2017 COCHLEAR LIMITED

Annual Report

Hear now. And always

Cochlear®

Contents

Shareholder reports

Cochlear publishes a number of online shareholder reports aimed at improving transparency and making information easier to access. They are a great companion to the Annual Report and are all available at the Investor Centre of the website, www.cochlear.com.

Tax Contribution Report

The Tax Contribution Report covers Cochlear’s taxes paid in Australia and globally and provides detail on global tax strategy. Cochlear has a strong commitment to transparency and compliance from a regulatory and financial perspective and values the principles of being transparent with respect to its tax strategy and compliance in Australia and globally.

Corporate Governance Statement

The Corporate Governance Statement summarises the Company’s corporate governance practices and incorporates the disclosures required by the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations (3rd Edition). The Board is committed to achieving and demonstrating the highest standards of corporate governance. Cochlear continues to refine and improve the governance framework and practices in place to ensure they meet the interests of shareholders.

Investor Handbook

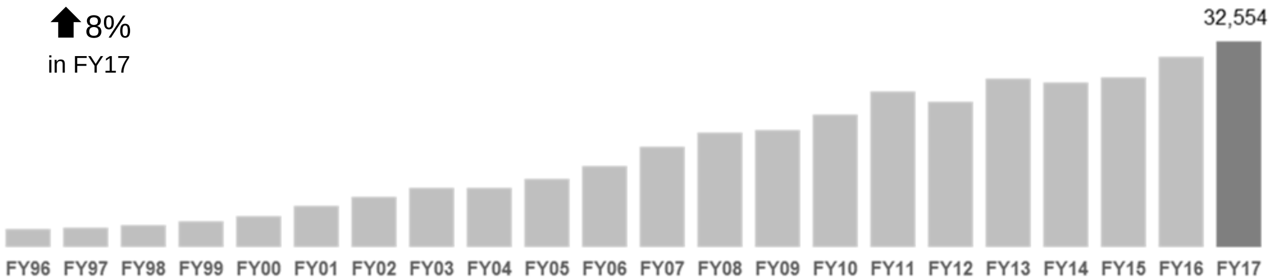
The Investor Handbook is an all-in-one reference for shareholders covering Cochlear’s history, global footprint, product portfolio, the hearing loss market and how the Company’s products work.

Financial history

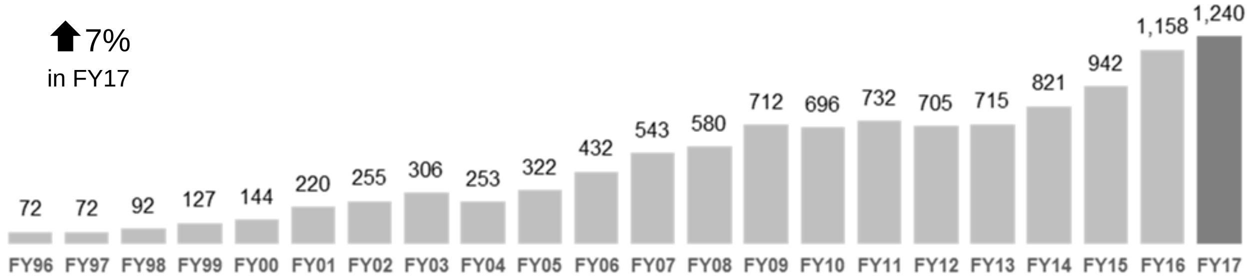
Hear now. And always

Cochlear®

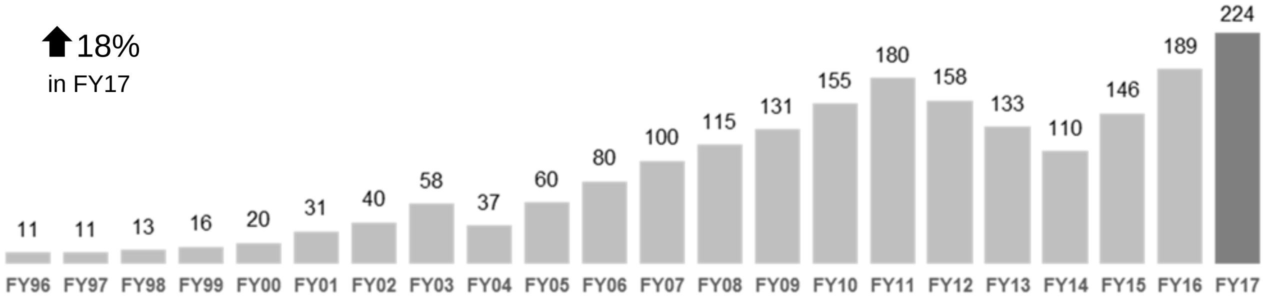
Cochlear implants
units



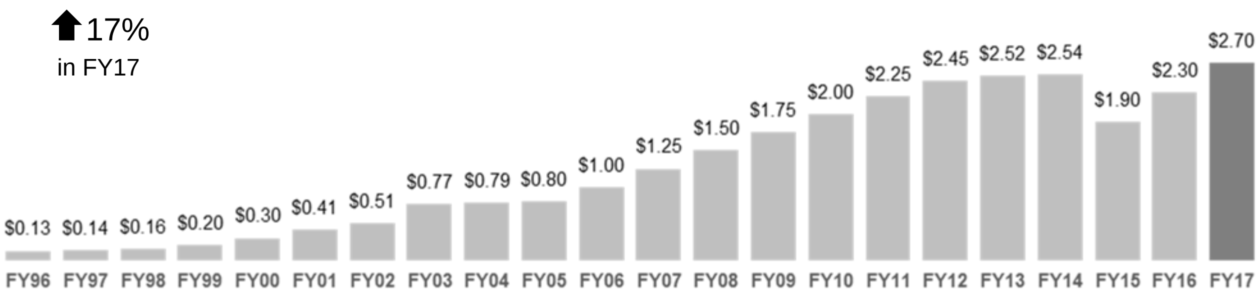
Sales revenue
$million



Net profit
$million - adjusted[1]



Dividends
per share



1. FY12 excludes product recall costs of $101 million after tax and FY14 excludes patent dispute provision of $16 million after tax.

Chairman's report

Cochlear reported a record net profit of $224 million, an increase of 18% on the FY16 result. FY17 has been a big year, with a continued focus on strengthening our customer servicing capability and market growth activities while maintaining our commitment to product innovation through our extensive investment in research and development (R&D).

Steady progress was made throughout the year, with a number of successful new product launches which underpinned our solid sales and earnings growth. Our continued investment in sales and marketing activities has supported a healthy rate of industry growth with the cochlear implant market across the developed world estimated to have grown by around 8-10% over the past three years.

It has been an important year for hearing awareness with the World Health Organization (WHO) recognising that untreated hearing loss is a significant public health issue.

We have also expanded our operations with the announcement of the expansion of our manufacturing footprint into China as well as the acquisition of Sycle, the global leader in audiology practice management software.

Finally, in July 2017, we announced the retirement timeline for Chris Smith as Chief Executive Officer & President, and the appointment of Dig Howitt as Cochlear's new CEO & President.

Growing dividends

Earnings growth, combined with strong free cash flow generation, has supported the 17% increase in the fully franked final dividend to $1.40 per share. This takes dividends paid for the year to $2.70 per share, fully franked, an increase of 17% on FY16.

Commitment to innovation

Cochlear continues to lead the market with innovative new technology that improves the quality of life of so many people around the globe and contributes to the continued growth of the industry. We have a team of over 300 engineers across the globe who work together to develop innovative technologies that really change the lives of our recipients. In FY17, we invested over $150 million – representing 12% of revenue – in our R&D activities.

Cochlear implants recognised as a cost effective intervention by the World Health Organization

In March this year, the WHO reaffirmed the importance of making progress in dealing with the rising prevalence of hearing loss.

The WHO has estimated that over 360 million people – over 5% of the world's population – live with disabling hearing loss, 32 million of whom are children. With prevalence rates rising, the global cost of unaddressed hearing loss has been estimated at $750 billion per year.

Hearing loss is a significant public health issue that requires all countries to make hearing health a priority, with the need for the development of national action plans around prevention, intervention and treatment of hearing loss.

In May this year, the World Health Assembly (WHA), the WHO governing body, passed a resolution outlining practical, cost effective steps to deal with hearing loss, starting with awareness, hearing screening programs, and making hearing aids and assistive hearing technologies, such as cochlear implants, more accessible to those who need them. Passed unanimously, this is the first WHA resolution tackling prevention of deafness and hearing loss in 22 years and sets out the ground work needed for action.

At Cochlear, we are driven by our mission to improve the lives of people with hearing loss, and as a hearing health expert, we join with other global stakeholders to play our part in tackling this global health issue.

Shifting demographics driving demand

A major part of Cochlear's business is in developed markets like Australia, North America and Western Europe. Over the past decade, we have experienced a shift in these markets to cochlear implantation in seniors – the over 65 year olds – driven in part by the ageing population and the higher incidence of hearing loss in this age group.

Cochlear implantation for seniors is an important trend, especially as we begin to better understand the link between high levels of hearing loss and cognitive decline, social isolation and depression.

We have been increasing our investment in health economics and the collaborative partnerships we have with the medical research community to better understand these impacts on individuals and societies, so that we can create stronger awareness and build better access for those affected.

Expanding global manufacturing footprint

In July 2017, we announced plans to expand our global manufacturing capacity for cochlear implants with a new $50 million facility to be built in China. Products produced in the new facility, which is expected to commence production within four years, will be for China and our emerging markets business.

We believe that this investment should allow us to further extend our market position and deepen our commitment to China. The new facility will have the capacity to increase our global cochlear implant production by around 50%.

The investment is part of a broader plan to increase production capacity across the product portfolio. In 2010, we opened our state-of-the-art global headquarters and manufacturing facility on the Macquarie University campus in Sydney. Earlier this year, we acquired the Lane Cove manufacturing facility and we are also currently upgrading and adding capacity to our Brisbane manufacturing facility.

Acquisition of global leader in audiology practice management software

In May 2017, we announced the acquisition of Sycle, the world's largest provider of audiology practice management software, for an estimated US$78 million.

The acquisition is a strategic investment that will strengthen our service offering to our clinical partners. Sycle offers a market-leading practice management solution with a product suite that can be expanded to provide a solution for cochlear implant clinics. This acquisition will enable our partners to enhance clinic efficiency, freeing up more time to deliver patient care.

We are also excited by the opportunity to strengthen the relationship between the hearing aid and cochlear implant channels. There is an opportunity to leverage best practice processes and systems across the hearing services industry, and streamline patient care.

Sycle provides a single platform from which we can build awareness of the hearing loss treatment options available as patients are managed through the continuum of care.

CEO & President transition timeline announced

In July 2017, we announced the retirement timeline for Chris Smith as Chief Executive Officer & President, and the appointment of Dig Howitt as Cochlear's new CEO & President. Dig became President, Cochlear, effective 31 July 2017 and will work closely with Chris as operating responsibilities and relationships are transferred over the coming months, with Chris to retire effective 2 January 2018.

Dig has been Cochlear's Chief Operating Officer since July 2016, with his appointment part of a succession process. Dig joined Cochlear in 2000 and has been a key member of the leadership team for many years. He has a wealth of experience across the Company in roles including Chief Operating Officer; President, Asia Pacific; and SVP, Manufacturing and Logistics.

Chris has overseen a period of substantial growth for Cochlear with the Company exceeding a billion dollars in annual sales revenue during his time as CEO & President. With his leadership team, Chris has focused the strategic priorities on the customer and reorganised the management team around growth initiatives for a sustainable future. Chris will leave the Company and its management in a strong position. The Board and management wish Chris well in his retirement and thank him for his substantial contributions during a distinguished 13 year career at Cochlear.

Dig will transition into the CEO & President role over the coming months and you can expect Cochlear to continue to pursue its well-established strategic priorities under his leadership.

Remuneration

We need to ensure our remuneration practices are continually evolving to keep us competitive, ensure we can attract the best people, and effectively contribute to aligning performance and effort to our key business objectives.

Remuneration oversight of the CEO & President, the other key management personnel, and employees generally, is an important aspect of the Board's responsibilities. The role is carried out by the People & Culture Committee. The Remuneration report sets out our approach to remuneration and provides the FY17 details.

FY18 financial outlook

For FY18, Cochlear expects reported net profit to increase to $240-250 million, with currency headwinds expected to moderate strong underlying business growth.

Positive momentum continues across the business with the significant investments made in product development and market growth initiatives over the previous few years expected to underpin growth in FY18. In particular, we expect the launch of the Nucleus® 7 Sound Processor, which commences its full market release from September, to contribute to both implant growth and upgrade demand over the coming years. The stronger Australian dollar will however have an impact on earnings, and is likely to reduce underlying net profit growth by a few percentage points in FY18.

The balance sheet and free cash flow generation remain strong and we continue to target a dividend payout ratio of around 70% of net profit.

Key guidance considerations for FY18:

- expect solid momentum in unit growth to continue, which will be supported by further investment in market access and market growth activities;
- expect net profit to be weighted to the second half given the timing of the Nucleus 7 Sound Processor launch;
- expect R&D expenditure to be $160-170 million; and
- forecasting a weighted average AUD/USD exchange rate of 80 cents for FY18 versus 75 cents in FY17.

Building transparency and openness with shareholders

We publish a number of online shareholder reports aimed at improving transparency and making information easier to access. The Corporate Governance Statement, Tax Contribution Report and Investor Handbook are great companions to the Annual Report and I encourage you to read them. They are all available at the Investor Centre of the website, www.cochlear.com.

Our employees

We all recognise Cochlear has a diverse global workforce focused on our business and on transforming the lives of people with hearing loss. We employ over 3,000 people from over 75 nationalities, with a direct presence in over 20 countries. The knowledge, expertise and passion of our employees are key to our future and the focus on delivering excellence for our customers is an important part of our success and our market leadership position.

On behalf of the Board, I congratulate and thank all of Cochlear's employees for their outstanding efforts and contributions this year.

Rick Holliday-Smith
Chairman

Chief Executive Officer's report

The positive momentum we have experienced over the past few years has continued throughout FY17 with strong growth in sales revenue and units delivered across all regions, with reported net profit growing by 18%.

Cochlear's market leadership position has strengthened with market growth and market share improvements throughout the year underpinned by successful new product launches, growing investment in direct-to-consumer marketing and sales force expansion.

The core cochlear implant business grew strongly with constant currency (CC)[1] revenue growth of 10% and unit growth of 8%.

Developed market unit growth was particularly strong, increasing by 12%, with highlights including continued strong performances from the US and Western Europe.

Emerging market units grew by around 20% (adjusted for the impact of lower Chinese Central Government tender units), with continuing strong growth in India and solid improvements in Latin America and Central & Eastern Europe.

During the year, the Kanso® Sound Processor, our first off-the-ear sound processor, and the Nucleus® Profile Slim Modiolar (CI532) electrode, the world's slimmest electrode, were launched, with both products experiencing strong uptake.

In July 2017, we introduced the Nucleus 7 Sound Processor, the world's first Made for iPhone cochlear implant sound processor, which will allow users to stream sound from an iPhone®, iPad® and iPod touch® directly to their sound processor, offering greater accessibility, connectivity and wireless solutions. The Nucleus 7 Sound Processor has received FDA and CE mark approval and will commence full commercial rollout in September.

The Services business, which includes sound processor upgrades and accessories, delivered CC revenue growth of 10% driven by continuing demand for the Nucleus 6 Sound Processor and the popularity of the Kanso Sound Processor. Second half momentum was particularly strong with 17% CC sales growth, with upgrade penetration reaching around 40% across the developed markets.

The Acoustics business had a strong year with sales growth of 26% in CC. Strong growth in both new system sales and upgrades was driven by the popularity of the Baha® 5 range of sound processors.

You can find a detailed review of the Product and service highlights and Regional review on pages 10 and 11.

Solid progress made against business priorities

Cochlear's priorities are focused on the customer with initiatives aimed at maintaining technology leadership and accelerating market growth through global expansion of awareness and increased market access initiatives. With a growing recipient base, now numbering over 450,000, we are actively strengthening our servicing capability to provide products, programs and digital services to support the lifetime relationship with our recipients.

We made progress against our business priorities which are focused on growing the core, building a service business, shaping the organisation and value creation. The key areas of focus have been on continuing to expand the sales force across major developed and emerging markets, expanding our direct-to-consumer programs in the US, Australia, Germany, UK and India and building greater engagement with our recipient base.

Thank you

Over the last several years, I have been honoured to lead a company that has positively impacted the lives of so many patients, and to work with an amazing team of people within our Company and industry. Cochlear has clear momentum in its business, a well-defined strategy and a strong leadership team. It is a good time to transition out of the Company.

I hand over to Dig Howitt as part of a succession process which will ensure we have a smooth transition as the leadership baton passes.

Chris Smith
Chief Executive Officer

[1] Constant currency (CC) removes the impact of foreign exchange (FX) rate movements and FX contract gains/(losses) to facilitate comparability. See the Operating and financial review on page 16 for further detail.

The Operating and financial review outlines Cochlear's activities, performance during the year, financial position and main business strategies. It also discusses the key risks and uncertainties that could impact on Cochlear and its ability to achieve its financial and other objectives.

Business model

Cochlear is the global leader in implantable hearing solutions with products including cochlear implants, bone conduction implants and acoustic implants. Cochlear's implant systems comprise an implant which is inserted during surgery and an external sound processor. The external sound processor can be upgraded with new technology as it becomes available.

Cochlear commenced operations in 1981 as part of the Nucleus group and in 1995, listed on the Australian Securities Exchange. Cochlear's global headquarters are on the campus of Macquarie University in Sydney, with regional headquarters in Asia Pacific, Europe and the Americas. Cochlear has a deep geographical reach, selling in over 100 countries, with a direct presence in over 20 countries and a global workforce of over 3,000 employees.

The Company estimates that over 450,000 recipients have been implanted with one of its implants. Cochlear's promise is 'Hear now. And always' – to provide recipients with the best possible hearing and support for the rest of their lives. Whether these hearing solutions were implanted today or many years ago, Cochlear provides new technologies and innovations for all recipients.

The Company invests more than $150 million each year in research and development (R&D) and currently participates in over 100 collaborative research programs worldwide.

The Company's principal manufacturing facilities are in Australia and Sweden. Manufacturing for the cochlear implant product range is based in Australia, at three sites: Macquarie University and Lane Cove, in Sydney, and Brisbane. Latest generation cochlear implant ranges are manufactured at Cochlear's Macquarie University headquarters, including the Nucleus Profile implant, while Lane Cove manufactures Cochlear's legacy products. The Brisbane site is responsible for manufacturing non-implant components. The bone conduction implant product range is manufactured in Sweden. The acoustic implant product range is manufactured across sites in Australia, the US and Belgium.

Cochlear's mission

We help people hear and be heard.

We **empower** people to connect with others and live a full life.

We **transform** the way people understand and treat hearing loss.

We **innovate** and bring to market a range of implantable hearing solutions that deliver a lifetime of hearing outcomes.

Hearing loss market opportunity

Over 360 million people worldwide experience disabling hearing loss, with nearly one in three people over the age of 65 affected by hearing loss. With the global market penetration for implantable hearing solutions at less than 5%, there remains a significant, unmet and addressable clinical need that is expected continue to underpin the long-term sustainable growth of the business.

360 million

Over 5% of the world's population - 360 million people - has disabling hearing loss* (328 million adults and 32 million children).[1]

1 in 3

Nearly one out of every three people over the age of 65 are affected by hearing loss. It affects communication and can contribute to social isolation, anxiety, depression and cognitive decline.[2]

37,000,000

people could benefit from a Cochlear implant to treat severe to profound hearing loss.[3,4]

<5%

Market penetration.[5]

* Disabling hearing loss refers to hearing loss greater than 40 decibels (dB) in the better hearing ear in adults and a hearing loss greater than 30 dB in the better hearing ear in children.

1. Who.int. WHO | Deafness and hearing loss [Internet]. 2015.
2. Who.int. WHO | 10 facts on deafness [Internet]. 2015.
3. Hearing Loss Prevalence in the US [Internet]. Lin, Niparko, Ferrucci [cited 26 April 2016].
4. The Severely to Profoundly Hearing-Impaired Population in the US [Internet]. Blanchfield, Feldman, Dunbar, Gardner [cited 26 April 2016].
5. Market penetration - global estimate based on Cochlear sourced data.

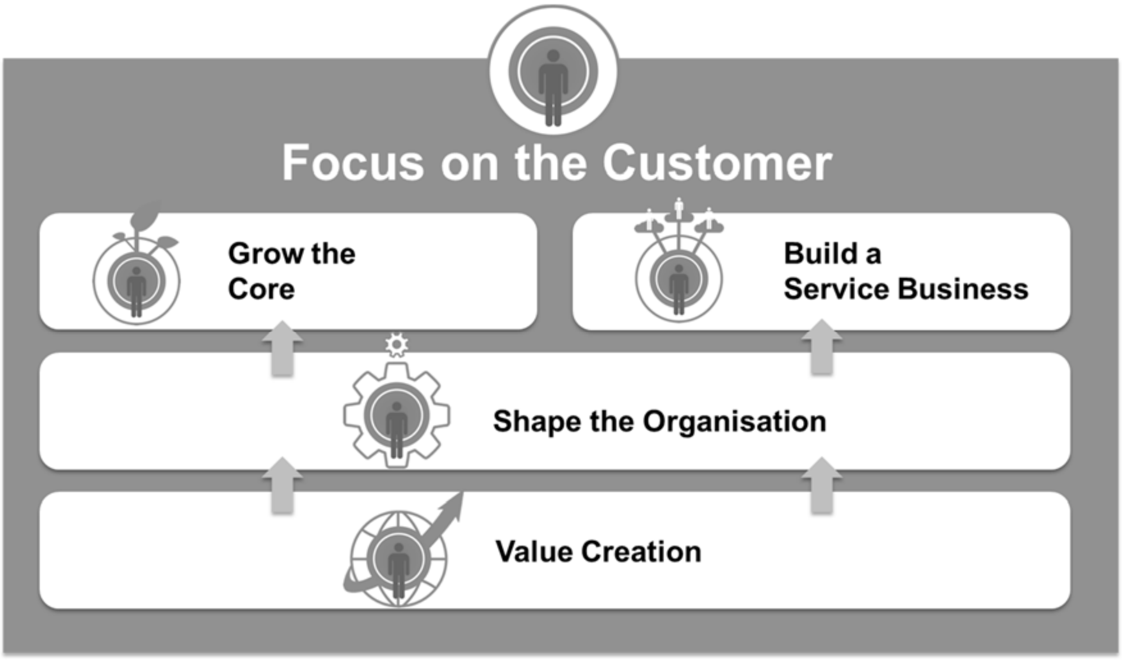
Company strategy

Cochlear aims to make cochlear implantation the standard of care for people with severe to profound hearing loss and provide bone conduction implants for patients with conductive hearing loss, mixed hearing loss and single sided deafness.

Cochlear's priorities are centred on the customer, with activities aimed at growing awareness and access to the industry for implant candidates. And with a growing recipient base, now numbering over 450,000, the Company is actively strengthening its servicing capability to provide products, programs and services to support the lifetime relationship with recipients.

Cochlear is committed to being the technology leader in the industry by investing in R&D to improve hearing outcomes and expand the indications for implantable solutions so recipients can have the quality of life they expect.

The Company's priorities are centred on four strategic platforms for the business:



1. Grow the core business

Implantable hearing devices will continue to be the driver of growth for the coming years. The focus will be to:

- **Strengthen the technology leadership position.** There are plans to launch a series of new products across all categories of the business over the coming years, focused on both market share and market growth;
- **Stimulate market growth** by increasing awareness of hearing loss. Over the last few years, Cochlear has developed a direct-to-consumer marketing strategy in the US to target potential candidates, follow up leads and nurture candidates through the channel. These learnings are now being taken to other countries;
- **Improve access for candidates** by expanding the cochlear implant clinic base as well as continuing to work with the referral channel to assist clinic partners to grow and become more efficient. The development of hybrid and acoustic implants, together with a broader range of electrodes, plays an important role in broadening the indications for implantable hearing solutions; and
- **Business model innovation.** Exploring new referral pathways and servicing models and where appropriate open Company-owned cochlear clinics to manage the aftercare of recipients.

2. Build a service business

With an ever growing base of recipients, now totalling over 450,000, Cochlear has both a lifetime responsibility and a significant business opportunity to service these recipients with upgrades and services that improve their quality of life by improving hearing performance. Cochlear will:

- **Support the growing recipient base** with upgrades, accessories and seamless service and repair;
- **Increase connectivity** and engagement with recipients with enhanced digital services; and
- **Introduce technology solutions for clinicians** to help clinic partners grow and make aftercare for recipients seamless.

3. Shape the organisation

Cochlear is reshaping the organisation to better utilise and deploy resources. The focus is to:

- **Expand the Company's presence in customer facing activities** across developed markets by expanding the field force and marketing activities to be closer to customers and clinic partners. Cochlear will also increase its presence in emerging markets like China;
- **Globally integrate enabling activities** such as information technology and quality systems to drive efficiencies and leverage best practice across the organisation; and
- **Build organisational capabilities** to support customer-focused activities.

4. Value creation

To deliver long-term sustainable growth, Cochlear will:

- **Develop alliances and partnerships**, like the Smart Hearing Alliance with GN ReSound, which enables the Company to leverage its technology and leadership position to either expand the market or fast track growth; and
- **Meet or exceed forecast financial targets**.

Results of operations

Product and service highlights

	2017 $000	2016 $000	Change % (reported)	Change % (CC)[1]
Cochlear implants (units)	32,554	30,172	⬆ 8%	
Sales revenue				
Cochlear implants	767,781	729,171	⬆ 5%	⬆ 10%
Services (sound processor upgrades and accessories)	305,589	289,418	⬆ 6%	⬆ 10%
Acoustics (bone conduction and acoustic implants)	166,363	139,542	⬆ 19%	⬆ 26%
Total sales revenue	**1,239,733**	**1,158,131**	**⬆ 7%**	**⬆ 12%**

[1] Constant currency (CC) removes the impact of exchange rate movements and FX contract gains/(losses) to facilitate comparability. See Notes on page 16 for further detail.

Cochlear implants – 62% of sales revenue

Cochlear implant revenue grew 5% in Australian dollars (10% in CC) with unit growth of 8% (14% excluding the benefit of Chinese Central Government tender units). Globally, the average selling price declined modestly driven by currency, regional mix and some minor pricing reductions.

Developed markets grew units by 12% with highlights including continued strong performances from the US and Western Europe. Emerging markets units grew by around 20% (adjusted for Chinese Central Government tender units) with continuing strong growth in India with solid improvements in Latin America and Central & Eastern Europe.

Cochlear's first off-the-ear sound processor, Kanso, was released during the first half. Uptake has exceeded expectations and contributed to market share gains during the year. The electrode portfolio was expanded with the full market release of the new Slim Modiolar electrode in Europe, the US and Canada with a strong uptake of the electrode since launch.

The increase in sales revenue also reflects continued investments in market growth initiatives including direct-to-consumer activities and field expansion of over 100 people. These initiatives help build awareness of implantable hearing solutions and support further penetration into the adult segment.

Services (sound processor upgrades and accessories) – 25% of sales revenue

Services sales revenue increased by 6% in Australian dollars (an increase of 10% in CC) driven by the continuing uptake of the Nucleus 6 Sound Processor and the popularity of the Kanso Sound Processor. Second half momentum was particularly strong with 17% CC sales growth.

Upgrade penetration since the release of the Nucleus 6 Sound Processor has been strong with close to 40% of recipients in developed markets upgrading their processors since it was first launched in September 2013, with penetration rates exceeding 50% in a number of key markets including Australia and the UK.

As part of the commitment to increase recipient engagement and provide recipients with great customer experience, the business continued to rollout a number of service-oriented programs. Cochlear's recipient membership program, Cochlear Family, is growing rapidly, with membership growing by over 150%, to around 60,000 recipients, this year. Recruitment continues to be a priority with Cochlear Family members upgrading their sound processors at a significantly higher rate than that of non-members.

Acoustics (bone conduction and acoustic implants) – 13% of sales revenue

Acoustics, which includes bone conduction and acoustic implant sales revenue, grew 19% in Australian dollars (26% in CC) with solid performances across all regions. Strong growth in both new system sales and upgrades was driven by the popularity of the Baha 5 range of sound processors.

Regional review

Sales revenue	2017 $000	2016 $000	Change % (reported)	Change % (CC)
Americas	594,997	519,688	⬆ 14%	⬆ 18%
EMEA (Europe, Middle East and Africa)	428,513	427,896	0%	⬆ 7%
Asia Pacific	216,223	210,547	⬆ 3%	⬆ 4%
Total sales revenue	**1,239,733**	**1,158,131**	⬆ **7%**	⬆ **12%**

Americas (US, Canada and Latin America) – 48% of sales revenue

Sales revenue increased by 14% in Australian dollars (18% in CC). The highlight was the growth in the US with cochlear implant unit growth of over 15%. Growth overall has been driven by new product introductions and the success of awareness building initiatives which continue to drive overall market growth rates. Services revenue grew strongly, supported by the success of the Kanso Sound Processor.

The expanded field sales organisation, direct-to-consumer marketing and improvements in sales force effectiveness have also supported strong market growth rates.

Overall Latin American unit growth and sales revenue have recovered well after declining in the financial year ended 30 June 2016 (FY16).

EMEA (Europe, Middle East and Africa) – 35% of sales revenue

Sales revenue was flat in Australian dollars (increasing by 7% in CC). Western Europe unit growth was over 10% with consistent rates of growth delivered across most countries. Investments in market growth initiatives and the positive reception to the Kanso Sound Processor, the Slim Modiolar electrode and the Baha 5 range of sound processors drove market share across many markets.

Central & Eastern Europe also performed well with the region benefiting from Cochlear's expanding presence, while units declined in a number of emerging markets, a result of the timing of tenders.

Asia Pacific (Australasia and Asia) – 17% of sales revenue

Sales revenue increased by 3% in Australian dollars (4% in CC). Strong growth was experienced across India, Korea and several South East Asian markets driven by the expansion of the field force, growing clinic numbers and improvements in reimbursement. Growth at the regional level was however moderated by the impact of tender units. In particular, the result includes around 1,900 Chinese Central Government tender units, which compares to over 3,300 units in FY16.

Financial review

Profit and loss

	2017 $000	2016 $000	Change % (reported)	Change % (CC)[1]
Sales revenue	**1,239,733**	**1,158,131**	**7%**	**12%**
Cost of goods sold	358,373	333,593	7%	10%
% of sales revenue	*29%*	*29%*		
Selling, marketing and general expenses	348,928	324,144	8%	13%
Administration expenses	83,474	79,287	5%	6%
Research and development expenses	151,929	145,080	5%	7%
% of sales revenue	*12%*	*13%*		
Total expenses	**942,704**	**882,104**	**7%**	**10%**
Other income	4,466	14,156		
FX contract gains / (losses)	14,105	(27,579)		
Earnings before interest and tax (EBIT)	**315,600**	**262,604**	**20%**	**15%**
% of sales revenue	*25%*	*23%*		
Net finance costs	6,775	8,338	(19%)	
Taxation expense	85,209	65,345	30%	
% effective tax rate	*28%*	*26%*		
Net profit	**223,616**	**188,921**	**18%**	**11%**

[1] Constant currency (CC) removes the impact of exchange rate movements and FX contract gains/(losses) to facilitate comparability. See Notes on page 16 for further detail.

Sales revenue increased by 7% (12% in CC) to $1,239.7 million while total expenses increased by 7% (10% in CC) to $942.7 million. As a result, the business generated an EBIT increase of 20% (15% in CC) to $315.6 million with the EBIT margin increasing by two points to 25%.

Key points of note:

- Cost of goods sold (COGS) increased by 7% (10% in CC) to $358.4 million, primarily as a result of growing volumes. COGS as a percentage of sales revenue remained steady at 29%;
- Selling, marketing and general expenses increased by 8% (13% in CC) to $348.9 million. The increase reflects the continued investment in the sales force and expanded marketing activities;
- Investment in R&D increased 5% (7% in CC) to $151.9 million, representing 12% of sales revenue;
- Other income of $4.5 million includes $0.4 million in foreign exchange (FX) gains on translation of certain balance sheet assets, primarily working capital. This compares to $8.7 million in FX gains in FY16, an $8.3 million reduction;
- Reported net profit includes $20.0 million of FX translation impacts, a result of the rising Australian dollar. The most significant impacts were from the increase in the weighted average AUD/USD (from around 73 cents to over 75 cents), AUD/GBP (from around 49 cents to 59 cents) and AUD/EUR (from 66 cents to 69 cents) in the financial year ended 30 June 2017 (FY17);

- FX contract gains on hedged sales were $14.1 million, reflecting the impact of the AUD appreciation against many of the major currencies compared to FY16 rates. This compared to FX contract losses on hedged sales of $27.6 million in FY16 as unfavourable FX contracts rolled off;
- Net finance costs reduced by 19% to $6.8 million, reflecting lower average net debt levels for the year, more favourable facility terms and improved interest income; and
- During the first half, the Australian Government reduced the R&D tax concession rate from 40.0% to 38.5%, effective from 30 June 2016. In FY16, Cochlear had approximately $100 million in qualifying R&D investments which delivered a full year benefit to net profit of around $10 million. The change in legislation reduced the tax benefit to around $8.5 million, a $1.5 million reduction in FY17 compared to FY16. Cochlear's effective tax rate increased from 26% to 28%, reflecting the reduced R&D concession rate.

Cash flow

	2017 $000	2016 $000	Change $000
EBIT	315,600	262,604	52,996
Depreciation and amortisation	31,214	33,491	(2,277)
Changes in working capital and other	(693)	(20,006)	19,313
Net interest paid	(7,895)	(10,291)	2,396
Income taxes paid	(78,454)	(80,685)	2,231
Operating cash flow	**259,772**	**185,113**	**74,659**
Capital expenditure	(26,031)	(28,858)	2,827
Acquisition of Lane Cove property	(27,559)	-	(27,559)
Acquisition of subsidiary (Sycle)	(63,709)	-	(63,709)
Other investments	(18,301)	(21,276)	2,975
Free cash flow	**124,172**	**134,979**	**(10,807)**

The business generated strong cash flows with operating cash flow increasing by $74.7 million, up 40%, to $259.8 million, primarily driven by increased earnings. Free cash flow declined by $10.8 million, reflecting acquisitions made during the year.

Key points of note:

- Cochlear acquired its long-term manufacturing facility at Lane Cove in Sydney for $27.6 million; and
- In May 2017, Cochlear acquired practice management software company, Sycle, for an estimated US$78 million. Net $63.7 million was paid in FY17 with the balance to be paid over three years as the acquisition is finalised and based on business performance.

Capital employed

	2017 $000	2016 $000	Change $000
Trade receivables	275,360	268,538	6,822
Inventories	160,011	154,103	5,908
Less: Trade and other payables	(130,911)	(110,354)	(20,557)
Working capital	304,460	312,287	(7,827)
Debtor days	*79*	*85*	*(6)*
Inventory days	*164*	*169*	*(5)*
Property, plant and equipment	120,107	86,878	33,229
Intangible assets	339,976	224,338	115,638
Other net liabilities	(91,514)	(57,125)	(34,389)
Capital employed	**673,029**	**566,378**	**106,651**

Capital employed increased by $106.6 million to $673.0 million since June 2016, primarily as a result of an increase in intangible assets.

Key points of note:

- Trade and other payables increased by $20.6 million, reflecting current payables relating to the Sycle acquisition and the gearing up of the supply chain for production of the Nucleus 7 Sound Processor;
- Property, plant and equipment increased by $33.2 million, primarily reflecting the $27.6 million acquisition of the Lane Cove manufacturing facility;
- Intangible assets increased by $115.6 million to $340.0 million, with $101.5 million of the increase comprising goodwill for the acquisition of Sycle in May 2017;
- All intangible assets are tested for impairment on an annual basis. There were no impairments or write-downs of intangible assets in FY17; and
- Other net liabilities increased by $34.4 million, largely reflecting the deferred consideration, and expected earn-out, for Sycle, which is to be paid over the next three years based on business performance.

Net debt

	2017 $000	2016 $000	Change $000
Loans and borrowings:			
Current	84,687	3,978	80,709
Non-current	134,235	189,260	(55,025)
Total debt	218,922	193,238	25,684
Cash and cash equivalents	(89,540)	(75,417)	(14,123)
Net debt	**129,382**	**117,821**	**11,561**

Average net debt levels were lower in FY17, resulting in lower net finance costs compared to FY16. The $11.6 million increase in net debt to $129.4 million since June 2016 reflects:

- Net $63.7 million in cash paid for Sycle acquisition in May 2017;
- $27.6 million in cash paid for the Lane Cove manufacturing facility; which was almost entirely offset by
- Strong cash flow from operations.

Dividends

	2017	2016	Change %
Interim ordinary dividend (per share)	$1.30	$1.10	18%
Final ordinary dividend (per share)	$1.40	$1.20	17%
Total ordinary dividends (per share)	$2.70	$2.30	17%
Payout ratio %	69%	70%	
Franking %	100%	100%	

Strong free cash flow and the continued strength of the balance sheet have supported the payment of a final dividend of $1.40 per share, franked at 100%. Total fully franked dividends of $2.70 per share were declared for the year, an increase of 17% on dividends paid last year, representing a payout of 69% of net profit.

The record date for determining dividend entitlements is 20 September 2017 and the final dividend will be paid on 11 October 2017.

Notes

Forward looking statements

Cochlear advises that this document contains forward looking statements which may be subject to significant uncertainties outside of Cochlear's control. No representation is made as to the accuracy or reliability of forward looking statements or the assumptions on which they are based. Actual future events may vary from these forward looking statements and it is cautioned that undue reliance not be placed on any forward looking statement.

Non-International Financial Reporting Standards (IFRS) financial measures

Given the significance of exchange rate movements, the directors believe the presentation of the non-IFRS financial measure, constant currency, is useful for the users of this document as it reflects the underlying financial performance of the business. This non-IFRS financial measure has not been subject to review or audit. However, KPMG has separately undertaken a set of procedures to agree the non-IFRS financial measures disclosed to the books and records of the group.

Constant currency

Constant currency removes the impact of exchange rate movements to facilitate comparability of operational performance for Cochlear. This is done by converting the prior comparable period net profit of entities in the group that use currencies other than Australian dollars at the rates that were applicable to the current period (translation currency effect) and by adjusting for current year foreign currency gains and losses (foreign currency effect). The sum of translation currency effect and foreign currency effect is the amount by which reported EBIT and net profit is adjusted to calculate the result at constant currency.

Reconciliation of constant currency net profit to reported net profit

	2017 $000	2016 $000	Change %
Net profit (reported)	**223,616**	**188,921**	**18%**
FX contract gains/(losses)		41,684	
Spot exchange rate effect to sales and expenses[1]		(19,998)	
Balance sheet revaluation[1]		(8,307)	
Net profit (CC)	**223,616**	**202,300**	**11%**

[1] FY17 actual v FY16 at FY17 rates

Total currency translation and transaction impact on reported net profit

	2017 $000	2016 $000
FX contract gains/(losses)	14,105	(27,579)
Spot exchange rate effect to sales and expenses[1]	(19,998)	48,779
Balance sheet revaluation[1]	(8,307)	7,517
Total currency impact to net profit (reported)	**(14,200)**	**28,717**

[1] reporting year actual v prior year at reporting year rates

Business risks

Cochlear has a sound and robust Risk Management Framework to identify, assess and appropriately manage risks. Details of Cochlear's Risk Management Framework can be found in the 2017 Corporate Governance Statement, which is available on the website.

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

Risk	Description and potential consequences	Strategies used by Cochlear to mitigate the risk
Product innovation and competition	Cochlear is exposed to the risk of failing to develop and produce innovative products for customers. Increased competition exposes Cochlear to the risk of losing market share as well as a decrease in average selling prices in the industry. Cochlear is also exposed to the risk of medical, biological and/or technological advancement by third parties where alternative products or treatments are developed and commercialised that render Cochlear's products obsolete for future candidates. This could result in a loss of new business.	In FY17, Cochlear invested around 12% of total revenue in R&D. Cochlear also works with over 100 external research partners. The creation of new intellectual property and the protection of new and existing intellectual property are a key focus for Cochlear. Cochlear has plans to launch a series of new products across all categories of the business over the coming years focused on both market share and market growth.
Infringement litigation	Cochlear operates in an industry that has substantial intellectual property and patents, designs and trademarks protecting that intellectual property. Cochlear is exposed to the risk of litigation for alleged infringement. This could result in Cochlear paying royalties to be able to continue to manufacture product, or paying damages and/or injunctions preventing Cochlear selling products it had developed.	Cochlear has a comprehensive patent portfolio across its technologies. Cochlear conducts freedom to operate searches as part of its internal processes before launching new products. Cochlear has a Legal department and utilises internal and external legal resources to deal with any litigation issues.
Misappropriation of know-how and intellectual property	Cochlear is exposed to the risk of its know-how and intellectual property being misappropriated either through hacking of its systems or by employees, consultants and third parties who from time to time have access to Cochlear's know-how and intellectual property. This could result in competitors using this information and increasing their competitiveness. Cochlear could lose market share as a result.	Cochlear monitors its systems and considers that it has appropriate safeguards and processes in place. Confidentiality agreements are in place with key employees and third parties that are exposed to Cochlear's know-how and intellectual property.

Medical device regulations	Cochlear operates in a highly regulated industry. Medical devices are subject to strict regulations, including data security, of regulatory bodies in the US, Europe, Asia and Australia as well as many other local bodies in countries where Cochlear's products are sold. Regulatory bodies periodically perform audits at Cochlear's manufacturing sites. If Cochlear or a third-party supplier fails to satisfy regulatory requirements or the regulations change and modifications are not made, this could result in the imposition of sanctions or Cochlear's products being subject to recall and/or the loss of sales and reputational harm. Delays in achieving regulatory approval can impact Cochlear's ability to sell its latest technology.	Cochlear has a worldwide quality assurance system in place.
Reimbursement	The majority of Cochlear's customers rely on a level of reimbursement from insurers and government health authorities to fund their purchases. There is increasing pressure on healthcare budgets globally which may lead to pressure on reimbursed prices. Cochlear may also be subject to healthcare related taxes imposed by government agencies and this could negatively impact the ability of candidates to access Cochlear's products.	Cochlear continues to work with reimbursement and government agencies throughout the world to emphasise the health and economic benefits and cost effectiveness of intervention to restore hearing.
Product liability	The manufacturing, testing, marketing and sale of Cochlear's products involve product liability risk. As the developer, manufacturer, marketer and distributor of certain products, Cochlear may be held liable for damages arising from use of its products during development or after the product has been approved for sale.	Cochlear maintains product liability insurance and operates a worldwide quality assurance system related to the design, testing and manufacture of its products.
Interruption to product supply	Cochlear relies on third-party suppliers for the supply of key materials and services. This carries the risk of delays and disruptions in supplies. Certain materials are available from a single source only and regulatory requirements make substitution costly, time-consuming or commercially unviable. Cochlear manufactures its latest generation products across six sites globally. There is the potential risk of disruption to sales should a manufacturing facility be unable to operate. Any new manufacturing facility will require regulatory approval prior to being able to produce and sell product made at this facility. This approval could take many months.	Cochlear monitors its suppliers and identifies any available second-source supply. Inventories are managed and purchased in sufficient quantities for continued product supply in the short term. Where appropriate, lifetime buys, strategic raw materials purchases and supply chain interventions are made. Cochlear also regularly reviews its disaster recovery plans for its manufacturing sites and maintains business interruption insurance.

Political, economic or social instability	Cochlear sells in over 100 countries. Several of the emerging markets are heavily biased to tender sales, including the Chinese Central Government tenders. The future outcome of tender sales is uncertain. Regional political, economic or social instability could negatively impact sales and the receipt of payment for sales.	Cochlear assesses the countries it sells into and does not have a significant concentration of sales in countries impacted by political, economic or social instability. Cochlear utilises global scanning software to assess partners, distributors and suppliers against sanctions checklists on an ongoing basis. Cochlear reviews tenders carefully and participates at a level that makes commercial sense.
Foreign exchange rates	Cochlear is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the legal entities. The currencies in which these transactions primarily are denominated are Australian dollar (AUD), US dollar (USD), Euro (EUR), Japanese yen (JPY), Sterling (GBP), Swedish kroner (SEK) and Swiss francs (CHF). Over 90% of Cochlear's revenues and over 50% of costs are denominated in currencies other than AUD.	Currency risk is hedged in accordance with the Board approved treasury risk policy. The treasury risk policy aims to manage the impact of short-term fluctuations on Cochlear's earnings. Over the longer term, permanent changes in market rates will have an impact on earnings. Derivative financial instruments (forward exchange contracts) are used to hedge exposure to fluctuations in foreign exchange rates in a declining level of cover out to three years.
Credit	Cochlear's exposure to credit risk is influenced by the geographical location and characteristics of individual customers. Cochlear does not have a significant concentration of credit risk with a single customer. The majority of significant debtors are governments, government supported universities and clinics or major hospital chains.	Policies and procedures for credit management and administration of receivables are established and executed at a regional level. In monitoring customer credit risk, the ageing profile of total receivables balances and individually significant debtors is reported by geographic region to the Board on a monthly basis. Regional management is responsible for identifying high risk customers and placing potential restrictions on future trading, including suspending future shipments and administering dispatches on a prepayment basis. In addition, where appropriate, absolute country limits are in place and Chief Financial Officer approval is required to increase a limit. These limits are periodically reviewed by the Audit Committee.
Interest rates	Cochlear is exposed to interest rate risks in Australia.	Interest rate risk is hedged on a case-by-case basis by assessing the term of borrowings and the purpose for which the funds are obtained. Hedging against interest rate risk can be achieved by entering into interest rate swaps. At 30 June 2017, no hedging had been entered into.

Operations	Operational risk is the risk of direct and indirect loss arising from a wide variety of causes associated with Cochlear's processes, personnel (including executive transitions), technology and infrastructure and generally accepted standards of corporate behaviour. Operational risks arise from all of Cochlear's operations. These risks could result in the loss of sales and reputational harm.	Standards for the management of operational risk are in place in the following areas: • requirements for appropriate segregation of duties, including the independent authorisation of transactions; • requirements for the reconciliation and monitoring of transactions; • documentation of controls and procedures; • requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified; • internal and external audit programs; • development of contingency plans; • succession planning for key management personnel; • training and professional development; • employee health and safety programs; and • ethical and business standards.
Information security	Cochlear handles and stores personal information, including health information, for its customers and employees. With expanding information privacy and security regulations, and an increasingly hostile cyber environment, Cochlear recognises information privacy and cyber security as an increasing risk.	Cochlear regularly assesses its information governance and cyber security controls in light of emerging technological threats and expanding privacy laws. These assessments are used to determine any appropriate corrective actions. In the last 18 months, Cochlear has recruited senior information security and privacy leaders to lead these efforts, including a Chief Information Security Officer and Chief Privacy Officer, each with a global remit. In addition to the ongoing assessment and remediation of operational privacy and security activities, Cochlear maintains cyber insurance as part of its overall risk mitigation strategy for information privacy and security risk.
Talent management	Cochlear operates in a very competitive environment, particularly in relation to attracting scientific talent into the group.	Talent management programs are in place, both within Australia and in our key international markets.

Cochlear's approach to environment, social and governance (ESG) issues reflects the Company's commitment to excellence. The importance we place on ESG issues can be seen in the work we do to deliver quality, innovative products and services. Our products and performance reflect the quality of our people. We seek the best people and support them to be successful in their work. We are proud of our environmental and governance record as well as our social contribution.

Environmental awareness

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

Property footprint

Cochlear seeks to ensure that global offices reflect Cochlear's commitment to creating and maintaining consistent and high quality work environments.

Cochlear global headquarters

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

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

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

The waste recycling systems in place at the Sydney headquarters include commingle recycle waste collection in all break-out and kitchen areas, collecting approximately 20 tonnes a year; paper and recyclable collection at workstations and utility areas; 1 x 10 tonne cardboard compactor, replaced approximately every three months; battery recycle collection, collecting approximately 225 kilograms of waste a year; used machine oil recycling of approximately 2,000 litres per year; e-waste recycle collection, collecting approximately 600 kilograms of waste a year; fluorescent tube recycling, collecting approximately 400 kilograms of waste a year; 240 litre capacity security paper destruction bins, collecting approximately 180 bins a year; and pallet recycling of approximately 300 wooden pallets per year.

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

We encourage cycling to work and a reduction in car use, by providing 160 bicycle parking spaces as well as change rooms and bike storage facilities. Carpooling is encouraged with car spaces allocated for users.

One of Cochlear's key procurement principles is the requirement to consider the economic, social and environmental impact when acquiring goods or services from selected suppliers. Consideration where appropriate is given to energy usage, emissions, water usage, resource use, waste generation, recyclability, toxicity, biodiversity, land use, social responsibility, economic viability, innovation and health and safety.

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

Cochlear Bone Anchored Solutions (CBAS) headquarters

The CBAS headquarters in Mölnlycke, Sweden, makes extensive efforts to reduce electricity use and waste. The business works with Sweden's leading recycling and environmental company, Ragn-Sells, to ensure best environmental practice. This involves a commitment to continuously improve waste separation and ensure that whenever possible waste products are reused, recycled or used for energy recovery before disposal.

Waste sorting includes for combustibles, office and confidential paper, corrugated paper, metallic packaging, shrink and stretch wrap, glass, sharps, electronics, small batteries, light bulbs, wood, mixed waste, dangerous goods (chemicals), and toners. We also place focus on the supply chain so that all transport is conducted in an environmentally safe and efficient manner.

The CBAS building has been awarded a Green Building Silver Certificate by the Sweden Green Building Council. Designed for Swedish conditions, the Green Building Certificate system certifies buildings in terms of energy efficiency, indoor climate and materials. The system has been developed by researchers in collaboration with companies in the construction and real estate industries. The system gives the awards of Gold, Silver or Bronze Certificates and is used for both residential and commercial premises. A Green Building Silver level fulfils mainly demands for highly efficient use of energy, healthy materials, good indoor environment, good ventilation and high moisture resistance.

Cochlear Technology Centre

The Cochlear Technology Centre in Mechelen, Belgium, which is Cochlear's largest R&D facility outside Australia, makes similar efforts to reduce the operation's impact on the environment. Showers and lockers have been installed to encourage cycling to work and sport at lunch time. Company cars are costed proportionally to carbon gas emissions, to encourage employees to choose more environmentally-friendly cars. Sun protection film on all windows reduces the need for cooling. Special 'waste lanes' have been created to more efficiently separate and collect recyclable materials. Batteries, electrical devices and wooden pallets are also collected separately.

Cochlear Americas headquarters

In our regional headquarters in Denver, US, an extensive ongoing program is run to boost environmental sustainability and ensure compliance with the requirements of local authorities. Some of these activities include installation of sink fixture aerators in the rest rooms to reduce water consumption; single source recycling in all kitchens, break rooms and printer stations to reduce waste going to landfill; use of a cardboard compactor for all used boxes; recycling of all fluorescent bulbs (per United States Environmental Protection Agency mandate); and recycling of all used or out-of-date batteries and e-waste.

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

Cochlear Europe, Middle East and Africa (EMEA) headquarters

Cochlear has undertaken two key initiatives to promote environmental sustainability in our EMEA headquarters in Basel, Switzerland. These comprise a new agreement with an energy provider to use power from renewable energy sources and office-wide education programs to reduce workspace and IT energy usage.

Manufacturing

The majority of Cochlear's manufacturing is located at the global and CBAS headquarters sites. Cochlear actively manages all inputs and outputs to promote environmental best practice.

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

Social support

Supporting the tertiary education sector

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

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

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

There are a range of activities where Cochlear engages with Macquarie University, including placement opportunities for students, guest lecturing and public advocacy. There are also a number of research projects underway involving both organisations, into areas such as engineering, computing, audiology, linguistics and cognitive science.

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

Cochlear is a core member of The HEARing Cooperative Research Centre based in Australia, which combines academic, business and government interests to further understanding and development of technologies for diagnosis and remediation of hearing loss. Since 2007, 71 students have engaged in post-graduate doctoral studies in hearing related topics under this scheme.

Supporting the community

In 2007, the Cochlear Foundation was established to promote community leadership and the awareness of, and research into, treatments for hearing loss. The foundation has provided support for a range of projects including STELR (Science and Technology Education Leveraging Relevance), an initiative to advance Science, Technology, Engineering and Mathematics (STEM) education.

Cochlear encourages its employees to participate in volunteering and community fundraising and corporate sporting activities and directly supports its employees in a number of activities. Employees who are engaged in eligible community service activities are granted time off.

Supporting employees

Cochlear's global team operates in safe and healthy work environments. Numerous workplace health and safety activities are undertaken and support is provided for healthy living initiatives as well as access to a range of health services. More information can be found in the People and culture section of the Annual Report.

Industry and advocacy

Cochlear has many professional staff involved in helping relevant research and community programs in their regions, partnering with academic, industry and health professionals to assist Cochlear recipients gain access to services and support and also advocates for resources for the institutions that support them. This is particularly important in developing countries.

Many Cochlear employees are engaged in advocacy to improve hearing health policies around the world.

Cochlear encourages its executives to participate in forums and bodies that advance Australia's competitiveness and the promotion of innovation and technology.

Raising awareness and preventing hearing loss

Hearing loss is a major global public health issue and Cochlear is increasingly engaged in raising awareness of this and the treatments available. The World Health Assembly passed a resolution in May that recognises the global cost of untreated hearing loss and the need for every country to take comprehensive action and have a plan to address it. The resolution, which represents a major milestone in global hearing health policy, recognises the need to raise awareness, improve access to cochlear implants and hearing aids and the need for screening programs.

At a global and country level, Cochlear engaged in a range of awareness activities as part of World Hearing Day, organised by the World Health Organization on 3 March every year. World Hearing Day aims to raise awareness, and promote access to ear and hearing care across the world. The theme for World Hearing Day 2017 was 'Action for hearing loss: Make a Sound Investment'. Cochlear supported the WHO's messages through an engaging social media campaign inviting people around the world to share their 'HappiestSound'.

One highlight of World Hearing Day 2017 was an invitation by the WHO to its headquarters in Geneva to participate in a seminar to discuss the cost to society of untreated hearing loss, and the importance of advocacy to achieve better access to hearing health care. Cochlear initiated media, education and awareness activities in Europe and Russia, the Middle East and Turkey.

Innovative efforts by Cochlear's Australian team to raise awareness through the power of film received high international recognition in 2017. Cochlear Australia launched their Lost and Found campaign which included a hidden hearing test in a film called, "Does Love Last Forever?" The film and "Hearing Test in Disguise" won significant praise, including four Lion awards from the Cannes Film Festival - awards that recognise advertising and creative communications industry excellence.

Cochlear Australia continues to sponsor the Power of Speech, a public speaking competition for deaf children to challenge common perceptions and demonstrate what deaf children can achieve.

Efforts continued in India to address the issue of awareness of hearing health and universal newborn hearing screening. Brett Lee, Cochlear's Global Hearing Ambassador, visited key cities like Bengaluru, New Delhi, Chandigarh, Kochi and Kozhikode and met with hearing health professionals and recipients.

Cochlear's Latin American team initiated media and community engagement involving thousands of recipients in Cochlear 'family fun' days, including sporting, music and arts activities in Brazil, Chile and Argentina

Cochlear Americas conducted its third annual Million Ear Challenge campaign for Better Speech and Hearing Month (May) that educated more than 2.4 million people about hearing loss via social media. The team partnered with the Hearing Loss Association of America, Hearing Charities of America and Songs for Sound in 38 awareness events. The team also held over 120 Hearing Health Seminars to educate people on hearing loss and Cochlear solutions.

Japan launched a website to provide support for parents of infants diagnosed with hearing loss. The website www.kikoesupport.jp provides Japanese-specific information and advice on a range of treatments for paediatric hearing loss and the cochlear implant referral pathway. It also provides a mechanism for parents to get in touch with Cochlear Japan for personalised support.

Access to healthcare

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

Governance

High performance and strict legal compliance on environmental, privacy and safety issues are also integral to our culture. For more information on Cochlear's governance reporting, see our Corporate Governance Statement 2017, which is available on Cochlear's website, www.cochlear.com.

People and culture

Cochlear delivers industry-leading products and services through a highly skilled, passionate workforce of over 3,000 people across more than 30 countries.

Cochlear people represent a diverse range of disciplines, nationalities and working styles, all dedicated to our mission. Our people strategies focus on engaging everyone in delivering the mission, aligning to our business priorities and building capabilities to deliver future growth.

In FY17, the People & Culture team continued to focus on the growth and development of our workforce to enable the organisation to deliver against its strategic priorities. To support this, we created four global centres of excellence, each focusing on a cornerstone of the employee lifecycle: talent acquisition, talent development, talent assessment, succession and talent reward.

Talent acquisition

Cochlear remains an employer of choice, receiving a record 27,000 applications last year for over 750 permanent and contract roles. The Company maintains high staff retention levels above industry benchmarks, with global annualised turnover of 9.1%.

During FY17, we continued to build and expand our capabilities to support our business priorities required to deliver future growth. We increased our field force talent base significantly, recruiting more than 100 people into these roles, with a significant number of these into our emerging markets. We also made a significant investment in growing our global repair and warranty team based in Kuala Lumpur, and expanding our marketing, clinical and services expertise.

We build our pipeline of future talent through our highly regarded graduate and internship programs, where we rank in the Top 50 of GradAustralia's most sought-after employers. We have eight new engineering graduates commencing in early 2018 who were selected from our 2016/2017 Summer Intern Program, which was comprised of 24 students in their penultimate year of study. We continue to build a diverse pipeline of talent, with females representing 20% of graduate applicants and 38% of graduates recruited into permanent roles. This is significantly higher than the representation of females undertaking engineering tertiary studies and continues to remain a strong focus of this program.

Talent development

Our Talent Development team supports the global build and enhancement of individual, leader and organisational capabilities through designing, delivering and investing in effective and engaging development programs.

During FY17, to support our One Cochlear initiative, we developed a new global leadership capability framework, Leading the Way. The framework identifies the critical leadership capabilities essential for our people leaders to demonstrate, to ensure we are able to meet the business demands of the future and deliver on our strategy. Leading the Way will also provide a consistent global framework across a range of People & Culture activities to support the employee lifecycle, including recruitment, performance, development and succession. This will enable us to identify, develop and deploy talent around the globe in an agile and effective manner.

During the year, Project Learn, a new learning and collaboration program, was initiated. The program is designed to build broader business knowledge and collaboration across our senior leader population through exposure to diverse Cochlear functions and businesses. The program is aligned to our business priorities and individuals' development goals, and is structured to ensure that learnings are shared, efficiencies realised and business outcomes optimised.

Through Cochlear Academy, the Company's learning management system, we have continued to provide employees with an extended range of learning programs. These programs support employees to build the skills and capabilities required to deliver future growth, with a strong focus on understanding our customer needs and products.

Talent assessment and succession

Our Talent & Succession practice area aims to provide a globally consistent, best practice approach to how we identify talent and develop succession plans within the business. This is crucial in ensuring we have the right people in the right place at the right time to support Cochlear in delivering on its business strategy now and in the future. The focus this year has been the development of the global strategy and processes for identifying talent, and aligning these to our new Leading the Way leadership capability framework.

FY17 saw the successful implementation of our new performance management process – My Performance Pathway which not only measures the achievement of employees' strategically aligned goals but also embeds our H.E.A.R behaviours (Hear the customer, Embrace change and innovate, Aspire to win and Remove boundaries) by measuring how these goals are achieved. 74% of employees now have a better understanding of how their work contributes to Cochlear's business priorities and 83% know how to demonstrate the H.E.A.R behaviours to be successful in their role.

Talent reward

Our continued growth and success depend on attracting and retaining engaged and motivated people. During FY17, we continued to review our global reward strategy to support Cochlear's strategic priorities, to ensure alignment with One Cochlear goals, and enable performance-based reward and recognition of highly capable talent while remaining aligned to market practice and in the interests of our shareholders.

Diversity

As a global company, Cochlear strongly believes that a workforce with diverse experiences and perspectives drives improved performance for our business and better supports the communities we serve. Our ethnically diverse domestic workforce is represented by people from more than 76 different nations.

Gender equality remains a primary focus. 51% of our permanent full time workforce is female and we are continuing to focus on increasing our female representation in senior level roles. During FY17, 47% of new hires to roles across our three most senior leadership levels were female. We will continue to focus on growing and developing our pipeline of female senior leaders through our talent management, succession and development initiatives. We also continued to support the development of our female leaders through our Women in Leadership program.

Safety and wellbeing

Safety remains a key area of focus and continuous improvement for us. We work closely with design and operation employees to explore innovative solutions to improve our processes. Our continued aim will be to drive consistency in safety practices and systems across all our operations and support services, in all our global sites, driving best practice to the benefit of all our employees.

FY17 saw a desire to increase our focus on the wellbeing of Cochlear employees. A wellbeing framework was developed in consultation with representatives from across the breadth of the business and a new Employee Assistance and Wellbeing provider was engaged to bring focus to the areas identified as being of importance to our employees.

To date, we have seen a substantial take-up in the offerings provided in the physical, nutritional and mental health and wellbeing spaces. More than 46% of employees globally took up the opportunity to spend 100 days setting up great habits for their wellbeing by engaging in a 100 day Global Challenge.

Board of directors

Rick Holliday-Smith

Chairman Age 67

Appointed to the Board 1 March 2005: Chairman of the Nomination Committee. Member of the Audit and People & Culture Committees.

Background: Global executive and leadership experience in capital markets and derivatives, and a background in venture capital activities. Former President of NationsBank-CRT, Chicago and Managing Director of Hong Kong Bank Limited, London.

Other boards: Chairman, ASX Limited and Director, Servcorp Limited. Non-executive Chairman, QBiotics and member of the Macquarie University Faculty of Business and Economics Advisory Board.

Former directorships: Chairman, Snowy Hydro Limited and SFE Corporation Limited. Director, St George Bank Limited, Exco Resources NL, DCA Group Limited and MIA Group Limited.

Qualifications: BA (Hons), FAICD, CA

Chris Smith

Chief Executive Officer Age 54

Appointed to the Board 1 September 2015 and will retire on 2 January 2018: Member of the Medical Science and Technology & Innovation Committees.

Background: Chris joined Cochlear in 2004. Has more than 30 years' experience in the healthcare and medical device industry in the US including assisting Warburg Pincus in identifying market opportunities for investment. Prior to this, was Group President for Gyrus Group (ENT and Surgical Divisions). Previous Cochlear roles include President, Americas Region and Senior Vice President, Cochlear Bone Anchored Solutions and Global Support Operations.

Qualifications: BSc

Yasmin Allen

Non-executive Director Age 53

Appointed to the Board 2 August 2010: Chairman of the Audit Committee. Member of the People & Culture, Nomination and Technology & Innovation Committees.

Background: Extensive career in investment banking with senior roles in strategic analysis and corporate advice. Former Vice President of Deutsche Bank AG.

Other boards: Director, Santos Limited, ASX Limited and National Portrait Gallery. Member of the George Institute for Global Health Board and Australian Government Takeovers Panel.

Former directorships: Director, Insurance Australia Group Limited. National director of the Australian Institute of Company Directors. Member of The Salvation Army Advisory Board. Chair of Macquarie Specialised Asset Management. Director, ANZ Investment Bank and Associate Director, HSBC London.

Qualifications: BCom, FAICD

Board of directors

Hear now. And always

Cochlear®

Prof Edward Byrne, AC

Non-executive Director Age 65

Appointed to the Board 1 July 2002: Chairman of the Medical Science Committee. Member of the Nomination and Technology & Innovation Committees.

Background: A neuroscientist with extensive experience in clinical neurology and basic neurological research. Vice Chancellor of Monash University (2009–2014). Former Executive Dean of the Faculty of Biomedical Sciences, Vice Provost and Head of the Medical School at University College London. Former Dean of Faculty of Medicine, Nursing and Health Sciences at Monash University, Melbourne (2003–2006).

Other boards: President and Principal, King's College London. Chairman, King's Health Partners, and Director, Russell Group UK.

Former directorships: Deputy Chairman, Group of Eight Vice Chancellors, Australia and Chairman, Global Foundation. Director, Bupa Group Board, London and Bupa Australia Pty Ltd.

Qualifications: DSc, MD, MBA, FRCP, FRACP, FTSE

Andrew Denver

Non-executive Director Age 68

Appointed to the Board 1 February 2007: Chairman of the Technology & Innovation Committee. Member of the Audit, Medical Science and Nomination Committees.

Background: Extensive experience in the life sciences industry. Former director of Principals Cornerstone Management Pty Limited. Former Managing Director of Memtec Limited and President Asia for Pall Corporation.

Other boards: Chairman, SpeeDx Pty Ltd and Director, Vaxxas and QBiotics.

Qualifications: BSc (Hons), MBA, FAICD

Donal O'Dwyer

Non-executive Director Age 64

Appointed to the Board 1 August 2005: Member of the Audit, Medical Science, Nomination and Technology & Innovation Committees.

Background: Executive experience in global sales and marketing of healthcare products and medical devices. Former worldwide President of Cordis Cardiology and President of Baxter's Cardiovascular Group.

Other boards: Chairman, Atcor Medical and Director, Mesoblast Limited, Fisher & Paykel Healthcare Limited and NIB Holdings Ltd.

Qualifications: BE Civil, MBA

Board of directors

Glen Boreham, AM

Non-executive Director Age 52

Appointed to the Board 1 January 2015: Chairman of the People & Culture Committee. Member of the Audit, Nomination and Technology & Innovation Committees.

Background: Led organisations in information technology, new media and the creative industries through periods of rapid change and innovation. Former Managing Director of IBM Australia and New Zealand.

Other boards: Director, Southern Cross Media Group and Link Group. Chairman, Advance (representing Australians living overseas) and Chairman, Business School Advisory Board for the University of Technology, Sydney.

Former directorships: Director of Data#3. Chairman of Screen Australia.

Qualifications: BEc, FAICD

Alison Deans

Non-executive Director Age 49

Appointed to the Board 1 January 2015: Member of the Audit, People & Culture, Nomination and Technology & Innovation Committees.

Background: More than 20 years' experience in senior management and strategy consulting roles focused on e-commerce, media and financial services. Chief Executive Officer of the technology-based investment company Netus Pty Limited (2006–2013), Hoyts Cinemas (2003–2004), eCorp Limited (2000–2003) and eBay Australia and New Zealand (1999–2000).

Other boards: Director, Westpac Banking Corporation, Insurance Australia Group Limited and kikki.K Holdings Pty Ltd.

Qualifications: BA, MBA, GAICD

Prof Bruce Robinson, AM

Non-executive Director Age 60

Appointed to the Board 13 December 2016: Member of the Medical Science, Nomination, People & Culture and Technology & Innovation Committees.

Background: Over 20 years' leadership experience as an academic physician/scientist across research, healthcare and medicine, and tertiary education. Former Dean, The University of Sydney's Sydney Medical School, Head of Medicine at Sydney's Royal North Shore Hospital and Head of the Cancer Genetics Laboratory at the Kolling Institute for Medical Research.

Other boards: Chairman, National Health and Medical Research Council and Medical Benefits Schedule Review Taskforce. Director, MaynePharma, Firefly and QBiotics.

Qualifications: MD, MSc, FRACP, FAAHMS, FAICD

Senior executives

Chris Smith

Chief Executive Officer

Chris joined Cochlear in 2004 and will retire on 2 January 2018. Chris has more than 30 years' experience in the healthcare and medical device industry in the US including assisting Warburg Pincus in identifying market opportunities for investment. Prior to this, was Group President for Gyrus Group (ENT and Surgical Divisions). Previous Cochlear roles include President, Americas Region and Senior Vice President, Cochlear Bone Anchored Solutions and Global Support Operations.

Qualifications: BSc

Dig Howitt

President

Dig was appointed as President, Cochlear on 31 July 2017 and will become CEO & President on 3 January 2018.

Dig joined Cochlear in 2000 and has a wealth of experience across the Company in roles including Chief Operating Officer, SVP, Manufacturing and Logistics and President, Asia Pacific. Prior to joining Cochlear, Dig worked for Boral and Boston Consulting Group.

Qualifications: BE (Hons), MBA

Brent Cubis

Chief Financial Officer

Brent joined Cochlear in 2017 and has over 30 years' experience working in senior finance roles across a broad range of companies and industries. He is responsible for accounting, corporate finance, treasury, audit, and investor relations. Prior to joining Cochlear, Brent worked for companies including National Home Doctor Service, Fitness First, Chris O'Brien Lifehouse, PBL Media (Nine Network and ACP Magazines), Bankers Trust, Westfield, Sheraton Hotels and Deloitte.

Qualifications: BComm, CA

Jan Janssen

Senior Vice President, Research and Development

Jan leads a team of over 300 highly qualified engineers and scientists who implement the R&D strategy. This includes responsibility for identifying and developing cutting-edge technologies and commercial products.

Jan joined Cochlear in 2000 as Head of the Cochlear Technology Centre based in Belgium, having previously worked with Philips Electronics where he was involved in R&D in the fields of high-tech electronics and cochlear implants. Jan was promoted to Senior Vice President, Design and Development in 2005. Since August 2013, Jan has also had responsibility for Clinical and Regulatory.

Qualifications: MScEE

Senior executives

Richard Brook

President, Europe, Middle East and Africa Region

Richard is responsible for the development and execution of the strategic direction for all our operations in Europe, Middle East and Africa (EMEA) and Latin America. This includes sales in over 60 countries. Operations in EMEA and Latin America include sales, marketing, distribution, service, finance, clinical, regulatory and administration across these complex and diverse regions.

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

Qualifications: BSc Management, MBA

Tony Manna

President, Americas Region

Tony is responsible for the development and execution of the strategic direction for our North America operations.

Tony joined Cochlear in 2005. Has over 30 years' medical device experience, including senior commercial management roles at BEI Medical and Gyrus Medical. Prior roles in Cochlear include VP, Sales USA, General Manager, Cochlear Bone Anchored Solutions, USA and President, Cochlear Bone Anchored Solutions, Sweden.

Qualifications: BS EET

Anthony Bishop

President, Asia Pacific Region

Anthony was appointed President, Asia Pacific in July 2016. Anthony is responsible for the development and execution of the strategic direction for all our operations in Australia, Asia and the South Pacific. This high potential region has complex regulatory sales and marketing drivers which require coordination of sales, marketing, third-party distribution, regulatory and clinical infrastructure development activities.

Anthony joined Cochlear in July 2015 as Director of Marketing and Business Development, Asia Pacific. Prior to Cochlear, Anthony spent 21 years at Johnson & Johnson Medical in various roles including marketing, sales and general management around the world including being Managing Director, Johnson & Johnson Medical, Australia/New Zealand prior to joining Cochlear.

Qualifications: BBus (Hons), MManagement

Senior executives

Stu Sayers

President, Services

Stu was appointed as Cochlear's inaugural President, Services in May 2016. The Services business provides aftercare services for Cochlear recipients and professionals, generating revenue from post-implant products and other offerings.

Stu comes with a wealth of experience in establishing and building customer-focused B2C and B2B service businesses, online and at scale. Most recently, Stu led the Amazon subsidiary Audible in Asia Pacific. Prior to Amazon, Stu ran E*TRADE and then Yahoo!7 in Australia and New Zealand. He previously held senior roles with Procter & Gamble and McKinsey & Company.

Qualifications: BEc (Hons), MBA

Dean Phizacklea

Senior Vice President, Global Marketing

Dean joined Cochlear in June 2016. Dean has responsibility for product marketing and commercialisation, consumer marketing, innovation, market access, market insights and corporate communications.

Dean has more than 20 years' experience in medical devices and pharmaceuticals, covering a range of senior commercial roles in the US, Japan, Europe and Australia. Prior to joining Cochlear, Dean led Global Strategic Marketing for Abbott Diabetes Care. Other roles include General Manager for Abbott's pharmaceutical and diabetes care businesses in Australia/New Zealand and commercial roles in Asia with AstraZeneca.

Qualifications: BSc Microbiology, MBA

Katharine McLennan

Senior Vice President, People & Culture

Katharine joined Cochlear in March 2016 and has responsibility for talent acquisition, development, reward and succession planning for Cochlear as well as driving the overall culture strategy for leadership and innovation. Katharine has experience in corporate strategy, talent and leadership development, as well as executive psychotherapy. Katharine has held leadership roles in Booz & Co, QBE Insurance, Commonwealth Bank of Australia and the Sydney Organising Committee for the Olympic Games.

Qualifications: BS Biology (Hons), BA History (Hons), MBA, MA Political Science

CONTENTS

Section	Title	Description
1.	Introduction	Describes the scope of the Remuneration report and the individuals whose remuneration details are disclosed. Outlines the link between performance and remuneration.
2.	Non-executive director remuneration	Provides details regarding the fees paid to non-executive directors.
3.	Executive remuneration	Details the remuneration provided to executives.
4.	Employee share scheme and other share information	Provides details regarding Cochlear's employee equity plans including that information required by the *Corporations Act 2001* and applicable accounting standards.

The Remuneration Policy, available in the Corporate Governance section of the Cochlear website (www.cochlear.com > About Cochlear > Investor Centre > Corporate Governance > Company Policies > Remuneration Policy), details:

- the role of the Board and the People & Culture Committee and the use of remuneration consultants when making remuneration decisions;
- the philosophy and structure of remuneration for non-executive directors; and
- the philosophy and structure of remuneration for executives, including:
  - remuneration mix and an outline of incentive programs (short-term (cash) incentive, deferred short-term (equity) incentive, and long-term incentive (equity));
  - clawback, hedging and minimum shareholding policies;
  - employment agreements; and
  - timing and receipt of termination arrangements.

1. INTRODUCTION

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

The Board believes Cochlear's approach to Board and executive remuneration remains balanced, fair and equitable and rewards and motivates a successful and experienced executive team to deliver ongoing business growth, which meets the expectations of shareholders over the long term.

1.1 Key management personnel

This Remuneration report sets out, in accordance with the *Corporations Act 2001* and accounting standard requirements, the remuneration arrangements in place for key management personnel (KMP) of Cochlear during FY17.

KMP have authority and responsibility for planning, directing and controlling the activities of Cochlear and comprise the non-executive directors (NEDs) and executive KMP (being the senior executives named in this report, including the Chief Executive Officer & President who is an executive director). Details of the KMP during the year are set out in the following table:

	Title
Non-executive directors	
Rick Holliday-Smith	Chairman Chairman, Nomination Committee Member, Audit Committee, People & Culture Committee
Yasmin Allen	Director Chairman, Audit Committee Member, People & Culture Committee, Nomination Committee, Technology & Innovation Committee
Glen Boreham, AM	Director Chairman, People & Culture Committee Member, Audit Committee, Nomination Committee, Technology & Innovation Committee
Edward Byrne, AC	Director Chairman, Medical Science Committee Member, Nomination Committee, Technology & Innovation Committee
Alison Deans	Director Member, Audit Committee, People & Culture Committee, Nomination Committee, Technology & Innovation Committee
Andrew Denver	Director Chairman, Technology and Innovation Committee Member, Audit Committee, Medical Science Committee, Nomination Committee
Donal O'Dwyer	Director Member, Audit Committee, Medical Science Committee, Nomination Committee, Technology & Innovation Committee
Bruce Robinson, AM Appointed 13 December 2016	Director Member, Medical Science Committee, Nomination Committee, Technology & Innovation Committee
Executive director	
Chris Smith	Chief Executive Officer & President (CEO&P) Member, Medical Science Committee, Technology & Innovation Committee
Other executive KMP	
Anthony Bishop Appointed 18 July 2016	President, Asia Pacific Region
Richard Brook	President, European, Middle East and African Region
Brent Cubis Appointed 13 March 2017	Chief Financial Officer
Dig Howitt	Chief Operating Officer
Jan Janssen	Senior Vice President, Design and Development, Clinical and Regulatory
Tony Manna	President, Americas Region

	Title
Neville Mitchell Ceased as KMP 13 March 2017	Chief Financial Officer and Company Secretary

The following changes are noted for FY17: at the start of the financial year, Dig Howitt was promoted to the newly created role of Chief Operating Officer effective 1 July 2016, and Anthony Bishop promoted to the vacated role of President, Asia Pacific Region effective 18 July 2016. Neville Mitchell, the Chief Financial Officer (CFO) and Company Secretary, announced his intention to retire. Mr Mitchell ceased to be a KMP on 13 March 2017 (further detail in section 3.3.3 Executive end of service). Brent Cubis was appointed to the CFO role, commencing 13 March 2017. Bruce Robinson was appointed to the Board as an additional non-executive director, commencing 13 December 2016.

1.2 Relationship between Cochlear performance and executive KMP remuneration

1.2.1 Cochlear financial performance (FY12 to FY17)

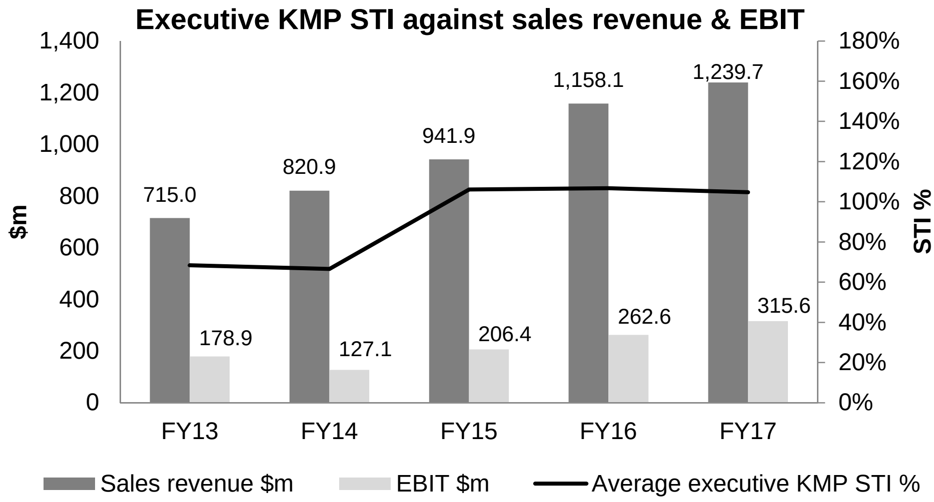
	FY12[1]	FY13	FY14[2]	FY15	FY16	FY17
Sales revenue ($million)	704.6	715.0	820.9	941.9	1,158.1	1,239.7
Earnings before interest and tax (EBIT) ($million)	76.5	178.9	127.1	206.4	262.6	315.6
Net profit after tax ($million)	56.8	132.6	93.7	145.8	188.9	223.6
Basic earnings per share (EPS) (cents)	100.0	233.0	164.6	256.1	330.6	389.7
EPS growth (3 year compound annual growth rate)	-24.6%	-5.5%	-19.7%	36.8%	12.4%	33.3%
Total dividend per share ($)	2.45	2.52	2.54	1.90	2.30	2.70
Share price as at 30 June ($)	65.84	61.71	61.70	80.15	121.25	155.45
Relative total shareholder return (TSR) (3 years)	24.1%	-14.5%	-6.6%	41.7%	127.2%	174.0%
TSR percentile ranking[3]	65th	28th	32nd	38th	94th	96th

1. FY12 includes product recall expenses of $138.8 million before tax and $101.3 million after tax.
2. FY14 includes the patent dispute provision of $22.5 million before tax and $15.8 million after tax.
3. TSR ranking is shown over three financial years to 30 June. For long-term incentives, performance is compared to TSR for ASX 100 companies.

For further explanation of details on Cochlear performance, see the Operating and financial review section on pages 6 to 20 of this Annual Report.

1.2.2 Cochlear one year performance and relationship to executive KMP remuneration

Cochlear's short-term incentive (STI) is dependent on revenue, EBIT and personal goals in the performance year. Cochlear sales revenue grew 7% year on year. New product launches combined with investments in market growth initiatives drove this growth. EBIT in FY17 was 20% above that for FY16.



The STI payouts to executive KMP this year ranged from 96.8% to 115.8% of their target STI opportunity, reflecting the strong performance against financial targets and performance at expectations against personal objectives. Individual details are provided in section 3.2.

The payout ratios on STI in FY17 reflect individual, business and Cochlear performance against targets in accordance with the STI plan rules. The Board has worked to ensure the overall executive KMP remuneration recognises Company performance and enables the business to build, develop and retain a talented leadership team with promotion of internal candidates.

The Board approved a factor of 110% to be applied to the One Cochlear portion of the STI pool, reflecting the strong performance against the established measures which included:

Grow the Core	Development and launch of new products; increase access and public policy; and implement direct to consumer.
Build a Service Business	Increase recipient engagement; and build the upgrade business.
Shape the Organisation	Implement One Cochlear; develop organisational talent and capability; and implement the digital strategy.
Value Creation	Develop partnerships and alliances; and achieve financial targets.

1.2.3 Cochlear three year performance and relationship to executive KMP remuneration

As explained in the Remuneration Policy (available in the Corporate Governance section of the Cochlear website, www.cochlear.com), Cochlear's remuneration framework aims to incentivise executive KMP towards long-term sustainable growth of the business and the creation of shareholder value in the short, medium and long term. The focus towards the longer term is developed in two ways:

- deferred STI in the form of performance rights, although dependent on sales revenue and EBIT performance and outcomes for the completed performance year, is deferred for a further two years; and
- long-term incentive (LTI), in the form of options and performance rights, is linked to compound annual growth in EPS and relative TSR performance. EPS growth (internal) and relative TSR (external) are generally accepted proxies for creation of shareholder value. The Board reviews the suitability of these performance criteria and settings on a regular basis to ensure they best serve shareholders' interests.

Earnings per share (EPS)

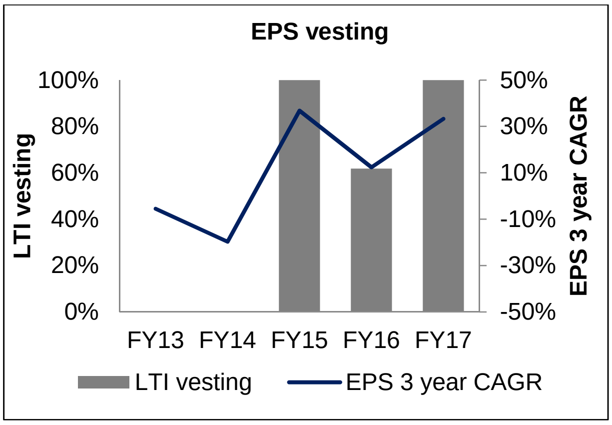
Vesting of the EPS portion of Cochlear executives' LTI over the last five years is displayed in the graphs following. This vesting is overlaid with the compound annual growth rate (CAGR) of EPS for the corresponding performance period.

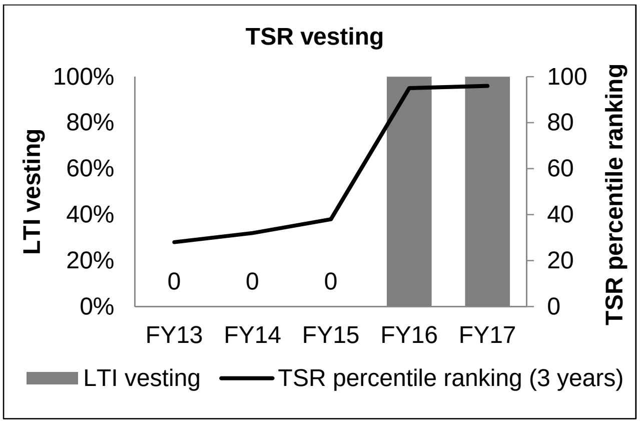
Cochlear's basic EPS in FY17 was 389.7 cents, which is a 33.3% CAGR over the three year vesting period. The vesting scale for the LTI plan generates 100% of the award at this growth level. This is the third time any part of the EPS portion has vested in the past five years.

Total shareholder return (TSR)

Cochlear's relative TSR performance over the relevant performance periods up to 30 June in respect of vested equity grants is displayed in the graphs following. This information is provided by an independent third party.

TSR is a function of share price growth and dividends reinvested. Cochlear's performance over time is affected by a range of variables, including currency volatility, global economic and geopolitical conditions, market growth for its products and variability in other sectors. The ASX 100 is biased towards high performance as lower performing companies drop out of the index and are replaced by growing companies.





Cochlear's TSR for the three years ended 30 June 2017 was ranked at the 96th percentile in the ASX 100. As a result, 100% of the TSR portion of the LTI vested this year.

Vesting outcomes (performance shares/rights and options granted FY11 to FY15)

								Performance rights	Options	
Grant date	Vesting date[1]	EPS 3 year CAGR[2]	% vested[3]	% forfeited[3]	Relative TSR 3 year percentile ranking	% vested[3]	% forfeited[3]	Market price as at 30 June ($)[4]	Exercise price ($)	Net market value as at 30 June ($)[4]
16-Aug-10	Aug 2013	-5.5%	0.0%	100.0%	28th	0.0%	100.0%	N/A	69.80	N/A
15-Aug-11	Aug 2014	-19.7%	0.0%	100.0%	32nd	0.0%	100.0%	N/A	68.56	N/A
13-Aug-12	Aug 2015	36.8%	100.0%	0.0%	38th	0.0%	100.0%	80.15	62.78	17.37
15-Oct-13	Aug 2016	12.4%	61.8%	38.2%	94th	100.0%	0.0%	121.25	59.13	62.12
14-Oct-14[5]	Aug 2017	33.3%	100.0%	0.0%	96th	100.0%	0.0%	155.45	68.56	86.89

1. While the vesting period ends on 30 June of each year, participants are not able to exercise any awards until the Board approves the opening of the first trading window under the Cochlear Trading Policy (typically immediately following the Cochlear full-year results announcement).
2. Compound annual growth rate.
3. All plan participants had the same vesting and forfeiture percentage outcome for LTI.
4. Closing share price 30 June of applicable vesting year.
5. The performance hurdles for the LTI plans are considered demanding such that in the last five years, only 46% of allocations vested.

1.2.4 Minimum shareholding guidelines

Executive KMP are requested to retain vested equity until they hold and maintain a holding of Cochlear shares equivalent to their annual salary in the previous year. The Board considers the minimum shareholding guidelines to be best practice to strengthen the alignment of executives' interests to those of shareholders. New executives are likely to take some length of time to build such a holding if the LTI plan fails to vest as it has in recent times. With that in mind, the Board maintains a watching brief on changing market practice for LTI equity grants.

The table in section 4.4 details the current holdings of executive KMP.

1.3 Fee changes

Board fees must recognise the effort required to fulfil the responsibilities of the NEDs. Reflecting the increasing governance requirements and the work of the Board, the Board considered it appropriate to revise base fees for FY17 by 4.6% in aggregate. Prior to this, the base fee had not changed since 2011. Fees are detailed in section 2.1. Total fees now represent 82.5% of the $2.5 million aggregate amount approved by shareholders at the October 2015 Annual General Meeting (AGM). This is up from 74.0% for FY16 with the inclusion of an additional Board member. The Board will request an increase in the fee pool at the 2017 AGM to provide flexibility in adding capability to the Board's skill base.

2. NON-EXECUTIVE DIRECTOR REMUNERATION

2.1 NED fees FY17

Board fees	FY17	FY16	Committee fees	FY17 and FY16	
				Committee Chair	Committee member
Board Chairman fee[1]	$472,274	$438,000	Audit	$50,000	$25,000
Board NED base fee	$154,760	$146,000	People & Culture	$30,000	$15,000
			Medical Science	$30,000	$15,000
			Nomination	No fee	No fee
			Technology and Innovation	$40,000	$20,000

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

2.2 Post-employment benefits and other policy items

Superannuation	Where required, superannuation contributions have been made in accordance with Australian superannuation legislation, at a rate of 9.5% of the base fee up to the Australian Government's prescribed maximum contributions limit. Contributions are not included in the base fee.
Retirement scheme	Prior to 2003, Cochlear operated a directors' retirement scheme which provided retirement benefits of three times their average annual remuneration over the previous three years. In 2006, the Board resolved to discontinue the ongoing accrual of benefits subject to a transition period to 2011. The benefits accrued are indexed by reference to the bank bill rate. At 30 June 2017, Edward Byrne was the only NED entitled to this benefit. The accrued entitlement for Edward Byrne under the Cochlear directors' retirement scheme as at 30 June 2017 was $450,031.
Equity instruments	NEDs do not receive any performance related remuneration, options or performance shares/rights.
Other fees/benefits	NEDs receive reimbursement for costs directly related to Cochlear business.
Minimum shareholding guidelines	NEDs are requested to hold shares equivalent to the fees received in the previous 12 months. The Share Ownership Policy is available on the website.

2.3 NED total remuneration

		Short-term benefits	Post-employment benefits		
Amounts $	Year	Fees	Accrued interest[1]	Superannuation benefits	Total
Rick Holliday-Smith (Chairman)	**FY17**	**471,747**	**-**	**19,616**	**491,363**
	FY16	438,000	-	19,308	457,308
Yasmin Allen	**FY17**	**239,625**	**-**	**19,616**	**259,241**
	FY16	230,731	-	19,308	250,039
Glen Boreham	**FY17**	**229,625**	**-**	**19,616**	**249,241**
	FY16	220,654	-	19,308	239,962
Edward Byrne	**FY17**	**204,625**	**7,996**	**18,786**	**231,407**
	FY16	195,846	9,586	18,248	223,680
Alison Deans	**FY17**	**214,625**	**-**	**19,224**	**233,849**
	FY16	192,154	-	18,255	210,409
Andrew Denver	**FY17**	**234,625**	**-**	**19,616**	**254,241**
	FY16	225,769	-	19,308	245,077
Donal O'Dwyer	**FY17**	**214,625**	**-**	**19,224**	**233,849**
	FY16	205,846	-	18,686	224,532
Bruce Robinson[2]	**FY17**	**101,448**	**-**	**9,064**	**110,512**
Total[3]	**FY17**	**1,910,945**	**7,996**	**144,762**	**2,063,703**
	FY16	1,709,000	9,586	132,421	1,851,007

1. Amounts accrued for interest during the financial year relating to the directors' retirement scheme.
2. Appointed 13 December 2016.
3. The year-on-year changes in Board fees reflect the appointment of an additional director half way through FY17, changes in Board committee membership and increases to Board NED base fees.

The table below indicates Cochlear Limited shareholdings:

	Held at 1 July 2016	Purchases	Sales	Cochlear Limited ordinary shares held as at 30 June 2017	Total intrinsic value of Cochlear Limited securities as at year end ($)[1]	% of fees
Rick Holliday-Smith	10,000	-	-	10,000	1,334,400	283%
Yasmin Allen	3,500	-	-	3,500	467,040	195%
Glen Boreham	2,800	-	-	2,800	373,632	163%
Edward Byrne	3,250	-	-	3,250	433,680	212%
Alison Deans	2,000	-	-	2,000	266,880	124%
Andrew Denver	4,000	-	-	4,000	533,760	227%
Donal O'Dwyer	6,000	-	-	6,000	800,640	373%
Bruce Robinson	N/A	-	-	-	-	-
Total	**31,550**	**-**	**-**	**31,550**	**4,210,032**	**220%**

1. In line with the Share Ownership Policy (available on the Cochlear website), the intrinsic value of Cochlear Limited ordinary shares is calculated using the average daily share price over the previous 12 months ($133.44), as at closing on the ASX up to 30 June 2017, times the number of shares.

All NEDs are compliant with the Share Ownership Policy which allows three years to build holdings equivalent in value to their previous year's total annual Cochlear director's fees (including committee fees).

3. EXECUTIVE REMUNERATION

3.1 Executive remuneration table - Audited statutory disclosure (accounting cost to Cochlear)

Amounts $	Year	Fixed remuneration					Variable remuneration					Total	Proportion of total remuneration
		Short-term		Other employee costs		Total	Short-term incentive (STI)[2]		Long-term incentive (LTI)[2]		Total		Performance related
Name		Salary	Non-monetary benefits[1]	Superannuation benefits	Long service leave		Cash STI and special incentive[3]	Deferred STI[4]	Value of options[5]	Value of performance rights[5]			%
Chris Roberts[6]	FY16	609,526	165	9,654	-	619,345	204,759	32,056	80,829	-	317,644	936,989	33.9%
Chris Smith[6]	**FY17**	**1,639,249**	**95,201**	**35,510**	**-**	**1,769,960**	**1,445,173**	**318,226**	**477,958**	**454,134**	**2,695,491**	**4,465,451**	**60.4%**
	FY16	1,341,409	285,865	-	-	1,627,274	1,200,924	192,418	481,906	252,384	2,127,632	3,754,906	56.7%
Anthony Bishop[7]	**FY17**	**428,886**	**640**	**18,484**	**1,838**	**449,848**	**217,735**	**61,435**	**9,579**	**22,207**	**310,956**	**760,804**	**40.9%**
Richard Brook	**FY17**	**665,624**	**206,511**	**131,114**	-	**1,003,249**	**370,182**	**119,049**	**106,589**	**162,060**	**757,880**	**1,761,129**	**43.0%**
	FY16	674,740	205,799	126,953	-	1,007,492	374,074	91,517	150,138	188,994	804,723	1,812,215	44.4%
Brent Cubis[7]	**FY17**	**158,654**	**193**	**7,918**	**271**	**167,036**	**97,857**	**11,857**	**-**	**-**	**109,714**	**276,750**	**39.6%**
Dig Howitt	**FY17**	**654,635**	**1,130**	**19,616**	**30,074**	**705,455**	**415,368**	**108,171**	**167,851**	**81,194**	**772,584**	**1,478,039**	**52.3%**
	FY16	528,951	990	19,308	13,563	562,812	371,964	54,991	249,140	61,731	737,826	1,300,638	56.7%
Jan Janssen	**FY17**	**568,230**	**1,130**	**19,616**	**4,274**	**593,250**	**347,930**	**106,693**	**119,446**	**109,055**	**683,124**	**1,276,374**	**53.5%**
	FY16	552,032	990	19,308	(2,274)	570,056	348,992	79,795	140,048	162,097	730,932	1,300,988	56.2%
Tony Manna	**FY17**	**598,375**	**92,122**	**17,921**	-	**708,418**	**332,891**	**117,163**	**85,037**	**34,833**	**569,924**	**1,278,342**	**44.6%**
	FY16	585,992	82,017	22,451	-	690,460	335,386	32,039	56,921	18,284	442,630	1,133,090	39.1%
Neville Mitchell[8]	**FY17**	**420,742**	**526**	**143,295**	**12,250**	**576,813**	**286,938**	**92,648**	**43,588**	**89,489**	**512,663**	**1,089,476**	**47.1%**
	FY16	583,293	660	191,351	27,680	802,984	435,969	98,370	147,082	223,846	905,267	1,708,251	53.0%
Total	**FY17**	**5,134,395**	**397,453**	**393,474**	**48,707**	**5,974,029**	**3,514,074**	**935,242**	**1,010,048**	**952,972**	**6,412,336**	**12,386,365**	**51.8%**
	FY16	4,875,943	576,486	389,025	38,969	5,880,423	3,272,068	581,186	1,306,064	907,336	6,066,654	11,947,077	50.8%

1. Benefits include housing allowances for expatriate KMP, car allowances and insurances which are market based payments. Some insurance items were omitted from FY16 non-monetary amounts in the FY16 report; they have been restated above.
2. Equity STI and LTI are awarded annually, with cash STI paid half yearly. The service and performance criteria are set out in this report.
3. During FY16, the Board approved a special incentive program specific to the One Cochlear change initiative – detailed in a separate column in the table on the next page.
4. Deferred STI is granted in performance rights and deferred for a further two years. The cost of the plan is expensed across three years. The FY17 amount represents the portion of the FY15, FY16 and FY17 deferred STI expensed in FY17. The FY16 amount represents the portion of the FY14, FY15 and FY16 deferred STI expensed in FY16.
5. The value of options and performance rights is calculated at the date of grant using the Black-Scholes-Merton pricing model discounted for vesting probabilities of non-market performance criteria. The value of options and performance rights is allocated to each reporting period evenly over the period from grant date to vesting date. The amount expensed each reporting period includes adjustments to the life-to-date expense of grants based on the reassessed estimate of achieving non-market performance criteria and final vesting amounts for the non-market performance criteria of options and performance rights. The value disclosed above is the portion of the value of the options and performance rights recognised as an expense in the financial year. The ability to exercise the options and performance rights is conditional on Cochlear achieving certain performance hurdles. Further details of options and performance rights granted during the financial year are set out in this report.
6. Chris Roberts was an executive director and retired on 31 August 2015. Chris Smith is an executive director in FY17 and FY16.
7. Anthony Bishop was promoted to a KMP role on 18 July 2016 and Brent Cubis was appointed as a KMP on 13 March 2017. Values in this table relate only to the period they were KMP.
8. Neville Mitchell ceased to be a KMP on 13 March 2017 and retired on 1 July 2017. The above table reflects amounts earned in the period to 13 March 2017. Full details for Mr Mitchell's earnings for the full year are provided in section 3.3.3.

3.2 Executive remuneration table - Unaudited

The table below aims to show actual remuneration received during the year including equity vesting from prior years, and separately to show actual remuneration granted during the year including equity deferred to future years:

Amounts $	Year	Fixed remuneration and cash incentives received			Proportion of STI		Past at risk remuneration received during year			Actual remuneration received	Future at risk remuneration awarded		Total remuneration awarded
Name		Fixed remuneration[1]	Special incentive[2]	Cash ST incentive[3]	% achieved	% forfeited	Value of vested deferred STI	Intrinsic value of vested options[4]	Intrinsic value of vested performance shares (LTI)[4]		Deferred STI[5]	LTI (equity) granted during year[5]	
Chris Roberts	FY16	619,345	-	204,759	108.1%	-	-	2,583,213	-	3,407,317	-	-	824,104
Chris Smith	**FY17**	**1,769,960**	**-**	**1,445,173**	**107.4%**	**-**	**167,548**	**959,371**	**361,507**	**4,703,559**	**433,627**	**1,236,297**	**4,885,057**
	FY16	1,627,274	-	1,200,924	107.7%	-	-	490,489	66,980	3,385,667	360,340	1,306,785	4,495,323
Anthony Bishop[6]	**FY17**	**449,848**	**-**	**217,735**	**96.8%**	**3.2%**	**-**	**-**	**-**	**667,583**	**87,094**	**95,358**	**850,035**
Richard Brook	**FY17**	**1,003,249**	**-**	**370,182**	**98.6%**	**1.4%**	**138,762**	**460,437**	**408,879**	**2,381,509**	**134,612**	**246,870**	**1,754,913**
	FY16	1,007,492	15,000	359,074	96.8%	3.2%	-	469,399	-	1,850,965	107,722	328,759	1,818,047
Brent Cubis[6]	**FY17**	**167,036**	**-**	**97,857**	**107.3%**	**-**	**-**	**-**	**-**	**264,893**	**35,571**	**-**	**300,464**
Dig Howitt	**FY17**	**705,455**	**-**	**415,368**	**107.3%**	**-**	**99,774**	**1,428,167**	**-**	**2,648,764**	**138,456**	**273,676**	**1,532,955**
	FY16	562,812	33,500	338,464	112.0%	-	-	-	260,427	1,195,203	101,539	253,191	1,289,506
Jan Janssen	**FY17**	**593,250**	**-**	**347,930**	**107.3%**	**-**	**101,312**	**353,434**	**375,761**	**1,771,687**	**126,519**	**208,447**	**1,276,146**
	FY16	570,056	15,000	333,992	106.1%	-	-	302,913	105,863	1,327,824	100,197	254,020	1,273,265
Tony Manna	**FY17**	**708,418**	**-**	**332,891**	**115.8%**	**-**	**189,907**	**-**	**-**	**1,231,216**	**133,157**	**177,656**	**1,352,122**
	FY16	690,460	15,000	320,386	108.7%	-	-	287,046	-	1,312,892	96,116	193,307	1,315,269
Neville Mitchell[7]	**FY17**	**825,636**	**-**	**286,938**	**103.3%**	**-**	**124,788**	**880,309**	**331,603**	**2,449,274**	**149,351**	**-**	**1,261,925**
	FY16	802,984	22,000	413,969	107.3%	-	-	124,962	262,089	1,626,004	124,191	306,439	1,669,583
Total	**FY17**	**6,222,852**	**-**	**3,514,074**	**105.5%**	-	**822,091**	**4,081,718**	**1,477,750**	**16,118,485**	**1,238,387**	**2,238,304**	**13,213,617**
	FY16	5,880,423	100,500	3,171,568	106.7%	-	-	4,258,022	695,359	14,105,872	890,105	2,642,501	12,685,097

1. Represents the value of base salary, non-monetary benefits and superannuation received during the year (includes the accrued value of long service leave) – as detailed in the statutory table. Previously, long service leave accrual and some insurance items were omitted from FY16 non-monetary amounts in the FY16 report. FY16 fixed remuneration numbers in this table are restated to reflect this change.
2. During FY16, the Board approved a special incentive program specific to the One Cochlear change initiative. For FY17, One Cochlear change initiatives were included in the individual elements of the main STI program.
3. Represents STI payments earned during the financial year. For example, FY17 data includes first half STI payments received in February, and second half STI payments which are accrued at year end, and received in August 2017, after the reporting year end.
4. Reflects the intrinsic value of vested employee share scheme benefits at the date of exercise. In the case of options, this represents the market price on the date of exercise (or market price on date of vesting in the case of vested unexercised options) less the exercise price multiplied by the number of options. For performance shares, this represents the share price on the date of exercise.
5. Represents the value of equity grants (options and/or performance rights) calculated at the date of grant using the percentage of salary reflected in the remuneration mix. These grants were awarded during the year, are unvested and will be subject to achievement of future performance and service hurdles.
6. Anthony Bishop was promoted to a KMP role on 18 July 2016 and Brent Cubis became a KMP on 13 March 2017. Values included in this table relate only to the period they were KMP. Both the deferred STI and the LTI are annual programs and Mr Cubis will receive his first allocations after FY17.
7. Neville Mitchell ceased to be a KMP on 13 March 2017 and retired on 1 July 2017. The above table reflects pay for the full year, not only the period as a KMP.

3.3 Executive KMP remuneration

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

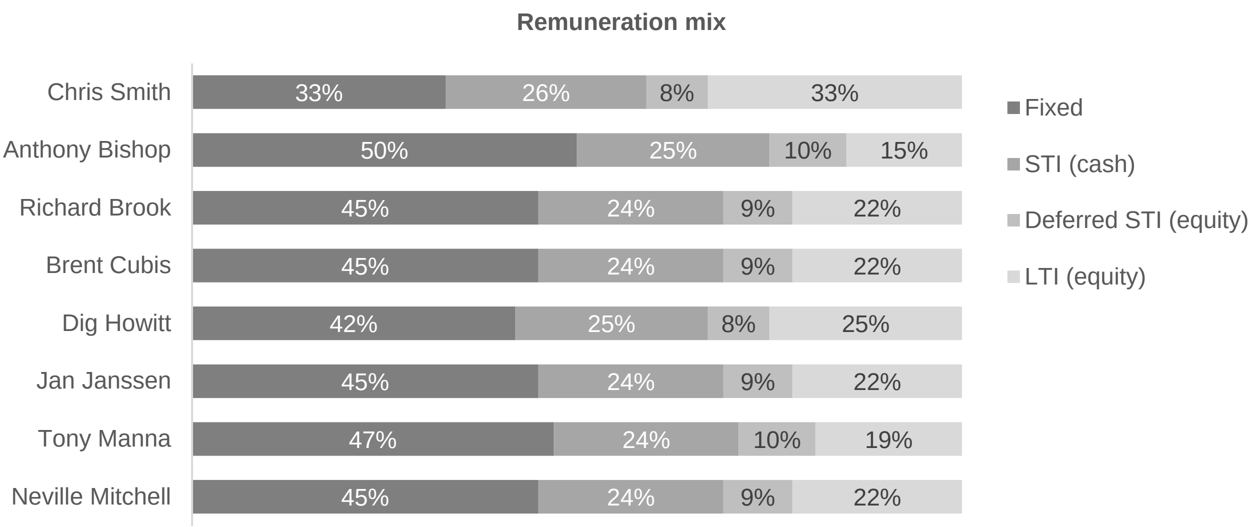
Total target remuneration is set by reference to the relevant geographic market		
Fixed pay	**At risk pay**	
Total fixed remuneration (TFR)	**Short-term incentives (STI)**	**Long-term incentives (LTI)**
TFR is set relative to market and reflects responsibilities, performance, qualifications, experience and geographic location	STI performance criteria are set by reference to Cochlear group and/or regional revenue and EBIT and individual strategic performance targets relevant to the specific position	LTI targets are linked to Cochlear group performance measures: 50%: to internal EPS growth 50%: external relative TSR
Remuneration will be delivered as:		
Cash plus any fixed elements related to local markets, including superannuation or equivalents	Part cash and part equity (performance rights). The equity component will be subject to service and deferred for 2 years to build alignment to longer-term shareholders' interests	Equity in options and/or performance rights. All equity is held subject to service and performance for 3 years from grant date. The equity is at risk until vesting. Performance is tested once at the vesting date
Strategic intent and market positioning		
Quantum and mix will take account of relevant market data considering the individual's expertise in the role. TFR must be competitive to attract and retain executive talent	STI is directed to achieving Board approved targets, reflective of market circumstances. Targets are set as interim milestones on the longer-term strategy, and equity delivery discourages short termism	LTI is intended to reward executives for sustainable long-term growth aligned to shareholders' interests. Executives eligible for LTI may also be subject to the Share Ownership Policy

Total target remuneration

Each remuneration component and the overall total target reward levels are tested regularly for market competiveness by reference to appropriate independent and externally sourced comparable benchmark information, taking into account an executive's responsibilities, performance, qualifications, experience and geographic location

3.3.1 Current remuneration mix

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



3.3.2 Service contracts

Cochlear does not enter into (limited) service contracts for executive KMP. The terms for executive KMP meet local employment law requirements. Key provisions are similar but do, on occasion, vary to suit different needs.

The following sets out details of the employment agreements relating to executive KMP:

Length of contract	Permanent contract until notice is given by either party.
Notice periods	Executive KMP are required to give between 60 days' and six months' written notice. Cochlear is required to give between 60 days' and 12 months' written notice (exact period specified in each contract).
Post-employment restraints	All executive KMP are subject to post-employment restraints for up to 12 months.
Other arrangements	Richard Brook - President, European, Middle East and African Region will receive a maximum of CHF 30,000 for repatriation costs in the case of termination or resignation.

3.3.3 Executive end of service

When Neville Mitchell announced the possibility of retirement, the Board approved a retention award of $145,000 to be paid if he remained with Cochlear until 1 July 2017 to enable Cochlear to manage a smooth transition to a new CFO. Although the Board does not deem this retention payment to be a "termination payment", if it was deemed to be a termination payment within the definition of the *Corporations Act 2001*, the payment is well within the one times pay limit set out within the Act. In addition, Mr Mitchell received $327,245 in statutory entitlements. The Board also used its discretion to allow several previous equity grants to remain on foot subject to the original terms of those grants (both time and performance hurdles) – details provided in section 4.2, including the FY17 deferred STI grant valued at $123,188.

The statutory executive remuneration table (section 3.1) shows the payments earned by Mr Mitchell up to the date of appointment of the new CFO (13 March 2017), at which point Mr Mitchell ceased to be a KMP. The following table shows the corresponding full year of payments to Mr Mitchell for FY17:

	Fixed remuneration					Variable remuneration					End of service	Total	Proportion of total remuneration
Amounts $					Total	Short-term incentive (STI)		Long-term incentive (LTI)		Total			Performance related %
Name	Salary	Non-monetary benefits	Superan-nuation benefits	Long service leave		Cash STI	Deferred STI	Value of options	Value of perform-ance rights				
Neville Mitchell	602,239	753	205,109	17,535	825,636	410,715	273,030	93,560	195,231	972,536	145,000	1,943,172	50.0%

Payments made in FY18 were accrued and expensed at 30 June 2017.

The incentive values include an expense of $140,934 for deferred STI, $67,639 for LTI performance rights and $31,413 for LTI options that would normally have been amortised over future years for awards that remain subject to vesting hurdles and timeframes, and LTI may not be paid out.

Mr Mitchell remained on a transitional defined contribution superannuation plan based on a fixed percentage (19.5%) of base salary and STI.

4. EMPLOYEE SHARE SCHEME AND OTHER SHARE INFORMATION

This section provides:

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

4.1 Employee share schemes operated by Cochlear

Plan details	Type of instruments	Purpose
Cochlear Employee Share Plan (CESP) Date established: 1999	Ordinary shares held under holding lock	The purpose of the CESP is to encourage general employee equity participation through tax concessional legislation which currently facilitates tax effective issues of up to $1,000 of shares annually per eligible employee. Under the September 2016 (FY17) grant, 1,404 employees in Australia and Belgium each received an award of seven shares. Executive KMP are not eligible for this program.
APAC Employee Equity Plan (AEEP) Date established: 2016	Service rights held under holding lock	The AEEP replaces the Cash Incentive Plan that was previously in place for selected Asian countries and aligns with the CESP via provision of up to $1,000 of service rights annually per eligible employee. Upon vesting, each service right converts to one share. Under the FY17 grant, 164 employees each received an award of seven service rights. Executive KMP are not eligible for this program.
Cochlear Executive Incentive Plan (CEIP) Date established: 2013	Options and performance rights	The purpose of the CEIP is to encourage employees and executives to hold Cochlear shares and to align their interests to shareholders' interests. Under the LTI plan, vesting of options or performance rights occurs only if Cochlear achieves challenging and market competitive hurdles related to EPS growth and relative TSR. The first grant of options and performance rights under the CEIP was made on 15 October 2013. Refer also to the Remuneration Policy for more detail. Under the deferred STI plan, grants are based on performance in the first year, and are then deferred for a further two years. They provide more certainty of building an equity holding as no further performance hurdles apply other than tenure.

4.2 Employee share scheme grants to executive KMP

4.2.1 Analysis of share based payments granted as remuneration

The vesting profile of the options and performance rights granted as remuneration to each executive KMP is set out below:

Name	Reward vehicle	Grant date	Vesting date	Options			Performance rights[1]		
				Number granted	Number vested	Number forfeited/ lapsed	Number granted	Number vested	Number forfeited/ lapsed
Chris Smith	FY14 LTI	15-Oct-13	15-Aug-16	14,955	12,098	2,857	3,198	2,587	611
	FY14 deferred STI	12-Aug-14	12-Aug-16	-	-	-	1,199	1,199	-
	FY15 LTI	14-Oct-14	12-Aug-17	15,412	-	-	2,998	-	-
	FY15 deferred STI	18-Aug-15	18-Aug-17	-	-	-	2,027	-	-
	FY16 LTI	20-Oct-15	17-Aug-18	69,047	-	-	5,641	-	-
	FY16 deferred STI	16-Aug-16	17-Aug-18	-	-	-	2,787	-	-
	FY17 LTI	19-Oct-16	15-Aug-19	28,150	-	-	9,736	-	-
	Total			**127,564**	**12,098**	**2,857**	**27,586**	**3,786**	**611**
Anthony Bishop	FY16 deferred STI	16-Aug-16	17-Aug-18	-	-	-	752	-	-
	FY17 LTI	19-Oct-16	15-Aug-19	2,171	-	-	751	-	-
	Total			**2,171**	**-**	**-**	**1,503**	**-**	**-**
Richard Brook	FY14 LTI	15-Oct-13	15-Aug-16	7,249	5,864	1,385	3,617	2,926	691
	FY14 deferred STI	12-Aug-14	12-Aug-16	-	-	-	993	993	-
	FY15 LTI	14-Oct-14	12-Aug-17	7,256	-	-	3,293	-	-
	FY15 deferred STI	18-Aug-15	18-Aug-17	-	-	-	1,448	-	-
	FY16 LTI	20-Oct-15	17-Aug-18	12,601	-	-	2,402	-	-
	FY16 deferred STI	16-Aug-16	17-Aug-18	-	-	-	833	-	-
	FY17 LTI	19-Oct-16	15-Aug-19	5,622	-	-	1,944	-	-
	Total			**32,728**	**5,864**	**1,385**	**14,530**	**3,919**	**691**
Dig Howitt	FY14 LTI	15-Oct-13	15-Aug-16	21,900	17,717	4,183	-	-	-
	FY14 deferred STI	12-Aug-14	12-Aug-16	-	-	-	714	714	-
	FY15 LTI	14-Oct-14	12-Aug-17	10,970	-	-	2,133	-	-
	FY15 deferred STI	18-Aug-15	18-Aug-17	-	-	-	1,066	-	-
	FY16 LTI	20-Oct-15	17-Aug-18	18,682	-	-	-	-	-
	FY16 deferred STI	16-Aug-16	17-Aug-18	-	-	-	785	-	-
	FY17 LTI	19-Oct-16	15-Aug-19	10,375	-	-	1,537	-	-
	Total			**61,927**	**17,717**	**4,183**	**6,235**	**714**	**-**
Jan Janssen	FY14 LTI	15-Oct-13	15-Aug-16	6,664	5,391	1,273	3,325	2,689	636
	FY14 deferred STI	12-Aug-14	12-Aug-16	-	-	-	725	725	-
	FY15 LTI	14-Oct-14	12-Aug-17	11,127	-	-	2,164	-	-
	FY15 deferred STI	18-Aug-15	18-Aug-17	-	-	-	1,177	-	-
	FY16 LTI	20-Oct-15	17-Aug-18	9,736	-	-	1,856	-	-
	FY16 deferred STI	16-Aug-16	17-Aug-18	-	-	-	775	-	-
	FY17 LTI	19-Oct-16	15-Aug-19	7,900	-	-	1,171	-	-
	Total			**35,427**	**5,391**	**1,273**	**11,193**	**3,414**	**636**
Tony Manna	FY14 LTI	15-Oct-13	15-Aug-16	-	-	-	-	-	-
	FY14 deferred STI	12-Aug-14	12-Aug-16	-	-	-	1,359	1,359	-
	FY15 LTI	14-Oct-14	12-Aug-17	-	-	-	-	-	-
	FY15 deferred STI	18-Aug-15	18-Aug-17	-	-	-	1,542	-	-
	FY16 LTI	20-Oct-15	17-Aug-18	10,216	-	-	834	-	-
	FY16 deferred STI	16-Aug-16	17-Aug-18	-	-	-	743	-	-
	FY17 LTI	19-Oct-16	15-Aug-19	9,414	-	-	598	-	-
	Total			**19,630**	**-**	**-**	**5,076**	**1,359**	**-**
Neville Mitchell	FY14 LTI	15-Oct-13	15-Aug-16	13,723	11,101	2,622	2,934	2,373	561
	FY14 deferred STI	12-Aug-14	12-Aug-16	-	-	-	893	893	-
	FY15 LTI	14-Oct-14	12-Aug-17	8,168	-	-	3,707	-	-
	FY15 deferred STI	18-Aug-15	18-Aug-17	-	-	-	1,444	-	-
	FY16 LTI	20-Oct-15	17-Aug-18	7,159	-	-	3,184	-	-
	FY16 deferred STI	16-Aug-16	17-Aug-18	-	-	-	960	-	-
	FY17 LTI	19-Oct-16	15-Aug-19	5,812	-	5,812	2,010	-	2,010
	Total			**34,862**	**11,101**	**8,434**	**15,132**	**3,266**	**2,571**

1. During FY17, Cochlear made changes to the way the deferred STI is administered to better reflect how it operates in practice. Previously, the deferred STI grant was formally offered in the year following performance assessment. For example, the FY16 plan was formally offered in FY17. Going forward, the plan will be formally offered in the year it is earned. This does not alter the reward delivered under the plan. As the number of rights is based on the volume weighted average price of Cochlear shares in the five days following results announcement, the details of the FY17 grant are not provided in the above table.

The options granted in FY17 have an exercise price of $135.84 and an expiration date of 16 March 2020. Fair values of FY17 option and performance rights granted under the LTI plan are as follows:

Fair value (IFRS-2)	Options	Performance rights
EPS based	$18.65	$125.82
TSR based	$14.46	$96.40

4.2.2 Exercise of options and performance shares/rights granted as remuneration

During FY17, 56,733 options were exercised by executive KMP. The FY14 LTI grant met the EPS hurdle so there was an 80.9% vesting from this grant. There are no amounts unpaid on the shares issued as a result of the exercise of the options in prior years.

4.2.3 Analysis of movement in options and performance shares/rights

The tables below detail movements in number and value during FY17 of:

- options over ordinary shares of Cochlear Limited acquired under the LTI; and
- performance shares/rights acquired under the LTI and deferred STI, held by executive KMP.

Options	Opening	Granted in year		Exercised in year		Forfeited/ lapsed in year	Closing
	Number	Number	Value ($)[1]	Number	Intrinsic value ($)[2]	Number	Number
Chris Smith	99,414	28,150	372,600	12,098	959,371	2,857	112,609
Anthony Bishop	-	2,171	28,736	-	-	-	2,171
Richard Brook	27,106	5,622	74,414	5,864	460,437	1,385	25,479
Brent Cubis	-	-	-	-	-	-	-
Dig Howitt	51,552	10,375	137,326	17,717	1,428,167	4,183	40,027
Jan Janssen	27,527	7,900	104,566	5,391	353,434	1,273	28,763
Tony Manna	14,778	9,414	124,606	4,562	351,092	-	19,630
Neville Mitchell	29,050	5,812	76,929	11,101	880,309	8,434	N/A
Total	**249,427**	**69,444**	**919,177**	**56,733**	**4,432,810**	**18,132**	**228,679**

Performance shares/rights	Opening	Granted in year				Exercised in year		Forfeited/ lapsed in year	Closing
	Number	LTI number	LTI value ($)[1]	Deferred STI number	Deferred STI value ($)[3]	Number	Intrinsic value ($)[4]	Number	Number
Chris Smith	15,063	9,736	863,697	2,787	360,275	3,786	529,056	611	23,189
Anthony Bishop	-	751	66,622	752	97,211	-	-	-	1,503
Richard Brook	11,753	1,944	172,456	833	107,682	3,919	547,641	691	9,920
Brent Cubis	-	-	-	-	-	-	-	-	-
Dig Howitt	3,913	1,537	136,350	785	101,477	714	99,774	-	5,521
Jan Janssen	9,247	1,171	103,881	775	100,184	3,414	477,072	636	7,143
Tony Manna	3,735	598	53,050	743	96,048	1,359	189,907	-	3,717
Neville Mitchell	12,162	2,010	178,311	960	124,099	3,266	456,391	2,571	N/A
Total	**55,873**	**17,747**	**1,574,367**	**7,635**	**986,976**	**16,458**	**2,299,841**	**4,509**	**50,993**

1. The value derived under IFRS-2 of options and performance rights granted during the financial year is the value of the options and performance rights calculated at grant date using the Black-Scholes-Merton pricing model discounted for vesting probabilities of performance criteria. The total value of the options and performance rights granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. the FY17 grant is allocated in each of FY17 to FY19).
2. The intrinsic value of exercised options is calculated as the closing market price of Cochlear shares on the Australian Securities Exchange (ASX) on the date of exercise less the applicable exercise price, times the number of options.
3. Deferred STI value represents performance rights under the deferred STI plan for the FY16 performance year.
4. The intrinsic value of vested performance shares/rights calculated as at the closing market price of shares of the Company on the ASX on the date of vesting times the number of performance shares/rights.

4.3 Potential dilution if options vest and ordinary shares issued - Unaudited

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

Grant date	Number of options				Exercise price per share ($)	Exercise period	Current net value of outstanding options as at 30 June 2017 ($)[1]
	Issued	Exercised	Forfeited/ lapsed	At report date			
14-Oct-14[2]	138,963	-	60,771	78,192	68.56	Aug-17 to Mar-18	6,794,103
20-Oct-15[2]	162,451	-	27,606	134,845	82.89	Aug-18 to Mar-19	9,784,353
19-Oct-16[2]	95,586	-	15,689	79,897	135.84	Aug-19 to Mar-20	1,566,780
Total	**397,000**	-	**104,066**	**292,934**			**18,145,236**

1. Closing share price as at 30 June 2017 was $155.45.
2. Lapsed options from unvested grants relate to plan members who have departed Cochlear.

Total unvested equity currently accounts for approximately 0.8% of total market capitalisation, as set out below:

Instrument	Number of equivalent shares at 30 June 2017
Unvested LTI options	292,934
Unvested LTI performance rights	56,332
Unvested deferred STI rights	83,758
Service rights under the AEEP	2,426
Shares in holding lock under the CESP	45,699
Total	481,149
as % of total shares	0.8%
Number of shares	**57,426,649**

4.4 KMP equity interests

In accordance with the *Corporations Act 2001* (section 205G(1)), Cochlear is required to notify the interests (shares and rights to shares) of directors to the ASX. In the interests of transparency and completeness of disclosure, this information is provided for each NED in section 2.3 (as required under the *Corporations Act 2001*) and all executive KMP as well. Also refer to the Remuneration Policy (Minimum shareholding guidelines and Hedging and margin lending prohibition) and Share Ownership Policy available on the Cochlear website.

The table below indicates Cochlear Limited shareholdings. In previous years, this table included any vested but unexercised options and performance shares; however, under the current structure of the LTI plan, it is no longer possible to have options that are vested but unexercised at year end.

	Held at 1 July 2016	Purchases	Received on exercise of options and performance shares	Sales	Cochlear Limited ordinary shares held as at 30 June 2017	Policy value of Cochlear Limited securities as at year end ($)[1]	% of base salary
Chris Smith	18,288	-	15,884	16,172	18,000	2,401,920	147%
Anthony Bishop	-	-	-	-	-	-	-
Richard Brook	8,000	-	9,783	9,783	8,000	1,067,520	160%
Brent Cubis	-	-	-	-	-	-	-
Dig Howitt	21,398	-	18,431	17,717	22,112	2,950,625	451%
Jan Janssen	15,379	-	8,805	3,500	20,684	2,760,073	486%
Tony Manna	-	-	5,921	5,104	817	109,020	18%
Neville Mitchell	11,000		14,367	14,367	N/A	N/A	N/A
Total executive KMP	**74,065**	**-**	**73,191**	**66,643**	**69,613**	**9,289,158**	**182%**

1. In line with the Share Ownership Policy (available on the Cochlear website), the "Policy value" of Cochlear Limited ordinary shares is calculated using the average daily share price as at closing on the ASX over the previous 12 months up to 30 June 2017 ($133.44), times the number of shares.

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

	Unvested LTI options[1]	Unvested LTI performance rights[2]	Unvested deferred STI performance rights[3]	Total intrinsic value of unvested options and performance rights as at year end ($)[4]	Total intrinsic value of shares held and unvested equity	% of base salary
Chris Smith	112,609	18,375	4,814	7,055,340	9,457,260	577%
Anthony Bishop	2,171	751	752	254,928	254,928	59%
Richard Brook	25,479	7,639	2,281	2,369,589	3,437,109	516%
Brent Cubis	-	-	-	-	-	-
Dig Howitt	40,027	3,670	1,851	2,114,341	5,064,966	774%
Jan Janssen	28,763	5,191	1,952	2,024,473	4,784,546	842%
Tony Manna	19,630	1,432	2,285	1,040,748	1,149,769	192%
Total executive KMP	**228,679**	**37,058**	**13,935**	**14,859,419**	**24,148,578**	**473%**

1. The number of unvested LTI options over Cochlear Limited ordinary shares.
2. The number of unvested LTI performance rights over Cochlear Limited ordinary shares.
3. The number of unvested deferred STI performance rights over Cochlear Limited ordinary shares.
4. The intrinsic value of unvested options calculated as the closing Cochlear Limited share price on the ASX on 30 June 2017 less the applicable exercise price, times the number of options (negative values are treated as zero in the totals). For the purposes of the policy, only 50% of the intrinsic value of options is counted. The intrinsic value of unvested performance rights calculated as at the closing Cochlear Limited share price on the ASX on 30 June 2017 ($155.45) times the number of performance rights.

All executive KMP are compliant with the Share Ownership Policy (minimum shareholding requirements).

The directors present their report, together with the Consolidated Financial report of the Consolidated Entity (Cochlear), being Cochlear Limited (the Company) and its controlled entities, for the year ended 30 June 2017, and the Auditor's Report thereon.

DIRECTORS

The directors of the Company at any time during or since the end of the financial year were Mr R Holliday-Smith (Chairman), Mrs YA Allen, Mr G Boreham, AM, Prof E Byrne, AC, Ms A Deans, Mr A Denver, Mr DP O'Dwyer, Prof B Robinson, AM and Mr C Smith.

Information on the directors is presented in the Annual Report. This information includes the qualifications, experience and special responsibilities of each director. It also gives details of the directors' other directorships.

COMPANY SECRETARY

The Company Secretarial function is responsible for ensuring that the Company complies with its statutory duties and maintains proper documentation, registers and records. It also provides advice to directors and officers about corporate governance and gives practical effect to any decisions made by the Board.

Mr Neville Mitchell resigned as Company Secretary on 13 February 2017. Mr Ray Jarman was appointed Company Secretary on 13 February 2017. He has qualifications in law and science from the University of New South Wales and is an admitted solicitor in New South Wales. Mr Jarman joined Cochlear in 2008 as the inaugural Group General Counsel. He has over 30 years' experience in corporate and commercial law, litigation & dispute resolution, legal compliance and corporate governance across medical device, steel, mining and consumer goods industries.

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		People & Culture Committee		Medical Science Committee		Nomination Committee		Technology & Innovation Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr R Holliday-Smith	9	9	5	5	4	3	-	-	4	4	-	-
Mrs YA Allen	9	9	5	5	4	4	-	-	4	4	3	3
Mr G Boreham, AM	9	9	5	5	4	4	-	-	4	4	3	3
Prof E Byrne, AC	9	9	-	-	-	-	2	2	4	4	3	3
Ms A Deans	9	9	5	5	4	4	-	-	4	4	3	3
Mr A Denver	9	9	5	5	-	-	2	2	4	4	3	3
Mr DP O'Dwyer	9	9	5	5	-	-	2	2	4	4	3	3
Prof B Robinson, AM[1]	4	4	-	-	-	-	1	1	1	1	2	2
Mr C Smith	9	9	-	-	-	-	2	2	-	-	3	3

1. Prof Bruce Robinson, AM appointed to the Board effective 13 December 2016.

PRINCIPAL ACTIVITIES

Information on the principal activities, operations and financial position of Cochlear Limited and its business strategies and prospects is set out in the Operating and financial review on pages 6 to 20 of this Annual Report.

DIVIDENDS

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

	Dollars per share	Total amount $000	Franked/ unfranked	Date of payment
Interim 2017 ordinary	1.30	74,655	100% Franked	6 April 2017
Final 2016 ordinary	1.20	68,883	100% Franked	29 September 2016
Total amount	**2.50**	**143,538**		
Subsequent event				
Since the end of the financial year, the directors declared the following dividends:				
Final 2017 ordinary	1.40	80,397	100% Franked	11 October 2017
Total amount	**1.40**	**80,397**		

The financial effect of the 2017 final dividend will be recognised in the subsequent financial year as it was declared after 30 June 2017. Franked dividends paid or declared during the financial year were franked at the tax rate of 30% (2016: 30%).

ENVIRONMENTAL REGULATIONS

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

NON-AUDIT SERVICES

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

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

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

	2017 $	2016 $
Audit services		
Audit and review of financial reports	1,539,847	1,583,831
Other regulatory compliance services	70,801	58,734
Total audit services	**1,610,648**	**1,642,565**
Non-audit services		
Taxation compliance services	1,361,901	1,019,724
Acquisition due diligence services	581,843	-
Other	202,001	31,674
Total non-audit services	**2,145,745**	**1,051,398**

STATE OF AFFAIRS

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

REMUNERATION REPORT

Information on Cochlear's remuneration framework and the outcomes for FY17 for the Cochlear Limited Board, the CEO and the CEO's direct reports, and changes for FY18, is included in the Remuneration report on pages 33 to 50 of this Annual Report.

INDEMNIFICATION OF OFFICERS

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

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

INSURANCE PREMIUMS

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

EVENTS SUBSEQUENT TO THE REPORTING DATE

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

Dividends

For dividends declared after 30 June 2017, see Note 2.6 to the financial statements.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 55 and forms part of the Directors' report for the financial year ended 30 June 2017.

ROUNDING OFF

The Company is of a kind referred to in Australian Securities and Investments Commission (ASIC) (Rounding in Financial/Directors' reports) Instrument 2016/191 (Rounding instrument) dated 24 March 2016 and in accordance with that Instrument, amounts in the Directors' report and Financial report have been rounded off to the nearest one thousand dollars unless otherwise indicated.

Dated at Sydney this 17th day of August 2017.

Signed in accordance with a resolution of the directors:

Director

Director

KPMG

Auditor's independence declaration

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

To: the directors of Cochlear Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2017 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

Cameron Slapp, Partner

Sydney, 17 August 2017

Income statement

	Note	2017 $000	2016 $000
Revenue	2.2	1,253,838	1,130,552
Cost of sales	2.3	(358,373)	(333,593)
Gross profit		**895,465**	**796,959**
Selling and general expenses		(348,928)	(324,144)
Administration expenses		(83,474)	(79,287)
Research and development expenses		(151,929)	(145,080)
Other income	2.4	4,466	14,156
Results from operating activities		**315,600**	**262,604**
Finance income - interest		742	468
Finance expense - interest		(7,517)	(8,806)
Net finance expense		**(6,775)**	**(8,338)**
Profit before income tax		**308,825**	**254,266**
Income tax expense	3.1	(85,209)	(65,345)
Net profit		**223,616**	**188,921**
Basic earnings per share (cents)	2.5	389.7	330.6
Diluted earnings per share (cents)	2.5	389.1	330.0

The notes on pages 61 to 95 are an integral part of these consolidated financial statements.

Statement of comprehensive income

Hear now. And always

	2017 $000	2016 $000
Net profit	**223,616**	**188,921**
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to the income statement:		
Defined benefit plan actuarial gains/(losses)	2,724	(2,000)
Total items that will not be reclassified subsequently to the income statement	2,724	(2,000)
Items that may be reclassified subsequently to the income statement:		
Foreign currency translation differences	(15,125)	(15,832)
Effective portion of changes in fair value of cash flow hedges, net of tax	20,912	5,431
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	(9,873)	19,305
Net change in fair value of available for sale financial assets, net of tax	(246)	-
Total items that may be reclassified subsequently to the income statement	(4,332)	8,904
Other comprehensive (loss)/income, net of tax	**(1,608)**	**6,904**
Total comprehensive income	**222,008**	**195,825**

The notes on pages 61 to 95 are an integral part of these consolidated financial statements.

Balance sheet

	Note	2017 $000	2016 $000
Assets			
Cash and cash equivalents		89,540	75,417
Trade and other receivables	6.4(b)	292,139	281,925
Forward exchange contracts		18,430	11,454
Inventories	5.1	160,011	154,103
Current tax assets	3.2	7,278	6,208
Prepayments		18,562	13,921
Total current assets		**585,960**	**543,028**
Other receivables		906	1,507
Forward exchange contracts		7,760	10,713
Property, plant and equipment	5.2	120,107	86,878
Intangible assets	5.3	339,976	224,338
Investments	5.5	15,064	13,755
Deferred tax assets	3.2	66,586	77,144
Total non-current assets		**550,399**	**414,335**
Total assets		**1,136,359**	**957,363**
Liabilities			
Trade and other payables		130,911	110,354
Forward exchange contracts		2,041	12,643
Loans and borrowings	6.3(a)	84,687	3,978
Current tax liabilities	3.2	26,326	13,701
Employee benefit liabilities	4.2	52,412	45,485
Provisions	5.6	24,992	33,675
Deferred revenue		25,246	31,264
Total current liabilities		**346,615**	**251,100**
Trade and other payables		33,917	-
Forward exchange contracts		3,111	3,547
Loans and borrowings	6.3(a)	134,235	189,260
Employee benefit liabilities	4.2	11,038	13,750
Provisions	5.6	54,711	44,027
Deferred tax liabilities	3.2	5,837	7,122
Deferred revenue		3,248	-
Total non-current liabilities		**246,097**	**257,706**
Total liabilities		**592,712**	**508,806**
Net assets		**543,647**	**448,557**
Equity			
Share capital		169,367	158,940
Reserves		(12,801)	(14,662)
Retained earnings		387,081	304,279
Total equity		**543,647**	**448,557**

The notes on pages 61 to 95 are an integral part of these consolidated financial statements.

Statement of changes in equity

Amounts $000	Issued capital	Treasury reserve	Translation reserve	Hedging reserve	Fair value reserve	Share based payment reserve	Retained earnings	Total equity
2016								
Balance at 1 July 2015	152,599	(8,463)	(32,541)	(20,547)	-	26,887	237,451	355,386
Total comprehensive (loss)/income								
Net profit	-	-	-	-	-	-	188,921	188,921
Other comprehensive (loss)/income								
Defined benefit plan actuarial losses	-	-	-	-	-	-	(2,000)	(2,000)
Foreign currency translation differences	-	-	(15,832)	-	-	-	-	(15,832)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	5,431	-	-	-	5,431
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	-	-	-	19,305	-	-	-	19,305
Total other comprehensive (loss)/income	**-**	**-**	**(15,832)**	**24,736**	**-**	**-**	**(2,000)**	**6,904**
Total comprehensive (loss)/income	**-**	**-**	**(15,832)**	**24,736**	**-**	**-**	**186,921**	**195,825**
Transactions with owners, recorded directly in equity								
Performance shares vested	-	2,099	-	-	-	(2,099)	-	-
Share options exercised	6,704	6,001	-	-	-	(3,502)	-	9,203
Share based payment transactions	-	-	-	-	-	8,342	-	8,342
Deferred tax recognised in equity	-	-	-	-	-	(106)	-	(106)
Dividends to shareholders	-	-	-	-	-	-	(120,093)	(120,093)
Balance at 30 June 2016	**159,303**	**(363)**	**(48,373)**	**4,189**	**-**	**29,522**	**304,279**	**448,557**
2017								
Balance at 1 July 2016	159,303	(363)	(48,373)	4,189	-	29,522	304,279	448,557
Total comprehensive (loss)/income								
Net profit	-	-	-	-	-	-	223,616	223,616
Other comprehensive income/(loss)								
Defined benefit plan actuarial gains	-	-	-	-	-	-	2,724	2,724
Foreign currency translation differences	-	-	(15,125)	-	-	-	-	(15,125)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	20,912	-	-	-	20,912
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	-	-	-	(9,873)	-	-	-	(9,873)
Net change in fair value of available for sale financial assets, net of tax	-	-	-	-	(246)	-	-	(246)
Total other comprehensive (loss)/income	**-**	**-**	**(15,125)**	**11,039**	**(246)**	**-**	**2,724**	**(1,608)**
Total comprehensive (loss)/income	**-**	**-**	**(15,125)**	**11,039**	**(246)**	**-**	**226,340**	**222,008**
Transactions with owners, recorded directly in equity								
Performance rights vested	-	-	-	-	-	(495)	-	(495)
Share options exercised	10,064	363	-	-	-	(893)	-	9,534
Share based payment transactions	-	-	-	-	-	8,095	-	8,095
Deferred tax recognised in equity	-	-	-	-	-	(514)	-	(514)
Dividends to shareholders	-	-	-	-	-	-	(143,538)	(143,538)
Balance at 30 June 2017	**169,367**	**-**	**(63,498)**	**15,228**	**(246)**	**35,715**	**387,081**	**543,647**

The notes on pages 61 to 95 are an integral part of these consolidated financial statements.

Statement of cash flows

	Note	2017 $000	2016 $000
Cash flows from operating activities			
Cash receipts from customers		1,220,749	1,105,512
Cash paid to suppliers and employees		(878,706)	(834,884)
Grant and other income received		4,078	5,461
Interest received		704	454
Interest paid		(8,599)	(10,745)
Income taxes paid	3.1	(78,454)	(80,685)
Net cash provided by operating activities	2.7(b)	**259,772**	**185,113**
Cash flows from investing activities			
Acquisition of land and buildings	5.2	(27,559)	-
Acquisition of leasehold improvements and plant and equipment	5.2	(26,031)	(28,858)
Proceeds from sale of non-current assets		628	1,175
Acquisition of enterprise resource planning system	5.3	(9,252)	(7,556)
Acquisition of other intangible assets	5.3	(8,228)	(1,140)
Acquisition of investments	5.5	(1,449)	(13,755)
Acquisition of subsidiary, net of cash acquired	5.4	(63,709)	-
Net cash used in investing activities		**(135,600)**	**(50,134)**
Cash flows from financing activities			
Repayments of borrowings		(193,000)	(332,971)
Proceeds from borrowings		219,212	312,971
Net proceeds from exercise of share options and performance rights		9,039	9,203
Dividends paid	2.6	(143,538)	(120,093)
Net cash used in financing activities		**(108,287)**	**(130,890)**
Net increase in cash and cash equivalents		**15,885**	**4,089**
Cash and cash equivalents, net of overdrafts at 1 July		75,417	72,208
Effect of exchange rate fluctuations on cash held		(1,762)	(880)
Cash and cash equivalents, net of overdrafts at 30 June		**89,540**	**75,417**

The notes on pages 61 to 95 are an integral part of these consolidated financial statements.

1. BASIS OF PREPARATION

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

1.1 Reporting entity

Cochlear Limited (the Company) is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2017 comprise the Company and its controlled entities (together referred to as Cochlear or the Consolidated Entity). Cochlear is a for-profit entity and operates in the implantable hearing device industry.

1.2 Basis of preparation

(a) Statement of compliance

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

The Board approved the consolidated financial statements on 17 August 2017.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and available for sale investments which are measured at fair value. The fair value measurement method of derivative instruments and available for sale investments is discussed further in Note 6.4(d).

(c) Functional and presentation currency

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

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' reports) Instrument 2016/191 (Rounding instrument) dated 24 March 2016 and in accordance with that Instrument, all financial information presented in AUD has been rounded to the nearest one thousand dollars unless otherwise stated.

(d) Foreign currency

Foreign currency transactions

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

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

Financial statements of foreign operations

The assets and liabilities of foreign operations are translated to the Company's functional currency at foreign exchange rates ruling at the reporting date.

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

Foreign currency differences arising from translation of controlled entities are recognised in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of, in part or in full, the relevant amount of its translation reserve is transferred to the income statement and reported as part of the gain or loss on disposal.

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

(e) Use of judgements and estimates

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

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

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

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

Note 4.2 – Employee benefit liabilities

Note 4.3 – Share based payments

Note 5.3 – Intangible assets

Note 5.4 – Business combinations

Note 5.6 – Provisions

Note 5.7 – Contingent liabilities

Note 6.4 – Financial risk management.

(f) Basis of consolidation

Controlled entities

The Consolidated Entity controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

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

Special purpose entities

Cochlear has established special purpose entities (SPEs) for investment purposes. A SPE is consolidated if Cochlear concludes that it controls the SPE. SPEs controlled by Cochlear were established under terms that impose strict limitations on decision-making powers of the SPE's management.

(g) Goods and services tax (GST)

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

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

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

2. PERFORMANCE FOR THE YEAR

2.1 Operating segments

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

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

Information about reportable segments

	Americas		EMEA[1]		Asia Pacific		**Total**	
	2017	2016	2017	2016	2017	2016	**2017**	**2016**
	$000	$000	$000	$000	$000	$000	**$000**	**$000**
Reportable segment revenue	594,997	519,688	428,513	427,896	216,223	210,547	**1,239,733**	**1,158,131**
Reportable segment EBIT	314,597	276,931	181,527	180,925	67,058	64,842	**563,182**	**522,698**
Reportable segment assets	221,543	184,881	225,013	213,843	117,708	124,775	**564,264**	**523,499**
Reportable segment liabilities	72,413	49,257	44,492	47,132	28,537	32,772	**145,442**	**129,161**
Other material items								
Depreciation and amortisation	1,092	1,016	1,741	2,179	992	1,046	**3,825**	**4,241**
Write-down in value of inventories	585	302	609	250	165	175	**1,359**	**727**
Acquisition of non-current assets	1,145	741	1,086	1,769	530	973	**2,761**	**3,483**

1. Europe, Middle East and Africa.

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

Revenues	Cochlear implants	Services	**Total Cochlear implants**	Acoustics	**Reportable segment revenue**	Foreign exchange gain/(losses) on hedged sales	**Consolidated revenue**
	$000	$000	**$000**	$000	**$000**	$000	**$000**
2017	767,781	305,589	**1,073,370**	166,363	**1,239,733**	14,105	**1,253,838**
2016	729,171	289,418	**1,018,589**	139,542	**1,158,131**	(27,579)	**1,130,552**

Profit or loss	Reportable segment EBIT	Corporate and other net expenses	Foreign exchange gain/(losses) on hedged sales	Net finance expense	**Consolidated profit before income tax**
	$000	$000	$000	$000	**$000**
2017	563,182	(261,687)	14,105	(6,775)	**308,825**
2016	522,698	(232,515)	(27,579)	(8,338)	**254,266**

Assets and liabilities	Reportable segment assets	Corporate and manufacturing assets	**Consolidated total assets**	Reportable segment liabilities	Corporate and manufacturing liabilities	**Consolidated total liabilities**
	$000	$000	**$000**	$000	$000	**$000**
2017	564,264	572,095	**1,136,359**	145,442	447,270	**592,712**
2016	523,499	433,864	**957,363**	129,161	379,645	**508,806**

Other material items	Reportable segment total		Corporate and manufacturing total		**Consolidated total**	
	2017	2016	2017	2016	**2017**	**2016**
	$000	$000	$000	$000	**$000**	**$000**
Depreciation and amortisation	3,825	4,241	27,389	29,250	**31,214**	**33,491**
Write-down in value of inventories	1,359	727	5,246	15,566	**6,605**	**16,293**
Acquisition of non-current assets	2,761	3,483	69,758	47,826	**72,519**	**51,309**

2.2 Revenue

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

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

Revenue from the sale of services is recognised when the service has been provided to the customer and where there are no continuing unfulfilled service obligations.

The accounting policy for foreign exchange gains/losses arising from hedges of forecast sales transactions is set out in Note 6.4(a).

	2017	2016
	$000	$000
Sale of goods before hedging	1,227,151	1,145,492
Foreign exchange gains/(losses) on hedged sales	14,105	(27,579)
Revenue from sale of goods	**1,241,256**	**1,117,913**
Rendering of services	12,582	12,639
Total revenue	**1,253,838**	**1,130,552**

2.3 Expenses

	2017 $000	2016 $000
(a) Cost of sales		
Carrying amount of inventories recognised as an expense	344,596	308,990
Other	7,172	8,310
Write-down in value of inventories	6,605	16,293
Total cost of sales	**358,373**	**333,593**
(b) Profit before income tax has been arrived at after charging the following item:		
Operating lease rental expense	22,325	26,261

2.4 Other income

Other income, including government grants, is recognised on a systematic basis over the years necessary to match it with the related costs for which it is intended to compensate. If the costs have already been incurred, the amount is recognised in the year the entitlement is confirmed. Foreign exchange gains are recognised in accordance with the accounting policy at Note 1.2(d).

	2017 $000	2016 $000
Grant received or due and receivable	2,345	2,579
Net foreign exchange gain	388	8,695
Other income	1,733	2,882
Total other income	**4,466**	**14,156**

2.5 Earnings per share

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

Basic earnings per share

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

	2017	2016
Net profit attributable to equity holders of the parent entity	$223,616,000	$188,921,000
Weighted average number of ordinary shares (basic):		
Issued ordinary shares at 1 July (number)	57,199,264	56,957,274
Effect of options, performance shares and performance rights exercised (number)	181,834	175,635
Effect of shares issued under Employee Share Plan (number)	7,216	11,669
Weighted average number of ordinary shares (basic) at 30 June	**57,388,314**	**57,144,578**
Basic earnings per share (cents)	**389.7**	**330.6**

Diluted earnings per share

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

	2017	2016
Net profit attributable to equity holders of the parent entity	$223,616,000	$188,921,000
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic) (number)	57,388,314	57,144,578
Effect of options, performance shares and performance rights unvested (number)	78,352	98,707
Weighted average number of ordinary shares (diluted) at 30 June	**57,466,666**	**57,243,285**
Diluted earnings per share (cents)	**389.1**	**330.0**

2.6 Dividends

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

	Dollars per share	Total amount $000	Franked/unfranked	Date of payment
Dividends recognised in the current financial year by the Company are:				
2017				
Interim 2017 ordinary	1.30	74,655	100% Franked	6 April 2017
Final 2016 ordinary	1.20	68,883	100% Franked	29 September 2016
Total amount	**2.50**	**143,538**		
2016				
Interim 2016 ordinary	1.10	62,925	100% Franked	1 April 2016
Final 2015 ordinary	1.00	57,168	100% Franked	1 October 2015
Total amount	**2.10**	**120,093**		

Subsequent event				
Since the end of the financial year, the directors declared the following dividends:				
Final 2017 ordinary	1.40	80,397	100% Franked	11 October 2017
Total amount	**1.40**	**80,397**		

The financial effect of the 2017 final dividend will be recognised in the subsequent financial year as it was declared after 30 June 2017.

Dividend franking account

Franked dividends paid during the financial year were franked at the tax rate of 30% (2016: 30%). There are no further tax consequences as a result of paying dividends other than a reduction in the franking account.

At 30 June 2017, there are $27,585,000 of franking credits (2016: $25,101,000) available to shareholders of Cochlear Limited for subsequent financial years.

The dividend franking account at year end is adjusted for:

- franking credits that will arise from the payment of the current tax liability;
- franking debits that will arise from the payment of dividends recognised as a liability at the year end; and

- franking credits that the Company may be prevented from distributing in subsequent financial years.

The ability to utilise the franking account credits is dependent upon the ability to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recorded as a liability is to reduce it by $34,455,989 (2016: $29,521,471).

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

2.7 Notes to the statement of cash flows

(a) Cash and cash equivalents

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

The operating cash account received an average interest rate of 0.77% (2016: 0.67%) per annum.

(b) Reconciliation of net profit to net cash provided by operating activities

	2017 $000	2016 $000
Net profit	223,616	188,921
Add items classified as investing activities:		
Loss on disposal of property, plant and equipment	550	335
Add non-cash items:		
Depreciation and amortisation	31,214	33,491
Equity settled share based payment transactions	8,095	8,342
Net cash provided by operating activities before changes in assets and liabilities	**263,475**	**231,089**
Changes in assets and liabilities:		
Change in trade and other receivables	(5,995)	(33,625)
Change in inventories	(5,908)	(8,242)
Change in prepayments	(4,641)	(167)
Change in deferred tax assets/liabilities	5,752	(11,186)
Change in trade and other payables	(24,691)	10,496
Change in current tax assets/liabilities	10,990	(9,546)
Change in employee benefit liabilities	2,932	4,533
Change in provisions	2,001	7,656
Change in deferred revenue	(7,840)	10,679
Effects of movements in foreign exchange	23,697	(16,574)
Net cash provided by operating activities	**259,772**	**185,113**

3. INCOME TAXES

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

3.1 Income tax expense

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

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

Income tax expense recognised in the income statement

	Current year	Adjustment for prior years	**Total current tax expense**	Origination and reversal of temporary differences	**Total deferred tax expense/ (benefit)**	**Total income tax expense**
	$000	$000	**$000**	$000	**$000**	**$000**
2017	81,334	372	**81,706**	3,503	**3,503**	**85,209**
2016	77,907	(1,270)	**76,637**	(11,292)	**(11,292)**	**65,345**

Consolidated Entity - Numerical reconciliation between income tax expense and profit before income tax

	2017 $000	2016 $000
Profit before income tax	**308,825**	**254,266**
Tax at the Australian tax rate of 30% (2016: 30%)	92,648	76,280
Increase in income tax expense due to:		
Non-deductible expenses, net	801	1,604
Effect of tax rate in foreign jurisdictions	597	6
Decrease in income tax expense due to:		
Research and development allowances	(9,209)	(11,275)
	84,837	66,615
Adjustment for prior years	372	(1,270)
Income tax expense on profit before income tax	**85,209**	**65,345**

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

	Note	2017 $000	2016 $000
Total deferred tax recognised in other comprehensive income/(loss) relating to derivative financial instruments	3.2	4,731	10,601
Total deferred tax recognised directly in equity relating to share based payments	3.2	514	106

Consolidated Entity - Numerical reconciliation between income tax expense and cash taxes paid

	2017 $000	2016 $000
Income tax expense on profit before income tax	85,209	65,345
Timing differences recognised in deferred tax	5,323	6,333
Effect of tax rate in foreign jurisdictions	1	(66)
Current year tax instalments payable next year	(21,107)	(9,028)
Prior year tax instalments paid this year	9,028	18,101
Cash taxes paid per statement of cash flows	**78,454**	**80,685**

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

	2017 $000	2016 $000
Profit before income tax (excluding dividends from wholly owned foreign subsidiaries)	**240,435**	**200,913**
Add: Dividends from wholly owned foreign subsidiaries	1,493	9,645
Profit before income tax	**241,928**	**210,558**
Tax at the Australian tax rate of 30% (2016: 30%)	72,578	63,167
Increase in income tax expense due to:		
Controlled foreign company income	2,380	2,337
Other non-deductible expenses	1,736	758
Decrease in income tax expense due to:		
Research and development allowances	(8,124)	(10,163)
Exempt foreign sourced dividends from wholly owned subsidiaries	(448)	(2,894)
	68,122	53,205
Adjustment for prior years	(140)	203
Income tax expense on profit before income tax	**67,982**	**53,408**

3.2 Current and deferred tax assets and liabilities

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

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

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

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

Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
	$000	$000	$000	$000	$000	$000
Property, plant and equipment	130	121	(2,696)	(2,500)	(2,566)	(2,379)
Intangible assets	49	63	(8,067)	(1,762)	(8,018)	(1,699)
Inventories	26,583	29,116	-	-	26,583	29,116
Provisions	33,259	33,932	-	-	33,259	33,932
Deferred revenue	2,072	1,488	-	-	2,072	1,488
Forward exchange contracts	-	-	(6,524)	(1,793)	(6,524)	(1,793)
Other	21,314	13,877	(5,374)	(2,860)	15,940	11,017
Tax losses carried forward	3	340	-	-	3	340
Deferred tax assets/(liabilities)	**83,410**	**78,937**	**(22,661)**	**(8,915)**	**60,749**	**70,022**
Set off tax	(16,824)	(1,793)	16,824	1,793	-	-
Deferred tax assets/(liabilities)	**66,586**	**77,144**	**(5,837)**	**(7,122)**	**60,749**	**70,022**

Unrecognised deferred tax liabilities

At 30 June 2017, a deferred tax liability of $37.8 million (2016: $11.0 million) relating to investments in subsidiaries has not been recognised because the Company controls whether the asset will be recovered or the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Movement in temporary differences during the year

	Note	2017 $000	2016 $000
Carrying amount at beginning of financial year		70,022	68,717
Recognised in the income statement	3.1	543	11,292
Recognised in other comprehensive income/(loss)	3.1	(4,731)	(10,601)
Deferred tax arising from business acquisitions	5.4	(4,046)	-
Recognised directly in equity	3.1	(514)	(106)
Effects of movements in foreign exchange		(525)	720
Carrying amount at end of financial year		**60,749**	**70,022**

Current tax assets and liabilities

The current tax assets for the Consolidated Entity of $7.3 million (2016: $6.2 million) represent the amount of income taxes recoverable in respect of current and prior years and arise from the payment of tax in excess of the amounts due to the relevant taxation authority. The current tax liabilities for the Consolidated Entity of $26.3 million (2016: $13.7 million) represent the amount of income taxes payable in respect of current and prior financial years.

4. EMPLOYEE BENEFITS

4.1 Employee expenses

	2017 $000	2016 $000
Wages and salaries	300,080	278,083
Contributions to superannuation plans	22,695	21,583
Increase in leave liabilities	4,715	2,925
Equity settled share based payment transactions	8,095	8,342
Total employee expenses	**335,585**	**310,933**

4.2 Employee benefit liabilities

Wages, salaries and annual leave

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

Long service leave

The provision for long service leave is the present value of the estimated future cash outflows as a result of services provided by the employee up to the reporting date.

The provision is calculated using expected future increases in remuneration rates, including related on-costs, and expected settlement dates based on turnover history, and is discounted using the corporate bond rates which most closely match the terms to maturity of the related liabilities.

Defined benefit plans

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

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

These defined benefit plans cover, in aggregate, 78 employees (2016: 91 employees). Cochlear contributed cash of $1.4 million (2016: $1.5 million) to defined benefit plans in the year ended 30 June 2017 and expects to contribute $1.2 million in the year ending 30 June 2018.

Directors' retirement scheme

Non-executive directors appointed prior to 2003 were entitled to retirement benefits of up to three times their annual remuneration over the previous three years once they had more than five years' service. The ongoing accrual of benefits under the directors' retirement scheme ceased from 30 June 2007. The benefits accrued to that date are indexed by reference to the bank bill rate. As at 30 June 2017, Prof E Byrne, AC is the only non-executive director entitled to this benefit.

	2017 $000	2016 $000
Current		
Provision for long service leave	9,472	8,478
Provision for annual leave	23,747	20,075
Provision for short-term incentives	19,193	16,932
Total current employee benefit liabilities	**52,412**	**45,485**
Non-current		
Provision for long service leave	5,478	5,429
Defined benefit plan	5,110	7,879
Provision for directors' retirement scheme	450	442
Total non-current employee benefit liabilities	**11,038**	**13,750**
Total employee benefit liabilities	**63,450**	**59,235**

4.3 Share based payments

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

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

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

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

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

At 30 June 2017, there were no issued shares held in the Trust. The unissued ordinary shares of the Company under option and rights and the terms and conditions of the grants and issues are as follows:

Grant date	Exercise price of options	Number of options	Number of performance rights	Contractual life
October 2014[1]	$68.56	78,192	18,702	4 years
August 2015[2]	N/A	-	50,994	2 years
October 2015[1]	$82.89	134,845	16,596	4 years
August 2016[2]	N/A	-	32,764	2 years
October 2016[1]	$135.84	79,897	21,034	4 years
Total		**292,934**	**140,090**	

1. Options and performance rights offered under long-term incentives.
2. Performance rights offered under deferred short-term incentives.

Grants are split between deferred short-term incentives (STI) and long-term incentives (LTI).

For deferred STI, certain employees under the CEIP are granted performance rights based on achievement of a mandatory portion of their STI. The number of performance rights under the deferred STI grants is calculated at the end of each year and then held for two years until vesting.

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

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

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

	19 October 2016		16 August 2016	20 October 2015		18 August 2015
	EPS performance based conditions	TSR based conditions	Deferred STI service based conditions	EPS performance based conditions	TSR based conditions	Deferred STI service based conditions
Fair value of options at grant date	$18.65	$14.46	N/A	$14.70	$12.41	N/A
Fair value of performance rights at grant date	$125.82	$96.40	$129.27	$77.11	$54.43	$79.30
Share price at valuation date	$138.43	$138.43	$137.72	$85.13	$85.13	$85.13
Option exercise price	$135.84	$135.84	N/A	$82.89	$82.89	N/A
Expected volatility (weighted average volatility)	23.15%	23.15%	23.15%	24.47%	24.47%	24.47%
Option life	3-4 years	3-4 years	2 years	3-4 years	3-4 years	2 years
Expected dividend yield	3.29%	3.29%	3.29%	3.41%	3.41%	3.41%
Risk free interest rate (based on government bonds)	1.39%	1.39%	1.39%	1.98%	1.98%	1.98%

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

	Weighted average exercise price 2017	Number of options 2017	Weighted average exercise price 2016	Number of options 2016
Outstanding at 1 July	$68.67	456,253	$62.80	1,038,834
Forfeited	$80.93	(71,727)	$64.23	(416,147)
Exercised	$59.40	(187,178)	$62.78	(328,885)
Granted	$135.84	95,586	$82.89	162,451
Outstanding at 30 June	**$93.51**	**292,934**	**$68.67**	**456,253**
Exercisable at 30 June	$68.56	78,192	$62.78	13,995

187,178 options were exercised in 2017 (2016: 328,885 options were exercised). The weighted average market share price on the Australian Securities Exchange (ASX) at date of exercise was $134.53 (2016: $86.35). The weighted average remaining contractual life of options outstanding at the end of the year is three years (2016: three years).

Employee Share Plan

Cochlear's Employee Share Plan (Plan) was approved by special resolution at the Annual General Meeting held on 19 October 1999. Under the Plan, the directors can at their discretion, allocate at nil consideration up to a maximum of $2,000 worth of shares per eligible employee in any one year. In practice, the directors issue shares worth up to the tax concessional limit, currently $1,000 per eligible employee each year. The fair value of shares issued during the financial year is the market price of the Company's shares on the ASX as at the start of trading on the issue date.

Shares under the Plan vest with the employee immediately but are non-transferable for a period of up to three years. For the year ended 30 June 2017, the Company issued 9,828 shares under the Plan; see Note 6.2.

4.4 Key management personnel

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

Non-executive directors

Mr R Holliday-Smith (Chairman), Mrs YA Allen, Mr G Boreham, AM, Prof E Byrne, AC, Ms A Deans, Mr A Denver, Mr DP O'Dwyer and Prof B Robinson, AM[1]

Executive director

Mr C Smith

Other executive KMP

Mr A Bishop[2], Mr R Brook, Mr B Cubis[3], Mr D Howitt, Mr J Janssen, Mr T Manna and Mr NJ Mitchell[4].

1. Appointed on 13 December 2016.

2. Appointed on 18 July 2016.

3. Appointed on 13 March 2017.

4. Ceased to be a KMP on 13 March 2017 and retired on 1 July 2017.

Key management personnel disclosures

The KMP compensation is included in employee expenses as follows:

	Short-term employee benefits	Post-employment benefits	Other long-term benefits	Directors' retirement benefits	Share based payments	**Total**
	$	$	$	$	$	$
2017	10,956,867	538,236	48,707	7,996	2,898,262	**14,450,068**
2016	10,433,497	521,446	38,969	9,586	2,794,586	**13,798,084**

Information regarding individual KMP remuneration and some equity instruments disclosures as permitted by section 300A of the *Corporations Act 2001* is provided in the Remuneration report of this Annual Report on pages 33 to 50.

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

5. OPERATING ASSETS AND LIABILITIES

5.1 Inventories

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

Cost is based on the first-in-first-out principle including expenditure incurred in acquiring the inventories and bringing them to their existing condition and location. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and selling, marketing and distribution expenses.

	Raw materials	Work in progress	Finished goods	**Total inventories**
	$000	$000	$000	**$000**
2017	60,541	27,222	72,248	**160,011**
2016	49,248	25,512	79,343	**154,103**

5.2 Property, plant and equipment

Owned assets

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

The value of self-constructed assets includes the cost of material and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

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

Leased assets

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

Depreciation

Depreciation is calculated to expense the cost of items of property, plant and equipment less their estimated residual values on a straight-line basis over their estimated useful lives. The estimated useful lives in the current and comparative years are as follows: leasehold improvements between one to 15 years, plant and equipment three to 14 years and buildings 10 to 20 years.

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

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

Total property, plant and equipment at net book value

	Leasehold improvements		Plant and equipment		Land and buildings		**Total net book value**	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000	**2017 $000**	**2016 $000**
At cost	35,027	34,657	201,960	193,401	27,559	-	**264,546**	**228,058**
Accumulated depreciation	(22,280)	(21,774)	(121,937)	(119,406)	(222)	-	**(144,439)**	**(141,180)**
Net book value	**12,747**	**12,883**	**80,023**	**73,995**	**27,337**	-	**120,107**	**86,878**
Reconciliations of the carrying amounts are:								
Opening balance	12,883	11,384	73,995	69,425	-	-	**86,878**	**80,809**
Acquisition of subsidiary	-	-	232	-	-	-	**232**	**-**
Additions	2,493	3,930	23,538	24,928	27,559	-	**53,590**	**28,858**
Disposals	(6)	(185)	(544)	(3,398)	-	-	**(550)**	**(3,583)**
Depreciation	(2,403)	(2,359)	(16,727)	(17,508)	(222)	-	**(19,352)**	**(19,867)**
Effect of movements in foreign exchange	(220)	113	(471)	548	-	-	**(691)**	**661**
Net book value	**12,747**	**12,883**	**80,023**	**73,995**	**27,337**	-	**120,107**	**86,878**

5.3 Intangible assets

Goodwill

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is tested annually for impairment.

Enterprise resource planning system

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

Other intangible assets

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

Amortisation

Amortisation is calculated to expense the cost of intangible assets less their estimated residual values on a straight-line basis over their estimated useful lives. The estimated useful lives for the current and comparative years are as follows: enterprise resource planning system between two to seven years, acquired technology, patents and licences between four to 15 years and customer relationships and capitalised development expenditure between four to 10 years.

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

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

	Intangible assets with indefinite useful life		Intangible assets with finite useful life			**Intangible assets**
	Goodwill	Technology relationship	Enterprise resource planning system	Acquired technology, patents and licences	Other intangible assets	**Total**
	$000	$000	$000	$000	$000	**$000**
2017						
At cost	267,104	1,800	66,008	72,884	33,229	**441,025**
Accumulated amortisation	-	-	(41,865)	(40,850)	(18,334)	**(101,049)**
Net book value	**267,104**	**1,800**	**24,143**	**32,034**	**14,895**	**339,976**
Reconciliations of the carrying amounts are:						
Opening balance	171,356	1,800	22,951	27,474	757	**224,338**
Acquisition of subsidiary	101,514	-	260	-	14,298	**116,072**
Acquisitions	-	-	9,252	7,888	340	**17,480**
Amortisation	-	-	(8,190)	(3,237)	(435)	**(11,862)**
Effect of movements in foreign exchange	(5,766)	-	(130)	(91)	(65)	**(6,052)**
Net book value	**267,104**	**1,800**	**24,143**	**32,034**	**14,895**	**339,976**
2016						
At cost	171,356	1,800	56,880	65,322	16,966	**312,324**
Accumulated amortisation	-	-	(33,929)	(37,848)	(16,209)	**(87,986)**
Net book value	**171,356**	**1,800**	**22,951**	**27,474**	**757**	**224,338**
Reconciliations of the carrying amounts are:						
Opening balance	170,503	1,800	25,859	29,308	1,061	**228,531**
Acquisitions	-	-	7,556	1,140	-	**8,696**
Amortisation	-	-	(10,353)	(2,972)	(299)	**(13,624)**
Effect of movements in foreign exchange	853	-	(111)	(2)	(5)	**735**
Net book value	**171,356**	**1,800**	**22,951**	**27,474**	**757**	**224,338**

Impairment

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

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

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

An impairment loss is recognised in the income statement when the carrying amount of an asset or CGU exceeds its recoverable amount. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

Impairment tests for CGUs

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

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

	Americas $000	EMEA $000	Asia Pacific $000	**Total** **$000**
2017	183,830	73,638	9,636	**267,104**
2016	86,141	75,341	9,874	**171,356**

The recoverable amount of each CGU is based on value-in-use calculations. Those calculations use five year cash flow projections based on actual operating results, the next year's budget and the mid-term business plan. Cash flows for year 6 onwards are extrapolated using a conservative terminal growth rate of 3.0% (2016: 3.0%) per annum which is consistent with long-term economic growth rates. The pre-tax discount rate for each CGU is as follows: Americas 13.7% (2016: 13.7%), EMEA 12.3% (2016: 12.4%) and Asia Pacific 13.1% (2016: 13.9%).

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

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

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

5.4 Business combinations

Cochlear accounts for business combinations using the acquisition method when control is transferred to Cochlear. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see Note 5.3).

Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the date of acquisition. Contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Sycle, LLC

On 11 May 2017, Cochlear acquired 100% of the shares of Sycle, LLC (Sycle). Sycle is the world's largest provider of audiology practice management software, based in San Francisco. Cochlear acquired Sycle to strengthen its service offering to its clinical partners to support their practice management capabilities.

In the two months to 30 June 2017, Sycle contributed revenue of $2.0 million and operating profit after tax of $508,000. If the acquisition had occurred on 1 July 2016, management estimates that consolidated revenue would have been $14.9 million, and consolidated operating profit after tax for the year would have been $2.4 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2016.

(a) Consideration transferred

The following table summarises the acquisition fair value of each major class of consideration transferred

	$000
Cash	64,430
Deferred consideration	9,457
Contingent consideration	33,332
Total consideration transferred	**107,219**

The cash consideration net of cash acquired has been included in investing activities disclosed in the statement of cash flows. The consideration for the acquisition is comprised of an element of cash consideration and a deferred element of consideration. Cochlear has agreed to pay Sycle Inc. an estimated contingent consideration of $33.3 million based on future performance hurdles of revenue growth and referrals over the next three to four years.

(b) Acquisition related costs

Cochlear incurred acquisition related costs of $2.3 million on legal fees and due diligence costs. These costs have been included in administration expenses.

(c) Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition:

	Note	$000
Property, plant and equipment	5.2	232
Intangible assets	5.3	14,558
Cash and cash equivalents		721
Trade and other receivables		3,618
Trade and other payables		(2,460)
Current tax liabilities		(565)
Deferred tax liabilities	3.2	(4,046)
Employee benefit liabilities		(1,283)
Deferred revenue		(5,070)
Fair value of net assets acquired		**5,705**

The acquisition accounting has been performed on a provisional basis and will be finalised on completion of the final valuations and working capital adjustments expected to occur within the first half of F18.

(d) Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	$000
Consideration transferred	107,219
Fair value of net assets acquired	(5,705)
Goodwill	**101,514**

The goodwill is attributable mainly to the synergies expected to be achieved from integrating into Cochlear's existing business. The goodwill is not deductible for tax purposes.

5.5 Investments

The available for sale equity securities are initially measured at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses which are recognised in the income statement, are recognised in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to the income statement.

5.6 Provisions

A provision is recognised in the balance sheet when:

- Cochlear has a present obligation (legal or constructive) as a result of a past event;
- a reliable estimate can be made of the amount of the obligation; and
- it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

2017	Warranties	Legal and insurance	Product recall	Make good lease costs	Patent dispute	**Total**
	$000	$000	$000	$000	$000	**$000**
Opening balance	36,604	4,401	13,020	2,344	21,333	**77,702**
Provision made	34,202	838	-	-	-	**35,040**
Provision used	(29,181)	(2,027)	(532)	(757)	-	**(32,497)**
Effect of movements in foreign exchange	(500)	(7)	-	(35)	-	**(542)**
Total provisions	**41,125**	**3,205**	**12,488**	**1,552**	**21,333**	**79,703**
Represented by:						
Current	19,641	3,205	2,146	-	-	**24,992**
Non-current	21,484	-	10,342	1,552	21,333	**54,711**
Total provisions	**41,125**	**3,205**	**12,488**	**1,552**	**21,333**	**79,703**

Warranties

A provision for warranty claims is recognised in relation to sales made prior to the reporting date, based on historical claim rates and respective product populations. Warranty periods on hardware products extend for three to 10 years.

Legal and insurance

Self-insurance

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

Product recall

On 11 September 2011, the Company initiated a worldwide voluntary recall of its unimplanted Nucleus CI500 cochlear implant range. Management has made judgements, estimates and assumptions related to probable costs arising from the recall which affect the reported amounts of assets, liabilities, income and expenses. Actual outcomes may differ from these estimates as further information is identified.

No amount has been recognised as a charge or released as a credit in the year ended 30 June 2017.

Make good lease costs

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

Patent dispute

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

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

On 18 November 2016, the Court of Appeals affirmed the Judgment as to infringement, affirmed the Judgment as to invalidity of two claims in one patent and reversed the Judgment of invalidity of one claim in the remaining patent. The Court of Appeals then remanded to the District Court the issue of damages and wilfulness of infringement of two claims in the remaining patent at issue.

As the patents have expired, the trial Judgment and the Court of Appeals decision will not disrupt Cochlear's business or customers in the United States.

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

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

5.7 Contingent liabilities

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

Product liability claims

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

In addition, Cochlear has received legal claims and lawsuits in various countries including the United States by recipients who have had Cochlear implant CI500 series devices stop functioning for the reason that led to the September 2011 voluntary recall of unimplanted CI500 series devices.

Cochlear carries product liability insurance and has made claims under the policies. The insurers have agreed to indemnify Cochlear in accordance with the terms and conditions of the policies including deductibles and exclusions. In the opinion of the directors, the details of the product liability insurance policies are commercially sensitive and any disclosure of these details may be prejudicial to the interests of Cochlear.

6. CAPITAL AND FINANCIAL STRUCTURE

6.1 Capital management

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

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

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

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

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

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements. There were no significant changes in Cochlear's approach to capital management during the year.

Cochlear's net gearing ratio was as follows:

	Note	2017 $000	2016 $000
Net debt	6.3(a)	129,382	117,821
Total equity		543,647	448,557
Net gearing ratio at 30 June		**19%**	**21%**

6.2 Capital and reserves

Share capital

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

	Number of issued shares in market circulation		Number of shares held in Trust		Total number of issued shares	
	2017	2016	2017	2016	2017	2016
On issue 1 July – fully paid	57,199,264	56,957,274	5,373	124,501	57,204,637	57,081,775
Issued for nil consideration under Employee Share Plan	9,828	16,116	-	-	9,828	16,116
Issued from the exercise of options	169,707	106,746	-	-	169,707	106,746
Issued from the exercise of performance rights	42,477	-	-	-	42,477	-
Options vesting from Trust	5,373	88,098	(5,373)	(88,098)	-	-
Performance shares vesting from Trust	-	31,030	-	(31,030)	-	-
On issue 30 June – fully paid	**57,426,649**	**57,199,264**	**-**	**5,373**	**57,426,649**	**57,204,637**

During 2017, Cochlear purchased 15,884 shares (2016: 134,041 shares) on market to satisfy exercise of options and performance rights.

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

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

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

Repurchase of share capital (treasury shares)

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

Treasury reserve

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

Translation reserve

The translation reserve records the foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary, where their functional currency is different to the presentation currency of the reporting entity. See Note 1.2(d) for further details.

Hedging reserve

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

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available for sale investments until the assets are derecognised or impaired.

Share based payment reserve

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

6.3 Net debt and finance costs

(a) Net debt

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

Debt establishment costs are capitalised and recognised as a reduction in loans and borrowings. They are recorded initially at cost and are amortised over the period of the loan. Included within loans and borrowings is an amount of $766,633 (2016: $739,755) in relation to unamortised loan establishment fees.

	2017 $000	2016 $000
Loans and borrowings:		
Current	84,687	3,978
Non-current	134,235	189,260
Total loans and borrowings	218,922	193,238
Less: Cash and cash equivalents	(89,540)	(75,417)
Net debt	**129,382**	**117,821**

(b) Financing arrangements

	Multi-option bank facilities			Other credit facilities		
	Secured bank loan $000	Standby letters of credit $000	Bank guarantees $000	Unsecured bank overdrafts $000	Secured bank loan $000	Bank guarantees $000
2017						
Utilised at reporting date	215,000	3,755	1,133	-	4,689	2,095
Not utilised at reporting date	230,000	15,112	-	299	584	1,194
Total facilities	**445,000**	**18,867**	**1,133**	**299**	**5,273**	**3,289**
2016						
Utilised at reporting date	190,000	6,916	2,133	-	3,978	1,393
Not utilised at reporting date	155,000	10,951	-	299	1,989	222
Total facilities	**345,000**	**17,867**	**2,133**	**299**	**5,967**	**1,615**

Multi-option bank facilities - Secured bank loan

Cochlear has three bank loan facilities.

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

In June 2016, a facility with a total commitment limit of AUD 250.0 million was established for a three year period to 14 June 2019. The facility had a letter of credit sub-facility limit of up to AUD 5.0 million for the purpose of drawing either letters of credit or bank guarantees.

In April 2017, a facility with a total commitment limit of AUD 100.0 million was established for a four year period to 12 April 2021. The letter of credit sub-facility of up to AUD 5.0 million was transferred to this new facility from the previous one established in June 2016.

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

Other credit facilities

Unsecured bank overdrafts

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

Secured bank loan

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

Bank guarantees

As at 30 June 2017, Cochlear had additional contingent liability facilities denominated in United States dollars (USD), Euros (EUR), Sterling (GBP), Indian rupees and New Zealand dollars totalling AUD 3.3 million (2016: AUD 1.6 million).

(c) Finance costs

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

6.4 Financial risk management

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

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

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

The Audit Committee oversees how management monitors compliance with Cochlear’s Risk Management Framework, policies and procedures and is assisted by Internal Audit which undertakes reviews of key management controls and procedures.

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect Cochlear's net profit or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures by buying and selling forward exchange contracts and incurring financial liabilities, within acceptable parameters, whilst optimising the return, all in accordance with the treasury risk policy.

Currency risk

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

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

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

Amounts local currency/thousands	USD	EUR	GBP	SEK	JPY	CHF
2017						
Trade receivables	82,971	49,799	5,677	4,299	654,286	686
Secured bank loan	-	-	-	-	(400,000)	-
Trade payables	(47,758)	(7,489)	(5,269)	(60,484)	(44,534)	(2,049)
Gross balance sheet exposure	**35,213**	**42,310**	**408**	**(56,185)**	**209,752**	**(1,363)**
2016						
Trade receivables	72,845	46,439	5,818	6,690	752,963	616
Secured bank loan	-	-	-	-	(300,000)	-
Trade payables	(13,234)	(5,348)	(5,025)	(63,160)	(63,133)	(2,219)
Gross balance sheet exposure	**59,611**	**41,091**	**793**	**(56,470)**	**389,830**	**(1,603)**

Derivative assets and liabilities - Forward exchange contracts

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

In the year ended 30 June 2017, Cochlear designated the majority of forward exchange contracts as cash flow hedges. These are hedges of forecast future transactions to manage the currency risk arising from exchange rate fluctuations. The hedged items were highly probable foreign currency transactions.

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

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

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

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

For the year ended 30 June 2017, all cash flow hedges were effective at the reporting date.

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

	Weighted average rate	< 1 year $000	1 - 2 years $000	2 - 5 years $000
2017				
Sell USD	0.734	256,159	131,172	12,450
Sell EUR	0.646	154,895	87,511	27,557
Sell JPY	79.844	15,277	8,263	2,339
2016				
Sell USD	0.735	195,817	117,236	23,468
Sell EUR	0.641	188,358	109,493	27,203
Sell JPY	83.762	12,210	6,575	1,359

It is estimated that a general increase of 10 percent in the value of the AUD against other foreign currencies would have decreased Cochlear's profit for the year ended 30 June 2017, including hedging results and after income tax, by approximately $4.7 million (2016: $8.5 million) and decreased Cochlear's equity by $12.9 million (2016: $51.8 million). A 10 percent general decrease in the value of the AUD against other foreign currencies would have increased Cochlear's profit by $9.4 million (2016: $12.2 million) and increased equity by $18.7 million (2016: $50.2 million).

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

	Average rate		Reporting date spot rate	
AUD 1 =	2017	2016	2017	2016
USD	0.753	0.729	0.761	0.740
EUR	0.689	0.658	0.670	0.669
GBP	0.592	0.494	0.594	0.557
SEK	6.614	6.141	6.529	6.285
JPY	81.988	85.089	85.345	75.410

Interest rate risk

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

At the reporting date, the interest rate profile of Cochlear's interest-bearing financial instruments is financial assets of $89.5 million (2016: $75.4 million) and financial liabilities of $218.9 million (2016: $193.2 million).

For the year ended 30 June 2017, it is estimated that a general increase of one percent in interest rates would have decreased Cochlear's profit after income tax and equity by approximately $1.5 million (2016: $1.1 million). A one percent general decrease in interest rates would have had the equal but opposite effect on Cochlear's profit and equity.

(b) Credit risk

Credit risk is the risk of financial loss to Cochlear if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Cochlear is exposed to credit risk from its operating activities (primarily from trade and other receivables) and from financing activities, including deposits with financial institutions and foreign exchange contracts. The carrying amounts of these financial assets at year end represent Cochlear's maximum exposure to credit risk.

Credit risk management - Trade and other receivables

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

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

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

	Americas $000	EMEA $000	Asia Pacific $000	**Total $000**
2017	94,489	118,108	62,763	**275,360**
2016	86,115	108,937	73,486	**268,538**

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

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

Cochlear has established an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables based on individually significant exposures, a collective loss component established for groups of assets meeting certain ageing profiles and customer types which have been assessed as impaired under Cochlear's accounting policy. Based upon past experience, Cochlear believes that no impairment allowance is necessary in respect of trade receivables not past due.

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

	2017 $000	2016 $000
Trade receivables		
Not past due	206,244	199,164
Past due 1 - 60 days	37,536	33,162
Past due 61 - 180 days	16,919	13,469
Past due 181 - 360 days	12,129	14,924
Past due 361 days and over	20,236	19,749
	293,064	**280,468**
Impairment losses	(17,704)	(11,930)
Trade receivables net of allowance for impairment losses	**275,360**	**268,538**
Other receivables - current	16,779	13,387
Trade and other receivables	**292,139**	**281,925**

Credit risk management - Cash deposits and forward exchange contracts

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

(c) Liquidity risk

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

Non-derivative liabilities

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

	Effective interest rate Per annum	Carrying amount $000	Contractual cash flows $000	< 1 year $000	1 - 2 years $000	2 - 5 years $000
2017						
AUD floating rate loan	3.26%	214,233	226,158	86,966	139,192	-
JPY floating rate loan	0.53%	4,689	4,703	4,703	-	-
Trade and other payables	-	164,828	164,828	130,911	7,061	26,856
Total		**383,750**	**395,689**	**222,580**	**146,253**	**26,856**
2016						
AUD floating rate loan	3.76%	189,260	207,650	7,152	107,110	93,388
JPY floating rate loan	0.61%	3,978	3,994	3,994	-	-
Trade and other payables	-	110,354	110,354	110,354	-	-
Total		**303,592**	**321,998**	**121,500**	**107,110**	**93,388**

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

Derivative assets and liabilities - Forward exchange contracts

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

	Carrying amount $000	Contractual cash flows $000	< 1 year $000	1 - 2 years $000	2 - 5 years $000
2017					
Assets	26,190	28,470	18,956	8,301	1,213
Liabilities	(5,152)	(3,667)	(1,869)	(1,219)	(579)
Total	**21,038**	**24,803**	**17,087**	**7,082**	**634**
2016					
Assets	22,167	22,634	11,573	8,642	2,419
Liabilities	(16,190)	(16,400)	(12,756)	(3,416)	(228)
Total	**5,977**	**6,234**	**(1,183)**	**5,226**	**2,191**

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

(d) Fair value

The carrying amounts and estimated fair values of Cochlear's financial assets and liabilities are materially the same.

The fair value of forward exchange contracts is based upon the listed market price, if available. If a listed market price is not available, the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using benchmark bill futures and swap rates. These fair values are provided by independent third parties.

Valuation of financial assets and liabilities

For financial asset and liabilities measured and carried at fair value, Cochlear uses the following levels to categorise the valuation methods used:

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

All of Cochlear's forward exchange contracts were valued using observable market inputs (Level 2) and there were no transfers between levels during the year.

The equity securities classified as available for sale financial assets are valued using unobservable market inputs (Level 3). Unobservable inputs are those not readily available in an active market. These inputs are generally derived from other observable inputs that match the risk profile of the financial instruments and validated against current market assumptions and historical transactions where available.

7. OTHER NOTES

7.1 Auditors' remuneration

	2017 $	2016 $
Audit services		
Auditors of the Company - KPMG:		
- audit and review of financial reports	1,539,847	1,583,831
- other regulatory compliance services	70,801	58,734
Total audit services	**1,610,648**	**1,642,565**
Non-audit services		
Auditors of the Company - KPMG:		
- taxation compliance services	1,361,901	1,019,724
- acquisition due diligence services	581,843	-
- other	202,001	31,674
Total non-audit services	**2,145,745**	**1,051,398**

7.2 Commitments

Operating lease commitments

Cochlear leases property under non-cancellable operating leases expiring from one to 15 years. Leases generally provide Cochlear with a right of renewal at which time all terms are renegotiated.

Future non-cancellable operating lease rentals not provided for in the financial statements are payable as follows:

	2017 $000	2016 $000
Not later than one year	22,142	22,372
Later than one year but not later than five years	70,016	82,528
Later than five years	58,897	65,312
Total operating lease commitments	**151,055**	**170,212**

Capital expenditure commitments

As at 30 June 2017, Cochlear entered into contracts to purchase property, plant and equipment for $4,769,000 (2016: $4,426,000).

7.3 Controlled entities

Subsidiaries conduct business transactions with various controlled entities. Such transactions include purchases and sales of certain products, dividends, interest and loans.

		Interest held		Country of incorporation/formation
		2017 %	2016 %	
Company				
Cochlear Limited				Australia
Controlled entities				
Acoustic Implants Limited		100	100	UK
Cochlear AG		100	100	Switzerland
Cochlear Americas		100	100	USA
Cochlear Austria GmbH		100	100	Austria
Cochlear Benelux NV		100	100	Belgium
Cochlear Bone Anchored Solutions AB		100	100	Sweden
Cochlear Boulder LLC		100	100	USA
Cochlear Canada Inc		100	100	Canada
Cochlear Clinical Services LLC		100	100	USA
Cochlear Deutschland GmbH & Co KG		100	100	Germany
Cochlear Employee Share Trust		100	100	Australia
Cochlear Europe Finance GmbH		100	100	Germany
Cochlear Europe Limited		100	100	UK
Cochlear Executive Long Term Incentive Plan (Performance Shares) Trust		100	100	Australia
Cochlear Finance Pty Limited		100	100	Australia
Cochlear France SAS		100	100	France
Cochlear German Holdings Pty Limited		100	100	Australia
Cochlear Holdings NV		100	100	Belgium
Cochlear Incentive Plan Pty Ltd		100	100	Australia
Cochlear Investments (No. 2) Pty Ltd		100	-	Australia
Cochlear Investments Pty Ltd		100	100	Australia
Cochlear Italia SRL		100	100	Italy
Cochlear Korea Limited		100	100	Korea
Cochlear Latinoamerica S.A.		100	100	Panama
Cochlear Malaysia Sdn. Bhd.		100	100	Malaysia
Cochlear Manufacturing Corporation		100	100	USA
Cochlear Medical Device (Beijing) Co., Ltd		100	100	China
Cochlear Medical Device Company India Private Limited		100	100	India
Cochlear Middle East FZ-LLC		100	100	UAE
Cochlear Nordic AB		100	100	Sweden
Cochlear NZ Limited		100	100	New Zealand
Cochlear Research and Development Limited		100	100	UK
Cochlear Shared Services S.A.		100	100	Panama
Cochlear Sweden Holdings AB		100	100	Sweden
Cochlear Technology Innovation Fund LP		99	-	Australia
Cochlear Technology Innovation Fund Pty Limited	(i)	100	100	Australia
Cochlear Tibbi Cihazlar ve Saglik Hizmetleri Limited Sirketi		100	100	Turkey
Cochlear Verwaltungs GmbH		100	100	Germany

		Interest held		Country of incorporation/formation
		2017 %	2016 %	
Cochlear (HK) Limited		100	100	Hong Kong
Cochlear (UK) Limited	(ii)	100	100	UK
Isitme Implantlari Tibbi Cihazlar ve Saglik Hizmetleri Ltd Sti	(iii)	-	100	Turkey
Medical Insurance Pte Limited		100	100	Singapore
Medisan Hørselsimplantater AS		100	-	Norway
Nihon Cochlear Co Limited		100	100	Japan
Sycle, LLC		100	-	USA
Sycle.Net Technologies (Canada) Ltd		100	-	Canada

(i) Name changed in 2017, previously Lachlan Project Development Pty Ltd.
(ii) Dormant.
(iii) Deregistered during the year ended 30 June 2017.

7.4 Parent entity disclosures

At, and throughout the financial year ended, 30 June 2017, the parent company of Cochlear was Cochlear Limited.

	2017 $000	2016 $000
Result of the parent entity:		
Net profit	176,042	158,544
Other comprehensive income	11,012	24,751
Total comprehensive income	**187,054**	**183,295**
Financial position of the parent entity at year end:		
Current assets	459,267	392,777
Total assets	923,196	816,734
Current liabilities	223,853	141,427
Total liabilities	532,185	486,883
Total equity of the parent entity comprising:		
Issued capital	169,367	159,303
Treasury reserve	-	(363)
Translation reserve	56	83
Hedging reserve	15,228	4,189
Share based payment reserve	34,240	27,023
Retained earnings	172,120	139,616
Total equity	**391,011**	**329,851**

Dividend income from subsidiaries is recognised by the parent entity when the dividends are declared by the subsidiary.

Parent entity contingencies

The details of all contingent liabilities in respect to Cochlear Limited are disclosed in Note 5.7.

Parent entity capital commitments for acquisition of plant and equipment

As at 30 June 2017, the parent entity entered into contracts but had not provided for or paid to purchase plant and equipment for $4,759,000 (2016: $4,420,000).

7.5 Changes in accounting policies

There have been no changes to accounting standards materially impacting Cochlear in the current financial year.

7.6 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for financial years beginning on or after 1 July 2017, and have not been applied in preparing these consolidated financial statements. Of the new standards, only the below are expected to have an effect on the consolidated financial statements of Cochlear.

- AASB 9 Financial Instruments, which becomes mandatory for Cochlear's 2019 consolidated financial statements. Whilst Cochlear has yet to undertake a detailed assessment of the classification and measurement impact of the new standard, Cochlear expects the following:
  - there will be no significant impact on the classification and measurement of its financial assets and financial liabilities;
  - existing hedge relationships would qualify as continuing hedge relationships upon the adoption of the new standard; and
  - the new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses. Whilst Cochlear has not yet finalised its detailed assessment of the impact of AASB 9 and its interaction with AASB 15 Revenue from Contracts with Customers, it may result in earlier recognition of credit loss provisions.
- AASB 15 Revenue from Contracts with Customers, which becomes mandatory for Cochlear's 2019 consolidated financial statements. Based on the guidance, Cochlear does not expect the recognition and measurement of revenue to materially change under the new standard but has not yet completed its final assessment.
- AASB 16 Leases, which becomes mandatory for Cochlear's 2020 consolidated financial statements. Cochlear has yet to complete a detailed assessment on the potential impact on its consolidated financial statements resulting from the application of AASB 16; however, the following impacts are expected:
  - the total assets and liabilities on the balance sheet will increase with a decrease in net total assets, due to the depreciation of right of use assets being on a straight-line basis whilst the lease liability reduces by the principal amount of repayments;
  - interest expense will increase due to the unwinding of the effective interest rate implicit in the lease liability. Interest expense will be greater earlier in a lease's life, due to the higher principal value, causing profit variability over the term of lease. This effect may be partially mitigated due to the number of leases held by Cochlear at various stages of their terms; and
  - operating cash flows will be higher and financing cash flows will be lower, as repayment of the principal portion of all lease liabilities will be classified as financing activities.

Cochlear does not plan to adopt these standards early.

7.7 Events subsequent to the reporting date

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

Dividends

For dividends declared after 30 June 2017, see Note 2.6.

Directors' declaration

Hear now. And always

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

   (a) the consolidated financial statements and notes and the Remuneration report are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and

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

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

2. The directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer & President and Chief Financial Officer for the financial year ended 30 June 2017.

3. The directors draw attention to Note 1.2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Sydney this 17th day of August 2017.

Director

Director

KPMG

Independent audit report to the members of Cochlear Limited

Report on the audit of the Financial report

Opinion

We have audited the Financial report of Cochlear Limited (the Company).

In our opinion, the accompanying Financial report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial report comprises:

- The Consolidated Balance Sheet as at 30 June 2017;
- The Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- The Directors' Declaration.

The Consolidated Entity comprises (the Company) and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial report* section of our report.

We are independent of the Consolidated Entity in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of matter – Patent dispute

We draw attention to Note 5.6 in the Financial report which describes the inherent uncertainty in the final future outcome related to the patent infringement lawsuit filed against the Consolidated Entity (the lawsuit).

The uncertainty relates to the outcome of the lawsuit remanded to the United States District Court regarding the issue of damages and wilfulness of infringement of two claims. There remains significant uncertainty in the range of possible financial outflows associated with the lawsuit, the resolution of which may significantly impact the Consolidated Entity.

In our judgement, this uncertainty is fundamental to users' understanding of the Financial report, the financial position and performance of the Consolidated Entity. Our opinion is not modified in respect of this matter.

In concluding there is significant uncertainty we evaluated the extent of uncertainty regarding the outcome of the lawsuit remanded to the District Court and its impact on the Financial report.

This included checking the following against our detailed audit work performed when the Consolidated Entity originally determined and recognised their best estimate of the patent dispute provision:

- enquiries of management and the directors regarding updates to the lawsuit and quantifications of outcomes;
- confirmation from the Consolidated Entity's external lawyers regarding the lawsuit and quantification of outcomes;
- correspondence between the Consolidated Entity and external lawyers, in particular relating to the Court of Appeals and remand order to the District Court;

- consistency to facts and conditions gathered across our work; and
- the Consolidated Entity's disclosures in relation to the patent dispute provision, against the requirements of the accounting standards.

Key audit matters	
The key audit matters we identified are: • Recoverability of trade receivables, • Warranty provision, and • Business Acquisition.	Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial report of the current period. These matters were addressed in the context of our audit of the Financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of trade receivables $275.4 million

Refer to note 6.4(b) Financial risk management, credit risk

The key audit matter	How the matter was addressed in our audit
Recoverability of trade receivables was considered a key audit matter due to: • The wide ranging characteristics of individual customers; • The large number of different geographic locations of customers each with a unique political and economic environment that may restrict the timely recoverability of certain receivables; • Some customers and locations having experienced higher days sales outstanding than the Consolidated Entity's average days sales outstanding, increasing their inherent exposure to credit risk; • The inherent subjectivity involved in the Consolidated Entity making judgements in relation to credit risk exposures. These conditions gave rise to additional audit effort to gather evidence across the unique profiles of customers and their accounts receivable, including greater involvement by our senior team members.	Our procedures included; • Testing key controls within the credit control process including credit account application approvals and credit limit assessments; • Assessing the recoverability of a sample of outstanding trade receivable balances across different geographies by comparing the Consolidated Entity's views of recoverability of amounts outstanding to historical patterns of receipts, our understanding of the impact of the political and economic environment, in conjunction with assessing cash received subsequent to year end for its effect in reducing amounts outstanding at year end; • Challenging the Consolidated Entity's view of credit risk and recoverability in certain locations by selecting a sample of overdue customer balances and: - noting the historical patterns for long outstanding trade receivables in those locations; - assessing cash received subsequent to year end for its effect in reducing amounts outstanding at year end; - evaluating other evidence including customer correspondence; and - questioning the Consolidated Entity's knowledge of future conditions that may impact expected customer receipts. • Assessing the Consolidated Entity's disclosures of the quantitative and qualitative considerations in relation to trade receivables credit risk, by comparing these disclosures to our understanding of the matter and the requirements of the accounting standards.

Warranty provision $41.1 million

Refer to note 5.6 Provisions

The key audit matter	How the matter was addressed in our audit
The warranty provision was considered a key audit matter due to the estimation uncertainty inherent in the Consolidated Entity's key assumptions applied, due to: • The constantly evolving product portfolio where each product has different design and quality attributes; • These different products have different warrantable periods; • The introduction of the Global Repair Centre intended to reduce repair costs; and • The inherent unpredictability of future failures resulting in claims under warranty. The key assumptions used in the calculation model of the warranty provision subject to the greatest estimation uncertainty are: • The warrantable population; • The forecast product failure rate; • The ratio of repairing to replacing failed product; • The forecast repair cost; and • The forecast replacement cost These assumptions required greater involvement by our senior team members to challenge the key assumptions adopted by the Consolidated Entity in their calculation that determined the amount provided.	Our procedures included; • Obtaining an understanding of the evolving product portfolio, each product's different warrantable period and history of failure rates, and the different attributes that impact the key assumptions used in the calculation of the warranty provision; • Performing sensitivity analysis by varying key assumptions within a reasonably possible range, to focus our further procedures; • Assessing the integrity of the Consolidated Entity's calculation model, for the warranty provision. This included the accuracy of the underlying calculation formulas. • Comparing key assumptions used in the warranty provision calculation such as the warrantable population, forecast product failure rates, ratio of repairing to replacing failed product and forecast repair and replacement cost to historical actuals; • Challenging key assumptions that have been based on historical actuals as the best estimate for forecast failure rates, repair replacement ratios and cost. We did this by holding discussions with management to understand the strategy, the introduction of the Global Repair Centre and improvements in design and quality assurance over repairs and how these factors are built into the assumptions and interlink with other assumptions (i.e. failure rates); • Assessing the warranty provision methodology against the requirements of the accounting standards; • Assessing the disclosures of the quantitative and qualitative considerations in relation to the warranty provision, by comparing these to our understanding of the matter and the requirements of the accounting standards.

Independent audit report to the members of Cochlear Limited

Business acquisition $107.2 million

Refer to note 5.4, Business combinations

Key audit matter	How the matter was addressed in our audit
The Consolidated Entity's acquisition of Sycle LLC for consideration of US$79.5 million on 11 May 2017 represents a significant single transaction for the Consolidated Entity. This was a key audit matter due to the: • Size of the acquisition having a pervasive impact on the financial statements; • Complexity of the master Membership Interest Purchase Agreement and associated side agreements. We focus on accounting for the consideration paid, transaction costs or future business expenses against the criteria of the accounting standards; • Significant judgements made by the Consolidated Entity relating to the valuation and preliminary purchase price allocation (PPA) at 30 June 2017. The Consolidated Entity engaged an independent valuation expert to advise on the identification and measurement of acquired assets and liabilities, in particular determining the allocation of purchase consideration to goodwill and separately identifiable intangible assets; and • Level of judgement applied by the Consolidated Entity to measure the fair value of contingent consideration relating to the 'earn-out' liability due to estimates of the forecast future performance of the acquired business. These conditions and associated complex acquisition accounting required significant audit effort and greater involvement by senior team members and our valuation specialists.	Our procedures included; • Reading the Membership Interest Purchase Agreement and associated side agreements related to the acquisition to understand the structure, key terms and conditions; and nature of certain payments. Using this, we evaluated the accounting treatment of acquisition consideration, transaction costs and future business expenses against the criteria in the accounting standards. • Working with our valuation specialists to assess and challenge the key assumptions used in the PPA to identify and value separate assets. This involved: - assessing the objectivity, competence, experience and scope of the independent valuation expert. - comparing the inputs used by the Consolidated Entity's independent valuation expert to approved business forecasts; - challenging the Consolidated Entity's significant judgemental assumptions such as identification of separate identifiable intangible assets and the Consolidated Entity's independent expert's approach and methodology to valuing these assets by comparing to accepted industry practice and the requirements of the accounting standards; and • Assessing the Consolidated Entity's determination of the fair value measurement of contingent consideration relating to the 'earn-out' liability. This involved: - checking key inputs from the Consolidated Entity's calculation of the earn-out liability to the Membership Interest Purchase Agreement and associated side agreements and board approved investment proposal for the acquisition; - comparing growth assumptions within the Consolidated Entity's calculation of the earn-out liability to historical performance, our understanding of industry trends, and the board approved investment proposal for the acquisition; - checking the mathematical accuracy of the earn-out liability and net present value of future expected payments. • Assessing the Consolidated Entity's disclosures of the quantitative and qualitative considerations in relation to the business acquisition, by comparing these disclosures to our understanding of the acquisition and the requirements of the accounting standards.

Independent audit report to the members of Cochlear Limited

Other information

Other Information is financial and non-financial information in Cochlear Limited's annual reporting which is provided in addition to the Financial report and the Auditor's report. The Directors are responsible for the Other Information.

Our opinion on the Financial report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration report.

In connection with our audit of the Financial report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's report we have nothing to report.

Responsibilities of the Directors for the Financial report

The Directors are responsible for:

- preparing the Financial report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Consolidated Entity's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Consolidated Entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial report

Our objective is:

- to obtain reasonable assurance about whether the Financial report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial report.

A further description of our responsibilities for the Audit of the Financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's report.

Independent audit report to the members of Cochlear Limited

Report on the Remuneration report

Opinion

In our opinion, the Remuneration Report of Cochlear Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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 responsibilities

We have audited the Remuneration report included in pages 33 to 50 of the Annual Report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG
Sydney, 17 August 2017

Cameron Slapp, Partner

Shareholder information

Hear now. And always

Cochlear®

Additional information required by Australian Securities Exchange Listing Rules and not disclosed elsewhere in this report – the information presented is as at 31 July 2017.

Substantial shareholders

Investor	Number of ordinary shares	%
Baillie Gifford & Co	5,081,925	8.85
BlackRock Group	4,116,410	7.17
Hyperion Asset Management Limited	3,358,001	5.85
Total	**12,556,336**	**21.86**

Distribution of shareholders

Number of shares held	Number of ordinary shareholders
1 - 1,000	26,010
1,001 - 5,000	2,417
5,001 - 10,000	137
10,001 - 100,000	63
100,001 and over	15
Total	**28,642**

Non-marketable parcels – 145 shareholders held less than a marketable parcel of ordinary shares.

Twenty largest shareholders

Shareholder	Number of ordinary shares	%
HSBC Custody Nominees (Australia) Limited	24,896,044	43.35
J P Morgan Nominees Australia Limited	9,576,223	16.68
Citicorp Nominees Pty Limited	3,081,569	5.37
National Nominees Limited	2,442,584	4.25
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	1,122,938	1.96
BNP Paribas Noms Pty Ltd <DRP>	757,852	1.32
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	387,991	0.68
HSBC Custody Nominees (Australia) Limited - A/C 2	337,295	0.59
HSBC Custody Nominees (Australia) Limited <NT- Comnwlth Super Corp A/C>	286,656	0.50
Dr Christopher Graham Roberts	236,682	0.41
AMP Life Limited	226,985	0.40
HSBC Custody Nominees (Australia) Limited - GSCO ECA	157,575	0.27
Australian Foundation Investment Company Limited	137,000	0.24
SBN Nominees Pty Limited <10004 Account>	105,000	0.18
PGA (Investments) Pty Ltd	100,000	0.17
BNP Paribas Nominees Pty Ltd <Agency Lending Collateral>	68,500	0.12
National Nominees Limited <DB A/C>	66,403	0.12
HSBC Custody Nominees (Australia) Limited	50,985	0.09
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	48,985	0.09
Navigator Australia Ltd <MLC Investment Sett A/C>	48,791	0.08
	44,136,058	**76.86**

The 20 largest shareholders held 76.86% of the ordinary shares of the Company.

On market buy-back

There is no current on market buy-back.

Contact information

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Australia

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Fax: +612 9428 6353

Website: www.cochlear.com

Shareholder enquiries

Access to shareholding information is available to investors through Computershare.

Computershare Investor Services Pty Limited

GPO Box 2975

Melbourne VIC 8060

Australia

Telephone: 1300 850 505

Email: web.queries@computershare.com.au

Website: www.computershare.com.au

Calendar of events

17 August 2017	FY17 results announced
20 September 2017	Dividend record date (final dividend)
11 October 2017	Payment date (final dividend)
17 October 2017	Annual general meeting
13 February 2018	HY18 results announced*
14 August 2018	FY18 results announced*

* Indicative dates only

Annual general meeting

The Annual general meeting of Cochlear Limited will be held on 17 October 2017 at 10.00am at the Australian Securities Exchange, Exchange Square Auditorium, 20 Bridge Street, Sydney.

Hear now. And always

As the global leader in implantable hearing solutions, Cochlear is dedicated to bringing the gift of sound to people with moderate to profound hearing loss. We have helped over 450,000 people of all ages live full and active lives by reconnecting them with family, friends and community.

We aim to give our recipients the best lifelong hearing experience and access to innovative future technologies. For our professional partners, we offer the industry's largest clinical, research and support networks.

That's why more people choose Cochlear than any other hearing implant company.

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