

# Sound





Globally, about 278 million\* people have a moderate to profound hearing loss in both ears. As the population ages and life expectancy increases, the incidence of hearing loss will continue to rise.

\* Source: World Health Organization

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Cochlear's global headquarters and principal manufacturing facilities are in Sydney, Australia, with three regional headquarters located in Asia Pacific, Europe and the Americas. Cochlear's Bone Anchored Solutions headquarters and manufacturing are in Gothenburg, Sweden.

# Sound investment

Cochlear's vision is to help address this growing global need. Through the development of a wide range of hearing solutions, increasing awareness and improving access, more people will no longer have to live in a world of silence. Cochlear™ remains committed to helping the hearing impaired hear now and always.

Cochlear's ongoing development of four product streams provides sustainable growth and strengthens our technology leadership in hearing solutions.

## Cochlear implants



### **Nucleus® Freedom™**

The cochlear implant system restores the ability to perceive and understand sound. It is the best solution for people with severe to profound sensorineural hearing loss in both ears. Cochlear's Nucleus Freedom continues to set new benchmarks in hearing performance. Recent peer reviewed studies confirmed the distinct design of the Contour Advance™ electrode as providing the best option for optimising hearing performance. In 2007, Cochlear also reinforced its lifetime commitment by releasing the Freedom™ for N22 to our earliest generation of recipients.

## Electro-acoustic stimulation



### **\*Cochlear Hybrid™**

Electro-acoustic stimulation combines both electrical stimulation as in a cochlear implant and acoustic stimulation as in a hearing aid. This hearing solution is for people who have useful low frequency residual hearing but require electrical stimulation for the higher frequencies. The external Hybrid speech processor is a state-of-the-art fully integrated speech processor that combines both electrical and acoustic stimulation capabilities. The specially designed Hybrid implants have specific electrodes designed to preserve the delicate structures of the inner ear, consequently preserving residual hearing. Cochlear is in the advanced stage of clinical trials with this new hearing solution.

# Sound portfolio

## Bone conduction



### Cochlear Baha®

The Baha system is the most effective hearing solution for people with significant conductive hearing loss, mixed hearing loss or single-sided deafness (SSD). The Baha Intenso™, introduced in 2007, is the most powerful head-worn digital Baha device. With an active feedback cancellation system, it delivers clearer sound quality in all types of listening environments. The Baha Intenso is ideal for those with a substantial mixed hearing loss, risk of progressive hearing loss and patients with SSD. The Baha Intenso has expanded the audiological indications to include patients with a substantial mixed hearing loss due to its ability to compensate for greater degrees of sensorineural hearing loss.

## \*Direct acoustic cochlear stimulator

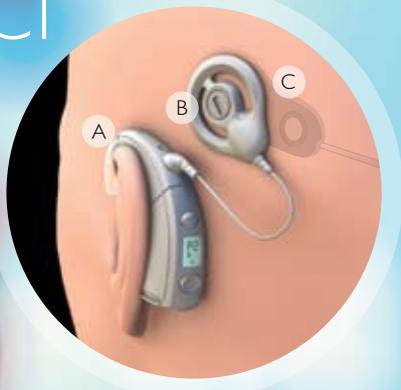


### \*DACs

The direct acoustic cochlear stimulator (DACs) is a new type of implantable hearing device, which will expand our hearing solutions. The DACs system is being designed to provide an effective solution for people with severe to profound mixed hearing impairment. DACs provides mechanical (acoustic) stimulation directly to the cochlea. Good progress continues to be made on this project.

## How Bilateral Cochlear Implant Systems Work

CI



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

- the speech processor (A) with coil (B) is worn behind the ear; and
- the implant (C) is placed just under the skin, behind the ear.

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

Recipient  
**Dylan Harvey**

Hearing solution  
**Bilateral Cochlear Implants**

Location  
**Miami, USA**



#### How bilateral cochlear implant systems work

- 1 The speech processor captures sound and converts it into digital code.
- 2 The speech processor transmits the digitally coded sound through the coil to the implant just under the skin.
- 3 The implant converts the digitally coded sound to electrical signals and sends them along the electrode array, which is positioned in the cochlea.
- 4 The implant's electrodes stimulate the cochlea's hearing nerve fibres, which relay the sound signals to the brain to produce hearing.

## How the Unilateral Bone Conduction Implant System Works

Baha



The Baha system combines a small titanium implant (A), a connecting abutment (B) and a detachable high performance sound processor (C).

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

Recipient  
**Annie Hammarvid**

Hearing solution  
**Unilateral Bone Conduction Implant**

Location  
**Särö, Sweden**



#### How the unilateral bone conduction implant system works

- 1 A sound processor picks up sound vibrations.
- 2 A connecting abutment transfers sound into mechanical vibrations from the Baha device to the implant.
- 3 A small titanium implant, which is placed in the bone behind the ear, fuses with the living bone. This implant transfers the sound vibrations, via the skull, directly to the functioning cochlea.

# It is my pleasure to report on another year of growth at Cochlear, with further advancements in profit and organisational capability.

## Record financial performance

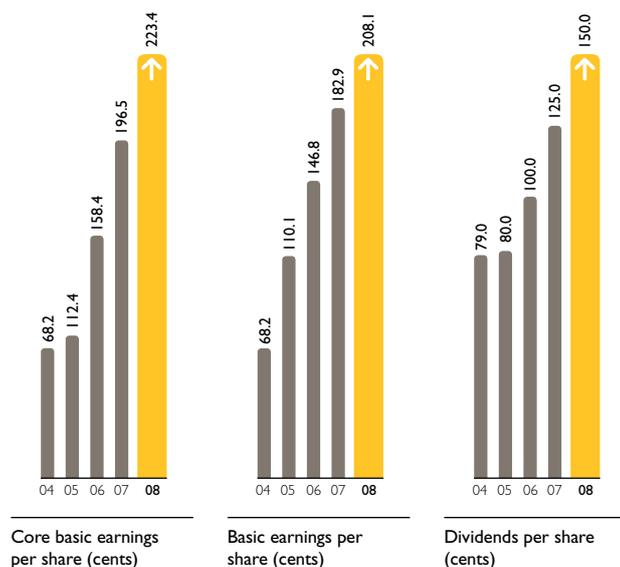
In 2008, Cochlear achieved a record reported profit of \$115.2 million up 15% on last year.

This record profit result was achieved in the context of a rapidly falling US dollar against the Australian dollar (which rose from 78 US cents to 96 US cents over the year), rising interest rates and financial uncertainty in many of the countries in which we do business.

Europe and Asia Pacific produced strong results that were ahead of their long-term growth trends, while the Americas region consolidated its position after two very strong years of growth in 2006 and 2007.

Earnings per share of 208.1 cents was up 14% on last year and return on equity was 40%.

Gearing reduced to 29% and debt was reduced to \$170 million. The long-term committed debt of \$154.6 million is 91% of Cochlear's total debt.



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

## Dividend

The year's financial performance and an ongoing confidence of sustainable growth enabled the Board to increase the final dividend to 80 cents per share, fully franked, making a total for the year of 150 cents per share. This is up 20% on last year and is consistent with the Company's long standing payout ratio of approximately 70%.

## Increased shareholder value

In line with our view of long-term sustainable growth, Cochlear has a rolling three year view of total shareholder return (TSR). For the three years ended 30 June 2008, Cochlear's TSR of 35% was ranked in the top 25% of the ASX 100 companies in terms of TSR. This is the second year in a row that Cochlear has been in the top 25% and the result was achieved despite a fall in the share price in the second half of the year.

## Cochlear's long-term strategy in place

Cochlear's strategy remains focused on sustainable growth through the four areas we have identified in the implantable hearing space. These are:

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

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

Supporting long-term growth, internal projects aimed at productivity gains in the supply chain and sales and administration areas continued to receive focus and deliver results. Continued growth of the Company is underpinned by projects such as these.

## Sustainability

While Cochlear is committed to long-term sustainable financial growth, it is also committed to sustainability in the other important areas of the environment and society.

# Sound performance

An independent study commissioned by Cochlear shows that our carbon footprint is relatively low. Internal teams are working on reducing our carbon footprint even further. In view of our low level of carbon emissions, Cochlear does not qualify for inclusion in the National Greenhouse and Energy Reporting Act 2007 reporting requirements which started on 1 July 2008. Cochlear will continue to closely monitor new regulatory compliance obligations in this field.

Cochlear has a long history of support to the society and communities with which it works through sponsorships, charity donations and the time our employees freely give to provide expertise where it is most needed. This continues to be encouraged and details of some of this year's activities are included in the Annual Report. In addition, Cochlear also continues to support the Cochlear Foundation.

## Office of Inspector General (OIG) inquiry

As advised in March 2004, our American subsidiary Cochlear Americas received a request for information from the US Department of Justice (DOJ). The request sought a variety of documents including those concerning Cochlear Americas' relationships with healthcare professionals.

Last year, the DOJ passed the investigation on to the OIG for administrative processing.

During 2008, we have continued to cooperate fully with the OIG. However, there is nothing further to report at this stage.

## Contribution

Both the Board and the senior management team were unchanged during the year. This stability has been important in dealing with the complex global challenges that are so much part of Cochlear's environment.

Cochlear now has approximately 1,800 employees in over 21 countries. Cochlear has a broad base short-term and long-term incentive plan for its employees. Over 140 managers who influence and implement our strategies have options or performance shares and over 1,000 employees are currently shareholders! This involvement is an important part of the overall alignment of Cochlear and its staff.

On behalf of the Board, I would again like to thank all of our staff for their contributions this year. Cochlear's success reflects their passion and dedication and we are all justifiably proud of the Company's record.

## Outlook

Cochlear is well positioned to continue with its history of growth and market leadership. Record investments in R&D and ongoing investments in growth initiatives and internal capabilities will support Cochlear's continued positive development.



Mr Tommie CE Bergman  
Chairman



## Growth continues

For over 25 years, Cochlear has developed, manufactured and marketed cochlear implants, the total now numbering over 120,000. Fifty percent of people implanted with a cochlear implant, received it in the last five years, reflecting the exponential growth characterising this intervention. In addition to cochlear implants, Cochlear manufactures the Baha, a bone anchored hearing implant for a different type of hearing loss than that requiring a cochlear implant. Over 40,000 people have now received a Baha implant, with similar exponential growth characteristics.

Translating knowledge and technology into the gift of hearing for an ever increasing number of people is the mission of all at Cochlear, and indeed the mission of thousands of healthcare professionals globally involved in hearing implant programs. Despite this growth, the world is still implanting less than incidence of severe and profound hearing loss. That is, even after 25 years, more people are born deaf or go deaf every year than receive an implant – and that is true even for developed countries with advanced healthcare systems.

Through the never ending improvement in technology and the ever increasing skills of a broad group of healthcare professionals, Cochlear will continue providing life changing interventions to young and old. 2008 was another successful year of growth on this long journey.

### Record financial results

Total revenue for the year increased 8% to a record \$601.7 million (compared to \$559.4 million in F07). The underlying increase was masked by significant foreign currency movements during the year, (for example, a 14% appreciation of the AUD against the USD). The growth rate in constant currency sales (F08 sales compared to F07 sales restated at F08 exchange rates) was 18%. This growth was underpinned by record sales of 18,228 cochlear implants, up 14% from F07, and record sales of Baha products of \$75.6 million, up 27% in constant currency terms.

Transformation of our manufacturing, (particularly over the last three years), coupled with last year's purchase of the operations of Crystalaid (a key external supplier), and other investments in our supply chain continue contributing scale and efficiencies. Our gross margin for the last three years has increased to 72%, despite an appreciation of the AUD against the USD of 20% over those three years.

Net profit after tax (NPAT) for F08 of a record \$115.2 million, increased 15% over F07, and our key management metric of core earnings was a record \$123.7 million, 15% ahead of F07 and consistent with our F08 market guidance. Core earnings is defined as NPAT assuming all R&D is expensed, and excluding both acquired intangibles amortisation and share-based compensation. Basic earnings per share and core earnings per share were \$2.08 (up 14%) and \$2.23 (up 14%) respectively.

### Expanding the Nucleus Freedom product range

During F08, Cochlear introduced a number of important new innovations to the market. The Nucleus Freedom product platform was further expanded through the introduction of the Freedom speech processor for Cochlear's earlier N22 implant recipients. By allowing the early implant recipients to upgrade to the current speech processor technology, we delivered on our promise of: Hear now. And always. In addition, the Freedom speech processor became available for recipients of Cochlear's specialist Auditory Brainstem Implant (ABI) and Double Electrode Array.

Clinical data published in the peer review medical literature during the year, confirmed the importance of our electrode system (Contour Advance) coupled with the Advance Off-Stylet surgical technique that together increases the chance of the surgeon placing the electrode in the ideal position in the cochlea (specifically within the scala tympani) thereby increasing hearing performance. The refinement of the surgical technique and electrode mechanics to ensure a scala tympani insertion has been one of the more significant advances in cochlear implant surgery in recent years. As the technology and how to use it improve, the clinical outcomes continue improving.

Another area of significant improvement during the year was the release of Custom Sound 2.0 programming software. This release allowed recipients easier access to pre-processing of the sound, including multiple pre-processing strategies working in combination.

### Bone Anchored Solutions: growth and continued investment

The Bone Anchored Solutions (BAS) division includes the Baha and Vistafix™ product lines acquired from Entific Medical Systems in 2005. BAS sales were a record \$75.6 million up 21% from F07 (and up 27% in constant currency terms). During F08, our recipients had the benefit of the new Intenso speech processor with significantly more amplification, increasing the suitability

# Sound future

of Baha for people with mixed hearing loss (conductive and sensorineural hearing loss). In fact, for a patient with mixed hearing loss where the conductive component is at least 35 dB, the patient will hear better with a Baha than a high powered hearing aid. The BAS business has been successfully integrated into Cochlear, and indeed the business has doubled since its acquisition. It was a truly complementary acquisition.

## **Bilateral cochlear implantation: providing further hearing improvement**

We have two ears for a good reason (it is fundamental to binaural hearing) and not surprisingly most cochlear implant recipients would benefit from two cochlear implants. Bilateral cochlear implantation continues to gain acceptance, driven by a growing body of clinical literature and growing bilateral cochlear implant patient numbers demonstrating the benefits. Given less than 5% of people with a cochlear implant have two implants, this continues to be a source of long-term growth.

## **Innovation is key to our future**

Innovation is the lifeblood of a company such as Cochlear, and in F08 we spent \$80.0 million in R&D, an increase of 21%. Not only are we advancing cochlear implants and bone conduction implants, but also systems that preserve residual hearing as well as a direct acoustic cochlear stimulator. Advancing a range of implantable devices for the hearing impaired is a key strategy for Cochlear.

While technological innovation is key, it is not the only form of innovation and considerable effort on business model innovation, including consumer advocacy and recipient services, remains important. During F08, Cochlear continued expanding its consumer advocacy networks, increasing awareness and understanding of our implants. In addition, we expanded direct recipient services in key countries such as the USA.

## **People**

Our headcount continues to expand supporting growth, with employee numbers approximating 1,800, including employees in two new countries where we now have a direct market presence: Korea and Turkey. The passion and commitment of our people are a key success factor for Cochlear and to all our employees, thank you.

## **Outlook**

We remain confident of our ability to help the hearing impaired in a way that delivers sustainable growth for our shareholders. While our focus is on long-term sustainable growth around helping people hear, we also recognise the need to deliver growth annually. There are challenges to this, including currency volatility and slowing economic growth in many major markets. However, a baby born deaf, or an adult going deaf from a progressive hearing loss, needs an implant at the appropriate time regardless of the economic cycle or currency fluctuations. In addition, Cochlear's business is geographically diverse, offering a portfolio effect to changes in local conditions. For these reasons, we remain confident of delivering growth for our shareholders in F09 and beyond.



**Dr Chris Roberts**  
*CEO/President*



## Financial Discussion and Analysis

### Sales growth continues

- Total revenue up 8% to \$601.7 million.
- In constant currency terms, revenue was up 18%.
- Baha sales were up 21% to \$75.6 million.
- Sales growth in cochlear implant (CI) units was up 14% to 18,228 for the full year and 16% for the second half.
- The portfolio effect of selling in over 100 countries was evident with Americas revenue up 6%, Europe up 30% and Asia Pacific up 20%, all in constant currency terms.

### Profit

- Foreign exchange was again an important aspect of the result.
- Cochlear has a partial natural hedge with 90% of sales in foreign currency and over 50% of expenses in foreign currency. To help manage the portion not covered by the natural hedge, foreign exchange contracts on foreign currency cash flows back to Australia are taken out. These contracts cover a three year period at a declining level of cover. As the Australian dollar has strengthened over time, the ongoing contracts reflect the higher rates.

- During the year, there was a net gain of \$4.7 million (2007: \$3.4 million loss) on the translation of foreign assets. This is reported through Note 6 (Net finance expense) to the financial statements.
- Overall the net profit after tax was negatively impacted by \$20.8 million due to the movements in foreign exchange rates during the year.

### Improvement in margins

- Gross margin to revenue improved from 71% to 72% reflecting the ongoing efficiencies gained from the three year manufacturing program transformation. This is the third year of gross margin improvements.
- EBIT/Revenue improved from 27% to 28%. This reflects ongoing discipline in expense control. Sales and marketing expenses of \$156.5 million grew 11% while administration expenses declined 7% to \$36.1 million.
- R&D expenses of \$80.0 million were up 21%. Increased investments in R&D for Baha and new CI products were made in the year.

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
	IFRS	IFRS	IFRS	IFRS	previous GAAP	previous GAAP	previous GAAP	previous GAAP	previous GAAP	previous GAAP
Cochlear implant system sales (units)	18,228	15,947	12,901	10,802	9,306	9,328	7,845	6,482	4,941	4,128
Total revenue (\$million)	601.7	559.4	452.3	349.0	282.8	306.1	255.0	220.1	144.2	127.2
R&D expenses (\$million)	80.0	65.9	56.7	44.6	44.5	37.0	37.7 <sup>(i)</sup>	27.7	20.9 <sup>(ii)</sup>	13.5
EBITDA (\$million)	193.3	170.9	130.2	96.8	54.9	87.9	56.2	49.0	33.0	25.8
EBIT (\$million)	167.3	150.2	111.5	82.5	45.5	80.1	51.5	45.5	30.4	23.1
NPAT (\$million)	115.2	100.1	80.0	59.6	36.8	58.2	40.1	31.2	20.2	16.3
Basic EPS (cents)	208.1	182.9	146.8	110.1	68.2	110.0	76.6	60.2	39.6	32.3
Core earnings (\$million)	123.7	107.6	86.4	60.8	36.8	58.2	40.1	31.2	20.2	16.3
Core basic EPS (cents)	223.4	196.5	158.4	112.4	68.2	110.0	76.6	60.2	39.6	32.3
DPS (cents)	150.0	125.0	100.0	80.0	79.0	77.0	51.0	41.0	30.0	20.0
Closing share price (\$)	43.65	61.00	54.63	39.20	22.72	32.30	34.05	39.00	28.76	12.00
Market capitalisation as at 30 June (\$million)	2,423	3,341	2,985	2,123	1,231	1,714	1,788	2,029	1,469	606
Number of employees	1,789	1,655	1,100	982	816	814	722	639	543	432

(i) Excludes \$5.2 million acquisition of core technology from Implex AG Hearing Technology.

(ii) Excludes \$4.4 million acquisition of core technology from Philips Hearing Implants NV.



# Sound growth

- NPAT/Revenue improved from 18% to 19%.
- Net interest expense increased \$3.9 million to \$10.6 million caused by interest rate increases and an increase in net debt.

#### **Tax rate reduction**

- The tax rate reduced to 26.5% in 2008. This was largely due to overseas share based payment deductions being available. The long-term tax rate is forecast at approximately 29%.

#### **Increased dividends**

- The final dividend of 80 cents per share brought the full year dividend to 150 cents per share. The full year dividend is up 20% on 2007 and reflects the Board's confidence in the ongoing growth of the Company.
- The payout reflects the ongoing commitment to a payout ratio of approximately 70%. The 2008 dividends are fully franked.

#### **Core earnings – driver of the business**

To assist with the understanding of the accounts, Cochlear discloses movements in core earnings at the half and full year results announcements. The reconciliation between reported profit and core earnings is lodged with the ASX announcements.

The three key reconciling items between reported and core earnings are that core earnings assumes:

- all R&D is expensed as incurred;
- there is no amortisation of acquired intangible assets; and
- there is no expensing of share based compensation.

#### **Capital management**

##### **Short-term debt reduced**

- Net debt marginally increased to \$133.3 million from \$115.5 million; however the composition of the debt changed in that the long-term portion was expanded and short-term reduced.

Of the \$170.0 million of debt at 30 June 2008, \$154.6 million (2007: \$37.6 million) was long-term committed debt. Short-term debt reduced to \$15.4 million (2007: \$161.3 million).

- Cochlear continues to meet all its debt covenant conditions.

##### **Debtors**

- Debtor days increased to 81 days (2007: 79 days). Importantly, debtor days in the Americas and European regions reduced over last year. Asia Pacific debtor days increased marginally as a result of going direct in certain countries.

##### **Inventory levels steady**

- Inventories of \$99.2 million was up 8% on 2007 (2007: \$91.9 million). Days inventory was maintained at 214 days. This increase is in line with new product introductions and customer order profiles and is below sales increases.

##### **Intangible assets – no impairment write-offs**

- Intangible assets of \$209.0 million (2007: \$196.3 million) are a significant proportion of Cochlear's total assets. Some \$187.7 million of this total relates to goodwill arising from the earlier acquisition of businesses.
- All intangible assets are tested for impairment on an annual basis. There were no write-downs in 2008.
- Some \$15.2 million (2007: \$8.4 million) of the intangible assets relates to the implementation of Cochlear's global enterprise resource planning (ERP) system. During 2008, ERP implementation in Europe, Manufacturing, Cochlear Sweden and Human Resources was completed. This concludes the global roll out of the ERP.

Recipient  
**Philip Gordon**

Hearing solution  
**Bilateral Cochlear Implants**

Location  
**Denver, USA**



## Americas

# The Americas continued to grow with revenue of \$232.2 million, up 6% in constant currency terms, with good progress made on long-term growth programs.

## Continued growth

The constant currency growth in revenue of 6% reflected ongoing growth in the Americas region after two years of over 25% annual revenue growth.

Sales revenue in South and Central Americas was flat. Sales revenue from South and Central Americas accounts for approximately 25% of the region's sales revenue.

In addition, the Freedom for N24 processor revenue was 34% lower than last year as the total uptake levels continued to rise. Some 50% of potential recipients in the USA have now upgraded.

## Continued investment in growth initiatives

The drivers of growth in the Americas remain unchanged. These include improving therapy awareness, reimbursement and clinic capacity. Much was achieved in the year to advance long-term programs to achieve sustainable growth in the region.

## Expanded field force

Targeted field expansion continued in 2008 with the aim of addressing therapy awareness. Some 13 new Territory Outreach Specialists were added to the USA field force in 2008. These specialists are focused on educating hearing aid professionals. Hearing aid professionals have direct access to hearing impaired patients who may benefit from a cochlear implant. This is a long-term initiative aimed at increasing therapy awareness in this important market segment.

## Improving capacity

The Hear Always initiative was further expanded during the year. This initiative aims to free up clinician time by directing routine technical support of recipients directly to Cochlear. By year end, some 76% of clinics and 65% of recipients were participating in this initiative.

## New product launches

Cochlear Americas continued to expand the range of products it offers to customers. Custom Sound 2.0 was launched during the year, providing further software options to our professionals.

In the second half, two new FDA trials for the electro-acoustic stimulation product line were started. This underscored our technologic leadership in the region.

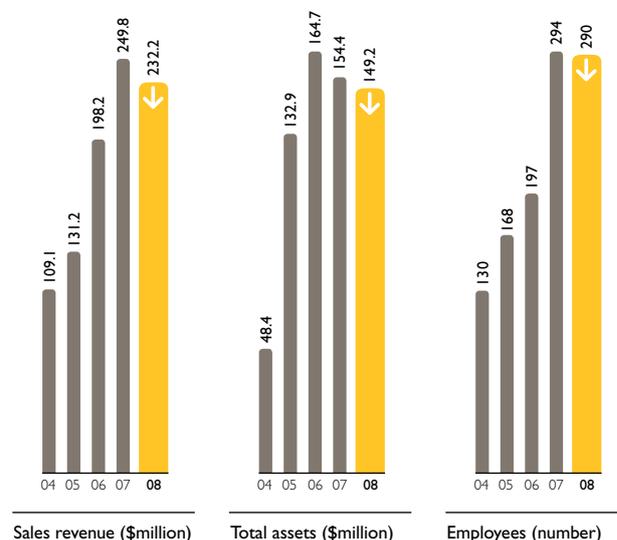
In quarter four, the backwards compatible Freedom processor for Nucleus 22 implant users was launched with an enthusiastic response from these long-term recipients. This fulfils the promise of making the latest technology available to our earlier recipients.

## Facility for the future

In June 2008, Cochlear Americas moved into a new purpose fitted-out building in Denver. The new campus style facility brings together two separate Denver offices and is planned to meet growth over the next decade.

## Outlook

The focus in F09 will remain on driving growth through the execution of key market initiatives including the Hear Always program and Territory Outreach Specialists program.



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

# The European region continued its strong sales revenue growth with record revenue of \$257.2 million, up 30% in constant currency terms.

## Continued strong sales growth

Revenue increased to a record \$257.2 million which was up 30% in constant currency. This was the fourth year in a row of sales revenue growth in excess of 20%. The European region now covers some 53 countries including many of the emerging economies in Central and Eastern Europe and the Middle East.

During 2008, sales growth was strong in both the established European markets and the new developing countries, providing depth in the portfolio of countries Cochlear Europe sells into.

## Roll out of increased direct distribution strategy

In the last three years, Cochlear has “gone direct” in France, Belgium, Italy, The Netherlands, Sweden and Finland. This strategy enables Cochlear to get closer to customers and thereby increases product awareness and other programs aimed at market growth.

During the year, the decision was made to go direct in Turkey with effect from July 2008. Cochlear has been selling in Turkey since 1998 and the country has strong growth potential for Cochlear’s product lines.

In 2008, Cochlear took control of the after-sales aspect of the business in Germany. A new workshop was built in Hannover

and this now fits into a Europe-wide service strategy with further upgrades to Cochlear’s service and repair facilities in Europe.

## Growth strategies

Cochlear Europe continued to stress the importance of appropriate reimbursement for its devices in Europe. This includes providing information which supports the cost effectiveness of the devices to the relevant authorities.

In the United Kingdom, the National Institute for Health and Clinical Excellence (NICE) report was issued for discussion during the year. This independent government report supported cochlear implantation and discussed the benefits of bilateral implantation. This is an influential report and provides an important precedent for other work on the cost effectiveness of the cochlear implant and bilateral implantation.

Therapy awareness was raised by the expansion of the advocacy program targeted on a country-by-country basis. This program involves recipients, or their parents, volunteering to share their experiences with potential customers. This is important in raising awareness, but also in addressing specific issues raised by potential customers.

Further work was focused on the web which is now available in eight languages.

## Underpinning of growth with investment in key infrastructure

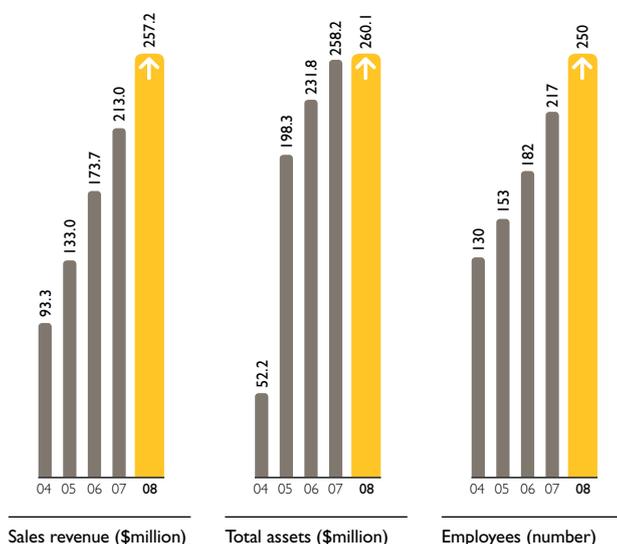
In order to support the rapid growth in Europe, targeted investments in key infrastructure were made in 2008.

Service and repair facilities were upgraded and the customer and business development function focused on the installed base and process innovation was created.

The Oracle ERP system was implemented in October 2007 throughout Europe. This now links Europe with the worldwide supply chain. This is increasingly important as volumes grow – in 2008, some 1.2 million items were shipped from our central warehouse in London alone!

## Outlook

In 2009, the team will continue to be focused on growth initiatives including a growing emphasis on developing markets and the continued roll out of the Freedom processor upgrades for the Nucleus 24 and Nucleus 22 implant users.



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

## Asia Pacific

The Asia Pacific region continued its strong growth with revenue in constant currency terms increasing 20% to \$ 91.0 million.

### Ongoing strong financial performance

The Asia Pacific region continued its strong growth with revenue increasing 14% to \$ 91.0 million. Strong sales into China helped drive the result.

### Strong growth in China and building the infrastructure

A total of 700 donation units were shipped to China this year as part of the contract to supply a total 15,000 units under the donation order. The supply of donation units was again lumpy and this unevenness is anticipated to continue.

The activity surrounding the donation is now driving an increase in demand from the non-donation sector. Cochlear views both these sectors as important in growing the overall Chinese market.

As part of building the infrastructure in China, Cochlear and its Chinese distributors operate the Cochlear Training and Education Centre in Beijing. In 2008, the first class of Auditory Verbal Therapy teachers graduated. These teachers will play an important ongoing role in supporting the long-term growth of the Chinese market.

### Developing the Baha market

The Baha Intenso product received reimbursement benefit recognition on the Australian Department of Health and Ageing prosthesis list. This was important in ensuring reimbursement for the Baha in a market which is currently very under-penetrated. Sales of Baha in Australia grew over 50%, albeit from a very small base.

Elsewhere in Asia, the focus was on obtaining the necessary regulatory approvals for sale of Baha in the individual countries. This can take several years in some countries.

### Partnership with clinics

Cochlear Asia Pacific pioneered the "Lean Clinics Project" with a select group of clinics in Australia and New Zealand. The aim of the project was to work with clinics to increase capacity through improving the patient appointment model and enhanced throughput in relation to clinicians' activities. There is still more to do, but initial results are encouraging and set useful precedents for the region.

### Increased presence in key markets

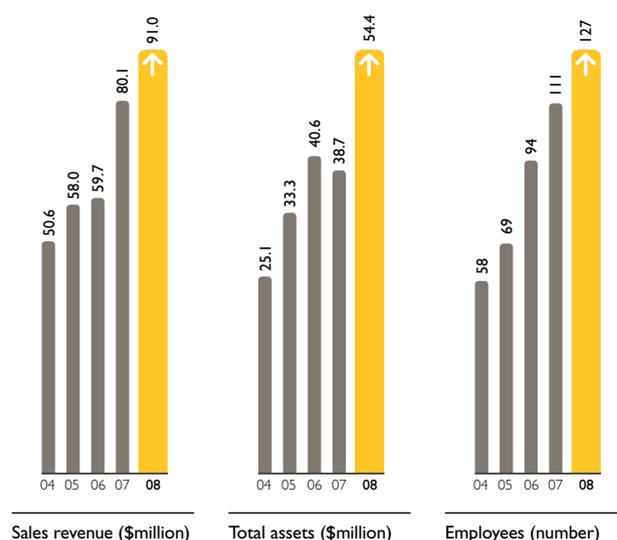
During 2008, Cochlear continued to strengthen its direct presence in the region.

A wholly-owned subsidiary was established in South Korea. There are now 12 Cochlear employees who are working in conjunction with the local sales distributor in Seoul. This will bring Cochlear closer to its customers in this market which has strong growth potential.

Elsewhere, our presence in Singapore was strengthened by opening a branch there and a liaison office was established in Mumbai, India to support the growth in this important market.

### Outlook

The focus for F09 remains on the execution of the growth initiatives and the bedding down of the offices where Cochlear has gone direct.



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



Recipient  
Rod Saunders

Hearing solution  
Unilateral Cochlear Implant

Location  
Melbourne, Australia

1931-2007

### Rod Saunders, 1931-2007 Pioneering Recipient

Rod Saunders, who sadly passed away in December 2007, was the world's first cochlear implant recipient.

At the age of 46, Rod lost his hearing in a car accident. His devotion to his family made him want to hear again. Almost 30 years ago, he was Professor Graeme Clark's first research cochlear implant recipient.

His pioneering spirit and perseverance with the initial prototype, made further technological advances possible which over 100,000 people globally, now benefit from. That first cochlear implant surgery took eight hours, and it was only at the third session that Rod heard sound. Many months of arduous programming sessions followed to develop an appropriate speech coding strategy.

Rod continued to be involved in further trials and testing, to reduce the size of the extensive electronics where sound was processed. Through his dedication, a compact speech processor was made possible.

Over the years, Rod remained dedicated to playing his part in advancing cochlear implant technology and continued to participate in clinical research.

"It's just amazing how the cochlear implant has worked and how it has helped thousands of people to hear again."

Cochlear would like to acknowledge Rod for his courage and significant contribution in the cochlear implant field. His legacy stays with us. He was a pioneer in the truest sense of the word.

## Research, Development and Operations

# Sound outcomes

Innovative engineering ensures that Cochlear's implant recipients have access to ongoing technological advances for life. Our operations strategy is to ensure we use best practice production methods and have the capacity to meet the growing demand for our products. Our ongoing commitment to strengthen our internal capability is fundamental to sustainable growth.

### Research and development

Cochlear's research and development activities set the benchmark in the development of implantable solutions for the hearing impaired. Significant investment, coupled with scientific discipline and global reach, ensures Cochlear stays at the forefront of technological innovation in the implantable hearing solutions field.

Cochlear is currently involved in over 79 collaborative research programs involving 131 centres across 19 countries. These research and development programs span our four main areas of implantable hearing solutions as outlined on pages 2 and 3. These programs focus on continually improving hearing performance outcomes for existing implant recipients and new candidates alike. Basic scientific research is also being conducted, examining novel mechanisms to improve all aspects of implantable hearing solutions.

In 2008, Cochlear continued to grow and strengthen its internal research and development capability. An investment of \$80.0 million constituting 13.3% of revenue was made. Cochlear now has approximately 250 direct research and development employees globally.

### Operations

The on-site manufacture of our implantable hearing systems is a core competency and a source of sustainable competitive advantage to Cochlear. Products are manufactured at three locations, two in Australia and one in Sweden, with 836 people employed in manufacturing and quality assurance globally.

Cochlear's operations strategy is to ensure we employ best practice production capabilities and capacity to meet the growing demand for our products.

Our three year operations improvement program was successfully concluded in 2008 with the integration of "Lean Manufacturing" principles and a new Oracle ERP system implemented throughout

manufacturing. The integration of the Brisbane manufacturing business, acquired in January 2007, was also completed in 2008. This improvement program has resulted in improved capacity, flexibility and responsiveness to demand.

The next stage of operational improvement will involve introducing new manufacturing technologies to further streamline our manufacturing processes.

### Highest quality commitment

Cochlear is committed to the highest level of quality and has an integrated global quality management system in place to assure the highest quality for our products and services. This system complies with the applicable regulatory requirements around the world. The regulations are enforced and confirmed by inspections and audits by independent authorities.

Cochlear operates in a highly regulated environment with new regulatory requirements continually coming into force. Cochlear actively participates and supports the Global Harmonization Task Force, whose aim is convergence in regulatory practices related to ensuring safety, effectiveness and quality of medical devices. This is achieved through promotion of technological innovation, facilitating international trade and the exchange of information.

### Intellectual property

Our patent acquisition creation and maintenance policies aim to maximise the strategic business value of our overall patent portfolio. Cochlear continues to generate key intellectual property in its fields. We currently hold approximately 800 patents and patent applications worldwide.

# Cochlear employees are passionate about their work, delivering value to our recipients and customers, through innovative products and services around the globe.

To deliver on our promise of “Hear now. And always”, we are strengthening our internal capabilities through enhancing people related processes and systems, creating a culture to support sustained growth and drive continual improvement.

### Attracting and keeping the best people

In an increasingly competitive global talent market, Cochlear’s key priority is not only attracting but also retaining the best people. This year, we have:

- recruited and integrated over 200 new employees globally, using enhanced recruitment processes to ensure we attract the brightest and most innovative talent available in the world. We ensure recruited staff are in alignment with Cochlear’s culture and values;
- continued to facilitate talent movement on a global basis, with nine current employees having relocated; and
- implemented a number of new people management and development programs.

Our workforce continues to reflect Cochlear’s emphasis on encouraging diversity. There are over 60 nationalities represented in the Sydney workplace alone. In 2008, 36% of new employees in Sydney were female.

During the year, our Sydney based manufacturing employees converted to individual employment contracts following the termination of the 2005 Employee Partnership agreement. These individual contracts reflect the higher wages negotiated internally and the move to a new classification matrix providing further opportunities for advancement of people.

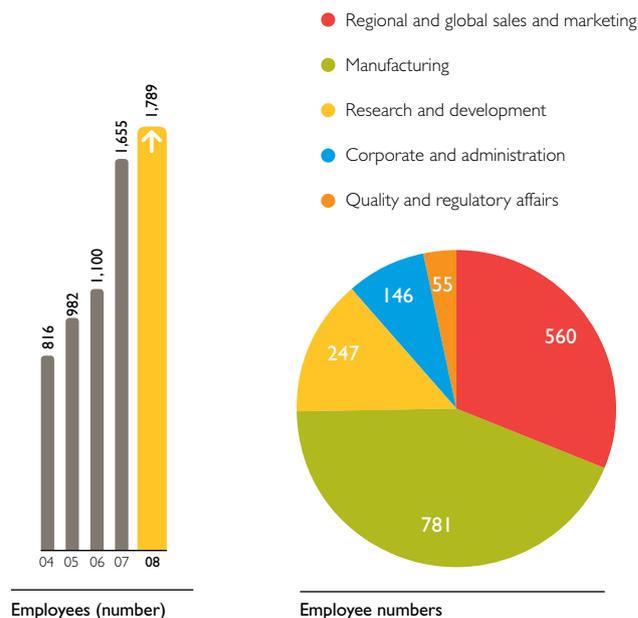
### Continually investing in individual, team and organisational capability...

To support employees’ learning and development, a combination of on-the-job development, formal training courses and flexible e-learning options based on six key learning pathways, are central

to employment at Cochlear. The range of learning solutions covers job-specific and technical areas, as well as general areas such as communication, time management and self-leadership. We have invested in e-learning platforms to meet a variety of business needs in 2008.

The Sydney office alone provided 15,659 hours of training during 2008, up from 14,341 hours last year. Our Get Equipped induction program is a valuable learning tool to ensure a minimum global standard of knowledge for all employees.

We have had over 250 successful graduates of the Workplace English Language and Literacy (WELL) program since commencing the program in March 2006 (over 60 in 2008). A Leadership Development program, designed specifically for Cochlear in conjunction with the Macquarie Graduate School of Management, is also being implemented.





# Sound company

Throughout 2008, the Women in Leadership network continued to operate. As part of this program, Cochlear invites females in senior roles to speak at lunchtime sessions. Speakers this year included the Dean of Engineering UNSW, NSW Minister for Women, Minister for Science and Medical Research, NSW Deputy Leader of the Opposition and parliamentary colleagues. Cochlear also held an International Women's Day breakfast, a Senior Women's dinner with the CEO/President and a Senior Women's breakfast with the Regional Presidents of Cochlear.

#### Ensuring the health and safety of employees

Cochlear continues to be committed to providing and maintaining a safe and healthy workplace for all employees. Occupational health and safety training for new employees was again implemented. Cochlear also implemented e-learning modules on ergonomics to build understanding of, and commitment to, workplace safety.

Wellness programs offered by Cochlear include: an ergonomic consultant assessing workstation layout for individuals; free flu vaccinations; free eye screening; and in-house pilates classes.

#### Supporting the community

The Cochlear Foundation was established following a donation from Cochlear Limited. This philanthropic entity supports various longer-term programs promoting research and awareness of treatments for significant hearing impairment. During 2008, this independent Foundation continued to support specific projects to the amount of approximately \$0.3 million.

Cochlear also supports its employees' participation in community fundraising activities. Among the events that Cochlear and its employees supported this year were the City to Surf fun run, the Sydney to Wollongong bike ride, the BRW Corporate Triathlon, and Australia's Biggest Morning Tea. Funds were also donated to the recent China earthquake appeal.

Cochlear continued its involvement in the NSW Young Achiever Awards (YAA). A group of students participating in the YAA create, run and then liquidate a fictional company over a 26 week period. Cochlear's sponsorship includes providing mentors to help guide the students through the process. In 2008, the student group Cochlear mentored won six awards including the National Award for Environmental Sustainability.

#### Environmental responsibility

Cochlear participated in the Carbon Disclosure Project again this year where companies disclose their risks and opportunities from climate change. For the 2007 calendar year, Cochlear's greenhouse gas emission equivalent was 11,693 tonnes from its facilities in Sydney and Brisbane. Currently, compulsory greenhouse gas reporting thresholds under the Energy Efficiency Opportunities program are five times above Cochlear's emission levels.

Cochlear supports an internal group of employees called "greenFEVER" whose goals are to raise awareness on climate change and environmental issues, promote sustainable living at work and at home, and identify areas for consideration to further reduce Cochlear's greenhouse gas emission.

#### New Sydney international headquarters

Cochlear has begun planning the development of its new international corporate headquarters and principal manufacturing facilities at Macquarie University's North Ryde campus. The purpose-designed facilities will be developed over four stages, meeting the current and future operational requirements of Cochlear. Stage 1 will comprise an A-Grade office building and high tech manufacturing facility totalling approximately 23,000 square metres. The project is expected to be completed in late 2010.

On completion, Cochlear will lease the building for an initial term of 15 years, with options to extend this for a further 10 and five years. Under the terms of the agreement, Macquarie University will also reserve adequate land for future buildings to accommodate Cochlear's long-term expansion plans.

The project is expected to deliver synergies in research and training for both Cochlear and Macquarie University.



**1. Mr Tommie CE Bergman**

**Chairman**

Age 63. DipEng, GradDipMarketing, FAICD, FAIM

Appointed Chairman 22 October 2002

Appointed director and Deputy Chairman 1 January 2002

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

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

**2. Dr Chris G Roberts**

**CEO/President**

Age 54. BE (Hons), MBA, PhD, FAICD, FTSE

Appointed 1 February 2004

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

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

**3. Mr Paul R Bell**

Age 62. BA, MA (Hons)

Appointed 1 August 2005

Director of Bio-Link Partners Limited since 2005 and Biota Holdings Limited since 2006. Former director of GroPep Limited (2003 – 2006). Extensive executive career spanning 30 years with the international pharmaceutical company, Merck & Co Inc (Managing Director – Australia, 1988 – 1997; President of the Asia Pacific Human Health division, 1997 – 2002). Member of the Global Merck Management Committee.

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

# Sound leadership



#### 4. Prof Edward Byrne, AO

Age 56. DSc, MD, MBA, FRCP, FRACP  
Appointed 1 July 2002

Executive Dean of the Faculty of Biomedical Sciences and Head of the Medical School at University College, London and Head of the Royal Free and University College Medical School. Member of the Advisory Board and former Dean of Faculty of Medicine, Nursing and Health Sciences at Monash University, Melbourne (2003 – 2007), Deputy Chair of Neurosciences Victoria Limited. Director of BUPA since May 2008. Former director of Neurosciences Australia Limited, the Baker Medical Research Institute, Burnet Medical Research Institute, Prince Henry's Medical Research Institute, Southern Health and Mental Health Research Institute.

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

#### 5. Mr Andrew Denver

Age 59. BSc (Hons) MBA, FAICD  
Appointed 1 February 2007

Chairman of Universal Biosensor Pty Limited. Director of CathRx Limited, Anzon Australia Limited and Principals Funds Management Pty Limited. Former Managing Director of Memtec Limited and President Asia for Pall Corporation.

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

#### 6. Mr Rick Holliday-Smith

Age 58. BA (Hons), FAICD  
Appointed 1 March 2005

Director of St George Bank Limited since February 2007, Servcorp Limited since 1999 and ASX Limited since 2006. Chairman of Snowy Hydro Limited (not listed) since 2006. Chairman of SFE Corporation Limited since 1999 until de-listing in 2006. Former director of Exco Resources NL (1999 – 2006), DCA Group Limited (2004 – 2006) and MIA Group Limited (2000 – 2004). Former President of NationsBank-CRT, Chicago and Managing Director of Hong Kong Bank Limited, London.

Chairman of the Audit Committee. Member of the Nominations Committee and Remuneration Committee.

#### 7. Mr Donal P O'Dwyer

Age 55. BE Civil, MBA  
Appointed 1 August 2005

Chairman of Atcor Medical since 2004 and a director of Sunshine Heart Inc since 2004, Mesoblast Limited since 2004 and Angioblast Systems Inc since 2005. President of Cordis Cardiology (Johnson & Johnson medical device business unit with annual turnover of over USD 2 billion) between 2000 and 2004.

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

## Senior Executive Team



### 1. Dr Chris Roberts

#### **CEO/President**

See "Board of Directors" on page 22.

### 2. Richard Brook

#### **President, European Region**

BSc Management, MBA

Richard is responsible for the development and execution of the strategic direction for all our operations in Europe, the Middle East and Africa. This includes sales in over 60 countries. Operations in Europe include sales, marketing, distribution, service, finance, regulatory and administration across this complex and diverse region.

Before joining Cochlear in 2003, Richard held senior roles in Guidant Corporation and Alaris Medical Systems. He has over 15 years' experience in the medical device industry.

### 3. Dr Bronwyn Evans

#### **Senior Vice President, Quality and Regulatory**

BE (Hons), PhD

Bronwyn is responsible for ensuring continued high quality of Cochlear's products together with coordinating the regulatory approval processes around the world for its products.

She joined the Company in 2005 after more than 20 years' experience in engineering and management roles in power generation and distribution, engineering education and the medical industry. Most recently, she worked as Asia Service Manager for GE Healthcare, Ultrasound based in Singapore.

### 4. Dig Howitt

#### **Senior Vice President, Manufacturing and Logistics**

BE (Hons), MBA

Dig is responsible for the leadership of the manufacturing and logistics groups. He and his team are responsible for the manufacture of all Cochlear products and all aspects of the supply chain together with the introduction of new products from research and development into commercial production.

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

### 5. Jan Janssen

#### **Senior Vice President, Design and Development**

MSc Elec Eng

Jan leads a team of over 200 highly qualified engineers and scientists who implement the research and development strategy. This includes responsibility for identifying and developing cutting-edge technologies and commercial products.

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

### 6. Michael Kavanagh

#### **Senior Vice President, Global Marketing**

BSc, MBA (Advanced)

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

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

### 7. Anne-Marie Leslie

#### **Senior Vice President, Human Resources**

BA (Hons), EMHRL

Anne-Marie joined Cochlear in April 2007 and is responsible for global human resources management, focusing on people strategies to meet

# Sound management



the demands of a fast growing, global company. She has over 25 years' experience in local, regional and global human resource management, most recently with Bristol-Myers Squibb in the USA. Earlier experience included quality management at Kodak as winners of the Australian Quality Prize and as an evaluator with Business Excellence Awards in Australia and the USA.

**8. Neville Mitchell**  
*Chief Financial Officer and  
Company Secretary*

BComm, CA (SA), CA

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

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

**9. David Morris**  
*President, Bone Anchored Solutions*

BBus, BAppSc

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

He was appointed as President, Bone Anchored Solutions in 2005, having joined the Company in 2002 as Senior Vice President, Business Development. David is the Chairman of the Australian Medical Device Industry Action Agenda and has extensive international and Australian experience in strategy and operational consulting.

**10. Jim Patrick**  
*Senior Vice President, Chief Scientist*

MSc

Jim is responsible for the global research portfolio of projects that feed into the commercial development stream. In addition, Jim is responsible for clinical trials around the globe.

One of the original researchers involved with the cochlear implant program in Melbourne from 1975, Jim has worked in a number of senior managerial positions at Cochlear since its inception in 1981. Jim is an Associate Professor at the Department of Otolaryngology at the University of Melbourne.

**11. Mark Salmon**  
*President, Asia Pacific Region*

MBA (Executive)

Mark is responsible for the development and execution of the strategic direction for all our operations in Australia, Asia and the South Pacific. This high growth region has complex regulatory sales and marketing drivers which require coordination of sales, marketing, third party distribution, regulatory and clinical infrastructure development activities.

He joined Cochlear in 2004, after more than 20 years' experience in the medical industry, most recently as President and CEO of Asia Growth Markets and Australia, New Zealand and South East Asia for GE Medical Systems.

**12. Chris Smith**  
*President, Americas Region*

BSc

Chris is responsible for the development and execution of the strategic direction for our operations in the Americas region, comprising North America, Central America and South America. Operations in the Americas include sales, marketing, distribution, service, finance, regulatory and administration across this fast growing region.

He joined Cochlear in 2004, after more than 20 years' experience in the medical device industry specifically and healthcare in general in the United States including Warburg Pincus, and as Group President for Gyrus Group (ENT and Surgical divisions).

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

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

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

### **Principle 1: Lay solid foundations for management and oversight**

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

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

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

The Chairman is responsible for leading the Board in the performance of its duties. The Board's prime objectives are to improve shareholder returns and to achieve disciplined and sustainable growth. The full Board meets for at least eight scheduled meetings each year. Other meetings are called as and when necessary. A summary of meeting attendance (including committee meeting attendance) for the 2008 financial year is set out in the Directors' Report at page 34 (Recs 2.6, 4.4 and 8.3). At each Board meeting, the non-executive directors meet for a period without management or any executive directors present. Throughout the year, the Board has regular scheduled discussions on various aspects of the Company's strategy.

The CEO/President is responsible for the efficient and effective operation of Cochlear on a day-to-day basis. The CEO/President oversees the implementation of the strategies approved by the Board and is accountable to the Board for all authority delegated to the senior executive team. Notwithstanding these delegations

by the Board, the CEO/President must consult the Chairman on matters that are sensitive, extraordinary or of a strategic nature. The CEO/President must bring all material matters to the Board's attention. The senior executive team briefs the Board regularly so as to keep the Board up to date and to assist the directors with monitoring the results of operations. Each month, directors receive operating reports prepared by senior management, covering each region and function. Directors also regularly visit and inspect operations in Australia and overseas.

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

### **Principle 2: Structure the Board to add value**

#### ***Composition of the Board***

As at 30 June 2008, the Board comprised six non-executive directors, including the Chairman, and one executive director, the CEO/President. The directors consider that, between them, they possess the necessary skills, knowledge and experience to allow the Board to perform its duties appropriately. Between them, the directors bring to the Board scientific, medical, technical and financial expertise, as well as international business experience. Summaries of the relevant skills, experience and expertise of each director are set out on pages 22 and 23 (Rec 2.6).

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

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

The Company's Constitution requires one third of the directors to retire from office at the AGM each year. Retiring directors are eligible for re-election. The CEO/President is excluded from this requirement. Mr Tommie Bergman and Mr Paul Bell will retire at the 2008 AGM and will stand for re-election at that meeting. A review of the performance of the Board, its committees and individual directors is performed at least every two years, with the most recent



# Sound fundamentals

being undertaken in 2008. The Chairman undertook individual interviews and questionnaires and subsequently held evaluations with each individual director as to their performance over the past year. The findings of these reviews were then discussed at the Nominations Committee meeting held in May 2008. The Performance Evaluation Process Overview gives details of performance evaluation for the Board, its committees and individual directors (Rec 2.5). The Performance Evaluation Process Overview is published in the Corporate Governance section of the Cochlear website.

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

## **Independence**

The Board has assessed the independence of the non-executive directors in light of their interests and relationships and considers that all of the non-executive directors are independent (Rec 2.1). With the exception of the CEO/President, all directors on the Board are independent directors (Rec 2.1). An independent director is a non-executive director who is not a member of management and who is free of any business or other relationship with Cochlear that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement. The Nominations Committee Terms of Reference outline criteria used to determine the independence of the directors. The criteria used follow the criteria set out in the Guidelines.

Each year, the Board assesses the independence of the non-executive directors in the light of the interests and circumstances disclosed by them. Independence is reassessed in the event of any material change of interests and circumstances. Any loss of independence by a non-executive director will immediately be disclosed to the market.

None of the non-executive directors has any business relationship with Cochlear. The total number of shares owned by Cochlear non-executive directors is 23,850. This is considered immaterial.

The Board believes arbitrary limits on tenure may cause loss of experience and expertise that are important contributors to the

efficient working of the Board. The Board does not currently believe that any non-executive directors have served on the Board for a period that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of the relevant director's judgement. The period of office of each director is disclosed at pages 22 and 23. Currently, no director has served longer than seven years on the Board.

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

## **Board committees**

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

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

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

### **Audit Committee (Rec 4.1)**

The Audit Committee meets at least four times a year. In accordance with the trends in international practice, the Audit Committee consists entirely of independent non-executive directors (Rec 4.2). Mr Rick Holliday-Smith chairs the Committee, with the other members at 30 June 2008 being Mr Tommie Bergman, Mr Andrew Denver and Mr Donal O'Dwyer (Recs 4.2 and 4.4). Mr Holliday-Smith is not the Chairman of the Board. The Board considers that the Audit Committee is of a sufficient size and independence and possesses sufficient technical expertise to

discharge its mandate effectively. An assessment of the technical expertise of the Committee's members occurs on an annual basis. The external and internal auditors, the CEO/President and the Chief Financial Officer (CFO) are invited to the meetings at the discretion of the Committee. At each Committee meeting they attend, the external auditor reports on the outcome of their audit and other work. The Committee meets with the external auditor in the absence of members of management at every meeting that the external auditor attends. Summaries of the Committee members' technical expertise are set out at pages 22 and 23 (Rec 4.4). The Audit Committee Terms of Reference set out the Committee's role and responsibilities, composition, structure and membership requirements. The Audit Committee Terms of Reference can be viewed in the Corporate Governance section of the Cochlear website (Recs 4.3 and 4.4).

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

The Committee's primary responsibilities include:

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

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

### **Remuneration Committee (Recs 8.1 and 8.2)**

The Remuneration Committee meets at least three times a year. The Committee is chaired by Mr Paul Bell. As at 30 June 2008, the other members of the Committee were Mr Tommie Bergman and Mr Rick Holliday-Smith. All members of the Remuneration Committee are independent non-executive directors (Rec 8.3). As the need arises, the CEO/President, CFO, Senior Vice President, Human Resources and other executives are invited to meetings at the discretion of the Committee.

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

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

The Committee's role includes responsibility for the remuneration and incentive policies (including the Performance Appraisal Policy) for the Chairman and other non-executive directors as well

as for Cochlear generally. The Committee also approves the recruitment, retention and termination policies and practices as well as superannuation arrangements and makes recommendations to the Board in accordance with the Cochlear Executive Long Term Incentive Plan (CELTIP).

Further details on Cochlear's remuneration policies and the principles upon which they are based are set out below at Principle 8: Remunerate fairly and responsibly and in the Remuneration Report at pages 37 to 45 (Rec 8.3).

### **Nominations Committee (Rec 2.4)**

The Nominations Committee is chaired by Mr Tommie Bergman (the Company Chairman) and is comprised entirely of independent non-executive directors. In addition to the Chairman, the members of the Committee as at 30 June 2008 were Mr Paul Bell, Prof Edward Byrne, AO, Mr Andrew Denver, Mr Rick Holliday-Smith and Mr Donal O'Dwyer (Rec 2.6).

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

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

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

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

### **Medical Science Committee**

The Medical Science Committee was established during the 2003 financial year and meets at least biannually. The Committee is chaired by Prof Edward Byrne, AO, with the other members as at 30 June 2008 being Mr Donal O'Dwyer and Dr Chris Roberts.

The Committee may invite any Cochlear executive to attend its meetings at its discretion.

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

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

#### **Technology and Innovation Committee**

The Technology and Innovation Committee was established during the 2003 financial year and is chaired by Mr Tommie Bergman. As at 30 June 2008, the other members of the Committee were Mr Paul Bell, Prof Edward Byrne, AO, Mr Andrew Denver, Mr Donal O'Dwyer and Dr Chris Roberts. Executives of the Company are invited to meetings at the discretion of the Committee. The Technology and Innovation Committee Terms of Reference set out the Committee's role and responsibilities, composition, structure and membership requirements. The Technology and Innovation Committee Terms of Reference can be viewed in the Corporate Governance section of the Cochlear website. The Committee oversees the strategic direction of the Company's technology research and product development programs with an emphasis on priority and resource allocation in line with the Company's agreed corporate strategy.

#### **Principle 3: Promote ethical and responsible decision making**

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

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

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

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

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

Directors and the senior executive team are subject to the Non-Executive Directors and Executives Share Ownership Policy. This policy specifies minimum levels of shareholdings for directors and the senior executive team. This policy has been in effect since 1 July 2007. The Non-Executive Directors and Executives Share Ownership Policy is an internal document and is not available on the Cochlear website.

All directors, senior executives and employees are subject to Cochlear's Dealing in Securities Policy (Rec 3.2). Under this policy, directors are required to obtain the consent of the Chairman before dealing in Cochlear securities. The policy requires direct reports of the CEO/President and other senior employees to seek consent from the Company prior to trading in the Company's securities.

The policy gives guidance as to the windows of time during which it is most appropriate for directors, senior executives and employees to trade in the Company's securities. Consistent with the Corporations Act 2001, directors, senior executives and employees are prohibited from dealing in the Company's securities whilst in possession of "inside information". Compliance with the Dealing in Securities Policy is monitored. Employees are encouraged to seek advice from the Company Secretary prior to trading if they are in any doubt as to whether they are in possession of inside information. The Audit Committee receives a report at each of its meetings regarding trading in the Company's securities by the CEO/President and the senior executive team. Share dealings by directors are promptly notified to the ASX in accordance with the ASX Listing Rules.

Executives who are granted shares under the CELTIP are provided with recommended share trading periods and guidelines on what constitutes insider trading. The Cochlear Dealing in Securities Policy can be viewed in the Corporate Governance section of the Cochlear website (Recs 3.2 and 3.3).

#### **Principle 4: Safeguard integrity in financial reporting**

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

Accounting and financial control policies and procedures have been established and are monitored by the Audit Committee (Rec 4.1). The Committee approves any new material accounting policies. Compliance with these procedures and policies is subject to review by the external and internal auditors. The Committee provides a link between the external auditor and the Board and monitors compliance with statutory responsibilities. The Audit Committee is responsible for making recommendations on the appointment, evaluation and dismissal of the external auditor, setting fees and

ensuring that the external auditor reports to the Committee and the Board (Rec 4.4). The Audit Committee reviews the performance, independence and objectives of the external auditor on an annual basis. Details relating to the selection and appointment of the Company's external auditors are included in the Audit Committee Terms of Reference (Rec 4.4).

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

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

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

### **Principle 5: Make timely and balanced disclosure**

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

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

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

### **Principle 6: Respect the rights of shareholders**

The Board and senior executive team are committed to formulating and implementing Company strategy. The shareholders of Cochlear play a key role in the governance of the Company. The directors recognise that shareholders must receive timely information about the Company in order to play their role effectively. The directors appreciate that information communicated to shareholders needs to be of high quality, relevant, balanced and understandable. The Company's Shareholder Communications Policy is published at the Corporate Governance section of the Cochlear website

(Recs 6.1 and 6.2). The Policy is designed to promote effective communications with shareholders and to encourage shareholders to participate in general meetings of the Company.

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

The Board's philosophy is to encourage full participation of shareholders at the AGM to ensure a high level of accountability and identification with Cochlear's strategy and goals. The Company provides a forum to address individual shareholders' questions at each AGM. The external auditor attends the AGM and is available to answer questions about the conduct of the audit and the preparation and content of the Audit Report. At the 2007 AGM, the members voted to adopt changes to the Company's Constitution in order to allow for the introduction of direct voting. In December 2007, the Board approved rules for direct voting at the Company's general meetings and resolved to introduce a system of direct voting.

In addition, shareholders may at any time direct questions or requests for information to the Company Secretary, the CEO/President or the Chairman. Shareholders can also gain access to information about Cochlear, including annual reports, key policies and the Terms of Reference of its Board committees through the Cochlear website.

### **Principle 7: Recognise and manage risk**

Cochlear views risk management as integral to its objectives of effective management of Company assets and the creation and maintenance of shareholder value. The Board has established a Risk Management Policy. This policy provides a framework for the oversight and management on a continuing basis of the material business risks associated with Cochlear's activities (Rec 7.1). The Risk Action Plans puts the Risk Management Policy into effect. The Risk Action Plans were designed and are implemented so as to provide a comprehensive risk management system which identifies, assesses and appropriately manages Cochlear's material business risks (Rec 7.2). Cochlear focuses on effective management of material business, operational, financial, human resources and legal risks. Within these categories, specific identified risks arise from matters such as actions by competitors, technological developments, government policy changes and exchange rate movements. The Risk Action Plans are compliant with the Australian and New Zealand Standard of Risk Management AS/NZS 4360.

The Board, Audit Committee and senior executive team are together accountable for monitoring risk and implementing the Risk Management Policy. The Board oversees implementation of the Risk Management Policy and the Risk Action Plans. The Board ensures that investors are informed of material changes to the Company's risk profile.

The Audit Committee advises the Board and reports on the status of major risks to the Company through the integrated risk management programs. Day-to-day implementation of the Risk Action Plans is delegated to the Risk Management Committee. The Risk Management Committee is made up of senior executives. The Risk Management Committee reports on the effectiveness of the Company's management of its material business risks at each Audit Committee meeting, including minutes of all Risk Management Committee meetings (Rec 7.2). The Risk Management Committee is responsible for identification of areas of risk, prioritisation of these risks and adoption of cost effective strategies, where appropriate, to manage Cochlear's exposure. Senior executives charged with the responsibility for identifying and managing these risks are required to sign off on them on a quarterly basis. The Risk Management Committee has reported to the Board on the effectiveness of the Company's management of business risks (Rec 7.2).

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

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

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

#### **Principle 8: Remunerate fairly and responsibly**

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

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

The Remuneration Policy is built around principles that:

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

Details of the 2008 financial year remuneration of the directors (including retirement benefits), the five highest paid executive officers of the Consolidated Entity and Company and specified executives are included in the Remuneration Report on pages 37 to 45. Further disclosure in relation to the remuneration philosophy is included in the Remuneration Report.

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

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

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

#### ***Senior executives' remuneration policy (Recs 8.2 and 8.3)***

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

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

Number	Requirement	Compliant
<b>Pr 1</b>	<b>Lay solid foundations for management and oversight</b>	
Rec 1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	✓
Rec 1.2	Companies should disclose the process for evaluating the performance of senior executives.	✓
Rec 1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	✓
<b>Pr 2</b>	<b>Structure the board to add value</b>	
Rec 2.1	A majority of the board should be independent directors.	✓
Rec 2.2	The chairman should be an independent director.	✓
Rec 2.3	The roles of chairman and chief executive officer should not be exercised by the same individual.	✓
Rec 2.4	The board should establish a nomination committee.	✓
Rec 2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	✓
Rec 2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	✓
<b>Pr 3</b>	<b>Promote ethical and responsible decision making</b>	
Rec 3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>the practices necessary to maintain confidence in the company's integrity;</li> <li>the practices necessary to take account of their legal obligations and the reasonable expectations of their stakeholders; and</li> <li>the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	✓
Rec 3.2	Companies should establish a policy concerning trading in company securities by directors, officers and employees and disclose the policy or a summary of that policy.	✓
Rec 3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3.	✓
<b>Pr 4</b>	<b>Safeguard integrity in financial reporting</b>	
Rec 4.1	The board should establish an audit committee.	✓
Rec 4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>consists only of non-executive directors;</li> <li>consists of a majority of independent directors;</li> <li>is chaired by an independent chair, who is not chair of the board; and</li> <li>has at least three members.</li> </ul>	✓
Rec 4.3	The audit committee should have a formal charter.	✓

Rec 4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	✓
<b>Pr 5</b>	<b>Make timely and balanced disclosure</b>	
Rec 5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	✓
Rec 5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	✓
<b>Pr 6</b>	<b>Respect the rights of shareholders</b>	
Rec 6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	✓
Rec 6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	✓
<b>Pr 7</b>	<b>Recognise and manage risk</b>	
Rec 7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	✓
Rec 7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	✓
Rec 7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	✓
Rec 7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	✓
<b>Pr 8</b>	<b>Remunerate fairly and responsibly</b>	
Rec 8.1	The board should establish a remuneration committee.	✓
Rec 8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	✓
Rec 8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	✓



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