Annual Report 2009

Cochlear – setting new benchmarks in implantable hearing solutions

Hear now. And always

Cochlear™

Introducing our latest innovations in implantable hearing solutions

Cochlear has a vision of connecting people through a world of sound by offering life-enhancing hearing solutions.

As the global leader, Cochlear invests in service and product innovation, proves before it promises and makes evidence based choices that deliver the best hearing outcomes and the best supporting infrastructure for both patients and professionals.

Driven by passionate visionaries through a foundation of excellence and commitment, Cochlear seeks, attracts and collaborates with global experts to shape the future of hearing restoration.

At the centre of the innovations that Cochlear develops is the fundamental belief that they must enhance the quality of life and experience for our customers – both recipient and professional. It is our holistic offer and unwavering commitment that give Cochlear the ability to provide hearing solutions for life.

We will continue to be there…always.

Cochlear™ Nucleus® 5 system

Setting new benchmarks in cochlear implant technology

This new system will become commercially available throughout the 2010 financial year in Europe and in other regions once regulatory approvals are granted.

Contents

Cochlear Hybrid™ system

The world's first and only truly integrated electro-acoustic hybrid hearing solution

This new system will become more widely available in Europe throughout the 2010 financial year and made available in other regions upon regulatory approval.

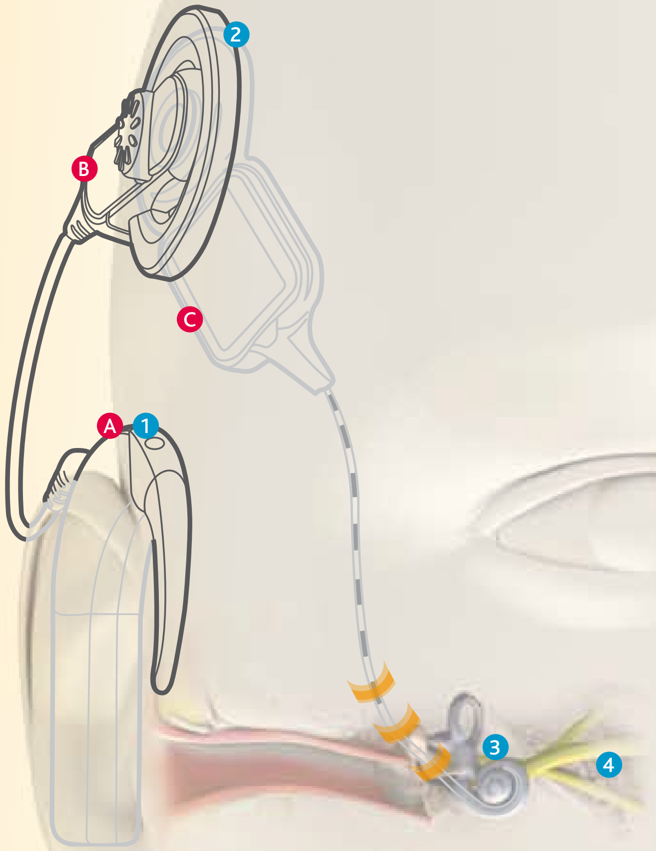
Cochlear Baha® BP100

Redefining bone conduction hearing solutions

This new system will be launched throughout the 2010 financial year.

There is significant potential for market growth with over 278 million* people suffering from moderate to profound hearing loss globally.

Building on our years of experience, the release of our new range of implantable hearing solutions in the 2010 financial year will provide a great platform for continued sustainable growth.



How our implantable hearing solutions work

Cochlear Nucleus 5 system

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

A the speech processor and

B the coil are worn behind the ear; and

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

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

How the cochlear implant system works

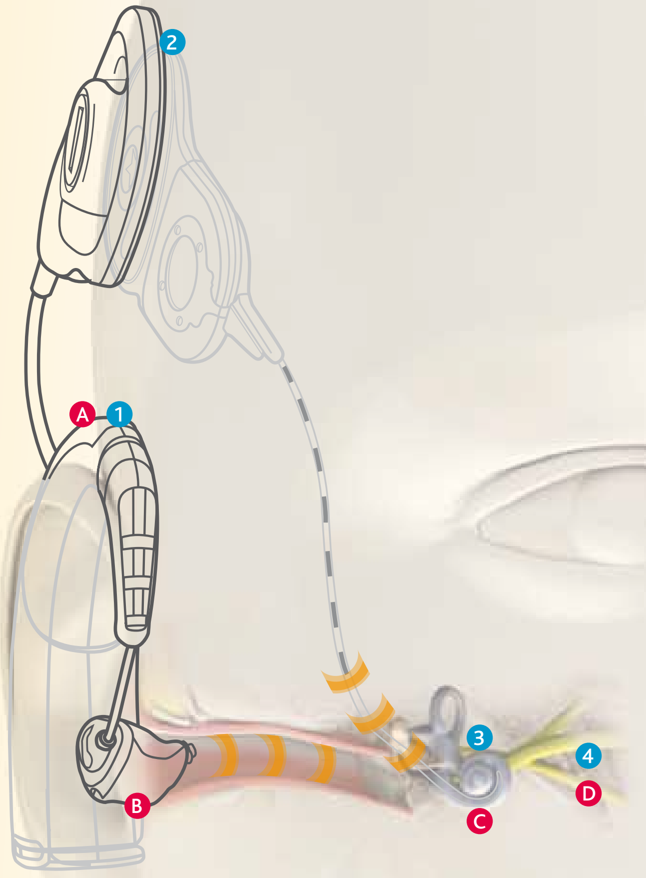
1 The speech processor captures sound and converts it into digital code.

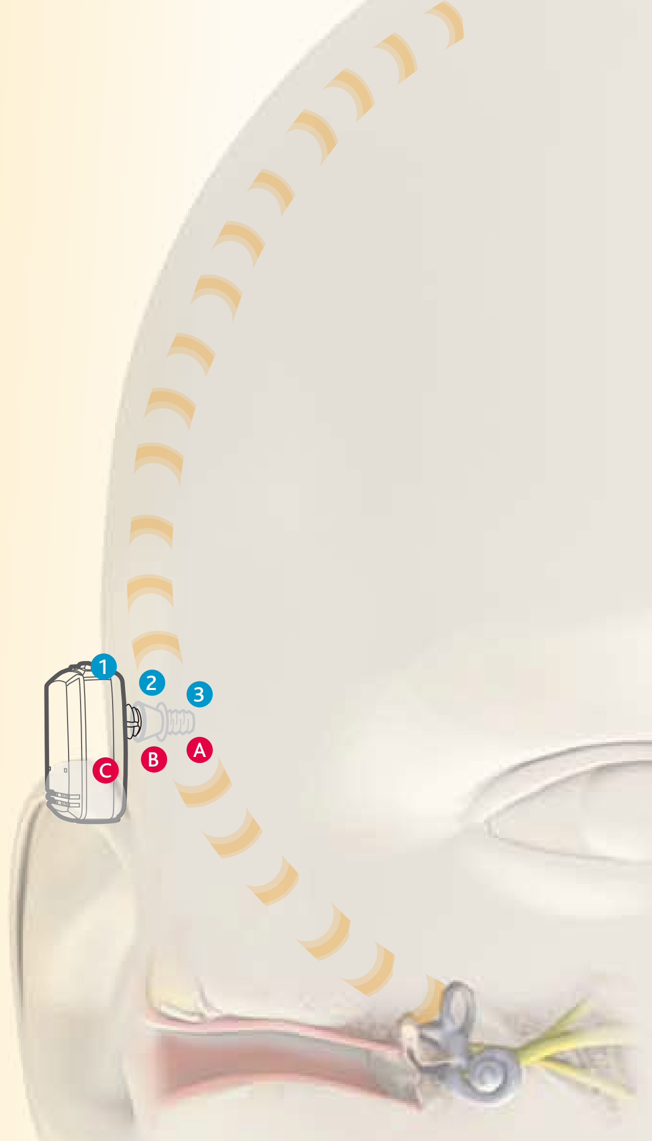
2 The speech processor transmits the digitally coded sound via the coil to the implant just under the skin.

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.

* Source: World Health Organization





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 speech processor captures sound and converts it into digital code.

2 The speech 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 BP100

The Baha system combines

A a small titanium implant;

B a connecting abutment; and

C a detachable high performance sound processor.

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

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

Introducing the new Cochlear Nucleus 5 system – setting new benchmarks in cochlear implant technology

At the end of the 2009 financial year, Cochlear received its first regulatory approval for the new Cochlear Nucleus 5 system in Europe. This new system will become commercially available throughout the 2010 financial year in Europe and in other regions once regulatory approvals are granted.

The Cochlear Nucleus 5 system brings many new innovations to the market.

The new implant, the Cochlear Nucleus CI500 series, represents breakthrough precision in cochlear implant technology and delivers:

- the world's thinnest cochlear implant – 40% slimmer than the previous generation implant;
- 2½ times stronger* than the previous generation which already leads the industry in implant reliability; and
- precision stimulation for leading hearing performance through the largest number of real active electrodes on the market plus precise electrode length, shape and placement in the cochlea.

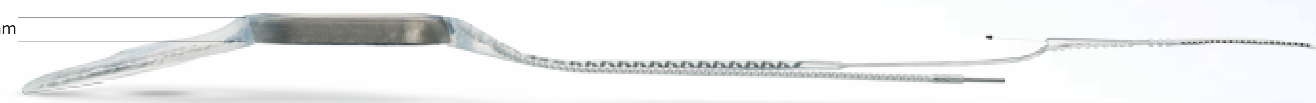
The new sound processor, the Cochlear Nucleus CP800 series, and remote assistant set many new benchmarks in hearing performance, control, size and comfort with:

- new features to optimise hearing in a wide range of listening situations including a new automatic phone detection feature;
- a new small ergonomically-designed shape for patient comfort plus numerous wearing options and battery choices; and
- the industry first remote assistant that is much more than a remote control, allowing patients to easily monitor, control and manage their system.

The new software offered with the system is designed to simplify programming whilst offering a full suite of tools to optimise the hearing performance of all patients.

Nucleus CP810 sound processor with remote assistant

Nucleus CI512 cochlear implant



The world's thinnest cochlear implant

Introducing the new Cochlear Hybrid system – the world's first truly integrated electro-acoustic hybrid hearing solution

In the second half of the 2009 financial year, Cochlear introduced the Cochlear Hybrid system through a controlled market release across a number of countries in Europe. This new system will become more widely available in Europe throughout the 2010 financial year and made available in other regions upon regulatory approval.

The Cochlear Hybrid system is the world's first truly integrated electro-acoustic hybrid hearing solution and provides an effective new solution for the treatment of severe to profound high frequency hearing loss.

The Cochlear Hybrid system offers:

- a unique Hybrid cochlear implant with a specific electrode length to restore high frequency hearing loss;
- a fully featured sound processor that integrates both electrical and acoustic (hearing aid) control to deliver stimulation across the full frequency spectrum; and
- new software that ensures both the electrical and acoustic stimulation are synchronised and work seamlessly together.

The end result is an optimum balance of electrical and acoustic signals, maximising the hearing performance for the recipient.

Hybrid sound processor and implant

John Rowlands, Hybrid recipient
Victoria, Australia

Greater spectrum of sound

Introducing the Cochlear Baha BP100 – redefining bone conduction hearing technology

At the end of the 2009 financial year, the Cochlear Baha BP100 sound processor and the Cochlear Baha fitting software received regulatory approval in Europe and the USA. These new solutions will roll out in the regions throughout the 2010 financial year.

The new Cochlear Baha BP100 sound processor is the first bone conduction device to feature advanced automatic signal processing and a new audiological toolkit dedicated to direct bone conduction. This programmable, multi-channel digital processor has been totally redesigned to provide significantly better hearing performance for people with conductive hearing loss, mixed hearing loss or single-sided sensorineural deafness.

The Cochlear Baha BP100:

- benefits from a 12 channel digital processor with an advanced automatic signal processing system that continuously monitors the hearing environment to select the optimal combination of settings for best hearing performance; and
- is engineered to be highly reliable and meet the demands that active people and challenging environments place on hearing devices.

The new Cochlear Baha fitting software was introduced for the first time to provide the clinician with state-of-the-art tools to precisely configure the Baha BP100 sound processor to the individual needs of patients.

The Cochlear Baha fitting software:

- delivers a new audiological toolkit specifically developed to meet the needs of patients who benefit from amplification through bone conduction; and
- provides unmatched fitting precision by using the new "BC Direct" to measure the patient's bone conduction thresholds directly through the sound processor.

While being advanced, it is designed to facilitate a simple and quick fitting session.

Baha BP100 sound processor

Laura Norrman, Baha recipient
Gothenburg, Sweden

25%
improved speech understanding in noise

Clinical data verifies the Cochlear Baha BP100 delivers more than 25% improved speech understanding in noise compared with previous Baha generations.

Flynn, M., Sadeghi, S. and Halvarsson, G. Results of the first clinical evaluation of Cochlear Baha BP100 white paper. Cochlear Bone Anchored Solutions AB, 2009.

Introducing our new corporate facility – 2010 move to new world-class, purpose-built headquarters

At the end of calendar 2010, we will move to our new, purpose-built, $128 million global headquarters, manufacturing and research facility on the Macquarie University Campus, North Ryde, Sydney.

The move supports our long-term growth plans. As such, the new 24,000m^2 facility will house our specialist research and manufacturing facilities, global headquarters, support activities as well as our Asia Pacific regional head office.

The new building will also form part of a world-first Hearing Health Hub which, in a truly collaborative partnership, will link over 2,000 professionals involved in the hearing industry across academia, government as well as rehabilitation and research.

Our new facility underpins our commitment to continue investing in Australian based research, development and manufacturing and to work and grow in a world-class facility.

The current agreement with Macquarie University sees us leasing the building from the University for an initial 15 year term with options to extend this for a further 10 and five year term. Taking into account our longer-term plans, adjacent parcels of land have been set aside for future expansion needs.

The Hearing Health Hub will host anechoic chambers, 22 sound rooms, a lecture theatre and office space for numerous hearing related organisations.

New facility

Despite unprecedented global turmoil, Cochlear is pleased to report an increase in profit of 13% for the year and continued progress with our growth strategy.

Financial performance

In the 2009 financial year, revenues grew 15% to $694.7 million.

Cochlear achieved a net profit after tax of $130.5 million, up 13% on the prior year. There were no impairment charges during the year.

This result was achieved in the context of great uncertainty in nearly all of the over 100 countries in which we do business. In addition, there was extreme volatility in the foreign exchange markets.

Earnings per share of 233.7 cents was up 12% on the previous corresponding period.

Cash generation was a focus for the year and net cash provided by operating activities grew 73% to $146.6 million. Gearing again improved and the net gearing ratio is now 23% (2008: 30%).

Strong position going forward

Despite the current economic environment, Cochlear remains well positioned to achieve its growth objectives.

The industry structure remains robust and clinical outcomes continue to improve. Favourable health economics also supported improved reimbursement in certain key markets.

Cochlear has maintained its strong market leadership position retaining a 65% – 70% worldwide market share.

Dividends

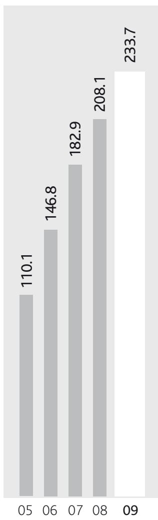
The increase in net profit after tax, ongoing confidence of sustainable growth together with positive cash flows enabled the Board to increase the final dividend to 95 cents per share. The total dividend for the year was up 17% on the previous year to 175 cents per share.

Business growth remains strong

Cochlear takes a long-term view to sustainable growth prospects and so an important performance measure for the Company is the rolling three year total shareholder return (TSR).

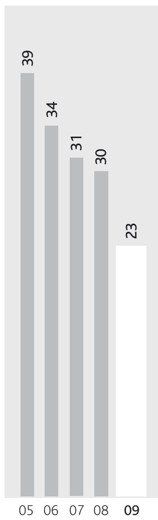
Cochlear finished in the top 25% of the ASX 100 companies in terms of TSR for the three years ended 30 June 2009. This is now the third year in a row that Cochlear has been in the top 25% of the ASX 100 companies for TSR.

In addition, our share price performed well for the year under review, finishing 32% ahead of its 30 June 2008 levels. Volatility in the share price was a feature of the year and this has continued since year end.



Basic earnings per share (cents)

Dividends per share (cents)



Net gearing ratio (%)

Mr Tommie CE Bergman
Chairman

Growth strategy

Cochlear's strategy remains focused on sustainable growth through the following four areas:

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

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

Capital management

An important global issue during the year under review was access to capital. I am pleased to report that Cochlear was well placed in this regard.

Cochlear had always maintained a conservative approach to debt and so went into the global economic crisis with low debt levels and high interest cover ratios.

During the year, the corporate debt facility was renegotiated to $300 million at a favourable rate in the current climate and to run for three years to June 2012. This facility provides headroom above our current usage levels and flexibility in the way we can apply it throughout our global organisation. Covenants remained substantially unchanged from our prior facility.

Employee and executive share and option plans

Cochlear continues to encourage employee ownership in the Company. Over 150 executives of 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.

Directors and executive management team

There were no changes to the Board of directors or the executive management team during the year. This stability has been important in dealing with the complex global challenges that continued to arise.

There has been good progress on the execution of our global growth strategy by the executive management team and the oversight role of the Board has been effective in supporting the achievement of corporate goals.

On behalf of the Board, I would like to thank all our staff for their contribution and dedication in this turbulent year. Cochlear's ongoing success reflects their passion and enthusiasm and we are all justifiably proud of Cochlear's work and achievements.

Outlook

The next financial year, F10, will again be influenced by uncertainty in the global economic environment.

However, with the release of a comprehensive range of exciting new products, Cochlear is well positioned to continue with its history of growth and market leadership. Record investments in research and development and ongoing investments in growth initiatives and internal capabilities will support Cochlear's positive development.

T. Bergman

2009 was another successful year of growth, on the long journey of providing life changing implantable technology for the hearing impaired, young and old.

Record financial results

Despite the uncertainty and turmoil of the global economic crisis, Cochlear delivered record revenues and profit. Total revenue for the year ended 30 June 2009 was $694.7 million, up 15% over F08. Net profit after tax (NPAT) of $130.5 million, or $2.34 per share, was up 13%, and our core earnings metric (NPAT assuming all R&D is expensed, and before intangible assets amortisation and share based payment expense) was $138 million, an increase of 12%.

Sales (revenues before foreign exchange hedging contracts) were up 23% to $711.8 million, representing 10% growth in constant currency (i.e. local currency). Cochlear implant (CI) product sales (including upgrades and accessories) were up 22% to $614.0 million (7% in constant currency) and Bone Anchored Solutions product sales (e.g. Baha) were up 29% to $97.8 million (up 17% in constant currency).

Europe was the fastest growing region, with sales of $318.9 million up 14% in local currency, with Americas up 10% in local currency to $300.4 million. Asia Pacific sales of $92.5 million were 5% below F08 sales in local currency, primarily because there were no donation CI sales made into China (compared to F08 when 700 units were sold). CI unit sales were 18,553 units, up 2% over F08. The CI unit growth rate is below long-term growth trends, and we saw some destocking in the supply chain, as CI surgeries grew approximately 11%.

Cochlear can track CI surgeries from the registration details received from new recipients, although it is a lagging indicator (as it can take some months for a device to be registered). The number of people receiving a cochlear implant remains less than incidence i.e. more people are born deaf or go deaf in our addressable markets than receive an implant – thus, the potential market continues expanding.

Strong cash and working capital management

Importantly from an investor perspective, free cash flow grew strongly, up 61% to $111 million. Improvements in working capital underpinned this increase in free cash flow, with debtor days falling from 81 days to 73 days, and inventory days falling from 214 days to 198 days. This free cash flow was used to pay dividends during the year of $89.5 million and reduce net debt by $24.7 million. The final year dividend increased 19% to $0.95 per share giving a full year dividend, fully franked of $1.75 per share, up 17%.

Expanding our product range

Long-term growth is underpinned by ongoing technologic innovation, with research and development expenses up 21% to $96.7 million. As we finished F09, we released Cochlear Baha BP100 (the next generation Baha sound processor). Regulatory approvals in both Europe and the USA have been received and first orders shipped on 25 June 2009. The BP100's state-of-the-art digital signal processing, optimised for bone conduction, further improves hearing performance while retaining simplicity of use.

Dr Chris Roberts
CEO/President

As we enter F10, Cochlear Nucleus 5 is being released which is the next generation cochlear implant system. This includes the 5th generation implant, 40% thinner than and two and a half times stronger than the current implant, and the 8th generation sound processor which is smaller and more feature packed than existing systems. In addition, the new system includes a remote assistant that provides wireless bi-directional communication with the sound processor.

Importantly, we have a pipeline of products behind the Baha BP100 and Nucleus 5 which will be released over the coming years, and the building blocks for longer-term advances are being assembled step by step.

Cochlear's product strategy covers four platforms: cochlear implants and bone conduction (discussed above) plus hybrid implants and direct acoustic cochlear stimulator (DACS). During F09, Europe released the first Cochlear Hybrid system (which combines electrical stimulation for the high frequencies with acoustic amplification at the lower frequencies for people with low frequency residual hearing), and some 80 surgeons have been trained on this new system. Excellent progress has been made on the DACS system and first human implant is expected during F10.

Move to a new global headquarters

In June 2009, we started construction on a new facility at Macquarie University. All the activities currently at Lane Cove (manufacturing, R&D, Asia Pacific, and head office functions) will move to the new 24,000m^2 facility expected to be open by the end of calendar 2010. 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. In addition, adjacent land has been reserved by Macquarie University for future expansion over the next several decades, thereby supporting our long-term growth aspirations.

Outlook

The passion and commitment of the over 2,000 employees and contractors who work at 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. This underpins growth for shareholders for F10 and for many years.

Continued growth

Sales growth continues

- Total revenue was up 15% to $694.7 million.
- In constant currency terms, revenue was up 10%.
- Baha sales were up 29% to $97.8 million.
- Sales growth in cochlear implant (CI) units, including Hybrid implants, was up 2% to 18,553 for the full year.
- The portfolio effect of selling in over 100 countries was less evident this year as most countries faced economic difficulties. Revenues in Americas increased 10%, Europe increased 14% and Asia Pacific fell 5%, all in constant currency terms. Asia Pacific had no China donation sales in F09, compared to 700 units sold last year.

Profit

- Gross margin to revenue at 72% was consistent with last year, reflecting the embedding of efficiencies gained from the three year manufacturing program transformation.
- R&D expenses of $96.7 million were up 21%. Strategic investments in R&D for Baha and new CI products were made in the year ahead of new product launches in both areas.
- Net interest expense decreased $3.5 million to $7.1 million due to lower interest rates and a decrease in net debt. Interest cover improved to 26 times.
- The tax rate reduced to 25.9% in 2009. This follows the significant increase in the tax concession on R&D spend ahead of the new product launches. Accordingly in F10, the 175% tax concession will not apply at the same level.
- NPAT increased 13% to $130.5 million.

Foreign exchange

- Foreign exchange was again an important aspect of the result.
- Cochlear has a partial natural hedge with 90% of sales in foreign currency and over 50% of expenses in foreign currency. To help manage the portion not covered by the natural hedge, foreign exchange contracts on foreign currency cash flows back to Australia are taken out. These contracts cover a three year period at a declining level of cover. As the Australian dollar weakened during the year, the ongoing contracts reflect the lower rates.
- Foreign currency contracts resulted in a loss of $17.1 million this year (2008: gain of $21.3 million) recognised in revenue. This was in line with movement in foreign currency rates according to our hedging policy.
- At 30 June 2009, Cochlear had foreign currency equivalent of $645.7 million in foreign exchange contracts. In the coming year, F10, the average exchange rate for the US dollar contracts is 0.78 and the average for Euro contracts is 0.55.
- During the year, there was a net gain of $8.7 million (2008: $4.7 million) on the translation of foreign assets. This is reported through Note 6 (Net finance income/(expense)) to the financial statements.
- Overall, NPAT was positively impacted by $9.9 million due to the movements in foreign exchange rates during the year.

Increased dividends

- The final dividend of 95 cents per share brought the full year dividend to 175 cents per share. The full year dividend is up 17% on 2008.
- The dividend reflects a payout ratio of approximately 75%. The 2009 dividends are again fully franked.

Strong capital management

Debt refinanced and reduced

- Cochlear refinanced its global debt during the year. This has the effect of consolidating four debt facilities into one central facility. The facility has a three year term, expiring June 2012 and is for $300 million, with $174 million drawn at 30 June 2009. All debt is classified as long term at 30 June 2009.
- Net debt decreased to $108.6 million from $133.3 million. This is a result of the focused working capital management particularly on collection of receivables discussed below.
- At 30 June 2009, the net debt for the construction of the new global headquarters was $9.9 million. Excluding this project specific debt, Cochlear's net debt was $98.7 million.
- Cochlear continues to meet all its debt covenant conditions.

Debtors

- Debtor days decreased to 73 days (2008: 81 days). Debtor days in the Americas and European regions reduced over last year due to a concerted effort at managing and collecting receivables. Asia Pacific debtor days increased marginally as a result of going direct in certain countries.

Inventories

- Inventories of $105.9 million were up 7% (2008: $99.2 million). This increase is in line with new product introductions and customer order profiles and is below sales increases. Days inventory decreased to 198 days (2008: 214 days), reflecting improved inventory management.

Intangible assets – no impairment charges

- Intangible assets of $208.3 million (2008: $209.0 million) are a significant proportion of Cochlear's total assets. Some $173.6 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 2009.

	2009 IFRS	2008 IFRS	2007 IFRS	2006 IFRS	2005 IFRS	2004 previous GAAP	2003 previous GAAP	2002 previous GAAP	2001 previous GAAP	2000 previous GAAP
Cochlear implant system sales (units)	18,553	18,228	15,947	12,901	10,802	9,306	9,328	7,845	6,482	4,941
Total revenue ($million)	694.7	601.7	559.4	452.3	349.0	282.8	306.1	255.0	220.1	144.2
R&D expenses ($million)	96.7	80.0	65.9	56.7	44.6	44.5	37.0	37.7(i)	27.7	20.9(ii)
EBITDA ($million)	205.5	193.3	170.9	130.2	96.8	54.9	87.9	56.2	49.0	33.0
EBIT ($million)	183.3	167.3	150.2	111.5	82.5	45.5	80.1	51.5	45.5	30.4
NPAT ($million)	130.5	115.2	100.1	80.0	59.6	36.8	58.2	40.1	31.2	20.2
Basic EPS (cents)	233.7	208.1	182.9	146.8	110.1	68.2	110.0	76.6	60.2	39.6
Core earnings ($million)	138.0	123.7	107.6	86.4	60.8	36.8	58.2	40.1	31.2	20.2
Core basic EPS (cents)	247.0	223.4	196.5	158.4	112.4	68.2	110.0	76.6	60.2	39.6
DPS (cents)	175.0	150.0	125.0	100.0	80.0	79.0	77.0	51.0	41.0	30.0
Closing share price ($)	57.70	43.65	61.00	54.63	39.20	22.72	32.30	34.05	39.00	28.76
Market capitalisation as at 30 June ($million)	3,230	2,423	3,341	2,985	2,123	1,231	1,714	1,788	2,029	1,469
Number of employees	1,888	1,789	1,655	1,100	982	816	814	722	639	543

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

The Americas region continued to grow with revenue up 29% (10% in constant currency) to $300.4 million in the context of unprecedented turmoil in the USA financial markets.

Sales growth continues

Revenue in the Americas region grew 10% in constant currency to a record $300.4 million. This growth was in the context of the sharp decline in business sentiment in the USA and other countries in the region. In some cases, this caused potential customers to defer important decisions (like receiving an implant).

The upgrade program for Freedom™ processors for Nucleus 24 and Nucleus 22 implant continued during the year. To date, approximately 50% of N24 and N22 recipients are now upgraded to their new Freedom processor. This upgrade's take-up rate is quicker than for previous upgrade programs.

Baha training sets a strong foundation for growth

During F09, a priority was expanding the number of surgeons who can perform Baha surgery. Some 500 surgeons in the USA and 60 surgeons in South America were trained on Baha surgery techniques and the benefits of the product during the year. This investment was important in expanding the surgeon base ahead of the approval of the new Cochlear Baha BP100 device. The FDA approved the Cochlear Baha BP100 device for sale in the USA in June 2009. The launch will now occur in F10.

Marketing initiatives

Most candidates for a cochlear implant or Baha are keen to talk directly with an existing recipient to better understand the potential of the devices prior to making a final decision for implantation. To facilitate this, Cochlear Americas manages the Cochlear Advocacy Network of volunteers. There are now over 1,000 volunteers in the program who are available to share their experiences with potential recipients. Cochlear Americas manages the program which serves the important role of improving therapy awareness.

During the year, Cochlear Americas facilitated the second Cochlear Celebration at Disneyland, California. Over 900 Cochlear recipients and family members gathered together to share experiences and hear updates on product developments, advances in bilateral implantation and new opportunities. This is a very powerful forum and recipients leave motivated about their shared experiences and the potential for others to benefit from a Cochlear implant or Baha.

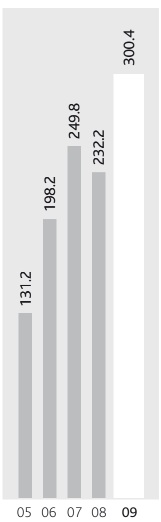
Field force specialists expanded

The Territory Outreach Specialist program continued to be refined this year. The specialists are focused on educating hearing aid professionals. Hearing aid professionals have direct access to hearing impaired patients who may benefit from a cochlear implant. The aim is to improve therapy awareness among this group of professionals. The benefits of having Territory Outreach Specialists in the sales and support teams were demonstrated during the year, with strong performance from those teams which included the specialist. Having positively assessed the benefits this year, further specialists will be added in F10.

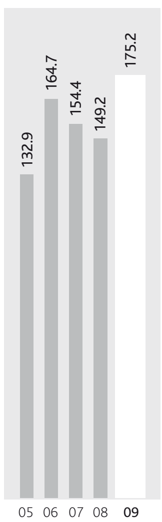
Outlook

The focus for F10 will be on obtaining the necessary regulatory approvals and then the launch of the Cochlear Nucleus 5 system into the market.

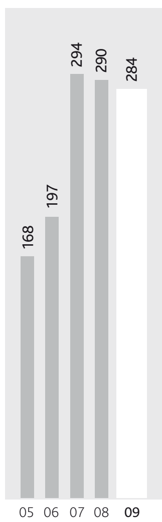
In addition, the launch of Baha BP100 following FDA approval in June 2009 will be a further area of focus for the year ahead.



Sales revenue ($million)



Total assets ($million)



Employees (number)

The European region again had strong revenue growth, growing by 24% to $318.9 million.

Continued strong sales growth

Revenue increased 24% to $318.9 million. In constant currency, the region grew 14%, the strongest of the three regions. This growth was in the context of turbulent economic conditions in all of the over 50 countries across Europe, the Middle East and Africa that comprise the European region. Growth was recorded in both the developed countries and the newer developing markets.

Improved reimbursement

Europe operates under a myriad reimbursement regimes. In nearly all cases, government supports the majority of purchases of cochlear implants or Baha.

There were no material reductions in government support during the year. In the UK and France, influential precedents were set for improvements in funding.

In the UK, the National Institute for Health and Clinical Excellence (NICE) guidelines for cochlear implantation were published this year. The guidelines confirm cochlear implants as an effective intervention for severe to profound deafness in adults and children and recommends simultaneous bilateral cochlear implantation for children receiving a cochlear implant. This is an important decision for the UK market, but is also a useful precedent as the decision was based on sound economic and clinical data.

The French health authorities also increased funding in the second half of the year.

New products continue to be rolled out in Europe

A number of new products were rolled out in Europe during the year. The staged release of new products is an important part of our growth strategy as it reinforces our technologic leadership and maintains a high level of interest and enthusiasm for our range of implantable hearing solutions.

In the first half of F09, we launched the new line of implantable hearing devices – the Cochlear Hybrid system. The launch included a detailed training program for healthcare professionals.

With the upgrade sector of the market, we focused on the roll out of the Freedom processor upgrades for the Nucleus 24 and Nucleus 22 implant users. There was enthusiastic demand for these upgrades.

In June 2009, we made the first commercial sales of the new Cochlear Baha BP100. This launch has made available the latest Baha technology to the European market.

Excitingly, the new Cochlear Nucleus 5 system was approved for the CE mark in June 2009.

Underpinning the growth

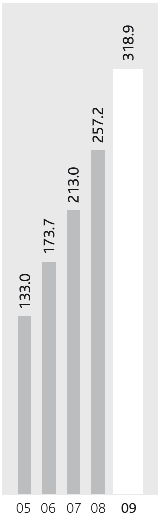
The European region has grown revenue over 200% in the last five years and underpinning this growth is important in providing a base for ongoing expansion.

During the year, the Basel office moved to new facilities that not only provided for the expansion, but also accommodated new customer support areas.

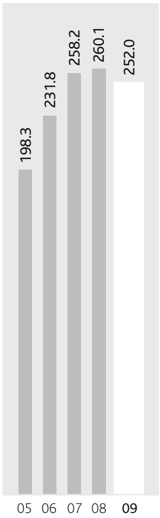
Service and repair facilities continue to be upgraded and much work on process improvements was achieved in this area during the year.

Outlook

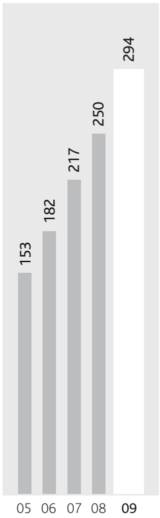
In 2010, the focus will be on maximising the launch of the Cochlear Nucleus 5 system and the Cochlear Baha BP100. These will be supported by ongoing attention to simplifying and improving processes throughout the support network.



Sales revenue ($million)



Total assets ($million)



Employees (number)

The Asia Pacific region had mixed results in the 18 countries it does business in, but overall revenue grew 2% to $92.5 million in reported currency.

Mixed results in a complex region

The Asia Pacific region covers 18 countries, all at different stages of development and growth. During the year, growth in some countries remained strong, but overall growth was lower than previous years. Revenue fell 5% in constant currency.

China remains an important growth prospect

There were no deliveries against the donation order for a total of 15,000 cochlear implants received from a Taiwanese philanthropist in March 2006. By June 2009, 1,200 units had been delivered against the order. Since year end, a further 300 units have been delivered. As predicted last year, deliveries against this order will remain lumpy and unpredictable.

During the year, further progress was made on building the support network for growth in the China market. Working together with our Beijing based distributor, the Cochlear Training and Education Centre further expanded. The number of parents and family members who received training in supporting their children in obtaining better hearing outcomes from their cochlear implant almost doubled during the year. The concept of augmenting formal clinical support with parental and family training is an important model with potential for adaptation and implementation in other markets.

The Cochlear Board visited the Beijing operations and several clinics in May 2009 to further understand and support this important growth region.

Habilitation remains a focus on the region

Cochlear is committed to supporting habilitation initiatives that continue to improve the results achieved by cochlear implant recipients in the region. For example, in India, Cochlear, together with our distributor, supports a number of trained audiologists who work with the clinics and recipients to optimise outcomes on a case-by-case basis.

In addition, Indian recipients participated in the pre-market release trials of the new Cochlear Nucleus 5 sound processor. These trials were used to confirm that the enhancements to the sound processor worked appropriately in the Indian environment. Feedback from these trials was used in further improving the product.

Approvals for new products

A feature of the Asian market is the number of different regulatory bodies and the individual approval processes. Unfortunately, there remains only limited harmonisation of these regulatory bodies across the region.

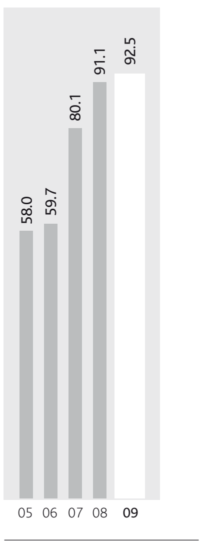
Cochlear's Hybrid implant gained regulatory approval from the Therapeutic Goods Administration in Australia in December 2008. The Hybrid speech processor was approved in January 2009. This system opens up a new market segment of recipients who will benefit from Cochlear's products.

The new Cochlear Baha BP100 was also approved in Australia in April 2009.

The Nucleus Freedom implant was approved by Japan's regulatory body in April 2009 with reimbursement coverage from 1 June 2009.

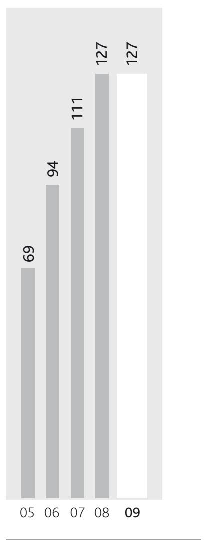
Outlook

In the Asia Pacific region, the focus for F10 will be on obtaining the necessary regulatory and reimbursement approvals in the different markets and then the launch of the Cochlear Nucleus 5 system. Ongoing habilitation work will also be a priority.



Sales revenue ($million)

Total assets ($million)



Employees (number)

As we transition from a big small company to a small big company, we are focusing on building the business, building the team and optimising performance initiatives.

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. This year, we have:

- recruited and integrated almost 100 new employees globally, using recruitment processes aimed at attracting the brightest and most innovative talent available in the world. We ensure that new recruits are aligned with Cochlear's culture and values;
- revamped our careers website which provides job alerts and information to applicants to align with our strategic skills requirements; and
- continued to develop our graduate engineering recruiting program; currently, we have 24 employees through this program.

Continually investing in individual, team and organisational capability

To support employees' learning and development, a global learning management system was implemented this year called Cochlear Academy. This provides a range of learning options for employees as well as deploying training materials for clinics including training on our latest products.

The Sydney office alone provided 28,198 hours of training during 2009, up from 15,659 hours last year. Our Get Equipped induction program is a valuable learning tool to ensure a minimum global standard of knowledge for all employees. We further deployed our Leadership Architecture this year with learning interventions for individual leaders, people managers and managers of managers.

Implementation of our new classification matrix for manufacturing employees in 2008 resulted in the investment of 21,436 hours of training for our production workforce and the promotion of 229 people.

Throughout 2009, the Women in Leadership network continued to operate. As part of this program, Cochlear invites females in senior roles to speak at lunchtime sessions. In 2009, 40% of new employees in Sydney were female. We participated in the Centre for Executive Women benchmarking study which found that Cochlear has a higher percentage of women in the workplace (50%) than the other benchmark organisations (45%). The study also found that the percentage of females at each salary band at Cochlear was at or above the average for the benchmark organisations.

Investment was again made in global process improvement programs during the year. These programs will ensure Cochlear has a robust process management system and the capability to support its future growth. This year, Cochlear again reduced non-value added work by improving data integrity and systems.

Ensuring the health and safety of employees

Cochlear continues to be committed to providing and maintaining a safe and healthy workplace for all employees. Occupational health and safety training is provided for new employees. We increased training including risk assessment 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 with an initial donation from Cochlear Limited and an additional donation in 2009. This philanthropic entity continued to support various programs promoting research and awareness of treatments for 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 City to Surf fun run, the Sydney to Wollongong bike ride, the BRW Corporate Triathlon, and Australia's Biggest Morning Tea. Funds raised by Cochlear employees for the Victorian Bushfire appeal were matched by Cochlear.

Environmental responsibility

Cochlear supports an internal group of employees called "greenFEVER" whose goals are to raise awareness on environmental issues, promote sustainable living at work and at home, and identify areas for consideration to further reduce Cochlear's environmental impact. During the year, Cochlear focused on reducing electricity usage through performing audits and promoting switching off lights and electrical items. At the last audit, electricity usage in the Sydney facility had been reduced by 51%.

Currently, compulsory greenhouse gas reporting thresholds under the Energy Efficiency Opportunities program are significantly above Cochlear's emission levels.

At the centre of the innovations that Cochlear develops is the fundamental belief that they must enhance the quality of life and experience for our customers.

Technological innovation is a cornerstone of the Cochlear growth strategy and Cochlear leads the industry in its investment in research and development. In 2009, Cochlear continued to grow its research capability with $96.7 million constituting 13.9% of revenue invested.

Cochlear provides a range of commercial implantable hearing solutions including our Cochlear Nucleus range of cochlear implants, our Cochlear Baha range of bone conduction devices and our Cochlear Hybrid electro-acoustic hearing solution. The fourth arm of our hearing solutions is our direct acoustic cochlear stimulator (DACS) which is progressing well in development and will enter clinical trials in F10.

Over 250 staff are involved in a broad range of research programs around the globe ensuring Cochlear stays at the forefront of the science and technology associated with hearing loss and implantable hearing solutions.

Cochlear is currently involved in over 100 collaborative research programs around the world and these research programs span the basic sciences and emerging technologies to clinical trial evaluations of new developments. Staying at the forefront of our field requires having a broad range of multi-disciplinary research programs including new signal analysis and processing, new electrical and acoustic stimulation interfaces including optical and nanotube interfaces, auditory midbrain stimulation as well as biological interface improvements, all with the goal of continuously improving the hearing outcomes for our recipients. In addition, significant investments are being made to simplify the technology for both professionals and implant users alike, with the aim of establishing implantable hearing solutions as the standard of care for people with relevant moderate to profound hearing loss.

Ensuring our recipients have access to latest technologies is also an important aspect of our research. Cochlear invests significantly every year to ensure our new speech processors and sound coding strategies are compatible with our earliest range of implants, thereby providing the benefits from the advances we make to our earliest implant recipients.

Manufacturing operations

Cochlear's manufacturing operations, located in Australia and Sweden, are a source of sustainable competitive advantage and focus on delivering products of the highest quality and reliability.

Cochlear's manufacturing strategy is to ensure that production methods and capacity meet the growing demand for our products. Our operations improvement program which implemented "Lean Manufacturing" principles has been a major success and significant investment is now being made on advancing new manufacturing technologies to further support scalability and productivity improvements.

Today, 785 people are employed across our manufacturing facilities.

Quality assurance

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

Device approvals

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 we operate. Ongoing approvals are regularly being sought for new products in a variety of jurisdictions.

Intellectual property

The generation of new intellectual property and the protection of existing intellectual property are key strategic imperatives for the business. In 2009, Cochlear generated 81 brand new patent applications, and currently holds approximately 1,000 patents and patent applications globally.

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1. Mr Tommie CE Bergman, Chairman
Age 64. DipEng, GradDipMarketing, FAICD

– Appointed Chairman 22 October 2002
– Appointed director and Deputy Chairman 1 January 2002

Former director of Rinker Group Limited/Cemex Pty Limited (2007 – 2008) and Smorgon Steel Group Limited (1999 – 2007). Former Chairman of WMC Resources Limited (2003 – 2005) and Deputy Chairman/Director of WMC Limited (2001 – 2002). Director of Amcor Limited (1997 – 2003) and Atlas Copco Australia Pty Limited (1996 – 2002). Member of the Advisory Board of Caliburn Partnership Pty Limited (2003 – 2007). Former Chairman and Managing Director of Asea Brown Boveri Australasia Pty Limited (1991 – 2002). Prior to that held CEO and Chairman positions in the ABB Group in Singapore, India, Portugal and the USA.

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 55. BE (Hons), MBA, PhD, FAICD, FTSE – Appointed 1 February 2004

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

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

3. Mr Paul R Bell
Age 63. 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). Member of the Global Merck Management Committee.

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

4. Prof Edward Byrne, AO
Age 57. DSc, MD, MBA, FRCP, FRACP – Appointed 1 July 2002

Vice Chancellor of Monash University from July 2009. 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 60. 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.

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

6. Mr Rick Holliday-Smith
Age 59. 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 Audit Committee. Member of the Nominations Committee and Remuneration Committee.

7. Mr Donal P O'Dwyer
Age 56. BE Civil, MBA – Appointed 1 August 2005

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

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

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1. Dr Chris Roberts – CEO/President

See "Board of Directors" on page 23.

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, Quality and Regulatory

BE (Hons), PhD

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 on the board of the Medical Technology Association of Australia (MTAA) and is 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 leadership of the manufacturing and logistics groups. He and his team are responsible for the manufacture of all Cochlear products and all aspects of the supply chain together with the introduction of new products from research and development into commercial production.

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

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

MElecEng

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

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

6. Michael Kavanagh – Senior Vice President, Global Marketing

BSc, MBA (Advanced)

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

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

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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 USA. Earlier experience included quality management at Kodak as winners of the Australian Quality Prize and as an evaluator with Business Excellence Awards in Australia and the USA.

8. Neville Mitchell – Chief Financial Officer and Company Secretary

BComm, CA (SA), CA

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

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

9. David Morris – President, Bone Anchored Solutions

BBus, BAppSc

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

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.

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 USA including Warburg Pincus, and as Group President for Gyrus Group (ENT and Surgical divisions).

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

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

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

Principle 1: Lay solid foundations for management and oversight

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

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

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

The Chairman is responsible for leading the Board in the performance of its duties. The Board's prime objectives are to improve shareholder returns and to achieve disciplined and sustainable growth. The full Board meets for at least eight scheduled meetings each year. Other meetings are called as and when necessary. A summary of meeting attendance (including committee meeting attendance) for the 2009 financial year is set out in the Directors' Report at page 34 (Recs 2.6, 4.4 and 8.3). At each Board meeting, the non-executive directors meet for a period without management or any executive directors present. Throughout the year, the Board has regular scheduled discussions on various aspects of the Company's strategy.

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

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

Principle 2: Structure the board to add value

Composition of the Board

As at 30 June 2009, the Board comprised six non-executive directors, including the Chairman, and one executive director, the CEO/President. The directors consider that, between them, they possess the necessary skills, knowledge and experience to allow the Board to perform its duties appropriately. Between them, the directors bring to the Board scientific, medical, technical and financial expertise as well as international business experience. Summaries of the relevant skills, experience and expertise of each director are set out on page 23 (Rec 2.6).

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

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

The Company's Constitution requires one third of the directors to retire from office at the AGM each year. Retiring directors are eligible for re-election. The CEO/President is excluded from this requirement. Mr Rick Holliday-Smith and Mr Andrew Denver will retire at the 2009 AGM and will stand for re-election at that meeting. A review of the performance of the Board, its committees and individual directors is performed at least every two years, with the most recent being undertaken in 2008. The Chairman undertook individual interviews and questionnaires and subsequently held evaluations with each individual director as to their performance over the past year. The findings of these reviews were then discussed at the Nominations Committee meeting held in May 2008. The Performance Evaluation Process Overview gives details of performance evaluation for the Board, its committees and individual directors (Rec 2.5). The Performance Evaluation Process Overview is published in the Corporate Governance section of the Cochlear website.

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

Independence

The Board has assessed the independence of the non-executive directors in light of their interests and relationships and considers that all of the non-executive directors are independent (Rec 2.1). With the exception of the CEO/President, all directors on the Board are independent directors (Rec 2.1). An independent director is a non-executive director who is not a member of management and who is free of any business or other relationship 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 relationships disclosed by them. Independence is reassessed in the event of any material change of interests and relationships. Any loss of independence by a non-executive director will immediately be disclosed to the market.

None of the non-executive directors has any business relationship with Cochlear. The total number of shares owned by Cochlear non-executive directors is 24,850. This is considered immaterial.

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

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

Board committees

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

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

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

Audit Committee (Rec 4.1)

The Audit Committee meets at least four times a year. In accordance with the trends in international practice, the Audit Committee consists entirely of independent non-executive directors (Rec 4.2). Mr Rick Holliday-Smith chairs the Committee, with the other members at 30 June 2009 being Mr Tommie Bergman, Mr Andrew Denver and Mr Donal O'Dwyer (Recs 4.2 and 4.4). Mr Holliday-Smith is not the Chairman of the Board. The Board considers that the Audit Committee is of a sufficient size and independence and possesses sufficient technical expertise to discharge its mandate effectively. An assessment of the technical expertise of the Committee's members occurs on an annual basis. The external and internal auditors, the CEO/President and the Chief Financial Officer (CFO) 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 23 (Rec 4.4). The Audit Committee Terms of Reference set out the Committee's role and responsibilities, composition, structure and membership requirements. The Audit Committee Terms of Reference can be viewed in the Corporate Governance section of the Cochlear website (Recs 4.3 and 4.4).

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

The Committee's primary responsibilities include:

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

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

Remuneration Committee (Recs 8.1 and 8.2)

The Remuneration Committee meets at least three times a year. The Committee is chaired by Mr Paul Bell. As at 30 June 2009, the other members of the Committee were Mr Tommie Bergman and Mr Rick Holliday-Smith. All members of the Remuneration Committee are independent non-executive directors (Rec 8.3). As the need arises, the CEO/President, CFO, Senior Vice President, Human Resources and other executives are invited to meetings at the discretion of the Committee.

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

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

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

Further details on Cochlear's remuneration policies and the principles upon which they are based are set out below at Principle 8: Remunerate fairly and responsibly, and in the Remuneration Report at pages 37 to 46 (Rec 8.3).

Nominations Committee (Rec 2.4)

The Nominations Committee is chaired by Mr Tommie Bergman (the Company Chairman) and is comprised entirely of independent non-executive directors. In addition to the Chairman, the members of the Committee as at 30 June 2009 were Mr Paul Bell, Prof Edward Byrne, AO, Mr Andrew Denver, Mr Rick Holliday-Smith and Mr Donal O'Dwyer (Rec 2.6).

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

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

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

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

Medical Science Committee

The Medical Science Committee was established during the 2003 financial year and meets at least biannually. The Committee is chaired by Prof Edward Byrne, AO, with the other members as at 30 June 2009 being Mr Donal O'Dwyer and Dr Chris Roberts. The Committee may invite any Cochlear executive to attend its meetings at its discretion.

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

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

Technology and Innovation Committee

The Technology and Innovation Committee was established during the 2003 financial year and is chaired by Mr Tommie Bergman. As at 30 June 2009, the other members of the Committee were Mr Paul Bell, Prof Edward Byrne, AO, Mr Andrew Denver, Mr Donal O'Dwyer and Dr Chris Roberts. Executives of the Company are invited to meetings at the discretion of the Committee. The Technology and Innovation Committee Terms of Reference set out the Committee's role and responsibilities, composition, structure and membership requirements. The Technology and Innovation Committee Terms of Reference can be viewed in the Corporate Governance section of the Cochlear website. The Committee oversees the strategic direction of the Company's technology research and product development programs, with an emphasis on priority and resource allocation in line with the Company's agreed corporate strategy.

Principle 3: Promote ethical and responsible decision-making

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

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

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

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

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

Principle 4: Safeguard integrity in financial reporting

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

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

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

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

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

Principle 5: Make timely and balanced disclosure

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

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

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

Principle 6: Respect the rights of shareholders

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

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

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

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 has reported to the Board on the effectiveness of the Company's management of business risks (Rec 7.2).

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

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

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

Principle 8: Remunerate fairly and responsibly

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

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

The Remuneration Policy is built around principles that:

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

Details of the 2009 financial year remuneration of the directors (including retirement benefits), the five highest paid executive officers of the Consolidated Entity and Company and specified executives are included in the Remuneration Report on pages 37 to 46. Further disclosure in relation to the remuneration philosophy is included in the Remuneration Report.

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

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

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

Senior executives' remuneration policy (Recs 8.2 and 8.3)

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

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

Number	Requirement	Compliant
Pr 1	**Lay solid foundations for management and oversight**	
Rec 1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	✓
Rec 1.2	Companies should disclose the process for evaluating the performance of senior executives.	✓
Rec 1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	✓
Pr 2	**Structure the board to add value**	
Rec 2.1	A majority of the board should be independent directors.	✓
Rec 2.2	The chair should be an independent director.	✓
Rec 2.3	The roles of chair 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.	✓

694,699 601,7

176,268 156,7

130,540 115,2

233.7 208

233.2 206

Contents

The directors present their report, together with the Financial Report of Cochlear Limited (the Company) and the Consolidated Financial Report of the Consolidated Entity (Cochlear), being the Company and its controlled entities, for the year ended 30 June 2009, 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, Mr PR Bell, Prof E Byrne, AO, Mr A Denver, Mr R Holliday-Smith, Mr DP O'Dwyer and Dr CG Roberts.

Information on the directors is presented in the Annual Report.

Directors' meetings

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

	Board of directors		Audit Committee		Medical Science Committee		Nominations Committee		Remuneration Committee		Technology and Innovation Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr TCE Bergman	10	10	6	6	-	-	1	1	3	3	2	2
Mr PR Bell	10	10	-	-	-	-	1	1	3	3	2	2
Prof E Byrne, AO	10	9	-	-	2	2	1	1	-	-	2	2
Mr A Denver	10	10	6	6	-	-	1	1	-	-	2	2
Mr R Holliday-Smith	10	10	6	6	-	-	1	1	3	3	-	-
Mr DP O'Dwyer	10	10	6	6	2	2	1	1	-	-	2	2
Dr CG Roberts	10	10	-	-	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 2009, 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 2009.

Consolidated results

The consolidated results for the financial year are:

	2009 $000	2008 $000
Revenue	694,699	601,725
Profit before income tax	176,268	156,717
Net profit	130,540	115,234
Basic earnings per share (cents)	233.7	208.1
Diluted earnings per share (cents)	233.2	206.6

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	80.0	44,682	25 September 2008	30%
In respect of the current financial year: Interim – ordinary shares	80.0	44,834	17 March 2009	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 2009. Since the end of the financial year, the directors declared a final 95.0 cents per share dividend, 100% franked at the tax rate of 30%, amounting to a total of $53,249,156.

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 Accounting Professional and Ethical Standards Board Statement (APES) 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

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

	Consolidated	
	2009 $	2008 $
Audit services		
Auditors of the Company:		
KPMG Australia:		
- audit and review of financial reports	572,000	499,000
- other audit services	111,934	-
- other regulatory compliance services	17,000	10,700
Overseas KPMG firms:		
- audit and review of financial reports	639,309	529,130
- other regulatory compliance services	38,218	25,176
Total audit services	**1,378,461**	**1,064,006**
Non-audit services		
Auditors of the Company:		
KPMG Australia:		
- taxation compliance services	1,621,676	1,201,620
- other assurance services	106,739	40,485
Overseas KPMG firms:		
- taxation compliance services	557,366	512,030
Total non-audit services	**2,285,781**	**1,754,135**

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 J Janssen (Senior Vice President, Design and Development)	60%	20%	20%
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%
Senior executives – Company			
Mr D Howitt (Senior Vice President, Manufacturing and Logistics)	60%	20%	20%
Mr DN Morris (President, Bone Anchored Solutions)	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 and the President, European Region has a notice period of six months; and
- the President, European Region will receive a maximum of Swiss francs (CHF) 30,000 for repatriation costs in the case of termination or resignation.

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

Base salary and benefits

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

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

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

Options and performance shares only vest if 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.

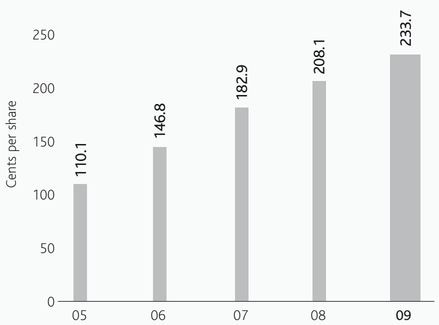
The following factors and assumptions were used in determining the fair value of options on grant date using the Black-Scholes model:

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
18 August 2008	3 – 5 years	$5.22	$49.91	$50.10	26.6%	5.68%	3.14%

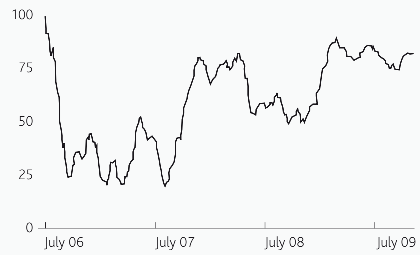
Performance of Cochlear in current CELTIP cycle

Depicted in the charts below is a comparison of basic EPS for financial years 2005 to 2009 and the TSR performance of Cochlear relative to the S&P/ASX 100 for financial years 2007 to 2009:

Cochlear EPS performance



Cochlear TSR performance



For the year ended 30 June 2009, the growth in basic EPS was 12% and the increase in total return to Cochlear Limited shareholders (as measured from the change in share price plus dividends paid) was 36%.

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 $	2009	2008	2007	2006	2005
Net profit attributable to equity holders of the parent (million)	130.5	115.2	100.1	80.0	59.6
Dividends paid (million)	89.5	77.9	60.4	49.1	42.8
Share price	57.70	43.65	61.00	54.63	39.20

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.

In line with best market practice, 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.

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

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

On 23 October 2006, the Board determined that it should implement changes to non-executive director remuneration consistent with developing market practice and guidelines by discontinuing the ongoing accrual of benefits under the existing retirement scheme once the remaining members of the scheme reached their five year service period. The benefits accrued to that date will be indexed by reference to the 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]	Superannuation benefits	Termination benefits[iii]	Long service leave		Bonus[i]	Value of options	Value of performance shares			%	%
Directors														
Non-executive														
Mr TCE Bergman (Chairman)	2009	396,981	-	13,745	37,787	-	448,513	-	-	-	-	448,513	-	-
	2008	374,711	-	13,129	55,261	-	443,101	-	-	-	-	443,101	-	-
Mr PR Bell	2009	157,096	-	13,415	-	-	170,511	-	-	-	-	170,511	-	-
	2008	139,904	-	12,380	-	-	152,284	-	-	-	-	152,284	-	-
Prof E Byrne, AO	2009	142,173	-	12,677	15,474	-	170,324	-	-	-	-	170,324	-	-
	2008	144,423	-	12,588	22,629	-	179,640	-	-	-	-	179,640	-	-
Mr A Denver	2009	152,142	-	13,318	-	-	165,460	-	-	-	-	165,460	-	-
	2008	136,904	-	12,145	-	-	149,049	-	-	-	-	149,049	-	-
Mr R Holliday-Smith	2009	176,981	-	13,745	-	-	190,726	-	-	-	-	190,726	-	-
	2008	154,904	-	13,003	-	-	167,907	-	-	-	-	167,907	-	-
Mr DP O'Dwyer	2009	160,142	-	13,539	-	-	173,681	-	-	-	-	173,681	-	-
	2008	144,904	-	12,588	-	-	157,492	-	-	-	-	157,492	-	-
Executive														
Dr CG Roberts (CEO/President)	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%
	2008	950,000	-	13,129	-	18,634	981,763	397,091	393,938	45,660	836,689	1,818,452	46.0%	24.2%

	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	Long service leave		Bonus(i)	Value of options	Value of performance shares			%	%
Executives													
Consolidated Entity													
Mr R Brook(v), (vi) (President, European Region)	2009	457,653	141,150	39,132	-	637,935	154,943	142,528	4,196	301,667	939,602	32.1%	15.6%
	2008	372,585	122,180	26,153	-	520,918	147,249	139,479	19,702	306,430	827,348	37.0%	19.2%
Mr J Janssen(v), (vi), (vii) (Senior Vice President, Design and Development)	2009	378,497	-	13,745	10,412	402,654	111,262	114,722	1,952	227,936	630,590	36.1%	18.5%
Mr NJ Mitchell(v), (vi), (vii) (Chief Financial Officer and Company Secretary)	2009	391,917	-	100,019	17,155	509,091	132,832	133,193	3,245	269,270	778,361	34.6%	17.5%
	2008	356,127	-	93,315	13,358	462,800	105,391	113,584	15,050	234,025	696,825	33.6%	18.5%
Mr DN Morris (President, Bone Anchored Solutions)	2008	346,269	-	13,129	8,302	367,700	90,436	96,303	12,683	199,422	567,122	35.2%	19.2%
Mr MD Salmon(v), (vi), (vii) (President, Asia Pacific Region)	2009	423,613	-	13,745	9,414	446,772	115,786	126,905	3,154	245,845	692,617	35.5%	18.8%
	2008	390,991	-	13,129	5,687	409,807	112,887	109,931	14,690	237,508	647,315	36.7%	19.3%
Mr CM Smith(v), (vi) (President, Americas Region)	2009	540,496	26,720	16,757	-	583,973	175,813	138,490	39,424	353,727	937,700	37.7%	19.0%
	2008	437,253	20,606	12,922	-	470,781	114,323	149,651	32,294	296,268	767,049	38.6%	23.7%
Company													
Mr D Howitt(v) (Senior Vice President, Manufacturing and Logistics)	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 (Senior Vice President, Design and Development)	2008	349,761	-	13,129	6,862	369,752	90,024	92,548	8,633	191,205	560,957	34.1%	18.0%
Mr MC Kavanagh (Senior Vice President, Global Marketing)	2008	315,190	-	13,129	6,947	335,266	81,101	90,686	12,355	184,142	519,408	35.5%	19.8%
Mr DN Morris(v) (President, Bone Anchored Solutions)	2009	383,833	-	13,745	9,432	407,010	113,322	106,318	2,653	222,293	629,303	35.3%	17.3%

(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 2009. 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 reporting period. The ability to exercise the options and performance shares is conditional on Cochlear achieving certain performance hurdles. The estimated value of options for the current financial year is calculated at the date of grant using the Black-Scholes model. Further details of options granted during the financial year are set out below. The value of performance shares for the current financial year is calculated as the share price at the date of issue discounted for vesting probabilities.

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

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

(vii) Denotes Consolidated Entity and Company executives.

Exercise of options granted as remuneration

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

	Number of shares	Amount paid $/share
Executives		
Mr R Brook	84,921	27.84
Mr NJ Mitchell	27,781	39.93
Mr CM Smith	15,000	39.93

During the previous financial year, 478,551 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	455,684	86.1%	13.9%
Executives			
Consolidated Entity			
Mr R Brook	154,943	84.6%	15.4%
Mr J Janssen	111,262	85.9%	14.1%
Mr NJ Mitchell	132,832	86.1%	13.9%
Mr MD Salmon	115,786	66.3%	33.7%
Mr CM Smith	175,813	81.3%	18.7%
Company			
Mr D Howitt	108,309	86.3%	13.7%
Mr DN Morris	113,322	86.6%	13.4%

(i) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance goals. No amounts vest in future financial years in respect of the CMSTIP for the 2009 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] $	Value yet to vest Max[iii] $	Number granted	% vested in financial year	% forfeited in financial year[i]	Value yet to vest Min[ii] $	Value yet to vest Max[iii] $
Executive director											
Dr CG Roberts	22 August 2005	79,468	99%	1%	-	-	5,923	99%	1%	-	-
	21 August 2006	70,422	-	-	-	438,025	-	-	-	-	-
	20 August 2007	59,088	-	-	-	481,565	-	-	-	-	-
	18 August 2008	101,412	-	-	-	529,371	-	-	-	-	-
Executives											
Consolidated Entity											
Mr R Brook	22 August 2005	36,138	99%	1%	-	-	2,694	99%	1%	-	-
	21 August 2006	23,239	-	-	-	144,547	-	-	-	-	-
	20 August 2007	17,422	-	-	-	141,987	-	-	-	-	-
	18 August 2008	30,285	-	-	-	158,088	-	-	-	-	-
Mr J Janssen	22 August 2005	16,814	99%	1%	-	-	1,253	99%	1%	-	-
	21 August 2006	21,217	-	-	-	131,969	-	-	-	-	-
	20 August 2007	13,396	-	-	-	109,174	-	-	-	-	-
	18 August 2008	24,819	-	-	-	129,555	-	-	-	-	-
Mr NJ Mitchell	22 August 2005	27,949	99%	1%	-	-	2,083	99%	1%	-	-
	21 August 2006	18,980	-	-	-	118,057	-	-	-	-	-
	20 August 2007	15,644	-	-	-	127,501	-	-	-	-	-
	18 August 2008	35,824	-	-	-	187,001	-	-	-	-	-
Mr MD Salmon	22 August 2005	27,174	99%	1%	-	-	2,025	99%	1%	-	-
	21 August 2006	18,422	-	-	-	114,585	-	-	-	-	-
	20 August 2007	14,891	-	-	-	121,362	-	-	-	-	-
	18 August 2008	33,446	-	-	-	174,588	-	-	-	-	-
Mr CM Smith	22 August 2005	28,646	99%	1%	-	-	2,135	99%	1%	-	-
	21 August 2006	28,849	-	-	-	179,441	-	-	-	-	-
	20 August 2007	12,577	-	-	-	102,500	2,377	-	-	-	68,333
	18 August 2008	29,714	-	-	-	155,107	1,726	-	-	-	38,783
Company											
Mr D Howitt	22 August 2005	20,448	99%	1%	-	-	1,524	99%	1%	-	-
	21 August 2006	13,974	-	-	-	86,918	-	-	-	-	-
	20 August 2007	12,211	-	-	-	99,517	-	-	-	-	-
	18 August 2008	24,032	-	-	-	125,447	-	-	-	-	-
Mr DN Morris	22 August 2005	22,843	99%	1%	-	-	1,703	99%	1%	-	-
	21 August 2006	16,157	-	-	-	100,497	-	-	-	-	-
	20 August 2007	13,296	-	-	-	108,361	-	-	-	-	-
	18 August 2008	25,074	-	-	-	130,886	-	-	-	-	-

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

	Value of options			
Amounts $	Granted in year(i)	Exercised in year(ii)	Forfeited in year(ii)	Total option value in year
Executive director				
Dr CG Roberts	529,371	-	4,563	533,934
Executives				
Consolidated Entity				
Mr R Brook	158,088	2,225,443	2,075	2,385,606
Mr J Janssen	129,555	-	965	130,520
Mr NJ Mitchell	187,001	401,991	1,605	590,597
Mr MD Salmon	174,588	-	1,560	176,148
Mr CM Smith	155,107	206,400	1,646	363,152
Company				
Mr D Howitt	125,447	-	1,174	126,621
Mr DN Morris	130,886	-	1,312	132,198

(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 2009 to 30 June 2012).

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

Other items – unaudited

Unissued shares under option

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

Number of options	Plan	Exercise price per share	Exercise period
334,864	CELTIP	$39.93	August 2008 – September 2010
476,273	CELTIP	$49.43	August 2009 – September 2011
383,494	CELTIP	$63.18	August 2010 – September 2012
700,792	CELTIP	$49.91	August 2011 – September 2013

The closing share price at 30 June 2009 was $57.70.

During the financial year, the Company granted 712,331 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 2011. 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, 29,928 options granted by the Company were forfeited.

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

Directors' interests

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

	Cochlear Limited ordinary shares	Options over ordinary shares
Mr TCE Bergman	12,000	-
Mr PR Bell	2,500	-
Prof E Byrne, AO	2,000	-
Mr A Denver	2,500	-
Mr R Holliday-Smith	2,500	-
Mr DP O'Dwyer	3,350	-
Dr CG Roberts	602,821	309,913

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 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 2009, see Note 9 to the financial statements.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 49 and forms part of the Directors' Report for the financial year ended 30 June 2009.

Rounding off

The Company is of a kind referred to in Australian Securities and Investments Commission (ASIC) Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the Directors' Report and Financial Report have been rounded off to the nearest one thousand dollars, unless otherwise indicated.

Dated at Sydney this 11th day of August 2009.

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 2009 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, 11 August 2009

Kevin Leighton, Partner

		Consolidated		Company	
		2009	2008	2009	2008
	Note	$000	$000	$000	$000
Revenue	5(a)	694,699	601,725	482,015	441,648
Cost of sales	5(b)	(196,244)	(169,013)	(211,274)	(205,699)
Gross profit		**498,455**	**432,712**	**270,741**	**235,949**
Other income	5(c)	3,081	2,510	25,488	2,259
Selling and general expenses		(185,230)	(156,487)	(27,346)	(26,072)
Administration expenses		(44,979)	(36,092)	(34,263)	(30,679)
Research and development expenses	5(b)	(96,682)	(80,017)	(85,485)	(67,232)
Results from operating activities		**174,645**	**162,626**	**149,135**	**114,225**
Finance income	6	10,474	6,113	4,620	2,815
Finance expense	6	(8,851)	(12,022)	(3,913)	(7,063)
Net finance income/(expense)		**1,623**	**(5,909)**	**707**	**(4,248)**
Profit before income tax		**176,268**	**156,717**	**149,842**	**109,977**
Income tax expense	8	(45,728)	(41,483)	(31,928)	(29,585)
Net profit		**130,540**	**115,234**	**117,914**	**80,392**
Basic earnings per share (cents)	11	233.7	208.1		
Diluted earnings per share (cents)	11	233.2	206.6		

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 54 to 101.

		Consolidated		Company	
		2009	2008	2009	2008
	Note	$000	$000	$000	$000
Foreign exchange translation differences for foreign operations	21	(12,084)	(4,258)	5	(4)
Effective portion of changes in fair value of cash flow hedges	21	(15,376)	22,607	(15,338)	22,607
Net change in fair value of cash flow hedges transferred to the income statement	21	11,990	(14,898)	11,990	(14,898)
Net (expense)/income recognised directly in equity		**(15,470)**	**3,451**	**(3,343)**	**7,705**
Net profit		130,540	115,234	117,914	80,392
Total recognised income and expense		**115,070**	**118,685**	**114,571**	**88,097**

Other movements in equity arising from transactions with equity participants as equity participants are set out in Note 21. The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 54 to 101.

		Consolidated		Company	
		2009	2008	2009	2008
	Note	$000	$000	$000	$000
Assets					
Cash and cash equivalents	22(a)	80,016	36,687	36,462	14,804
Trade and other receivables	12	173,256	173,266	47,116	119,941
Inventories	13	105,944	99,169	73,915	60,368
Current tax receivables		3,898	4,157	-	781
Prepayments		8,205	8,817	3,756	4,769
Total current assets		**371,319**	**322,096**	**161,249**	**200,663**
Trade and other receivables	12	31,086	15,963	207,518	11,574
Investment in subsidiaries		-	-	87,042	65,656
Property, plant and equipment	14	46,794	43,219	31,837	31,423
Intangible assets	15	208,275	208,959	33,343	23,272
Deferred tax assets	16	21,899	17,679	4,699	-
Total non-current assets		**308,054**	**285,820**	**364,439**	**131,925**
Total assets		**679,373**	**607,916**	**525,688**	**332,588**
Liabilities					
Trade and other payables		64,881	60,830	23,784	27,058
Loans and borrowings	17	-	15,438	-	-
Current tax liabilities		5,362	2,803	668	-
Provisions	19	32,222	31,516	20,997	22,114
Deferred revenue		14,678	14,358	72	263
Total current liabilities		**117,143**	**124,945**	**45,521**	**49,435**
Trade and other payables		56	-	-	-
Loans and borrowings	17	188,583	154,545	172,687	20,000
Provisions	19	9,178	8,633	7,150	6,901
Deferred tax liabilities	16	179	452	-	316
Total non-current liabilities		**197,996**	**163,630**	**179,837**	**27,217**
Total liabilities		**315,139**	**288,575**	**225,358**	**76,652**
Net assets		**364,234**	**319,341**	**300,330**	**255,936**
Equity					
Share capital	21	97,435	82,972	97,435	82,972
Reserves	21	(2,435)	13,035	19,817	23,062
Retained earnings	21	269,234	223,334	183,078	149,902
Total equity	21	**364,234**	**319,341**	**300,330**	**255,936**

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 54 to 101.

		Consolidated		Company	
		2009	2008	2009	2008
	Note	$000	$000	$000	$000
Cash flows from operating activities					
Cash receipts from customers		750,627	543,493	400,786	427,996
Cash payments to suppliers and employees		(552,836)	(397,215)	(197,188)	(317,507)
Grant and other income received		2,846	1,871	999	1,871
Interest received		1,302	1,576	740	944
Interest paid		(9,359)	(11,810)	(2,812)	(3,029)
Income taxes paid		(45,952)	(53,367)	(34,060)	(33,749)
Net cash provided by operating activities	22(b)	**146,628**	**84,548**	**168,465**	**76,526**
Cash flows from investing activities					
Acquisition of property, plant and equipment		(19,900)	(17,831)	(13,695)	(10,706)
Proceeds from sale of non-current assets		156	-	-	-
Acquisition of enterprise resource planning system		(2,644)	(9,815)	(2,644)	(9,051)
Investment in controlled entities		-	-	(19,873)	(26)
Acquisition of intangible assets		(17,437)	(1,500)	(11,617)	(1,500)
Payments for construction of Headquarters	28	(6,687)	-	-	-
Acquisition of distributor businesses		-	(1,011)	-	-
Acquisition of manufacturing business		-	(9,286)	-	(9,286)
Loans to controlled entities		-	-	(187,545)	-
Dividends received from controlled entities		-	-	7,847	-
Net cash used in investing activities		**(46,512)**	**(39,443)**	**(227,527)**	**(30,569)**
Cash flows from financing activities					
Proceeds of borrowings – secured loans		100,424	64,938	100,424	62,000
Repayment of borrowings – secured loans		(269,569)	(90,623)	(118,784)	(72,000)
Proceeds of borrowings – multi-option credit facility		208,000	-	208,000	-
Repayment of borrowings – multi-option credit facility		(34,000)	-	(34,000)	-
Proceeds of borrowings – construction of Headquarters		11,997	-	-	-
Proceeds from issue of share capital		14,463	12,974	14,463	12,974
Dividends paid by the parent		(89,516)	(77,852)	(89,516)	(77,852)
Net cash (used in)/provided by financing activities		**(58,201)**	**(90,563)**	**80,587**	**(74,878)**
Net increase/(decrease) in cash and cash equivalents		**41,915**	**(45,458)**	**21,525**	**(28,921)**
Cash and cash equivalents, net of overdrafts at 1 July		36,687	81,737	14,804	43,694
Effects of exchange fluctuation on cash held		1,414	408	133	31
Cash and cash equivalents, net of overdrafts at 30 June	22(a)	**80,016**	**36,687**	**36,462**	**14,804**

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 54 to 101.

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 2009 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 financial statements were approved by the Board of directors on 11 August 2009.

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

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

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

Note 8 – Income tax expense

Note 15 – Intangible assets

Note 19 – Provisions

Note 20 – Contingent liabilities

Note 25 – Employee benefits

Note 26 – Financial instruments.

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.

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

Transactions eliminated on consolidation

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

Special purpose entities

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 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.

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 instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, including service concession 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 contract 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

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

(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.

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

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 technology acquired, customer and technology relationships and intellectual property, are acquired individually or through business combinations and are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (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 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 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.

(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.

Leased assets

Operating leases

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

Depreciation

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

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

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

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

Long service leave

The provision for employee benefits 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 reporting date.

The provision is calculated using expected future increases in remuneration rates, including related on-costs, and expected settlement dates based on turnover history, and is discounted using the rates attaching to national government securities at reporting date, which most closely match the terms 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 for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same 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 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. 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 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

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

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

(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

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, contract revenue and expenses are recognised in the income statement.

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, 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) 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 2009, but have not been applied in preparing this financial report:

- Revised AASB 3 Business Combinations;
- AASB 8 Operating Segments;
- Revised AASB 101 Presentation of Financial Statements;
- Revised AASB 123 Borrowing Costs;
- Amended AASB 127 Consolidated and Separate Financial Statements;
- AASB 2008 - 1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations;
- AASB 2008 - 7 Amendments to Accounting Standards – Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate; and
- AI 16 Hedges of a Net Investment in a Foreign Operation.

With the exception of AASB 101, the impact of these standards and interpretations is not considered to be significant and will be applied by Cochlear on the relevant application date. The impact of AASB 101 has not yet been determined.

4. Financial risk management

Overview

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

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

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

The Board of directors has overall responsibility for the establishment and oversight of the risk management framework. The fundamentals of risk management are set by the risk policy. Under instruction of the Board, management has established a Risk 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 the Company's and the Consolidated Entity's earnings. Over the longer term, permanent changes in market rates will have an impact on earnings.

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

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

The Company only hedges the risks that affect the cash flows between the Company and 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 the Company's and Consolidated Entity's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and the Consolidated Entity. The Audit Committee is assisted in its oversight by Internal Audit. Internal Audit undertakes regular reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

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

Trade and other receivables

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

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

In monitoring customer credit risk, the ageing profile of total receivables balances and individually significant debtors is reported by geographic region to the Board of directors on a monthly basis. Regional management 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.

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

Guarantees

Details of guarantees provided by the Company and the Consolidated Entity are provided in Note 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 the Company's and the Consolidated Entity's net profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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

Currency risk

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), Swiss francs (CHF) and Japanese yen (JPY). The currencies in which these transactions primarily are denominated are AUD, USD, EUR, GBP, SEK and JPY.

Over 90% of 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.

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:

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

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 the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

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

		Consolidated		Company	
		2009	2008	2009	2008
	Note	$000	$000	$000	$000
5. Revenue and expenses					
(a) Revenue					
Sale of goods revenue before hedging		708,365	578,845	498,893	419,594
Foreign exchange (losses)/gains on hedged sales		(17,128)	21,283	(17,128)	21,283
Revenue from the sale of goods		**691,237**	**600,128**	**481,765**	**440,877**
Rendering of services revenue		3,462	1,597	250	771
Revenue		**694,699**	**601,725**	**482,015**	**441,648**
(b) Expenses					
Cost of sales					
Carrying amount of inventories recognised as an expense		190,394	163,660	169,863	151,056
Other		3,329	2,978	39,872	53,145
Write-down in value of inventories		2,521	2,375	1,539	1,498
Total cost of sales		**196,244**	**169,013**	**211,274**	**205,699**
Research and development expenses					
Research and development expenditure		96,498	78,374	85,301	65,589
Capitalised development expenditure – amortisation expense		184	1,643	184	1,643
Total research and development expenses		**96,682**	**80,017**	**85,485**	**67,232**
(c) Other income					
Profit on sale of branch operation		-	-	16,778	-
Grant received or due and receivable		1,888	1,391	-	1,391
Dividends from controlled entities		-	-	7,847	-
Contract revenue, net of expense	28	-	-	-	-
Other income		1,193	1,119	863	868
Total other income		**3,081**	**2,510**	**25,488**	**2,259**
(d) Employee benefits expense					
Wages and salaries		165,332	146,457	82,184	79,164
Contributions to superannuation plans		11,196	9,528	7,123	6,309
Increase in leave liabilities		2,493	2,315	1,410	1,530
Share based payments		4,876	4,725	3,161	3,148
Total employee benefits expense		**183,897**	**163,025**	**93,878**	**90,151**
(e) Profit before income tax has been arrived at after charging/(crediting) the following items:					
Operating lease rental expense		13,221	10,322	4,350	3,853
Increase/(decrease) in provisions		446	(1,277)	336	(140)
Loss on disposal of property, plant and equipment		1,185	644	1,595	48
Legal fees defending patent infringement complaint		5,570	733	5,570	733

	Consolidated		Company	
	2009	2008	2009	2008
	$000	$000	$000	$000
6. Net finance income/(expense)				
Interest income	1,779	1,410	4,620	2,815
Net foreign exchange income	8,695	4,703	-	-
Finance income	**10,474**	**6,113**	**4,620**	**2,815**
Interest expense	(8,851)	(12,022)	(3,172)	(3,866)
Net foreign exchange loss	-	-	(741)	(3,197)
Finance expense	**(8,851)**	**(12,022)**	**(3,913)**	**(7,063)**
Net finance income/(expense)	**1,623**	**(5,909)**	**707**	**(4,248)**

	Consolidated		Company	
	2009	2008	2009	2008
	$	$	$	$
7. Auditors' remuneration				
Audit services				
Auditors of the Company				
KPMG Australia:				
- audit and review of financial reports	572,000	499,000	572,000	499,000
- other audit services	111,934	-	111,934	-
- other regulatory compliance services	17,000	10,700	17,000	10,700
Overseas KPMG firms:				
- audit and review of financial reports	639,309	529,130	-	-
- other regulatory compliance services	38,218	25,176	-	3,486
Total audit services	**1,378,461**	**1,064,006**	**700,934**	**513,186**
Non-audit services				
Auditors of the Company				
KPMG Australia:				
- taxation compliance services	1,621,676	1,201,620	1,621,676	1,201,620
- other assurance services	106,739	40,485	43,927	40,485
Overseas KPMG firms:				
- taxation compliance services	557,366	512,030	5,842	129,890
Total non-audit services	**2,285,781**	**1,754,135**	**1,671,445**	**1,371,995**

	Note	Consolidated 2009 $000	Consolidated 2008 $000	Company 2009 $000	Company 2008 $000
8. Income tax expense					
Recognised in the income statement					
Current tax expense					
Current year		50,183	45,194	36,532	33,081
Adjustment for prior years		(1,413)	(1,703)	(1,023)	(1,290)
		48,770	**43,491**	**35,509**	**31,791**
Deferred tax (benefit)/expense					
Origination and reversal of temporary differences		(3,554)	(3,765)	(3,581)	(2,206)
Tax losses utilised		512	1,757	-	-
	16	**(3,042)**	**(2,008)**	**(3,581)**	**(2,206)**
Total income tax expense in the income statement		**45,728**	**41,483**	**31,928**	**29,585**
Numerical reconciliation between income tax expense and profit before income tax					
Profit before income tax		176,268	156,717	149,842	109,977
Income tax expense using the Company's domestic tax rate of 30% (2008: 30%)		52,880	47,015	44,953	32,993
Increase in income tax expense due to:					
Non-deductible expenses		3,256	3,238	1,273	1,113
Effect of tax rate in foreign jurisdictions		-	-	300	969
Decrease in income tax expense due to:					
Research and development allowances		(6,184)	(3,720)	(5,038)	(3,720)
Share based payment deductions		(1,813)	(3,120)	(1,150)	(480)
Non-assessable dividends from controlled entities		-	-	(2,354)	-
Non-assessable profit on sale of branch operation		-	-	(5,033)	-
Effect of tax rate in foreign jurisdictions		(998)	(227)	-	-
		47,141	**43,186**	**32,951**	**30,875**
Adjustment for prior years		(1,413)	(1,703)	(1,023)	(1,290)
Income tax expense on profit before income tax		**45,728**	**41,483**	**31,928**	**29,585**
Deferred tax recognised directly in equity relating to derivative financial instruments	16	(1,451)	3,292	(1,434)	3,292

	Cents per share	Total amount $000	Franked/unfranked	Date of payment
9. Dividends				
Dividends recognised in the current financial year by the Company are:				
2009				
Interim 2009 ordinary	80.0	44,834	Franked	17 March 2009
Final 2008 ordinary	80.0	44,682	Franked	25 September 2008
Total amount	**160.0**	**89,516**		
2008				
Interim 2008 ordinary	70.0	38,936	Franked	18 March 2008
Final 2007 ordinary	70.0	38,916	Franked	27 September 2007
Total amount	**140.0**	**77,852**		

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 2009 ordinary	95.0	53,249	Franked	24 September 2009
Total amount		**53,249**		

The financial effect of the 2009 final dividend has not been brought to account in the financial statements for the year ended 30 June 2009 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	
	2009 $000	2008 $000
Dividend franking account		
30% franking credits available to shareholders of Cochlear Limited for subsequent financial periods	11,133	16,351

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

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

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after balance sheet date but not recorded as a liability is to reduce it by $22,821,067 (2008: $19,149,428).

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

10. Segment reporting

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

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

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

Cochlear's geographical segments are as follows:

	Americas		Europe		Asia Pacific		Eliminations		Consolidated	
	2009 $000	2008 $000	2009 $000	2008 $000	2009 $000	2008 $000	2009 $000	2008 $000	2009 $000	2008 $000
Revenue										
External revenue	300,391	232,155	318,917	257,204	92,519	91,083	-	-	711,827	580,442
Inter-segment revenue	-	-	-	-	453,302	362,745	(453,302)	(362,745)	-	-
Total segment revenue	300,391	232,155	318,917	257,204	545,821	453,828	(453,302)	(362,745)	711,827	580,442
Foreign exchange (losses)/gains on hedged sales									(17,128)	21,283
Total revenue									**694,699**	**601,725**
Segment result	103,576	68,328	112,447	82,507	19,848	21,485	-	-	235,871	172,320
Unallocated net expenses									(61,226)	(9,694)
Net finance income/(expense)									1,623	(5,909)
Profit before income tax									176,268	156,717
Income tax expense									(45,728)	(41,483)
Net profit									**130,540**	**115,234**
Segment depreciation and amortisation	3,507	3,638	4,673	3,615	1,138	1,148	-	-	9,318	8,401
Unallocated depreciation and amortisation									12,930	12,931
Total depreciation and amortisation									**22,248**	**21,332**
Segment non-cash (income)/expense other than depreciation and amortisation	(1,129)	(701)	(513)	874	(891)	434	-	-	(2,533)	607
Unallocated non-cash (income)/expense other than depreciation and amortisation									(1,254)	2,682
Total non-cash (income)/expense other than depreciation and amortisation									(3,787)	3,289
Write-down in value of inventories	**468**	**1,287**	**1,840**	**647**	**213**	**441**	**-**	**-**	**2,521**	**2,375**
Segment assets	175,217	149,206	252,037	260,112	50,975	54,380	(102,042)	(80,392)	376,187	383,306
Unallocated assets									303,186	224,610
Total assets									**679,373**	**607,916**
Segment liabilities	69,262	64,707	69,578	62,625	14,163	17,575	(26,556)	(78,484)	126,447	66,423
Unallocated liabilities									188,692	222,152
Total liabilities									**315,139**	**288,575**
Segment acquisition of non-current assets	1,462	2,102	3,239	4,080	777	1,360	-	-	5,478	7,542
Unallocated acquisition of non-current assets									17,066	20,108
Total acquisition of non-current assets									**22,544**	**27,650**

Secondary reporting

Cochlear operates in a single business segment, being the implantable hearing device industry.

	Consolidated	
	2009	2008
11. Earnings per share		
Basic earnings per share		
The calculation of basic earnings per share for the year ended 30 June 2009 was based on net profit attributable to equity holders of the parent of $130,540,000 (2008: $115,234,000) and a weighted average number of ordinary shares on issue during the year ended 30 June 2009 of 55,848,067 (2008: 55,372,469) calculated as follows:		
Net profit attributable to equity holders of the parent	$130,540,000	$115,234,000
Weighted average number of ordinary shares (basic):		
Issued ordinary shares at 1 July (number)	55,524,746	54,769,632
Effect of share options and performance shares exercised (number)	310,459	593,696
Effect of shares issued under Employee Share Plan (number)	12,862	9,141
Weighted average number of ordinary shares (basic) at 30 June	55,848,067	55,372,469
Basic earnings per share (cents)	**233.7**	**208.1**
Diluted earnings per share		
The calculation of diluted earnings per share for the year ended 30 June 2009 was based on net profit attributable to equity holders of the parent of $130,540,000 (2008: $115,234,000) and a weighted average number of ordinary shares on issue during the year ended 30 June 2009 of 55,981,856 (2008: 55,787,184) calculated as follows:		
Net profit attributable to equity holders of the parent	$130,540,000	$115,234,000
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic) (number)	55,848,067	55,372,469
Effect of options and performance shares (number)	133,789	414,715
Weighted average number of ordinary shares (diluted) at 30 June	**55,981,856**	**55,787,184**
Diluted earnings per share (cents)	**233.2**	**206.6**

	Note	Consolidated		Company	
		2009	2008	2009	2008
		$000	$000	$000	$000
12. Trade and other receivables					
Current					
Trade receivables net of allowance for impairment loss		153,326	143,833	11,494	22,033
Other receivables		9,207	7,914	2,984	2,788
Amount receivable from controlled entities	24	-	-	21,915	73,601
Forward exchange contracts		10,723	21,519	10,723	21,519
Total current trade and other receivables		**173,256**	**173,266**	**47,116**	**119,941**
Non-current					
Other receivables		707	446	224	-
Loans receivable from controlled entities	24	-	-	187,545	-
Forward exchange contracts		19,749	11,574	19,749	11,574
Capitalised building costs		10,630	3,943	-	-
Total non-current trade and other receivables		**31,086**	**15,963**	**207,518**	**11,574**

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

13. Inventories					
Raw materials and stores		40,250	30,702	38,449	30,449
Work in progress		15,779	14,174	13,760	11,296
Finished goods		49,915	54,293	21,706	18,623
Total inventories		**105,944**	**99,169**	**73,915**	**60,368**

	Consolidated		Company	
	2009 $000	2008 $000	2009 $000	2008 $000
14. Property, plant and equipment				
Leasehold improvements				
At cost	29,440	26,935	23,452	23,198
Accumulated amortisation	(21,569)	(17,393)	(20,038)	(16,530)
	7,871	**9,542**	**3,414**	**6,668**
Plant and equipment				
At cost	92,191	78,008	66,005	57,952
Accumulated depreciation	(53,268)	(44,331)	(37,582)	(33,197)
	38,923	**33,677**	**28,423**	**24,755**
Total property, plant and equipment, at net book value	**46,794**	**43,219**	**31,837**	**31,423**
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	9,542	11,213	6,668	9,421
Additions	2,502	2,700	452	1,009
Disposals	(146)	(162)	(59)	-
Amortisation	(4,325)	(4,145)	(3,647)	(3,768)
Effect of movements in foreign exchange	298	(64)	-	6
Carrying amount at end of financial year	**7,871**	**9,542**	**3,414**	**6,668**
Plant and equipment				
Carrying amount at beginning of financial year	33,677	29,352	24,755	22,458
Additions	17,398	15,131	13,243	9,697
Disposals	(1,186)	(484)	(1,536)	(50)
Depreciation	(11,714)	(10,245)	(8,039)	(7,392)
Effect of movements in foreign exchange	748	(77)	-	42
Carrying amount at end of financial year	**38,923**	**33,677**	**28,423**	**24,755**

	Consolidated		Company	
	2009	2008	2009	2008
	$000	$000	$000	$000
15. Intangible assets				
Intangible assets with indefinite useful lives				
Goodwill, at cost	173,599	187,741	4,226	4,226
Technology relationship, at cost	1,800	1,800	1,800	1,800
Total intangible assets with indefinite useful lives	**175,399**	**189,541**	**6,026**	**6,026**
Intangible assets with definite useful lives				
Acquired technology, patents and licences				
At cost	19,196	3,507	11,617	-
Accumulated amortisation	(3,289)	(3,232)	(58)	-
	15,907	**275**	**11,559**	**-**
Enterprise resource planning system				
At cost	32,831	29,774	28,680	26,036
Accumulated amortisation	(18,850)	(14,547)	(15,171)	(11,541)
	13,981	**15,227**	**13,509**	**14,495**
Customer relationships				
At cost	4,822	4,543	-	-
Accumulated amortisation	(4,822)	(3,567)	-	-
	-	**976**	**-**	**-**
Capitalised development expenditure				
At cost	7,759	7,759	7,759	7,759
Accumulated amortisation	(7,743)	(7,558)	(7,743)	(7,558)
	16	**201**	**16**	**201**
Other intangible assets				
At cost	3,871	3,209	3,000	3,000
Accumulated amortisation	(899)	(470)	(767)	(450)
	2,972	**2,739**	**2,233**	**2,550**
Total intangible assets with definite useful lives	**32,876**	**19,418**	**27,317**	**17,246**
Total intangible assets	**208,275**	**208,959**	**33,343**	**23,272**

	Consolidated		Company	
	2009 $000	2008 $000	2009 $000	2008 $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	187,741	182,401	4,226	4,146
Acquisitions through business combinations	680	545	-	80
Effect of movements in foreign exchange	(14,822)	4,795	-	-
Carrying amount at end of financial year	**173,599**	**187,741**	**4,226**	**4,226**
Technology relationship				
Carrying amount at beginning of financial year	1,800	-	1,800	-
Acquisitions	-	1,800	-	1,800
Carrying amount at end of financial year	**1,800**	**1,800**	**1,800**	**1,800**
Acquired technology, patents and licences				
Carrying amount at beginning of financial year	275	1,416	-	-
Acquisitions	16,023	-	11,617	-
Amortisation	(393)	(1,185)	(58)	-
Effect of movements in foreign exchange	2	44	-	-
Carrying amount at end of financial year	**15,907**	**275**	**11,559**	**-**
Enterprise resource planning system				
Carrying amount at beginning of financial year	15,227	8,361	14,495	7,543
Acquisitions	2,644	9,819	2,644	9,052
Amortisation	(3,893)	(2,876)	(3,630)	(2,100)
Effect of movements in foreign exchange	3	(77)	-	-
Carrying amount at end of financial year	**13,981**	**15,227**	**13,509**	**14,495**
Customer relationships				
Carrying amount at beginning of financial year	976	1,963	-	-
Amortisation	(1,169)	(682)	-	-
Effect of movements in foreign exchange	193	(305)	-	-
Carrying amount at end of financial year	**-**	**976**	**-**	**-**
Capitalised development expenditure				
Carrying amount at beginning of financial year	201	1,844	201	1,844
Amortisation	(185)	(1,643)	(185)	(1,643)
Carrying amount at end of financial year	**16**	**201**	**16**	**201**
Other intangible assets				
Carrying amount at beginning of financial year	2,739	283	2,550	-
Acquisitions	734	3,000	-	3,000
Amortisation	(569)	(556)	(317)	(450)
Effect of movements in foreign exchange	68	12	-	-
Carrying amount at end of financial year	**2,972**	**2,739**	**2,233**	**2,550**

Amortisation charge

The amortisation charge 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

The following units have significant carrying amounts of goodwill:

	Consolidated		Company	
	2009 $000	2008 $000	2009 $000	2008 $000
Americas	79,015	67,564	1,751	1,694
Europe	88,137	113,433	1,801	1,759
Asia Pacific	6,447	6,744	674	773
	173,599	**187,741**	**4,226**	**4,226**

The recoverable amount of each cash generating unit is based on value-in-use calculations. Those calculations use cash flow projections based on actual operating results and the three year business plan. Cash flows for further periods are extrapolated using a 3.0% per annum growth rate and are appropriate because this growth rate is consistent with the long-term average growth rate for the industry. The related acquisitions are long-term businesses. A post-tax discount rate of 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	
	2009 $000	2008 $000	2009 $000	2008 $000	2009 $000	2008 $000
16. Deferred tax assets and liabilities						
Recognised deferred tax assets and liabilities						
Consolidated						
Property, plant and equipment	2,993	881	(536)	(76)	2,457	805
Intangible assets	-	-	-	(284)	-	(284)
Inventories	10,796	12,309	(123)	(136)	10,673	12,173
Prepayments	-	-	(151)	(114)	(151)	(114)
Provisions	12,839	11,702	-	-	12,839	11,702
Deferred revenue	1,594	-	-	-	1,594	-
Forward exchange contracts	-	-	(9,142)	(9,927)	(9,142)	(9,927)
Other	2,409	1,804	(46)	(531)	2,363	1,273
Tax loss carry-forwards	1,087	1,599	-	-	1,087	1,599
Deferred tax assets/(liabilities)	**31,718**	**28,295**	**(9,998)**	**(11,068)**	**21,720**	**17,227**
Set off of tax	(9,819)	(10,616)	9,819	10,616	-	-
Net deferred tax assets/(liabilities)	**21,899**	**17,679**	**(179)**	**(452)**	**21,720**	**17,227**
Company						
Property, plant and equipment	2,477	388	-	-	2,477	388
Inventories	527	1,050	-	-	527	1,050
Provisions	9,798	8,704	-	-	9,798	8,704
Forward exchange contracts	-	-	(9,142)	(9,927)	(9,142)	(9,927)
Other	1,039	-	-	(531)	1,039	(531)
Deferred tax assets/(liabilities)	**13,841**	**10,142**	**(9,142)**	**(10,458)**	**4,699**	**(316)**
Set off of tax	(9,142)	(10,142)	9,142	10,142	-	-
Net deferred tax assets/(liabilities)	**4,699**	**-**	**-**	**(316)**	**4,699**	**(316)**

Unrecognised deferred tax liabilities

At 30 June 2009, a deferred tax liability of $21.8 million (2008: $25.0 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 asset for the Consolidated Entity of $3.9 million (2008: $4.2 million) and for the Company of nil (2008: $0.8 million) represents the amount of income taxes recoverable in respect of prior periods and arises from the payment of tax in excess of the amounts due to the relevant taxation authority. The current tax liability for the Consolidated Entity of $5.4 million (2008: $2.8 million) and for the Company of $0.7 million (2008: nil) represents the amount of income taxes payable in respect of current and prior financial periods.

Movement in temporary differences during the year

	Consolidated				Company			
Amounts $000	Balance at 1 July	Recognised in income	Recognised in equity	Balance at 30 June	Balance at 1 July	Recognised in income	Recognised in equity	Balance at 30 June
2008								
Property, plant and equipment	(183)	988	-	805	(285)	673	-	388
Intangible assets	(1,187)	903	-	(284)	(594)	594	-	-
Inventories	11,790	383	-	12,173	769	281	-	1,050
Prepayments	(95)	(19)	-	(114)	-	-	-	-
Provisions	10,052	1,650	-	11,702	7,515	1,189	-	8,704
Deferred revenue	1,782	(1,782)	-	-	-	-	-	-
Forward exchange contracts	(6,635)	-	(3,292)	(9,927)	(6,635)	-	(3,292)	(9,927)
Other	(369)	1,642	-	1,273	-	(531)	-	(531)
Tax loss carry-forwards	3,356	(1,757)	-	1,599	-	-	-	-
	18,511	**2,008**	**(3,292)**	**17,227**	**770**	**2,206**	**(3,292)**	**(316)**
2009								
Property, plant and equipment	805	1,652	-	2,457	388	2,089	-	2,477
Intangible assets	(284)	284	-	-	-	-	-	-
Inventories	12,173	(1,500)	-	10,673	1,050	(523)	-	527
Prepayments	(114)	(37)	-	(151)	-	-	-	-
Provisions	11,702	1,137	-	12,839	8,704	1,094	-	9,798
Deferred revenue	-	1,594	-	1,594	-	-	-	-
Forward exchange contracts	(9,927)	(649)	1,434	(9,142)	(9,927)	(649)	1,434	(9,142)
Other	1,273	1,073	17	2,363	(531)	1,570	-	1,039
Tax loss carry-forwards	1,599	(512)	-	1,087	-	-	-	-
	17,227	**3,042**	**1,451**	**21,720**	**(316)**	**3,581**	**1,434**	**4,699**

	Consolidated		Company	
	2009	2008	2009	2008
	$000	$000	$000	$000
17. Loans and borrowings				
Current				
Secured bank loans	-	15,438	-	-
Total current loans and borrowings	**-**	**15,438**	**-**	**-**
Non-current				
Secured bank loans	176,586	154,545	172,687	20,000
Secured bank loan – construction of Headquarters	11,997	-	-	-
Total non-current loans and borrowings	**188,583**	**154,545**	**172,687**	**20,000**
Financing arrangements				
Cochlear had access to the following lines of credit at reporting date:				
Unsecured bank overdrafts	2,981	2,148	2,476	2,000
Secured bank loans	4,056	246,299	-	96,000
Secured bank loan – multi-option credit facility	299,206	-	299,206	-
Standby letters of credit	210	1,000	210	1,000
Bank guarantee facility	1,480	1,520	584	1,000
Secured bank loan – construction of Headquarters	110,000	-	-	-
Bank guarantee facility – construction of Headquarters	1,000	-	-	-
	418,933	**250,967**	**302,476**	**100,000**
Facilities utilised at reporting date				
Unsecured bank overdrafts	-	-	-	-
Secured bank loans	3,899	169,983	-	20,000
Secured bank loan – multi-option credit facility	174,000	-	174,000	-
Standby letters of credit	210	198	210	198
Bank guarantee facility	1,036	690	584	584
Secured bank loan – construction of Headquarters	11,997	-	-	-
Bank guarantee facility – construction of Headquarters	-	-	-	-
	191,142	**170,871**	**174,794**	**20,782**
Facilities not utilised at reporting date				
Unsecured bank overdrafts	2,981	2,148	2,476	2,000
Secured bank loans	157	76,316	-	76,000
Secured bank loan – multi-option credit facility	125,206	-	125,206	-
Standby letters of credit	-	802	-	802
Bank guarantee facility	444	830	-	416
Secured bank loan – construction of Headquarters	98,003	-	-	-
Bank guarantee facility – construction of Headquarters	1,000	-	-	-
	227,791	**80,096**	**127,682**	**79,218**

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 JPY 300 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

On 3 June 2009, Cochlear completed refinancing of its corporate debt facilities. The new 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 loan – construction of Headquarters

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

	Consolidated		Company	
	2009 $000	2008 $000	2009 $000	2008 $000
18. Commitments				
Operating lease commitments				
Future non-cancellable operating lease rentals not provided for in the financial statements are payable as follows:				
Not later than one year	11,753	11,110	4,921	3,711
Later than one year but not later than five years	60,406	19,967	42,895	1,657
Later than five years	153,042	16,804	139,623	-
Total commitments	**225,201**	**47,881**	**187,439**	**5,368**
Capital expenditure commitments				
Contracted but not provided for and payable:				
Not later than one year	1,852	3,235	1,852	2,341
Later than one year but not later than five years	-	913	-	913
Total commitments	**1,852**	**4,148**	**1,852**	**3,254**

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 includes 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 1 October 2010.

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

		Consolidated		Company	
	Note	2009 $000	2008 $000	2009 $000	2008 $000
19. Provisions					
Current					
Employee benefits	25	19,802	18,854	11,440	12,103
Warranties		8,008	8,798	8,008	8,798
Legal and other		4,412	3,864	1,549	1,213
Total current provisions		**32,222**	**31,516**	**20,997**	**22,114**
Non-current					
Employee benefits	25	4,390	3,748	2,588	2,182
Warranties		2,129	2,339	2,129	2,339
Directors' retirement scheme	25	1,200	1,147	1,200	1,147
Make good lease costs		1,459	1,399	1,233	1,233
Total non-current provisions		**9,178**	**8,633**	**7,150**	**6,901**
Reconciliations					
Reconciliations of the carrying amounts of each class of provision, except for the employee benefits provision, are set out below:					
Warranties					
Carrying amount at beginning of financial year		11,137	10,738	11,137	10,738
Provisions made		15,886	13,786	15,886	13,786
Provisions used		(16,886)	(13,387)	(16,886)	(13,387)
Carrying amount at end of financial year		**10,137**	**11,137**	**10,137**	**11,137**
Legal and other					
Carrying amount at beginning of financial year		3,864	5,204	1,213	1,363
Provisions made		1,529	1,580	618	838
Provisions used		(1,098)	(2,826)	(282)	(988)
Effects of movements in foreign exchange		117	(94)	-	-
Carrying amount at end of financial year		**4,412**	**3,864**	**1,549**	**1,213**
Directors' retirement scheme					
Carrying amount at beginning of financial year		1,147	1,069	1,147	1,069
Provisions made		53	78	53	78
Carrying amount at end of financial year		**1,200**	**1,147**	**1,200**	**1,147**
Make good lease costs					
Carrying amount at beginning of financial year		1,399	1,336	1,233	1,233
Provisions made		81	63	-	-
Provisions used		(66)	-	-	-
Effects of movements in foreign exchange		45	-	-	-
Carrying amount at end of financial year		**1,459**	**1,399**	**1,233**	**1,233**

Employee benefits

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

For details of legal costs relating to the Office of Inspector General inquiry, refer to Note 20. For details on the self-insurance provision, refer to Note 3(g).

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.

Office of Inspector General inquiry

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

During the year ended 30 June 2007, the inquiry was transferred to the Office of Inspector General (OIG) for administrative processing.

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

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

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

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

Patent infringement complaint

During the year ended 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 case was dismissed for lack of standing. Mann Foundation has appealed against the decision and the matter will now be dealt with by the Appellate Court.

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.

21. Capital and reserves

Reconciliation of movement in capital, reserves and retained earnings

	Consolidated						
Amounts $000	Issued capital	Treasury reserve	General reserve	Translation reserve	Hedging reserve	Retained earnings	Total equity
2008							
Balance at 1 July 2007	71,369	(1,371)	236	(6,108)	15,456	181,227	260,809
Total recognised income and expense	-	-	-	(4,258)	7,709	115,234	118,685
Shares issued	13,695	(721)	-	-	-	-	12,974
Share based payments	-	-	-	-	-	4,725	4,725
Dividends to shareholders	-	-	-	-	-	(77,852)	(77,852)
Reclassification	-	-	(236)	236	-	-	-
Balance at 30 June 2008	**85,064**	**(2,092)**	**-**	**(10,130)**	**23,165**	**223,334**	**319,341**
2009							
Balance at 1 July 2008	85,064	(2,092)	-	(10,130)	23,165	223,334	319,341
Total recognised income and expense	-	-	-	(12,084)	(3,386)	130,540	115,070
Shares issued	14,363	100	-	-	-	-	14,463
Share based payments	-	-	-	-	-	4,876	4,876
Dividends to shareholders	-	-	-	-	-	(89,516)	(89,516)
Balance at 30 June 2009	**99,427**	**(1,992)**	**-**	**(22,214)**	**19,779**	**269,234**	**364,234**

	Company					
Amounts $000	Issued capital	Treasury reserve	Translation reserve	Hedging reserve	Retained earnings	Total equity
2008						
Balance as at 1 July 2007	71,369	(1,371)	(99)	15,456	142,637	227,992
Total recognised income and expense	-	-	(4)	7,709	80,392	88,097
Shares issued	13,695	(721)	-	-	-	12,974
Share based payments	-	-	-	-	4,725	4,725
Dividends to shareholders	-	-	-	-	(77,852)	(77,852)
Balance at 30 June 2008	**85,064**	**(2,092)**	**(103)**	**23,165**	**149,902**	**255,936**
2009						
Balance at 1 July 2008	85,064	(2,092)	(103)	23,165	149,902	255,936
Total recognised income and expense	-	-	5	(3,348)	117,914	114,571
Shares issued	14,363	100	-	-	-	14,463
Share based payments	-	-	-	-	4,876	4,876
Dividends to shareholders	-	-	-	-	(89,516)	(89,516)
Reclassification	-	-	98	-	(98)	-
Balance at 30 June 2009	**99,427**	**(1,992)**	**-**	**19,817**	**183,078**	**300,330**

Treasury reserve

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

Translation reserve

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

Hedging reserve

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

Share capital

	Number of issued shares in market circulation		Number of shares held in Trust under CELTIP		Total number of issued shares	
	2009	2008	2009	2008	2009	2008
On issue 1 July – fully paid	55,524,746	54,769,632	98,104	153,519	55,622,850	54,923,151
Issued for nil consideration under the Employee Share Plan	17,887	13,454	-	-	17,887	13,454
Shares issued into Trust	-	-	23,082	10,072	23,082	10,072
Issued from the exercise of options	387,924	676,173	-	-	387,924	676,173
Performance shares vesting from Trust	46,998	65,487	(46,998)	(65,487)	-	-
On issue 30 June – fully paid	**55,977,555**	**55,524,746**	**74,188**	**98,104**	**56,051,743**	**55,622,850**

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

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.

22. Notes to the statements of cash flows

Cash assets

The operating account received an average interest rate of:

- Company 3.8% (2008: 6.5%) per annum; and
- Consolidated 2.9% (2008: 4.0%) per annum.

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

- Company 4.0% (2008: 6.8%) per annum; and
- Consolidated 4.0% (2008: 5.9%) per annum.

(a) Reconciliation of cash and cash equivalents

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

	Consolidated		Company	
	2009 $000	2008 $000	2009 $000	2008 $000
Cash on hand	68,839	35,379	26,457	13,870
Cash on deposit	11,177	1,308	10,005	934
	80,016	**36,687**	**36,462**	**14,804**
(b) Reconciliation of net profit to net cash provided by operating activities				
Net profit	130,540	115,234	117,914	80,392
Add items classified as investing activities				
Loss on disposal of non-current property, plant and equipment	1,185	644	1,595	48
Add non-cash items				
Amounts set aside to provisions	42,524	31,007	27,338	22,529
Depreciation and amortisation	22,248	21,332	15,876	15,353
Share based payments	4,876	4,725	3,161	3,148
Increase in investment in controlled entities	-	-	1,715	1,577
Net cash provided by operating activities before changes in assets and liabilities	**201,373**	**172,942**	**167,599**	**123,047**
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables	(11,056)	(31,864)	52,521	(18,301)
Increase in inventories	(6,775)	(6,734)	(13,547)	(1,943)
Increase in prepayments	(701)	(3,427)	(2,027)	(3,623)
Increase in deferred tax assets	(3,059)	(2,020)	(3,581)	(2,218)
Increase/(decrease) in trade and other payables	4,051	8,193	(2,367)	2,963
Increase/(decrease) in current tax liabilities	2,818	(9,351)	1,449	(1,946)
Decrease in provisions	(41,273)	(29,639)	(27,558)	(20,784)
Increase/(decrease) in deferred revenue	320	(2,980)	(191)	(585)
Effects of movements in foreign exchange	930	(10,572)	(3,833)	(84)
Net cash provided by operating activities	**146,628**	**84,548**	**168,465**	**76,526**

	Note	Interest held 2009 %	Interest held 2008 %	Country of incorporation/ formation
23. Controlled entities				
(a) Particulars in relation to controlled entities				
Company				
Cochlear Limited				Australia
Controlled entities				
Cochlear AG		100	100	Switzerland
Cochlear Americas		100	100	USA
Cochlear Benelux NV		100	100	Belgium
Cochlear Bone Anchored Solutions AB		100	100	Sweden
Cochlear Canada Inc		100	100	Canada
Cochlear Deutschland & Co KG (previously Cochlear GmbH)		100	100	Germany
Cochlear Employee Share Trust		100	-	Australia
Cochlear Europe Finance GmbH		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	-	Australia
Cochlear France SAS (previously Cochlear Holdings France SAS)		100	100	France
Cochlear German Holdings Pty Limited		100	-	Australia
Cochlear Holdings NV		100	100	Belgium
Cochlear Incentive Plan Pty Limited		100	100	Australia
Cochlear Italia SRL		100	100	Italy
Cochlear Korea Limited		100	100	Korea
Cochlear Manufacturing Corporation		100	100	USA
Cochlear Nordic AB		100	100	Sweden
Cochlear Research and Development Limited (previously Cochlear Acoustics 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	-	Germany
Cochlear (HK) Limited		99.99	99.99	Hong Kong
Cochlear (UK) Limited	(i)	100	100	UK
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	-	Sweden

(i) Dormant.

(b) Acquisition of distributor businesses

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

(c) Acquisition of subsidiary

During the year ended 30 June 2009, Cochlear acquired 100% of the shares of Percutis AB, a Swedish company for $4.4 million. The transaction was accounted for as an asset acquisition, as the company acquired did not meet the definition of a business. As a result, Cochlear recorded an intangible asset of $4.4 million in respect of patents and licences.

24. Related parties

Key management personnel

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

Non-executive directors

Mr TCE Bergman (Chairman)

Mr PR Bell

Prof E Byrne, AO

Mr A Denver

Mr R Holliday-Smith

Mr DP O'Dwyer

Executive director

Dr CG Roberts

Executives

Mr R Brook

Mr J Janssen

Mr NJ Mitchell

Mr MD Salmon

Mr CM Smith.

Key management personnel disclosures

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

	Consolidated		Company	
	2009	2008	2009	2008
	$	$	$	$
Short-term employee benefits	5,684,505	5,062,218	4,187,730	3,848,022
Post-employment benefits	330,843	325,500	274,954	286,425
Other long-term benefits	65,770	44,541	65,770	44,541
Directors' retirement benefits	53,261	77,890	53,261	77,890
Equity compensation benefits	1,166,847	1,135,160	842,209	794,034
	7,301,226	**6,645,309**	**5,423,924**	**5,050,912**

Information regarding individual directors' and executives' remuneration and some equity instruments disclosures as permitted by section 300A of the Corporations Act 2001 is provided in the Remuneration Report in the Directors' Report on pages 37 to 46.

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 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	-

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

No options held by key management personnel were vested but not exercisable at 30 June 2008 or 2009.

All options and performance shares granted in the 2009 financial year were granted on 18 August 2008 and vest in August 2011. Options have an expiration date of 30 June 2013. 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 $49.91 per share and a fair value of $5.25 per share at grant date for options with performance based conditions and $5.20 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 $26.56 per share for performance shares with performance based conditions and $18.38 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 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

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

Controlled entity related parties

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

	Company	
	2009 $	2008 $
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	453,301,994	362,745,003
Licence fee costs (included in cost of sales)	50,575,726	52,691,400
Interest income	2,751,765	1,928,008
Profit on sale of branch operation	16,777,982	-
Dividends from controlled entities	7,846,650	-
Interest expense	317,959	793,790
The aggregate amounts receivable from wholly-owned controlled entities by the Company at reporting date are:		
Current and non-current receivables	209,459,742	73,601,217

Details of related party transactions in relation to the construction of the Headquarters are set out in Note 28.

		Consolidated		Company	
	Note	2009 $000	2008 $000	2009 $000	2008 $000
25. Employee benefits					
Current					
Provision for long service leave		3,398	2,862	3,073	2,765
Provision for annual leave		11,835	10,154	7,315	6,882
Provision for short-term incentives		4,569	5,838	1,052	2,456
	19	**19,802**	**18,854**	**11,440**	**12,103**
Salary and wages accrued		3,304	2,707	2,138	1,678
Total current employee benefits		**23,106**	**21,561**	**13,578**	**13,781**
Non-current					
Provision for long service leave	19	4,390	3,748	2,588	2,182
Directors' retirement scheme	19	1,200	1,147	1,200	1,147
Total non-current employee benefits		**5,590**	**4,895**	**3,788**	**3,329**
Total employee benefits		**28,696**	**26,456**	**17,366**	**17,110**

Cochlear has benefit plans that provide pension benefits to employees upon retirement. These defined benefit plans cover, in aggregate, 65 employees. Cochlear contributed cash of $0.8 million (2008: $0.7 million) to defined benefit plans in the year ended 30 June 2009 and expects to contribute $0.8 million in the year ending 30 June 2010. The net assets of the plans at 30 June 2009 were $0.3 million (2008: net liability of $0.1 million).

(a) Defined contribution superannuation plans

Cochlear makes contributions to defined contribution plans. The amount recognised as expense was $11.2 million for the year ended 30 June 2009 (2008: $9.5 million).

(b) Share based payments

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

The CELTIP was approved and adopted at the Annual General Meeting on 20 October 2003 and replaced the Executive Share Option Plan. The CELTIP offers a mixture of options over unissued shares and performance shares. Both the options and the performance shares are subject to a three year vesting period. The number of options and 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 2005	167,432	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	167,432	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Option grant in August 2006	238,137	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	238,136	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	191,747	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	191,747	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	350,396	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	350,396	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Total options	**1,895,423**		

Issue date	Number of instruments	Conditions for minimum vesting	Contractual life of shares in the Trust
Performance shares issued in August 2005	5,092	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	5,092	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Performance shares issued in August 2006	8,384	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	8,384	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Performance shares issued in August 2007	10,010	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	10,010	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
Total performance shares	**68,330**		

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
	2009	2009	2008	2008
Outstanding at beginning of financial year	47.83	1,600,944	34.69	1,948,074
Forfeited during the financial year	51.73	(29,928)	48.60	(82,047)
Exercised during the financial year	37.28	(387,924)	19.19	(676,172)
Granted during the financial year	49.91	712,331	63.18	411,089
Outstanding at end of financial year	**50.71**	**1,895,423**	**47.83**	**1,600,944**
Exercisable at end of financial year	39.93	334,864	18.97	49,000

The weighted average share price at date of exercise was $53.41 (2008: $65.51).

The estimated value of options for the current financial year is calculated at the date of grant using the Black-Scholes model, applying a 26.6% volatility, as reflected in the historical volatility.

For options outstanding at the end of the year, 334,864 options have an exercise price of $39.93, 476,273 options have an exercise price of $49.43, 383,494 options have an exercise price of $63.18 and 700,792 options have an exercise price of $49.91 (2008: 49,000 options at $18.97, 390,917 options at $63.18 and 1,161,027 options falling in the range of $34.19 – $49.43). The weighted average remaining contractual life of options outstanding at the end of the year is three years (2008: 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:

	Consolidated		Company	
	2009 $000	2008 $000	2009 $000	2008 $000
Cash and cash equivalents	80,016	36,687	36,462	14,804
Trade receivables and other receivables	163,240	152,193	14,702	24,821
Forward exchange contracts	30,472	33,093	30,472	33,093
	273,728	**221,973**	**81,636**	**72,718**

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

	Consolidated		Company	
	2009 $000	2008 $000	2009 $000	2008 $000
Americas	52,173	43,666	-	-
Europe	78,460	69,346	-	-
Asia Pacific	22,693	30,821	11,494	22,033
	153,326	**143,833**	**11,494**	**22,033**

Impairment losses

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

	2009 $000	2008 $000
Gross receivables		
Not past due	112,286	95,219
Past due 0 – 30 days	15,761	17,255
Past due 31 – 120 days	12,834	22,579
Past due 121 – 270 days	5,237	6,643
Past due 271 days and over	10,860	4,880
	156,978	**146,576**
Impairment	(3,652)	(2,743)
Trade receivables net of impairment loss	**153,326**	**143,833**

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

	2009 $000	2008 $000
Gross receivables		
Not past due	5,487	14,636
Past due 0 – 30 days	2,187	2,975
Past due 31 – 120 days	2,772	3,386
Past due 121 – 270 days	395	551
Past due 271 days and over	776	693
	11,617	**22,241**
Impairment	(123)	(208)
Trade receivables net of impairment loss	**11,494**	**22,033**

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

	Consolidated		Company	
	2009 $000	2008 $000	2009 $000	2008 $000
Balance at 1 July	(2,743)	(1,937)	(208)	(113)
Impairment loss (recognised)/utilised	(530)	(1,041)	85	(95)
Effect of movements in foreign exchange	(379)	235	-	-
Balance at 30 June	**(3,652)**	**(2,743)**	**(123)**	**(208)**

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:

	Consolidated							
	Effective interest rate per annum	Carrying amount $000	Contractual cash flows $000	6 months or less $000	6 – 12 months $000	1 – 2 years $000	2 – 5 years $000	More than 5 years $000
Financial liabilities 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**	**-**

	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 2008								
GBP floating rate loan	6.20%	10,820	11,491	336	11,155	-	-	-
EUR floating rate loan	5.00%	4,618	4,854	118	4,736	-	-	-
SEK floating rate loan	5.90%	100,207	110,641	1,521	2,971	106,149	-	-
USD floating rate loan	3.20%	31,400	32,232	251	498	31,483	-	-
AUD floating rate loan	8.10%	20,000	21,321	247	806	20,268	-	-
JPY floating rate loan	2.30%	2,938	3,086	33	33	66	2,954	-
Trade and other payables	-	60,830	60,830	60,830	-	-	-	-
Total		**230,813**	**244,455**	**63,336**	**20,199**	**157,966**	**2,954**	**-**

	Company							
	Effective interest rate per annum	Carrying amount $000	Contractual cash flows $000	6 months or less $000	6 – 12 months $000	1 – 2 years $000	2 – 5 years $000	More than 5 years $000
Financial liabilities 2009								
AUD floating rate loan	5.80%	172,687	203,585	5,087	5,005	10,092	183,401	-
Trade and other payables	-	23,784	23,784	23,784	-	-	-	-
Total		**196,471**	**227,369**	**28,871**	**5,005**	**10,092**	**183,401**	**-**

	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 2008								
AUD floating rate loan	8.10%	20,000	21,321	247	806	20,268	-	-
Trade and other payables	-	27,058	27,058	27,058	-	-	-	-
Total		**47,058**	**48,379**	**27,305**	**806**	**20,268**	**-**	**-**

Cash flow hedges

In the year ended 30 June 2009, 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 as at the reporting date.

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

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

2008						
Amounts $000	Carrying amount	Expected cash flows	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years
Forward exchange contracts	33,093	34,150	13,360	8,515	9,871	2,404

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
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**

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

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

Amounts local currency thousands	USD	GBP	SEK	JPY
2009				
Trade receivables	2,967	-	-	-
Amounts receivable from controlled entities	10,526	17,284	(20,043)	46,841
Gross balance sheet exposure	**13,493**	**17,284**	**(20,043)**	**46,841**

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

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

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

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

	Foreign exchange rates		Consolidated and Company	
	2009	2008	2009 $000	2008 $000
Sell USD				
Not later than one year			182,564	141,599
Later than one year but not later than two years			114,232	78,951
Later than two years but not later than three years			59,633	17,615
Weighted average exchange rates contracted	0.75	0.83		
Sell EUR				
Not later than one year			154,629	129,394
Later than one year but not later than two years			86,196	78,650
Later than two years but not later than three years			31,187	15,914
Weighted average exchange rates contracted	0.53	0.57		
Sell JPY				
Not later than one year			12,106	10,725
Later than one year but not later than two years			4,259	5,248
Later than two years but not later than three years			859	1,270
Weighted average exchange rates contracted	83.16	86.52		

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

	Average rate		Reporting date spot rate	
AUD 1 =	2009	2008	2009	2008
USD	0.762	0.897	0.808	0.956
EUR	0.548	0.612	0.575	0.606
GBP	0.466	0.449	0.489	0.481
SEK	5.654	5.706	6.303	5.703
JPY	75.873	99.290	76.938	102.110
CHF	0.844	0.997	0.876	0.978

Interest rate risk

Profile

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

	Consolidated		Company	
	2009 $000	2008 $000	2009 $000	2008 $000
Carrying amount				
Variable rate instruments				
Financial assets	80,016	36,687	36,462	14,804
Financial liabilities	188,583	169,983	172,687	20,000

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 2009, 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 $0.7 million (2008: $0.9 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 2009, including hedging results and after income tax, by approximately $7.1 million (2008: $5.7 million) and decreased Cochlear's equity by $2.5 million (2008: $1.0 million). A ten percent decrease in the value of the AUD against other foreign currencies would have increased Cochlear's profit by $8.1 million (2008: $5.7 million) and increased equity by $2.5 million (2008: $1.0 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:

		Consolidated			
		2009		2008	
	Note	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Cash and cash equivalents		80,016	80,016	36,687	36,687
Trade and other receivables – current	12	173,256	173,256	173,266	173,266
Trade and other receivables – non-current	12	31,086	31,086	15,963	15,963
Trade and other payables – current		(64,881)	(64,881)	(60,830)	(60,830)
Trade and other payables – non-current		(56)	(56)	-	-
Secured bank loans	17	(176,586)	(177,899)	(169,983)	(169,983)
Secured bank loan – construction of Headquarters	17	(11,997)	(11,997)	-	-
Total		**30,838**	**29,525**	**(4,897)**	**(4,897)**

		Company			
		2009		2008	
	Note	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Cash and cash equivalents		36,462	36,462	14,804	14,804
Trade and other receivables – current	12	47,116	47,116	119,941	119,941
Trade and other receivables – non-current	12	207,518	207,518	11,574	11,574
Investment in subsidiaries		87,042	87,042	65,656	65,656
Trade and other payables		(23,784)	(23,784)	(27,058)	(27,058)
Secured bank loans	17	(172,687)	(174,000)	(20,000)	(20,000)
Total		**181,667**	**180,354**	**164,917**	**164,917**

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.

27. Events subsequent to reporting date

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

Dividends

For dividends declared after 30 June 2009, see Note 9.

28. Construction of Headquarters

During the year ended 30 June 2009, Cochlear entered into agreements with Macquarie University (MU) to develop its new global Headquarters on MU's behalf. The Headquarters will be 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.

Cochlear will be paid a development fee of approximately $128.0 million upon independent certification of completion of the Headquarters. There are no progress payments.

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 expense 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 statements for the year ended 30 June 2009:

	Note	2009 $000	2008 $000
Construction contract revenue		6,687	-
Construction contract expense		(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 2009, $12.0 million of the facility is 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 consolidated balance sheets of Cochlear:

	Note	2009 $000	2008 $000
Assets			
Cash and cash equivalents		2,088	-
Total current assets		**2,088**	**-**
Trade and other receivables (capitalised building costs)	12	10,630	3,943
Deferred tax asset		17	-
Total non-current assets		**10,647**	**3,943**
Total assets		**12,735**	**3,943**
Liabilities			
Trade and other payables		47	-
Amounts owing to parent entity		673	3,943
Total current liabilities		**720**	**3,943**
Trade and other payables		56	-
Loans and borrowings	17	11,997	-
Total non-current liabilities		**12,053**	**-**
Total liabilities		**12,773**	**3,943**
Net liabilities		**(38)**	**-**

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 37 to 46, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2009 and of their performance for the financial year ended on that date; and

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

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

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

2 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 2009.

Dated at Sydney this 11 day of August 2009.

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), which comprises the balance sheets as at 30 June 2009, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory Notes 1 to 28 and the directors' declaration of the Consolidated Entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

(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 Company's and the Consolidated Entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

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

(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 2009. 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 2009, complies with Section 300A of the Corporations Act 2001.

KPMG

Kevin Leighton, Partner

Sydney 11 August 2009

Additional information required by Australian Securities Exchange Listing Rules and not disclosed elsewhere in this report – the information presented is as at 4 August 2009:

Shareholdings

Substantial shareholders

Shareholder	Number of ordinary shares held	%
Capital (Institutional Group)	6,718,374	11.99
Total	**6,718,374**	**11.99**

Distribution of shareholders

Number of shares held	Number of ordinary shareholders
1 – 1,000	22,623
1,001 – 5,000	3,180
5,001 – 10,000	211
10,001 – 100,000	112
100,001 – over	24
Total	**26,150**

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

Twenty largest shareholders

Shareholder	Number of ordinary shares held	%
HSBC Custody Nominees (Australia) Limited	14,308,579	25.53
JP Morgan Nominees Australia Limited	9,757,138	17.41
National Nominees Limited	6,186,943	11.04
Citicorp Nominees Pty Limited	1,541,229	2.75
ANZ Nominees Limited (Cash Income a/c)	830,539	1.48
Cogent Nominees Pty Limited	728,663	1.30
HSBC Custody Nominees (Australia) Limited - GSCO ECA	672,448	1.20
Dr Christopher Graham Roberts	600,821	1.07
Queensland Investment Corporation	407,763	0.73
AMP Life Limited	302,016	0.54
UBS Wealth Management Australia Nominees Pty Ltd	296,324	0.53
Citicorp Nominees Pty Limited (CFSIL Cwlth Aust SHS 19 a/c)	211,716	0.38
Citicorp Nominees Pty Limited (CFS WSLE Geared Share Fund a/c)	202,241	0.36
Citicorp Nominees Pty Limited (Cwlth Bank Off Super a/c)	192,003	0.34
Cogent Nominees Pty Limited (SMP accounts)	188,541	0.34
Citicorp Nominees Pty Limited (CFS WSLE Industrial Share a/c)	175,840	0.31
Citicorp Nominees Pty Limited (CFS WSLE Imputation Fund a/c)	174,023	0.31
Perpetual Trustee Company Limited	149,146	0.27
Sandhurst Trustees Ltd (JM Asset Management a/c)	146,913	0.26
RBC Dexia Investor Services Australia Nominees Pty Limited (PISLECT a/c)	132,818	0.24
		66.39

The 20 largest shareholders held 66.39% 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.

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

CI Cochlear implant.

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.

ERP Enterprise resource planning.

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

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

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

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 2009 *Debt refinancing*
Cochlear Limited announced that it has successfully completed the refinancing of its corporate debt facilities that were due to expire from 2010. The new facility is a multi-option revolving facility of $300 million with a duration of three years being to June 2012.

3 June 2009 *Conclusion of agreements for new global headquarters*
Cochlear Limited announced that it had concluded agreements with Macquarie University to develop its new global headquarters, manufacturing and research facilities on the South Precinct of Macquarie University in North Ryde, Sydney. Site works on the purpose-designed building will commence immediately with completion anticipated by December 2010.

10 February 2009 *Record financial results for half year ended 31 December 2008*
Cochlear Limited announced record revenue for the six months of $355.2 million, a 19% increase over the 31 December 2007 half year and core earnings of $74.4 million, an increase of 20% over the 31 December 2007 half year.

21 October 2008 *Chairman's address*
Cochlear Limited Chairman, Mr Tommie Bergman, addressed shareholders at the Annual General Meeting.

12 August 2008 *Record financial results for year ended 30 June 2008*
Cochlear Limited announced total revenue for the year of $601.7 million, an 8% increase over the prior financial year, and core earnings of $123.7 million, a 15% increase over the prior financial year. The final dividend was 80 cents per share fully franked.

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 20 October 2009 at the Sydney Marriott Hotel, Ibis Room, 36 College Street, Sydney. A Notice of Meeting and Proxy Form are enclosed with this Annual Report.

Financial calendar
2009

Dividend record date	3 September
Payment of final dividend	24 September
Annual General Meeting	20 October

2010

Interim profit announcement	9 February
Interim dividend record date	26 February*
Payment of interim dividend	16 March*
Final profit announcement	10 August
Annual General Meeting	19 October

* Indicative dates only.

Design
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Cochlear Ltd (ABN 96 002 618 073) 14 Mars Road, Lane Cove NSW 2066, Australia Tel: 61 2 9428 6555 Fax: 61 2 9428 6352
Cochlear Americas 13059 E Peakview Avenue, Centennial, CO 80111, USA Tel: 1 303 790 9010 Fax: 1 303 792 9025
Cochlear AG European Headquarters, Peter Merian-Weg 4, CH - 4052 Basel, Switzerland Tel: 41 61 205 0404 Fax: 41 61 205 0405
Cochlear Deutschland GmbH & Co. KG Karl-Wiechert-Allee 76A, D-30625 Hannover, Germany Tel: 49 511 542 770 Fax: 49 511 542 7770
Cochlear Europe Ltd 9 Weybridge Business Park, Addlestone Road, Addlestone, Surrey KT15 2UF, United Kingdom Tel: 44 1932 87 1500 Fax: 44 1932 87 1526
Nihon Cochlear Co Ltd Ochanomizu-Motomachi Bldg, 2-3-7 Hongo, Bunkyo-Ku, Tokyo 113-0033, Japan Tel: 81 3 3817 0241 Fax: 81 3 3817 0245
Cochlear (HK) Ltd Unit 1810, Hopewell Centre, 183 Queens Road East, Wan Chai, Hong Kong SAR Tel: 852 2530 5773 Fax: 852 2530 5183
Cochlear (HK) Ltd Beijing Representative Office Unit 2205 - 2207, Tower B, 91 Jianguo Road, Chaoyang District, Beijing 1000022
P.R. China Tel: 8610 8599 9924 Fax: 8610 8599 9804
Cochlear Ltd (Singapore Branch) 6 Sin Ming Road, #01-16 Sin Ming Plaza Tower 2, Singapore 575585 Tel: 65 6553 3814 Fax: 65 6451 4105
Cochlear Korea Ltd 5F, Seong San BD, 1689-5, Seocho-dong, Seocho-gu, Seoul, Korea Tel: 82 2 533 4450 Fax: 82 2 533 8408
Cochlear Benelux NV Schaliënhoevedreef 20i, B - 2800 Mechelen, Belgium Tel: 32 1579 5511 Fax: 32 1579 5500
Cochlear Italia SRL Via Augusto Murri, 45/L, 40137 Bologna, Italia Tel: 39 051 7419811 Fax: 39 051 392062
Cochlear France S.A.S. Route de l'Orme aux Merisiers, Z.I. Les Algorithmes - Bât. Homère, 91190 Saint Aubin, France Tel: 33 811 111 993 Fax: 33 160 196 499
Cochlear Nordic AB Konstruktionsvägen 14, SE - 435 33 Mölnlycke, Sweden Tel: 46 31 335 14 61 Fax: 46 31 335 14 60
Cochlear Tıbbi Cihazlar ve Sağlık Hizmetleri Ltd. Sti. Cubuklu Mah. Bogazici Cad., Bogazici Plaza No: 6/1, Kavacik
TR - 34805 Beykoz-Istanbul, Turkey Tel: 90 216 538 5900 Fax: 90 216 538 5919
Cochlear Canada Inc 2500-120 Adelaide Street West, Toronto, ON M5H 1T1 Canada Tel: 1 416 972 5082 Fax: 1 416 972 5083
www.cochlear.com

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