Appendix 4E (ASX Listing Rule 4.3A)

PRELIMINARY FINAL REPORT

Cochlear Limited A.C.N. 002 618 073 **30 June 2007**

Results for announcement to the market

Revenue A$'000's	**up**	**24%**	**to**	**559,412**
EBIT A$'000's	**up**	**35%**	**to**	**150,174**
Net profit for the period attributable to members $A'000's	**up**	**25%**	**to**	**100,131**
Core earnings $A'000's *	**up**	**24%**	**to**	**107,561**

* **Core earnings** is defined as profit after tax attributable to equity holders of the parent assuming all research and development is expensed and excluding both intangible amortisation and share based compensation charges. A reconciliation of after tax profit to core earnings is found in the analysts briefing (lodged with this document).

Net tangible assets per share at 30 June 2007 (cents)	**up**	**279%**	**to**	**83.8**
Net tangible assets per share at 30 June 2006 (cents)				**(46.9)**

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend Interim dividend	70.0c 55.0c	70.0c 55.0c
Previous corresponding period	55.0c	55.0c

Record date for determining entitlements to the dividend	6 September 2007
Dividend payment date	27 September 2007

Annual meeting

The annual meeting will be held as follows:

Place	The Menzies Sydney Hotel 14 Carrington Street Sydney
Date	23 October 2007
Time	2.00 pm
Approximate date the annual report will be available	27 September 2007

COCHLEAR LIMITED - COMMENTARY FOR THE YEAR ENDED 30 JUNE 2007

Financial Performance

Total revenue for the year increased 24% to $559.4 million. Sales revenue was stronger, up 26% to $542.9 million. The difference related to foreign exchange gains on hedged sales, which were $16.5 million, down from $20.7 million in F06.

Over 90% of Cochlear's sales and over 50% of expenses are in foreign currency. While this provides a natural hedge on part of the FX exposure, the balance is managed through taking out foreign exchange contracts. These contracts cover a three year period at a declining level of cover. As the Australian dollar has strengthened, particularly against the US dollar and Japanese yen over the last few years, our ongoing contracts have reflected these rates as we continue to use those contracts taken out in earlier periods.

The overall profit impact from foreign exchange movements for the year, compared to F06, was a negative $17.6 million. This includes the reduction in gains from foreign exchange contracts ($4.2 million), movements on foreign denominated assets ($6.5 million) and the translation effect of changes in exchange rates between the periods ($6.9 million).

EBIT for the year of $150.2 million was up 35% on last year and importantly the EBIT/revenue percentage increased to 26.8% (F06 24.7%). This reflects strong sales in all regions and a disciplined approach to managing our growth.

The NPAT of $100.1 million was up 25% on F06. The differential between the EBIT and NPAT growth, being a higher interest charge of $6.7 million (F06 $2.7 million), largely as a result of increased interest rates, and a higher tax rate. The higher tax rate reflects $1.5 million of largely overseas tax adjustments relating to prior years made in F07.

Our net debt of $115.5 million was marginally up on F06 ($109.0 million) and our net debt/net debt plus equity gearing ratio improved to 31% (F06 34%).

Trade receivables increased 22% to $116.9 million (sales growing 26%) and days increased to 79 (F06 74).

Inventory of $91.9 million was up 20% (F06 $76.8 million) and included the $10 million of inventory acquired as part of the Manufacturing operations acquired from Crystalaid Manufacture Pty Limited.

Market Performance

Market defining Nucleus® Freedom™ performance: Setting a new benchmark for hearing performance and implant reliability

The Nucleus Freedom cochlear implant system was launched in March 2005. Since then, clinical data have clearly demonstrated that patients are hearing better, far earlier than with previous and competitors' systems, and continues improving beyond where canonical wisdom would suggest.

In addition, reliability data demonstrate unsurpassed implant reliability. These results underpinned the 24% growth in cochlear implant units sales to 15,947 units.

Nucleus Freedom is a product platform on which we can expand the product offering. During the year we launched a range of accessories, including rechargeable batteries and a comprehensive range of pediatric options.

The Freedom for N24 was also launched, allowing approximately 36,000 recipients of one of our prior implant systems to upgrade to the Freedom speech processor. That recipients of previous implant generations can benefit from new technology is a key element of the value proposition of receiving a cochlear implant from us. During F08 we will be releasing the Freedom for N22, enabling recipients of another earlier implant system access to Nucleus Freedom.

Bilateral cochlear implantation: accelerating

Binaural ("From both ears") hearing allows the brain to compare and contrast input from two ears and so localise sound and hear in spatial context. In comparison, remaining deaf in one ear, which is the outcome of receiving a single ("unilateral") implant represents a significant impairment. Cochlear implantation is moving from unilateral to bilateral implantation as the standard of care, driven by compelling clinical results and benefits beyond hearing performance, for example a child being less fatigued after school being able to comfortably do homework rather than being exhausted just from concentrating listening during the day. In both Europe and the America, at least 15% of our current cochlear implant unit sales are for bilateral implants, and this percentage is increasing.

Regional Performance

All geographic regions contributed to growth. In constant currency terms (that is, constant foreign exchange rates), sales in the Americas were up 33%, Europe up 20% and Asia-Pacific up 38%. All regions are successfully implementing regional specific growth initiatives.

Americas

Revenue of $249.8 million was up 26% over the prior period and up 33% in constant currency. The Americas growth was driven by the success of Nucleus Freedom and Baha products, as well as the successful launch of the Freedom for N24 upgrade. The Americas also expanded its consumer advocacy activities and its service activities around the installed patient base, while its "Hear Always" initiatives are reducing the clinics' burden of managing the ever-growing installed base.

Europe

European revenue grew 23% to $213.0 million. The expanded direct market activities of the European region continue supporting growth, with over 70% of European revenue from countries where Cochlear operates directly. At the same time, our distributor activities in Central and Eastern Europe continue expanding as the various economies grow.

Asia Pacific

Revenue of $80.1 million showed particularly strong growth of 34% over last year, underpinned by strong growth across the region, particularly in China and India, Korea and Australia. Last year we reported on a large philanthropic donation of cochlear implants for China. With all steps being taken to ensure the donation program is successful, it took much of the year for the donation mechanisms to be finalised, and so surgeries of donated implants did not start until April. This resulted in the contribution to growth from the donation units being modest, to the extent they represented the minority of implantations in China in F07.

Bone Anchored Solutions Division

BAS sales were a record $62.7 million, up 21% from F06 and up 23% in constant currency. Since acquiring the Baha and Vistafix product lines from Entific Medical Systems AB in 2005 we have accelerated research and development, with an important new product, Intenso launched towards the end of F07. This launch has allowed us to widen indications via the introduction of a redesigned transducer that is 10 times more powerful than previous ear-level systems, so patients with more mixed hearing loss can benefit from Baha. Importantly, the Baha and cochlear implant systems do not compete with each other as they are indicated for different types of hearing loss, and are very complementary from a business perspective.

Product Innovation

Research and Development (excluding capitalisation and amortisation of development costs) was up 12% to $63.8 million, representing 11.4% of revenue. This reflects the opportunity for improving clinical outcomes through technologic innovation. It is the lifeblood of our company as we continue our development of a range of implantable devices for the hearing impaired. The four key product areas remain: cochlear implants, implants for electro-acoustic stimulation (EAS), bone conduction implants (Baha) and direct acoustic cochlear stimulation (DACS).

Cochlear implants

The cochlear implant sector is now well established and Cochlear's technology leads the industry world wide. During the year we launched the backwards compatible Nucleus® Freedom™ speech processor for one of our earlier implant types (N24) in many major markets with enthusiastic response.

Focus remains on improving hearing performance, with new speech coding strategies ($MP3^{000}$™) in clinical trials, along with further advances in our sound input pre-processing (SmartSound™) to include concomitant pre-processing strategies (SmartSound™ Combination).

Baha

Spending on Baha R&D has grown from 3% of sales revenue when we purchased the company in March 2005 to 10% of sales revenue in F07. This increase reflects the importance we place on technology leadership. The Baha® Intenso™ device was released in F07 and important new technologies related to aesthetics and performance are well advanced.

Hybrid

Hybrid implants are cochlear implants with specially designed electrodes, that, when combined with the appropriate surgical technique, preserve the delicate structures of the inner ear and consequently preserve residual hearing. Two electrodes, Hybrid S and Hybrid L are in clinical trials with encouraging results. The market for the hybrid is significant and untapped at this stage.

DACS

With this product we seek to extend Cochlear's global leadership in implantable solutions for the hearing impaired into new markets by combining our market leading capabilities in implantable electronics with direct mechanical stimulation of the middle ear. The DACS implant was being developed as a joint venture (with Phonak AG). During the year, the JV was disbanded, with both parties sharing all costs and IP in such a way that the parties can continue their own development paths. This has delayed the project in the short term, but longer term creates synergies that will be beneficial.

INCOME STATEMENTS Cochlear Limited and its controlled entities for the year ended 30 June 2007

		Consolidated		Company	
		2007	2006	2007	2006
	Note	$000	$000	$000	$000
Revenue	4(a)	559,412	452,260	403,182	285,653
Cost of sales	4(b)	(161,334)	(130,962)	(183,561)	(110,771)
Gross profit		**398,078**	**321,298**	**219,621**	**174,882**
Other income	4(c)	1,133	884	1,980	379
Selling and general expenses		(141,046)	(124,808)	(21,993)	(25,706)
Administration expenses		(38,635)	(29,951)	(30,664)	(23,314)
Research and development expenses	4(b)	(65,949)	(58,926)	(53,138)	(42,798)
Results from operating activities		**153,581**	**108,497**	**115,806**	**83,443**
Financial income	5	2,199	6,729	3,181	10,454
Financial expense	5	(12,299)	(6,391)	(4,937)	(16)
Net financing (expense)/income		**(10,100)**	**338**	**(1,756)**	**10,438**
Profit before tax		143,481	108,835	114,050	93,881
Income tax expense	7	(45,805)	(30,610)	(29,363)	(26,522)
Net profit (including minority interest)		**97,676**	**78,225**	**84,687**	**67,359**
Attributable to:					
Equity holders of the parent		**100,131**	**80,032**	**84,687**	**67,359**
Minority interest		(2,455)	(1,807)	-	-
Net profit (including minority interest)		97,676	78,225	84,687	67,359
Basic earnings per share (cents)					
Ordinary shares	10	182.9	146.8		
Diluted earnings per share (cents)					
Ordinary shares	10	180.1	145.2		

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 9 to 48.

	Consolidated		Company	
	2007	2006	2007	2006
	$000	$000	$000	$000
Foreign exchange translation differences	(5,072)	2,638	420	(391)
Cash flow hedges:				
Effective portion of changes in fair value	23,428	(1,021)	23,428	(1,021)
Gain transferred to the income statement	(11,568)	(14,485)	(11,568)	(14,485)
Net income recognised directly in equity	**6,788**	**(12,868)**	**12,280**	**(15,897)**
Net profit (including minority interest)	97,676	78,225	84,687	67,359
Total recognised income and expense for the period	**104,464**	**65,357**	**96,967**	**51,462**
Attributable to:				
Equity holders of the parent	106,705	67,857	96,967	51,462
Minority interest	(2,241)	(2,500)	-	-
Total recognised income and expense for the period	**104,464**	**65,357**	**96,967**	**51,462**

Other movements in equity arising from transactions with equity participants as equity participants are set out in Note 25. The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 9 to 48.

		Consolidated		Company	
	Note	2007 $000	2006 $000	2007 $000	2006 $000
Current assets					
Cash and cash equivalents	26(a)	83,382	87,073	43,917	27,458
Receivables	11	143,076	109,388	99,275	109,770
Inventories	12	91,890	76,822	58,425	47,209
Other	13	5,390	5,920	2,787	2,349
Total current assets		**323,738**	**279,203**	**204,404**	**186,786**
Non-current assets					
Receivables	11	6,178	-	6,178	-
Other financial assets	14	477	383	64,116	33,994
Property, plant and equipment	15	40,565	30,833	31,879	21,381
Intangible assets	16	196,268	205,238	13,533	4,126
Deferred tax assets	17	18,511	30,267	770	5,072
Total non-current assets		**261,999**	**266,721**	**116,476**	**64,573**
Total assets		**585,737**	**545,924**	**320,880**	**251,359**
Current liabilities					
Trade and other payables	18	61,923	57,345	33,381	28,337
Loans and borrowings	20	161,337	70,547	30,223	-
Current tax liabilities		7,997	24,981	1,165	14,407
Provisions	22	30,953	27,058	20,872	15,642
Other	19	17,338	23,525	848	857
Total current liabilities		**279,548**	**203,456**	**86,489**	**59,243**
Non-current liabilities					
Loans and borrowings	20	37,552	125,493	-	-
Provisions	22	7,828	6,433	6,399	5,655
Other	19	-	764	-	764
Total non-current liabilities		**45,380**	**132,690**	**6,399**	**6,419**
Total liabilities		**324,928**	**336,146**	**92,888**	**65,662**
Net assets		**260,809**	**209,778**	**227,992**	**185,697**
Equity					
Share capital	24	69,998	66,663	69,998	66,663
Reserves	25	9,584	3,010	15,357	3,077
Retained earnings	25	181,227	137,864	142,637	115,957
Total equity attributable to equity holders of the parent		**260,809**	**207,537**	**227,992**	**185,697**
Minority interest	25	-	2,241	-	-
Total equity	25	**260,809**	**209,778**	**227,992**	**185,697**

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 9 to 48.

STATEMENTS OF CASH FLOWS Cochlear Limited and its controlled entities for the year ended 30 June 2007

		Consolidated		Company	
		2007	2006	2007	2006
	Note	$000	$000	$000	$000
Cash flows from operating activities					
Cash receipts from customers		506,589	432,838	407,018	234,073
Cash payments to suppliers and employees		(367,238)	(352,164)	(263,108)	(209,038)
Dividends received		-	-	1,608	-
Grant and other income received		151	884	151	379
Interest received		2,353	3,816	3,204	5,896
Interest paid		(8,892)	(6,391)	(802)	(16)
Income taxes paid		(56,127)	(27,428)	(43,397)	(19,358)
Net cash provided by operating activities	26(b)	**76,836**	**51,555**	**104,674**	**11,936**
Cash flows from investing activities					
Payment for property, plant and equipment		(18,596)	(14,329)	(13,506)	(6,968)
Payment for enterprise resource planning system		(7,805)	(706)	(7,805)	-
Proceeds from sale of non-current assets		7,574	572	292	197
Investment in controlled entities		(7,953)	-	(30,000)	(15,380)
Payment for acquisition of manufacturing business	27(b)	(9,972)	-	(9,972)	-
Development expenditure		(375)	(179)	(375)	(179)
Net cash used in investing activites		**(37,127)**	**(14,642)**	**(61,366)**	**(22,330)**
Cash flows from financing activities					
Repayment of borrowings		(38,487)	(29,787)	(5,000)	(1,273)
Proceeds from borrowings		57,822	3,678	35,000	-
Proceeds from issue of shares		3,335	17,288	3,335	17,288
Dividends paid by the parent		(60,383)	(49,096)	(60,383)	(49,096)
Net cash used in financing activities		**(37,713)**	**(57,917)**	**(27,048)**	**(33,081)**
Net increase/(decrease) in cash and cash equivalents		**1,996**	**(21,004)**	**16,260**	**(43,475)**
Cash and cash equivalents at 1 July		85,326	103,627	27,458	70,918
Effects of exchange fluctuation on the balances of cash held in foreign currencies		(5,585)	2,703	(24)	15
Cash and cash equivalents at 30 June	26(a)	**81,737**	**85,326**	**43,694**	**27,458**

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 9 to 48.

1. Reporting entity

Cochlear Limited is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2007 comprise the Company and its subsidiaries. The Consolidated Entity operates in the implantable hearing device industry.

2. Basis of preparation

(a) Statement of compliance

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

The financial statements were approved by the Board of Directors on 14 August 2007.

(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 methods used to measure fair values are discussed further in Note 3.

(c) Functional and presentation currency

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

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

(d) Use of estimates and judgements

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

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

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

3. Significant accounting policies

Accounting policies have been applied consistently to all periods represented in these consolidated financial statements and have been applied consistently by all entities in the Consolidated Entity.

The entity has elected to early adopt the following accounting standards and amendments:
- AASB 101 Presentation of Financial Statements (October 2006)

In the prior financial year, the Consolidated Entity adopted AASB 132 Financial Instruments: Presentation and AASB 139 Financial Instruments: Recognition and Measurement in accordance with the transitional rules of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. This change has been accounted for by adjusting the opening balance of reserves at 1 July 2005, as disclosed in Note 25.

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

(a) Basis of consolidation

Controlled entities

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

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

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

Transactions eliminated on consolidation

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

(b) Income recognition

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

Sales revenue

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

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

Other income

Other income, including government grants, is recognised on a systematic basis over the periods necessary to match it with the related costs for which it is intended to compensate or, if the costs have already been incurred, in the period in which it becomes receivable which is when the entitlement is confirmed.

(c) Goods and services tax

Revenue, 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 at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency 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 Australian dollars at foreign exchange rates ruling at the dates the fair values were determined.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, generally are translated to Australian dollars at foreign exchange rates ruling at balance date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of transactions.

Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges are taken to the foreign currency translation reserve. They are released into the income statement upon disposal.

(e) Derivative financial instruments

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

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

(f) Hedges

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

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

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

Hedge of monetary assets and liabilities

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

Hedge 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 gain transferred to equity is transferred to the income statement.

(g) Cash and cash equivalents

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

(h) Provisions

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

Warranties

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

Restructuring, employee termination benefits and surplus lease space

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

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

Self-insurance

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

Make good lease costs

The Consolidated Entity has a number of operating leases over its offices that require the asset 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. The Consolidated Entity is expected to incur the liability within the next 11 years. An offsetting asset of the same value is also recognised and is classified in property, plant and equipment. This asset is amortised to the income statement over the life of the lease.

(i) Intangible assets

Goodwill

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

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

Enterprise resource planning system

The external expenditure incurred on hardware and software and the external costs necessary for the implementation of the system are recognised as an intangible asset, to the extent that the Consolidated Entity controls future economic benefits as a result of the costs incurred, and is stated at cost less accumulated amortisation. All internal development, licence and support costs attributable to feasibility, alternative approach assessment and implementation are expensed as incurred.

Research and development expenditure

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

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

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

Other intangible assets

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

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Subsequent expenditure

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

Amortisation

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

Acquired technology	4 years
Enterprise resource planning system	2.5 – 4 years
Customer relationships	4 years
Intellectual property	3 years
Capitalised development expenditure	1 – 3 years.

(j) Impairment

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

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

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

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

Calculation of recoverable amount

Receivables

The recoverable amount of the Consolidated Entity's investments in held-to-maturity receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

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

Other assets

The recoverable amount of other assets is the greater of their fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Reversals of impairment

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

An impairment loss in respect of goodwill is not reversed.

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

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

(k) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (j)). An asset's cost is determined as 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 proportion of fixed and variable overheads, and capitalised interest.

Subsequent costs in relation to replacing a part of property, plant and equipment are recognised in the carrying amount if it is possible that future economic benefits embodied within the item will flow to the Consolidated Entity and the cost of the item 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 step-ups.

Depreciation

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 and residual values are reviewed annually for appropriateness. 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 – 9 years
Plant and equipment	3 – 8 years.

(l) Inventories

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

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

(m) Employee benefits

Defined contribution plans

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

Defined benefit plans

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

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

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

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

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

The full amount of actuarial gains and losses that arise subsequent to transition date will be recognised directly in retained earnings.

Wages, salaries and annual leave

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

Long service leave

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

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

Equity based transactions

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 and non-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.

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 AIFRS, the Trust qualifies as an equity compensation plan special purpose entity and its results are included in those for the Company and the Consolidated Entity.

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

(n) Receivables

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

(o) Taxation

Income tax 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 provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill and other assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively 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 reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Payables

Trade and other payables are stated at amortised cost.

(q) Loans and borrowings

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

(r) Net financing (expense)/income

Financial costs include interest and finance charges in respect of finance leases. 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.

Interest income is recognised as it accrues. Dividend income from subsidiaries is recognised by the parent when the dividends are declared by the subsidiary.

Foreign exchange differences net of the effect of hedges on borrowings are recognised in net financing (expense)/income.

(s) Earnings per share

Basic earnings per share (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 by dividing the basic EPS earnings, 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, by the weighted average number of ordinary shares and dilutive potential ordinary shares of the Company adjusted for any bonus issue.

(t) Segment reporting

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

(u) Accounting estimates and judgements

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

Key sources of estimation uncertainty

Office of Inspector General inquiry
Cochlear Americas, a wholly-owned subsidiary of the Company, is subject to an inquiry being handled by the Office of Inspector General. For further details, refer to Note 23.

(v) Share capital

Ordinary shares

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

Repurchase of share capital

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.

Dividends

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

(w) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report:

- AASB 7 Financial Instruments: Disclosures;
- AASB 2005-10 Amendments to Australian Accounting Standards; and
- AASB 8 Operating Segments.

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

	Consolidated		Company	
	2007 $000	2006 $000	2007 $000	2006 $000
4. Revenue and expenses				
(a) Revenue				
Sale of goods revenue before hedging	539,711	428,516	386,414	264,802
Foreign exchange gains on hedged sales	16,526	20,693	16,526	20,693
Revenue from the sale of goods	**556,237**	**449,209**	**402,940**	**285,495**
Rendering of services revenue	3,175	3,051	242	158
Total revenue	**559,412**	**452,260**	**403,182**	**285,653**
(b) Expenses				
Cost of sales:				
Carrying amount of inventories recognised as an expense	156,045	128,028	143,785	110,665
Other	3,415	2,681	38,744	106
Write-down in value of inventories	1,874	253	1,032	-
Total cost of sales	**161,334**	**130,962**	**183,561**	**110,771**
Research and development expenses:				
Research and development expenditure	63,753	56,703	50,942	40,575
Development expenditure capitalised	(375)	(179)	(375)	(179)
Capitalised development expenditure – amortisation expense	2,571	2,402	2,571	2,402
Total research and development expenses	**65,949**	**58,926**	**53,138**	**42,798**
(c) Other income				
Grant received or due and receivable	151	233	151	233
Dividend from controlled entity	-	-	1,608	-
Other income	982	651	221	146
Total other income	**1,133**	**884**	**1,980**	**379**
(d) Employee benefits expense				
Wages and salaries	125,466	103,554	65,165	52,403
Contributions to superannuation funds	7,366	5,959	4,782	4,509
Increase in leave liabilities	3,367	2,632	2,579	1,053
Equity settled transactions	3,615	2,466	2.376	1,673
Total employee benefits expense	**139,814**	**114,611**	**74,902**	**59,638**
(e) Other expenses				
Costs resulting from integration of acquired entity	573	1,524	-	-
Total other expenses	**573**	**1,524**	**-**	**-**
(f) Profit before tax has been arrived at after charging/(crediting) the following items:				
(Decrease) in provisions	(171)	(2,003)	(137)	(2,496)
Operating lease rental expense	7,611	6,647	3,510	2,687
Loss/(gain) on disposal of property, plant and equipment	1,125	20	(27)	(177)

	Consolidated		Company	
	2007	2006	2007	2006
	$000	$000	$000	$000
5. Net financing (expense)/income				
Interest income	2,199	3,683	3,181	5,762
Net foreign exchange gain	-	3,046	-	4,692
Financial income	**2,199**	**6,729**	**3,181**	**10,454**
Interest expense	(8,892)	(6,391)	(887)	(16)
Net foreign exchange loss	(3,407)	-	(4,050)	-
Financial expenses	**(12,299)**	**(6,391)**	**(4,937)**	**(16)**
Net financing (expense)/income	**(10,100)**	**338**	**(1,756)**	**10,438**

	Consolidated		Company	
	2007	2006	2007	2006
	$	$	$	$
6. Auditors' remuneration				
Audit services				
Auditors of the Company:				
KPMG Australia:				
- audit and review of financial reports	428,000	350,000	428,000	335,500
- other regulatory audit services	21,500	6,400	21,500	6,400
Overseas KPMG firms:				
- audit and review of financial reports	591,762	443,796	-	25,876
- other regulatory audit services	51,855	-	35,472	-
Total audit services	**1,093,117**	**800,196**	**484,972**	**367,776**
Other services				
Auditors of the Company:				
KPMG Australia:				
- taxation services	355,760	185,698	355,760	150,962
- international taxation services	783,394	423,792	783,394	387,720
- other assurance services	19,500	17,250	19,500	17,250
Overseas KPMG firms:				
- taxation services	334,027	218,217	21,319	16,350
- international taxation services	108,467	118,717	100,077	7,580
- other assurance services	52,827	9,700	52,827	-
Total other services	**1,653,975**	**973,374**	**1,332,877**	**579,862**

		Consolidated		Company	
		2007	2006	2007	2006
	Note	$000	$000	$000	$000
7. Income tax expense					
Recognised in the income statement					
Current tax expense					
Current year		37,669	40,237	31,275	25,792
Under/(over) provided in prior years		1,463	(283)	(1,131)	(406)
		39,132	**39,954**	**30,144**	**25,386**
Deferred tax expense/(benefits)					
Origination and reversal of temporary differences		4,062	(5,777)	(781)	1,136
Benefits of tax losses		2,611	(3,567)	-	-
	17	6,673	(9,344)	(781)	1,136
Total income tax expense in the income statement		**45,805**	**30,610**	**29,363**	**26,522**
Numerical reconciliation between income tax expense and profit before tax					
Profit before tax		143,481	108,835	114,050	93,881
Income tax expense using the domestic corporate rate of 30% (2006: 30%)		43,044	32,651	34,215	28,164
Increase in income tax expense due to:					
Non-deductible expenses		4,080	764	685	617
Effect of tax rate in foreign jurisdictions		1,949	-	807	151
Decrease in income tax expense due to:					
Research and development allowance		(4,731)	(2,004)	(4,731)	(2,004)
Non-assessable dividends from controlled entities		-	-	(482)	-
Effect of tax rate in foreign jurisdictions		-	(518)	-	-
		44,342	**30,893**	**30,494**	**26,928**
Under/(over) provided in prior years		1,463	(283)	(1,131)	(406)
Income tax expense on profit before tax		**45,805**	**30,610**	**29,363**	**26,522**
Deferred tax recognised directly in equity					
Relating to derivative financial instruments	17	5,083	(6,645)	5,083	(6,645)

	Cents per share	Total amount $000	Franked/unfranked	Date of payment
8. Dividends				
Dividends recognised in the current financial year by the Company are:				
2007				
Interim 2007 ordinary	55.0	30,208	Franked	20 Mar 2007
Final 2006 ordinary	55.0	30,175	Franked	21 Sep 2006
Total amount		**60,383**		
2006				
Interim 2006 ordinary	45.0	24,666	Franked	14 Mar 2006
Final 2005 ordinary	45.0	24,430	Franked	22 Sep 2005
Total amount		**49,096**		

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

Subsequent events

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

	Cents per share	Total amount $000	Franked/unfranked	Date of payment
Final 2007 ordinary	70.0	38,446	Franked	27 Sep 2007
Total amount		**38,446**		

The financial effect of the 2007 final dividend has not been brought to account in the financial statements for the year ended 30 June 2007 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	
	2007 $000	2006 $000
Dividend franking account		
30% franking credits available to shareholders of Cochlear Limited for subsequent financial periods	17,173	13,352

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 $16,476,945 (2006: $12,932,223).

No additional current tax liability will arise to the extent that franking credits are available with which to pay appropriately franked dividends. Dividends in excess of the balance of the dividend franking account will either be unfranked or result in 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.

9. Segment reporting

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

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

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

The Consolidated Entity's geographical segments as follows:

	Americas		Europe		Asia Pacific		Eliminations		Consolidated	
	2007 $000	2006 $000	2007 $000	2006 $000	2007 $000	2006 $000	2007 $000	2006 $000	2007 $000	2006 $000
Revenue										
Revenue outside the Consolidated Entity	249,768	198,188	212,992	173,722	80,126	59,657	-	-	542,886	431,567
Inter-segment sales revenue	-	-	-	-	328,888	229,657	(328,888)	(229,657)	-	-
Total segment revenue	249,768	198,188	212,992	173,722	409,014	289,314	(328,888)	(229,657)	542,886	431,567
Foreign exchange gains on hedged sales									16,526	20,693
Total revenue									**559,412**	**452,260**
Segment result	77,201	52,065	63,407	45,721	20,298	12,048	-	-	160,906	109,834
Unallocated net expenses									(7,325)	(1,337)
Net financing (expense)/income									(10,100)	338
Profit before tax									143,481	108,835
Income tax expense									(45,805)	(30,610)
Net profit (including minority interest)									**97,676**	**78,225**
Segment depreciation and amortisation	4,257	4,953	2,663	2,954	902	892	-	-	7,822	8,799
Unallocated depreciation and amortisation									9,283	7,276
Total depreciation and amortisation									**17,105**	**16,075**
Segment non-cash expenses other than depreciation and amortisation	(131)	1,775	2,598	479	717	278	-	-	3,184	2,532
Unallocated non-cash expenses other than depreciation and amortisation									2,045	(812)
Total non-cash expenses other than depreciation and amortisation									**5,229**	**1,720**
Inventory write-down	**900**	**203**	**842**	**15**	**132**	**35**	**-**	**-**	**1,874**	**253**
Segment assets	154,392	164,697	258,181	231,758	38,748	40,560	(89,220)	(57,840)	362,101	379,175
Unallocated assets									223,636	166,749
Total assets									**585,737**	**545,924**
Segment liabilities	78,269	85,570	63,995	66,116	9,535	9,699	(64,014)	(89,226)	87,785	72,159
Unallocated liabilities									237,143	263,987
Total liabilities									**324,928**	**336,146**
Segment acquisition of non-current assets	1,870	2,129	6,449	5,444	999	360	-	-	9,318	7,933
Unallocated acquisition of non-current assets									17,083	7,102
Total acquisition of non-current assets									**26,401**	**15,035**

Secondary reporting

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

	Consolidated	
	2007	2006
10. Earnings per share		
Basic earnings per share		
The calculation of basic earnings per share for the year ended 30 June 2007 was based on net profit attributable to equity holders of the parent of $100,131,000 (2006: $80,032,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2007 of 54,742,745 (2006: 54,530,299) calculated as follows:		
Net profit attributable to equity holders of the parent	$100,131,000	$80,032,000
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 July	54,636,995	54,169,325
Effect of shares due to exercise of options and performance shares	96,795	350,376
Effect of shares issued relating to employee shares granted	8,955	10,598
Weighted average number of ordinary shares (basic)	**54,742,745**	**54,530,299**
Diluted earnings per share		
The calculation of diluted earnings per share for the year ended 30 June 2007 was based on net profit attributable to equity holders of the parent of $100,131,000 (2006: $80,032,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2007 of 55,582,822 (2006: 55,122,283) calculated as follows:		
Net profit attributable to equity holders of the parent	$100,131,000	$80,032,000
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic)	54,742,745	54,530,299
Effect of options and performance shares	840,077	591,984
Weighted average number of ordinary shares (diluted)	**55,582,822**	**55,122,283**

		Consolidated		Company	
		2007	2006	2007	2006
	Note	$000	$000	$000	$000
11. Receivables					
Current					
Trade receivables net of allowance for impairment loss		116,897	96,060	13,359	10,987
Other receivables		10,277	7,427	6,043	4,100
Amount receivable from controlled entities	30	-	-	63,971	88,782
Forward exchange contracts		15,902	5,901	15,902	5,901
Total current receivables		**143,076**	**109,388**	**99,275**	**109,770**
Non-current					
Forward exchange contracts		6,178	-	6,178	-
Total non-current receivables		**6,178**	**-**	**6,178**	**-**
12. Inventories					
Raw materials and stores		38,372	28,975	35,259	26,900
Work in progress		7,271	7,835	4,922	6,578
Finished goods		46,247	40,012	18,244	13,731
Total inventories		**91,890**	**76,822**	**58,425**	**47,209**
13. Other assets					
Prepayments		**5,390**	**5,920**	**2,787**	**2,349**
14. Other financial assets					
Shares in controlled entities, unlisted, at cost	27	-	-	63,989	33,868
Other amounts receivable		477	383	127	126
Total other financial assets		**477**	**383**	**64,116**	**33,994**

15. Property, plant and equipment

	Consolidated 2007 $000	Consolidated 2006 $000	Company 2007 $000	Company 2006 $000
Leasehold improvements				
At cost	24,537	21,973	22,218	19,572
Accumulated amortisation	(13,324)	(10,309)	(12,797)	(9,757)
	11,213	**11,664**	**9,421**	**9,815**
Plant and equipment				
At cost	65,038	50,716	48,303	33,087
Accumulated depreciation	(35,686)	(31,547)	(25,845)	(21,521)
	29,352	**19,169**	**22,458**	**11,566**
Total property, plant and equipment, at net book value	**40,565**	**30,833**	**31,879**	**21,381**
Reconciliations				
Reconciliations of the carrying amounts of each class of property, plant and equipment are set out below:				
Leasehold improvements				
Carrying amount at beginning of financial year	11,664	12,949	9,815	11,797
Additions	1,764	1,796	1,488	684
Disposals	(10)	(323)	-	-
Amortisation	(3,445)	(2,782)	(3,122)	(2,670)
Acquisitions through business combinations	1,166	-	1,166	-
Effect of movements in foreign exchange	74	24	74	4
Carrying amount at end of financial year	**11,213**	**11,664**	**9,421**	**9,815**
Plant and equipment				
Carrying amount at beginning of financial year	19,169	11,675	11,566	8,087
Additions	16,832	12,533	12,018	6,284
Disposals	(2,415)	(269)	(265)	(20)
Depreciation	(7,284)	(5,245)	(4,854)	(2,938)
Acquisitions through business combinations	3,824	-	3,824	-
Effect of movements in foreign exchange	(774)	475	169	153
Carrying amount at end of financial year	**29,352**	**19,169**	**22,458**	**11,566**

	Consolidated		Company	
	2007 $000	2006 $000	2007 $000	2006 $000
16. Intangible assets				
Goodwill, at cost	**182,401**	**185,352**	**4,146**	**-**
Acquired technology				
At cost	3,398	3,702	-	-
Accumulated amortisation	(1,982)	(1,234)	-	-
	1,416	**2,468**	**-**	**-**
Enterprise resource planning system				
At cost	20,366	13,091	16,984	9,179
Accumulated amortisation	(12,005)	(10,545)	(9,441)	(9,093)
	8,361	**2,546**	**7,543**	**86**
Customer relationships				
At cost	4,801	5,433	-	-
Accumulated amortisation	(2,838)	(1,826)	-	-
	1,963	**3,607**	**-**	**-**
Intellectual property capitalised, at cost(i)	**-**	**6,788**	**-**	**-**
Capitalised development expenditure				
At cost	7,759	7,385	7,759	7,385
Accumulated amortisation	(5,915)	(3,345)	(5,915)	(3,345)
	1,844	**4,040**	**1,844**	**4,040**
Other intangible assets				
At cost	496	583	-	-
Accumulated amortisation	(213)	(146)	-	-
	283	**437**	**-**	**-**
Total intangible assets	**196,268**	**205,238**	**13,533**	**4,126**

(i) Intellectual property is not amortised on the basis that it has not yet reached the condition necessary for it to be capable of operating in the manner intended by the Consolidated Entity.

	Consolidated		Company	
	2007 $000	2006 $000	2007 $000	2006 $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	185,352	168,002	-	-
Acquisitions through business combinations	12,099	-	4,146	-
Effect of movements in foreign exchange	(15,050)	17,350	-	-
Carrying amount at end of financial year	**182,401**	**185,352**	**4,146**	**-**
Acquired technology				
Carrying amount at beginning of financial year	2,468	3,056	-	-
Amortisation	(850)	(926)	-	-
Effects of movements in foreign exchange	(202)	338	-	-
Carrying amount at end of financial year	**1,416**	**2,468**	**-**	**-**
Enterprise resource planning system				
Carrying amount at beginning of financial year	2,546	5,039	86	2,000
Acquisitions	7,805	706	7,805	-
Amortisation	(1,659)	(3,366)	(348)	(1,914)
Effect of movements in foreign exchange	(331)	167		-
Carrying amount at end of financial year	**8,361**	**2,546**	**7,543**	**86**
Customer relationships				
Carrying amount at beginning of financial year	3,607	4,585	-	-
Amortisation	(1,201)	(1,238)	-	-
Effect of movements in foreign exchange	(443)	260	-	-
Carrying amount at end of financial year	**1,963**	**3,607**	**-**	**-**
Intellectual property capitalised, at cost				
Carrying amount at beginning of financial year	6,788	6,825	-	-
Disposals	(6,274)	-	-	-
Effect of movements in foreign exchange	(514)	(37)	-	-
Carrying amount at end of financial year	**-**	**6,788**	**-**	**-**
Capitalised development expenditure				
Carrying amount at beginning of financial year	4,040	6,263	4,040	6,263
Development phase expenditure	375	179	375	179
Amortisation	(2,571)	(2,402)	(2,571)	(2,402)
Carrying amount at end of financial year	**1,844**	**4,040**	**1,844**	**4,040**

	Consolidated		Company	
	2007 $000	2006 $000	2007 $000	2006 $000
Other intangible assets				
Carrying amount at beginning of financial year	437	559	-	-
Amortisation	(95)	(116)	-	-
Effect of movements in foreign exchange	(59)	(6)	-	-
Carrying amount at end of financial year	**283**	**437**	**-**	**-**

Amortisation charge

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

Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill:

	Consolidated		Company	
	2007 $000	2006 $000	2007 $000	2006 $000
Americas	65,437	69,721	1,940	-
Europe	109,603	109,518	1,488	-
Asia Pacific	7,361	6,113	718	-
	182,401	**185,352**	**4,146**	**-**

The recoverable amount of each cash generating unit is based on value-in-use calculations. Those calculations use cash flow projections based on actual operating results and the three year business plan. Cash flows for a further two year period are extrapolated using a 3.5% per annum growth rate and are appropriate because the related acquisitions are long-term businesses. This growth rate is consistent with the long-term average growth rate for the industry. A post-tax discount rate of 9.7% per annum has been used in discounting the projected cash flows.

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

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

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

17. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2007 $000	2006 $000	2007 $000	2006 $000	2007 $000	2006 $000
Consolidated						
Property, plant and equipment	-	1,793	(183)	-	(183)	1,793
Intangible assets	-	-	-	(3,072)	-	(3,072)
Inventories	11,790	9,682	-	-	11,790	9,682
Prepayments	-	-	(95)	(101)	(95)	(101)
Employee benefits	538	754	-	-	538	754
Provisions	8,327	8,535	-	-	8,327	8,535
Deferred revenue	1,782	7,396	-	-	1,782	7,396
Forward exchange contracts	-	-	(6,635)	(1,541)	(6,635)	(1,541)
Other	-	977	(369)	(123)	(369)	854
Tax value of loss carry-forwards recognised	3,356	5,967	-	-	3,356	5,967
Net deferred tax assets/(liabilities)	**25,793**	**35,104**	**(7,282)**	**(4,837)**	**18,511**	**30,267**
Company						
Property, plant and equipment	-	1,103	(285)	-	(285)	1,103
Intangible assets	-	-	(594)	(1,212)	(594)	(1,212)
Inventories	769	854	-	-	769	854
Provisions	7,515	5,983	-	-	7,515	5,983
Forward exchange contracts	-	-	(6,635)	(1,541)	(6,635)	(1,541)
Other	-	-	-	(115)	-	(115)
Net deferred tax assets/(liabilities)	**8,284**	**7,940**	**(7,514)**	**(2,868)**	**770**	**5,072**

At 30 June 2007, a deferred tax liability of $17,402,366 (2006: $14,282,667) relating to an investment in a subsidiary has not been recognised because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

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
2006								
Property, plant and equipment	381	1,412	-	1,793	485	618	-	1,103
Intangible assets	(4,339)	1,267	-	(3,072)	(1,879)	667	-	(1,212)
Inventories	5,250	4,432	-	9,682	1,289	(435)	-	854
Prepayments	(75)	(26)	-	(101)	-	-	-	-
Employee benefits	777	(23)	-	754	-	-	-	-
Provisions	13,138	(4,603)	-	8,535	8,055	(2,072)	-	5,983
Deferred revenue	5,404	1,992	-	7,396	-	-	-	-
Foreign exchange contracts	(8,560)	374	6,645	(1,541)	(8,290)	104	6,645	(1,541)
Other	(98)	952	-	854	(97)	(18)	-	(115)
Tax value of loss carry-forwards recognised	2,400	3,567	-	5,967	-	-	-	-
	14,278	**9,344**	**6,645**	**30,267**	**(437)**	**(1,136)**	**6,645**	**5,072**
2007								
Property, plant and equipment	1,793	(1,976)	-	(183)	1,103	(1,388)	-	(285)
Intangible assets	(3,072)	3,072	-	-	(1,212)	618	-	(594)
Inventories	9,682	2,108	-	11,790	854	(85)	-	769
Prepayments	(101)	6	-	(95)	-	-	-	-
Employee benefits	754	(216)	-	538	-	-	-	-
Provisions	8,535	(208)	-	8,327	5,983	1,532	-	7,515
Deferred revenue	7,396	(5,614)	-	1,782	-	-	-	-
Foreign exchange contracts	(1,541)	(11)	(5,083)	(6,635)	(1,541)	(11)	(5,083)	(6,635)
Other	854	(1,223)	-	(369)	(115)	115	-	-
Tax value of loss carry-forwards recognised	5,967	(2,611)	-	3,356	-	-	-	-
	30,267	**(6,673)**	**(5,083)**	**18,511**	**5,072**	**781**	**(5,083)**	**770**

	Consolidated		Company	
	2007 $000	2006 $000	2007 $000	2006 $000
18. Trade and other payables				
Trade and other creditors	**61,923**	**57,345**	**33,381**	**28,337**
19. Other liabilities				
Current				
Deferred revenue	17,338	23,525	848	857
Total current other liabilities	**17,338**	**23,525**	**848**	**857**
Non-current				
Forward exchange contracts	-	764	-	764
Total non-current other liabilities	**-**	**764**	**-**	**764**
20. Loans and borrowings				
Current				
Bank overdrafts	1,645	1,747	223	-
Bank loans, secured	159,692	68,800	30,000	-
Total current loans and borrowings	**161,337**	**70,547**	**30,223**	**-**
Non-current				
Bank loans, secured	37,552	125,493	-	-
Total non-current loans and borrowings	**37,552**	**125,493**	**-**	**-**
Financing arrangements				
The Consolidated Entity has access to the following lines of credit at reporting date:				
Bank overdrafts	4,782	3,747	2,000	2,000
Bank loans	198,230	200,309	30,000	5,000
Standby letters of credit	227	3,004	227	227
Bank guarantee facility	1,100	292	605	280
	204,339	**207,352**	**32,832**	**7,507**
Facilities utilised at reporting date				
Bank overdrafts	1,645	1,747	223	-
Bank loans	197,244	194,293	30,000	-
Standby letters of credit	191	191	191	191
Bank guarantee facility	725	279	604	279
	199,805	**196,510**	**31,018**	**470**
Facilities not utilised at reporting date				
Bank overdrafts	3,137	2,000	1,777	2,000
Bank loans	986	6,016	-	5,000
Standby letters of credit	36	2,813	36	36
Bank guarantee facility	375	13	1	1
	4,534	**10,842**	**1,814**	**7,037**

Bank overdrafts

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

Bank loans

The bank loans are secured by a letter of guarantee provided by the Company and are payable within one to five years. Refer to Note 31 for details.

	Consolidated		Company	
	2007 $000	2006 $000	2007 $000	2006 $000
21. 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	6,953	5,886	2,919	2,323
Later than one year but not later than five years	23,394	12,881	3,917	5,076
Later than five years	7,236	2,647	-	-
Total commitments	**37,583**	**21,414**	**6,836**	**7,399**
Capital expenditure commitments				
Contracted but not provided for and payable:				
Not later than one year	1,790	1,294	1,507	1,294
Later than one year but not later than five years	1,826	-	1,826	-
Total commitments	**3,616**	**1,294**	**3,333**	**1,294**

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

		Consolidated		Company	
		2007	2006	2007	2006
	Note	$000	$000	$000	$000
22. Provisions					
Current					
Employee benefits	29	17,267	14,633	11,027	8,020
Warranties		8,482	7,010	8,482	6,122
Other and legal		5,204	5,415	1,363	1,500
Total current provisions		**30,953**	**27,058**	**20,872**	**15,642**
Non-current					
Employee benefits	29	3,167	2,007	1,841	1,292
Warranties		2,256	1,673	2,256	1,673
Directors' retirement scheme	29	1,069	1,457	1,069	1,457
Make good lease costs		1,336	1,296	1,233	1,233
Total non-current provisions		**7,828**	**6,433**	**6,399**	**5,655**
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		8,683	7,282	7,795	6,565
Provisions made during financial year		11,554	7,635	12,371	7,352
Provisions used during financial year		(9,428)	(6,312)	(9,428)	(6,122)
Effects of movements in foreign exchange		(71)	78	-	-
Carrying amount at end of financial year		**10,738**	**8,683**	**10,738**	**7,795**
Other and legal					
Carrying amount at beginning of financial year		5,415	7,386	1,500	3,996
Provisions made during financial year		1,741	1,505	185	-
Provisions used during financial year		(1,599)	(3,612)	(322)	(2,496)
Effects of movements in foreign exchange		(353)	136	-	-
Carrying amount at end of financial year		**5,204**	**5,415**	**1,363**	**1,500**
Directors' retirement scheme					
Carrying amount at beginning of financial year		1,457	1,327	1,457	1,327
Provisions made during financial year		91	216	91	216
Provisions used during financial year		(587)	(251)	(587)	(251)
Unwind of discount		108	165	108	165
Carrying amount at end of financial year		**1,069**	**1,457**	**1,069**	**1,457**
Make good lease costs					
Carrying amount at beginning of financial year		1,296	1,328	1,233	1,233
Provisions made during financial year		52	63	-	-
Provisions used during financial year		(12)	(95)	-	-
Carrying amount at end of financial year		**1,336**	**1,296**	**1,233**	**1,233**

Employee benefits

Employee benefits include entitlements measured at present values 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. Present values are calculated using a weighted average rate of 6% per annum based on national government securities with similar maturity terms.

Warranties

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

Other and legal

For details of legal costs relating to the Office of Inspector General inquiry, refer to Note 23. For details on the self-insurance provision, refer to Note 3(h).

Directors' retirement scheme

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

Make good lease costs

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

23. Contingent liabilities

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

Office of Inspector General inquiry

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

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

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

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

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

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

Guarantees

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

The Cochlear Sweden Holdings facility is a multi currency facility with a limit of euro 73.4 million, or equivalent thereof. The outstanding balance of the loan at reporting date was SEK 678.9 million (euro 73.4 million).

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

The Cochlear Europe Limited facility is for GBP 7.5 million. The outstanding balance of the loan at reporting date was GBP 7.1 million.

	Consolidated		Company	
	2007 $000	2006 $000	2007 $000	2006 $000
24. Issued capital				
Share capital				
54,769,632 (2006: 54,636,995) ordinary shares fully paid(i)	69,998	66,663	69,998	66,663
Issued share capital				
54,923,151 (2006: 54,812,840) ordinary shares fully paid(i)				
Movements in issued share capital				
Balance at beginning of financial year	68,034	50,746	68,034	50,746
12,768 (2006: 14,170) shares issued for nil consideration under the Employee Share Plan(ii)	-	-	-	-
97,543 (2006: 453,500) shares issued from the exercise of options(iii)	3,335	17,288	3,335	17,288
Nil (2006: 55,693) shares issued for nil consideration under the CELTIP	-	-	-	-
Balance at end of financial year	**71,369**	**68,034**	**71,369**	**68,034**
Treasury reserve				
153,519 (2006: 175,845) ordinary shares fully paid(i)				
Movements in treasury reserve				
Balance at beginning of financial year	(1,371)	(1,371)	(1,371)	(1,371)
Nil (2006: 55,693) shares issued for nil consideration under the CELTIP	-	-	-	-
22,326 (2006: nil) shares distributed from the Trust for nil consideration	-	-	-	-
Balance at end of financial year	**(1,371)**	**(1,371)**	**(1,371)**	**(1,371)**
Net share capital	**69,998**	**66,663**	**69,998**	**66,663**

(i) 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. Ordinary shares have no par value.
(ii) On 17 October 2006, the Company issued 12,768 shares to eligible employees of the Consolidated Entity under the Employee Share Plan for nil consideration.
(iii) Between 21 August 2006 and 6 November 2006, the Company issued 97,543 ordinary shares issued from the exercise of options granted under the CELTIP.

25. Reconciliation of movement in capital, reserves and retained earnings attributable to equity holders of the parent

	Consolidated								
Amounts $000	Issued capital	Treasury reserve	Translation reserve	General reserve	Hedging reserve	Retained earnings	Total	Minority interest	Total equity
2006									
Balance as at 1 July 2005	50,746	(1,371)	(3,991)	74	-	104,462	149,920	4,741	154,661
Effect of change in accounting policy	-	-	-	-	19,102	-	19,102	-	19,102
Opening balance at 1 July 2005 – restated	50,746	(1,371)	(3,991)	74	19,102	104,462	169,022	4,741	173,763
Total recognised income and expense	-	-	3,329	2	(15,506)	80,032	67,857	(2,500)	65,357
Shares issued	17,288	-	-	-	-	-	17,288	-	17,288
Equity settled transactions	-	-	-	-	-	2,466	2,466	-	2,466
Dividends to shareholders	-	-	-	-	-	(49,096)	(49,096)	-	(49,096)
Balance at 30 June 2006	**68,034**	**(1,371)**	**(662)**	**76**	**3,596**	**137,864**	**207,537**	**2,241**	**209,778**
2007									
Balance as at 1 July 2006	68,034	(1,371)	(662)	76	3,596	137,864	207,537	2,241	209,778
Total recognised income and expense	-	-	(5,446)	160	11,860	100,131	106,705	(2,241)	104,464
Shares issued	3,335	-	-	-	-	-	3,335	-	3,335
Equity settled transactions	-	-	-	-	-	3,615	3,615	-	3,615
Dividends to shareholders	-	-	-	-	-	(60,383)	(60,383)	-	(60,383)
Balance at 30 June 2007	**71,369**	**(1,371)**	**(6,108)**	**236**	**15,456**	**181,227**	**260,809**	**-**	**260,809**

	Company								
Amounts $000	Issued capital	Treasury reserve	Translation reserve	General reserve	Hedging reserve	Retained earnings	Total	Minority interest	Total equity
2006									
Balance as at 1 July 2005	50,746	(1,371)	(128)	-	-	96,021	145,268	-	145,268
Effect of change in accounting policy	-	-	-	-	19,102	-	19,102	-	19,102
Opening balance at 1 July 2005 – restated	50,746	(1,371)	(128)	-	19,102	96,021	164,370	-	164,370
Total recognised income and expense	-	-	(391)	-	(15,506)	67,359	51,462	-	51,462
Shares issued	17,288	-	-	-	-	-	17,288	-	17,288
Equity settled transactions	-	-	-	-	-	1,673	1,673	-	1,673
Dividends to shareholders	-	-	-	-	-	(49,096)	(49,096)	-	(49,096)
Balance at 30 June 2006	**68,034**	**(1,371)**	**(519)**	**-**	**3,596**	**115,957**	**185,697**	**-**	**185,697**
2007									
Balance as at 1 July 2006	68,034	(1,371)	(519)	-	3,596	115,957	185,697	-	185,697
Total recognised income and expense	-	-	420	-	11,860	84,687	96,967	-	96,967
Shares issued	3,335	-	-	-	-	-	3,335	-	3,335
Equity settled transactions	-	-	-	-	-	2,376	2,376	-	2,376
Dividends to shareholders	-	-	-	-	-	(60,383)	(60,383)	-	(60,383)
Balance at 30 June 2007	**71,369**	**(1,371)**	**(99)**	**-**	**15,456**	**142,637**	**227,992**	**-**	**227,992**

Treasury reserve

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

Foreign currency translation reserve

The foreign currency 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 hedged transactions that have not yet occurred.

26. Notes to the statements of cash flows

Cash assets

The operating account received an average interest rate of:
- Company 5.6% (2006: 4.8%) per annum; and
- Consolidated 1.4% (2006: 2.4%) per annum.

Cash held on deposit for periods not exceeding 90 days received an average interest rate of:
- Company 6.2% (2006: 5.6%) per annum; and
- Consolidated 6.2% (2006: 5.6%) per annum.

(a) Reconciliation of cash and cash equivalents

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

		Consolidated		Company	
		2007	2006	2007	2006
	Note	$000	$000	$000	$000
Cash on hand		41,165	62,778	1,700	3,163
Cash on deposit		42,217	24,295	42,217	24,295
		83,382	**87,073**	**43,917**	**27,458**
Bank overdrafts	20	(1,645)	(1,747)	(223)	-
		81,737	**85,326**	**43,694**	**27,458**
(b) Reconciliation of net profit to net cash provided by operating activities					
Net profit (including minority interest)		97,676	78,225	84,687	67,359
Add items classified as investing activities					
Loss/(gain) on disposal of non-current assets		1,125	20	(27)	(177)
Add non-cash items					
Amounts set aside to provisions		30,054	18,681	21,807	11,179
Depreciation and amortisation		17,105	16,075	10,895	9,924
Share based payments		3,615	2,466	2,376	1,673
Net cash provided by operating activities before changes in assets and liabilities		**149,575**	**115,467**	**119,738**	**89,958**
Changes in assets and liabilities					
(Increase)/decrease in receivables		(23,687)	(29,464)	20,496	(61,981)
Increase in inventories		(4,987)	(27,304)	(1,135)	(21,483)
Decrease/(increase) in prepayments		443	(1,930)	(553)	(326)
Decrease/(increase) in deferred tax assets		7,271	(7,803)	(183)	2,677
(Decrease)/increase in payables		(4,575)	10,806	(4,109)	9,423
(Decrease)/increase in current tax liabilities		(16,984)	12,526	(13,242)	6,027
Decrease in provisions		(25,231)	(15,840)	(16,300)	(11,414)
Decrease in deferred revenue		(6,187)	(4,521)	(9)	(115)
Effects of movements in foreign exchange		1,198	(382)	(29)	(830)
Net cash provided by operating activities		**76,836**	**51,555**	**104,674**	**11,936**

27. Controlled entities

(a) Particulars in relation to controlled entities

	Note	Interest held 2007 %	Interest held 2006 %	Country of incorporation/ formation
Company				
Cochlear Limited				Australia
Controlled entities				
Cochlear Executive Long Term Incentive Plan (Performance Shares) Trust		100	100	Australia
Cochlear Incentive Plan Pty Limited		100	100	Australia
Cochlear Europe Limited	(i)	100	100	UK
Cochlear Acoustics Limited	(i)	100	75	UK
Cochlear AG	(i)	100	100	Switzerland
Cochlear (UK) Limited	(i), (ii)	100	100	UK
Cochlear GmbH	(i)	100	100	Germany
Cochlear Americas	(i)	100	100	USA
Cochlear (HK) Limited	(i)	100	100	Hong Kong
Nihon Cochlear Co Limited	(i)	100	100	Japan
Neopraxis Pty Limited	(ii)	100	100	Australia
Cochlear Technologies Pty Limited	(ii)	100	100	Australia
Medical Insurance Pte Limited	(i)	100	100	Singapore
Cochlear Holdings NV	(i)	100	100	Belgium
Miaki NV	(i)	100	100	Belgium
Cochlear Benelux NV	(i)	100	100	Belgium
Cochlear Bone Anchored Solutions AB	(i), (iii)	100	100	Sweden
Cochlear France SAS	(i)	100	100	France
Cochlear Holdings France SAS	(i)	100	100	France
Cochlear Italia SRL	(i)	100	100	Italy
Cochlear Sweden Holdings AB	(i)	100	100	Sweden
Cochlear Canada Inc	(i)	100	100	Canada
Cochlear Bone Anchored Solutions France SAS	(i)	100	100	France
Entific Medical Systems Deutschland GmbH	(i), (ii)	100	100	Germany
Entific Australia Pty Limited	(iv)	-	100	Australia
Cochlear Nordic AB	(i)	100	100	Sweden

(i) These entities are audited by other member firms of KPMG.
(ii) Dormant.
(iii) Name changed from Entific Medical Systems AB on 28 September 2006.
(iv) Entity deregistered on 20 April 2007.

(b) Acquisition of business

On 2 January 2007, the Company acquired the Cochlear related manufacturing operations and assets of Crystalaid Manufacture Pty Limited. Details of the acquisition are as follows:

	$000
Consideration	
Total consideration paid to date	9,972
Further consideration to be paid	9,153
Total consideration	**19,125**
Represented by	
Inventories	10,081
Property, plant and equipment	4,990
Other assets	375
Other provisions	(467)
Goodwill on acquisition	4,146
	19,125

(c) Acquisition of minority interest in controlled entity

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

28. Key management personnel disclosures

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

Non-executive directors

Mr TCE Bergman (Chairman)
Mr PR Bell
Prof E Byrne, AO
Mr A Denver (appointed 1 February 2007)
Mr R Holliday-Smith
Mr PJ North, AM (retired 24 October 2006)
Mr DP O'Dwyer
Mr JH Veeneklaas (retired 24 October 2006)

Executive directors

Dr CG Roberts
Dr JL Parker (retired 31 March 2007)

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	
	2007 $000	2006 $000	2007 $000	2006 $000
Short-term employee benefits	5,343	4,766	4,094	3,572
Post-employment benefits	817	595	781	549
Other long-term benefits	70	36	70	36
Equity compensation benefits	1,158	773	805	505
	7,388	**6,170**	**5,750**	**4,662**

Information regarding individual directors and executives remuneration is provided in the Remuneration Report.

Options and performance shares granted as compensation

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

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

No options held by key management personnel are vested but not exercisable.

All options and performance shares granted in the 2007 financial year were granted on 21 August 2006 and vest in August 2009. Options have an expiration date of 30 June 2011. 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 $49.43 per share and a fair value of $5.86 per share at grant date for options with performance based conditions and $6.59 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 $23.13 per share for performance shares with performance based conditions and $18.06 per share at grant date for performance shares with market based conditions.

	Held at 1 July 2005	Granted as remuneration	Vested and exercised	Forfeited	Held at 30 June 2006	Vested and exercisable at 30 June 2006
Option holdings						
Executive directors						
Dr CG Roberts	164,321	79,468	-	-	243,789	-
Dr JL Parker (retired 31 March 2007)	112,733	28,447	(25,000)	(25,000)	91,180	-
Executives						
Mr R Brook	80,782	36,138	-	-	116,920	-
Mr NJ Mitchell	107,847	27,949	(25,000)	(25,000)	85,796	-
Mr MD Salmon	38,904	27,174	-	-	66,078	-
Mr CM Smith	165,830	28,646	-	-	194,476	-
Performance share holdings						
Executive directors						
Dr CG Roberts	10,595	5,923	-	-	16,518	-
Dr JL Parker (retired 31 March 2007)	5,365	2,120	-	-	7,485	-
Executives						
Mr R Brook	6,879	2,694	-	-	9,573	-
Mr NJ Mitchell	4,946	2,083	-	-	7,029	-
Mr MD Salmon	2,508	2,025	-	-	4,533	-
Mr CM Smith	-	2,135	-	-	2,135	-

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 personally related entities, is as follows:

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

	Held at 1 July 2005	Purchases	Received on exercise of options and performance shares	Sales	Held at 30 June 2006
Directors					
Non-executive					
Mr TCE Bergman	12,000	-	-	-	12,000
Mr PR Bell	-	1,500	-	-	1,500
Prof E Byrne, AO	1,000	-	-	-	1,000
Mr R Holliday-Smith	1,000	-	-	-	1,000
Mr PJ North, AM	13,000	-	-	-	13,000
Mr DP O'Dwyer	-	2,450	-	-	2,450
Mr JH Veeneklaas	1,000	-	-	-	1,000
Executive					
Dr CG Roberts	237,000	-	-	-	237,000
Dr JL Parker	25,000	-	25,000	(25,000)	25,000
Executives					
Mr R Brook	-	-	-	-	-
Mr NJ Mitchell	35,000	-	25,000	(25,000)	35,000
Mr MD Salmon	1,457	1,000	-	-	2,457

(i) Appointed director on 1 February 2007.
(ii) Director retired on 24 October 2006. Closing position reflects balance at date of retirement.
(iii) Director retired on 31 March 2007. Closing position reflects balance at date of retirement.

		Consolidated		Company	
		2007	2006	2007	2006
	Note	$000	$000	$000	$000
29. Employee benefits					
Current					
Liability for long service leave		2,433	2,586	2,354	1,731
Liability for annual leave		8,683	6,565	5,972	4,346
Liability for short-term incentives		6,151	5,482	2,701	1,943
	22	**17,267**	**14,633**	**11,027**	**8,020**
Salary and wages accrued		2,638	2,664	1,296	1,122
Total current employee benefits		**19,905**	**17,297**	**12,323**	**9,142**
Non-current					
Liability for long service leave	22	3,167	2,007	1,841	1,292
Directors' retirement scheme	22	1,069	1,457	1,069	1,457
Total non-current employee benefits		**4,236**	**3,464**	**2,910**	**2,749**
Total employee benefits		**24,141**	**20,761**	**15,233**	**11,891**

The Company and the Consolidated Entity have defined benefit plans that provide pension benefits to employees upon retirement. These defined benefit plans cover, in aggregate, 64 employees. The Consolidated Entity contributed $591,656 to defined benefit plans in the year ended 30 June 2007 and expects to contribute $624,289 in the year ending 30 June 2008. The net liability of the plans at 30 June 2007 was $141,999.

(a) Defined contribution superannuation plans

The Consolidated Entity makes contributions to defined contribution plans. The amount recognised as expense was $7,146,537 for the year ended 30 June 2007 (2006: $5,607,060).

(b) Share based payments

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

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

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

At the date of this report, unissued ordinary shares of the Company under option and issued shares held in the Trust are:

Grant date	Number of instruments	Conditions for minimum vesting	Contractual life of options
Option grant in December 2003	5,137	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	4,496	The Consolidated Entity is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Option grant in August 2004	357,770	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	357,770	The Consolidated Entity is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Option grant in August 2005	357,128	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	357,129	The Consolidated Entity is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Option grant in August 2006	254,322	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	254,322	The Consolidated Entity is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Total options	**1,948,074**		

Issue date	Number of instruments	Conditions for minimum vesting	Contractual life of shares in the Trust
Performance shares issued in December 2003	2,692	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	2,356	The Consolidated Entity is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Performance shares issued in August 2004	30,219	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	30,220	The Consolidated Entity is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Performance shares issued in August 2005	30,415	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	30,415	The Consolidated Entity is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Performance shares issued in August 2006	8,529	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	8,530	The Consolidated Entity is above the 50th percentile against the S&P/ASX 100 over three years	5 years
Total performance shares	**143,376**		

	Weighted average exercise price $	Number of options	Weighted average exercise price $	Number of options
	2007	2007	2006	2006
Outstanding at beginning of financial year	30.10	1,634,204	30.27	1,898,251
Forfeited during financial year	38.20	(125,968)	18.97	(22,950)
Exercised/forfeited during financial year(i)	34.19	(97,543)	38.12	(967,000)
Granted during financial year	49.43	537,381	39.93	725,903
Outstanding at end of financial year	34.69	1,948,074	30.10	1,634,204
Exercisable at end of financial year	18.97	715,540	34.19	192,761

(i) Weighted average share price at date of exercise was $51.81.

The estimated value of options for the current financial year is calculated at the date of grant using the Black-Scholes model, applying a 30% volatility, as reflected in the historical volatility.

For options outstanding at the end of the year, 715,540 options have an exercise price of $18.97 with the remaining balance falling within the range of $34.19 – $49.43 (2006: 715,540 options at $18.97 and the remainder falling within the range of $34.19 – $39.93). The weighted average remaining contractual life of options outstanding at the end of the year is three years (2006: three years).

30. Related parties

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 on a transfer pricing basis and 45 day terms apply.

The aggregate amounts included in the profit before tax for the Company that resulted from transactions with non-director related parties are:

	Company	
	2007	2006
	$000	$000
Revenue from the sale of goods	328,888	229,657
Interest income	1,673	3,126
Dividends from controlled entities	1,608	-
Interest expense	499	365
The aggregate amounts receivable from wholly-owned controlled entities by the Company at reporting date are:		
Current receivables	63,971	88,782

31. Financial instruments

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

Credit risk

At the balance sheet date, there was no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Foreign exchange risk

The Consolidated Entity and the Company are exposed to changes in foreign exchange rates from their activities. It is the Consolidated Entity's and the Company's policy to use forward exchange contracts to hedge these risks. The Consolidated Entity and the Company do not enter, hold or issue derivative financial instruments for trading purposes.

The Company enters into forward exchange contracts to hedge anticipated sales and purchases in US dollars, euro, Japanese yen and Swedish kroner.

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 under forward exchange contracts and the weighted average contracted exchange rates of outstanding contracts:

	Foreign exchange rates		Company and Consolidated	
	2007	2006	2007 $000	2006 $000
Sell United States dollar				
Not later than one year			135,043	95,937
Later than one year but not later than two years			72,287	45,802
Later than two years but not later than three years			8,640	5,956
Weighted average exchange rates contracted	0.78	0.72		
Sell euro				
Not later than one year			118,250	104,656
Later than one year but not later than two years			61,289	56,251
Later than two years but not later than three years			6,750	6,070
Weighted average exchange rates contracted	0.59	0.57		
Sell Japanese yen				
Not later than one year			9,396	8,962
Later than one year but not later than two years			3,771	3,893
Later than two years but not later than three years			1,287	503
Weighted average exchange rates contracted	82.99	68.43		
Buy Sweden kroner				
Not later than one year			36,600	24,986
Later than one year but not later than two years			-	36,056
Weighted average exchange rates contracted	5.29	5.29		

Forecast transactions

The Consolidated Entity classifies its forward exchange contracts hedging forecast transactions as cash flow hedges and states them at fair value. The fair value of forward exchange contracts at 1 July 2005 was adjusted against the opening balance of the hedging reserve at that date.

The net fair value of forward exchange contracts used as hedges of forecast transactions at 30 June 2007 was $22.1 million (2006: $5.1 million).

Interest rate risk

Effective interest rates, repayment and repricing analysis

In respect of interest bearing financial liabilities, the following table indicates their effective interest rates at the reporting date. As the liabilities are subject to variable interest rates, they reprice within six months. The repayment schedule is as follows:

Consolidated	2007						2006					
Amounts $000	Effective interest rate per annum	12 months or less	1 – 2 years	2 – 5 years	More than 5 years	Total	Effective interest rate per annum	12 months or less	1 – 2 years	2 – 5 years	More than 5 years	Total
Secured bank loans:												
GBP floating rate loan	5.8%	16,565	-	-	-	16,565	5.1%	17,511	-	-	-	17,511
SEK floating rate loan	4.6%	77,795	-	37,552	-	115,347	3.2%	34,902	34,902	90,591	-	160,395
USD floating rate loan	5.8%	35,332	-	-	-	35,332	5.7%	16,387	-	-	-	16,387
AUD floating rate loan	7.0%	30,000	-	-	-	30,000	-	-	-	-	-	-
JPY bank overdraft	2.0%	1,422	-	-	-	1,422	1.7%	1,747	-	-	-	1,747
AUD bank overdraft	9.5%	223	-	-	-	223	-	-	-	-	-	-
		161,337	**-**	**37,552**	**-**	**198,889**		**70,547**	**34,902**	**90,591**	**-**	**196,040**

Company	2007						2006					
Amounts $000	Effective interest rate per annum	12 months or less	1 – 2 years	2 – 5 years	More than 5 years	Total	Effective interest rate per annum	12 months or less	1 – 2 years	2 – 5 years	More than 5 years	Total
AUD floating rate loan	7.0%	30,000	-	-	-	30,000	-	-	-	-	-	-
AUD bank overdraft	9.5%	223	-	-	-	223	-	-	-	-	-	-

Trade receivables and trade payables are not interest bearing and the related cash flows are not subject to interest rate risk.

Sensitivity analysis

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

For the year ended 30 June 2007, it is estimated that a general increase of one percentage point in interest rates would have decreased the Consolidated Entity's profit after income tax by approximately $1.3 million.

It is estimated that a general increase of one percentage point in the value of the Australian dollar against other foreign currencies would have decreased the Consolidated Entity's profit after income tax by approximately $0.8 million for the year ended 30 June 2007, including hedging results.

Fair values

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

		Consolidated			
		2007		2006	
	Note	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Cash and cash equivalents		83,382	83,382	87,073	87,073
Receivables - current	11	143,076	143,076	109,388	109,388
Receivables - non-current	11	6,178	6,178	-	-
Other financial assets	14	477	477	383	383
Trade and other payables	18	(61,923)	(61,923)	(57,345)	(57,345)
Forward exchange contracts	19	-	-	(764)	(764)
Bank overdrafts	20	(1,645)	(1,645)	(1,747)	(1,747)
Secured bank loans - current	20	(159,692)	(159,692)	(68,800)	(68,800)
Secured bank loans - non-current	20	(37,552)	(37,552)	(125,493)	(125,493)
		(27,699)	**(27,699)**	**(57,305)**	**(57,305)**

		Company			
		2007		2006	
	Note	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Cash and cash equivalents		43,917	43,917	27,458	27,458
Receivables - current	11	99,275	99,275	109,770	109,770
Receivables - non-current	11	6,178	6,178	-	-
Other financial assets	14	64,116	64,116	33,994	33,994
Trade and other payables	18	(33,381)	(33,381)	(28,337)	(28,337)
Forward exchange contracts	19	-	-	(764)	(764)
Bank overdrafts	20	(223)	(223)	-	-
Secured bank loans - current	20	(30,000)	(30,000)	-	-
		149,882	**149,882**	**142,121**	**142,121**

32. Events subsequent to reporting date

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

Dividends

For dividends declared after 30 June 2007, see Note 8.

DIRECTORS' DECLARATION Cochlear Limited and its controlled entities for the year ended 30 June 2007

In the opinion of the directors of Cochlear Limited:

(a) the financial statements, notes, and the remuneration disclosures contained in the Remuneration Report in the Directors' Report, as set out on pages 5 to 48, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and Consolidated Entity as at 30 June 2007 and of their performance, as represented by the results of their operations and their cash flows, 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);

(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;

(d) the remuneration disclosures that are contained in sections of the Remuneration Report in the Directors' Report comply with AASB 124 Related Party Disclosures; and

(e) the directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and the Chief Financial Officer for the year ended 30 June 2007.

Dated at Sydney this 14th day of August 2007.

Signed in accordance with a resolution of the directors:

Director

Director

Report on the Financial Report and AASB 124 remuneration disclosures contained in the Directors' Report

We have audited the accompanying Financial Report of Cochlear Limited (the Company), which comprises the balance sheets as at 30 June 2007, 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 32 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.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Australian Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration Report" in the Directors' Report and not in the Financial Report. We have audited these remuneration disclosures.

Directors' responsibility for the Financial Report and the AASB 124 remuneration disclosures contained in the Directors' 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.

The directors of the Company are also responsible for the remuneration disclosures contained in the Directors' Report.

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. Our responsibility is also to express an opinion on the remuneration disclosures contained in the Directors' Report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Report and the remuneration disclosures contained in the Directors' Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Report and the remuneration disclosures contained in the Directors' 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 and the remuneration disclosures contained in the Directors' 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 and the remuneration disclosures contained in the Directors' 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 Australia 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 and whether the remuneration disclosures are in accordance with Australian Accounting Standard AASB 124.

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

Auditor's opinion on the Financial Report

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 2007 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; and

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

Auditor's opinion on AASB 124 remuneration disclosures contained in the Directors' Report

In our opinion, the remuneration disclosures that are contained in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

KPMG

KPMG
Sydney, 14 August 2007

Kevin Leighton, Partner

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 – audited

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); and
- 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).

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 – audited

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

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

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

Service contracts – audited

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 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 – audited

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

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

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

Variable remuneration – unaudited

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 – audited

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% - 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 – audited

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 in Cochlear Limited) and performance shares (being fully paid ordinary shares in Cochlear Limited).

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

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

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

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

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

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

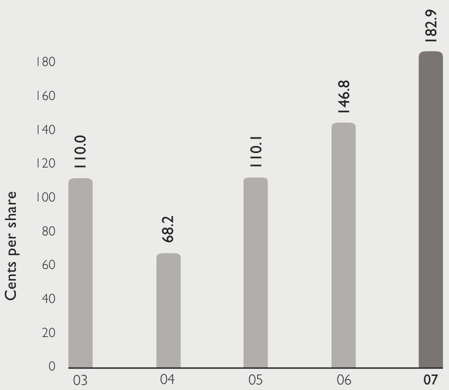
There are no voting or dividend rights attached to options. There are no voting rights attached to the unvested ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised. Performance shares are held in trust for the senior executives. Dividends paid to the trust are subsequently paid to the relevant senior executives. Voting rights are not transferred. Voting rights 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:

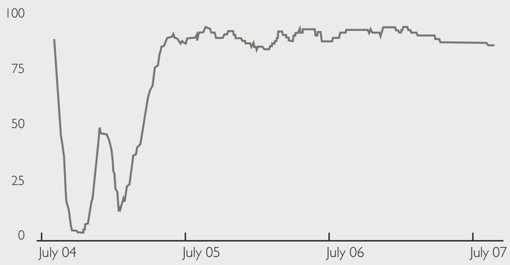
Grant date	Option life	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
21 August 2006	3 – 5 years	$6.22	$49.43	$50.89	30%	5.845%	2.2%
22 August 2005	3 – 5 years	$4.71	$39.93	$41.40	25%	5.080%	1.9%

Performance of Cochlear in current CELTIP cycle – unaudited

Depicted in the charts below is a comparison of basic EPS for financial years 2003 to 2007 and the TSR performance of Cochlear relative to the S&P/ASX 100 for financial years 2005 to 2007:



Comparison of Cochlear Limited's basic EPS performance



Percentile ranking of Cochlear's TSR performance from 1 July 2004 to 30 June 2007

Financial amounts for 2005 to 2007 are in accordance with AIFRS.
Financial amounts for 2003 and 2004 are in accordance with previous GAAP.

For the year ended 30 June 2007, the growth in basic EPS was 25% and the total return to Cochlear Limited shareholders (as measured from the change in share price plus dividends paid) was 14%.

In considering Cochlear's performance and growth in shareholder value, the remuneration policies have regard to the following amounts in respect of the current financial year and the previous four financial years:

Amounts $	2007	2006	2005	2004	2003
Net profit attributable to equity holders of the parent (million)	100.1	80.0	59.6	36.8	58.2
Dividends paid (million)	60.4	49.1	42.8	42.3	33.3
Share price	61.00	54.63	39.20	22.72	32.30

Net profit amounts for 2003 and 2004 were calculated in accordance with previous Australian Generally Accepted Accounting Principles (previous GAAP). Net profit for 2005 to 2007 has been calculated in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Executive directors – audited

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

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

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

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

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

Non-executive directors – audited

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 2004 of $1,000,000 a year.

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

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

On 23 October 2006, the Board determined that it should implement changes to non-executive director remuneration consistent with developing market practice and guidelines by discontinuing the ongoing accrual of benefits under the existing retirement scheme once the remaining members of the scheme reached their five year service period. The benefits accrued to that date will be indexed by reference to the bank bill rate. At 30 June 2007, all directors had transitioned from the retirement scheme.

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.

Directors' and senior executives' remuneration details – audited

The following table provides the details of all directors and the executives of Cochlear with the greatest authority (key management personnel), and each of the five named officers of the Company and Consolidated Entity receiving the highest remuneration.

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

	Year	Short-term				Post-employment			Other long-term	Equity compensation[i], [iv]			Total	Performance related remuneration as proportion of total %	Value of equity compensation as proportion of remuneration %
Amounts $		Salary and fees	Bonuses[i]	Non-monetary benefits[ii]	Total	Super-annuation benefits	Leaving benefits[iii]	Total	Long service leave	Value of options	Value of perform-ance shares	Total			
Directors															
Non-executive															
Mr TCE Bergman Chairman	2007	320,423	-	-	320,423	13,205	97,380	110,585	-	-	-	-	431,008	-	-
	2006	252,000	-	-	252,000	12,139	257,365	269,504	-	-	-	-	521,504	-	-
Mr PR Bell (appointed 1 August 2005)	2007	134,865	-	-	134,865	12,050	-	12,050	-	-	-	-	146,915	-	-
	2006	115,073	-	-	115,073	10,356	-	10,356	-	-	-	-	125,429	-	-
Prof E Byrne, AO	2007	114,711	-	-	114,711	10,324	83,541	93,865	-	-	-	-	208,576	-	-
	2006	100,000	-	-	100,000	9,000	65,561	74,561	-	-	-	-	174,561	-	-
Mr A Denver (appointed 1 February 2007)	2007	50,769	-	-	50,769	4,569	-	4,569	-	-	-	-	55,338	-	-
Mr R Holliday-Smith	2007	149,577	-	-	149,577	13,037	-	13,037	-	-	-	-	162,614	-	-
	2006	128,000	-	-	128,000	11,520	-	11,520	-	-	-	-	139,520	-	-
Mr PJ North, AM (retired 24 October 2006)	2007	37,142	-	-	37,142	3,343	9,353	12,696	-	-	-	-	49,838	-	-
	2006	109,000	-	-	109,000	9,810	24,000	33,810	-	-	-	-	142,810	-	-
Mr DP O'Dwyer (appointed 1 August 2005)	2007	139,634	-	-	139,634	12,379	-	12,379	-	-	-	-	152,013	-	-
	2006	109,365	-	-	109,365	9,843	-	9,843	-	-	-	-	119,208	-	-
Mr JH Veeneklaas (retired 24 October 2006)	2007	35,038	-	-	35,038	3,153	9,596	12,749	-	-	-	-	47,787	-	-
	2006	100,000	-	-	100,000	9,000	26,500	35,500	-	-	-	-	135,500	-	-
Prof BDO Anderson, AO (retired 20 October 2005)	2006	32,308	-	-	32,308	2,908	8,492	11,400	-	-	-	-	43,708	-	-
Executive															
Dr CG Roberts CEO/President	2007	863,363	475,816	-	1,339,179	12,636	-	12,636	13,208	323,425	71,925	395,350	1,760,373	49.5%	22.5%
	2006	750,750	403,155	-	1,153,905	12,139	-	12,139	8,842	186,988	62,699	249,687	1,424,573	45.8%	17.5%
Dr JL Parker (retired 31 March 2007)	2007	288,602	46,365	87,079	422,046	9,739	372,652	382,391	39,578	95,100	22,190	117,290	961,305	17.0%	12.2%
	2006	346,653	117,421	181,992	646,066	12,139	-	12,139	11,660	66,441	28,383	94,824	764,689	27.8%	12.4%
Total directors	**2007**	**2,134,124**	**522,181**	**87,079**	**2,743,384**	**94,435**	**572,522**	**666,957**	**52,786**	**418,525**	**94,115**	**512,640**	**3,975,767**		
	2006	**2,043,149**	**520,576**	**181,992**	**2,745,717**	**98,854**	**381,918**	**480,772**	**20,502**	**253,429**	**91,082**	**344,511**	**3,591,502**		

Amounts $	Year	Short-term: Salary and fees	Short-term: Bonuses[i]	Short-term: Non-monetary benefits[ii]	Short-term: Total	Post-employment: Superannuation benefits	Post-employment: Leaving benefits[iii]	Post-employment: Total	Other long-term: Long service leave	Equity compensation[i, iv]: Value of options	Equity compensation[i, iv]: Value of performance shares	Equity compensation[i, iv]: Total	Total	Performance related remuneration as proportion of total %	Value of equity compensation as proportion of remuneration %
Executives															
Consolidated Entity															
Mr R Brook[v, vi, vii] President, European Region	2007	355,517	147,148	67,516	570,181	22,291	-	22,291	-	120,458	28,450	148,908	741,380	39.9%	20.1%
	2006	328,512	128,896	66,482	523,890	17,370	-	17,370	-	85,124	36,267	121,391	662,651	37.8%	18.3%
Mr NJ Mitchell[v, vi, viii] Chief Financial Officer and Company Secretary	2007	326,832	127.062	-	453.894	87,088	-	87,088	13,371	92,497	21,265	113,762	668.115	36.0%	17.0%
	2006	301,433	115,364	-	416,797	67,280	-	67,280	11,887	63,010	26,767	89,777	585,741	35.0%	15.3%
Mr DN Morris[v, viii] President, Bone Anchored Solutions	2007	319,118	109,164	-	428,282	13,662	-	13,662	6,768	81,203	18,897	100,100	548,812	38.1%	18.2%
	2006	276,007	93,939	-	369,946	12,139	-	12,139	5,483	56,152	23,442	79,594	467,162	37.1%	17.0%
Mr MD Salmon[v, vi, viii] President, Asia Pacific Region	2007	367,576	110,679	-	478,255	13,662	-	13,662	3,882	90,593	20,907	111,500	607,299	36.6%	18.4%
	2006	333,397	108,719	-	442,116	12,139	-	12,139	3,119	52,744	17,753	70,497	527,871	34.0%	13.4%
Mr CM Smith[v, vi, vii] President, Americas Region	2007	460,251	197,783	19,673	677,707	13,692	-	13,692	-	191,023	13,303	204,326	895,725	44.9%	22.8%
	2006	442,478	172,289	22,804	637,571	17,431	-	17,431	-	136,451	9,977	146,428	801,430	39.8%	18.3%
Mr H Yoshikawa[vii, ix] General Manager and Representative Director, Japan	2006	290,292	90,559	21,941	402,792	40,416	-	40,416	-	12,285	11,111	23,396	466,604	24.4%	5.0%
Company															
Mr J Janssen[v, vi, x] Senior Vice President, Design and Development	2007	310,876	108,448	-	419,324	13,662	-	13,662	-	55,741	11,112	66,853	499,839	35.1%	13.4%
Mr MC Kavanagh[v] Senior Vice President, Global Marketing	2007	295,699	100,635	-	396,334	13,662	-	13,662	5,321	76,356	17,885	94,241	509,558	38.2%	18.5%
	2006	276,961	92,127	-	369,088	12,139	-	12,139	7,154	54,287	23,484	77,771	466,152	36.4%	16.7%
Mr JF Patrick[xi] Senior Vice President, Chief Scientist	2006	246,840	89,467	-	336,307	38,549	-	38,549	-	53,457	23,057	76,514	451,370	36.8%	17.0%
Total executives	**2007**	**2,435,869**	**900,919**	**87,189**	**3,423,977**	**177,719**	**-**	**177,719**	**29,342**	**707,871**	**131,819**	**839,690**	**4,470,728**		
	2006	**2,495,920**	**891,360**	**111,227**	**3,498,507**	**217,463**	**-**	**217,463**	**27,643**	**513,510**	**171,858**	**685,368**	**4,428,981**		

(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 2007. The service and performance criteria are set out in this report.

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

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

(iv) The value disclosed above is the proportion of the fair value of the options and performance shares allocated to the reporting period. The ability to exercise the options and performance shares is conditional on Cochlear achieving certain performance hurdles. The estimated value of options for the current financial year is calculated at the date of grant using the Black-Scholes model applying a 30% volatility, as reflected in the historical volatility. 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 overseas based executive.

(viii) Denotes Consolidated Entity and Company executives.

(ix) Not included in Consolidated Entity top five executives in 2007.

(x) Not included in Company top five executives in 2006.

(xi) Not included in Company top five executives in 2007.

Exercise of options granted as remuneration – audited

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

	Number of shares	Amount paid $/share
Executive director		
Dr JL Parker (retired 31 March 2007)	11,445	34.19
Executives		
Mr R Brook	14,482	34.19
Mr MC Kavanagh	9,917	34.19
Mr NJ Mitchell	10,542	34.19
Mr DN Morris	8,674	34.19

During the previous financial year, 80,000 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 – unaudited

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

	Short-term incentive bonus		
Amounts $	Included in remuneration	% vested in the financial year(i)	% forfeited during the financial year(ii)
Executive directors			
Dr CG Roberts	475,816	108.6%	-
Dr JL Parker (retired 31 March 2007)	46,365	98.8%	1.2%
Executives			
Consolidated Entity			
Mr R Brook	147,148	102.4%	-
Mr NJ Mitchell	127,062	107.6%	-
Mr DN Morris	109,164	108.6%	-
Mr MD Salmon	110,679	82.8%	17.2%
Mr CM Smith	197,783	121.5%	-
Company			
Mr J Janssen	108,448	107.6%	-
Mr MC Kavanagh	100,635	107.8%	-

(i) Amounts included in vested short-term incentives for the financial year represent the amounts that vested in the financial year based on achievement of personal goals and specified financial goals. Amounts exceeding 100% indicate performance above target. No amounts vest in future financial years in respect of the CMSTIP for the financial year.

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

Analysis of share based payments granted as remuneration – unaudited

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 below:

			Options					Performance shares				
	Date of grant	Financial years in which grant vests	Number granted	% vested in financial year	% forfeited in financial year[i]	Value yet to vest Min[ii]$	Value yet to vest Max[iii]$	Number granted	% vested in financial year	% forfeited in financial year[i]	Value yet to vest Min[ii]$	Value yet to vest Max[iii]$
Executive directors												
Dr CG Roberts	23 August 2004	30 June 2008	164,321	-	-	nil	723,874	10,595	-	-	nil	209,206
	22 August 2005	30 June 2009	79,468	-	-	nil	374,238	5,923	-	-	nil	128,722
	21 August 2006	30 June 2010	70,422	-	-	nil	438,025	-	-	-	-	-
Dr JL Parker	1 December 2003	30 June 2007	20,584	56%	44%	nil	nil	2,648	56%	44%	nil	nil
(retired 31 March 2007)	23 August 2004	30 June 2008	42,149	-	-	nil	185,677	2,717	-	-	nil	53,649
	22 August 2005	30 June 2009	28,447	-	-	nil	133,965	2,120	-	-	nil	46,073
	21 August 2006	30 June 2010	18,862	-	-	nil	117,322	-	-	-	-	-
Executives												
Consolidated Entity												
Mr R Brook	1 December 2003	30 June 2007	26,046	56%	44%	nil	nil	3,350	56%	44%	nil	nil
	23 August 2004	30 June 2008	54,736	-	-	nil	241,126	3,529	-	-	nil	69,683
	22 August 2005	30 June 2009	36,138	-	-	nil	170,210	2,694	-	-	nil	58,541
	21 August 2006	30 June 2010	23,239	-	-	nil	144,547	-	-	-	-	-
Mr NJ Mitchell	1 December 2003	30 June 2007	18,961	56%	44%	nil	nil	2,439	56%	44%	nil	nil
	23 August 2004	30 June 2008	38,886	-	-	nil	171,303	2,507	-	-	nil	49,569
	22 August 2005	30 June 2009	27,949	-	-	nil	131,620	2,083	-	-	nil	45,269
	21 August 2006	30 June 2010	18,980	-	-	nil	118,057	-	-	-	-	-
Mr DN Morris	1 December 2003	30 June 2007	15,600	56%	44%	nil	nil	2,007	56%	44%	nil	nil
	23 August 2004	30 June 2008	30,269	-	-	nil	133,328	2,507	-	-	nil	49,513
	22 August 2005	30 June 2009	22,843	-	-	nil	107,591	1,703	-	-	nil	37,006
	21 August 2006	30 June 2010	16,157	-	-	nil	100,497	-	-	-	-	-
Mr MD Salmon	23 August 2004	30 June 2008	38,904	-	-	nil	171,382	2,508	-	-	nil	49,522
	22 August 2005	30 June 2009	27,174	-	-	nil	127,990	2,025	-	-	nil	44,003
	21 August 2006	30 June 2010	18.422	-	-	nil	114,585	-	-	-	-	-
Mr CM Smith	23 August 2004	30 June 2008	165,830	-	-	nil	730,522	-	-	-	-	-
	22 August 2005	30 June 2009	28,646	-	-	nil	134,923	2,135	-	-	nil	46,394
	21 August 2006	30 June 2010	28,849	-	-	nil	179,441	-	-	-	-	-
Company												
Mr J Janssen	1 December 2003	30 June 2007	-	-	-	-	-	1,000	56%	44%	nil	nil
	23 August 2004	30 June 2008	-	-	-	-	-	1,000	-	-	nil	19,746
	22 August 2005	30 June 2009	16,814	-	-	nil	79,193	1,253	-	-	nil	27,228
	21 August 2006	30 June 2010	21,217	-	-	nil	131,969	-	-	-	-	-
Mr MC Kavanagh	1 December 2003	30 June 2007	17,836	56%	44%	nil	nil	2,294	56%	44%	nil	nil
	23 August 2004	30 June 2008	34,605	-	-	nil	152,443	2,231	-	-	nil	44,053
	22 August 2005	30 June 2009	22,635	-	-	nil	106,595	1,687	-	-	nil	36,663
	21 August 2006	30 June 2010	15,005	-	-	nil	93,331	-	-	-	-	-

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

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

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

Analysis of movements in options – unaudited

The movement of values 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 directors				
Dr CG Roberts	438,025	-	-	438,025
Dr JL Parker (retired 31 March 2007)	117,322	169,611	130,783	417,716
Executives				
Consolidated Entity				
Mr R Brook	144,547	323,518	165,487	633,552
Mr NJ Mitchell	118,057	176,057	120,471	414,585
Mr DN Morris	100,497	154,477	99,117	354,091
Mr MD Salmon	114,585	-	-	114,585
Mr CM Smith	179,441	-	-	179,441
Company				
Mr J Janssen	131,969	-	-	131,969
Mr MC Kavanagh	93,331	165,611	113,324	372,266

(i) The value of options granted in the year is the fair value of 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 2007 to 30 June 2010).

(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.

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Law or other standards acceptable to ASX

Identify other standards used: NIL

2 This report, and the accounts upon which the report is based (if separate), use the same accounting policies.

3 This report does give a true and fair view of the matters disclosed.

4 This report is based on financial statements to which one of the following applies.

✔	The accounts have been audited	☐	The accounts have been subject to a review.
☐	The accounts are in the process of being audited or subject to review.	☐	The accounts have not yet been audited or reviewed.

5 The entity has a formally constituted audit committee.

Sign here: .... Date: ......14 August 2007........
(Company Secretary)

Print name: NJ Mitchell