

PRELIMINARY FINAL REPORT

Cochlear Limited ACN 002 618 073

30 June 2013

Results for announcement to the market

Revenue A\$000	down	3%	to	752,721
Earnings before interest, taxes and product recall costs (EBIT) A\$000	down	17%	to	178,860
Net profit attributable to members A\$000	up	133%	to	132,563

Net tangible assets per share at 30 June 2013 (cents)	down	32%	to	212.4
Net tangible assets per share at 30 June 2012 (cents)				313.0

Dividends (distributions)	Amount per security	Franked amount per security	Conduit foreign income per security
Final dividend payable	127.0c	38.1c	38.1c
Interim dividend paid	125.0c	50.0c	38.0c
Total	252.0c	88.1c	76.1c
Previous corresponding financial year:			
Final dividend paid	125.0c	44.0c	31.0c
Interim dividend paid	120.0c	72.0c	48.0c
Total	245.0c	116.0c	79.0c

Record date for determining entitlements to the dividend	29 August 2013
Dividend payment date	19 September 2013

Annual General Meeting

The Annual General Meeting will be held as follows:

Place

Australian Securities Exchange
Exchange Square Auditorium
20 Bridge Street, Sydney

Date

15 October 2013

Time

10.00 am

Approximate date the Annual Report will be available

19 September 2013

Preliminary Final Report

Cochlear Limited ACN 002 618 073 and its controlled entities for the year ended 30 June 2013

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		2013	2012
	Note	\$000	\$000
Revenue	5(a)	752,721	778,996
Cost of sales	5(b)	(208,072)	(203,260)
Cost of sales – product recall	29	-	(138,835)
Gross profit		544,649	436,901
Selling and general expenses		(202,781)	(197,091)
Administration expenses		(38,157)	(45,429)
Research and development expenses		(124,715)	(119,322)
Other income	5(c)	2,379	1,745
Other expenses	5(d)	(2,515)	(349)
Results from operating activities		178,860	76,455
Finance income	6	659	1,852
Finance expense	6	(6,882)	(6,150)
Net finance expense		(6,223)	(4,298)
Profit before income tax		172,637	72,157
Income tax expense	8	(40,074)	(15,354)
Net profit		132,563	56,803
Basic earnings per share (cents)	11	233.0	100.0
Diluted earnings per share (cents)	11	232.4	99.8

The notes on pages 8 to 52 are an integral part of these consolidated financial statements.

STATEMENT OF COMPREHENSIVE INCOME Cochlear Limited and its controlled entities for the year ended 30 June 2013

	Note	2013 \$000	2012 \$000
Net profit		132,563	56,803
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to the income statement:			
Foreign currency translation differences		29,179	(18,304)
Effective portion of changes in fair value of cash flow hedges, net of tax	6	(21,206)	26,639
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	6	(26,384)	(52,108)
Total items that may be reclassified subsequently to the income statement		(18,411)	(43,773)
Total other comprehensive loss		(18,411)	(43,773)
Total comprehensive income		114,152	13,030

The notes on pages 8 to 52 are an integral part of these consolidated financial statements.

	Note	2013 \$000	2012 \$000
Assets			
Cash and cash equivalents	23(a)	52,689	68,486
Trade and other receivables	12	203,748	189,085
Inventories	13	131,574	101,298
Current tax assets	16	6,207	5,763
Prepayments		11,004	9,249
Total current assets		405,222	373,881
Trade and other receivables	12	944	11,840
Property, plant and equipment	14	65,898	59,611
Intangible assets	15	235,774	206,715
Deferred tax assets	16	56,663	50,495
Total non-current assets		359,279	328,661
Total assets		764,501	702,542
Liabilities			
Trade and other payables	17	96,789	100,218
Loans and borrowings	18	3,309	45,744
Current tax liabilities	16	6,002	19,526
Provisions	20	63,224	78,366
Deferred revenue		22,506	18,089
Total current liabilities		191,830	261,943
Trade and other payables	17	13,242	735
Loans and borrowings	18	167,160	19,928
Provisions	20	35,356	35,056
Total non-current liabilities		215,758	55,719
Total liabilities		407,588	317,662
Net assets		356,913	384,880
Equity			
Share capital		118,788	121,136
Reserves		(32,433)	(16,762)
Retained earnings		270,558	280,506
Total equity		356,913	384,880

The notes on pages 8 to 52 are an integral part of these consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY Cochlear Limited and its controlled entities for the year ended 30 June 2013

Amounts \$000	Issued capital	Treasury reserve	Translation reserve	Hedging reserve	Share based payment reserve	Retained earnings	Total equity
2012							
Balance at 1 July 2011	123,226	(3,489)	(65,849)	56,379	32,827	360,189	503,283
Total comprehensive income							
Net profit	-	-	-	-	-	56,803	56,803
Other comprehensive (loss)/income							
Foreign currency translation differences	-	-	(18,304)	-	-	-	(18,304)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	26,639	-	-	26,639
Net change in fair value of cash flow hedges reclassified to the income statement, net of tax	-	-	-	(52,108)	-	-	(52,108)
Total other comprehensive loss	-	-	(18,304)	(25,469)	-	-	(43,773)
Total comprehensive (loss)/income	-	-	(18,304)	(25,469)	-	56,803	13,030
Transactions with owners, recorded directly in equity							
Shares issued, net	2,639	(1,240)	-	-	-	-	1,399
Share based payment transactions	-	-	-	-	3,654	-	3,654
Dividends to shareholders	-	-	-	-	-	(136,486)	(136,486)
Balance at 30 June 2012	125,865	(4,729)	(84,153)	30,910	36,481	280,506	384,880
2013							
Balance at 1 July 2012	125,865	(4,729)	(84,153)	30,910	36,481	280,506	384,880
Total comprehensive income							
Net profit	-	-	-	-	-	132,563	132,563
Other comprehensive income/(loss)							
Foreign currency translation differences	-	-	29,179	-	-	-	29,179
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(21,206)	-	-	(21,206)
Net change in fair value of cash flow hedges reclassified to the income statement, net of tax	-	-	-	(26,384)	-	-	(26,384)
Total other comprehensive income/(loss)	-	-	29,179	(47,590)	-	-	(18,411)
Total comprehensive income/(loss)	-	-	29,179	(47,590)	-	132,563	114,152
Transactions with owners, recorded directly in equity							
Shares repurchased, net	2,331	(4,679)	-	-	-	-	(2,348)
Share based payment transactions	-	-	-	-	2,740	-	2,740
Dividends to shareholders	-	-	-	-	-	(142,511)	(142,511)
Balance at 30 June 2013	128,196	(9,408)	(54,974)	(16,680)	39,221	270,558	356,913

The notes on pages 8 to 52 are an integral part of these consolidated financial statements.

STATEMENT OF CASH FLOWS Cochlear Limited and its controlled entities for the year ended 30 June 2013

	Note	2013 \$000	2012 \$000
Cash flows from operating activities			
Cash receipts from customers		669,311	724,842
Cash paid to suppliers and employees		(555,798)	(512,963)
Grant and other income received		2,379	1,745
Interest received		617	1,746
Interest paid		(6,967)	(5,972)
Income taxes paid		(39,815)	(41,118)
Net cash provided by operating activities	23(b)	69,727	168,280
Cash flows from investing activities			
Acquisition of property, plant and equipment		(21,074)	(20,843)
Acquisition of enterprise resource planning system		(14,477)	(9,972)
Acquisition of other intangible assets		(14,868)	(6,629)
Net cash used in investing activities		(50,419)	(37,444)
Cash flows from financing activities			
Repayments of borrowings		(89,000)	(141,000)
Proceeds from borrowings		195,000	143,000
Shares (repurchased)/issued, net		(2,348)	1,399
Dividends paid	9	(142,511)	(136,486)
Net cash used in financing activities		(38,859)	(133,087)
Net decrease in cash and cash equivalents		(19,551)	(2,251)
Cash and cash equivalents, net of overdrafts at 1 July		68,486	72,423
Effect of exchange rate fluctuations on cash held		3,754	(1,686)
Cash and cash equivalents, net of overdrafts at 30 June	23(a)	52,689	68,486

The notes on pages 8 to 52 are an integral part of these consolidated financial statements.

1. Reporting entity

Cochlear Limited (the Company) is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2013 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.

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 consolidated financial statements were approved by the Board of directors on X August 2013.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

(d) Use of judgements and estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the 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 assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

Note 15 – Intangible assets

Note 20 – Provisions

Note 21 – Contingent liabilities

Note 26 – Employee benefits

Note 27 – Financial instruments

Note 29 – Product recall.

3. Significant accounting policies

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

(a) Basis of consolidation

Controlled entities

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

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

Transactions eliminated on consolidation

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

Special purpose entities

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

(b) Income recognition

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

Sales revenue

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

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

Other income

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

(c) Goods and services tax

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

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

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

(d) Foreign currency

Foreign currency transactions

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

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

Financial statements of foreign operations

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

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

Foreign currency differences arising from translation of controlled entities with a different functional currency to that of the Company are recognised in the foreign currency translation reserve (translation reserve). 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 in equity.

(e) Financial instruments

Derivative financial instruments

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

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

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

Non-derivative financial assets

Cochlear initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which Cochlear becomes a party to the contractual provisions of the instrument.

Cochlear derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by Cochlear is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, Cochlear has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cochlear has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if Cochlear manages such investments and makes purchase and sale decisions based on their fair value in accordance with Cochlear's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

Non-derivative financial liabilities

Cochlear initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which Cochlear becomes a party to the contractual provisions of the instrument.

Cochlear derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, Cochlear has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cochlear classified non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise bank overdrafts, other loans and borrowings and trade and other payables.

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.

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

Determination of fair values

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

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

Other

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

Cash flow hedges

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

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

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

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

Hedges of net investment in foreign operations

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

(f) Cash and cash equivalents

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

(g) Provisions

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

Warranties

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

Onerous contracts

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

Self-insurance

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

Make good lease costs

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

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

(h) Intangible assets

Goodwill

All business combinations are accounted for by applying the 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 allocated to cash generating units (CGUs) and is tested annually for impairment (see accounting policy (i)). Negative goodwill arising on an acquisition is recognised directly in the income statement.

Enterprise resource planning system

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

Research and development expenditure

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

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

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

Other intangible assets

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

Subsequent expenditure

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

Amortisation

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

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

Acquired technology, patents and licences	4 – 15 years
Enterprise resource planning system	2.5 – 7 years
Customer relationships	4 years
Capitalised development expenditure	1 – 3 years.

(i) Impairment

Non-financial assets

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

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

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

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

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

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

Financial assets

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

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

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

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

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

(j) Property, plant and equipment

Owned assets

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

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

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

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

Leased assets

Operating leases

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

Depreciation

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

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

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

Leasehold improvements	2 – 15 years
Plant and equipment	3 – 14 years.

(k) Inventories

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

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

(l) Employee benefits

Defined contribution plans

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

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

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

Defined benefit plans

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

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

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

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

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

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

Wages, salaries and annual leave

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

Long service leave

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

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

Share based payments

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

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

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

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

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

Treasury shares

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

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

(m) Receivables

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

(n) Taxation

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Consolidated Entity expects, at the end of the financial year, 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, based on the laws that have been enacted or substantively enacted by the reporting date.

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

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, 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 to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income tax expenses that arise from the distribution of cash dividends are recognised at the same time that the liability to pay the related dividend is recognised. Cochlear does not distribute non-cash assets as dividends to its shareholders.

Cochlear 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.

(o) Payables

Trade and other payables are stated at amortised cost.

(p) Loans and borrowings

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

(q) Finance income and expense

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

(r) Earnings per share

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

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

(s) Segment reporting

Determination and presentation of operating segments

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

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

(t) Share capital

Ordinary shares

Ordinary shares are classified as equity.

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

Repurchase of share capital (treasury shares)

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

Dividends

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

(u) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for financial years beginning after 1 July 2012, and have not been applied in preparing these consolidated financial statements. Of the new standards, only the following are expected to have an effect on the consolidated financial statements of Cochlear:

- AASB 9 – Financial Instruments, which becomes mandatory for Cochlear’s 2016 consolidated financial statements
- AASB 13 – Fair Value Measurement, which becomes mandatory for Cochlear’s 2014 consolidated financial statements
- AASB 19 – Employee Benefits, which becomes mandatory for Cochlear’s 2014 consolidated financial statements. This will require Cochlear to change from the Corridor method for recognising actuarial gains and losses to the Direct to Equity method.

Cochlear is currently assessing the impact of the changes in each of the above standards and it is not expected that the changes will have a significant impact on Cochlear. As such Cochlear does not plan to adopt these standards early.

4. Financial risk management

Overview

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

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

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

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

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

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

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

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

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

Credit risk

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

Trade and other receivables

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

Policies and procedures of credit management and administration of receivables are established and executed at a regional level.

Individual regions deliver reports to management and the Board on debtor ageing and collection activities on a monthly basis.

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

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

Guarantees

Details of guarantees provided by Cochlear are provided in Note 18.

Liquidity risk

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

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

Market risk

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

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

Currency risk

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

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

Interest rate risk

Cochlear is exposed to interest rate risks in Australia and Japan. See Note 27 for effective interest rates, repayment and repricing analysis of outstanding debt.

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

Operational risk

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

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;

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

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

Capital management

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

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

- net 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
- total shareholder return (TSR) – defined as the percentage growth in share price over a three year period plus the cumulative three year dividend return calculated against the opening share price in the same three year period.

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

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

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

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

Cochlear's net gearing ratio was as follows:

	2013	2012
	\$000	\$000
Total loans and borrowings	170,469	65,672
Less: Cash and cash equivalents	(52,689)	(68,486)
Net debt/(cash)	117,780	(2,814)
Total equity	356,913	384,880
Net gearing ratio at 30 June	25%	(1%)

	2013	2012
	\$000	\$000
5. Revenue and expenses		
(a) Revenue		
Sale of goods before hedging	708,710	698,525
Foreign exchange gains on hedged sales	37,691	74,441
Revenue from sale of goods	746,401	772,966
Rendering of services	6,320	6,030
Revenue	752,721	778,996
(b) Expenses		
Cost of sales		
Carrying amount of inventories recognised as an expense	206,590	198,421
Write-down in value of inventories	1,482	4,839
Total cost of sales (excluding product recall)	208,072	203,260
(c) Other income		
Grant received or due and receivable	1,401	896
Other income	978	849
Total other income	2,379	1,745
(d) Other expenses		
Net foreign exchange loss	2,515	349
Total other expenses	2,515	349
(e) Employee benefits expense		
Wages and salaries	208,585	191,025
Contributions to superannuation plans	15,846	14,379
Increase in leave liabilities	2,069	2,871
Equity settled share based payment transactions	2,740	3,654
Total employee benefits expense	229,240	211,929
(f) Profit before income tax has been arrived at after charging the following items:		
Operating lease rental expense	15,485	16,028
Loss on disposal of property, plant and equipment	1,482	1,652
Write-down in value of inventories – product recall	-	34,859
Impairment of property, plant and equipment – product recall	-	14,006
Impairment of intangible assets – product recall	-	13,840
Provision for warranty and other costs - product recall	-	76,130

	2013	2012
	\$000	\$000
6. Net finance expense		
Recognised in the income statement		
Interest income	659	1,852
Finance income	659	1,852
Interest expense	(6,882)	(6,150)
Finance expense	(6,882)	(6,150)
Net finance expense recognised in the income statement	(6,223)	(4,298)
Recognised in other comprehensive loss		
Effective portion of changes in fair value of cash flow hedges, net of tax	(21,206)	26,639
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	(26,384)	(52,108)
Net finance expense recognised in other comprehensive loss, net of tax	(47,590)	(25,469)

	2013	2012
	\$	\$
7. Auditors' remuneration		
Audit services		
Auditors of the Company		
KPMG:		
- audit and review of financial reports	1,336,981	1,286,910
- other regulatory compliance services	58,925	69,672
Total audit services	1,395,906	1,356,582
Non-audit services		
Auditors of the Company		
KPMG:		
- taxation compliance services	1,211,162	1,128,460
Total non-audit services	1,211,162	1,128,460

	Note	2013 \$000	2012 \$000
8. Income tax expense			
Recognised in the income statement			
Current tax expense			
Current year		31,440	45,335
Adjustment for prior years		(3,143)	(2,578)
		28,297	42,757
Deferred tax benefit			
Origination and reversal of temporary differences		11,777	(27,403)
	16	11,777	(27,403)
Total income tax expense		40,074	15,354

	2013 \$000	2012 Total Reported \$000	2012 Total Recall \$000	2012 Total Adjusted \$000
Numerical reconciliation between income tax expense and profit before income tax				
Net profit/(loss)	132,563	56,803	(101,336)	158,139
Income tax expense/(benefit)	40,074	15,354	(37,499)	52,853
Profit/(loss) before income tax	172,637	72,157	(138,835)	210,992
Income tax expense/(benefit) using the Company's domestic tax rate of 30% (2012: 30%)	51,791	21,647	(41,651)	63,298
Increase in income tax expense due to:				
Non-deductible expenses	2,637	6,274	4,152	2,122
Decrease in income tax expense due to:				
Research and development allowances	(10,560)	(8,127)	-	(8,127)
Share based payment deductions	(332)	(327)	-	(327)
Effect of tax rate in foreign jurisdictions	(319)	(1,535)	-	(1,535)
	43,217	17,932	(37,499)	55,431
Adjustment for prior years	(3,143)	(2,578)	-	(2,578)
Income tax expense/(benefit) on profit before income tax	40,074	15,354	(37,499)	52,853

	Note	2013 \$000	2012 \$000
Deferred tax recognised in other comprehensive loss relating to derivative financial instruments		(20,060)	(10,545)
Total deferred tax recognised in other comprehensive loss	16	(20,060)	(10,545)

Deferred tax recognised directly in equity relating to share based payments		2,537	3,733
Total deferred tax recognised directly in equity	16	2,537	3,733

	Cents per share	Total amount	Franked/ unfranked	Date of payment
		\$000		
9. Dividends				
Dividends recognised in the current financial year by the Company are:				
2013				
Interim 2013 ordinary	125.0	71,295	40% Franked	12 March 2013
Final 2012 ordinary	125.0	71,216	35% Franked	20 September 2012
Total amount	250.0	142,511		
2012				
Interim 2012 ordinary	120.0	68,315	60% Franked	13 March 2012
Final 2011 ordinary	120.0	68,171	70% Franked	22 September 2011
Total amount	240.0	136,486		

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

Subsequent events

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

Final 2013 ordinary	127.0	72,442	30% Franked	19 September 2013
Total amount	127.0	72,442		

The financial effect of the 2013 final dividend has not been brought to account in the financial statements for the year ended 30 June 2013 and will be recognised in the subsequent financial year.

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

	Company	
	2013	2012
	\$000	\$000
Dividend franking account		
30% franking credits available to shareholders of Cochlear Limited for subsequent financial years	1,807	13,042

The above amounts are based on the balance of the dividend franking account at year end.

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 \$9,313,969 (2012: \$10,711,769).

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

10. Operating segments

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

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

Information about reportable segments

	Americas		EMEA ⁽¹⁾		Asia Pacific		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Reportable segment revenue	284,394	296,948	283,023	284,691	147,613	122,916	715,030	704,555
Reportable segment profit before income tax	134,439	144,720	131,523	132,795	57,672	43,893	323,634	321,408
Reportable segment assets	111,905	91,081	176,594	143,081	70,146	72,093	358,645	306,255
Reportable segment liabilities	31,349	23,853	52,164	52,612	12,633	16,482	96,146	92,947
Other material items								
Depreciation and amortisation	720	627	1,672	1,800	1,020	948	3,412	3,375
Write-down in value of inventories excluding product recall	139	-	141	111	267	278	547	389
Acquisition of non-current assets	1,812	534	1,035	922	255	821	3,102	2,277

⁽¹⁾ Europe, Middle East and Africa.

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

	2013	2012
	\$000	\$000
Revenues		
Reportable segment revenue	715,030	704,555
Foreign exchange gains on hedged sales	37,691	74,441
Consolidated revenue	752,721	778,996
Profit or loss		
Reportable segment profit before income tax	323,634	321,408
Corporate and other net expenses	(144,774)	(106,118)
Cost of sales - product recall	-	(138,835)
Net finance expense	(6,223)	(4,298)
Consolidated profit before income tax	172,637	72,157
Assets		
Reportable segment assets	358,645	306,255
Unallocated corporate and manufacturing assets	405,856	396,287
Consolidated total assets	764,501	702,542
Liabilities		
Reportable segment liabilities	96,146	92,947
Unallocated corporate and manufacturing liabilities	311,442	224,715
Consolidated total liabilities	407,588	317,662

	Reportable segment total \$000	Corporate and manufacturing total \$000	Consolidated total \$000
2013			
Other material items			
Depreciation and amortisation	3,412	19,592	23,004
Write-down in value of inventories excluding product recall	547	935	1,482
Acquisition of property, plant and equipment and intangible assets	3,102	34,880	37,982
2012			
Other material items			
Depreciation and amortisation	3,375	20,726	24,101
Write-down in value of inventories excluding product recall	389	4,450	4,839
Acquisition of property, plant and equipment and intangible assets	2,277	48,646	50,923

Revenue by product

	2013 \$000	2012 \$000
Cochlear implants	636,393	626,684
Bone anchored hearing aids (Baha)	78,637	77,871
Total	715,030	704,555

	2013	2012
11. Earnings per share		
Basic earnings per share		
The calculation of basic earnings per share for the year ended 30 June 2013 was based on net profit attributable to equity holders of the parent entity of \$132,563,000 (2012: \$56,803,000) and a weighted average number of ordinary shares on issue during the year ended 30 June 2013 of 56,890,261 (2012: 56,824,604) calculated as follows:		
Net profit attributable to equity holders of the parent entity	\$132,563,000	\$56,803,000
Weighted average number of ordinary shares (basic):		
Issued ordinary shares at 1 July (number)	56,865,878	56,680,142
Effect of options and performance shares exercised (number)	13,619	126,686
Effect of shares issued under Employee Share Plan (number)	10,764	17,776
Weighted average number of ordinary shares (basic) at 30 June	56,890,261	56,824,604
Basic earnings per share (cents)	233.0	100.0
Diluted earnings per share		
The calculation of diluted earnings per share for the year ended 30 June 2013 was based on net profit attributable to equity holders of the parent entity of \$132,563,000 (2012: \$56,803,000) and a weighted average number of ordinary shares on issue during the year ended 30 June 2013 of 57,047,096 (2012: 56,922,674) calculated as follows:		
Net profit attributable to equity holders of the parent entity	\$132,563,000	\$56,803,000
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic) (number)	56,890,261	56,824,604
Effect of options and performance shares (number)	156,835	98,070
Weighted average number of ordinary shares (diluted) at 30 June	57,047,096	56,922,674
Diluted earnings per share (cents)	232.4	99.8
	2013	2012
	\$000	\$000
12. Trade and other receivables		
Current		
Trade receivables net of allowance for impairment losses	187,593	144,727
Other receivables	12,691	11,721
Forward exchange contracts	3,464	32,637
Total current trade and other receivables	203,748	189,085
Non-current		
Other receivables	46	50
Forward exchange contracts	898	11,790
Total non-current trade and other receivables	944	11,840
Cochlear's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 27.		
	2013	2012
	\$000	\$000
13. Inventories		
Raw materials and stores	48,653	25,300
Work in progress	15,333	13,746
Finished goods	67,588	62,252
Total inventories	131,574	101,298

	Note	2013 \$000	2012 \$000
14. Property, plant and equipment			
Leasehold improvements			
At cost		23,057	22,583
Accumulated amortisation		(16,613)	(17,117)
		6,444	5,466
Plant and equipment			
At cost		155,923	135,726
Accumulated depreciation and impairment		(96,469)	(81,581)
		59,454	54,145
Total property, plant and equipment, at net book value		65,898	59,611

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment are set out below:

Leasehold improvements			
Carrying amount at beginning of financial year		5,466	6,727
Additions		2,171	1,259
Amortisation		(1,525)	(2,429)
Effect of movements in foreign exchange		332	(91)
Carrying amount at end of financial year		6,444	5,466
Plant and equipment			
Carrying amount at beginning of financial year		54,145	62,630
Additions		18,903	19,584
Impairment	29	-	(14,006)
Disposals		(1,028)	(150)
Depreciation		(13,876)	(13,397)
Effect of movements in foreign exchange		1,310	(516)
Carrying amount at end of financial year		59,454	54,145

	2013	2012
	\$000	\$000
15. Intangible assets		
Intangible assets with indefinite useful lives		
Goodwill, at cost	170,959	151,066
Technology relationship, at cost	1,800	1,800
Total intangible assets with indefinite useful lives	172,759	152,866
Intangible assets with definite useful lives		
Acquired technology, patents and licences		
At cost	62,811	49,505
Accumulated amortisation and impairment	(28,733)	(25,340)
	34,078	24,165
Enterprise resource planning system		
At cost	60,941	47,011
Accumulated amortisation	(33,614)	(29,290)
	27,327	17,721
Customer relationships		
At cost	4,449	4,020
Accumulated amortisation	(4,449)	(4,020)
	-	-
Capitalised development expenditure		
At cost	7,759	7,759
Accumulated amortisation	(7,759)	(7,759)
	-	-
Other intangible assets		
At cost	4,013	13,918
Accumulated amortisation	(2,403)	(1,955)
	1,610	11,963
Total intangible assets with definite useful lives	63,015	53,849
Total intangible assets	235,774	206,715

	2013	2012
Note	\$000	\$000
Reconciliations		
Reconciliations of the carrying amounts of each class of intangible assets are set out below:		
Goodwill		
Carrying amount at beginning of financial year	151,066	159,137
Effect of movements in foreign exchange	19,893	(8,071)
Carrying amount at end of financial year	170,959	151,066
Technology relationship		
Carrying amount at beginning of financial year	1,800	1,800
Carrying amount at end of financial year	1,800	1,800
Acquired technology, patents and licences		
Carrying amount at beginning of financial year	24,165	30,808
Acquisitions	2,431	10,174
Impairment	29	-
	-	(13,840)
Amortisation	(2,770)	(2,823)
Reclassification from other intangible assets	(a)	9,934
	9,934	-
Effect of movements in foreign exchange	318	(154)
Carrying amount at end of financial year	34,078	24,165
Enterprise resource planning system		
Carrying amount at beginning of financial year	17,721	14,296
Acquisitions	14,477	9,972
Amortisation	(4,432)	(5,047)
Disposals	(454)	(1,502)
Effect of movements in foreign exchange	15	2
Carrying amount at end of financial year	27,327	17,721
Other intangible assets		
Carrying amount at beginning of financial year	11,963	2,509
Acquisitions	(a)	-
	-	9,934
Amortisation	(401)	(405)
Disposals	-	-
Reclassification to acquired technology, patents and licences	(a)	(9,934)
	(9,934)	-
Effect of movements in foreign exchange	(18)	(75)
Carrying amount at end of financial year	1,610	11,963

(a) Purchase of intellectual property from Otologics LLC

As at 30 June 2012, Cochlear recorded an asset being the "Right to acquire intellectual property" of USD10.0 million to reflect its security interest in the intellectual property assets of Otologics LLC being the same value as its amount payable to Wells Fargo Bank as guarantor to Otologics LLC loan following Otologics LLC's declaration of bankruptcy.

During the year, Cochlear settled the loan and acquired intellectual property and certain other assets of Otologics LLC for a total consideration of USD14.0 million.

Amortisation charge

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

Impairment tests for CGUs

Impairment testing is performed assessing carrying amounts of goodwill, other intangible assets and property, plant and equipment at Cochlear's CGUs.

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

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

	2013	2012
	\$000	\$000
Americas	86,438	76,224
EMEA	74,709	66,012
Asia Pacific	9,812	8,830
	170,959	151,066

The recoverable amount of each CGU is based on value-in-use calculations. Those calculations use cash flow projections based on actual operating results and the three year business plan. Cash flows for subsequent years are extrapolated using a conservative growth rate of 3% (2012: 3.0%) per annum which is consistent with long-term economic growth rates. A pre-tax discount rate of 13.5% (2012: 13.5%) per annum has been used in discounting the projected pre-tax cash flows.

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
Sales volume growth rate	Based on a three year forecast taking into account historical growth rates and product lifecycle
Terminal value growth rate	Based on a three year forecast taking into account historical growth rates and product lifecycle.

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

	Assets		Liabilities		Net	
	2013	2012	2013	2012	2013	2012
	\$000	\$000	\$000	\$000	\$000	\$000
16. Deferred tax assets and liabilities						
Recognised deferred tax assets and liabilities						
Property, plant and equipment	4,395	5,294	(729)	(345)	3,666	4,949
Intangible assets	55	57	(1,809)	(55)	(1,754)	2
Inventories	16,063	24,327	-	-	16,063	24,327
Provisions	25,567	30,186	-	-	25,567	30,186
Deferred revenue	3,382	1,428	-	-	3,382	1,428
Forward exchange contracts	6,407	-	-	(13,636)	6,407	(13,636)
Other	4,713	11,268	(2,678)	(8,029)	2,035	3,239
Tax losses carried forward	1,297	-	-	-	1,297	-
Deferred tax assets/(liabilities)	61,879	72,560	(5,216)	(22,065)	56,663	50,495
Set off of tax	(5,216)	(22,065)	5,216	22,065	-	-
Net deferred tax assets	56,663	50,495	-	-	56,663	50,495

Unrecognised deferred tax liabilities

At 30 June 2013, a deferred tax liability of \$23.3 million (2012: \$24.5 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.

Current tax assets and liabilities

The current tax assets for the Consolidated Entity of \$6.2 million (2012: \$5.8 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 \$6.0 million (2012: \$19.5 million) represent the amount of income taxes payable in respect of current and prior financial years.

Movement in temporary differences during the year

	Note	2013	2012
		\$000	\$000
Carrying amount at beginning of financial year		50,495	16,072
Recognised in the income statement	8	(11,777)	27,403
Recognised in other comprehensive loss	8	20,060	10,545
Recognised directly in equity	8	(2,537)	(3,733)
Effects of movements in foreign exchange		422	208
Carrying amount at end of financial year		56,663	50,495

	2013	2012
	\$000	\$000
17. Trade and other payables		
Current		
Trade payables and accruals	80,632	98,404
Other payables	1,242	1,713
Forward exchange contracts	14,915	101
Total current trade and other payables	96,789	100,218
Non-current		
Other payables	-	695
Forward exchange contracts	13,242	40
Total non-current trade and other payables	13,242	735

	2013	2012
	\$000	\$000
18. Loans and borrowings		
Current		
Secured bank loans	3,309	45,744
Total current loans and borrowings	3,309	45,744
Non-current		
Secured bank loans ⁽ⁱ⁾	167,160	19,928
Total non-current loans and borrowings	167,160	19,928
Financing arrangements		
Cochlear had access to the following lines of credit at the reporting date:		
Multi-option credit facilities		
- Secured bank loan	295,000	170,000
- Standby letters of credit	19,736	44,345
- Bank guarantees	264	655
Other		
- Unsecured bank overdrafts	352	508
- Secured bank loan	4,963	3,744
- Standby letters of credit	-	329
- Bank guarantees	1,198	3,655
	321,513	223,236
Facilities utilised at the reporting date		
Multi-option credit facilities		
- Secured bank loan	168,000	62,000
- Standby letters of credit	1,924	16,030
- Bank guarantees	264	655
Other		
- Secured bank loan	3,309	3,744
- Standby letters of credit	-	145
- Bank guarantees	1,193	323
	174,690	82,897
Facilities not utilised at the reporting date		
Multi-option credit facilities		
- Secured bank loan	127,000	108,000
- Standby letters of credit	17,812	28,315
Other		
- Unsecured bank overdrafts	352	508
- Secured bank loan	1,654	-
- Standby letters of credit	-	184
- Bank guarantees	5	3,332
	146,823	140,339

(i) Included within secured bank loans is an amount of \$840,028 (2012: \$71,875) in relation to unamortised loan establishment fees.

Secured bank loan – multi-option credit facilities

Cochlear's existing corporate loan facility was amended and extended in June 2013 for a period of three years. The facility is for a total commitment limit of AUD200.0 million, with an option to allocate a letter of credit sub-facility limit of up to AUD30.0 million for the purpose of drawing either bank guarantees or letters of credit. This letter of credit sub-limit currently sits at AUD5.0 million.

In June 2013, Cochlear negotiated a further loan facility for a period of five years. The facility has a total commitment limit of AUD115.0 million made up of an AUD100.0 million loan sub-facility limit and incorporates an existing AUD15.0 million letter of credit facility that was negotiated in August 2011.

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

Unsecured bank overdrafts

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

Secured bank loan

In September 2012, Cochlear's JPY300.0 million bank facility was increased to JPY450.0 million. It is secured by a letter of guarantee and reviewed annually. Interest is charged at prevailing market rates.

Bank Guarantees

At 30 June 2013 Cochlear has other bank guarantee facilities denominated in USD, EUR, GBP, India rupees (INR) and New Zealand dollars (NZD) totalling \$1.2 million (2012: \$3.7 million).

	2013	2012
	\$000	\$000
19. Commitments		
Operating lease commitments		
Future non-cancellable operating lease rentals not provided for in the financial statements are payable as follows:		
Not later than one year	21,763	20,702
Later than one year but not later than five years	62,709	67,018
Later than five years	100,059	109,857
Total operating lease commitments	184,531	197,577
Capital expenditure commitments		
Contracted but not provided for and payable:		
Not later than one year	1,553	3,410
Total capital expenditure commitments	1,553	3,410

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. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on movements in the Consumer Price Index.

	Note	2013 \$000	2012 \$000
20. Provisions			
Current			
Employee benefits	26	30,450	30,068
Warranties		13,231	11,053
Legal and other		7,487	7,523
Make good lease costs		-	312
Product recall	29	12,056	29,410
Total current provisions		63,224	78,366
Non-current			
Employee benefits	26	3,589	4,447
Warranties		4,683	2,938
Directors' retirement scheme	26	411	399
Make good lease costs		2,143	3,712
Product recall	29	24,530	23,560
Total non-current provisions		35,356	35,056
Reconciliations			
Reconciliations of the carrying amounts of each class of provision, except for the employee benefits provision, are set out below:			
Warranties			
Carrying amount at beginning of financial year		13,991	11,818
Provisions made		29,152	21,874
Provisions used		(25,229)	(19,701)
Carrying amount at end of financial year		17,914	13,991
Legal and other			
Carrying amount at beginning of financial year		7,523	5,294
Provisions made		5,218	3,547
Provisions used		(5,294)	(1,316)
Effects of movements in foreign exchange		40	(2)
Carrying amount at end of financial year		7,487	7,523
Make good lease costs			
Carrying amount at beginning of financial year		4,024	4,840
Provisions made		400	-
Provisions used		(416)	(818)
Provisions released		(1,857)	-
Effects of movements in foreign exchange		(8)	2
Carrying amount at end of financial year		2,143	4,024
Directors' retirement scheme			
Carrying amount at beginning of financial year		399	382
Provisions made		12	17
Carrying amount at end of financial year		411	399

	Note	2013 \$000	2012 \$000
Product recall			
Carrying amount at beginning of financial year		52,970	-
Provisions made	29	-	76,130
Provisions used		(16,384)	(23,160)
Carrying amount at end of financial year	29	36,586	52,970

Employee benefits

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

Warranties

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

Legal and other

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

Make good lease costs

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

Directors' retirement scheme

Non-executive directors appointed prior to 2003 were entitled to retirement benefits of up to three times their annual remuneration over the previous three years once they had more than five years' service. The ongoing accrual of benefits under the directors' retirement scheme ceased from 30 June 2007. The benefits accrued to that date are indexed by reference to the bank bill rate. As at 30 June 2013, Prof E Byrne, AO is the only non-executive director entitled to this benefit.

Product recall

See Note 29 for details of how the provision balance is determined.

21. 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 is likely from time to time to be involved in claims and law suits incidental to the ordinary course of business, including claims for damages relating to its products and services.

In addition, Cochlear has received legal claims in various countries and law suits in 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. The claims are being negotiated and the law suits defended by Cochlear.

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.

Patent infringement complaints

During the year ended 30 June 2008, the Company was served with a complaint for patent infringement by the Alfred E. Mann Foundation for Scientific Research (Mann Foundation).

The complaint, filed in the US District Court of California, alleges that two patents have been infringed.

The Company believes the Mann Foundation's allegations are without merit and is vigorously defending the complaint.

At the date of this report, the litigation process is ongoing. No provision has been established against settlement because the probability of a significant outflow is considered unlikely.

22. Capital and reserves

Share capital

	Number of issued shares in market circulation		Number of shares held in Trust under CELTIP		Total number of issued shares	
	2013	2012	2013	2012	2013	2012
On issue 1 July – fully paid	56,865,878	56,680,142	63,554	64,881	56,929,432	56,745,023
Issued for nil consideration under Employee Share Plan	16,302	25,023	-	-	16,302	25,023
Shares purchased from the market	(68,872)	(17,021)	68,872	17,021	-	-
Issued from the exercise of options	95,198	159,386	-	-	95,198	159,386
Performance shares vesting from Trust	6,783	18,348	(6,783)	(18,348)	-	-
On issue 30 June – fully paid	56,915,289	56,865,878	125,643	63,554	57,040,932	56,929,432

Cochlear has also issued options (see Note 26(b)).

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

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

Treasury reserve

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

Translation reserve

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

Hedging reserve

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

Share based payment reserve

The share based payment reserve comprises the cost of shares distributed to eligible executives under the CELTIP, as detailed in Note 26(b).

23. Notes to the statement of cash flows
Cash assets

The operating account received an average interest rate of 0.82% (2012: 1.66%) per annum.

Cash held on deposit for periods not exceeding 90 days received an average interest rate of 3.27% (2012: 2.94%) per annum.

(a) Reconciliation of cash and cash equivalents

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

	2013	2012
	\$000	\$000
Cash on hand	31,455	56,905
Cash on deposit	21,234	11,581
Cash and cash equivalents	52,689	68,486
(b) Reconciliation of net profit to net cash provided by operating activities		
Net profit	132,563	56,803
Add items classified as investing activities		
Loss on disposal of property, plant and equipment	1,482	1,652
Add non-cash items		
Amounts set aside to provisions	60,870	128,363
Depreciation and amortisation	23,004	24,101
Impairment of property, plant and equipment and intangible assets	-	27,846
Equity settled share based payment transactions	2,740	3,654
Net cash provided by operating activities before changes in assets and liabilities	220,659	242,419
Changes in assets and liabilities		
Change in trade and other receivables	(43,677)	19,866
Change in inventories	(30,276)	4,828
Change in prepayments	(2,596)	300
Change in deferred tax assets	(6,168)	(34,423)
Change in trade and other payables	(6,618)	1,517
Change in current tax liabilities	6,485	411
Change in provisions	(75,712)	(68,597)
Change in deferred revenue	4,417	(643)
Effects of movements in foreign exchange	3,213	2,602
Net cash provided by operating activities	69,727	168,280

24. Controlled entities

	Interest held		Country of incorporation/ formation
	2013 %	2012 %	
Particulars in relation to controlled entities			
Company			
Cochlear Limited			Australia
Controlled entities			
Acoustic Implants Limited	100	-	UK
Cochlear AG	100	100	Switzerland
Cochlear Americas	100	100	USA
Cochlear Benelux NV	100	100	Belgium
Cochlear Bone Anchored Solutions AB	100	100	Sweden
Cochlear Boulder LLC	100	-	USA
Cochlear Canada Inc	100	100	Canada
Cochlear Clinical Services LLC	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 Limited	100	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 Nordic AB	100	100	Sweden
Cochlear NZ Limited	100	100	New Zealand
Cochlear Research and Development Limited	100	100	UK
Cochlear Sweden Holdings AB	100	100	Sweden
Cochlear Technologies Pty Limited	(i)	100	Australia
Cochlear Tibbi Cihazlar ve Saglik Hizmetleri Limited Sirketi		100	Turkey
Cochlear Verwaltungs GmbH		100	Germany
Cochlear (HK) Limited		100	Hong Kong
Cochlear (UK) Limited	(i)	100	UK
Isitme Implantlari Tibbi Cihazlar ve Saglik Hizmetleri Ltd Sti		100	Turkey
Lachlan Project Development Pty Ltd		100	Australia
Lachlan Project Holdings Pty Ltd		100	Australia
Lachlan Project Security Holdings Pty Ltd		100	Australia
Medical Insurance Pte Limited		100	Singapore
Miaki NV		100	Belgium
Neopraxis Pty Limited	(i)	100	Australia
Nihon Cochlear Co Limited		100	Japan
Percutis AB		100	Sweden

(i) Dormant.

25. Related parties

Key management personnel

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

Non-executive directors

Mr R Holliday-Smith (Chairman)

Mrs YA Allen

Mr PR Bell

Prof E Byrne, AO

Mr A Denver

Mr DP O'Dwyer

Executive director

Dr CG Roberts

Executives

Mr R Brook

Mr J Janssen

Mr NJ Mitchell

Mr MD Salmon

Mr CM Smith.

Key management personnel disclosures

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

	2013	2012
	\$	\$
Short-term employee benefits	6,824,569	6,090,379
Post-employment benefits	368,245	350,940
Other long-term benefits	94,729	96,989
Directors' retirement benefits	12,293	16,485
Share based payments	1,232,235	846,095
	8,532,071	7,400,888

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

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

Options and performance shares granted as compensation

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

	Held at 1 July 2012	Granted as remuneration	Vested and exercised	Forfeited	Held at 30 June 2013	Vested and exercisable at 30 June 2013
Option holdings						
Executive director						
Dr CG Roberts	313,750	231,161	-	(86,623)	458,288	23,235
Executives						
Mr R Brook	60,833	41,448	-	(11,867)	90,414	7,796
Mr J Janssen	43,045	26,491	-	(8,665)	60,871	5,693
Mr NJ Mitchell	69,526	10,928	(8,202)	(12,484)	59,768	-
Mr MD Salmon	70,566	-	(7,670)	(11,674)	51,222	-
Mr CM Smith	49,203	45,063	(6,000)	(13,506)	74,760	8,873
Performance share holdings						
Executive director						
Dr CG Roberts	-	-	-	-	-	-
Executives						
Mr R Brook	-	-	-	-	-	-
Mr J Janssen	2,234	2,473	-	-	4,707	-
Mr NJ Mitchell	-	6,120	-	-	6,120	-
Mr MD Salmon	-	8,016	-	-	8,016	-
Mr CM Smith	6,826	1,577	-	-	8,403	-

	Held at 1 July 2011	Granted as remuneration	Vested and exercised	Forfeited	Held at 30 June 2012	Vested and exercisable at 30 June 2012
Option holdings						
Executive director						
Dr CG Roberts	297,542	117,620	(88,736)	(12,676)	313,750	-
Executives						
Mr R Brook	67,623	23,495	(26,499)	(3,786)	60,833	-
Mr J Janssen	56,736	11,128	(21,717)	(3,102)	43,045	-
Mr NJ Mitchell	77,812	27,538	(31,346)	(4,478)	69,526	-
Mr MD Salmon	88,071	28,859	(42,183)	(4,181)	70,566	-
Mr CM Smith	58,004	20,823	(25,910)	(3,714)	49,203	6,000
Performance share holdings						
Executive director						
Dr CG Roberts	-	-	-	-	-	-
Executives						
Mr R Brook	-	-	-	-	-	-
Mr J Janssen	-	2,234	-	-	2,234	-
Mr NJ Mitchell	-	-	-	-	-	-
Mr MD Salmon	-	-	-	-	-	-
Mr CM Smith	7,507	1,045	(1,510)	(216)	6,826	-

No options held by key management personnel were vested but not exercisable at 30 June 2013 or 2012.

The options and performance shares granted in the 2013 financial year were granted on 20 August 2012 and vest in August 2015. The options have an exercise price of \$62.78 per share and an expiration date of 1 July 2017. No options or performance shares have been granted since the end of the financial year. The options and performance shares were provided at no cost to the recipients.

The options granted during the year have a fair value of \$8.56 per share at grant date for options with EPS performance based conditions and \$5.70 per share at grant date for options with TSR based conditions. The performance shares granted during the financial year had a fair value at grant date of \$62.78 per share for performance shares with EPS performance based conditions and \$39.55 per share at grant date for performance shares with TSR based conditions.

Movement in shares

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

	Held at 1 July 2012	Purchases	Received on exercise of options and performance shares	Sales	Held at 30 June 2013
Directors					
Non-executive					
Mr R Holliday-Smith	7,020	2,230	-	-	9,250
Mrs YA Allen	2,500	450	-	-	2,950
Mr PR Bell	2,500	500	-	-	3,000
Prof E Byrne, AO	3,250	-	-	-	3,250
Mr A Denver	2,500	1,500	-	-	4,000
Mr DP O'Dwyer	4,000	1,000	-	-	5,000
Executive					
Dr CG Roberts	715,803	4,000	-	-	719,803
Executives					
Mr R Brook	10,000	200	-	(2,500)	7,700
Mr J Janssen	31,248	2,398	-	(20,318)	13,328
Mr NJ Mitchell	36,346	2,500	8,202	(37,048)	10,000
Mr MD Salmon	9,740	-	7,670	-	17,410
Mr CM Smith	10,000	-	6,000	(6,000)	10,000

	Held at 1 July 2011	Purchases	Received on exercise of options and performance shares	Sales	Held at 30 June 2012
Directors					
Non-executive					
Mr R Holliday-Smith	5,500	1,520	-	-	7,020
Mrs YA Allen	2,500	-	-	-	2,500
Mr PR Bell	2,500	-	-	-	2,500
Prof E Byrne, AO	2,000	1,250	-	-	3,250
Mr A Denver	2,500	-	-	-	2,500
Mr DP O'Dwyer	3,350	650	-	-	4,000
Executive					
Dr CG Roberts	725,310	-	88,736	(98,243)	715,803
Executives					
Mr R Brook	8,806	1,194	26,499	(26,499)	10,000
Mr J Janssen	32,921	-	21,717	(23,390)	31,248
Mr NJ Mitchell	33,571	-	31,346	(28,571)	36,346
Mr MD Salmon	9,740	-	42,183	(42,183)	9,740
Mr CM Smith	10,000	-	27,420	(27,420)	10,000

	Note	2013 \$000	2012 \$000
26. Employee benefits			
Current			
Provision for long service leave		7,325	6,317
Provision for annual leave		16,850	14,930
Provision for short-term incentives		6,275	8,821
	20	30,450	30,068
Wages and salaries accrued		515	409
Total current employee benefits		30,965	30,477
Non-current			
Provision for long service leave		3,589	4,447
Provision for directors' retirement scheme		411	399
Total non-current employee benefits	20	4,000	4,846
Total employee benefits		34,965	35,323

Cochlear has benefit plans that provide pension benefits to employees upon retirement. These defined benefit plans cover, in aggregate, 75 employees. Cochlear contributed cash of \$0.9 million (2012: \$0.8 million) to defined benefit plans in the year ended 30 June 2013 and expects to contribute \$1.0 million in the year ending 30 June 2014.

(a) Defined contribution superannuation plans

Cochlear makes contributions to defined contribution plans. The amount recognised as expense was \$14.9 million for the year ended 30 June 2013 (2012: \$14.4 million).

(b) Share based payments

Cochlear's Employee Share Plan (Plan) was approved by special resolution at the AGM held on 19 October 1999. Under the Plan, the directors can at their discretion, allocate at nil consideration up to a maximum of \$2,000 worth of shares per eligible employee in any one year. The fair value of shares issued during the financial year is the market price of the Company's shares on the ASX as at the start of trading on the issue date. Shares under the Plan vest with the employee immediately but are non-transferable for a period of up to three years. For the year ended 30 June 2013, the Company issued 16,302 shares under the Plan.

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

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

Grant date	Number of instruments	Conditions for minimum vesting	Contractual life of options
Option grant in August 2009	42,837	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	42,837	Three years of service, the Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Option grant in August 2010	199,934	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	199,935	Three years of service, the Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Option grant in August and October 2011	258,532	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	258,533	Three years of service, the Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Option grant in August 2012	367,696	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	367,696	Three years of service, the Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Total options⁽¹⁾	1,738,000		

⁽¹⁾ No options granted in August 2008 were outstanding as at 30 June 2013.

Issue date	Number of instruments	Conditions for minimum vesting	Contractual life of shares in the Trust
Performance shares issued in August 2008	185	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	186	Three years of service, the Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Performance shares issued in August 2009	385	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	386	Three years of service, the Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Performance shares issued in August 2010	9,734	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	9,734	Three years of service, the Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Performance shares issued in August 2011	11,211	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	11,211	Three years of service, the Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Performance shares issued in August 2012	38,299	Three years of service, a minimum compound annual growth rate in EPS of 10%.	5 years
	38,300	Three years of service, the Consolidated Entity's TSR is above the 50th percentile against the S&P/ASX 100 over three years.	5 years
Total performance shares	119,631		

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

	Weighted average exercise price \$	Number of options	Weighted average exercise price \$	Number of options
	2013	2013	2012	2012
Outstanding at 1 July	64.33	1,635,440	58.72	1,719,451
Forfeited	61.62	(402,069)	56.59	(149,571)
Exercised	52.73	(255,199)	51.37	(477,388)
Granted	62.78	759,828	68.56	542,948
Outstanding at 30 June	65.98	1,738,000	64.33	1,635,440
Exercisable at 30 June	60.04	85,674	54.99	298,462

The weighted average share price at date of exercise was \$65.11 (2012: \$69.41).

The estimated value of options for the current financial year is calculated at the date of grant using the Black-Scholes model.

For options outstanding at 30 June 2013, 85,674 options have an exercise price of \$60.04, 399,869 options have an exercise price of \$69.80, 517,065 options have an exercise price of \$68.56 and 735,392 options have an exercise price of \$62.78 (2012: 114,258) options at \$63.18, 184,204 options at \$49.91, 396,679 options at \$60.04, 409,737 options at \$69.80 and 530,562 options at \$68.56). The weighted average remaining contractual life of options outstanding at the end of the year is three years (2012: three years).

Inputs for measurement of grant date fair values

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

	13 August 2012	15 August 2011	24 October 2011
Fair value of options at grant date with:			
- EPS performance based conditions	\$8.56	\$13.45	\$4.71
- TSR based conditions	\$5.70	\$8.95	\$3.14
Fair value of performance shares at grant date with:			
- EPS performance based conditions	\$62.78	\$68.56	N/A ⁽¹⁾
- TSR based conditions	\$39.55	\$43.19	N/A ⁽¹⁾
Share price at grant date	\$62.97	\$73.75	\$56.61
Exercise price	\$62.78	\$68.56	\$68.56
Expected volatility (weighted average volatility)	23.99%	22.0%	23.8%
Option life	3 - 5 years	3 - 5 years	3 - 5 years
Expected dividends	3.80%	2.84%	3.90%
Risk free interest rate (based on government bonds)	2.71%	3.89%	3.90%

⁽¹⁾ No performance shares were issued.

27. Financial instruments

Credit risk

Exposure to credit risk

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

	2013	2012
	\$000	\$000
Cash and cash equivalents	52,689	68,486
Trade receivables and other receivables	200,330	156,498
Forward exchange contracts	4,362	44,427
	257,381	269,411

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

	2013	2012
	\$000	\$000
Americas	59,110	51,548
EMEA	84,173	66,364
Asia Pacific	44,310	26,815
	187,593	144,727

Impairment losses

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

	2013	2012
	\$000	\$000
Gross receivables		
Not past due	138,570	101,827
Past due 0 – 30 days	18,651	20,666
Past due 31 – 120 days	15,680	12,510
Past due 121 – 270 days	5,877	6,147
Past due 271 days and over	12,379	6,347
	191,157	147,497
Impairment losses	(3,564)	(2,770)
Trade receivables net of allowance for impairment losses	187,593	144,727

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

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

	2013	2012
	\$000	\$000
Balance at 1 July	(2,770)	(4,899)
Net impairment losses (recognised)/utilised	(562)	2,261
Effect of movements in foreign exchange	(232)	(132)
Balance at 30 June	(3,564)	(2,770)

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

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

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

Liquidity risk

Non-derivative assets and liabilities

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

	Effective interest rate Per annum	Carrying amount \$000	Contractual cash flows \$000	6 months or less \$000	6 - 12 months \$000	1 - 2 years \$000	2 - 5 years \$000	More than 5 years \$000
Non-derivative financial liabilities								
30 June 2013								
AUD floating rate loan	4.63%	167,160	190,151	3,917	3,853	7,770	174,611	-
JPY floating rate loan	0.67%	3,309	3,324	12	3,312	-	-	-
Trade and other payables	-	81,874	81,874	81,874	-	-	-	-
Total		252,343	275,349	85,803	7,165	7,770	174,611	-

	Effective interest rate Per annum	Carrying amount \$000	Contractual cash flows \$000	6 months or less \$000	6 - 12 months \$000	1 - 2 years \$000	2 - 5 years \$000	More than 5 years \$000
Non-derivative financial liabilities								
30 June 2012								
AUD floating rate loan	5.93%	42,000	44,491	1,256	43,235	-	-	-
	5.92%	19,928	22,139	597	588	20,954	-	-
JPY floating rate loan	0.68%	3,744	3,750	3,750	-	-	-	-
Trade and other payables	-	100,953	100,953	100,218	-	735	-	-
Total		166,625	171,333	105,821	43,823	21,689	-	-

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 designated as cash flow hedges

In the year ended 30 June 2013, Cochlear designated some sales and purchases of various currencies as cash flow hedges to hedge the amount converted into AUD for forecast future transactions. These are hedges of forecast future transactions to manage the currency risk arising from exchange rate fluctuations. The hedged items were highly probable foreign currency transactions.

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

All material hedges were effective at the reporting date.

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

	Carrying amount	Expected cash flows	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years
	\$000	\$000	\$000	\$000	\$000	\$000
30 June 2013						
Forward exchange contracts						
Assets	4,362	4,454	1,821	1,697	936	-
Liabilities	(28,134)	(29,081)	(7,097)	(7,999)	(9,980)	(4,005)
Total	(23,772)	(24,627)	(5,276)	(6,302)	(9,044)	(4,005)

	Carrying amount	Expected cash flows	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years
	\$000	\$000	\$000	\$000	\$000	\$000
30 June 2012						
Forward exchange contracts						
Assets	44,427	44,602	19,768	12,935	9,435	2,464
Liabilities	(141)	(141)	(53)	(48)	(23)	(17)
Total	44,286	44,461	19,715	12,887	9,412	2,447

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

Currency risk
Exposure to currency risk

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

Amounts local currency thousands	USD	EUR	GBP	SEK	JPY
30 June 2013					
Trade receivables	62,627	38,978	3,211	6,100	669,529
Secured bank loan	-	-	-	-	(300,000)
Trade payables	(14,820)	(4,931)	(6,844)	(47,429)	(65,556)
Gross balance sheet exposure	47,807	34,047	(3,633)	(41,329)	303,973

Amounts local currency thousands	USD	EUR	GBP	SEK	JPY
30 June 2012					
Trade receivables	55,311	35,053	2,368	6,039	539,297
Secured bank loan	-	-	-	-	(300,000)
Trade payables	(12,797)	(4,267)	(8,129)	(49,531)	(70,009)
Gross balance sheet exposure	42,514	30,786	(5,761)	(43,492)	169,288

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

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

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

	Foreign exchange rates		Gross value	
	2013	2012	2013	2012
			\$000	\$000
Sell USD				
Not later than one year			142,467	159,957
Later than one year but not later than two years			71,113	77,290
Later than two years but not later than five years			20,256	23,768
Weighted average exchange rates contracted	0.97	0.93		
Sell EUR				
Not later than one year			113,740	132,671
Later than one year but not later than two years			59,473	72,903
Later than two years but not later than five years			15,111	28,689
Weighted average exchange rates contracted	0.72	0.69		
Sell JPY				
Not later than one year			9,246	7,540
Later than one year but not later than two years			4,960	4,317
Later than two years but not later than five years			1,259	1,821
Weighted average exchange rates contracted	83.72	75.98		

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

	Average rate		Reporting date spot rate	
	2013	2012	2013	2012
AUD 1 =				
USD	1.022	1.030	0.928	1.007
EUR	0.794	0.766	0.711	0.806
GBP	0.654	0.649	0.603	0.645
SEK	6.796	6.897	6.239	7.113
JPY	89.349	81.109	90.666	80.118

Interest rate risk

Profile

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

	2013	2012
	\$000	\$000
Carrying amount		
Variable rate instruments		
Financial assets	52,689	68,486
Financial liabilities	170,469	65,672

At 30 June 2013, no interest rate hedging had been entered into.

Sensitivity analysis

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

For the year ended 30 June 2013, it is estimated that a general increase of one percent in interest rates would have decreased Cochlear's profit after income tax and equity by approximately \$0.6 million (2012: \$0.1 million). A one percent general decrease in interest rates would have had the equal but opposite effect on Cochlear's profit and equity.

It is estimated that a general increase of 10 percent in the value of the AUD against other foreign currencies would have decreased Cochlear's profit for the year ended 30 June 2013, including hedging results and after income tax, by approximately \$6.1 million (2012: \$2.3 million) and decreased Cochlear's equity by \$14.5 million (2012: \$2.3 million). A 10 percent general decrease in the value of the AUD against other foreign currencies would have increased Cochlear's profit by \$7.2 million (2012: \$5.6 million) and increased equity by \$14.2 million (2012: \$4.4 million).

Fair values

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

	Note	2013		2012	
		Carrying amount \$000	Fair value \$000	Carrying amount \$000	Fair value \$000
Cash and cash equivalents	23(a)	52,689	52,689	68,486	68,486
Trade and other receivables – current	12	203,748	203,748	189,085	189,085
Trade and other receivables – non-current	12	944	944	11,840	11,840
Trade and other payables – current	17	(96,789)	(96,789)	(100,218)	(100,218)
Trade and other payables – non-current	17	(13,242)	(13,242)	(735)	(735)
Secured bank loans – current	18	(3,309)	(3,309)	(45,744)	(45,744)
Secured bank loans – non-current ⁽ⁱ⁾	18	(167,160)	(168,000)	(19,928)	(20,000)
Total		(23,119)	(23,959)	102,786	102,714

(i) Included within carrying amount of secured bank loans is an amount of \$840,028 (2012: \$71,875) in relation to unamortised loan establishment fees.

Basis for determining fair values

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

Derivatives

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

Non-derivative financial assets and liabilities

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

The directors consider the carrying amount of long-term borrowings recorded in the financial statements approximates their fair value as interest rates on loans and borrowings are variable.

Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (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).

	Level 2 \$000	Total \$000
30 June 2013		
Derivative financial assets		
Forward exchange contracts used for hedging	4,362	4,362
Total assets	4,362	4,362
Derivative financial liabilities		
Forward exchange contracts used for hedging	(28,134)	(28,134)
Other forward exchange contracts	(23)	(23)
Total liabilities	(28,157)	(28,157)
30 June 2012		
Derivative financial assets		
Forward exchange contracts used for hedging	44,427	44,427
Total assets	44,427	44,427
Derivative financial liabilities		
Forward exchange contracts used for hedging	(141)	(141)
Other forward exchange contracts	(768)	(768)
Total liabilities	(909)	(909)

There have been no transfers between levels during the year. There are no other financial instruments carried at fair value or valued using a Level 1 or Level 3 valuation method.

28. Events subsequent to the reporting date

Other than the matters 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 2013, see Note 9.

29. Product recall

On 11 September 2011, the Company initiated a worldwide voluntary recall of its unimplanted Nucleus CI500 cochlear implant range. The Company had identified a recent increase in the number of Nucleus CI512 implant failures. In the event of a Nucleus CI500 series implant failure, recipients may be re-implanted with the Nucleus CI24RE implant range which remains available and continues to be sold with Nucleus 5 externals.

Relevant healthcare professionals and regulatory authorities were advised of this action and management continued to work with these authorities.

On 20 December 2011, the Company announced to healthcare professionals and the ASX that it had identified the root cause of the failures and continued to work on resolving the problem.

For the year ended 30 June 2012, \$138.8 million was recognised as a charge to cost of sales in the income statement, representing management's best estimate of probable costs based on current available data. This takes into account inventory write-downs, property, plant and equipment and intangible asset impairments, and warranty and other costs which include factors such as estimated return rates for the affected units, unit replacement costs, and consulting, logistical and administration expenses directly associated with the recall.

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 further amount has been recognised as a charge in the year ended 30 June 2013.

A provision of \$36.6 million (2012: \$53.0 million) is included in current and non-current provisions related to the costs associated with the recall that are still to be incurred as at 30 June 2013.

Net profit includes the following items whose disclosure is relevant in explaining the financial performance of the Consolidated Entity:

Product recall

	2013	2012
	\$000	\$000
Write-down in value of inventories	-	34,859
Impairment of property, plant and equipment	-	14,006
Impairment of intangible assets	-	13,840
Provision for warranty and other costs	-	76,130
Total cost of sales – product recall	-	138,835
Income tax benefit	-	(37,499)
Total product recall cost after tax	-	101,336

30. Parent entity disclosures

At, and throughout the financial year ended, 30 June 2013, the parent company of Cochlear was Cochlear Limited.

	Company	
	2013	2012
	\$000	\$000
Result of the parent entity		
Net profit	158,414	28,445
Other comprehensive loss	(47,449)	(21,905)
Total comprehensive income	110,965	6,540
Financial position of the parent entity at year end		
Current assets	197,014	195,340
Total assets	636,642	606,049
Current liabilities	110,457	181,887
Total liabilities	382,022	320,353
Total equity of the parent entity comprising of:		
Issued capital	128,196	125,865
Treasury reserve	(9,408)	(4,729)
Hedging reserve	(16,557)	30,892
Share based payment reserve	35,838	35,837
Retained earnings	116,551	97,831
Total equity	254,620	285,696

Parent entity contingencies

The details of all contingent liabilities in respect to Cochlear Limited are disclosed in Note 21.

Parent entity capital commitments for acquisition of plant and equipment

	Company	
	2013	2012
	\$000	\$000
Plant and equipment		
Contracted but not yet provided for and payable:		
Within one year	1,553	3,089
Total parent entity capital commitments for acquisition of plant and equipment	1,553	3,089

Compliance Statement

1. This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act 2001 or other standards acceptable to ASX.

Identify other standards used

Nil

2. This report, and the accounts upon which the report is based (if separate), use the same accounting policies.
3. This report does give a true and fair view of the matters disclosed.
4. This report is based on financial statements to which one of the following applies:

The accounts have been audited.

The accounts have been subject to a review.

The accounts are in the process of being audited or subject to review.

The accounts have not yet been audited or reviewed.

5. The entity has a formally constituted audit committee.

Sign here:



Date: 6 August 2013

Print name

NJ Mitchell