Appendix 4E (ASX Listing Rule 4.3A)

PRELIMINARY FINAL REPORT

Cochlear Limited A.C.N. 002 618 073 30 June 2008

Results for announcement to the market

Revenue A$'000's	**up**	**8%**	**to**	**601,725**
EBIT A$'000's	**up**	**11%**	**to**	**167,329**
Net profit for the period attributable to members $A'000's	**up**	**15%**	**to**	**115,234**
Core earnings $A'000's *	**up**	**15%**	**to**	**123,714**

*** 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 2008 (cents)	**up**	**100%**	**to**	**167.5**
Net tangible assets per share at 30 June 2007 (cents)				**83.8**

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend	80.0c	80.0c
Interim dividend	70.0c	70.0c
Previous corresponding period	70.0c	70.0c

Record date for determining entitlements to the dividend	4 September 2008
Dividend payment date	25 September 2008

Annual meeting

The annual meeting will be held as follows:

Place	The Four Points by Sheraton Sydney 161 Sussex Street Sydney
Date	21 October 2008
Time	10.00 am
Approximate date the annual report will be available	25 September 2008

ASX / MEDIA RELEASE

12 August 2008

COCHLEAR ANNOUNCES RECORD FINANCIAL RESULTS FOR THE YEAR ENDED 30 JUNE 2008

- Core earnings of $123.7 million, ($2.23 per share), up 15% and in line with guidance
- Total revenue of $601.7 million, up 8%
- Sales revenue up 18% in constant currency
- Final dividend of 80c, up 14%

Cochlear Limited, the global leader in implantable hearing solutions, today announced record Net Profit after Tax of $115.2 million for the year ended 30 June, 2008, a 15% increase from the previous corresponding period.

"The result was on the back of record sales of the cochlear implant units, improved margins and a disciplined approach to expenses", said Cochlear Chief Executive Officer Dr Chris Roberts.

"Core earnings rose 15%, in line with guidance and ahead of revenue growth, to $123.7 million.

"Stripping away the significant impact of the appreciation of the Australian dollar, sales were up 18% in constant currency. Total revenue rose 8% to a record $601.7 million.

"Cochlear determined a final dividend of 80 cents, taking the full-year dividend payout to $1.50 a share – 20% higher than a year ago.

"This strong result confirms our growth strategy," said Dr Roberts. "Importantly, it was achieved in a year of a higher Australian dollar, rising interest rates and an unsettled global economic environment, particularly in the USA.

"Long-term initiatives to continue our global growth were advanced in all regions and new products were launched, including the backwards compatible Freedom for N22 processor in the second half of the fiscal year," said Dr Roberts.

"We remain confident about the continuing growth story, our ability to enhance shareholder value and importantly the positive life changing benefits we deliver to recipients.

"In F09 Cochlear again anticipates double digit core earnings growth with a bias towards profit delivery in the second half," said Dr Roberts.

Financial Performance

- During 2008, the average Australian dollar (AUD) rate against the US dollar (USD) was 14% higher than for F07. While revenue grew 8%, sales revenue in constant currency grew 18%
- EBIT for the year of $167.3 million was up 11% on last year with improved margins at both the gross margin and EBIT/revenue lines
- R&D grew 21% to $80.0 million and Sales and Marketing expenses grew 11% to $156.5 million while administration costs declined 7% to $36.1 million. This expenditure profile reflected a deliberate investment in R&D while maintaining disciplined growth in SG&A costs.

NPAT – NPAT of $115.2 million was up 15% on F07. Net interest expense of $10.6 million was up 59% on last year largely as a result of higher interest rates. This higher interest charge was offset by a lower tax charge, driven substantially by overseas share based payment deductions.

Debt - All of Cochlear's total debt of $170.0 million is committed and some $154.6 million of this debt is classified as long term debt. At 30 June 2008, Cochlear continues to meet all its debt covenants. Its net debt to equity gearing ratio was 29%, an improvement from F07's 31%.

Receivables of $143.8 million reflect debtor days of 81 days, down from 85 at 31 December 2007 (2007: 79 days). While Americas and European receivable days reduced over last year, Asia Pacific's days increased marginally.

Inventory - Inventory of $99.2 million was down from December half year of $99.5 million. Days inventory was maintained at 214 days. Inventory levels are in line with new product introductions and customer order profiles.

Currency
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 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 over the last few years, Cochlear's ongoing contracts reflect these higher rates.

This hedge is not perfect and does not protect the sales revenue line; however, it provides a measure of protection to Cochlear's net cash flow in a volatile FX environment.

While the translation impact of the FX movement was a negative $25.7 million, this was partially offset by FX contract gains of $4.8 million over the previous corresponding period (F08 $21.3 million, F07 $16.5 million).

The overall NPAT impact from foreign exchange movements for the year, compared to F07, even after hedging, was a negative $20.9 million.

Market Performance

Expanding Product Range - During 2008 Cochlear introduced a number of important new innovations to market. The Nucleus® Freedom™ product platform was further expanded through the introduction of the Freedom sound processor for Cochlear's earlier N22 implant recipients. In addition, the Freedom sound processor became available for recipients of Cochlear's specialist Auditory Brainstem Implant (ABI) and Double Electrode Array recipients.

The release of the Freedom for N22 processor into major markets provides the latest processor technology to the nearly 18,000 recipients of the earlier Nucleus 22 implant system. Importantly this confirms, in a very practical way, Cochlear's brand promise of "Hear now. And always". Many of these recipients were implanted in the 1980s and are now benefiting from 2008 technology.

The backwards compatible Freedom™ sound processor for N24 recipients continued to be rolled out with particularly strong sales in Europe. Worldwide Cochlear estimates over 15,000 recipients have upgraded from their earlier processor model. The high USA penetration of over 50% reflects that region's earlier and enthusiastic adoption by many recipients in the prior year.

The Custom Sound™ 2.0 programming software was released in all major markets in 2008. It provides recipients easier access to the pre-processing of sound and is also aimed at simplifying programming for the audiologist. It has been enthusiastically received in the market.

Baha® - Baha worldwide sales grew 27% in constant currency to $75.6 million in 2008. Sales were strong in all regions.

In February 2008 Cochlear Bone Anchored Solutions (BAS) based in Gothenburg, Sweden, received a warning letter from the United States Food and Drug Administration (FDA).

The warning letter advised that an import alert had been issued relating to the import of Baha products from Sweden into the USA.

Cochlear is committed to full compliance with FDA regulations and continues to work with the FDA to resolve the outstanding issues. In June 2008 the Gothenburg site was reinspected by the FDA.

Cochlear Limited has also established a manufacturing presence in the USA for certain Baha items.

Regional Performance

Americas - Revenue of $232.2 million was up 6% in constant currency. Revenue in the region was negatively impacted by flat unit sales in South America and a 34% fall in installed base sales following the F07 surge in upgrade sales of Freedom for N24 processors. Some 50% of eligible recipients have now upgraded to the Nucleus Freedom processor for N24 in the USA. This is already ahead of the original three year target of 45%.

Europe - In F08 revenue grew 30% in constant currency to $257.2 million. The growth included increased revenue from several established direct markets as well as the exciting new developing markets in the Middle East and Eastern Europe.

Progress was made in expanding Cochlear's reach into selected key markets with a direct operation set up in Turkey. This puts Cochlear closer to its customers and is consistent with its strategy of extending its direct reach into selected markets.

Asia Pacific - Revenue of $91.0 million was up 20% in constant currency.

Some 700 units were delivered into China in F08 against the donation programme first announced in 2006. The delivery of donation sales units continues to be uneven and this irregular pattern of demand is anticipated to continue. The non-donation market was larger than the donation market in F08.

Cochlear's direct presence in the region continued to strengthen with a subsidiary employing 12 staff established in Seoul, South Korea. In addition, a branch was established in Singapore and a liaison office in Mumbai, India.

DIRECTORS' REPORT Cochlear Limited for the year ended 30 June 2008

The directors present their report, together with the Financial Report of Cochlear Limited (Company) and the Consolidated Financial Report of the Consolidated Entity (Cochlear), being the Company and its controlled entities, for the year ended 30 June 2008, and the Auditors' Report thereon.

Directors

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

Information on the directors is presented in the Annual Report.

Directors' meetings

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

	Board of directors		Audit Committee		Medical Science Committee		Nominations Committee		Remuneration Committee		Technology and Innovation Committee	
	Held(i)	Attended(ii)	Held(i)	Attended(ii)	Held(i)	Attended(ii)	Held(i)	Attended(ii)	Held(i)	Attended(ii)	Held(i)	Attended(ii)
Mr TCE Bergman	9	9	5	5	-	-	2	2	3	3	2	2
Mr PR Bell	9	9	-	-	-	-	2	2	3	3	2	2
Prof E Byrne, AO	9	9	-	-	2	2	2	2	-	-	2	2
Mr A Denver	9	9	5	5	-	-	2	2	-	-	2	2
Mr R Holliday-Smith	9	9	5	5	-	-	2	2	3	3	-	-
Mr DP O'Dwyer	9	9	5	5	2	2	2	2	-	-	2	2
Dr CG Roberts	9	9	-	-	2	2	-	-	-	-	2	2

(i) Number of meetings during the time the director held office during the financial year.
(ii) Number of meetings attended.

Principal activities and review of operations and results

The principal activities and a review of the operations of the Consolidated Entity during the year ended 30 June 2008, and the results of these operations are set out in the CEO/President's Report and the Financial discussion and analysis sections of the Annual Report.

Other than as discussed in the CEO/President's Report and the Financial discussion and analysis, there were no significant changes in the nature of those activities during the year ended 30 June 2008.

Consolidated results

The consolidated results for the financial year are:

	2008 $000	2007 $000
Revenue	601,725	559,412
Profit before income tax	156,717	143,481
Net profit attributable to equity holders of the parent	115,234	100,131
Basic earnings per share (cents)	208.1	182.9
Diluted earnings per share (cents)	206.6	180.1

Dividends

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

Type	Cents per share	Total amount $000	Date of payment	Tax rate for franking credit
In respect of the previous financial year:				
Final – ordinary shares	70.0	38,916	27 September 2007	30%
In respect of the current financial year:				
Interim – ordinary shares	70.0	38,936	18 March 2008	30%

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

The final dividend in respect of the current financial year has not been provided for in the Financial Report as it was not declared until after 30 June 2008. Since the end of the financial year, the directors declared a final 80.0 cents per share dividend, 100% franked at the tax rate of 30%, amounting to a total of $44,498,280.

Environmental regulations

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

Non-audit services

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

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

DIRECTORS' REPORT Cochlear Limited for the year ended 30 June 2008

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

	Consolidated	
	2008 $	2007 $
Audit services		
Auditors of the Company:		
KPMG Australia:		
- audit and review of financial reports	499,000	428,000
- other regulatory audit services	10,700	21,500
Overseas KPMG firms:		
- audit and review of financial reports	529,130	591,762
- other regulatory audit services	25,176	51,855
Total audit services	**1,064,006**	**1,093,117**
Non-audit services		
Auditors of the Company:		
KPMG Australia:		
- taxation services	469,410	355,760
- international taxation services	732,210	783,394
- other assurance services	40,485	19,500
Overseas KPMG firms:		
- taxation services	399,551	334,027
- international taxation services	112,479	108,467
- other assurance services	-	52,827
Total non-audit services	**1,754,135**	**1,653,975**

State of affairs

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

Likely developments

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

Remuneration Report - audited

Remuneration Committee

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

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

Remuneration policies

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

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

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

Remuneration structure

Senior executives

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

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

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

Service contracts

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

- the President, Asia Pacific Region has a notice period of three months and the President, European Region has a notice period of six months; and
- the President, European Region will receive a maximum of Swiss francs (CHF) 30,000 for repatriation costs in the case of termination or resignation.

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

Base salary and benefits

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

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

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

DIRECTORS' REPORT Cochlear Limited for the year ended 30 June 2008

Variable remuneration

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

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

Cochlear Management Short Term Incentive Plan

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

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

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

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

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

Cochlear Executive Long Term Incentive Plan

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

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

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

The exercise price of the options is based on the weighted average price of Cochlear Limited's shares traded during the five business days following the date of the provision of the 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.

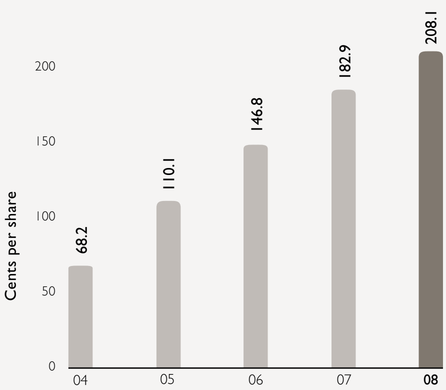
Dividends paid to the trust are subsequently paid to the relevant senior executives upon share issuance. Voting rights are not transferred but are attached to the performance shares once ownership is transferred. Dividends are no longer payable once shares are forfeited.

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

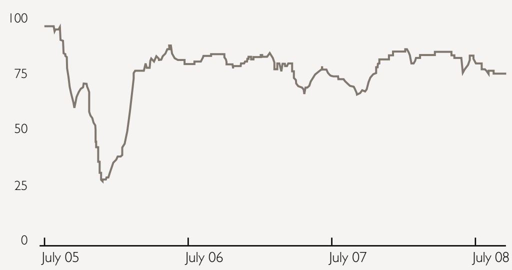
Grant date	Option life	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate per annum	Dividend yield per annum
20 August 2007	3 – 5 years	$8.15	$63.18	$64.50	26.5%	6.135%	1.7%

Performance of Cochlear in current CELTIP cycle

Depicted in the charts below is a comparison of basic EPS for financial years 2004 to 2008 and the TSR performance of Cochlear relative to the S&P/ASX 100 for financial years 2006 to 2008:



Comparison of Cochlear Limited's basic EPS performance



Percentile ranking of Cochlear's TSR performance from 1 July 2005 to 30 June 2008

Financial amounts for 2005 to 2008 are in accordance with IFRS.
Financial amounts for 2004 are in accordance with previous GAAP.

DIRECTORS' REPORT Cochlear Limited for the year ended 30 June 2008

For the year ended 30 June 2008, the growth in basic EPS was 14% and the decline in total return to Cochlear Limited shareholders (as measured from the change in share price plus dividends paid) was 26%.

Consequences of performance on shareholder wealth

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

Amounts $	2008	2007	2006	2005	2004
Net profit attributable to equity holders of the parent (million)	115.2	100.1	80.0	59.6	36.8
Dividends paid (million)	77.9	60.4	49.1	42.8	42.3
Share price	43.65	61.00	54.63	39.20	22.72

The net profit amount for 2004 was calculated in accordance with previous Australian Generally Accepted Accounting Principles (previous GAAP). Net profit for 2005 to 2008 has been calculated in accordance with International Financial Reporting Standards (IFRS).

Executive director

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

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

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

Non-executive directors

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

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

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

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

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

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

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

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

Directors' and senior executives' remuneration details

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

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

	Year	Short-term				Post-employment			Other long-term	Equity compensation[i], [iv]			Total	Performance related remuneration as a proportion of total %	Value of equity compensation as a proportion of remuneration %
Amounts $		Salary and fees	Bonuses[i]	Non-monetary benefits[ii]	Total	Super-annuation benefits	Termination benefits[iii]	Total	Long service leave	Value of options	Value of perform-ance shares	Total			
Directors															
Non-executive															
Mr TCE Bergman Chairman	2008	374,711	-	-	374,711	13,129	55,261	68,390	-	-	-	-	443,101	-	-
	2007	320,423	-	-	320,423	13,205	97,380	110,585	-	-	-	-	431,008	-	-
Mr PR Bell	2008	139,904	-	-	139,904	12,380	-	12,380	-	-	-	-	152,284	-	-
	2007	134,865	-	-	134,865	12,050	-	12,050	-	-	-	-	146,915	-	-
Prof E Byrne, AO	2008	144,423	-	-	144,423	12,588	22,629	35,217	-	-	-	-	179,640	-	-
	2007	114,711	-	-	114,711	10,324	83,541	93,865	-	-	-	-	208,576	-	-
Mr A Denver (appointed 1 February 2007)	2008	136,904	-	-	136,904	12,145	-	12,145	-	-	-	-	149,049	-	-
	2007	50,769	-	-	50,769	4,569	-	4,569	-	-	-	-	55,338	-	-
Mr R Holliday-Smith	2008	154,904	-	-	154,904	13,003	-	13,003	-	-	-	-	167,907	-	-
	2007	149,577	-	-	149,577	13,037	-	13,037	-	-	-	-	162,614	-	-
Mr DP O'Dwyer	2008	144,904	-	-	144,904	12,588	-	12,588	-	-	-	-	157,492	-	-
	2007	139,634	-	-	139,634	12,379	-	12,379	-	-	-	-	152,013	-	-
Executive															
Dr CG Roberts CEO/President	2008	950,000	397,091	-	1,347,091	13,129	-	13,129	18,634	393,938	45,660	439,598	1,818,452	46.0%	24.2%
	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%

DIRECTORS' REPORT Cochlear Limited for the year ended 30 June 2008

	Year	Short-term				Post-employment			Other long-term	Equity compensation[i, iv]			Total	Performance related remuneration as a proportion of total %	Value of equity compensation as a proportion of remuneration %
Amounts $		Salary and fees	Bonuses[i]	Non-monetary benefits[ii]	Total	Superannuation benefits	Termination benefits[iii]	Total	Long service leave	Value of options	Value of performance shares	Total			
Executives															
Consolidated Entity															
Mr R Brook[v, vi] President, European Region	2008	372,585	147,249	122,180	642,014	26,153	-	26,153	-	139,479	19,702	159,181	827,348	37.0%	19,2%
	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%
Mr NJ Mitchell[v, vi, vii] Chief Financial Officer and Company Secretary	2008	356,127	105,391	-	461,518	93,315	-	93,315	13,358	113,584	15,050	128,634	696,825	33.6%	18.5%
	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%
Mr DN Morris[v, vii] President, Bone Anchored Solutions	2008	346,269	90,436	-	436,705	13,129	-	13,129	8,302	96,303	12,683	108,986	567,122	35.2%	19.2%
	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%
Mr MD Salmon[v, vi, vii] President, Asia Pacific Region	2008	390,991	112,887	-	503,878	13,129	-	13,129	5,687	109,931	14,690	124,621	647,315	36.7%	19.3%
	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%
Mr CM Smith[v, vi] President, Americas Region	2008	437,253	114,323	20,606	572,182	12,922	-	12,922	-	149,651	32,294	181,945	767,049	38.6%	23.7%
	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%
Company															
Mr J Janssen[v, vi] Senior Vice President, Design and Development	2008	349,761	90,024	-	439,785	13,129	-	13,129	6,862	92,548	8,633	101,181	560,957	34.1%	18.0%
	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	2008	315,190	81,101	-	396,291	13,129	-	13,129	6,947	90,686	12,355	103,041	519,408	35.5%	19.8%
	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%

(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 2008. 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. Further details of options granted during the financial year are set out below. The value of performance shares for the current financial year is calculated as the share price at the date of issue discounted for vesting probabilities.

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

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

(vii) Denotes Consolidated Entity and Company executives.

Exercise of options granted as remuneration

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

	Number of shares	Amount paid $/share
Executive director		
Dr CG Roberts	164,321	18.97
Executives		
Mr R Brook	5,736	18.97
Mr MC Kavanagh	34,605	18.97
Mr NJ Mitchell	38,886	18.97
Mr DN Morris	30,269	18.97
Mr MD Salmon	38,904	18.97
Mr CM Smith	165,830	18.97

During the previous financial year, 55,060 options were exercised. There are no amounts unpaid on the shares issued as a result of the exercise of the options in prior years.

Analysis of bonuses included in remuneration

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

	Short-term incentive bonus		
Amounts $	Included in remuneration	% vested in the financial year[i]	% forfeited during the financial year[ii]
Executive director			
Dr CG Roberts	397,091	82.5%	17.5%
Executives			
Consolidated Entity			
Mr R Brook	147,249	98.8%	1.2%
Mr NJ Mitchell	105,391	82.7%	17.3%
Mr DN Morris	90,436	83.5%	16.5%
Mr MD Salmon	112,887	69.8%	30.2%
Mr CM Smith	114,323	65.4%	34.6%
Company			
Mr J Janssen	90,024	82.5%	17.5%
Mr MC Kavanagh	81,101	82.1%	17.9%

(i) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance goals. No amounts vest in future financial years in respect of the CMSTIP for the 2008 financial year.

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

DIRECTORS' REPORT Cochlear Limited for the year ended 30 June 2008

Analysis of share based payments granted as remuneration

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

			Options					Performance shares				
	Date of grant	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 director												
Dr CG Roberts	23 August 2004	30 June 2008	164,321	100%	-	-	-	10,595	100%	-	-	-
	22 August 2005	30 June 2009	79,468	-	-	-	374,238	5,923	-	-	-	128,722
	21 August 2006	30 June 2010	70,422	-	-	-	438,025	-	-	-	-	-
	20 August 2007	30 June 2011	59,088	-	-	-	481,565	-	-	-	-	-
Executives												
Consolidated Entity												
Mr R Brook	23 August 2004	30 June 2008	54,736	100%	-	-	-	3,529	100%	-	-	-
	22 August 2005	30 June 2009	36,138	-	-	-	170,210	2,694	-	-	-	58,541
	21 August 2006	30 June 2010	23,239	-	-	-	144,547	-	-	-	-	-
	20 August 2007	30 June 2011	17,422	-	-	-	141,987	-	-	-	-	-
Mr NJ Mitchell	23 August 2004	30 June 2008	38,886	100%	-	-	-	2,507	100%	-	-	-
	22 August 2005	30 June 2009	27,949	-	-	-	131,620	2,083	-	-	-	45,269
	21 August 2006	30 June 2010	18,980	-	-	-	118,057	-	-	-	-	-
	20 August 2007	30 June 2011	15,644	-	-	-	127,501	-	-	-	-	-
Mr DN Morris	23 August 2004	30 June 2008	30,269	100%	-	-	-	2,507	100%	-	-	-
	22 August 2005	30 June 2009	22,843	-	-	-	107,591	1,703	-	-	-	37,006
	21 August 2006	30 June 2010	16,157	-	-	-	100,497	-	-	-	-	-
	20 August 2007	30 June 2011	13,296	-	-	-	108,361	-	-	-	-	-
Mr MD Salmon	23 August 2004	30 June 2008	38,904	100%	-	-	-	2,508	100%	-	-	-
	22 August 2005	30 June 2009	27,174	-	-	-	127,990	2,025	-	-	-	44,003
	21 August 2006	30 June 2010	18,422	-	-	-	114,585	-	-	-	-	-
	20 August 2007	30 June 2011	14,891	-	-	-	121,362	-	-	-	-	-
Mr CM Smith	23 August 2004	30 June 2008	165,830	100%	-	-	-	-	-	-	-	-
	22 August 2005	30 June 2009	28,646	-	-	-	134,923	2,135	-	-	-	46,394
	21 August 2006	30 June 2010	28,849	-	-	-	179,441	-	-	-	-	-
	20 August 2007	30 June 2011	12,577	-	-	-	102,500	2,377	-	-	-	68,333
Company												
Mr J Janssen	23 August 2004	30 June 2008	-	-	-	-	-	1,000	100%	-	-	-
	22 August 2005	30 June 2009	16,814	-	-	-	79,193	1,253	-	-	-	27,228
	21 August 2006	30 June 2010	21,217	-	-	-	131,969	-	-	-	-	-
	20 August 2007	30 June 2011	13,396	-	-	-	109,174	-	-	-	-	-
Mr MC Kavanagh	23 August 2004	30 June 2008	34,605	100%	-	-	-	2,231	100%	-	-	-
	22 August 2005	30 June 2009	22,635	-	-	-	106,595	1,687	-	-	-	36,663
	21 August 2006	30 June 2010	15,005	-	-	-	93,331	-	-	-	-	-
	20 August 2007	30 June 2011	12,127	-	-	-	98,833	-	-	-	-	-

(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

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

	Value of options			
Amounts $	Granted in year(i)	Exercised in year(ii)	Forfeited in year(ii)	Total option value in year
Executive director				
Dr CG Roberts	481,565	7,892,338	-	8,373,903
Executives				
Consolidated Entity				
Mr R Brook	141,987	294,429	-	436,416
Mr NJ Mitchell	127,501	1,743,259	-	1,870,760
Mr DN Morris	108,361	1,356,959	-	1,465,320
Mr MD Salmon	121,362	1,744,066	-	1,865,428
Mr CM Smith	102,500	7,434,159	-	7,536,659
Company				
Mr J Janssen	109,174	-	-	109,174
Mr MC Kavanagh	98,833	1,551,342	-	1,650,175

(i) The value of options granted in the year is the fair value of the options calculated at grant date using a Black-Scholes model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years 30 June 2008 to 30 June 2011).

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

Other items - unaudited

Unissued shares under option

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

Number of options	Plan	Exercise price per share	Exercise period
49,000	CELTIP	$18.97	August 2007 – September 2009
677,855	CELTIP	$39.93	August 2008 – September 2010
483,172	CELTIP	$49.43	August 2009 – September 2011
390,917	CELTIP	$63.18	August 2010 – September 2012

The closing share price at 30 June 2008 was $43.65.

During the financial year, the Company granted 411,089 options over ordinary shares to employees under the CELTIP. The options are exercisable in the two years following lodgement with the ASX of the Company's preliminary financial report for the year ending 30 June 2010. The number of options which will be exercisable is dependent on the performance measures and retention requirements set out in this Remuneration Report.

During the year, 82,047 options granted by the Company were forfeited.

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

DIRECTORS' REPORT Cochlear Limited for the year ended 30 June 2008

Directors' interests

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

	Cochlear Limited ordinary shares	Options over ordinary shares
Mr TCE Bergman	12,000	-
Mr PR Bell	2,500	-
Prof E Byrne, AO	2,000	-
Mr A Denver	1,500	-
Mr R Holliday-Smith	2,500	-
Mr DP O'Dwyer	3,350	-
Dr CG Roberts	596,934	208,978

Indemnification and insurance of officers

Indemnification

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

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

Insurance premiums

During the financial year, the Company paid a premium for Directors' and Officers' Liability Insurance policy and a Supplementary Legal Expenses Insurance policy. The insurance provides cover for the directors named in this Directors' Report, the Company Secretary, and officers and former directors and officers of the Company. The insurance also provides cover for present and former directors and officers of other companies in the Consolidated Entity. The directors have not included details of the nature of the liabilities covered and the amount of the premium paid in respect of the Directors' and Officers' Liability and Supplementary Legal Expenses Insurance policies, as such disclosure is prohibited under the terms of the contract.

Events subsequent to reporting date

Other than the matter noted below, there has not arisen in the interval between the end of the financial year and the date of this Directors' Report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of 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 2008, see Note 9 to the financial statements.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 18 and forms part of the Directors' Report for the financial year ended 30 June 2008.

Rounding off

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

Dated at Sydney this 12th day of August 2008.

Signed in accordance with a resolution of the directors:

Director

Director

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

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2008 there have been:

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

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

KPMG

KPMG

Sydney, 12 August 2008

Kevin Leighton, Partner

INCOME STATEMENTS Cochlear Limited and its controlled entities for the year ended 30 June 2008

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$000	$000	$000	$000
Revenue	5(a)	601,725	559,412	441,648	403,182
Cost of sales	5(b)	(169,013)	(161,334)	(205,699)	(183,561)
Gross profit		**432,712**	**398,078**	**235,949**	**219,621**
Other income	5(c)	2,510	1,133	2,259	1,980
Selling and general expenses		(156,487)	(141,046)	(26,072)	(21,993)
Administration expenses		(36,092)	(38,635)	(30,679)	(30,664)
Research and development expenses	5(b)	(80,017)	(65,949)	(67,232)	(53,138)
Results from operating activities		**162,626**	**153,581**	**114,225**	**115,806**
Finance income	6	6,113	2,199	2,815	3,181
Finance expense	6	(12,022)	(12,299)	(7,063)	(4,937)
Net finance expense		**(5,909)**	**(10,100)**	**(4,248)**	**(1,756)**
Profit before income tax		**156,717**	**143,481**	**109,977**	**114,050**
Income tax expense	8	(41,483)	(45,805)	(29,585)	(29,363)
Net profit (including minority interest)		**115,234**	**97,676**	**80,392**	**84,687**
Attributable to:					
Equity holders of the parent		**115,234**	**100,131**	**80,392**	**84,687**
Minority interest		-	(2,455)	-	-
Net profit (including minority interest)		115,234	97,676	80,392	84,687
Basic earnings per share (cents)	11	208.1	182.9		
Diluted earnings per share (cents)	11	206.6	180.1		

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 23 to 72.

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$000	$000	$000	$000
Foreign exchange translation differences for foreign operations	23	(4,258)	(5,072)	(4)	420
Effective portion of changes in fair value of cash flow hedges	23	22,607	23,428	22,607	23,428
Net change in fair value of cash flow hedges transferred to the income statement	23	(14,898)	(11,568)	(14,898)	(11,568)
Net income recognised directly in equity		**3,451**	**6,788**	**7,705**	**12,280**
Net profit (including minority interest)		115,234	97,676	80,392	84,687
Total recognised income and expense		**118,685**	**104,464**	**88,097**	**96,967**
Attributable to:					
Equity holders of the parent		118,685	106,705	88,097	96,967
Minority interest		-	(2,241)	-	-
Total recognised income and expense		**118,685**	**104,464**	**88,097**	**96,967**

Other movements in equity arising from transactions with equity participants as equity participants are set out in Note 23. The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 23 to 72.

BALANCE SHEETS Cochlear Limited and its controlled entities as at 30 June 2008

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$000	$000	$000	$000
Assets					
Cash and cash equivalents	24(a)	36,687	83,382	14,804	43,917
Trade and other receivables	12	173,266	143,076	119,941	99,275
Inventories	13	99,169	91,890	60,368	58,425
Current tax assets		4,157	299	781	-
Prepayments		8,817	5,390	4,769	2,787
Total current assets		**322,096**	**324,037**	**200,663**	**204,404**
Trade and other receivables	12	15,963	6,655	11,574	6,305
Other financial assets	14	-	-	65,656	63,989
Property, plant and equipment	15	43,219	40,565	31,423	31,879
Intangible assets	16	208,959	196,268	23,272	13,533
Deferred tax assets	17	17,679	18,769	-	770
Total non-current assets		**285,820**	**262,257**	**131,925**	**116,476**
Total assets		**607,916**	**586,294**	**332,588**	**320,880**
Liabilities					
Trade and other payables		60,830	61,923	27,058	33,381
Loans and borrowings	18	15,438	161,337	-	30,223
Current tax liabilities		2,803	8,296	-	1,165
Provisions	21	31,516	30,953	22,114	20,872
Other	19	14,358	17,338	263	848
Total current liabilities		**124,945**	**279,847**	**49,435**	**86,489**
Loans and borrowings	18	154,545	37,552	20,000	-
Provisions	21	8,633	7,828	6,901	6,399
Deferred tax liabilities	17	452	258	316	-
Total non-current liabilities		**163,630**	**45,638**	**27,217**	**6,399**
Total liabilities		**288,575**	**325,485**	**76,652**	**92,888**
Net assets		**319,341**	**260,809**	**255,936**	**227,992**
Equity					
Share capital	23	82,972	69,998	82,972	69,998
Reserves	23	13,035	9,584	23,062	15,357
Retained earnings	23	223,334	181,227	149,902	142,637
Total equity	23	**319,341**	**260,809**	**255,936**	**227,992**

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 23 to 72.

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$000	$000	$000	$000
Cash flows from operating activities					
Cash receipts from customers		543,493	506,589	427,996	407,018
Cash payments to suppliers and employees		(397,215)	(367,238)	(317,507)	(263,108)
Dividends received		-	-	-	1,608
Grant and other income received		1,871	151	1,871	151
Interest received		1,576	2,353	944	3,204
Interest paid		(11,810)	(8,892)	(3,029)	(802)
Income taxes paid		(53,367)	(56,127)	(33,749)	(43,397)
Net cash provided by operating activities	24(b)	**84,548**	**76,836**	**76,526**	**104,674**
Cash flows from investing activities					
Acquisition of property, plant and equipment		(17,831)	(18,596)	(10,706)	(13,506)
Acquisition of enterprise resource planning system		(9,819)	(7,805)	(9,052)	(7,805)
Proceeds from sale of non-current assets		4	7,574	1	292
Investment in controlled entities		-	(7,953)	(26)	(30,000)
Acquisition of intangible asset		(1,500)	-	(1,500)	-
Acquisition of distributor businesses		(1,011)	-	-	-
Acquisition of manufacturing business		(9,286)	(9,972)	(9,286)	(9,972)
Development expenditure		-	(375)	-	(375)
Net cash used in investing activities		**(39,443)**	**(37,127)**	**(30,569)**	**(61,366)**
Cash flows from financing activities					
Repayment of borrowings		(90,623)	(38,487)	(72,000)	(5,000)
Proceeds from borrowings		64,938	57,822	62,000	35,000
Proceeds from issue of share capital		12,974	3,335	12,974	3,335
Dividends paid by the parent		(77,852)	(60,383)	(77,852)	(60,383)
Net cash used in financing activities		**(90,563)**	**(37,713)**	**(74,878)**	**(27,048)**
Net (decrease)/increase in cash and cash equivalents		**(45,458)**	**1,996**	**(28,921)**	**16,260**
Cash and cash equivalents, net of overdrafts at 1 July		81,737	85,326	43,694	27,458
Effects of exchange fluctuation on cash held		408	(5,585)	31	(24)
Cash and cash equivalents, net of overdrafts at 30 June	24(a)	**36,687**	**81,737**	**14,804**	**43,694**

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 23 to 72.

NOTES TO THE FINANCIAL STATEMENTS Cochlear Limited and its controlled entities for the year ended 30 June 2008

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 2008 comprise the Company and its subsidiaries (together referred to as the Consolidated Entity). 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) (including Australian Interpretations) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The financial report of the Consolidated Entity and the financial report of the Company comply with International Financial Reporting Standards and Interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of directors on 12 August 2008.

(b) Basis of measurement

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

(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 judgements and estimates

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

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

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 is described in Note 3.

3. Significant accounting policies

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

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. The accounting policies of controlled entities have been changed when necessary to align them with the policies adopted by the Consolidated Entity.

Acquisitions of a minority interest in a controlled entity are treated as a transaction with owners. Consequently, the difference between the purchase consideration and the carrying amount of the Consolidated Entity's interest in 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.

Special purpose entities

The Consolidated Entity has established five special purpose entities (SPEs) for trading and investment purposes. An SPE is consolidated if, based upon an evaluation of the substance of its relationship with the Consolidated Entity and the SPE's risks and rewards, the Consolidated Entity concludes that it controls the SPE.

(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. The income is deemed to be receivable when the entitlement is confirmed. Dividend income from subsidiaries is recognised by the parent when the dividends are declared by the subsidiary.

(c) Goods and services tax

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

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

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

(d) Foreign currency

Foreign currency transactions

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

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

Financial statements of foreign operations

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

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

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

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

(e) Derivative financial instruments

The Consolidated Entity holds derivative financial instruments to hedge its exposure to foreign exchange risk 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. Attributable transaction costs are recognised in the income statement when incurred. 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.

Hedges of monetary assets and liabilities

When a derivative financial instrument is used to hedge 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.

Hedges of net investment in foreign operations

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

(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 that can be measured reliably, 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 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.

A 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 Consolidated Entity self-insures to manage certain risks associated with operating in its line of business. Claims are recognised when an incident occurs that may give rise to a claim and are measured at the cost that the Consolidated 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 premises to be returned to the lessor in its original condition. The operating lease payments do not include an element for the repairs/overhauls.

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

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

Research and development expenditure

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

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, comprising technology acquired, customer and technology relationships and intellectual property, are acquired individually or through business combinations and are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (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 recognised in the income statement on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment annually. The estimated useful lives for the current and comparative periods are as follows:

Acquired technology	4 years
Enterprise resource planning system	2.5 – 5 years
Customer relationships	4 years
Licenses	12 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 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of the cash flows of other assets or groups of assets (cash generating units). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to the cash generating units that are expected to benefit from the synergies of the combination.

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 the consideration provided plus incidental costs directly attributable to the acquisition.

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

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

Leased assets

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

Depreciation

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

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

Leasehold improvements	5 – 12 years
Plant and equipment	3 – 8 years.

(l) Inventories

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

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

(m) Employee benefits

Defined benefit plans

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

A liability or asset in respect of defined benefit plans is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation as at the reporting date 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 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 are recognised directly in equity.

Defined contribution plans

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

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.

Share based payments

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

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

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

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

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

Treasury shares

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

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

(n) Receivables

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

(o) Taxation

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

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

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

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

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

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

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

Tax consolidation

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

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

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

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

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

(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) Finance income and expense

Interest income is recognised as it accrues in the income statement using the effective interest method. Finance expenses include interest and finance charges in respect of financing activities. Debt establishment costs are capitalised and recognised as a reduction in loans and borrowings. They are calculated based on the effective interest rate method and are amortised over the period of the loan. Foreign exchange differences net of the effect of hedges on borrowings are recognised in net finance expense.

(s) Earnings per share

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

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

(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.

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

(u) Accounting judgements and estimates

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

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

Note 16 – Intangible assets

Note 21 – Provisions

Note 22 – Contingent liabilities

Note 27 – Employee benefits

Note 28 – Financial instruments

(v) Share capital

Ordinary shares

Ordinary shares are classified as equity.

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

Repurchase of share capital (treasury shares)

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

Dividends

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

(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 2008, but have not been applied in preparing this financial report:

- AASB 3 Business Combinations
- AASB 8 Operating Segments;
- AASB 101 Presentation of Financial Statements;
- AASB 123 Borrowing Costs;
- AASB 127 Consolidated and Separate Financial Statements;

- AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations;
- AI 12 Service Concession Arrangements;
- AI 13 Customer Loyalty Programmes; and
- AI 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

4. Financial risk management

Overview

The Company and Consolidated Entity have exposure to the following risks from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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

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

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

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

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

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

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

Credit risk

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

Trade and other receivables

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

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

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

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

Guarantees

Details of guarantees provided by the Company and the Consolidated Entity are provided in Note 22.

Liquidity risk

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

The Consolidated Entity monitors cash flow requirements and produces cash flow projections for the short and long term with a view to optimising return on investments. Typically, the Consolidated Entity ensures that it has sufficient cash on demand to meet expected operational net cash flows for a period of at least 30 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Consolidated Entity maintains lines of credit which are set out in Note 18.

Market risk

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

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

Currency risk

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

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

Interest rate risk

The Consolidated Entity is exposed to interest rate risks in Australia, Sweden, Europe, the United States, the United Kingdom and Japan. See Note 28 for effective interest rates, repayment and repricing analysis of outstanding debt.

Capital management

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS Cochlear Limited and its controlled entities for the year ended 30 June 2008

	Consolidated		Company	
	2008	2007	2008	2007
	$000	$000	$000	$000
5. Revenue and expenses				
(a) Revenue				
Sale of goods revenue before hedging	578,845	539,711	419,594	386,414
Foreign exchange gains on hedged sales	21,283	16,526	21,283	16,526
Revenue from the sale of goods	**600,128**	**556,237**	**440,877**	**402,940**
Rendering of services revenue	1,597	3,175	771	242
Total revenue	**601,725**	**559,412**	**441,648**	**403,182**
(b) Expenses				
Cost of sales:				
Carrying amount of inventories recognised as an expense	163,660	156,045	151,056	143,785
Other	2,978	3,415	53,145	38,744
Write-down in value of inventories	2,375	1,874	1,498	1,032
Total cost of sales	**169,013**	**161,334**	**205,699**	**183,561**
Research and development expenses:				
Research and development expenditure	78,374	63,753	65,589	50,942
Development expenditure capitalised	-	(375)	-	(375)
Capitalised development expenditure – amortisation expense	1,643	2,571	1,643	2,571
Total research and development expenses	**80,017**	**65,949**	**67,232**	**53,138**
(c) Other income				
Grant received or due and receivable	1,391	151	1,391	151
Dividends from controlled entities	-	-	-	1,608
Other income	1,119	982	868	221
Total other income	**2,510**	**1,133**	**2,259**	**1,980**
(d) Employee benefits expense				
Wages and salaries	146,457	125,466	79,164	65,165
Contributions to superannuation plans	9,528	7,366	6,309	4,782
Increase in leave liabilities	2,315	3,367	1,530	2,579
Share based payments	4,725	3,615	3,148	2,376
Total employee benefits expense	**163,025**	**139,814**	**90,151**	**74,902**
(e) Profit before income tax has been arrived at after charging/(crediting) the following items:				
Operating lease rental expense	10,322	7,611	3,853	3,510
Decrease in provisions	(1,277)	(171)	(140)	(137)
Loss/(gain) on disposal of property, plant and equipment	644	1,125	48	(27)

	Consolidated		Company	
	2008	2007	2008	2007
	$000	$000	$000	$000

6. Net finance expense

Interest income	1,410	2,199	2,815	3,181
Net foreign exchange gain	4,703	-	-	-
Finance income	**6,113**	**2,199**	**2,815**	**3,181**
Interest expense	(12,022)	(8,892)	(3,866)	(887)
Net foreign exchange loss	-	(3,407)	(3,197)	(4,050)
Finance expense	**(12,022)**	**(12,299)**	**(7,063)**	**(4,937)**
Net finance expense	**(5,909)**	**(10,100)**	**(4,248)**	**(1,756)**

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$

7. Auditors' remuneration

Audit services				
Auditors of the Company:				
KPMG Australia:				
- audit and review of financial reports	499,000	428,000	499,000	428,000
- other regulatory audit services	10,700	21,500	10,700	21,500
Overseas KPMG firms:				
- audit and review of financial reports	529,130	591,762	-	-
- other regulatory audit services	25,176	51,855	3,486	35,472
Total audit services	**1,064,006**	**1,093,117**	**513,186**	**484,972**
Non-audit services				
Auditors of the Company:				
KPMG Australia:				
- taxation services	469,410	355,760	469,410	355,760
- international taxation services	732,210	783,394	732,210	783,394
- other assurance services	40,485	19,500	40,485	19,500
Overseas KPMG firms:				
- taxation services	399,551	334,027	17,411	21,319
- international taxation services	112,479	108,467	112,479	100,077
- other assurance services	-	52,827	-	52,827
Total non-audit services	**1,754,135**	**1,653,975**	**1,371,995**	**1,332,877**

NOTES TO THE FINANCIAL STATEMENTS Cochlear Limited and its controlled entities for the year ended 30 June 2008

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$000	$000	$000	$000
8. Income tax expense					
Recognised in the income statement					
Current tax expense					
Current year		45,194	37,669	33,081	31,275
Adjustment for prior years		(1,703)	1,463	(1,290)	(1,131)
		43,491	**39,132**	**31,791**	**30,144**
Deferred tax (expense)/benefit					
Origination and reversal of temporary differences		(3,765)	4,062	(2,206)	(781)
Tax losses utilised		1,757	2,611	-	-
	17	(2,008)	6,673	(2,206)	(781)
Total income tax expense in the income statement		**41,483**	**45,805**	**29,585**	**29,363**
Numerical reconciliation between income tax expense and profit before income tax					
Profit before income tax		156,717	143,481	109,977	114,050
Income tax expense using the Company's domestic tax rate of 30% (2007: 30%)		47,015	43,044	32,993	34,215
Increase in income tax expense due to:					
Non-deductible expenses		3,238	4,080	1,113	685
Effect of tax rate in foreign jurisdictions		-	1,949	969	807
Decrease in income tax expense due to:					
Research and development allowance		(3,720)	(4,731)	(3,720)	(4,731)
Share based payment deductions		(3,120)	-	(480)	-
Non-assessable dividends from controlled entities		-	-	-	(482)
Effect of tax rate in foreign jurisdictions		(227)	-	-	-
		43,186	**44,342**	**30,875**	**30,494**
Adjustment for prior years		(1,703)	1,463	(1,290)	(1,131)
Income tax expense on profit before income tax		**41,483**	**45,805**	**29,585**	**29,363**
Deferred tax recognised directly in equity relating to derivative financial instruments	17	3,292	5,083	3,292	5,083

	Cents per share	Total amount $000	Franked/unfranked	Date of payment

9. Dividends

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

	Cents per share	Total amount $000	Franked/unfranked	Date of payment
2008				
Interim 2008 ordinary	70.0	38,936	Franked	18 Mar 2008
Final 2007 ordinary	70.0	38,916	Franked	27 Sep 2007
Total amount		**77,852**		
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**		

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 2008 ordinary	80.0	44,498	Franked	25 Sep 2008
Total amount		**44,498**		

The financial effect of the 2008 final dividend has not been brought to account in the financial statements for the year ended 30 June 2008 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	
	2008 $000	2007 $000
Dividend franking account		
30% franking credits available to shareholders of Cochlear Limited for subsequent financial periods	16,351	16,008

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 $19,070,691 (2007: $16,678,076).

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

10. Segment reporting

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

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

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

The Consolidated Entity's geographical segments are as follows:

	Americas		Europe		Asia Pacific		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Revenue										
External revenue	232,155	249,768	257,204	212,992	91,083	80,126	-	-	580,442	542,886
Inter-segment revenue	-	-	-	-	362,745	328,888	(362,745)	(328,888)	-	-
Total segment revenue	232,155	249,768	257,204	212,992	453,828	409,014	(362,745)	(328,888)	580,442	542,886
Foreign exchange gains on hedged sales									21,283	16,526
Total revenue									**601,725**	**559,412**
Segment result	68,328	77,201	82,507	63,407	21,485	20,298	-	-	172,320	160,906
Unallocated net expenses									(9,694)	(7,325)
Net finance expense									(5,909)	(10,100)
Profit before income tax									156,717	143,481
Income tax expense									(41,483)	(45,805)
Net profit (including minority interest)									**115,234**	**97,676**
Segment depreciation and amortisation	3,638	4,257	3,615	2,663	1,148	902	-	-	8,401	7,822
Unallocated depreciation and amortisation									12,931	9,283
Total depreciation and amortisation									**21,332**	**17,105**
Segment non-cash (expenses)/income other than depreciation and amortisation	(701)	(131)	874	2,598	434	717	-	-	607	3,184
Unallocated non-cash expenses other than depreciation and amortisation									2,682	2,045
Total non-cash expenses other than depreciation and amortisation									**3,289**	**5,229**
Write-down in value of inventories	**1,287**	**900**	**647**	**842**	**441**	**132**	**-**	**-**	**2,375**	**1,874**
Segment assets	149,206	154,392	260,112	258,181	54,380	38,748	(80,392)	(89,220)	383,306	362,101
Unallocated assets									224,610	224,193
Total assets									**607,916**	**586,294**
Segment liabilities	64,707	78,269	62,625	63,995	17,575	9,535	(78,484)	(64,014)	66,423	87,785
Unallocated liabilities									222,152	237,700
Total liabilities									**288,575**	**325,485**
Segment acquisition of non-current assets	2,102	1,870	4,080	6,449	1,360	999	-	-	7,542	9,318
Unallocated acquisition of non-current assets									20,108	17,083
Total acquisition of non-current assets									**27,650**	**26,401**

Secondary reporting

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

	Consolidated	
	2008	2007

11. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year ended 30 June 2008 was based on net profit attributable to equity holders of the parent of $115,234,000 (2007: $100,131,000) and a weighted average number of ordinary shares on issue during the year ended 30 June 2008 of 55,372,469 (2007: 54,742,745) calculated as follows:

	2008	2007
Net profit attributable to equity holders of the parent	$115,234,000	$100,131,000
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 July (number)	54,769,632	54,636,995
Effect of share options and performance shares exercised (number)	593,696	96,795
Effect of shares issued under Employee Share Plan (number)	9,141	8,955
Weighted average number of ordinary shares (basic) at 30 June	**55,372,469**	**54,742,745**
Basic earnings per share (cents)	**208.1**	**182.9**

Diluted earnings per share

The calculation of diluted earnings per share for the year ended 30 June 2008 was based on net profit attributable to equity holders of the parent of $115,234,000 (2007: $100,131,000) and a weighted average number of ordinary shares on issue during the year ended 30 June 2008 of 55,787,184 (2007: 55,582,822) calculated as follows:

	2008	2007
Net profit attributable to equity holders of the parent	$115,234,000	$100,131,000
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic) (number)	55,372,469	54,742,745
Effect of options and performance shares (number)	414,715	840,077
Weighted average number of ordinary shares (diluted) at 30 June	**55,787,184**	**55,582,822**
Diluted earnings per share (cents)	**206.6**	**180.1**

NOTES TO THE FINANCIAL STATEMENTS Cochlear Limited and its controlled entities for the year ended 30 June 2008

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$000	$000	$000	$000
12. Trade and other receivables					
Current					
Trade receivables net of allowance for impairment loss		143,833	116,897	22,033	13,359
Other receivables		7,914	10,277	2,788	6,043
Amount receivable from controlled entities	26	-	-	73,601	63,971
Forward exchange contracts		21,519	15,902	21,519	15,902
Total current trade and other receivables		**173,266**	**143,076**	**119,941**	**99,275**
Non-current					
Forward exchange contracts		11,574	6,178	11,574	6,178
Other receivables		446	477	-	127
Deferred expenditure		3,943	-	-	-
Total non-current trade and other receivables		**15,963**	**6,655**	**11,574**	**6,305**

The Company's and Consolidated Entity's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 28.

13. Inventories					
Raw materials and stores		30,702	38,372	30,449	35,259
Work in progress		14,174	7,271	11,296	4,922
Finished goods		54,293	46,247	18,623	18,244
Total inventories		**99,169**	**91,890**	**60,368**	**58,425**
14. Other financial assets					
Shares in unlisted controlled entities, at cost		-	-	65,656	63,989
Total other financial assets		**-**	**-**	**65,656**	**63,989**

	Consolidated		Company	
	2008	2007	2008	2007
	$000	$000	$000	$000
15. Property, plant and equipment				
Leasehold improvements				
At cost	26,935	24,537	23,198	22,218
Accumulated amortisation	(17,393)	(13,324)	(16,530)	(12,797)
	9,542	**11,213**	**6,668**	**9,421**
Plant and equipment				
At cost	78,008	65,038	57,952	48,303
Accumulated depreciation	(44,331)	(35,686)	(33,197)	(25,845)
	33,677	**29,352**	**24,755**	**22,458**
Total property, plant and equipment, at net book value	**43,219**	**40,565**	**31,423**	**31,879**
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	11,213	11,664	9,421	9,815
Additions	2,700	1,764	1,009	1,488
Disposals	(162)	(10)	-	-
Amortisation	(4,145)	(3,445)	(3,768)	(3,122)
Acquisitions through business combinations	-	1,166	-	1,166
Effect of movements in foreign exchange	(64)	74	6	74
Carrying amount at end of financial year	**9,542**	**11,213**	**6,668**	**9,421**
Plant and equipment				
Carrying amount at beginning of financial year	29,352	19,169	22,458	11,566
Additions	15,131	16,832	9,697	12,018
Disposals	(484)	(2,415)	(50)	(265)
Depreciation	(10,245)	(7,284)	(7,392)	(4,854)
Acquisitions through business combinations	-	3,824	-	3,824
Effect of movements in foreign exchange	(77)	(774)	42	169
Carrying amount at end of financial year	**33,677**	**29,352**	**24,755**	**22,458**

NOTES TO THE FINANCIAL STATEMENTS Cochlear Limited and its controlled entities for the year ended 30 June 2008

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
16. Intangible assets				
Intangible assets with indefinite useful lives				
Goodwill, at cost	187,741	182,401	4,226	4,146
Technology relationship, at cost	1,800	-	1,800	-
	189,541	**182,401**	**6,026**	**4,146**
Intangible assets with definite useful lives				
Acquired technology				
At cost	3,507	3,398	-	-
Accumulated amortisation	(3,232)	(1,982)	-	-
	275	**1,416**	**-**	**-**
Enterprise resource planning system				
At cost	29,774	20,366	26,036	16,984
Accumulated amortisation	(14,547)	(12,005)	(11,541)	(9,441)
	15,227	**8,361**	**14,495**	**7,543**
Customer relationships				
At cost	4,543	4,801	-	-
Accumulated amortisation	(3,567)	(2,838)	-	-
	976	**1,963**	**-**	**-**
Capitalised development expenditure				
At cost	7,759	7,759	7,759	7,759
Accumulated amortisation	(7,558)	(5,915)	(7,558)	(5,915)
	201	**1,844**	**201**	**1,844**
Other intangible assets				
At cost	3,209	496	3,000	-
Accumulated amortisation	(470)	(213)	(450)	-
	2,739	**283**	**2,550**	**-**
Total intangible assets with definite useful lives	**19,418**	**13,867**	**17,246**	**9,387**
Total intangible assets	**208,959**	**196,268**	**23,272**	**13,533**

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $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	182,401	185,352	4,146	-
Acquisitions through business combinations	545	12,099	80	4,146
Effect of movements in foreign exchange	4,795	(15,050)	-	-
Carrying amount at end of financial year	**187,741**	**182,401**	**4,226**	**4,146**
Technology relationship				
Carrying amount at beginning of financial year	-	-	-	-
Acquisition	1,800	-	1,800	-
Carrying amount at end of financial year	**1,800**	**-**	**1,800**	**-**
Acquired technology				
Carrying amount at beginning of financial year	1,416	2,468	-	-
Amortisation	(1,185)	(850)	-	-
Effects of movements in foreign exchange	44	(202)	-	-
Carrying amount at end of financial year	**275**	**1,416**	**-**	**-**
Enterprise resource planning system				
Carrying amount at beginning of financial year	8,361	2,546	7,543	86
Acquisitions	9,819	7,805	9,052	7,805
Amortisation	(2,876)	(1,659)	(2,100)	(348)
Effect of movements in foreign exchange	(77)	(331)	-	-
Carrying amount at end of financial year	**15,227**	**8,361**	**14,495**	**7,543**
Customer relationships				
Carrying amount at beginning of financial year	1,963	3,607	-	-
Amortisation	(682)	(1,201)	-	-
Effect of movements in foreign exchange	(305)	(443)	-	-
Carrying amount at end of financial year	**976**	**1,963**	**-**	**-**
Intellectual property capitalised, at cost				
Carrying amount at beginning of financial year	-	6,788	-	-
Disposals	-	(6,274)	-	-
Effect of movements in foreign exchange	-	(514)	-	-
Carrying amount at end of financial year	**-**	**-**	**-**	**-**
Capitalised development expenditure				
Carrying amount at beginning of financial year	1,844	4,040	1,844	4,040
Development phase expenditure	-	375	-	375
Amortisation	(1,643)	(2,571)	(1,643)	(2,571)
Carrying amount at end of financial year	**201**	**1,844**	**201**	**1,844**

NOTES TO THE FINANCIAL STATEMENTS Cochlear Limited and its controlled entities for the year ended 30 June 2008

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Other intangible assets				
Carrying amount at beginning of financial year	283	437	-	-
Acquisitions	3,000	-	3,000	-
Amortisation	(556)	(95)	(450)	-
Effect of movements in foreign exchange	12	(59)	-	-
Carrying amount at end of financial year	**2,739**	**283**	**2,550**	**-**

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	
	2008 $000	2007 $000	2008 $000	2007 $000
Americas	67,564	65,437	1,694	1,940
Europe	113,433	109,603	1,759	1,488
Asia Pacific	6,744	7,361	773	718
	187,741	**182,401**	**4,226**	**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 further periods are extrapolated using a 3.5% per annum growth rate and are appropriate because this growth rate is consistent with the long-term average growth rate for the industry. The related acquisitions are long-term businesses. A post-tax discount rate of 9.4% per annum has been used in discounting the projected post-tax cash flows.

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

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

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

	Assets		Liabilities		Net	
	2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000

17. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

	2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000
Consolidated						
Property, plant and equipment	881	127	(76)	(310)	805	(183)
Intangible assets	-	-	(284)	(1,187)	(284)	(1,187)
Inventories	12,309	11,790	(136)	-	12,173	11,790
Prepayments	-	-	(114)	(95)	(114)	(95)
Employee benefits	1,394	538	-	-	1,394	538
Provisions	10,308	9,514	-	-	10,308	9,514
Deferred revenue	-	1,782	-	-	-	1,782
Forward exchange contracts	-	-	(9,927)	(6,635)	(9,927)	(6,635)
Other	1,804	-	(531)	(369)	1,273	(369)
Tax value of loss carry-forwards	1,599	3,356	-	-	1,599	3,356
Deferred tax assets/(liabilities)	**28,295**	**27,107**	**(11,068)**	**(8,596)**	**17,227**	**18,511**
Set off of tax	(10,616)	(8,338)	10,616	8,338	-	-
Net deferred tax assets/(liabilities)	**17,679**	**18,769**	**(452)**	**(258)**	**17,227**	**18,511**
Company						
Property, plant and equipment	388	-	-	(285)	388	(285)
Intangible assets	-	-	-	(594)	-	(594)
Inventories	1,050	769	-	-	1,050	769
Provisions	8,704	7,515	-	-	8,704	7,515
Forward exchange contracts	-	-	(9,927)	(6,635)	(9,927)	(6,635)
Other	-	-	(531)	-	(531)	-
Deferred tax assets/(liabilities)	**10,142**	**8,284**	**(10,458)**	**(7,514)**	**(316)**	**770**
Set off of tax	(10,142)	(7,514)	10,142	7,514	-	-
Net deferred tax assets/(liabilities)	**-**	**770**	**(316)**	**-**	**(316)**	**770**

Unrecognised deferred tax liabilities

At 30 June 2008, a deferred tax liability of $25.0 million (2007: $17.4 million) 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.

Current tax assets and liabilities

The current tax asset for the Consolidated Entity of $4.2 million (2007: $0.3 million) and for the Company of $0.8 million (2007: nil) represents the amount of income taxes recoverable in respect of prior periods and arises from the payment of tax in excess of the amounts due to the relevant tax authority. The current tax liability for the Consolidated Entity of $2.8 million (2007: $8.3 million) and for the Company of nil (2007: $1.2 million) represents the amount of income taxes payable in respect of current and prior financial periods.

NOTES TO THE FINANCIAL STATEMENTS Cochlear Limited and its controlled entities for the year ended 30 June 2008

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
2007								
Property, plant and equipment	1,793	(1,976)	-	(183)	1,103	(1,388)	-	(285)
Intangible assets	(3,072)	1,885	-	(1,187)	(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	979	-	9,514	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 loss carry-forwards	5,967	(2,611)	-	3,356	-	-	-	-
	30,267	**(6,673)**	**(5,083)**	**18,511**	**5,072**	**781**	**(5,083)**	**770**
2008								
Property, plant and equipment	(183)	988	-	805	(285)	673	-	388
Intangible assets	(1,187)	903	-	(284)	(594)	594	-	-
Inventories	11,790	383	-	12,173	769	281	-	1,050
Prepayments	(95)	(19)	-	(114)	-	-	-	-
Employee benefits	538	856	-	1,394	-	-	-	-
Provisions	9,514	794	-	10,308	7,515	1,189	-	8,704
Deferred revenue	1,782	(1,782)	-	-	-	-	-	-
Foreign exchange contracts	(6,635)	-	(3,292)	(9,927)	(6,635)	-	(3,292)	(9,927)
Other	(369)	1,642	-	1,273	-	(531)	-	(531)
Tax loss carry-forwards	3,356	(1,757)	-	1,599	-	-	-	-
	18,511	**2,008**	**(3,292)**	**17,227**	**770**	**2,206**	**(3,292)**	**(316)**

	Consolidated		Company	
	2008	2007	2008	2007
	$000	$000	$000	$000
18. Loans and borrowings				
Current				
Bank overdrafts	-	1,645	-	223
Secured bank loans	15,438	159,692	-	30,000
Total current loans and borrowings	**15,438**	**161,337**	**-**	**30,223**
Non-current				
Secured bank loans	154,545	37,552	20,000	-
Total non-current loans and borrowings	**154,545**	**37,552**	**20,000**	**-**
Financing arrangements				
The Consolidated Entity had access to the following lines of credit at reporting date:				
Bank overdrafts	2,148	4,782	2,000	2,000
Bank loans	246,299	198,230	96,000	30,000
Standby letters of credit	1,000	227	1,000	227
Bank guarantee facility	1,520	1,100	1,000	605
	250,967	**204,339**	**100,000**	**32,832**
Facilities utilised at reporting date				
Bank overdrafts	-	1,645	-	223
Bank loans	169,983	197,244	20,000	30,000
Standby letters of credit	198	191	198	191
Bank guarantee facility	690	725	584	604
	170,871	**199,805**	**20,782**	**31,018**
Facilities not utilised at reporting date				
Bank overdrafts	2,148	3,137	2,000	1,777
Bank loans	76,316	986	76,000	-
Standby letters of credit	802	36	802	36
Bank guarantee facility	830	375	416	1
	80,096	**4,534**	**79,218**	**1,814**

Unsecured bank overdrafts

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

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 28 for details.

	Consolidated		Company	
	2008	2007	2008	2007
	$000	$000	$000	$000
19. Other liabilities				
Deferred revenue	14,358	17,338	263	848
Total current other liabilities	**14,358**	**17,338**	**263**	**848**
20. Commitments				
Operating lease commitments				
Future non-cancellable operating lease rentals not provided for in the financial statements are payable as follows:				
Not later than one year	11,110	6,953	3,711	2,919
Later than one year but not later than five years	19,967	23,394	1,657	3,917
Later than five years	16,804	7,236	-	-
Total commitments	**47,881**	**37,583**	**5,368**	**6,836**
Capital expenditure commitments				
Contracted but not provided for and payable:				
Not later than one year	3,235	1,790	2,341	1,507
Later than one year but not later than five years	913	1,826	913	1,826
Total commitments	**4,148**	**3,616**	**3,254**	**3,333**

The Consolidated Entity leases property under non-cancellable operating leases expiring from one to 12 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.

	Note	Consolidated 2008 $000	Consolidated 2007 $000	Company 2008 $000	Company 2007 $000
21. Provisions					
Current					
Employee benefits	27	18,854	17,267	12,103	11,027
Warranties		8,798	8,482	8,798	8,482
Legal and other		3,864	5,204	1,213	1,363
Total current provisions		**31,516**	**30,953**	**22,114**	**20,872**
Non-current					
Employee benefits	27	3,748	3,167	2,182	1,841
Warranties		2,339	2,256	2,339	2,256
Directors' retirement scheme	27	1,147	1,069	1,147	1,069
Make good lease costs		1,399	1,336	1,233	1,233
Total non-current provisions		**8,633**	**7,828**	**6,901**	**6,399**
Reconciliations					
Reconciliations of the carrying amounts of each class of provision, except for the employee benefits provision, are set out below:					
Warranties					
Carrying amount at beginning of financial year		10,738	8,683	10,738	7,795
Provisions made		13,786	11,554	13,786	12,371
Provisions used		(13,387)	(9,428)	(13,387)	(9,428)
Effects of movements in foreign exchange		-	(71)	-	-
Carrying amount at end of financial year		**11,137**	**10,738**	**11,137**	**10,738**
Legal and other					
Carrying amount at beginning of financial year		5,204	5,415	1,363	1,500
Provisions made		1,580	1,741	838	185
Provisions used		(2,826)	(1,599)	(988)	(322)
Effects of movements in foreign exchange		(94)	(353)	-	-
Carrying amount at end of financial year		**3,864**	**5,204**	**1,213**	**1,363**
Directors' retirement scheme					
Carrying amount at beginning of financial year		1,069	1,457	1,069	1,457
Provisions made		78	91	78	91
Provisions used		-	(587)	-	(587)
Unwind of discount		-	108	-	108
Carrying amount at end of financial year		**1,147**	**1,069**	**1,147**	**1,069**
Make good lease costs					
Carrying amount at beginning of financial year		1,336	1,296	1,233	1,233
Provisions made		63	52	-	-
Provisions used		-	(12)	-	-
Carrying amount at end of financial year		**1,399**	**1,336**	**1,233**	**1,233**

NOTES TO THE FINANCIAL STATEMENTS Cochlear Limited and its controlled entities for the year ended 30 June 2008

Employee benefits

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

Legal and other

For details of legal costs relating to the Office of Inspector General inquiry, refer to Note 22. 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.

22. 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 ended 30 June 2007, 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 is being 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.

Patent infringement complaint

During the year ended and 30 June 2008 the Company was served with a complaint for patent infringement by the Alfred E. Mann Foundation for Scientific Research (Mann Foundation). The complaint, filed in a US District Court of California, alleges that one of six identified patents has been infringed, specifically United States Patent No 5,609,616 entitled Physician's Testing System and Method for Testing Implantable Cochlear Stimulator, issued 11 March 1997.

The Company believes that the Mann Foundation's allegations of infringement are without merit and intends to vigorously defend against the complaint. As at the date of this report, the litigation is in the early stages of discovery and, based upon the information available, the financial impacts of the costs of responding to the request for discovery have been 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 EUR 60.8 million, or the equivalent thereof. The outstanding balance of the loan at reporting date was SEK 572.2 million (EUR 60.8 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 5.2 million and EUR 2.8 million.

23. Capital and reserves

Reconciliation of movement in capital, reserves and retained earnings

	Consolidated								
Amounts $000	Issued capital	Treasury reserve	Translation reserve	General reserve	Hedging reserve	Retained earnings	Total	Minority interest	Total equity
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
Share based payments	-	-	-	-	-	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**
2008									
Balance at 1 July 2007	71,369	(1,371)	(6,108)	236	15,456	181,227	260,809	-	260,809
Total recognised income and expense	-	-	(4,258)	-	7,709	115,234	118,685	-	118,685
Shares issued	13,695	(721)	-	-	-	-	12,974	-	12,974
Share based payments	-	-	-	-	-	4,725	4,725	-	4,725
Dividends to shareholders	-	-	-	-	-	(77,852)	(77,852)	-	(77,852)
Reclassification	-	-	236	(236)	-	-	-	-	-
Balance at 30 June 2008	**85,064**	**(2,092)**	**(10,130)**	**-**	**23,165**	**223,334**	**319,341**	**-**	**319,341**

NOTES TO THE FINANCIAL STATEMENTS Cochlear Limited and its controlled entities for the year ended 30 June 2008

	Company					
Amounts $000	Issued capital	Treasury reserve	Translation reserve	Hedging reserve	Retained earnings	Total equity
2007						
Balance as at 1 July 2006	68,034	(1,371)	(519)	3,596	115,957	185,697
Total recognised income and expense	-	-	420	11,860	84,687	96,967
Shares issued	3,335	-	-	-	-	3,335
Share based payments	-	-	-	-	2,376	2,376
Dividends to shareholders	-	-	-	-	(60,383)	(60,383)
Balance at 30 June 2007	**71,369**	**(1,371)**	**(99)**	**15,456**	**142,637**	**227,992**
2008						
Balance at 1 July 2007	71,369	(1,371)	(99)	15,456	142,637	227,992
Total recognised income and expense	-	-	(4)	7,709	80,392	88,097
Shares issued	13,695	(721)	-	-	-	12,974
Share based payments	-	-	-	-	4,725	4,725
Dividends to shareholders	-	-	-	-	(77,852)	(77,852)
Balance at 30 June 2008	**85,064**	**(2,092)**	**(103)**	**23,165**	**149,902**	**255,936**

Treasury reserve

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

Translation reserve

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

Hedging reserve

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

Share capital

	Issued shares in market circulation		Shares held in Trust under CELTIP		Total issued shares	
	2008 (number)	2007 (number)	2008 (number)	2007 (number)	2008 (number)	2007 (number)
On issue 1 July – fully paid	54,769,632	54,636,995	153,519	175,845	54,923,151	54,812,840
Issued for nil consideration under the Employee Share Plan	13,454	12,768	-	-	13,454	12,768
Shares issued into Trust	-	-	10,072	-	10,072	-
Issued from the exercise of options	676,173	97,543	-	-	676,173	97,543
Performance shares vesting from Trust	65,487	22,326	(65,487)	(22,326)	-	-
On issue 30 June – fully paid	**55,524,746**	**54,769,632**	**98,104**	**153,519**	**55,622,850**	**54,923,151**

The Consolidated Entity has also issued share options (see Note 27).

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

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

24. Notes to the statements of cash flows

Cash assets

The operating account received an average interest rate of:

- Company 6.5% (2007: 5.6%) per annum; and
- Consolidated 4.0% (2007: 1.4%) per annum.

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

- Company 6.8% (2007: 6.2%) per annum; and
- Consolidated 5.9% (2007: 6.2%) 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 short term deposits, net of outstanding bank overdrafts. Cash and cash equivalents as at the reporting date as shown in the statements of cash flows are reconciled to the related items in the balance sheets as follows:

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$000	$000	$000	$000
Cash on hand		35,379	41,165	13,870	1,700
Cash on deposit		1,308	42,217	934	42,217
		36,687	**83,382**	**14,804**	**43,917**
Bank overdrafts	18	-	(1,645)	-	(223)
		36,687	**81,737**	**14,804**	**43,694**
(b) Reconciliation of net profit to net cash provided by operating activities					
Net profit (including minority interest)		115,234	97,676	80,392	84,687
Add items classified as investing activities					
Loss/(gain) on disposal of non-current property, plant and equipment		644	1,125	48	(27)
Add non-cash items					
Amounts set aside to provisions		31,007	30,054	22,529	21,807
Depreciation and amortisation		21,332	17,105	15,353	10,895
Share based payments		4,725	3,615	3,148	2,376
Increase in investment in controlled entities		-	-	1,577	-
Net cash provided by operating activities before changes in assets and liabilities		**172,942**	**149,575**	**123,047**	**119,738**
Changes in assets and liabilities					
(Increase)/decrease in receivables		(31,864)	(23,687)	(18,301)	20,496
Increase in inventories		(6,734)	(4,987)	(1,943)	(1,135)
Increase/(decrease) in prepayments		(3,427)	443	(3,623)	(553)
Increase/(decrease) in deferred tax assets		(2,020)	7,271	(2,218)	(183)
Decrease in payables		8,193	(4,575)	2,963	(4,109)
Decrease in current tax liabilities		(9,351)	(16,984)	(1,946)	(13,242)
Decrease in provisions		(29,639)	(25,231)	(20,784)	(16,300)
Decrease in deferred revenue		(2,980)	(6,187)	(585)	(9)
Effects of movements in foreign exchange		(10,572)	1,198	(84)	(29)
Net cash provided by operating activities		**84,548**	**76,836**	**76,526**	**104,674**

25. Controlled entities

(a) Particulars in relation to controlled entities

	Note	Interest held 2008 %	Interest held 2007 %	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 Research and Development Limited (previously Cochlear Acoustics Limited)	(i)	100	100	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)	99.99	99.99	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)	100	100	Sweden
Cochlear France SAS (previously 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		100	100	Canada
Cochlear Nordic AB	(i)	100	100	Sweden
Cochlear Manufacturing Corporation	(i)	100	-	USA
Cochlear Korea Limited	(i)	100	-	Korea
Cochlear Tibbi Cihazlar ve Saglik Hizmetleri Limited Sirketi	(i)	100	-	Turkey
Lachlan Project Holdings Pty Ltd		100	-	Australia
Lachlan Project Development Pty Ltd		100	-	Australia
Lachlan Project Security Holdings Pty Ltd		100	-	Australia

(i) These entities are audited by other member firms of KPMG.
(ii) Dormant.

(b) Acquisition of distributor businesses

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

(c) Acquisition of manufacturing 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 30 June 2007	9,972
Further consideration paid to 30 June 2008	9,286
Total consideration	**19,258**
Represented by:	
Inventories	10,081
Property, plant and equipment	4,990
Other assets	375
Other provisions	(467)
Goodwill on acquisition	4,279
	19,258

(d) 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 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.

On 14 May 2008 CAL changed its name to Cochlear Research and Development Limited.

26. Related parties

Key management personnel disclosures

Key management personnel

The following were key management personnel of the Company and 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
Mr R Holliday-Smith
Mr DP O'Dwyer

Executive director

Dr CG Roberts

Executives

Mr R Brook
Mr J Janssen
Mr NJ Mitchell
Mr MD Salmon
Mr CM Smith

Key management personnel disclosures

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

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Short-term employee benefits	5,062,218	5,342,744	3,848,022	4,094,856
Post-employment benefits	325,500	817,352	286,425	781,369
Other long-term benefits	44,541	70,039	44,541	70,039
Equity compensation benefits	1,135,160	1,157,989	794,034	804,755
	6,567,419	**7,388,124**	**4,973,022**	**5,751,019**

Information regarding individual directors' and executives' remuneration and some equity instruments disclosures as permitted by section 300A of the Corporation Act 2001 is provided in the Remuneration Report in the Directors' Report on pages 8 to 16.

NOTES TO THE FINANCIAL STATEMENTS Cochlear Limited and its controlled entities for the year ended 30 June 2008

Options and performance shares granted as compensation

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

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

	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)[i]	91,180	18,862	(11,445)	(9,139)	89,458	
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)[i]	7,485	-	(1,472)	(1,176)	4,837	-
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 were vested but not exercisable at 30 June 2007 or 2008.

All options and performance shares granted in the 2008 financial year were granted on 20 August 2007 and vest in August 2010. Options have an expiration date of 30 June 2012. 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 $63.18 per share and a fair value of $8.19 per share at grant date for options with performance based conditions and $8.12 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 $33.99 per share for performance shares with performance based conditions and $23.52 per share at grant date for performance shares with market based conditions.

NOTES TO THE FINANCIAL STATEMENTS Cochlear Limited and its controlled entities for the year ended 30 June 2008

Movement in shares

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

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

	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 (appointed 1 February 2007)	-	500	-	-	500
Mr R Holliday-Smith	1,000	1,500	-	-	2,500
Mr PJ North, AM(i) (retired 24 October 2006)	13,000	-	-	-	13,000
Mr DP O'Dwyer	2,450	500	-	-	2,950
Mr JH Veeneklaas(i) (retired 31 March 2007)	1,000	-	-	-	1,000
Executive					
Dr CG Roberts	237,000	185,018	-	-	422,018
Dr JL Parker(i) (retired 31 March 2007)	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

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

Controlled entity related parties

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

	Company	
	2008	2007
	$000	$000
The aggregate amounts included in the profit before income tax for the Company that resulted from transactions with non-director related parties are:		
Revenue from the sale of goods	362,745	328,888
License fee costs (included in cost of sales)	52,691	38,862
Interest income	1,928	1,673
Dividends from controlled entities	-	1,608
Interest expense	794	499
The aggregate amounts receivable from wholly-owned controlled entities by the Company at reporting date are:		
Current receivables	73,601	63,971

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$000	$000	$000	$000
27. Employee benefits					
Current					
Provision for long service leave		2,862	2,433	2,765	2,354
Provision for annual leave		10,154	8,683	6,882	5,972
Provision for short-term incentives		5,838	6,151	2,456	2,701
	21	**18,854**	**17,267**	**12,103**	**11,027**
Salary and wages accrued		2,707	2,638	1,678	1,296
Total current employee benefits		**21,561**	**19,905**	**13,781**	**12,323**
Non-current					
Provision for long service leave	21	3,748	3,167	2,182	1,841
Directors' retirement scheme	21	1,147	1,069	1,147	1,069
Total non-current employee benefits		**4,895**	**4,236**	**3,329**	**2,910**
Total employee benefits		**26,456**	**24,141**	**17,110**	**15,233**

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, 67 employees. The Consolidated Entity contributed $0.7 million (2007: $0.6 million) to defined benefit plans in the year ended 30 June 2008 and expects to contribute $0.7 million in the year ending 30 June 2009. The net liability of the plans at 30 June 2008 was $0.1 million (2007: $0.1 million).

(a) Defined contribution superannuation plans

The Consolidated Entity makes contributions to defined contribution plans. The amount recognised as expense was $9.4 million for the year ended 30 June 2008 (2007: $7.1 million).

(b) Share based payments

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

The CELTIP was approved and adopted at the Annual General Meeting on 20 October 2003 and replaced the Executive Share Option Plan. The CELTIP offers a mixture of options over unissued shares and performance shares. Both the options and the performance shares are subject to a three year vesting period. The number of options and 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 EPS achieved by the Consolidated Entity, and the other half against the TSR as measured against the S&P/ASX 100. If the minimum compound annual growth rate in EPS of 10% is not achieved, 50% of shares will not be issued or released to the executives. If the TSR of 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 and the terms and conditions of the grants and issues are as follows:

Grant date	Number of instruments	Conditions for minimum vesting	Contractual life of options
Option grant in August 2004	24,500	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	24,500	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Option grant in August 2005	338,927	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	338,928	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Option grant in August 2006	241,586	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	241,586	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Option grant in August 2007	195,458	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	195,459	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Total options	**1,600,944**		

Issue date	Number of instruments	Conditions for minimum vesting	Contractual life of shares in the Trust
Performance shares issued in August 2005	29,010	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	29,011	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Performance shares issued in August 2006	8,384	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	8,384	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Performance shares issued in August 2007	10,192	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	10,193	The Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Total performance shares	**95,174**		

The number and weighted average exercise prices of options are as follows:

	Weighted average exercise price $	Number of options	Weighted average exercise price $	Number of options
	2008	2008	2007	2007
Outstanding at beginning of financial year	34.69	1,948,074	30.10	1,634,204
Forfeited during the financial year	48.60	(82,047)	38.20	(125,968)
Exercised during the financial year	19.19	(676,172)	34.19	(97,543)
Granted during the financial year	63.18	411,089	49.43	537,381
Outstanding at end of financial year	**47.83**	**1,600,944**	**34.69**	**1,948,074**
Exercisable at end of financial year	18.97	49,000	18.97	715,540

The weighted average share price at date of exercise was $65.51 (2007: $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 26.5% volatility, as reflected in the historical volatility.

For options outstanding at the end of the year, 49,000 options have an exercise price of $18.97, 1,161,027 options have an exercise price falling within the range of $39.93 – $49.43, and 390,917 options have an exercise price of $63.18 (2007: 715,540 options at $18.97 and the remainder falling within the range of $34.19 – $49.43). The weighted average remaining contractual life of options outstanding at the end of the year is three years (2007: three years).

28. Financial instruments

Credit risk

Exposure to credit risk

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

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Cash and cash equivalents	36,687	83,382	14,804	43,917
Trade receivables and other receivables	152,193	127,651	24,821	19,529
Forward exchange contracts used for hedging	33,093	22,080	33,093	22,080
	221,973	**233,113**	**72,718**	**85,526**

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

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Americas	43,666	43,354	-	-
Europe	69,346	54,861	-	-
Asia Pacific	30,821	18,682	22,033	13,359
	143,833	**116,897**	**22,033**	**13,359**

Impairment losses

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

	2008 $000	2007 $000
Gross receivables		
Not past due	95,219	68,847
Past due 0 – 30 days	17,255	18,634
Past due 31 – 120 days	22,579	20,087
Past due 121 – 270 days	6,643	7,120
Past due 271 days and over	4,880	4,146
	146,576	**118,834**
Impairment	(2,743)	(1,937)
Trade receivables net of impairment loss	**143,833**	**116,897**

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

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

	2008 $000	2007 $000
Gross receivables		
Not past due	14,636	8,333
Past due 0 – 30 days	2,975	1,740
Past due 31 – 120 days	3,386	1,783
Past due 121 – 270 days	551	282
Past due 271 days and over	693	1,334
	22,241	**13,472**
Impairment	(208)	(113)
Trade receivables net of impairment loss	**22,033**	**13,359**

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

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Balance at 1 July	(1,937)	(2,885)	(113)	(120)
Impairment loss (recognised)/utilised	(1,041)	616	(95)	7
Effect of movements in foreign exchange	235	332	-	-
Balance at 30 June	**(2,743)**	**(1,937)**	**(208)**	**(113)**

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

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

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

NOTES TO THE FINANCIAL STATEMENTS Cochlear Limited and its controlled entities for the year ended 30 June 2008

Liquidity risk

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

	Consolidated							
	Effective interest rate per annum	Carrying amount $000	Contractual cash flows $000	6 months or less $000	6-12 months $000	1-2 years $000	2-5 years $000	More than 5 years $000
Non-derivative financial liabilities 2008								
GBP floating rate loan	6.2%	10,820	11,491	336	11,155	-	-	-
EUR floating rate loan	5.0%	4,618	4,854	118	4,736	-	-	-
SEK floating rate loan	5.9%	100,207	110,641	1,521	2,971	106,149	-	-
USD floating rate loan	3.2%	31,400	32,232	251	498	31,483	-	-
AUD floating rate loan	8.1%	20,000	21,321	247	806	20,268	-	-
JPY floating rate loan	2.3%	2,938	3,086	33	33	66	2,954	-
Trade and other payables	-	60,830	60,830	60,830	-	-	-	-
Total		**230,813**	**244,455**	**63,336**	**20,199**	**157,966**	**2,954**	**-**

	Effective interest rate per annum	Carrying amount $000	Contractual cash flows $000	6 months or less $000	6-12 months $000	1-2 years $000	2-5 years $000	More than 5 years $000
Non-derivative financial liabilities 2007								
GBP floating rate loan	6.2%	12,169	12,921	376	12,545	-	-	-
EUR floating rate loan	4.5%	4,396	4,597	100	4,497	-	-	-
SEK floating rate loan	4.6%	115,347	122,483	2,653	79,255	1,727	38,848	-
USD floating rate loan	5.8%	35,332	37,382	1,025	36,357	-	-	-
AUD floating rate loan	7.0%	30,000	30,279	30,279	-	-	-	-
JPY bank overdraft	2.0%	1,422	1,422	1,422	-	-	-	-
AUD bank overdraft	9.5%	223	223	223	-	-	-	-
Trade and other payables	-	61,923	61,923	61,923	-	-	-	-
Total		**260,812**	**271,230**	**98,001**	**132,654**	**1,727**	**38,848**	**-**

	Company							
	Effective interest rate per annum	Carrying amount $000	Contractual cash flows $000	6 months or less $000	6-12 months $000	1-2 years $000	2-5 years $000	More than 5 years $000
Non-derivative financial liabilities 2008								
AUD floating rate loan	8.1%	20,000	21,321	247	806	20,268	-	-
Trade and other payables	-	27,058	27,058	27,058	-	-	-	-
Total		**47,058**	**48,379**	**27,305**	**806**	**20,268**	**-**	**-**

	Effective interest rate per annum	Carrying amount $000	Contractual cash flows $000	6 months or less $000	6-12 months $000	1-2 years $000	2-5 years $000	More than 5 years $000
Non-derivative financial liabilities 2007								
AUD floating rate loan	7.0%	30,000	30,279	30,279	-	-	-	-
AUD bank overdraft	9.5%	223	223	223	-	-	-	-
Trade and other payables	-	33,381	33,381	33,381	-	-	-	-
Total		**63,604**	**63,883**	**63,883**	**-**	**-**	**-**	**-**

Cash flow hedges

In the year ended 30 June 2008, the Consolidated Entity designated some sales and purchases of various currencies as cash flow hedges to hedge the amount converted into AUD for forecast future transactions. These are hedges of forecast future transactions to manage the currency risk arising from exchange rate fluctuations. The hedged items were highly probable foreign currency transactions.

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

All material hedges were effective as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS Cochlear Limited and its controlled entities for the year ended 30 June 2008

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

30 June 2008

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

30 June 2007

Amounts $000	Carrying amount	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Forward exchange contracts	22,080	23,139	10,525	5,955	6,881	(222)

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

Currency risk

Exposure to currency risk

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

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

Amounts local currency thousands	USD	EUR	GBP	SEK	JPY
2007					
Trade receivables	42,354	26,066	2,972	4,022	471,672
Secured bank overdrafts	-	-	-	-	(150,000)
Secured bank loans	(30,000)	(2,800)	(5,200)	(457,903)	-
Trade payables	(7,808)	(2,121)	(3,543)	(30,100)	(53,072)
Gross balance sheet exposure	**4,546**	**21,145**	**(5,771)**	**(483,981)**	**268,600**

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

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

Amounts local currency thousands	USD	GBP	SEK	JPY
2007				
Trade receivables	2,776	-	-	-
Amounts receivable from controlled entities	20,892	9,011	119,621	109,383
Gross balance sheet exposure	**23,668**	**9,011**	**119,621**	**109,383**

NOTES TO THE FINANCIAL STATEMENTS Cochlear Limited and its controlled entities for the year ended 30 June 2008

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

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

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

	Foreign exchange rates		Consolidated and Company	
	2008	2007	2008 $000	2007 $000
Sell USD				
Not later than one year			141,599	135,043
Later than one year but not later than two years			78,951	72,287
Later than two years but not later than three years			17,615	8,640
Weighted average exchange rates contracted	0.83	0.78		
Sell EUR				
Not later than one year			129,394	118,250
Later than one year but not later than two years			78,650	61,289
Later than two years but not later than three years			15,914	6,750
Weighted average exchange rates contracted	0.57	0.59		
Sell JPY				
Not later than one year			10,725	9,396
Later than one year but not later than two years			5,248	3,771
Later than two years but not later than three years			1,270	1,287
Weighted average exchange rates contracted	86.52	82.99		
Buy SEK				
Not later than one year			-	36,600
Weighted average exchange rates contracted	-	5.29		

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

	Average rate		Reporting date spot rate	
AUD 1 =	2008	2007	2008	2007
USD	0.897	0.789	0.956	0.849
EUR	0.612	0.610	0.606	0.637
GBP	0.449	0.411	0.481	0.427
SEK	5.706	5.602	5.703	5.886
JPY	99.290	94.425	102.110	105.450
CHF	0.997	0.977	0.978	1.047

Interest rate risk

Profile

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

	Consolidated		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Carrying amount				
Variable rate instruments				
Financial assets	36,687	83,382	14,804	43,917
Financial liabilities	169,983	198,889	20,000	30,223

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 2008, it is estimated that a general increase of one percent in interest rates would have decreased the Consolidated Entity's profit after income tax and equity by approximately $0.9 million (2007: $0.8 million). A one percent decrease in interest rates would have had the equal but opposite effect on the Consolidated Entity's profit and equity.

It is estimated that a general increase of ten percent in the value of the AUD against other foreign currencies would have decreased the Consolidated Entity's profit for the year ended 30 June 2008, including hedging results and after income tax by approximately $5.7 million (2007: $4.6 million) and increased the Consolidated Entity's equity by $1.0 million (2007: $6.0 million). A ten percent decrease in the value of the AUD against other foreign currencies would have had the equal but opposite effect on the Consolidated Entity's profit and equity.

NOTES TO THE FINANCIAL STATEMENTS Cochlear Limited and its controlled entities for the year ended 30 June 2008

Fair values

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

		Consolidated			
		2008		2007	
	Note	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Cash and cash equivalents		36,687	36,687	83,382	83,382
Trade and other receivables – current	12	173,266	173,266	143,076	143,076
Trade and other receivables – non-current	12	15,963	15,963	6,655	6,655
Trade and other payables		(60,830)	(60,830)	(61,923)	(61,923)
Bank overdrafts	18	-	-	(1,645)	(1,645)
Secured bank loans	18	(169,983)	(169,983)	(197,244)	(197,244)
Total		**(4,897)**	**(4,897)**	**(27,699)**	**(27,699)**

		Company			
		2008		2007	
	Note	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Cash and cash equivalents		14,804	14,804	43,917	43,917
Trade and other receivables – current	12	119,941	119,941	99,275	99,275
Trade and other receivables – non-current	12	11,574	11,574	6,305	6,305
Other financial assets	14	65,656	65,656	63,989	63,989
Trade and other payables		(27,058)	(27,058)	(33,381)	(33,381)
Bank overdrafts	18	-	-	(223)	(223)
Secured bank loans	18	(20,000)	(20,000)	(30,000)	(30,000)
Total		**164,917**	**164,917**	**149,882**	**149,882**

Basis for determining fair values

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

Derivatives

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

Non-derivative financial assets and liabilities

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

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

29. 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 significantly affect 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 2008, see Note 9.

DIRECTORS' DECLARATION Cochlear Limited and its controlled entities for the year ended 30 June 2008

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

(a) the financial statements and notes that are contained in the Remuneration Report in the Directors' Report, set out on pages 19 to 72, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2008 and of their performance for the financial year ended on that date; and

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

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

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

2 There are reasonable grounds to believe that the Company and the consolidated entities identified in Note 25 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.

3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2008.

Dated at Sydney this 12 day of August 2008.

Signed in accordance with a resolution of the directors:

Director

Director

Report on the financial report

We have audited the accompanying financial report of Cochlear Limited (the Company), which comprises the balance sheets as at 30 June 2008, 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 29 and the directors' declaration of the Consolidated Entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

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

- (i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2008 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2008. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the Remuneration Report of Cochlear Limited for the year ended 30 June 2008, complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

Kevin Leighton, Partner

Sydney, 12 August 2008

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.

- [x] 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: .... (Company Secretary)   Date: ......12 August 2008........

Print name: NJ Mitchell