 (Recs 2.6, 4.4 and 8.3). With the exception of the Medical Science Committee and Technology and Innovation Committee, all members of the committees are independent non-executive directors. Executive director, Dr Chris Roberts, is a member of the Medical Science Committee and Technology and Innovation Committee.

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

Audit Committee (Rec 4.1)

The Audit Committee meets at least four times a year. In accordance with the trends in international practice, the Audit Committee consists entirely of independent non-executive directors (Rec 4.2). As at 30 June 2010, Mr Rick Holliday-Smith chaired the Committee, with the other members being the former Chairman of the Board Mr Tommie Bergman, Mr Andrew Denver and Mr Donal O'Dwyer (Recs 4.2 and 4.4). As Mr Rick Holliday-Smith is now the Chairman of the Board, he no longer chairs the Audit Committee, although he remains a member. Mr Andrew Denver, who is not Chairman of the Board, is presently the chairman of the Audit Committee (Rec 4.2). Mrs Yasmin Allen has been appointed to the Audit Committee. The Board considers that the Audit Committee is of a sufficient size and independence and possesses sufficient technical expertise to discharge its mandate effectively. An assessment of the technical expertise of the Committee's members occurs on an annual basis. The external and internal auditors, the CEO/President and the Chief Financial Officer (CFO) and other executives are invited to the meetings at the discretion of the Committee. At each Committee meeting they attend, the external auditor reports on the outcome of their audit and other work. The Committee meets with the external auditor in the absence of members of management at every meeting that the external auditor attends. Summaries of the Committee members' technical expertise are set out at page 21 (Rec 4.4). The Audit Committee Terms of Reference set out the Committee's role and responsibilities, composition, structure and membership requirements. The Audit Committee Terms of Reference can be viewed in the Corporate Governance section of the Cochlear website (Recs 4.3 and 4.4).

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

The Committee's primary responsibilities include:

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

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

Remuneration Committee (Recs 8.1 and 8.2)

The Remuneration Committee meets at least three times a year. The Committee is chaired by Mr Paul Bell and, as at 30 June 2010, the other members of the Committee were the former Chairman of the Board Mr Tommie Bergman and Mr Rick Holliday-Smith. Mr Andrew Denver and Mr Donal O'Dwyer have been appointed to the Remuneration Committee. All members of the Remuneration Committee are independent non-executive directors (Rec 8.3). As the need arises, the CEO/President, CFO, Senior Vice President, Human Resources and other executives are invited to meetings at the discretion of the Committee.

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

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

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

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 35 to 44 (Rec 8.3).

Nominations Committee (Rec 2.4)

The Nominations Committee is chaired by the new Chairman of the Board Mr Rick Holliday-Smith and, as at 30 June 2010, the other members of the Committee were Mr Paul Bell, Prof Edward Byrne, AO, Mr Andrew Denver and Mr Donal O'Dwyer (Rec 2.6). The Nominations Committee is comprised entirely of independent non-executive directors. The former Chairman of the Board Mr Tommie Bergman was a member of and chaired the Nominations Committee until March 2010. Mrs Yasmin Allen has been appointed as an additional member of the Nominations Committee

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

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

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

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

Medical Science Committee

The Medical Science Committee was established during the 2003 financial year and meets at least biannually. The Committee is chaired by Prof Edward Byrne, AO, with the other members as at 30 June 2010 being Mr Donal O'Dwyer and Dr Chris Roberts. The Committee may invite any Cochlear executive to attend its meetings at its discretion.

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

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

Technology and Innovation Committee

The Technology and Innovation Committee was established during the 2003 financial year. As at 30 June 2010, the Committee was chaired by the former Chairman of the Board Mr Tommie Bergman, with the other members being Mr Paul Bell, Prof Edward Byrne, AO, Mr Andrew Denver, Mr Donal O'Dwyer and Dr Chris Roberts. The new Chairman of the Board Mr Rick Holliday-Smith succeeds Mr Tommie Bergman as chair of the Technology and Innovation Committee. Mrs Yasmin Allen has been appointed as an additional member of the Technology and Innovation Committee. Executives of the Company are invited to meetings at the discretion of the Committee. The Technology and Innovation Committee Terms of Reference set out the Committee's role and responsibilities, composition, structure and membership requirements. The Technology and Innovation Committee Terms of Reference can be viewed in the Corporate Governance section of the Cochlear website. The Committee oversees the strategic direction of the Company's technology research and product development programs with an emphasis on priority and resource allocation in line with the Company's agreed corporate strategy.

Principle 3: Promote ethical and responsible decision-making

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

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

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

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

The Company has documented policies on equal opportunity, occupational health and safety and standards of workplace behaviour, which are communicated to employees at the time of employment. These policies are reinforced by continuous performance management and employee training programs. These policies are internal documents and are not available on the Cochlear website.

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

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

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

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

Cochlear notes the changes to the ASX Listing Rules which will come into effect in January 2011 regarding share trading policies and the related changes in the Revised Guidelines.

Principle 4: Safeguard integrity in financial reporting

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

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

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

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

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

Principle 5: Make timely and balanced disclosure

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

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

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

Principle 6: Respect the rights of shareholders

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

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

The Board's philosophy is to encourage full participation of shareholders at the AGM to ensure a high level of accountability and identification with Cochlear's strategy and goals. The Company provides a forum to address individual shareholders' questions at each AGM. The external auditor attends the AGM and is available to answer questions about the conduct of the audit and the preparation and content of the Audit Report.

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

Principle 7: Recognise and manage risk

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

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

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

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

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

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

Principle 8: Remunerate fairly and responsibly

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

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

The Remuneration Policy is built around principles that:

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

Details of F10 remuneration (including retirement benefits) of the directors (including the former Chairman of the Board Mr Tommie Bergman), the five highest paid executive officers of the Consolidated Entity and Company and specified executives are included in the Remuneration Report on pages 35 to 44. Further disclosure in relation to the remuneration philosophy is included in the Remuneration Report. Cochlear notes amended Recommendation 8 in the Revised Guidelines.

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

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

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

Senior executives' remuneration policy (Recs 8.2 and 8.3)

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

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

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

Contents

The directors present their report, together with the Consolidated Financial Report of the Consolidated Entity (Cochlear), being Cochlear Limited (the Company) and its controlled entities, for the year ended 30 June 2010, 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 TCE Bergman (retired 30 June 2010), Mr PR Bell, Prof E Byrne, AO, Mr A Denver, Mr R Holliday-Smith, Mr DP O'Dwyer, Mrs Y Allen (appointed 2 August 2010) and Dr CG Roberts.

Mr R Holliday-Smith was appointed Chairman effective from 1 July 2010.

Information on the directors is presented in the Annual Report.

Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

	Board of directors		Audit Committee		Medical Science Committee		Nominations Committee		Remuneration Committee		Technology and Innovation Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr TCE Bergman	12	12	5	5	-	-	3	2	4	4	2	2
Mr PR Bell	12	12	-	-	-	-	3	3	4	4	2	2
Prof E Byrne, AO	12	12	-	-	2	2	3	3	-	-	2	2
Mr A Denver	12	12	5	5	-	-	3	3	-	-	2	2
Mr R Holliday-Smith	12	12	5	5	-	-	3	3	4	4	-	-
Mr DP O'Dwyer	12	12	5	5	2	2	3	3	-	-	2	2
Dr CG Roberts	12	12	-	-	2	2	-	-	-	-	2	2

Principal activities and review of operations and results

The principal activities and a review of the operations of Cochlear during the year ended 30 June 2010, and the results of these operations are set out in the CEO/President's Report and the Financial Discussion and Analysis sections of the Annual Report.

Other than as discussed in the CEO/President's Report and the Financial Discussion and Analysis, there were no significant changes in the nature of those activities during the year ended 30 June 2010.

Consolidated results

The consolidated results for the financial year are:

	2010 $000	2009 $000
Revenue	734,803	694,699
Profit before income tax	209,351	176,268
Net profit	155,152	130,540
Basic earnings per share (cents)	275.7	233.7
Diluted earnings per share (cents)	274.2	233.2

Dividends

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

Type	Cents per share	Total amount $000	Date of payment	Tax rate for franking credit
In respect of the previous financial year: Final – ordinary shares	95.0	53,384	24 September 2009	30%
In respect of the current financial year: Interim – ordinary shares	95.0	53,705	16 March 2010	30%

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

The final dividend in respect of the current financial year has not been provided for in the Financial Report as it was not declared until after 30 June 2010. Since the end of the financial year, the directors declared a final 105.0 cents per share dividend, 60% franked at the tax rate of 30%, amounting to a total of $59,370,571.

Environmental regulations

Cochlear's operations are not subject to any significant environmental regulations under either Commonwealth of Australia or State/Territory legislation. However, the Board believes that Cochlear has adequate systems in place to manage its environmental obligations and is not aware of any breach of those environmental requirements as they apply to Cochlear.

Non-audit services

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

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

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

	Consolidated	
	2010 $	2009 $
Audit services		
Auditors of the Company:		
KPMG Australia:		
- audit and review of financial reports	552,700	572,000
- other audit services	-	111,934
- other regulatory compliance services	6,978	17,000
Overseas KPMG firms:		
- audit and review of financial reports	564,978	639,309
- other regulatory compliance services	12,579	38,218
Total audit services	**1,137,235**	**1,378,461**
Non-audit services		
Auditors of the Company:		
KPMG Australia:		
- taxation compliance services	589,651	1,621,676
- other tax related services	107,043	106,739
Overseas KPMG firms:		
- taxation compliance services	461,149	557,366
Total non-audit services	**1,157,843**	**2,285,781**

State of affairs

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

Likely developments

Further information as to likely developments in the operations of Cochlear and the expected results of those operations in subsequent financial years has not been included in this Directors' Report because the directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to Cochlear.

Remuneration Report – audited

Remuneration Committee

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

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

Remuneration policies

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

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

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

Remuneration structure

Senior executives

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

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

The remuneration structure is designed to strike a balance between fixed and variable remuneration. Variable remuneration is tied to performance and is at risk. The table below details the percentage remuneration components of the directors and senior executives at target levels of performance:

	Fixed	Variable or at risk remuneration	
	Base salary	Short-term bonus	Long-term equity
Directors			
Mr TCE Bergman (Chairman)	100%	-	-
Mr PR Bell	100%	-	-
Prof E Byrne, AO	100%	-	-
Mr A Denver	100%	-	-
Mr R Holliday-Smith	100%	-	-
Mr DP O'Dwyer	100%	-	-
Dr CG Roberts (CEO/President)	50%	25%	25%
Senior executives – Consolidated Entity			
Mr R Brook (President, European Region)	56%	22%	22%
Mr NJ Mitchell (Chief Financial Officer and Company Secretary)	58%	19%	23%
Mr MD Salmon (President, Asia Pacific Region)	56%	22%	22%
Mr CM Smith (President, Americas Region)	56%	22%	22%
Mr DN Morris (President, Bone Anchored Solutions)	60%	20%	20%
Senior executives – Company			
Mr D Howitt (Senior Vice President, Manufacturing and Logistics)	60%	20%	20%
Mr J Janssen (Senior Vice President, Design and Development)	60%	20%	20%

Service contracts

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

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

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

Base salary and benefits

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

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

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

Variable remuneration

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

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

Cochlear Management Short Term Incentive Plan

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

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

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

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

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

Cochlear Executive Long Term Incentive Plan

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

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

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

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

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

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

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

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

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

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

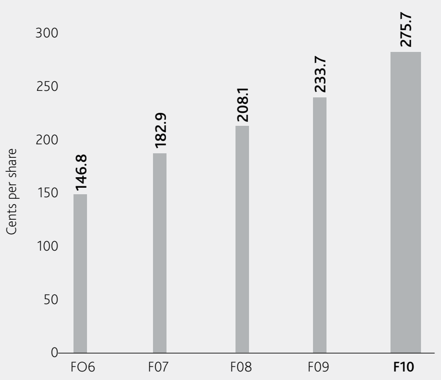
The following factors and assumptions were used in determining the fair value of options on grant date using the Black-Scholes model:

Grant date	Option life	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate per annum	Dividend yield per annum
17 August 2009	3 – 5 years	$9.04	$60.04	$61.15	33.2%	4.92%	2.62%

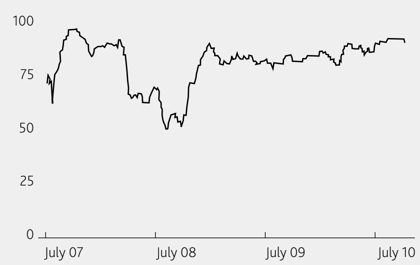
Performance of Cochlear in current CELTIP cycle

Depicted in the charts below is a comparison of basic EPS of Cochlear for the financial years 2006 to 2010 and the TSR performance of Cochlear relative to the S&P/ASX 100 for financial years 2008 to 2010:

Cochlear EPS performance



Cochlear TSR performance



For the year ended 30 June 2010, the growth in basic EPS was 18% and the increase in total return to Cochlear Limited shareholders (as measured from the change in share price plus dividends paid) was 30%.

Consequences of performance on shareholder wealth

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

Amounts $	2010	2009	2008	2007	2006
Net profit attributable to equity holders of the parent entity (million)	155.2	130.5	115.2	100.1	80.0
Dividends paid (million)	107.1	89.5	77.9	60.4	49.1
Share price at 30 June	74.32	57.70	43.65	61.00	54.63

Executive director

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

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

Dr CG Roberts' appointment has no fixed term and a notice period of six months. If Cochlear terminates Dr CG Roberts' employment without cause, he will be entitled to receive an amount equivalent to 12 months of his total fixed remuneration plus the amount of benefits under the CMSTIP pro-rated to the date of termination.

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

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

Non-executive directors

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

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

At the date of this report, the Chairman of Cochlear is Mr R Holliday-Smith. His director's fees are set at three times the base fee for non-executive directors. He does not receive any additional fees for serving on committees of the Board.

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

On 23 October 2006, the Board determined that it should implement changes to non-executive director remuneration consistent with developing market practice and guidelines by discontinuing the ongoing accrual of benefits under the existing retirement scheme once the remaining members of the scheme reached their five year service period. The benefits accrued to that date will be indexed by reference to the 90 day bank bill rate.

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

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

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

Directors' and senior executives' remuneration details

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

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

	Year	Fixed remuneration						Variable remuneration				Total	Proportion of total remuneration	
		Short-term		Long-term			Total	Short-term	Equity compensation(i), (iv)		Total		Performance related	Equity related
Amounts $		Salary and fees	Non-monetary benefits(ii)	Super-annuation benefits	Termination benefits(iii)	Long service leave		Bonus(i)	Value of options	Value of perform-ance shares			%	%
Directors														
Non-executive														
Mr TCE Bergman (Chairman)	2010	424,805	-	14,461	36,476	-	475,742	-	-	-	-	475,742	-	-
	2009	396,981	-	13,745	37,787	-	448,513	-	-	-	-	448,513	-	-
Mr PR Bell	2010	167,563	-	14,282	-	-	181,845	-	-	-	-	181,845	-	-
	2009	157,096	-	13,415	-	-	170,511	-	-	-	-	170,511	-	-
Prof E Byrne, AO	2010	149,909	-	13,492	14,937	-	178,338	-	-	-	-	178,338	-	-
	2009	142,173	-	12,677	15,474	-	170,324	-	-	-	-	170,324	-	-
Mr A Denver	2010	162,371	-	14,178	-	-	176,549	-	-	-	-	176,549	-	-
	2009	152,142	-	13,318	-	-	165,460	-	-	-	-	165,460	-	-
Mr R Holliday-Smith	2010	188,332	-	14,544	-	-	202,876	-	-	-	-	202,876	-	-
	2009	176,981	-	13,745	-	-	190,726	-	-	-	-	190,726	-	-
Mr DP O'Dwyer	2010	170,678	-	14,345	-	-	185,023	-	-	-	-	185,023	-	-
	2009	160,142	-	13,539	-	-	173,681	-	-	-	-	173,681	-	-
Executive														
Dr CG Roberts (CEO/President)	2010	1,137,844	-	14,461	-	28,398	1,180,703	490,951	461,393	-	952,344	2,133,047	44.6%	21.6%
	2009	1,045,000	-	13,745	-	28,789	1,087,534	455,684	449,812	9,226	914,722	2,002,256	45.7%	22.9%

	Year	Fixed remuneration					Variable remuneration				Total	Proportion of total remuneration	
		Short-term		Long-term		Total	Short-term	Equity compensation(i), (iv)		Total		Performance related	Equity related
Amounts $		Salary and fees	Non-monetary benefits(ii)	Superannuation benefits	Long service leave		Bonus(i)	Value of options	Value of performance shares			%	%
Executives													
Consolidated Entity													
Mr R Brook(v), (vi) (President, European Region)	2010	422,945	66,293	36,208	-	525,446	141,396	142,283	-	283,679	809,125	35.1%	17.6%
	2009	457,653	73,345	39,132	-	570,130	154,943	142,528	4,196	301,667	871,797	34.6%	16.8%
Mr NJ Mitchell(v), (vi), (vii) (Chief Financial Officer and Company Secretary)	2010	425,506	-	108,188	16,898	550,592	140,589	146,475	-	287,064	837,656	34.3%	17.5%
	2009	391,917	-	100,019	17,155	509,091	132,832	133,193	3,245	269,270	778,361	34.6%	17.5%
Mr MD Salmon(v), (vi), (vii) (President, Asia Pacific Region)	2010	457,002	-	14,461	12,702	484,165	131,833	137,905	-	269,738	753,903	35.8%	18.3%
	2009	423,613	-	13,745	9,414	446,772	115,786	126,905	3,154	245,845	692,617	35.5%	18.8%
Mr CM Smith(v), (vi) (President, Americas Region)	2010	486,021	23,969	14,023	-	524,013	196,218	136,739	39,690	372,647	896,660	41.6%	19.7%
	2009	540,496	26,720	16,757	-	583,973	175,813	138,490	39,424	353,727	937,700	37.7%	19.0%
Mr DN Morris(v) (President, Bone Anchored Solutions)	2010	412,168	-	14,461	9,379	436,008	118,891	110,085	-	228,976	664,984	34.4%	16.6%
	2009	383,833	-	13,745	9,432	407,010	113,322	106,318	2,653	222,293	629,303	35.3%	17.3%
Company													
Mr D Howitt(v) (Senior Vice President, Manufacturing and Logistics)	2010	396,557	-	14,461	12,454	423,472	114,939	103,360	-	218,299	641,771	34.0%	16.1%
	2009	367,417	-	13,745	12,464	393,626	108,309	96,908	2,374	207,591	601,217	34.5%	16.5%
Mr J Janssen(v), (vi), (vii) (Senior Vice President, Design and Development)	2010	404,345	-	14,461	8,984	427,790	117,415	112,279	-	229,694	657,484	34.9%	17.1%
	2009	378,497	-	13,745	10,412	402,654	111,262	114,722	1,952	227,936	630,590	36.1%	18.5%

(i) Short-term and long-term incentive bonuses are granted annually. The grant date is tied to the performance appraisal, which for the current year was completed by 30 June 2010. The service and performance criteria are set out in this report.

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

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

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

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

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

(vii) Denotes Consolidated Entity and Company executives.

Exercise of options granted as remuneration

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

	Number of shares	Amount paid $/share
Executive director		
Dr CG Roberts	78,991	39.93
Executives		
Consolidated Entity		
Mr MD Salmon	27,011	39.93
Mr CM Smith	23,474	43.98
Mr DN Morris	22,706	39.93
Company		
Mr D Howitt	20,325	39.93
Mr J Janssen	16,713	39.93

During the previous financial year, 127,702 options were exercised. There are no amounts unpaid on the shares issued as a result of the exercise of the options in prior years.

Analysis of bonuses included in remuneration

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

	Short-term incentive bonus		
Amounts $	Included in remuneration	% vested in financial year(i)	% forfeited during financial year(ii)
Executive director			
Dr CG Roberts	490,951	88.3%	11.7%
Executives			
Consolidated Entity			
Mr R Brook	141,396	83.6%	16.4%
Mr NJ Mitchell	140,589	87.6%	12.4%
Mr MD Salmon	131,833	72.6%	27.4%
Mr CM Smith	196,218	100.5%	-
Mr DN Morris	118,891	88.1%	11.9%
Company			
Mr D Howitt	114,939	88.1%	11.9%
Mr J Janssen	117,415	87.9%	12.1%

(i) Amounts included in remuneration for the financial year represent the amounts that vested in the financial year based on achievement of personal goals and satisfaction of specified performance goals. No amounts vest in future financial years in respect of the CMSTIP for the 2010 financial year.

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

Analysis of share based payments granted as remuneration

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

		Options					Performance shares				
	Date of grant(iv)	Number granted	% vested in financial year	% forfeited in financial year(i)	Value yet to vest Min(ii) $	Max(iii) $	Number granted	% vested in financial year	% forfeited in financial year(i)	Value yet to vest Min(ii) $	Max(iii) $
Executive director											
Dr CG Roberts	21 August 2006	70,422	92%	8%	-	-	-	-	-	-	-
	20 August 2007	59,088	-	-	-	481,565	-	-	-	-	-
	18 August 2008	101,412	-	-	-	529,371	-	-	-	-	-
	17 August 2009	58,599	-	-	-	529,735	-	-	-	-	-
Executives											
Consolidated Entity											
Mr R Brook	21 August 2006	23,239	92%	8%	-	-	-	-	-	-	-
	20 August 2007	17,422	-	-	-	141,987	-	-	-	-	-
	18 August 2008	30,285	-	-	-	158,088	-	-	-	-	-
	17 August 2009	19,663	-	-	-	177,754	-	-	-	-	-
Mr NJ Mitchell	21 August 2006	18,980	92%	8%	-	-	-	-	-	-	-
	20 August 2007	15,644	-	-	-	127,501	-	-	-	-	-
	18 August 2008	35,824	-	-	-	187,001	-	-	-	-	-
	17 August 2009	20,686	-	-	-	187,001	-	-	-	-	-
Mr MD Salmon	21 August 2006	18,422	92%	8%	-	-	-	-	-	-	-
	20 August 2007	14,891	-	-	-	121,362	-	-	-	-	-
	18 August 2008	33,446	-	-	-	174,588	-	-	-	-	-
	17 August 2009	19,344	-	-	-	174,870	-	-	-	-	-
Mr CM Smith	21 August 2006	28,849	92%	8%	-	-	-	-	-	-	-
	20 August 2007	12,577	-	-	-	102,500	2,377	-	-	-	68,333
	18 August 2008	29,714	-	-	-	155,107	1,726	-	-	-	38,783
	17 August 2009	22,379	-	-	-	202,306	-	-	-	-	-
Mr DN Morris	21 August 2006	16,157	92%	8%	-	-	-	-	-	-	-
	20 August 2007	13,296	-	-	-	108,361	-	-	-	-	-
	18 August 2008	25,074	-	-	-	130,886	-	-	-	-	-
	17 August 2009	14,505	-	-	-	131,125	-	-	-	-	-
Company											
Mr D Howitt	21 August 2006	13,974	92%	8%	-	-	-	-	-	-	-
	20 August 2007	12,211	-	-	-	99,517	-	-	-	-	-
	18 August 2008	24,032	-	-	-	125,447	-	-	-	-	-
	17 August 2009	13,903	-	-	-	125,683	-	-	-	-	-
Mr J Janssen	21 August 2006	21,217	92%	8%	-	-	-	-	-	-	-
	20 August 2007	13,396	-	-	-	109,174	-	-	-	-	-
	18 August 2008	24,819	-	-	-	129,555	-	-	-	-	-
	17 August 2009	14,358	-	-	-	129,796	-	-	-	-	-

(i) The percentage forfeited in the financial year represents the reduction from the maximum number of options and performance shares available to vest due to EPS, TSR or employee service periods not being met.

(ii) The minimum value of options and performance shares yet to vest is nil as the performance criteria may not be met and consequently, the options and performance shares may not vest.

(iii) The maximum value of options and performance shares yet to vest is not determinable as it depends on the market price of shares of the Company on the ASX at the date the option and performance shares vest. The maximum values disclosed above are based on the valuations as per this report.

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

Analysis of movements in options

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

	Value of options		
Amounts $	Granted in year(i)	Exercised in year(ii)	Forfeited in year(ii)
Executive director			
Dr CG Roberts	529,735	1,798,983	102,215
Executives			
Consolidated Entity			
Mr R Brook	177,754	-	33,740
Mr NJ Mitchell	187,001	-	27,545
Mr MD Salmon	174,870	484,847	26,747
Mr CM Smith	202,306	466,498	19,675
Mr DN Morris	131,125	518,832	23,449
Company			
Mr D Howitt	125,683	492,068	20,288
Mr J Janssen	129,796	299,998	30,794

(i) The value of options granted in the year is the fair value of the options calculated at grant date using a Black-Scholes model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years 30 June 2010 to 30 June 2013).

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

Other items – unaudited

Unissued shares under option

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

Number of options	Plan	Exercise price per share	Exercise period
312,058	CELTIP	$49.43	August 2009 – September 2011
378,811	CELTIP	$63.18	August 2010 – September 2012
696,113	CELTIP	$49.91	August 2011 – September 2013
431,619	CELTIP	$60.04	August 2012 – September 2014

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

The closing share price at 30 June 2010 was $74.32.

During the financial year, the Company granted 435,606 options over ordinary shares to employees under the CELTIP. The options are exercisable in the two years following lodgement with the ASX of the Company's preliminary final report for the year ending 30 June 2012. The number of options which will be exercisable is dependent on the performance measures and retention requirements set out in this Remuneration Report.

During the year, 51,930 options granted by the Company were forfeited.

Directors' interests

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

	Cochlear Limited ordinary shares	Options over ordinary shares
Mr PR Bell	2,500	-
Prof E Byrne, AO	2,000	-
Mr A Denver	2,500	-
Mr R Holliday-Smith	2,500	-
Mr DP O'Dwyer	3,350	-
Dr CG Roberts	660,592	283,817

Indemnification of officers

Under the terms of Article 35 of the Company's Constitution, and to the extent permitted by law, the Company has indemnified the directors of the Company named in this Directors' Report, the Company Secretary, Mr NJ Mitchell, and other persons concerned in or taking part in the management of the Consolidated Entity. The indemnity applies when persons are acting in their capacity as officers of the Company in respect of:

- liability to third parties (other than the Company or related bodies corporate), if the relevant officer has acted in good faith; and
- costs and expenses of successfully defending legal proceedings in which relief under the Corporations Act 2001 is granted to the relevant officer.

Insurance premiums

During the financial year, the Company paid a premium for Directors' and Officers' Liability Insurance policy and a Supplementary Legal Expenses Insurance policy. The insurance provides cover for the directors named in this Directors' Report, the Company Secretary, and officers and former directors and officers of the Company. The insurance also provides cover for present and former directors and officers of other companies in the Consolidated Entity. The directors have not included 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 2010, see Note 9 to the financial statements.

Lead auditor’s independence declaration

The lead auditor’s independence declaration is set out on page 47 and forms part of the Directors’ Report for the financial year ended 30 June 2010.

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 10th day of August 2010.

Signed in accordance with a resolution of the directors:

Director

Director

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

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2010 there have been:

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

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

KPMG

KPMG

Sydney, 10 August 2010

Kevin Leighton, Partner

	Note	2010 $000	2009 $000
Revenue	5(a)	734,803	694,699
Cost of sales	5(b)	(202,191)	(196,244)
Gross profit		**532,612**	**498,455**
Other income	5(c)	9,064	3,081
Selling and general expenses		(183,705)	(185,230)
Administration expenses		(43,722)	(44,979)
Research and development expenses	5(b)	(94,897)	(96,682)
Results from operating activities		**219,352**	**174,645**
Finance income	6	2,406	10,474
Finance expense	6	(12,407)	(8,851)
Net finance (expense)/income		**(10,001)**	**1,623**
Profit before income tax		**209,351**	**176,268**
Income tax expense	8	(54,199)	(45,728)
Net profit		**155,152**	**130,540**
Basic earnings per share (cents)	11	275.7	233.7
Diluted earnings per share (cents)	11	274.2	233.2

The notes on pages 53 to 101 are an integral part of these consolidated financial statements.

	Note	2010 $000	2009 $000
Net profit		**155,152**	**130,540**
Other comprehensive income			
Foreign currency translation differences	6	(28,562)	(12,084)
Effective portion of changes in fair value of cash flow hedges, net of tax	6	52,921	(15,376)
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	6	(27,056)	11,990
Total other comprehensive income		**(2,697)**	**(15,470)**
Total comprehensive income		**152,455**	**115,070**

The notes on pages 53 to 101 are an integral part of these consolidated financial statements.

Balance Sheet Cochlear Limited and its controlled entities as at 30 June 2010

	Note	2010 $000	2009 $000
Assets			
Cash and cash equivalents	22(a)	42,808	80,016
Trade and other receivables	12	210,690	173,256
Capitalised building costs – construction of Headquarters	28	74,326	-
Inventories	13	104,407	105,944
Current tax assets	16	7,695	3,898
Prepayments		7,962	8,205
Total current assets		**447,888**	**371,319**
Trade and other receivables	12	25,143	20,456
Capitalised building costs – construction of Headquarters	28	-	10,630
Property, plant and equipment	14	49,597	46,794
Intangible assets	15	211,839	208,275
Deferred tax assets	16	17,252	21,899
Total non-current assets		**303,831**	**308,054**
Total assets		**751,719**	**679,373**
Liabilities			
Trade and other payables		70,763	64,881
Loans and borrowings – construction of Headquarters	17, 28	73,811	-
Current tax liabilities	16	12,630	5,362
Provisions	19	36,896	32,222
Deferred revenue		19,048	14,678
Total current liabilities		**213,148**	**117,143**
Trade and other payables		5,724	56
Loans and borrowings – operations	17	82,934	176,586
Loans and borrowings – construction of Headquarters	17, 28	-	11,997
Provisions	19	11,605	9,178
Deferred tax liabilities	16	-	179
Total non-current liabilities		**100,263**	**197,996**
Total liabilities		**313,411**	**315,139**
Net assets		**438,308**	**364,234**
Equity			
Share capital		117,016	97,435
Reserves		22,269	15,839
Retained earnings		299,023	250,960
Total equity		**438,308**	**364,234**

The notes on pages 53 to 101 are an integral part of these consolidated financial statements.

Amounts $000	Issued capital	Treasury reserve	Translation reserve	Hedging reserve	Share based payment reserve	Retained earnings	Total equity
2009							
Balance at 1 July 2008	85,064	(2,092)	(10,130)	23,165	13,398	209,936	319,341
Total comprehensive income							
Net profit	-	-	-	-	-	130,540	130,540
Other comprehensive income							
Foreign currency translation differences	-	-	(12,084)	-	-	-	(12,084)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(15,376)	-	-	(15,376)
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	-	-	-	11,990	-	-	11,990
Total other comprehensive income	**-**	**-**	**(12,084)**	**(3,386)**	**-**	**-**	**(15,470)**
Total comprehensive income	**-**	**-**	**(12,084)**	**(3,386)**	**-**	**130,540**	**115,070**
Transactions with owners, recorded directly in equity							
Shares issued	14,363	100	-	-	-	-	14,463
Share based payment transactions	-	-	-	-	4,876	-	4,876
Dividends to shareholders	-	-	-	-	-	(89,516)	(89,516)
Balance at 30 June 2009	**99,427**	**(1,992)**	**(22,214)**	**19,779**	**18,274**	**250,960**	**364,234**
2010							
Balance at 1 July 2009	99,427	(1,992)	(22,214)	19,779	18,274	250,960	364,234
Total comprehensive income							
Net profit	-	-	-	-	-	155,152	155,152
Other comprehensive income							
Foreign currency translation differences	-	-	(28,562)	-	-	-	(28,562)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	52,921	-	-	52,921
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	-	-	-	(27,056)	-	-	(27,056)
Total other comprehensive income	**-**	**-**	**(28,562)**	**25,865**	**-**	**-**	**(2,697)**
Total comprehensive income	**-**	**-**	**(28,562)**	**25,865**	**-**	**155,152**	**152,455**
Transactions with owners, recorded directly in equity							
Shares issued	20,415	(834)	-	-	-	-	19,581
Share based payment transactions	-	-	-	-	9,127	-	9,127
Dividends to shareholders	-	-	-	-	-	(107,089)	(107,089)
Balance at 30 June 2010	**119,842**	**(2,826)**	**(50,776)**	**45,644**	**27,401**	**299,023**	**438,308**

The notes on pages 53 to 101 are an integral part of these consolidated financial statements.

	Note	2010 $000	2009 $000
Cash flows from operating activities			
Cash receipts from customers		704,205	689,079
Cash paid to suppliers and employees		(474,824)	(491,288)
Grant and other income received		9,064	2,846
Interest received		1,510	1,302
Interest paid		(9,373)	(9,359)
Income taxes paid		(51,036)	(45,952)
Net cash provided by operating activities	22(b)	**179,546**	**146,628**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(17,506)	(19,900)
Proceeds from sale of non-current assets		-	156
Acquisition of enterprise resource planning system		(4,385)	(2,644)
Acquisition of intangible assets		(6,786)	(17,437)
Payments for construction of Headquarters	28	(63,696)	(6,687)
Net cash used in investing activities		**(92,373)**	**(46,512)**
Cash flows from financing activities			
Proceeds of borrowings – secured loans		-	100,424
Repayments of borrowings – secured loans		-	(269,569)
Proceeds of borrowings – multi-option credit facility		64,500	208,000
Repayments of borrowings – multi-option credit facility		(158,500)	(34,000)
Proceeds of borrowings – construction of Headquarters		61,814	11,997
Proceeds from issue of share capital		19,581	14,463
Dividends paid by the parent entity	9	(107,089)	(89,516)
Net cash used in financing activities		**(119,694)**	**(58,201)**
Net (decrease)/increase in cash and cash equivalents		**(32,521)**	**41,915**
Cash and cash equivalents, net of overdrafts at 1 July		80,016	36,687
Effects of exchange fluctuation on cash held		(4,687)	1,414
Cash and cash equivalents, net of overdrafts at 30 June	22(a)	**42,808**	**80,016**

The notes on pages 53 to 101 are an integral part of these consolidated financial statements.

1. Reporting entity

Cochlear Limited (the Company) is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2010 comprise the Company and its controlled entities (together referred to as Cochlear or the Consolidated Entity). Cochlear operates in the implantable hearing device industry.

2. Basis of preparation

(a) Statement of compliance

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

The consolidated financial statements were approved by the Board of directors on 10 August 2010.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest one thousand dollars unless otherwise stated.

(d) Use of judgements and estimates

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

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

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

In particular, information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following note:

Note 15 – Intangible assets.

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

Note 19 – Provisions

Note 20 – Contingent liabilities

Note 25 – Employee benefits

Note 26 – Financial instruments.

(e) Changes in accounting policies

Starting as of 1 July 2009, Cochlear has changed its accounting policies in the following areas:

- Presentation of financial statements;
- Determination and presentation of operating segments;
- Accounting for business combinations; and
- Accounting for borrowing costs.

3. Significant accounting policies

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

(a) Basis of consolidation

Controlled entities

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

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

Transactions eliminated on consolidation

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

Special purpose entities

Cochlear has established special purpose entities (SPEs) for trading and investment purposes. An SPE is consolidated if, based upon an evaluation of the substance of its relationship with Cochlear and the SPE's risks and rewards, Cochlear concludes that it controls the SPE. SPEs controlled by Cochlear were established under terms that impose strict limitations on decision-making powers of the SPE's management.

(b) Income recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

Sales revenue

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

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

Other income

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

(c) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant taxation authority are classified as operating cash flows.

(d) Foreign currency

Foreign currency transactions

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

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

Financial statements of foreign operations

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

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

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

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

(e) Financial instruments

Derivative financial instruments

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

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

Derivative financial instruments are recognised initially at fair value. Attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value with changes in fair value accounted for as described below.

Non-derivative financial assets and liabilities

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the income statement, any attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

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

Determination of fair values

The fair value of forward exchange contracts is based upon the listed market price, if available. If a listed market price is not available, the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate based upon government bonds.

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

Other

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

Cash flow hedges

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

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

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

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

Hedges of net investment in foreign operations

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

(f) Cash and cash equivalents

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

(g) Provisions

A provision is recognised in the balance sheet when Cochlear has a present legal or constructive obligation as a result of a past event that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. The unwinding of the discount rate is recognised as a finance cost.

Warranties

Provisions for warranty claims are made for claims in relation to sales made prior to the reporting date, based on historical claim rates and respective product populations. Warranty periods on hardware products extend for three to 10 years. Cochlear is expected to incur the majority of the liability over the next 10 years.

Onerous contracts

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

Self-insurance

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

Make good lease costs

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

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

(h) Intangible assets

Goodwill

As from 1 July 2009, Cochlear adopted the revised AASB 3 Business Combinations (2008) and the amended AASB 127 Consolidated and Separate Financial Statements (2008). Revised AASB 3 and amended AASB 127 have been applied prospectively to business combinations with an acquisition date on or after 1 July 2009.

The change in accounting policy had no material impact on net profit or EPS.

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

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

Enterprise resource planning system

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

Research and development expenditure

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

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

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

Other intangible assets

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

Subsequent expenditure

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

Amortisation

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

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

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

(i) Impairment

Non-financial assets

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

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

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

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Financial assets

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

The recoverable amount of financial assets is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Financial assets with a short duration are not discounted. An impairment loss of a financial asset is measured as the difference between the asset's carrying amount and its recoverable amount.

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

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

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

(j) Property, plant and equipment

Owned assets

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

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

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

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

Leased assets

Operating leases

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property. Minimum lease payments include fixed rate increases.

Depreciation

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

Depreciation is recognised in the income statement on a straight-line basis. Items of property, plant and equipment, including leasehold assets, are depreciated using the straight-line method over their estimated useful lives, taking into account estimated residual values. Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that Cochlear will obtain ownership by the end of the lease term.

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

Leasehold improvements	2 – 12 years
Plant and equipment	3 – 14 years.

(k) Inventories

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

Cost is based on the first-in-first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location. In the case of manufactured inventories and work in progress, cost includes an appropriate share of both variable and fixed overhead costs. Fixed overhead costs are allocated on the basis of normal operating capacity.

(l) Employee benefits

Defined contribution plans

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

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

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

Defined benefit plans

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

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

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

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

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

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

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

Wages, salaries and annual leave

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

Long service leave

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

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

Share based payments

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

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

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

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

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

Treasury shares

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

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

(m) Receivables

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

(n) Taxation

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

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

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

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

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

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

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

Tax consolidation

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

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

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

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

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

Nature of tax funding arrangements and tax sharing arrangements

The Company, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to and from the Company equal to the current tax liability, current tax asset or deferred tax asset assumed by the Company. This results in the Company recognising an inter-entity receivable or payable equal in amount to the tax liability or asset assumed.

Contributions to fund the tax liabilities are payable as per the tax funding arrangement and reflect the timing of the Company's obligation to make payments for tax liabilities to the relevant taxation authorities.

The Company, in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. This tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the Company default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(o) Payables

Trade and other payables are stated at amortised cost.

(p) Loans and borrowings

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

(q) Finance income and expense

Interest income is recognised as it accrues in the income statement using the effective interest rate method. Borrowing costs are recognised as they accrue in the income statement as a finance expense except to the extent that borrowing costs relate to the purchase of qualifying assets in which case they are capitalised into the purchase cost of the qualifying asset as permitted by AASB 123 Borrowing Costs (2007). Debt establishment costs are capitalised and recognised as a reduction in loans and borrowings. They are calculated based on the effective interest rate method and are amortised over the period of the loan. Foreign exchange differences net of the effect of hedges on borrowings, are recognised in net finance income/(expense).

(r) Earnings per share

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

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

(s) Segment reporting

Determination and presentation of operating segments

As of 1 July 2009, Cochlear determines and presents operating segments based on the information that internally is provided to the Chief Executive Officer (CEO), who is Cochlear's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 Operating Segments. Previously, operating segments were determined and presented in accordance with AASB 114 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of IFRS 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on net profit or EPS.

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

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

(t) Share capital

Ordinary shares

Ordinary shares are classified as equity.

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

Repurchase of share capital (treasury shares)

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

Dividends

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

(u) Construction contracts

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

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

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

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

(v) Presentation of financial statements

Cochlear applies revised AASB 101 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, Cochlear presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. This presentation has been applied in this Financial Report at and for the year ended 30 June 2010.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on net profit or EPS.

(w) New standards and interpretations not yet adopted

The following standards, amendments to standards, and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this Financial Report:

- AASB 9 Financial Instruments;
- AASB 124 Related Party Disclosures;
- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project;
- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions;
- AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues;
- AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement; and
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

The impact of these standards and interpretations is not considered to be significant and will be applied by Cochlear on the relevant application date.

4. Financial risk management

Overview

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

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

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

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

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

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

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

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

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

Credit risk

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

Trade and other receivables

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

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

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

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

Guarantees

Details of guarantees provided by Cochlear are provided in Note 20.

Liquidity risk

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

Cochlear monitors cash flow requirements and produces cash flow projections for the short and long term with a view to optimising return on investments. Typically, Cochlear ensures that it has sufficient funds on demand to meet expected operational net cash flows for a period of at least 30 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, Cochlear maintains lines of credit which are set out in Note 17.

Market risk

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

Cochlear buys and sells derivatives in accordance with the treasury risk policy, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set out by the treasury risk policy. Generally, Cochlear seeks to apply hedge accounting in order to manage volatility in earnings.

Currency risk

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

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

Interest rate risk

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

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

Operational risk

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

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

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

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

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

Capital management

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

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

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

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

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

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

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

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

	Note	2010 $000	2009 $000
Total loans and borrowings		156,745	188,583
Less: Cash and cash equivalents		(42,808)	(80,016)
Group net debt		113,937	108,567
Less: Loans and borrowings – construction of Headquarters	28	(73,811)	(11,997)
Add: Cash and cash equivalents – construction of Headquarters	28	994	2,088
Net debt		**41,120**	**98,658**
Total equity		438,308	364,234
Net debt to equity ratio at 30 June		**9%**	**21%**

	Note	2010 $000	2009 $000
5. Revenue and expenses			
(a) Revenue			
Sale of goods before hedging		690,538	708,365
Foreign exchange gains/(losses) on hedged sales		38,652	(17,128)
Revenue from the sale of goods		**729,190**	**691,237**
Rendering of services		5,613	3,462
Revenue		**734,803**	**694,699**
(b) Expenses			
Cost of sales			
Carrying amount of inventories recognised as an expense		196,055	193,723
Write-down in value of inventories		6,136	2,521
Total cost of sales		**202,191**	**196,244**
Research and development expenses			
Research and development expenditure		94,881	96,497
Capitalised development expenditure – amortisation expense		16	185
Total research and development expenses		**94,897**	**96,682**
(c) Other income			
Grant received or due and receivable		760	1,888
Construction contract revenue, net of expense	28	-	-
Other income		8,304	1,193
Total other income		**9,064**	**3,081**
(d) Employee benefits expense			
Wages and salaries		167,667	165,332
Contributions to superannuation plans		11,745	11,196
Increase in leave liabilities		150	2,493
Equity settled share based payment transactions		5,068	4,876
Total employee benefits expense		**184,630**	**183,897**
(e) Profit before income tax has been arrived at after charging the following items:			
Operating lease rental expense		11,289	13,221
Increase in provisions		4,499	446
Loss on disposal of property, plant and equipment		470	1,185
Legal fees defending patent infringement complaint		655	5,570

	2010 $000	2009 $000
6. Net finance (expense)/income		
Recognised in the income statement		
Interest income	1,248	1,779
Net foreign exchange income	1,158	8,695
Finance income	**2,406**	**10,474**
Interest expense	(12,407)	(8,851)
Finance expense	**(12,407)**	**(8,851)**
Net finance (expense)/income recognised in the income statement	**(10,001)**	**1,623**
Recognised in other comprehensive income		
Foreign currency translation differences	(28,562)	(12,084)
Effective portion of changes in fair value of cash flow hedges, net of tax	52,921	(15,376)
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	(27,056)	11,990
Net finance expense recognised in other comprehensive income, net of tax	**(2,697)**	**(15,470)**

	2010 $	2009 $
7. Auditors' remuneration		
Audit services		
Auditors of the Company		
KPMG Australia:		
- audit and review of financial reports	552,700	572,000
- other audit services	-	111,934
- other regulatory compliance services	6,978	17,000
Overseas KPMG firms:		
- audit and review of financial reports	564,978	639,309
- other regulatory compliance services	12,579	38,218
Total audit services	**1,137,235**	**1,378,461**
Non-audit services		
Auditors of the Company		
KPMG Australia:		
- taxation compliance services	589,651	1,621,676
- other tax related services	107,043	106,739
Overseas KPMG firms:		
- taxation compliance services	461,149	557,366
Total non-audit services	**1,157,843**	**2,285,781**

	Note	2010 $000	2009 $000
## 8. Income tax expense			
Recognised in the income statement			
Current tax expense			
Current year		61,122	50,183
Adjustment for prior years		(3,329)	(1,413)
		57,793	**48,770**
Deferred tax (benefit)/expense			
Origination and reversal of temporary differences		(3,594)	(3,554)
Recognition of previously unrecognised tax losses		-	512
	16	**(3,594)**	**(3,042)**
Total income tax expense		**54,199**	**45,728**
Numerical reconciliation between income tax expense and profit before income tax			
Net profit		155,152	130,540
Income tax expense		54,199	45,728
Profit before income tax		209,351	176,268
Income tax expense using the Company's domestic tax rate of 30% (2009: 30%)		62,805	52,880
Increase in income tax expense due to:			
Non-deductible expenses		2,770	3,256
Decrease in income tax expense due to:			
Research and development allowances		(7,688)	(6,184)
Share based payment deductions		(305)	(1,813)
Effect of tax rate in foreign jurisdictions		(54)	(998)
		57,528	**47,141**
Adjustment for prior years		(3,329)	(1,413)
Income tax expense on profit before income tax		**54,199**	**45,728**
Deferred tax recognised directly in equity relating to share based payments		(4,059)	-
Total deferred tax recognised directly in equity	16	**(4,059)**	**-**
Deferred tax recognised in other comprehensive income relating to derivative financial instruments		11,585	(803)
Total deferred tax recognised in other comprehensive income	16	**11,585**	**(803)**

	Cents per share	Total amount $000	Franked/unfranked	Date of payment
9. Dividends				
Dividends recognised in the current financial year by the Company are:				
2010				
Interim 2010 ordinary	95.0	53,705	100% Franked	16 March 2010
Final 2009 ordinary	95.0	53,384	100% Franked	24 September 2009
Total amount	**190.0**	**107,089**		
2009				
Interim 2009 ordinary	80.0	44,834	100% Franked	17 March 2009
Final 2008 ordinary	80.0	44,682	100% Franked	25 September 2008
Total amount	**160.0**	**89,516**		

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

Subsequent events				
Since the end of the financial year, the directors declared the following dividends:				
Final 2010 ordinary	105.0	59,371	60% Franked	23 September 2010
Total amount	**105.0**	**59,371**		

The financial effect of the 2010 final dividend has not been brought to account in the financial statements for the year ended 30 June 2010 and will be recognised in the subsequent financial period.

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

	Company	
	2010 $000	2009 $000
Dividend franking account		
30% franking credits available to shareholders of Cochlear Limited for subsequent financial years	5,509	11,133

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

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

The ability to utilise the franking account credits is dependent upon the ability to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recorded as a liability is to reduce it by $15,266,718 (2009: $22,821,067).

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

10. Segment reporting

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

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

Comparative segment information has been re-presented in conformity with the requirement of AASB 8 Operating Segments.

Information about reportable segments

	Americas		Europe		Asia Pacific		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	$000	$000	$000	$000	$000	$000	$000	$000
External revenues	307,568	300,391	291,456	318,917	97,127	92,519	696,151	711,827
Reportable segment profit before income tax	158,305	156,011	138,451	167,734	30,888	32,894	327,644	356,639
Reportable segment assets	93,498	96,193	142,863	156,139	34,761	28,173	271,122	280,505
Reportable segment liabilities	43,545	69,252	59,899	62,394	14,269	13,795	117,713	145,441
Other material items								
Depreciation and amortisation	733	1,896	1,600	1,942	650	822	2,983	4,660
Write-down in value of inventories	225	57	207	1,531	194	279	626	1,867
Segment acquisition of non-current assets	631	1,462	758	3,239	264	777	1,653	5,478

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

	2010	2009
	$000	$000
Revenues		
Total segment revenue	696,151	711,827
Foreign exchange gains/(losses) on hedged sales	38,652	(17,128)
Consolidated revenue	**734,803**	**694,699**
Profit or loss		
Total segment profit before income tax	327,644	356,639
Corporate and other net expenses	(108,292)	(181,994)
Net finance (expense)/income	(10,001)	1,623
Consolidated profit before income tax	**209,351**	**176,268**
Assets		
Reportable segment assets	271,122	280,505
Unallocated corporate and manufacturing assets	480,597	398,868
Consolidated total assets	**751,719**	**679,373**
Liabilities		
Reportable segment liabilities	117,713	145,441
Unallocated corporate and manufacturing liabilities	195,698	169,698
Consolidated total liabilities	**313,411**	**315,139**

	Reportable segment total $000	Corporate and manufacturing total $000	Consolidated total $000
2010			
Other material items			
Depreciation and amortisation	2,983	20,114	23,097
Write-down in value of inventories	626	5,510	6,136
Acquisition of property, plant and equipment and enterprise resource planning system	1,653	20,238	21,891
2009			
Other material items			
Depreciation and amortisation	4,660	17,588	22,248
Write-down in value of inventories	1,867	654	2,521
Acquisition of property, plant and equipment and enterprise resource planning system	5,478	17,066	22,544

Revenue by product

	2010 $000	2009 $000
Cochlear implants	603,671	614,067
Bone anchored hearing aids (Baha)	92,480	97,760
Total	**696,151**	**711,827**

	2010	2009
11. Earnings per share		
Basic earnings per share		
The calculation of basic earnings per share for the year ended 30 June 2010 was based on net profit attributable to equity holders of the parent entity of $155,152,000 (2009: $130,540,000) and a weighted average number of ordinary shares on issue during the year ended 30 June 2010 of 56,279,542 (2009: 55,848,067) calculated as follows:		
Net profit attributable to equity holders of the parent entity	$155,152,000	$130,540,000
Weighted average number of ordinary shares (basic):		
Issued ordinary shares at 1 July (number)	55,977,555	55,524,746
Effect of options and performance shares exercised (number)	295,353	310,459
Effect of shares issued under Employee Share Plan (number)	6,634	12,862
Weighted average number of ordinary shares (basic) at 30 June	**56,279,542**	**55,848,067**
Basic earnings per share (cents)	**275.7**	**233.7**
Diluted earnings per share		
The calculation of diluted earnings per share for the year ended 30 June 2010 was based on net profit attributable to equity holders of the parent entity of $155,152,000 (2009: $130,540,000) and a weighted average number of ordinary shares on issue during the year ended 30 June 2010 of 56,576,557 (2009: 55,981,856) calculated as follows:		
Net profit attributable to equity holders of the parent entity	$155,152,000	$130,540,000
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic) (number)	56,279,542	55,848,067
Effect of options and performance shares (number)	297,015	133,789
Weighted average number of ordinary shares (diluted) at 30 June	**56,576,557**	**55,981,856**
Diluted earnings per share (cents)	**274.2**	**233.2**

	2010 $000	2009 $000
12. Trade and other receivables		
Current		
Trade receivables net of allowance for impairment losses	159,529	153,326
Other receivables	6,330	9,207
Forward exchange contracts	44,627	10,723
Interest rate swap on loan for construction of Headquarters	204	-
Total current trade and other receivables	**210,690**	**173,256**
Non-current		
Other receivables	929	707
Forward exchange contracts	24,214	19,749
Total non-current trade and other receivables	**25,143**	**20,456**

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

13. Inventories		
Raw materials and stores	41,806	40,250
Work in progress	12,650	15,779
Finished goods	49,951	49,915
Total inventories	**104,407**	**105,944**

	2010 $000	2009 $000
14. Property, plant and equipment		
Leasehold improvements		
At cost	32,722	29,440
Accumulated amortisation	(24,576)	(21,569)
	8,146	**7,871**
Plant and equipment		
At cost	105,078	92,191
Accumulated depreciation	(63,627)	(53,268)
	41,451	**38,923**
Total property, plant and equipment, at net book value	**49,597**	**46,794**
Reconciliations		
Reconciliations of the carrying amounts of each class of property, plant and equipment are set out below:		
Leasehold improvements		
Carrying amount at beginning of financial year	7,871	9,542
Additions	4,016	2,502
Disposals	(13)	(146)
Amortisation	(3,273)	(4,325)
Effect of movements in foreign exchange	(455)	298
Carrying amount at end of financial year	**8,146**	**7,871**
Plant and equipment		
Carrying amount at beginning of financial year	38,923	33,677
Additions	16,842	17,398
Disposals	(457)	(1,186)
Depreciation	(12,598)	(11,714)
Effect of movements in foreign exchange	(1,259)	748
Carrying amount at end of financial year	**41,451**	**38,923**

	2010 $000	2009 $000
15. Intangible assets		
Intangible assets with indefinite useful lives		
Goodwill, at cost	159,877	173,599
Technology relationship, at cost	1,800	1,800
Total intangible assets with indefinite useful lives	**161,677**	**175,399**
Intangible assets with definite useful lives		
Acquired technology, patents and licences		
At cost	39,242	19,196
Accumulated amortisation	(5,673)	(3,289)
	33,569	**15,907**
Enterprise resource planning system		
At cost	36,773	32,831
Accumulated amortisation	(22,615)	(18,850)
	14,158	**13,981**
Customer relationships		
At cost	4,472	4,822
Accumulated amortisation	(4,472)	(4,822)
	-	-
Capitalised development expenditure		
At cost	7,759	7,759
Accumulated amortisation	(7,759)	(7,743)
	-	**16**
Other intangible assets		
At cost	3,652	3,871
Accumulated amortisation	(1,217)	(899)
	2,435	**2,972**
Total intangible assets with definite useful lives	**50,162**	**32,876**
Total intangible assets	**211,839**	**208,275**

	2010 $000	2009 $000
Reconciliations		
Reconciliations of the carrying amounts of each class of intangible assets are set out below:		
Goodwill		
Carrying amount at beginning of financial year	173,599	187,741
Acquisitions through business combinations	-	680
Effect of movements in foreign exchange	(13,722)	(14,822)
Carrying amount at end of financial year	**159,877**	**173,599**
Technology relationship		
Carrying amount at beginning of financial year	1,800	1,800
Carrying amount at end of financial year	**1,800**	**1,800**
Acquired technology, patents and licences		
Carrying amount at beginning of financial year	15,907	275
Acquisitions	20,563	16,023
Amortisation	(2,721)	(393)
Effect of movements in foreign exchange	(180)	2
Carrying amount at end of financial year	**33,569**	**15,907**
Enterprise resource planning system		
Carrying amount at beginning of financial year	13,981	15,227
Acquisitions	4,385	2,644
Amortisation	(4,139)	(3,893)
Effect of movements in foreign exchange	(69)	3
Carrying amount at end of financial year	**14,158**	**13,981**
Customer relationships		
Carrying amount at beginning of financial year	-	976
Amortisation	-	(1,169)
Effect of movements in foreign exchange	-	193
Carrying amount at end of financial year	**-**	**-**
Capitalised development expenditure		
Carrying amount at beginning of financial year	16	201
Amortisation	(16)	(185)
Carrying amount at end of financial year	**-**	**16**
Other intangible assets		
Carrying amount at beginning of financial year	2,972	2,739
Acquisitions	-	734
Amortisation	(350)	(569)
Effect of movements in foreign exchange	(187)	68
Carrying amount at end of financial year	**2,435**	**2,972**

Amortisation charge

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

Impairment tests for cash generating units containing goodwill

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

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

	2010 $000	2009 $000
Americas	80,750	79,015
Europe	69,771	88,137
Asia Pacific	9,356	6,447
	159,877	**173,599**

The recoverable amount of each cash generating unit is based on value-in-use calculations. Those calculations use cash flow projections based on actual operating results and the three year business plan. Cash flows for further periods are extrapolated using a conservative growth rate of 3.0% (2009: 3.0%) per annum which is consistent with the long-term economic growth rates. A post-tax discount rate of 10.0% (2009: 10.0%) per annum has been used in discounting the projected post-tax cash flows.

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

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

The recoverable amount of each cash generating unit including unallocated corporate assets is in excess of their carrying amount and therefore no impairment charge was required. The excess of recoverable amount over carrying amount is such that a reasonably possible change in assumptions is unlikely to reduce the recoverable amount below the carrying amount.

	Assets		Liabilities		Net	
	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000
16. Deferred tax assets and liabilities						
Recognised deferred tax assets and liabilities						
Property, plant and equipment	2,480	2,993	(192)	(536)	2,288	2,457
Intangible assets	62	-	-	-	62	-
Inventories	12,461	10,796	-	(123)	12,461	10,673
Prepayments	-	-	-	(151)	-	(151)
Provisions	14,253	12,839	-	-	14,253	12,839
Deferred revenue	2,091	1,594	-	-	2,091	1,594
Forward exchange contracts	-	-	(20,713)	(9,142)	(20,713)	(9,142)
Other	11,932	2,409	(5,453)	(46)	6,479	2,363
Tax loss carry-forwards	331	1,087	-	-	331	1,087
Deferred tax assets/(liabilities)	**43,610**	**31,718**	**(26,358)**	**(9,998)**	**17,252**	**21,720**
Set off of tax	(26,358)	(9,819)	26,358	9,819	-	-
Net deferred tax assets/(liabilities)	**17,252**	**21,899**	**-**	**(179)**	**17,252**	**21,720**

Unrecognised deferred tax liabilities

At 30 June 2010, a deferred tax liability of $20.1 million (2009: $9.5 million) relating to investments in subsidiaries has not been recognised because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Current tax assets and liabilities

The current tax assets for the Consolidated Entity of $7.7 million (2009: $3.9 million) represent the amount of income taxes recoverable in respect of prior periods and arise from the payment of tax in excess of the amounts due to the relevant taxation authority. The current tax liabilities for the Consolidated Entity of $12.6 million (2009: $5.4 million) represent the amount of income taxes payable in respect of current and prior financial periods.

Movement in temporary differences during the year

	Note	2010 $000	2009 $000
Carrying amount at beginning of financial year		21,720	17,227
Recognised in the income statement	8	3,594	3,042
Recognised directly in equity	8	4,059	-
Recognised in other comprehensive income	8	(11,585)	803
Effects of movements in foreign exchange		(536)	648
Carrying amount at end of financial year		**17,252**	**21,720**

	2010 $000	2009 $000
17. Loans and borrowings		
Current		
Secured bank loan – construction of Headquarters	73,811	-
Total current loans and borrowings	73,811	-
Non-current		
Secured bank loans – operations(i)	82,934	176,586
Secured bank loan – construction of Headquarters	-	11,997
Total non-current loans and borrowings	**82,934**	**188,583**
Financing arrangements		
Cochlear had access to the following lines of credit at the reporting date:		
Unsecured bank overdrafts	409	2,981
Secured bank loans	3,843	4,056
Secured bank loan – multi-option credit facility	292,042	299,206
Standby letters of credit	7,313	210
Bank guarantees	5,329	1,480
Secured bank loan – construction of Headquarters	110,000	110,000
Bank guarantees – construction of Headquarters	1,000	1,000
	419,936	**418,933**
Facilities utilised at the reporting date		
Unsecured bank overdrafts	-	-
Secured bank loans	3,843	3,899
Secured bank loan – multi-option credit facility	80,000	174,000
Standby letters of credit	7,313	210
Bank guarantees	4,859	1,036
Secured bank loan – construction of Headquarters	73,811	11,997
Bank guarantees – construction of Headquarters	1,000	-
	170,826	**191,142**
Facilities not utilised at the reporting date		
Unsecured bank overdrafts	409	2,981
Secured bank loans	-	157
Secured bank loan – multi-option credit facility	212,042	125,206
Standby letters of credit	-	-
Bank guarantees	470	444
Secured bank loan – construction of Headquarters	36,189	98,003
Bank guarantees – construction of Headquarters	-	1,000
	249,110	**227,791**

(i) Included within secured bank loans – operations is an amount of $909,000 (2009: $1,312,500) in relation to unamortised loan establishment fees.

Unsecured bank overdrafts

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

Secured bank loans

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

Secured bank loans – multi-option credit facility

Cochlear's corporate debt facility is a secured $300.0 million multi-option credit facility maturing in June 2012. The facility provides Cochlear with the option to reallocate a sub-limit of up to $15.0 million for the purpose of drawing either bank guarantees or letters of credit. The facility is secured by interlocking guarantees provided by certain controlled entities. Interest on the facility is variable and is charged at prevailing market rates.

Secured bank loans – bank guarantee facility

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

Secured bank loan – construction of Headquarters

Details of loans and borrowings in relation to the construction of the Headquarters are set out in Note 28.

18. Commitments

	2010 $000	2009 $000
Operating lease commitments		
Future non-cancellable operating lease rentals not provided for in the financial statements are payable as follows:		
Not later than one year	19,487	11,753
Later than one year but not later than five years	71,912	60,406
Later than five years	152,145	153,042
Total operating lease commitments	**243,544**	**225,201**
Capital expenditure commitments		
Contracted but not provided for and payable:		
Not later than one year	8,035	1,852
Total capital expenditure commitments	**8,035**	**1,852**

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

Operating lease commitments include rental commitments to occupy the new Headquarters. The commencement of the lease and the underlying rental commitments is subject to satisfactory completion of the building which is estimated to be in October 2010.

Details of commitments in relation to the Headquarters under construction are set out in Note 28.

	Note	2010 $000	2009 $000
19. Provisions			
Current			
Employee benefits	25	22,474	19,802
Warranties		8,542	8,008
Legal and other		4,907	4,412
Directors' retirement scheme	25	888	-
Make good lease costs		85	-
Total current provisions		**36,896**	**32,222**
Non-current			
Employee benefits	25	4,267	4,390
Warranties		2,271	2,129
Directors' retirement scheme	25	364	1,200
Make good lease costs		4,703	1,459
Total non-current provisions		**11,605**	**9,178**
Reconciliations			
Reconciliations of the carrying amounts of each class of provision, except for the employee benefits provision, are set out below:			
Warranties			
Carrying amount at beginning of financial year		10,137	11,137
Provisions made		23,350	15,886
Provisions used		(22,674)	(16,886)
Carrying amount at end of financial year		**10,813**	**10,137**
Legal and other			
Carrying amount at beginning of financial year		4,412	3,864
Provisions made		2,359	1,529
Provisions used		(1,855)	(1,098)
Effects of movements in foreign exchange		(9)	117
Carrying amount at end of financial year		**4,907**	**4,412**
Directors' retirement scheme			
Carrying amount at beginning of financial year		1,200	1,147
Provisions made		52	53
Carrying amount at end of financial year		**1,252**	**1,200**
Make good lease costs			
Carrying amount at beginning of financial year		1,459	1,399
Provisions made		3,346	81
Provisions used		-	(66)
Effects of movements in foreign exchange		(17)	45
Carrying amount at end of financial year		**4,788**	**1,459**

Employee benefits

Employee benefits include entitlements measured at the present value of future amounts expected to be paid, based on a 5% per annum projected weighted average increase in remuneration rates over an average period of eight years. The present value is calculated using a weighted average discount rate of 3% per annum based on national government securities with similar maturity terms.

Warranties

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

Legal and other

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

Directors' retirement scheme

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

Make good lease costs

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

20. Contingent liabilities

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

Patent infringement complaint

During the year ended 30 June 2008, the Company was served with a complaint for patent infringement by the Alfred E. Mann Foundation for Scientific Research (Mann Foundation). The complaint, filed in a US District Court of California, alleges that two patents have been infringed.

In May 2009, the complaint was dismissed for lack of standing to sue by the Mann Foundation. The dismissal was reversed by the US Court of Appeals in May 2010 and the complaint has returned to the District Court for further proceedings.

Guarantees

Cochlear has a secured $300.0 million multi-option credit facility maturing in June 2012. The facility provides Cochlear with the option to reallocate a sub-limit of up to $15.0 million for the purpose of drawing either bank guarantees or letters of credit. The facility is secured by interlocking guarantees provided by certain controlled entities.

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

21. Capital and reserves

Share capital

	Number of issued shares in market circulation		Number of shares held in Trust under CELTIP		Total number of issued shares	
	2010	2009	2010	2009	2010	2009
On issue 1 July – fully paid	55,977,555	55,524,746	74,188	98,104	56,051,743	55,622,850
Issued for nil consideration under the Employee Share Plan	18,207	17,887	-	-	18,207	17,887
Shares issued into Trust	-	-	12,956	23,082	12,956	23,082
Issued from the exercise of options	460,495	387,924	-	-	460,495	387,924
Performance shares vesting from Trust	26,089	46,998	(26,089)	(46,998)	-	-
On issue 30 June – fully paid	**56,482,346**	**55,977,555**	**61,055**	**74,188**	**56,543,401**	**56,051,743**

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

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

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

Treasury reserve

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

Translation reserve

The translation reserve records the foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary, where their functional currency is different to the presentation currency of the reporting entity. Refer to Note 3(d) for further details.

Hedging reserve

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

Share based payment reserve

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

22. Notes to the statement of cash flows

Cash assets

The operating account received an average interest rate of 1.0% (2009: 2.9%) per annum.

Cash held on deposit for periods not exceeding 90 days received an average interest rate of 2.8% (2009: 4.0%) per annum.

(a) Reconciliation of cash and cash equivalents

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

	2010 $000	2009 $000
Cash on hand	28,504	68,839
Cash on deposit	14,304	11,177
Cash and cash equivalents	**42,808**	**80,016**
(b) Reconciliation of net profit to net cash provided by operating activities		
Net profit	155,152	130,540
Add items classified as investing activities		
Loss on disposal of property, plant and equipment	470	1,185
Add non-cash items		
Amounts set aside to provisions	56,309	42,524
Depreciation and amortisation	23,097	22,248
Equity settled share based payment transactions	5,068	4,876
Net cash provided by operating activities before changes in assets and liabilities	**240,096**	**201,373**
Changes in assets and liabilities		
Change in trade and other receivables	(3,752)	(11,056)
Change in inventories	1,537	(6,775)
Change in prepayments	243	(701)
Change in deferred tax assets	(7,103)	(3,059)
Change in trade and other payables	11,550	4,051
Change in current tax liabilities	3,471	2,818
Change in provisions	(49,208)	(41,273)
Change in deferred revenue	4,370	320
Effects of movements in foreign exchange	(21,658)	930
Net cash provided by operating activities	**179,546**	**146,628**

23. Controlled entities

	Note	Interest held 2010 %	Interest held 2009 %	Country of incorporation/formation
Particulars in relation to controlled entities				
Company				
Cochlear Limited				Australia
Controlled entities				
AU Cochlear Medical Device Beijing Co., Ltd		100	-	China
Cochlear AG		100	100	Switzerland
Cochlear Americas		100	100	USA
Cochlear Benelux NV		100	100	Belgium
Cochlear Bone Anchored Solutions AB		100	100	Sweden
Cochlear Canada Inc		100	100	Canada
Cochlear Deutschland & 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	-	Australia
Cochlear Italia SRL		100	100	Italy
Cochlear Korea Limited		100	100	Korea
Cochlear Malaysia Sdn. Bhd.		100	-	Malaysia
Cochlear Manufacturing Corporation		100	100	USA
Cochlear Medical Device Company India Private Limited		100	-	India
Cochlear Nordic AB		100	100	Sweden
Cochlear Research and Development Limited		100	100	UK
Cochlear Sweden Holdings AB		100	100	Sweden
Cochlear Technologies Pty Limited	(i)	100	100	Australia
Cochlear Tibbi Cihazlar ve Saglik Hizmetleri Limited Sirketi		100	100	Turkey
Cochlear Verwaltungs GmbH		100	100	Germany
Cochlear (HK) Limited		99.99	99.99	Hong Kong
Cochlear (UK) Limited	(i)	100	100	UK
Lachlan Project Development Pty Ltd		100	100	Australia
Lachlan Project Holdings Pty Ltd		100	100	Australia
Lachlan Project Security Holdings Pty Ltd		100	100	Australia
Medical Insurance Pte Limited		100	100	Singapore
Miaki NV		100	100	Belgium
Neopraxis Pty Limited	(i)	100	100	Australia
Nihon Cochlear Co Limited		100	100	Japan
Percutis AB		100	100	Sweden

(i) Dormant.

24. Related parties

Key management personnel

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

Non-executive directors

Mr TCE Bergman (Chairman - retired 30 June 2010)

Mr PR Bell

Prof E Byrne, AO

Mr A Denver

Mr R Holliday-Smith

Mr DP O'Dwyer

Executive director

Dr CG Roberts

Executives

Mr R Brook

Mr J Janssen

Mr NJ Mitchell

Mr MD Salmon

Mr CM Smith.

Key management personnel disclosures

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

	2010 $	2009 $
Short-term employee benefits	5,905,985	5,684,505
Post-employment benefits	287,104	330,843
Other long-term benefits	66,982	65,770
Directors' retirement benefits	51,413	53,261
Share based payments	1,176,764	1,166,847
	7,488,248	**7,301,226**

Information regarding individual directors' and executives' remuneration and some equity instruments disclosures as permitted by section 300A of the Corporations Act 2001 is provided in the Remuneration Report in the Directors' Report on pages 35 to 44.

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

Options and performance shares granted as compensation

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

	Held at 1 July 2009	Granted as remuneration	Vested and exercised	Forfeited	Held at 30 June 2010	Vested and exercisable at 30 June 2010
Option holdings						
Executive director						
Dr CG Roberts	309,913	58,599	(78,991)	(5,704)	283,817	64,718
Executives						
Mr R Brook	70,946	19,663	-	(1,883)	88,726	21,356
Mr J Janssen	76,145	14,358	(16,713)	(1,718)	72,072	19,499
Mr NJ Mitchell	70,448	20,686	-	(1,537)	89,597	17,443
Mr MD Salmon	93,770	19,344	(27,011)	(1,493)	84,610	16,929
Mr CM Smith	84,614	22,379	(23,474)	(2,337)	81,182	16,512
Performance share holdings						
Executive director						
Dr CG Roberts	-	-	-	-	-	-
Executives						
Mr R Brook	2,678	-	(2,678)	-	-	-
Mr J Janssen	1,245	-	(1,245)	-	-	-
Mr NJ Mitchell	-	-	-	-	-	-
Mr MD Salmon	-	-	-	-	-	-
Mr CM Smith	4,103	-	-	-	4,103	-

	Held at 1 July 2008	Granted as remuneration	Vested and exercised	Forfeited	Held at 30 June 2009	Vested and exercisable at 30 June 2009
Option holdings						
Executive director						
Dr CG Roberts	208,978	101,412	-	(477)	309,913	78,991
Executives						
Mr R Brook	125,799	30,285	(84,921)	(217)	70,946	-
Mr J Janssen	51,427	24,819	-	(101)	76,145	16,713
Mr NJ Mitchell	62,573	35,824	(27,781)	(168)	70,448	-
Mr MD Salmon	60,487	33,446	-	(163)	93,770	27,011
Mr CM Smith	70,072	29,714	(15,000)	(172)	84,614	13,474
Performance share holdings						
Executive director						
Dr CG Roberts	5,923	-	(5,887)	(36)	-	-
Executives						
Mr R Brook	2,694	-	-	(16)	2,678	-
Mr J Janssen	1,253	-	-	(8)	1,245	-
Mr NJ Mitchell	2,083	-	(2,071)	(12)	-	-
Mr MD Salmon	2,025	-	(2,013)	(12)	-	-
Mr CM Smith	4,512	1,726	(2,122)	(13)	4,103	-

No options held by key management personnel were vested but not exercisable at 30 June 2009 or 2010.

All options and performance shares granted in the 2010 financial year were granted on 17 August 2009 and vest in August 2012. Options have an expiration date of 17 August 2014. No options or performance shares have been granted since the end of the financial year. The options and performance shares were provided at no cost to the recipients.

All options granted during the financial year have an exercise price of $60.04 per share and a fair value of $10.03 per share at grant date for options with performance based conditions and $8.06 per share at grant date for options with market based conditions. The performance shares granted during the financial year had a fair value at grant date of $40.78 per share for performance shares with performance based conditions and $32.27 per share at grant date for performance shares with market based conditions.

Movement in shares

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

	Held at 1 July 2009	Purchases	Received on exercise of options and performance shares	Sales	Held at 30 June 2010
Directors					
Non-executive					
Mr TCE Bergman	12,000	-	-	-	12,000
Mr PR Bell	2,500	-	-	-	2,500
Prof E Byrne, AO	2,000	-	-	-	2,000
Mr A Denver	2,500	-	-	-	2,500
Mr R Holliday-Smith	2,500	-	-	-	2,500
Mr DP O'Dwyer	3,350	-	-	-	3,350
Executive					
Dr CG Roberts	602,821	-	78,991	(21,220)	660,592
Executives					
Mr R Brook	11,128	-	2,678	(5,000)	8,806
Mr J Janssen	556	-	17,958	(16,713)	1,801
Mr NJ Mitchell	59,852	-	-	(39,852)	20,000
Mr MD Salmon	9,740	-	27,011	(27,011)	9,740
Mr CM Smith	2,122	-	23,474	(21,632)	3,964
	Held at 1 July 2008	**Purchases**	**Received on exercise of options and performance shares**	**Sales**	**Held at 30 June 2009**
Directors					
Non-executive					
Mr TCE Bergman	12,000	-	-	-	12,000
Mr PR Bell	2,500	-	-	-	2,500
Prof E Byrne, AO	2,000	-	-	-	2,000
Mr A Denver	1,500	1,000	-	-	2,500
Mr R Holliday-Smith	2,500	-	-	-	2,500
Mr DP O'Dwyer	3,350	-	-	-	3,350
Executive					
Dr CG Roberts	596,934	-	5,887	-	602,821
Executives					
Mr R Brook	11,128	-	84,921	(84,921)	11,128
Mr J Janssen	556	-	-	-	556
Mr NJ Mitchell	60,000	-	29,852	(30,000)	59,852
Mr MD Salmon	7,727	-	2,013	-	9,740
Mr CM Smith	30,000	-	17,122	(45,000)	2,122

Controlled entity related parties

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

	2010 $	2009 $
The aggregate amounts included in the profit before income tax for the Company that resulted from transactions with non-director related parties are:		
Revenue from the sale of goods	457,154,111	453,301,994
Licence fee costs (included in cost of sales)	31,091,699	50,575,726
Interest income	11,259,529	2,751,765
Profit on sale of branch operation	-	16,777,982
Dividends from controlled entities	632,431	7,846,650
Interest expense	831,611	317,959
The aggregate amounts receivable from wholly-owned controlled entities by the Company at the reporting date are:		
Current and non-current receivables	175,240,691	209,459,742

	Note	2010 $000	2009 $000
25. Employee benefits			
Current			
Provision for long service leave	19	4,220	3,398
Provision for annual leave	19	11,286	11,835
Provision for short-term incentives	19	6,968	4,569
Directors' retirement scheme	19	888	-
		23,362	19,802
Salary and wages accrued		4,663	3,304
Total current employee benefits		**28,025**	**23,106**
Non-current			
Provision for long service leave	19	4,267	4,390
Directors' retirement scheme	19	364	1,200
Total non-current employee benefits		**4,631**	**5,590**
Total employee benefits		**32,656**	**28,696**

Cochlear has benefit plans that provide pension benefits to employees upon retirement. These defined benefit plans cover, in aggregate, 64 employees. Cochlear contributed cash of $0.9 million (2009: $0.8 million) to defined benefit plans in the year ended 30 June 2010 and expects to contribute $0.8 million in the year ending 30 June 2011. The net assets of the plans at 30 June 2010 were $0.3 million (2009: $0.3 million).

(a) Defined contribution superannuation plans

Cochlear makes contributions to defined contribution plans. The amount recognised as expense was $11.7 million for the year ended 30 June 2010 (2009: $11.2 million).

(b) Share based payments

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

The CELTIP was approved and adopted at the Annual General Meeting on 20 October 2003 and replaced the Executive Share Option Plan. The CELTIP offers a mixture of options over unissued shares and performance shares. Both the options and the performance shares are subject to a three year vesting period. The number of options and performance shares exercisable by the executives will depend on the performance of Cochlear over the vesting period. Half of the offer will be assessed against the compound annual growth rate of the EPS achieved by Cochlear, and the other half against the TSR as measured against the S&P/ASX 100. If the minimum compound annual growth rate in EPS of 10% is not achieved, 50% of shares will not be issued or released to the executives. If the TSR of Cochlear is below the 50th percentile against the S&P/ASX 100 over the three years, the remaining 50% of shares will not be issued or released.

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

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

Grant date	Number of instruments	Conditions for minimum vesting	Contractual life of options
Option grant in August 2006	156,029	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	156,029	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Option grant in August 2007	189,406	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	189,406	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Option grant in August 2008	348,057	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	348,057	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Option grant in August 2009	215,809	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	215,808	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Total options	**1,818,601**		

Issue date	Number of instruments	Conditions for minimum vesting	Contractual life of shares in the Trust
Performance shares issued in August 2006	-	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	-	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Performance shares issued in August 2007	9,358	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	9,358	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Performance shares issued in August 2008	10,679	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	10,679	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Performance shares issued in August 2009	9,089	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	9,089	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Total performance shares	**58,252**		

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
	2010	2010	2009	2009
Outstanding at 1 July	50.71	1,895,423	47.83	1,600,944
Forfeited during the financial year	51.53	(51,930)	51.73	(29,928)
Exercised during the financial year	42.52	(460,498)	37.28	(387,924)
Granted during the financial year	60.04	435,606	49.91	712,331
Outstanding at 30 June	**55.00**	**1,818,601**	**50.71**	**1,895,423**
Exercisable at 30 June	49.43	312,058	39.93	334,864

The weighted average share price at date of exercise was $61.83 (2009: $53.41).

The estimated value of options for the current financial year is calculated at the date of grant using the Black-Scholes model, applying a 33.2% volatility, as reflected in the historical volatility.

For options outstanding at 30 June 2010, 312,058 options have an exercise price of $49.43, 378,811 options have an exercise price of $63.18, 696,113 options have an exercise price of $49.91 and 431,619 options have an exercise price of $60.04 (2009: 334,864 options at $39.93, 476,273 options at $49.43, 383,494 options at $63.18 and 700,792 options at $49.91). The weighted average remaining contractual life of options outstanding at the end of the year is three years (2009: three years).

26. Financial instruments

Credit risk

Exposure to credit risk

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

	2010 $000	2009 $000
Cash and cash equivalents	42,808	80,016
Trade receivables and other receivables	166,788	163,240
Forward exchange contracts	68,841	30,472
Interest rate swap on loan for construction of Headquarters	204	-
	278,641	**273,728**

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

	2010 $000	2009 $000
Americas	56,578	52,173
Europe	77,735	78,460
Asia Pacific	25,216	22,693
	159,529	**153,326**

Impairment losses

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

	2010 $000	2009 $000
Gross receivables		
Not past due	125,729	112,874
Past due 0 – 30 days	16,573	15,761
Past due 31 – 120 days	9,319	12,834
Past due 121 – 270 days	10,008	5,237
Past due 271 days and over	3,724	10,860
	165,353	**157,566**
Impairment losses	(5,824)	(4,240)
Trade receivables net of allowance for impairment losses	**159,529**	**153,326**

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

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

	2010 $000	2009 $000
Balance at 1 July	(4,240)	(2,743)
Impairment losses recognised	(1,980)	(1,118)
Effect of movements in foreign exchange	396	(379)
Balance at 30 June	**(5,824)**	**(4,240)**

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

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

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

Liquidity risk

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

	Effective interest rate Per annum	Carrying amount $000	Contractual cash flows $000	6 months or less $000	6 – 12 months $000	1 – 2 years $000	2 – 5 years $000	More than 5 years $000
Financial liabilities 30 June 2010								
AUD floating rate loan	6.97%	79,091	90,774	2,812	2,766	85,196	-	-
AUD floating rate loan for construction of Headquarters	6.17%	73,811	75,342	75,342	-	-	-	-
JPY floating rate loan	1.85%	3,843	3,999	36	35	71	3,857	-
Trade and other payables	-	70,763	70,763	70,763	-	-	-	-
Total		**227,508**	**240,878**	**148,953**	**2,801**	**85,267**	**3,857**	**-**

	Effective interest rate Per annum	Carrying amount $000	Contractual cash flows $000	6 months or less $000	6 – 12 months $000	1 – 2 years $000	2 – 5 years $000	More than 5 years $000
Financial liabilities 30 June 2009								
AUD floating rate loan	5.80%	172,687	203,585	5,087	5,005	10,092	183,401	-
AUD floating rate loan for construction of Headquarters	5.20%	11,997	12,829	314	309	12,206	-	-
Interest rate swap on loan for construction of Headquarters	4.01%	56	70	55	71	(56)	-	-
JPY floating rate loan	1.85%	3,899	4,130	36	36	72	3,986	-
Trade and other payables	-	64,881	64,881	64,881	-	-	-	-
Total		**253,520**	**285,495**	**70,373**	**5,421**	**22,314**	**187,387**	**-**

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

Cash flow hedges

In the year ended 30 June 2010, Cochlear designated some sales and purchases of various currencies as cash flow hedges to hedge the amount converted into AUD for forecast future transactions. These are hedges of forecast future transactions to manage the currency risk arising from exchange rate fluctuations. The hedged items were highly probable foreign currency transactions.

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

All material hedges were effective at the reporting date.

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

30 June 2010						
Amounts $000	Carrying amount	Expected cash flows	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years
Forward exchange contracts	68,841	69,334	21,570	23,154	23,374	1,236

30 June 2009						
Amounts $000	Carrying amount	Expected cash flows	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years
Forward exchange contracts	30,472	30,745	4,760	5,578	10,065	10,342

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

Currency risk

Exposure to currency risk

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

Amounts local currency thousands	USD	EUR	GBP	SEK	JPY
30 June 2010					
Trade receivables	60,792	36,770	3,488	11,000	428,804
Secured bank loans	-	-	-	-	(300,000)
Trade payables	(11,734)	(4,793)	(5,845)	(37,873)	(52,615)
Gross balance sheet exposure	**49,058**	**31,977**	**(2,357)**	**(26,873)**	**76,189**

Amounts local currency thousands	USD	EUR	GBP	SEK	JPY
30 June 2009					
Trade receivables	48,245	30,627	4,442	7,543	412,784
Secured bank loans	-	-	-	-	(300,000)
Trade payables	(9,128)	(3,813)	(5,945)	(23,792)	(93,759)
Gross balance sheet exposure	**39,117**	**26,814**	**(1,503)**	**(16,249)**	**19,025**

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

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

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

	Foreign exchange rates		Gross value	
	2010	2009	2010 $000	2009 $000
Sell USD				
Not later than one year			217,940	182,564
Later than one year but not later than two years			155,102	114,232
Later than two years but not later than three years			51,599	59,633
Weighted average exchange rates contracted	0.78	0.75		
Sell EUR				
Not later than one year			187,329	154,629
Later than one year but not later than two years			94,591	86,196
Later than two years but not later than three years			40,457	31,187
Weighted average exchange rates contracted	0.57	0.53		
Sell JPY				
Not later than one year			8,327	12,106
Later than one year but not later than two years			5,016	4,259
Later than two years but not later than three years			608	859
Weighted average exchange rates contracted	76.66	83.16		

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

	Average rate		Reporting date spot rate	
AUD 1 =	2010	2009	2010	2009
USD	0.877	0.762	0.874	0.808
EUR	0.634	0.548	0.708	0.575
GBP	0.554	0.466	0.580	0.489
SEK	6.421	5.654	6.764	6.303
JPY	80.497	75.873	78.064	76.938
CHF	0.932	0.844	0.950	0.876

Interest rate risk

Profile

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

	2010 $000	2009 $000
Carrying amount		
Variable rate instruments		
Financial assets	42,808	80,016
Financial liabilities	156,745	188,583

Sensitivity analysis

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

For the year ended 30 June 2010, it is estimated that a general increase of one percent in interest rates would have decreased Cochlear's profit after income tax and equity by approximately $0.5 million (2009: $0.7 million). A one percent decrease in interest rates would have had the equal but opposite effect on Cochlear's profit and equity.

It is estimated that a general increase of ten percent in the value of the AUD against other foreign currencies would have decreased Cochlear's profit for the year ended 30 June 2010, including hedging results and after income tax, by approximately $4.1 million (2009: $7.1 million) and decreased Cochlear's equity by $4.4 million (2009: $2.5 million). A ten percent decrease in the value of the AUD against other foreign currencies would have increased Cochlear's profit by $4.5 million (2009: $8.1 million) and increased equity by $4.9 million (2009: $2.5 million).

Details relating to financial instruments in relation to the construction of the Headquarters are set out in Note 28.

Fair values

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

		2010		2009	
	Note	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Cash and cash equivalents		42,808	42,808	80,016	80,016
Trade and other receivables – current	12	210,690	210,690	173,256	173,256
Trade and other receivables – non-current	12	25,143	25,143	20,456	20,456
Trade and other payables – current		(70,763)	(70,763)	(64,881)	(64,881)
Trade and other payables – non-current		(5,724)	(5,724)	(56)	(56)
Secured bank loans – operations	17	(82,934)	(83,843)	(176,586)	(177,899)
Secured bank loan – construction of Headquarters	17	(73,811)	(73,811)	(11,997)	(11,997)
Total		**45,409**	**44,500**	**20,208**	**18,895**

Basis for determining fair values

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

Derivatives

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

Non-derivative financial assets and liabilities

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

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

Fair value hierarchy

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

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

	2010 $000	2009 $000
30 June 2010		
Derivative financial assets		
Forward exchange contracts	68,841	68,841
Interest rate swap on loan for construction of Headquarters	204	204
30 June 2009		
Derivative financial assets		
Forward exchange contracts	30,472	30,472
Derivative financial liabilities		
Interest rate swap on loan for construction of Headquarters	56	56

There have been no transfers between levels during the year.

27. 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 2010, see Note 9.

28. Construction of Headquarters

Cochlear is building its new Headquarters at the Macquarie University (MU) site. Upon practical completion, MU will pay Cochlear a development fee of approximately $128.0 million at which time the building will be transferred to MU. There are no progress payments.

During the year ended 30 June 2009, Cochlear entered into agreements with MU to develop its new global Headquarters on MU's behalf. The Headquarters is being constructed on land owned by MU by a special purpose entity, Lachlan Project Development Pty Ltd. Adjacent land has been reserved by MU for future expansion by Cochlear over the next 25 years. Cochlear has subcontracted the construction of the Headquarters and, upon completion, will lease the premises for a minimum of 15 years. A MU entity will own the building.

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

Construction contract revenue is determined as the sum of costs incurred plus interest capitalised during the year. Revenue is recognised on a percentage of completion basis. The following amounts have been recorded in the consolidated income statement for the year ended 30 June 2010:

	Note	2010 $000	2009 $000
Construction contract revenue		63,696	6,687
Construction contract expense		(63,696)	(6,687)
Construction contract revenue, net of expense	5(c)	-	-

Financing for the construction has been received via a dedicated draw-down facility of $110.0 million which includes an interest capitalisation limit of $11.0 million. The facility provides Cochlear with funding for construction of the building project and excludes funding for specialist fit out work required by Cochlear to undertake its manufacturing operations. The facility makes specific reference to the building agreement, allowing for Cochlear to receive the full development fee from MU before repaying the facility. As at 30 June 2010, $73.8 million (2009: $12.0 million) of the facility was utilised.

The draw-down facility requires Cochlear to hedge at least 80% of its interest exposure on these borrowings. Hedging of borrowings is achieved by entering into interest rate swap agreements.

The facility is subject to a corporate guarantee requiring the Company to repay the facility if practical completion of the building work (and therefore, payment by MU) is not achieved by 3 June 2012.

Cochlear has signed an agreement to lease the premises for a minimum of 15 years upon completion. The newly constructed building will serve as Cochlear's global Headquarters, manufacturing and research facilities. The estimated commitments for lease rentals are disclosed in Note 18.

The following balances related to the construction of the Headquarters are incorporated in the balance sheet:

	Note	2010 $000	2009 $000
Assets			
Cash and cash equivalents		994	2,088
Trade and other receivables		223	-
Capitalised building costs – construction of Headquarters		74,326	-
Total current assets		75,543	2,088
Capitalised building costs – construction of Headquarters		-	10,630
Deferred tax assets		-	17
Total non-current assets		**-**	**10,647**
Total assets		**75,543**	**12,735**
Liabilities			
Trade and other payables		-	47
Loans and borrowings – construction of Headquarters	17	73,811	-
Current tax liabilities		61	-
Total current liabilities		**73,872**	**47**
Trade and other payables		-	56
Loans and borrowings – construction of Headquarters	17	-	11,997
Total non-current liabilities		**-**	**12,053**
Total liabilities		**73,872**	**12,100**
Net assets		**1,671**	**635**

29. Parent entity disclosures

At, and throughout the financial year ended, 30 June 2010, the parent company of Cochlear was Cochlear Limited.

	Company	
	2010	2009
	$000	$000
Result of the parent entity		
Net profit	129,846	117,914
Other comprehensive income	25,699	(3,343)
Total comprehensive income	**155,545**	**114,571**
Financial position of the parent entity at year end		
Current assets	208,174	161,249
Total assets	587,794	525,688
Current liabilities	113,286	45,521
Total liabilities	211,228	225,358
Total equity of the parent entity comprising of:		
Issued capital	119,842	99,427
Treasury reserve	(2,826)	(1,992)
Hedging reserve	45,516	19,817
Share based payment reserve	26,350	18,274
Retained earnings	187,684	164,804
Total equity	**376,566**	**300,330**

Parent entity contingencies

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

Parent entity capital commitments for acquisition of plant and equipment

	Company	
	2010	2009
	$000	$000
Plant and equipment		
Contracted but not yet provided for and payable:		
Within one year	7,628	1,852
Total parent entity capital commitments for acquisition of plant and equipment	**7,628**	**1,852**

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

(a) the financial statements and notes, and the Remuneration Report in the Directors' Report set out on pages 35 to 101, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and

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

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

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

2 The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2010.

Dated at Sydney this 10th day of August 2010.

Signed in accordance with a resolution of the directors:

Director

Director

Report on the financial report

We have audited the accompanying financial report of Cochlear Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the balance sheet as at 30 June 2010, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a description of significant accounting policies and other explanatory Notes 1 to 29 and the directors' declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

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

- (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

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

Report on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the Remuneration Report of Cochlear Limited for the year ended 30 June 2010, complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

Kevin Leighton, Partner

Sydney, 10 August 2010

Additional information required by Australian Securities Exchange Listing Rules and not disclosed elsewhere in this report – the information presented is as at 4 August 2010:

Shareholdings

Substantial shareholders

Shareholder	Number of ordinary shares held	%
Capital (Institutional Group)	5,050,049	8.93
Total	**5,050,049**	**8.93**

Distribution of shareholders

Number of shares held	Number of ordinary shareholders
1 – 1,000	22,627
1,001 – 5,000	3,025
5,001 – 10,000	203
10,001 – 100,000	101
100,001 and over	21
Total	**25,977**

Non-marketable parcels – 151 shareholders held less than a marketable parcel of ordinary shares

Twenty largest shareholders

Shareholder	Number of ordinary shares held	%
HSBC Custody Nominees (Australia) Limited	13,512,394	23.90
JP Morgan Nominees Australia Limited	10,226,384	18.09
National Nominees Limited	9,394,455	16.61
Citicorp Nominees Pty Limited	1,524,789	2.70
Cogent Nominees Pty Limited	696,417	1.23
Citicorp Nominees Pty Limited (CFS WSLE Geared Share Fund a/c)	681,524	1.21
Dr Christopher Graham Roberts	660,592	1.17
ANZ Nominees Limited (Cash Income a/c)	491,286	0.87
Australian Reward Investment Alliance	277,317	0.49
UBS Wealth Management Australia Nominees Pty Ltd	250,804	0.44
AMP Life Limited	229,572	0.41
Citicorp Nominees Pty Limited (Cwlth Bank Off Super a/c)	198,853	0.35
RBC Dexia Investor Services Australia Nominees Pty Limited (GSAM a/c)	194,061	0.34
Perpetual Trustee Company Limited	152,679	0.27
Warbont Nominees Pty Ltd (Settlement Entrepot a/c)	141,636	0.25
Bainpro Nominees Pty Limited	132,173	0.23
Agro Investments Limited	128,000	0.23
Queensland Investment Corporation	121,475	0.21
CS Fourth Nominees Pty Ltd (Unpaid a/c)	119,139	0.21
The Australian National University	90,000	0.16
		69.37

The 20 largest shareholders held 69.37% of the ordinary shares of the Company.

On market buy-back

There is no current on market buy-back.

Glossary

AGM Annual General Meeting.

ASIC Australian Securities and Investments Commission.

ASX Australian Securities Exchange.

DACS Direct acoustic cochlear stimulator.

DPS Dividends per share.

EBIT Earnings before interest and taxes.

EBITDA Earnings before interest, tax, depreciation and amortisation.

EPS Earnings per share.

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

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

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

FDA United States Food and Drug Administration.

IFRS International Financial Reporting Standards.

NPAT Net profit after tax.

Previous GAAP Previous Australian Generally Accepted Accounting Principles.

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

R&D Research and development.

SmartSound Set of sound processing algorithms which enhance hearing performance.

TSR Total shareholder return.

Company ASX Announcement Record

4 June 2010 *Settlement agreement*
Cochlear Limited announced that its subsidiary, Cochlear Americas, had signed a settlement agreement with the US Department of Justice and the Office of Inspector General of the US Department of Health and Human Services. Under the agreement, Cochlear Americas agreed to pay USD950,000. Cochlear Americas specifically disputes and denies the factual and legal allegations made in this case.

17 March 2010 *New Chairman*
Cochlear Limited announced that Mr Tommie Bergman would retire as Chairman and non-executive director of Cochlear Limited, effective 30 June 2010, to be succeeded by Mr Rick Holliday-Smith as Chairman.

9 February 2010 *Record earnings for half year ended 31 December 2009*
Cochlear Limited announced record net profit after tax of $75.2 million for the six months ended 31 December 2009, up 8% on the first half of F09. Total revenue of $347.6 million was down 2%, with sales up in constant currency. The interim dividend of $0.95 per share was up 19%.

20 October 2009 *Chairman's address*
Cochlear Limited Chairman, Mr Tommie Bergman, addressed shareholders at the Annual General Meeting.

9 September 2009 *Technology purchase*
Cochlear Limited advised that it has signed an exclusive licence agreement to purchase patent rights, know-how as well as joint development activities with Otologics LLC. The purchase price was US$25 million.

4 September 2009 *FDA approval*
Cochlear Limited advised that it had received approval from the US Food and Drug Administration of the two Premarket Approval Supplements covering the new Cochlear Nucleus 5 System.

11 August 2009 *Record revenue and earnings for year ended 30 June 2009*
Cochlear Limited announced record net profit after tax of $130.5 million for the year ended 30 June 2009, up 13% on the previous year. Cochlear would pay a fully franked final dividend of 95 cents per share, representing a 19% increase on the previous corresponding period.

13 July 2009 *Market update*
Cochlear Limited advised that it anticipated F09 total revenue to grow 15% to $695 million. net profit after tax was anticipated to grow 13% to $130.5 million and core earnings 12% to $137.7 million. The update also included information of product releases in key markets.

Company Information

Stock exchange listing
Australian Securities Exchange

ASX code COH

Solicitors
Clayton Utz

Share registrar
Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000, Australia

Tel: 61 2 8234 5000

Auditor
KPMG

Bankers
Australia Westpac Banking Corporation

Japan The Bank of Tokyo-Mitsubishi UFJ, Limited

Sweden Skandinaviska Enskilda Banken AB (publ)

United Kingdom NatWest Bank

United States Wells Fargo Bank West, NA

Annual General Meeting
The Annual General Meeting will be held at 10am on Tuesday 19 October 2010 at the Menzies Sydney Hotel, Australia Ballroom, 14 Carrington Street, Sydney. A Notice of Meeting and Proxy Form are enclosed with this Annual Report.

Financial calendar
2010

Dividend record date	2 September
Payment of final dividend	23 September
Annual General Meeting	19 October

2011

Interim profit announcement	8 February
Interim dividend record date	25 February*
Payment of interim dividend	15 March*
Final profit announcement	9 August
Annual General Meeting	18 October

* Indicative dates only.

Design
Cross Media Communications Pty Ltd

Hear now. And always

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