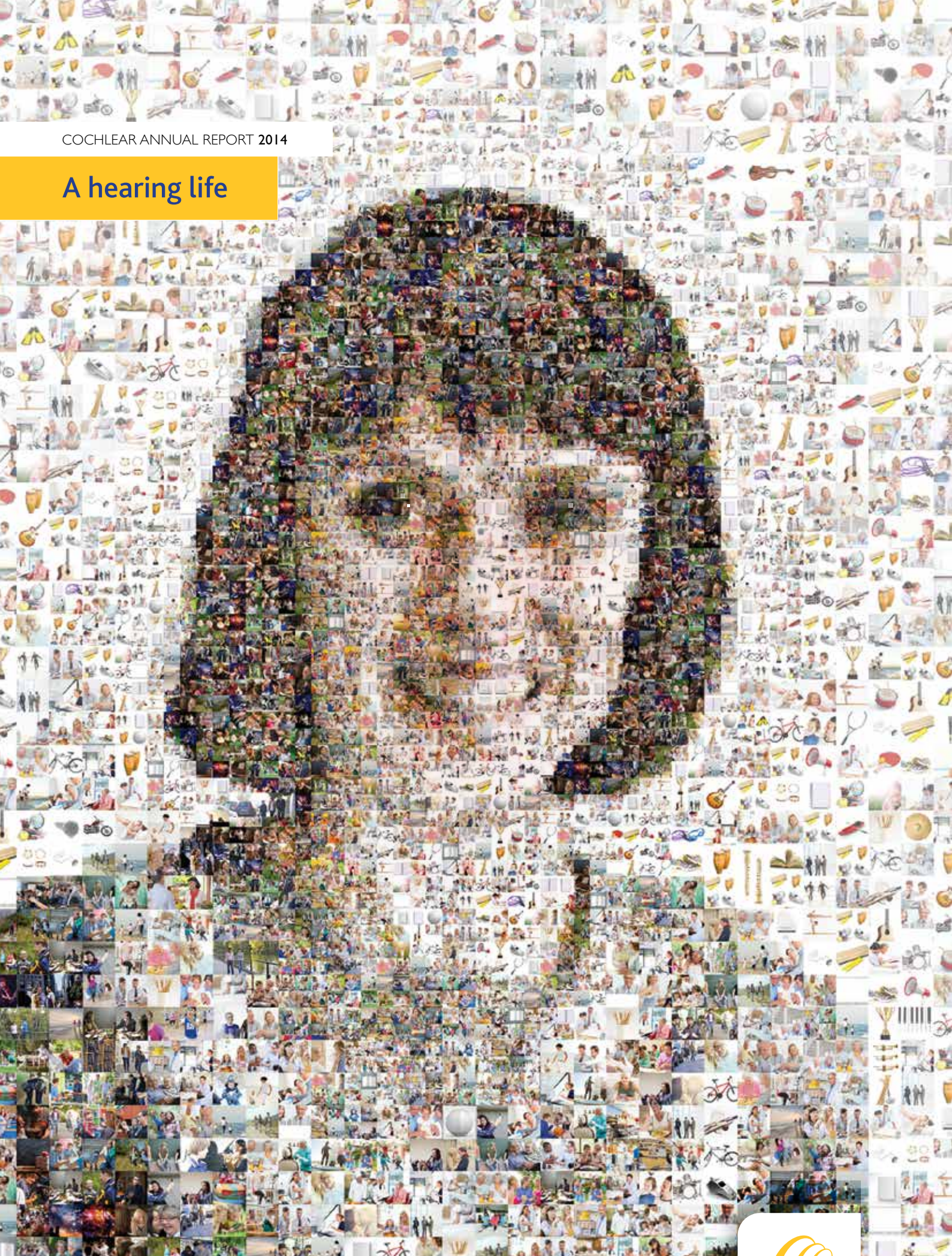


COCHLEAR ANNUAL REPORT 2014

## A hearing life



Hear now. And always



Cochlear®

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## A hearing life

Everyone is different. And everyone experiences their lives in different ways. For people with hearing loss, it often means living without all the weird and wonderful sounds the rest of us take for granted.

For Cochlear's recipients, many of these sounds can be heard. They can have a hearing life. They can wake up to the alarm clock, get the kids ready for school and listen to the radio in the morning traffic. They can chat with work colleagues, play sport, watch a movie or get on the phone to plan a night out.

My hearing life is  
full of sounds I want to hear.  
And full of sounds  
I need to hear.

I love it!

Jane Goodfellow  
Recipient since 2011



#### Jane Goodfellow

- Senior Lecturer in Education
- Kindergarten teacher
- B. ED., Cert IV TAE, Grad. Cert ECE
- Bilateral cochlear implant recipient

#### A hearing life

- Two jobs and postgraduate study
- Recognised lecturer at local and state level
- Netball, running, cycling, gym
- Travel and adventure
- Wife and mother to great (and noisy) family

## 2014 Performance Overview

Sales revenue up 15%

**\$820.9m**  
H2 up 18% on H1

Free cash flow up 294%

**\$79.5m**  
H2 free cash flow  
was \$65.1m

**New products launched supporting H2 sales momentum**

- Nucleus® 6 Sound Processor
- Nucleus Profile Implant Series
- Hybrid™ System
- Baha® 4 and Baha Attract Systems
- Aqua+ Accessory
- Codacs™ System

**H2 net profit after tax (NPAT) of \$72.7 million**

- Delivery on guidance
- Delivery on new product launches
- H2 margin improvement
- Delivery of final dividend of 127.0 cents per share in line with AGM commitment
- Full year NPAT was \$93.7 million

## Key Highlights

|                                                 | 2014   | 2013   | 2012   | 2011   | 2010   | 2009   | 2008   | 2007   | 2006   | 2005   |
|-------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Cochlear implant system sales (units)           | 25,997 | 26,674 | 23,087 | 24,661 | 21,023 | 18,553 | 18,228 | 15,947 | 12,901 | 10,802 |
| Total revenue (\$million)                       | 804.9  | 752.7  | 779.0  | 809.6  | 734.8  | 694.7  | 601.7  | 559.4  | 452.3  | 349.0  |
| R&D expenses (\$million)                        | 127.6  | 124.7  | 119.3  | 108.9  | 94.9   | 96.7   | 80.0   | 65.9   | 56.7   | 44.6   |
| Net profit after tax (NPAT) (\$million)         | 93.7   | 132.6  | 56.8   | 180.1  | 155.2  | 130.5  | 115.2  | 100.1  | 80.0   | 59.6   |
| EBITDA (\$million)*                             | 176.5  | 201.9  | 239.4  | 270.1  | 243.6  | 205.5  | 193.3  | 170.9  | 130.2  | 96.8   |
| EBIT (\$million)*                               | 149.6  | 178.9  | 215.3  | 242.7  | 220.5  | 183.3  | 167.3  | 150.2  | 111.5  | 82.5   |
| NPAT (\$million)*                               | 109.5  | 132.6  | 158.1  | 180.1  | 155.2  | 130.5  | 115.2  | 100.1  | 80.0   | 59.6   |
| Basic EPS (cents)                               | 164.6  | 233.0  | 100.0  | 318.2  | 275.7  | 233.7  | 208.1  | 182.9  | 146.8  | 110.1  |
| Dividends per share (cents)                     | 254.0  | 252.0  | 245.0  | 225.0  | 200.0  | 175.0  | 150.0  | 125.0  | 100.0  | 80.0   |
| Closing share price (\$)                        | 61.70  | 61.71  | 65.84  | 72.00  | 74.32  | 57.70  | 43.65  | 61.00  | 54.63  | 39.20  |
| Market capitalisation as at 30 June (\$million) | 3,513  | 3,512  | 3,744  | 4,081  | 4,198  | 3,230  | 2,423  | 3,341  | 2,985  | 2,123  |
| Number of permanent employees                   | 2,536  | 2,531  | 2,390  | 2,319  | 2,006  | 1,888  | 1,789  | 1,655  | 1,100  | 982    |

\* Excludes product recall costs of \$138.8 million before tax and \$101.3 million after tax in 2012 and excludes patent dispute provision of \$22.5 million before tax and \$15.8 million after tax in 2014.

The following non-IFRS financial measures are included in this document:

- excluding patent dispute provision;
- excluding recall costs;
- constant currency; and
- free cash flow.

Refer to page 109 for a discussion of these items.

## 10 year total revenue performance

| 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 349.0 | 452.3 | 559.4 | 601.7 | 694.7 | 734.8 | 809.6 | 779.0 | 752.7 | 804.9 |

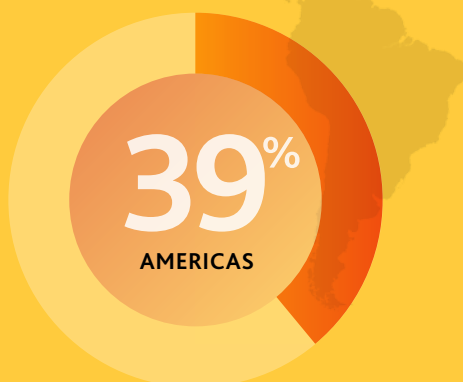
▲7%  
F14

## 10 year dividends per share performance

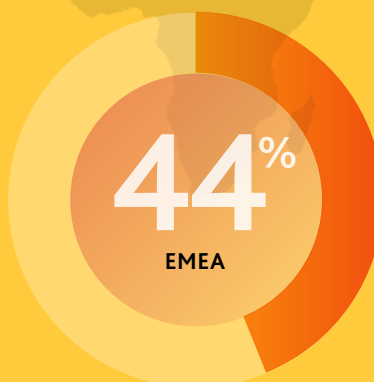
| 2005 | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  |
|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 80.0 | 100.0 | 125.0 | 150.0 | 175.0 | 200.0 | 225.0 | 245.0 | 252.0 | 254.0 |

▲1%  
F14

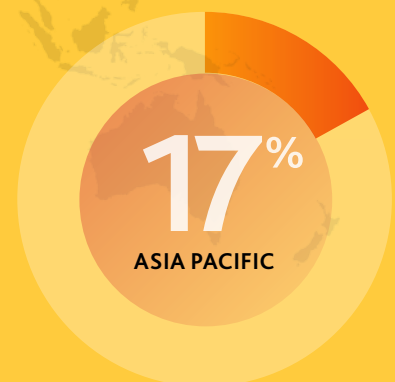
## Regional Split of Sales



- H2 F14 sales revenue up 14% on H1 F14
- H2 F14 sales revenue up 16% on H2 F13 in constant currency
- F14 sales revenue up 2% on F13 in constant currency



- H2 F14 sales revenue up 12% on H1 F14
- H2 F14 sales revenue up 17% on H2 F13 in constant currency
- F14 sales revenue up 10% on F13 in constant currency



- H2 F14 sales revenue up 45% on H1 F14
- H2 F14 sales revenue up 13% on H2 F13 in constant currency
- F14 sales revenue down 9% on F13 in constant currency

## Letter to Shareholders

**Hearing loss is a major public health issue. It impacts on our society, economy and productivity. For individuals, it can lead to social isolation and other health and well-being complications. As the global leader in implantable hearing solutions, Cochlear is helping address this.**

Our mission is to empower people to live full lives, transform society's understanding of hearing loss and deliver innovative hearing solutions.

For Cochlear, financial year 2014 (F14) was an important year with new products launched in all product categories. At the end of F14, sales revenue was up 15% on F13 to a record \$820.9 million.

Understanding the full year results requires an appreciation of the regulatory approval and launch timing of major products in the first half (H1), and their impact on sales momentum in the second half (H2).

Cochlear started F14 awaiting many final regulatory approvals for new products in key markets. By the end of H1, the Nucleus 6 Sound Processor, Baha 4 Sound Processor and Baha 4 Attract System had been launched in major markets. This helped drive sales momentum in H2.

H2 results:

- H2 sales revenue of \$443.9 million was up 18% on H1 F14 and up 28% on H2 F13
- H2 cochlear implant unit sales of 14,285 was up 22% on H1 F14 and up 10% on H2 F13
- H2 Baha/acoustic implant sales of \$54.2 million was up 18% on H1 F14 and up 35% on H2 F13

At the end of F14, additional product launches included the Aqua+ waterproof accessory for Nucleus 6 Sound Processors, Hybrid Hearing and the Nucleus Profile Implant Series.

It was a challenging year but Cochlear delivered a sound F14 financial result with the sales momentum achieved in H2 F14 providing confidence for F15.

### New innovative products in all categories

Products launched in F14 include:

#### *Nucleus 6 Sound Processor*

- the industry's smallest sound processor offering improvements in hearing performance and cosmetics, wireless connectivity, data logging and waterproofing with the Aqua+ Accessory;

#### *Nucleus Profile Implant Series*

- the thinnest implant body available, offering significant surgical advantages, which was released in Europe in June and in several countries in Asia Pacific in May;

#### *Baha 4 Sound Processor*

- the new processor on the Ardium™ platform – three times faster and with eight times the on-board memory power of previous devices, which improves performance. Its true wireless connectivity enhances independence and connectivity in the real world;

#### *Baha 4 Attract System*

- the new transcutaneous system with magnetic connection for improved cosmetics, fully compatible with the Baha 4 Sound Processor; and

#### *Hybrid Hearing*

- an integrated electro-acoustic stimulation solution enabling recipients to take advantage of their residual hearing. This system was launched in the United States of America in April after the FDA granted regulatory approval.

These products have been well received by professionals and recipients, as have a range of accessories and other features that will be released during their life cycle. In addition, various clinical tools and software upgrades have been released to support our professional healthcare partners and improve the long-term hearing performance of our recipients.

### Strategic growth initiatives

Cochlear began the roll out of several strategic growth initiatives in F14 to improve the end-to-end customer experience we provide.

These included:

- a 'direct to customer' candidate engagement strategy using a range of online and digital tools to help candidates navigate the referral path and to support our recipients;
- strengthening of the relationship with referring professionals such as hearing aid audiologists, creating opportunities for them to be involved in the customer's care after their cochlear implant surgery; and
- new clinical models and tools developed with our clinical professional partners, including Cochlear clinics such as the Cochlear Care Centre in Melbourne and a new office in Dubai Healthcare City.

We will build on these initiatives to help grow the market. They help add value for our customers and professional partners and they give meaning to Cochlear's promise of 'Hear now. And always'.

### Systems and processes

Cochlear has over 300,000 recipients worldwide; we produce a suite of products with hundreds of individual components and sell into differently regulated countries.

This complex environment requires modern systems and processes capable of operating on a global basis. In F14, further work was conducted on documenting and streamlining our processes to assist with improved global alignment and simplification. This is an ongoing priority.

### Dividends

The final dividend of \$1.27 per share brought the full year dividend to \$2.54 per share, up 1%. This is in line with guidance provided at the last Annual General Meeting, held in October 2013.

As announced in August 2014, the Board anticipates that the F15 dividend will return to a more historic payout ratio of approximately 70% of NPAT.

### Remuneration

The Board's approach to executive remuneration continues to be structured around fair, market competitive remuneration packages including base remuneration for skills and expertise, together with a risk and reward incentive framework that supports the longer-term growth of Cochlear as a global business.

With these principles in mind, a comprehensive review of executives' remuneration occurred in F13 and was implemented in F14 after shareholders approved the Remuneration Report at the October 2013 Annual General Meeting.

The F14 Remuneration Report contained in the Directors' Report on pages 31 to 53 details the changes made and the consequences of those changes to key management personnel remuneration for the year.

Feedback from shareholders and executives is that the new remuneration framework has been well received.

Different people experience our hearing solutions in different ways and we are proud of how well our recently launched products have been received across the market.



#### Bob Ross

*Nucleus 6 recipient*

"I'm often in different noisy environments and I don't have to adjust my sound processor – it does it automatically. Sounds are now more normal than they have ever been!"

#### Clinical Associate Professor Robert J S Briggs

*Head of Otology and Medical Director, Cochlear Implant Clinic, Royal Victoria Eye & Ear Hospital*

"The thinness of the Nucleus Profile implant provides a very significant advantage to both patients and implanting surgeons. It represents a real improvement."

The F14 incentive outcomes reflected a year that saw a difficult H1 followed by a strong H2. Individual performance related incentives were mostly near target but those related to the various financial metrics were well below target, reflecting the financial results, and varied widely by individual and location.

#### Cochlear employees

We are proud of the quality and diversity of our global workforce. We have approximately 2,700 employees based in more than 20 offices around the world and we distribute into more than 100 countries. Our employees are committed to our mission and are passionate about helping people with hearing loss. The Board and senior management thank them for their tireless efforts to help make a difference to the lives of hundreds of thousands of people worldwide.

#### The Board

The Board continued to work cohesively in F14 as it again dealt with a range of complex global issues including new product launches and additional investment in medium-term focused strategic growth initiatives.

Senior management from our overseas offices presented regularly to the Board at scheduled Board meetings and the Board travelled to the Middle East and Europe in F14 to further expand its knowledge and understanding of these important regions. In addition, the Chairman made separate visits overseas during the year to the Company's operations and to engage with shareholders.

The Board determined, for the third consecutive year, that Director base fee levels should remain unchanged in F15. It is expected there will be a market based review next year.

Mr Paul Bell has indicated he will retire following this year's AGM. Paul has been an active participant on the Board since he joined in 2005 and has chaired the Human Resources Committee. We thank him for his wise counsel and wish him well for his retirement.

The search for additional directors is well advanced and as foreshadowed in 2013, it is likely Board numbers would ultimately increase by one. These renewal activities follow the Board's established internal process and involve external consultants. It is an opportunity to add further talent and strength to the Board.

#### Conclusion

Cochlear looks forward to F15 with confidence including further regulatory approvals for its new products including wireless accessories on the Nucleus 6 Sound Processor and electrodes on the Nucleus Profile Series Implant. These features will continue to build out the product platform and give further impetus to the sales momentum evident at the end of F14.

Cochlear is a global business operating in an increasingly competitive environment and with continuing volatility in many important markets. We observe important trends such as the shifting of economic power from west to east, the new world of wireless and digitisation, and the easiness of sustained economic growth in the developed world. These and other challenges require continual attention but overall there continues to be positive opportunity into the future.

The Cochlear Board and senior management continue to be focused on delivering long-term growth, to optimising long-term sustainable value for shareholders, and to positively supporting our many stakeholders.



**Rick Holliday-Smith** Chairman



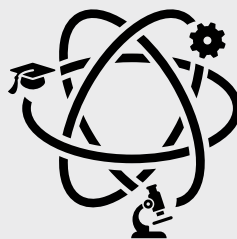
**Dr Chris Roberts** CEO/President

## Environment, Social and Governance (ESG)

At Cochlear, our mission is to help people hear and be heard. We empower people to connect with others and live a full life. We help transform the way people understand and treat hearing loss. We innovate and bring to market a range of implantable hearing solutions that deliver a lifetime of hearing outcomes.



**Supporting environment awareness activities**



**Engaging with universities and research groups**



**Encouraging participation in national debate**

Our approach to ESG issues follows our corporate mission. It is part of our culture and values. Everything we do to deliver quality, innovative products and services relates to many of the ESG issues reflected in this Annual Report.

Strict legal compliance and high performance on environmental, privacy and safety issues are also integral to our culture.

We know that our performance and products are reflective of the quality of our people. We seek the best people and support them to be successful in their work.

We are proud of our environmental and governance record as well as our social contribution.

### Environmental awareness

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

Cochlear supports a group of employees called "greenFEVER" whose goals are to raise awareness of environmental issues, promote sustainable living at work and at home, and identify possible activities to further reduce the Company's environmental impact.

Cochlear's "greenFEVER" group voluntarily works with like-minded groups at Macquarie University. Shared projects are identified to actively reduce the impact on the environment of the campus, its people and its activities.

#### *Modern global headquarters*

Cochlear's global headquarters, which it moved into in October 2010, is situated at Macquarie University campus in Sydney. It was awarded a 4 Star Green Star rating by the Green Building Council of Australia, confirming good practice in environmentally sustainable design/construction of the building.

The building achieved a rating equivalent to a 5 star NABERS rating<sup>1</sup> (carbon emissions associated with electricity and gas consumption are 270% better than an "average performance" building). This high rating was achieved

through a high efficiency façade design, energy efficient lighting and an innovative air conditioning system.

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

The waste recycling systems in place at the Sydney headquarters include:

- commingle recycle waste collection in all breakout and kitchen areas, collecting approximately 20 tonnes a year;
- paper recycling collection at workstations and utility areas;
- cardboard compactus;
- battery recycle collection, collecting approximately 225 kilograms of waste a year;
- e-waste recycle collection, collecting approximately 600 kilograms of waste a year;

- fluorescent tube recycling, collecting approximately 280 kilograms of waste a year; and
- 240 litre capacity security paper destruction bins, collecting approximately 180 bins a year.

Some 160 bicycle parking spaces as well as showers and lockers are provided to encourage cycling to work and reduce the use of cars. This investment in alternative transport solutions for employees has attracted widespread interest among local business groups and government agencies, which frequently visit Cochlear to view the facilities.

#### *Manufacturing*

Cochlear holds an EPA licence<sup>2</sup> governing usage and control of waste and pollution in Australia. Cochlear retains or recycles nearly all of its waste product material from manufacturing in Australia.

#### **Social support**

##### *Supporting the tertiary sector*

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

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

Cochlear has opened the Cochlear Clinical Skills Institute, a world-class surgical training centre, in the Australian Hearing Hub and has moved its Australian and New Zealand head office there to be close to key customers.

Cochlear engages with Macquarie University across a range of other activities, including staff lecturing at the University and the provision of internship opportunities for students.

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

Cochlear is a core member of the HEARing Cooperative Research Centre (CRC) based in Australia, which combines academic, business and government interests to further understanding and development of technologies for diagnosis and remediation of hearing loss. Since 2005, 40 students have engaged in postgraduate doctoral studies in hearing related topics under this scheme. With Cochlear's support, the HEARing CRC has been extended for a further five years.

#### *Supporting the community*

The Cochlear Foundation was established in 2007 to promote the awareness of, and research into, treatments for significant hearing impairment. Support has been provided for many projects including a paediatric hearing and education program in Vietnam managed by The Global Foundation for Children with Hearing Loss. The Cochlear Foundation also supports more general educational activities and has funded the promotion of science and engineering to high school students through the National Youth Science Forum and Robogals. To date, nearly \$2 million has been donated by Cochlear to the Cochlear Foundation.

Cochlear supports its employees' participation in community fundraising and corporate sporting activities through sponsoring its employees in a number of activities. In Europe, community activities have been supported in several countries in F14 through team involvement and financial help.

In the United States, Cochlear supports several non-profit hearing loss organisations including the Hearing Loss Association of America, AG Bell, Ear Community, Songs for Sound and the American Cochlear Implant Alliance. During F14, scholarships were awarded to eight gifted students in the US who have overcome hearing loss and achieved academic and personal success. Since 2002, Cochlear has awarded more than \$440,000 in scholarships to 64 college students in the US.

Cochlear strongly supports efforts to raise awareness of science and technology in the community.

#### *Industry and advocacy*

Many of our professional staff are also involved in helping relevant research and community programs in their regions, partnering with academic, industry and health professionals to assist Cochlear recipients and the institutions that support them. This is particularly relevant in developing countries. Employees who are engaged in eligible community service activities are granted time off to perform their required duties.

To have input into the national debate, Cochlear encourages executives to participate in forums and bodies that advance Australia's competitiveness and the promotion of innovation and technology. During the year, Cochlear CEO/President Chris Roberts participated in the Australian Prime Minister's business delegation to North Asia to promote Australian business in the region. Cochlear continued its support of the Sydney Engineering Excellence Awards and Cochlear executives were represented on a number of committees including the NSW Innovation Council, NSW Medical Devices Fund Expert Panel, Business Council of Australia and Warren Centre for Advanced Engineering. Cochlear has also hosted an innovation seminar for the Hargraves Institute.

Global representation in the medical devices industry includes membership of the Japan Association of Medical Device Industries and the

American Medical Devices and Diagnostics Manufacturers' Association.

Cochlear is a strong advocate for university and industry engagement. Executives have presented guest lectures in various university postgraduate business programs and undergraduate engineering courses and hosted a visit from business graduates from The University of Texas. There is also representation on the CSIRO Manufacturing Sector Advisory Council, and several university industry advisory boards.

No political contributions were made in F14.

#### *Access to healthcare*

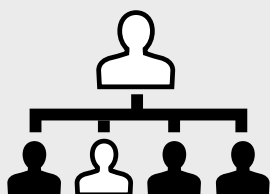
Cochlear sells its products in over 100 countries including emerging markets. Cochlear provides, particularly in the emerging markets, support to professionals in the healthcare area. We facilitate partnering of surgeons and supporting education of local professionals. Part of enabling access to our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

#### **Governance**

Cochlear's key governance principles and practices are outlined in the Corporate Governance Report included within this Annual Report.

## Our People

Cochlear delivers industry leading products and services through a highly skilled, passionate workforce of approximately 2,700 people across 20 countries.



**Internal career movement – 25% of positions filled by internal candidates**



**70% understand the connection between their work and our strategy**



**20 countries, 2,700 people – the largest global footprint in the industry**

Our people represent a diverse range of disciplines, dedicated to transforming the way the world understands and treats hearing loss.

Results from Cochlear's 2014 Employee Engagement Survey show that the Company's workforce has a high level of commitment. Cochlear exceeds the global benchmark of high performing companies in terms of trust in our organisation, belief in our values, pride in our products and services, and continuously improving the quality of the work we do. We also have a strong capability for strategy execution, with 70% of people reporting that they understand the connection between their work and our business strategy.

### Talent strategy

Cochlear strives to attract and retain the best people. We achieve this through interesting and challenging work, and the opportunity for development within a growing business. This high level of engagement improves the customer experience we provide to our recipients.

In F14, Cochlear continued to be an employer of choice, attracting over 13,000 applications for just over 300 permanent positions. The Company maintains high staff

retention levels with global voluntary turnover at 7.5% and for Cochlear in Australia at 6.0% in F14.

Over the year, Cochlear constrained headcount growth across the business by promoting from within and using internal career movement to increase the capabilities of our workforce to meet business needs. In F14, 25% of positions were filled by internal candidates. Cochlear maintained its commitment to developing a strong talent pipeline, employing 14 engineering summer students as well as five exceptional graduates.

Our manufacturing department retains a highly skilled and flexible workforce by investing in continuous improvement and regular employee communication and consultation. Our well established Employee Consultative Committee now operates across two sites with monthly representation from across Cochlear's manufacturing operations.

### Ongoing learning

Cochlear continues to invest in employee development programs to help individuals and enhance organisational capabilities. This year, new programs and resources were offered to empower and encourage employees to drive their own career development.

This includes a focus on building the skills of people managers to better support their teams.

The Company also introduced a new global approach to executive learning with a pilot program of Cochlear executives completing the Leading Innovative Change Program at the University of California, Berkeley.

Cochlear Academy, the Company's learning management system, continued to provide employees with a range of learning programs through different media. A specific platform is available for the Company's manufacturing function.

In the past year, Cochlear invested in a catalogue of over 2,500 online courses to further enhance development opportunities for employees globally.

### Diversity

As a global business, Cochlear strongly encourages all forms of diversity to support our leadership and innovation strategies. In our Sydney offices, employees come from 77 different countries and 71% of our workforce was born outside Australia.

The Company's global workforce is 49% female and women make up 34% of our managers globally (31% in Australia). In our professional workforce (including Principals, Senior Professionals and Professionals), 48% are women. Of the new permanent employees recruited around the world in F14, 51% were women.

During F14, Cochlear maintained programs to promote diversity in its workforce, including support for the Women in Leadership initiative, aimed at developing the pipeline of female leaders at Cochlear.

### Health and safety

Cochlear is committed to providing a healthy and safe workplace for all workers. Risk management initiatives, combined with increased focus on incident learnings and early injury intervention, enable us to successfully reduce the occurrence of serious injuries, with a 40% reduction in our Lost Time Injury Frequency Rate for F14.

Cochlear works to ensure we have a robust workplace health and safety management system in line with industry best practice and is introducing improvements to our systems to support improved safety performance reporting.

## Driving Innovation

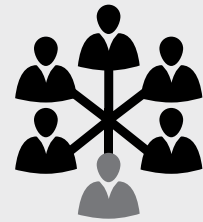
Investing in advanced technology is a strategic priority for Cochlear. Over the past five years, the Company has invested more than \$500 million in global research and development (R&D) activities. In F14, Cochlear's total R&D investment was \$127.6 million, which was 15.9% of revenue.



**Nucleus 6 Sound Processor and Codacs System – finalists, 2014 Good Design Australia Awards**



**Codacs System – Bronze winner, Medical Device Excellence Award**



**Cochlear collaborates with over 100 external research partners based in 20 countries**

Cochlear's design and development department comprises more than 350 specialists from a range of technical disciplines. These highly specialised teams are based in Australia, Belgium, Sweden and the United States. The Company also collaborates with over 100 external research partners based in 20 countries.

Work to enhance our solutions continues among our technology groups with the goal of providing better hearing performance outcomes for Cochlear's recipients. Research spans basic scientific research, new technology developments and new product developments. This includes work on Cochlear's sound processing algorithms, electrode technology, totally implantable cochlear implants, wireless connectivity and expansion of Cochlear's portfolio of implantable hearing solutions. Cochlear also continues to expand its offering of clinical care tools that support professionals with a growing set of options to manage their customers, including cloud-based connection technologies.

Highlights during the year included:

- the market introduction of the innovative Cochlear Nucleus 6 Sound Processor;
- the FDA approval and US market introduction of the

Cochlear Nucleus Hybrid L24 Cochlear Implant System;

- the market introduction of the Cochlear Nucleus Aqua+, the world's first behind-the-ear waterproof accessory;
- the market introduction of the Baha Attract System and Baha Connect System;
- the market release of the Baha 4 Sound Processor and Baha Fitting Software 4.0;
- the market introduction of Cochlear Baha DermaLock™ Abutment;
- the market release of the Cochlear Wireless Accessories including the Mini Microphone, Phone Clip and TV Streamer with the Baha Remote Control;
- the market introduction of MET® and Carina® middle ear implants following the acquisition of Otologics LLC's assets;
- the regulatory approval of the Cochlear Codacs implant; and
- the regulatory approval of the Cochlear Nucleus Profile implant with Contour Advance® (CI512) in Europe.

During the year, the Cochlear Nucleus 6 Sound Processor and Cochlear Codacs System were both finalists in the Good Design Australia Awards, and the latter also won a Medical Device Excellence Award.

### Manufacturing and supply chain operations

With sales in over 100 countries, Cochlear operates a global supply chain. Components are sourced across Europe, Asia and the Americas. Manufacturing operations are primarily located in Australia and Sweden, with smaller sites in Belgium and the US. Suppliers and the manufacturing sites are aligned to enable the Company to deliver products of the highest quality and reliability. The structure and operation of the supply chain play an important part in our productivity drive as well as for the introduction of new products. Employees throughout the supply chain are engaged in driving productivity improvement.

The Company's manufacturing strategy is to make sure that production methods and capacity ensure the highest quality products to be produced to meet demand while improving efficiency. Cochlear runs an operations improvement program, which incorporates lean manufacturing principles and ongoing investment in new manufacturing technologies. These enable flexibility and productivity improvements. Over 800 people are currently employed in Cochlear's manufacturing facilities.

### Non-military use

Other than where our products are used by military personnel, Cochlear produces or contributes to no products or services designed or used for military purposes.

### Quality assurance

Cochlear has a worldwide quality assurance system in place to ensure the quality of its products and services.

### Device approvals

Medical devices must be approved by relevant regulatory authorities. At present, Cochlear has the necessary licences and approvals to enable the marketing of our products in the jurisdictions in which we operate. Ongoing approvals are regularly being sought for new products in a variety of jurisdictions.

### Intellectual property

The creation and protection of our intellectual property remain a key strategic imperative for the business. Cochlear currently holds over 1,000 patents and patent applications globally, and filed many new patent applications in F14.

## Board of Directors



### 1. Mr Rick Holliday-Smith

Age 64. BA (Hons), FAICD, CA  
*Appointed 1 March 2005*

Director of Servcorp Limited since 1999. Director of ASX Limited since 2006 and Chairman since March 2012. Former Chairman of Snowy Hydro Limited (not publicly listed) 2006 – 2012 and SFE Corporation Limited since 1999 until it merged with ASX Limited in 2006. Former director of St George Bank Limited (2007 – 2008), 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 Board of Directors and Nomination Committee. Member of the Audit Committee and Human Resources Committee.

### 2. Dr Chris G Roberts CEO/President

Age 60. BE (Hons), MBA, PhD, Hon DSc (Macq), Hon DSc (UNSW), FAICD, FTSE, FIEAust  
*Appointed 1 February 2004*

Chief Executive Officer/President of Cochlear Limited. Director of ResMed Inc since 1992. Dr Roberts has worked in the medical device industry for more than 37 years in a number of senior management positions.

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

### 3. Mrs Yasmin Allen

Age 50. BCom, FAICD  
*Appointed 2 August 2010*

Director of Insurance Australia Group Limited (IAG) since 2004, member of IAG Audit Committee and Risk Committee and Chair of IAG People and Remuneration Committee. Chair of Macquarie Specialised Asset Management (not publicly listed) since 2003. National director of the Australian Institute of Company Directors since 2010 and director of National Portrait Gallery since 2013. Member of The Salvation Army Advisory Board. Former Vice President of Deutsche Bank AG, Director of ANZ Investment Bank and Associate Director, HSBC London.

Chairman of the Audit Committee. Member of the Human Resources Committee and Nomination Committee.

### 4. Mr Paul R Bell

Age 68. BA, MA (Hons)  
*Appointed 1 August 2005*

Director of Westmead Millennium Institute for Medical Research. Former director of Biota Holdings Limited (2006 – 2013) and Bio-Link Partners Limited (2005 – 2009). 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).

Chairman of the Human Resources Committee. Member of the Nomination Committee.

### 5. Prof Edward Byrne, AC

Age 62. DSc, MD, MBA, FRCP, FRACP, FTSE

*Appointed 1 July 2002*

President and Principal of King's College London since 1 September 2014. Former Deputy Chairman of Group of Eight Vice Chancellors, Australia, and Chairman of Global Foundation. Former director of Bupa Group Board, London and Bupa Australia Pty Limited. Former Vice Chancellor of Monash University (June 2009 – August 2014). Former executive Dean of the Faculty of Biomedical Sciences, Vice Provost and Head of the Medical School at University College London. Former Dean of Faculty of Medicine, Nursing and Health Sciences at Monash University, Melbourne (2003 – 2006).

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



### 6. Mr Andrew Denver

Age 65. BSc (Hons), MBA, FAICD

*Appointed 1 February 2007*

Chairman of Universal Biosensor Pty Limited since 2005 (director since 2002) and Speedx Pty Limited since 2009. Director of Vaxxas Pty Limited since 2012. Former director of Principals Cornerstone Management Pty Limited. Former Managing Director of Memtec Limited and President Asia for Pall Corporation.

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

### 7. Mr Donal P O'Dwyer

Age 61. BE Civil, MBA

*Appointed 1 August 2005*

Chairman of Atcor Medical since 2004 and a director of Mesoblast Limited since 2004 and Fisher & Paykel Healthcare Limited since 2012. Former director of Sunshine Heart Inc (2004 – 2013). Former President of Cordis Cardiology (Johnson & Johnson medical device business unit) between 2000 and 2004.

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

## Senior Executive Team



**1. Dr Chris Roberts**  
*CEO/President*

See "Board of Directors"  
on page 10.

**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, Middle East, Africa (EMEA) and Latin America. This includes sales in over 60 countries. Operations in EMEA and Latin America include sales, marketing, distribution, service, finance, regulatory and administration across these complex and diverse regions.

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

**3. Dig Howitt**  
*Senior Vice President,  
Manufacturing  
and Logistics*

BE (Hons), MBA

Dig is responsible for the development and execution of the strategic direction for the Cochlear supply chain. 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 R&D 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.

**4. Jan Janssen**  
*Senior Vice President, Design  
and Development, Clinical  
and Regulatory*

MScEE

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

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

**5. Amanda Lampe**  
*Senior Vice President,  
Corporate and Public Affairs*

BPE, MAICD

Amanda joined Cochlear in 2014 and has responsibility for developing and coordinating Cochlear's global corporate affairs strategy and public affairs position on hearing loss and the impact on individuals and society.

Amanda has extensive experience in the government and corporate sectors, working in senior leadership and management positions. Before joining Cochlear, Amanda was Group Executive for Corporate Affairs and Government Relations for ASX Limited. She previously worked for a former Prime Minister of Australia and former Premier of NSW.

## Senior Executive Team — continued

### 6. Anne-Marie Leslie *Senior Vice President, Human Resources*

BA (Hons), EMHRL

Anne-Marie joined Cochlear in February 2007 and is responsible for global human resources management. Her focus is on building people strategies to meet the demands of a fast growing global company.

She has over 25 years' experience in local, regional and global human resources management roles, working with Bristol-Myers Squibb and Kodak in the US and Asia. Her background includes expertise in Quality Management at Kodak where she led efforts to win the Australian Quality Prize and she has worked as a Business Excellence Awards Evaluator in Australia and the US.

### 7. 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 functions at Cochlear.

He joined the Company in 1990 and has been Chief Financial Officer since listing in 1995. Director of Osprey Medical Inc. and HEARing Cooperative Research Centre and member of NSW Medical Devices Fund Expert Panel.

### 8. David Morris *Chief Strategy Officer*

BBus, BAppSc

David is responsible for the development and execution of the global business strategy. David was appointed as Chief Strategy Officer in 2011, having served as President, Cochlear Bone Anchored Solutions since 2005. He joined the Company in 2002 as Senior Vice President, Business Development.

Prior to joining Cochlear, he worked with Accenture in strategy and operational consulting, and has extensive international and Australian experience in the healthcare, consumer products, utilities and financial services industries.

### 9. Prof Jim Patrick *Senior Vice President, Chief Scientist*

DEng, MSc, FTSE, FIEAust, CPE

Jim is responsible for a global research portfolio of projects that feed into the commercial development stream. 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 and Adjunct Professor at La Trobe University and Macquarie University.

### 10. 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 potential region has complex regulatory sales and marketing drivers which require coordination of sales, marketing, third party distribution, regulatory and clinical infrastructure development activities.

Mark also has global responsibility for Cochlear's information technology strategy and systems.

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.

### 11. Chris Smith *President, Americas Region*

BSc

Chris is responsible for the development and execution of the strategic direction for our operations in North America. Operations include sales, marketing, distribution, service, finance, regulatory and administration.

Chris is also responsible for Cochlear Bone Anchored Solutions and Global Support Operations.

He joined Cochlear in 2004, after more than 25 years' experience in the medical device industry specifically and healthcare in general in the US including Warburg Pincus, and as Group President for Gyrus Group (ENT and Surgical divisions).

## Corporate Governance Report

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 with 2010 Amendments 2nd Edition (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. The Corporate Governance section is located under the Investors link on the Company's website. Cochlear's corporate governance policies and procedures are reviewed on a regular basis and updated where appropriate.

### 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 (Rec 1.3). 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 F14 is set out in the Directors' Report at page 23 (Recs 2.6, 4.4 and 8.4). At each Board meeting, the non-executive directors meet for a period without management or any executive directors present (Rec 2.1). 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 took 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 2014, the Board comprised six non-executive directors (including the Chairman) and one executive director, the CEO/President. The Board is looking for directors to bring to the Board a mix of scientific, medical, technical and financial expertise as well as international business experience. The directors consider that, between them, they possess the necessary skills, knowledge and experience to allow the Board to perform its duties appropriately. Summaries of the relevant skills, experience and expertise of each director are set out on page 10 (Rec 2.6).

The policy for appointment of directors and the selection process are outlined in the Nomination Committee Terms of Reference, which is published in the Corporate Governance section of the Cochlear website (Rec 2.6). The Nomination 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. The Nomination Committee actively considers gender diversity in carrying out its role. For further information on Cochlear's Diversity Policy, please see Principle 3: Promote ethical and responsible decision-making, below.

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 Rick Holliday-Smith and Mr Andrew Denver will retire at the 2014 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 being undertaken in July 2014. The Chairman Mr Rick Holliday-Smith undertook

## Corporate Governance Report

individual interviews and questionnaires, and subsequently held evaluations with each individual director as to their performance over the past year. The key findings of these reviews were then discussed at the Nomination Committee meeting held in July 2014. 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.

The Chairman Mr Rick Holliday-Smith is an independent non-executive director (Rec 2.2). Mr Rick Holliday-Smith 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 (Rec 2.6).

### *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 that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement. The Nomination Committee Terms of Reference outline criteria used to determine the independence of the directors (Rec 2.6). The criteria used follow the criteria set out in the Guidelines.

Each year, the Board assesses the independence of the non-executive directors in 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 in the Company owned by non-executive directors is 28,450. 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 page 10 (Rec 2.6). Currently, no director has served longer than 12 years on the Board. The longest serving director is Prof Edward Byrne, AC, who was appointed in 2002.

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 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 Chair 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 23 (Recs 2.6, 4.4 and 8.4). 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. The Audit Committee consists entirely of independent non-executive directors (Rec 4.2). As at 30 June 2014, Mrs Yasmin Allen chaired the Committee with the other members being the Chairman of the Board Mr Rick Holliday-Smith, Mr Andrew Denver and Mr Donal O'Dwyer (Recs 4.2 and 4.4). 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) and other executives 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 page 10 (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 and management of risk and to assist the Board in:

- 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.

Cochlear's processes relating to financial reporting are outlined below at Principle 4: Safeguard integrity in financial reporting. Cochlear's processes relating to risk management and internal control are outlined below at Principle 7: Recognise and manage risk.

### **Human Resources Committee (Rec 8.1)**

The Human Resources Committee meets at least three times a year. As at 30 June 2014, Mr Paul Bell chaired the Committee with the other members being the Chairman of the Board Mr Rick Holliday-Smith and Mrs Yasmin Allen. All members of the Human Resources Committee are independent non-executive directors (Rec 8.2 and 8.4). 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 Human Resources Committee Terms of Reference set out the Committee's role and responsibilities, composition, structure and membership requirements. The Human Resources Committee Terms of Reference can be viewed in the Corporate Governance section of the Cochlear website (Rec 8.4).

The Human Resources 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 other members of 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 (CELTIIP) and the Cochlear Executive Incentive Plan (CEIP). The Human Resources Committee's role encompasses responsibility for the Cochlear Diversity Policy including the implementation and monitoring of the Policy. Further information on Cochlear's Diversity Policy can be found below at Principle 3: Promote ethical and responsible decision-making.

The Human Resources Committee is authorised to seek any information it requires from internal resources and to take independent professional advice as it considers necessary.

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 31 to 53 (Rec 8.4).

### **Medical Science Committee**

The Medical Science Committee was established during the 2003 financial year. As at 30 June 2014, Prof Edward Byrne, AC, chaired the Committee with the other members being Mr Andrew Denver, 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 Terms of Reference provide for the Committee to meet on an "as needs" basis, but at least biannually. 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. The Medical Science Committee has provided oversight and guidance in relation to the recall of the unimplanted Nucleus CI500 Series implants. The Committee has met on a number of occasions since the recall and has closely monitored developments for quality and regulatory implications.

### **Nomination Committee (Rec 2.4)**

The Nomination Committee is chaired by the Chairman of the Board Mr Rick Holliday-Smith and, as at 30 June 2014, the other members of the Committee were Mrs Yasmin Allen, Mr Paul Bell, Prof Edward Byrne, AC, Mr Andrew Denver and Mr Donal O'Dwyer (Rec 2.6). The Nomination Committee is comprised entirely of independent non-executive directors.

The Nomination 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. The Nomination Committee's role includes:

- annually assessing the skills, knowledge, experience, independence and diversity required on the Board and the extent to which each is represented and making recommendations to the Board;
- 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 recommending ways in which the skills of directors can be enhanced; and
- overseeing succession planning for the Board and the CEO/President.

The Nomination Committee Terms of Reference set out the Committee's role and responsibilities, composition, structure and membership requirements. The Nomination Committee Terms of Reference can be viewed in the Corporate Governance section of the Cochlear website (Rec 2.6). The Nomination 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 Nomination 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.

## Corporate Governance Report

### Technology and Innovation Committee

The Technology and Innovation Committee was established during the 2003 financial year. As at 30 June 2014, the Committee was chaired by Mr Andrew Denver with the other members being Prof Edward Byrne, AC, 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

#### Conduct

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 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 requirements 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.

Cochlear is committed to conducting operations in every country where the Company does business, in full compliance with each country's laws (including the laws against bribery and corruption). Any form of bribery or corruption in relation to a public official or facilitation payments (given to public officials to expedite a process or administrative action where the payment is not listed as a public fee) is expressly prohibited under Cochlear's Internal Code of Conduct.

The Code of Business Conduct also provides for clear and confidential reporting mechanisms concerning any potential breach. The Company has 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 and Cochlear's Anti-Bribery Policy can be viewed in the Corporate Governance section of the Cochlear website (Rec 3.5).

With the introduction of the *Physician Payments Sunshine Act* (Sunshine Act) in the United States, medical device and pharmaceutical companies operating in the United States are required to track and publicly report payments and transfers of value provided to physicians and teaching hospitals in the United States. Steps have been taken for the purpose of compliance with the requirements of the Sunshine Act when reporting requirements commenced in March 2014, and the first report due on 30 June 2014 has been submitted to the relevant authority.

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. These policies are internal documents and are not available on the Cochlear website.

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. 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 Trading Policy, Consistent with the *Corporations Act 2001*, directors, senior executives and employees are prohibited by the Trading Policy from dealing in the Company's securities whilst in possession of "inside information". Subject to certain limited exceptions, the Trading Policy prohibits "Designated Persons" (which includes the Company's key management personnel and certain other persons) from dealing in Cochlear securities outside of set trading windows. During the trading windows, Designated Persons must still seek "no objection" from the Company prior to trading in Cochlear securities. Employees who are not Designated Persons are not restricted to dealing within the trading windows. However, in order to mitigate the risk of inadvertently trading whilst in possession of inside information, the Policy advises employees to trade in the Company's securities only during the trading windows. 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.

Compliance with the Trading Policy is monitored. The Audit Committee receives a report at each of its meetings regarding trading in the Company's securities by the CEO/President and other members of 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 and CEIP are provided with details of the Trading Policy and the trading windows as well as guidelines on what constitutes insider trading. The Trading Policy can be viewed in the Corporate Governance section of the Cochlear website.

### Diversity

As a global business, Cochlear is committed to providing an inclusive workplace that attracts the best employees to support the Company's growing business. The Company needs people with a diverse range of skills, expertise and diversity in terms of gender, age and ethnicity. To this end, the focus of the Company's workforce demographics objectives is to continuously build organisational capabilities to achieve Cochlear's business vision and mission.

Cochlear's policy is to recruit and manage on the basis of competence and performance regardless of age, nationality, race, gender or cultural background. As a business founded on technology leadership, the Company places a particular focus on attracting and retaining staff with science, technology, engineering and mathematical skills to drive long-term value creation in the business.

To ensure the Company meets its ongoing commitment to diversity, Cochlear has established a Diversity Policy (Rec 3.2). The Diversity Policy can be viewed in the Corporate Governance section of the Cochlear website (Rec 3.5). The Diversity Policy sets out the following Workforce Objectives:

- growing the diversity of Cochlear's workforce to reflect the Company's business needs and the global community it serves;
- implementing programs that prepare women to take on senior roles within the business, both in operational and specialist support areas;
- implementing programs to attract a diverse workforce; and
- investing in initiatives to enable Cochlear's People Managers to provide an inclusive working environment to retain staff.

These Workforce Objectives are supported through annual initiatives which are approved and monitored by the Board's Human Resources Committee. These annual initiatives include initiatives with measurable objectives for achieving gender diversity (Rec 3.2). The outcomes of all annual initiatives are assessed as part of the annual workforce demographics review by the Board's Human Resources Committee (Rec 3.2). A summary of the F14 annual initiatives to implement Cochlear's Workforce Objectives, together with the progress achieved for each initiative, is set out below in Table 1 (Rec 3.3). Cochlear's workforce gender profile, including the percentage of women employees in the whole organisation, women in senior executive positions and women on the Board, is set out in Table 2 (Rec 3.4).

**Table 1: F14 Annual initiatives and progress**

| Workforce Objectives                                                                           | Annual Initiative and Progress                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Growing the diversity of the workforce to meet Cochlear's business needs in a global community | <p><b>Science, Technology, Engineering and Mathematics (STEM)</b></p> <p>As a technology company, Cochlear needs to attract and maintain key skills for innovation in STEM areas. In F14, we implemented a new talent profile system so all employees can provide details on their qualifications.</p> <p><b>Increase the representation of women in the workforce</b></p> <p>48% of Cochlear's total permanent full-time workforce is female. 34% of senior executive roles (Bands 1-3) are filled by females.</p> <p>In F14:</p> <ul style="list-style-type: none"> <li>• in our professional workforce (including Principals, Senior Professionals and Professionals), 48% were women;</li> <li>• of the new permanent employees, 51% were female; and</li> <li>• women were more than twice as likely to be successful in their applications as men.</li> </ul> <p>In F14, the Company continued to monitor gender in the Company's workforce demographics and remuneration reviews and in Cochlear's employee engagement monitoring. The Company Employee Engagement Survey found female participants rated Cochlear higher than their male counterparts on all 18 dimensions of the survey, with statistically significant positive results on 12 of the dimensions up from four dimensions.</p> <p><b>Global diversity</b></p> <p>As a global business, Cochlear's workforce is ethnically diverse with staff from 71 nationalities working in the Company's headquarters.</p> <p>In the past year, we have recruited from around the globe. The Company also recruits people with hearing impairment to ensure we understand Cochlear customers' needs.</p> <p>This diversity enriches Cochlear's business and helps the Company create an inclusive culture that attracts and retains the best talent. Cochlear's global annualised voluntary turnover is 7.5%, and 6.0% in Australia. These rates are very competitive for a medical device business.</p> |
| Implementing programs that prepare women for senior roles                                      | <p><b>Human capital planning for recruitment and development for executive roles</b></p> <p>During F14, two females were appointed to head of function roles. Cochlear also ensures we have females being developed across all strategic capability talent pools so they are prepared for key roles for the Company's business.</p> <p><b>Development programs</b></p> <p>Cochlear continued to provide the very successful Leadership Presence Program for high performing women during F14 which was recognised by the Corporate Executive Board as a global best practice for development talent pipelines.</p> <p><b>Women in Leadership Initiative</b></p> <p>Support and sponsorship through the Women in Leadership initiative continued in F14 with external presenters and mentoring events with approximately 30 people attending each of the five events.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

## Corporate Governance Report

**Table 1: F14 Annual initiatives and progress — continued**

| Workforce Objectives                                        | Annual Initiative and Progress                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Attracting diverse talent to meet Cochlear's business needs | <p><b>Promotion of science and engineering careers</b></p> <p>During F14, Cochlear promoted science and engineering careers through its support of Engineers Australia, support and sponsorship for Robogals (an organisation committed to fostering female participation in science and engineering programs in schools) and participation in career programs for the University of Wollongong and Macquarie University.</p> <p><b>Building Cochlear's graduate pipeline</b></p> <p>Cochlear has continuously invested in graduate recruitment. Since 2006, Cochlear has operated a formal graduate development program to ensure the Company attracts the top talent from Australian universities so as to build a pipeline of people for product development, manufacturing and quality roles within the business. The Summer Internship Program during F14 attracted over 300 applicants. Four females and 10 males were accepted into the Program. The F14 Graduate Engineering Program attracted 14 applicants for places. Two of these places were filled by female applicants.</p> |
| Investing in People Manager development                     | <p><b>Leadership development</b></p> <p>Cochlear continues to invest in building our People Management capability with 220 Managers in our headquarters participating in self-directed learning pathways:</p> <ul style="list-style-type: none"> <li>• Manager of Managers pathway – 60 participating in Strategy Workshops and Communication forums; and</li> <li>• People Manager pathway – average of 11 people attending 18 Management skills workshops, 55 people attending Process Leadership skills training and over 80 people attending Communications forums.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

**Table 2: Cochlear's workforce gender profile**

| Workforce Gender Profile        | Cochlear Limited - 30 June 2014 |       |     |                     |      |     |                 |      |     |                 |       |     |
|---------------------------------|---------------------------------|-------|-----|---------------------|------|-----|-----------------|------|-----|-----------------|-------|-----|
|                                 | Permanent Full-Time             |       |     | Permanent Part-Time |      |     | Contract/Casual |      |     | Total Employees |       |     |
| Occupational Category           | Female                          | Male  | %   | Female              | Male | %   | Female          | Male | %   | Female          | Male  | %   |
| Board (including CEO/President) | 1                               | 6     | 14% | 0                   | 0    | 0%  | 0               | 0    | 0%  | 1               | 6     | 14% |
| Senior Executive Positions      | 69                              | 143   | 33% | 7                   | 4    | 64% | 1               | 1    | 50% | 77              | 148   | 34% |
| Whole Organisation              | 1,167                           | 1,254 | 48% | 86                  | 29   | 75% | 75              | 75   | 50% | 1,328           | 1,358 | 49% |

### 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 policies and procedures 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 auditor 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 at least every five years, with the last rotation occurring in August 2013. 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 provide all stakeholders with 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 the Company 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 in 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 half yearly and annual 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. In addition to attending the AGM in person, shareholders may view a webcast of the AGM online. Advance notice of the timing of half year and full year results announcements is provided on the Cochlear website. Copies of results presentations are made available via the Cochlear and ASX websites.

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). Cochlear assesses its risk management framework against the International Standard for Risk Management ISO 31000. The Risk Register puts the Risk Management Policy into effect. The Risk Register was designed and is 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 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 Register. 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 management of the Risk Register 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 (Recs 7.2 and 7.4).

## Corporate Governance Report

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 Cochlear website (Rec 7.4).

### Principle 8: Remunerate fairly and responsibly

The Board has established the Human Resources Committee to focus on appropriate remuneration policies which are designed to enhance corporate and individual performance (Rec 8.1). The Human Resources Committee Terms of Reference are published in the Corporate Governance section of the Cochlear website. These Terms of Reference set out the Human Resources Committee's role and responsibilities, composition, structure and membership requirements (Rec 8.4). Further detail relating to the Human Resources Committee, including a signpost to the record of attendance at its meetings, can be found above at Principle 2: Structure the board to add value (Rec 8.4).

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 F14 remuneration (including retirement benefits) of the directors and specified executives are included in the Remuneration Report on pages 31 to 53. Further disclosure in relation to the remuneration philosophy is included in the Remuneration Report.

### *Non-executive directors' remuneration policy*

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 Committee and determined by the Board within the aggregate amount approved by shareholders at the 2011 AGM of \$2,000,000 a year.

The structure of non-executive directors' remuneration is clearly distinguished from that of executive directors and senior executives (Rec 8.3). 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 8.4).

### *Senior executives' remuneration policy*

Remuneration for Cochlear executives includes both fixed and variable incentive components. Up to and including F13, equity based executive remuneration was made in accordance with the CELTIP. The CELTIP was approved by shareholders at the 2003 AGM. From F14 onwards, equity based executive remuneration is made in accordance with the new Cochlear Executive Incentive Plan (CEIP). The exercise periods for the CELTIP and CEIP are timed to coincide with the trading windows provided in the Company's Trading Policy. In line with the *Corporations Act 2001*, the Trading Policy prohibits executives from hedging unvested CELTIP and CEIP awards (Rec 8.4).

## 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 4.3     | The audit committee should have a formal charter.                                                                                                                                                                                                                                                                                                                                                                                       | ✓ |
| Rec 1.2     | Companies should disclose the process for evaluating the performance of senior executives.                                                                                                                                                                                                                                                                                                                                                                                                           | ✓         | Rec 4.4     | Companies should provide the information indicated in the Guide to reporting on Principle 4.                                                                                                                                                                                                                                                                                                                                            | ✓ |
| Rec 1.3     | Companies should provide the information indicated in the Guide to reporting on Principle 1.                                                                                                                                                                                                                                                                                                                                                                                                         | ✓         | <b>Pr 5</b> | <b>Make timely and balanced disclosure</b>                                                                                                                                                                                                                                                                                                                                                                                              |   |
| <b>Pr 2</b> | <b>Structure the board to add value</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 2.1     | A majority of the board should be independent directors.                                                                                                                                                                                                                                                                                                                                                                                                                                             | ✓         | Rec 5.2     | Companies should provide the information indicated in the Guide to reporting on Principle 5.                                                                                                                                                                                                                                                                                                                                            | ✓ |
| Rec 2.2     | The chairman should be an independent director.                                                                                                                                                                                                                                                                                                                                                                                                                                                      | ✓         | <b>Pr 6</b> | <b>Respect the rights of shareholders</b>                                                                                                                                                                                                                                                                                                                                                                                               |   |
| Rec 2.3     | The roles of chairman and chief executive officer should not be exercised by the same individual.                                                                                                                                                                                                                                                                                                                                                                                                    | ✓         | 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 2.4     | The board should establish a nomination committee.                                                                                                                                                                                                                                                                                                                                                                                                                                                   | ✓         | Rec 6.2     | Companies should provide the information indicated in the Guide to reporting on Principle 6.                                                                                                                                                                                                                                                                                                                                            | ✓ |
| Rec 2.5     | Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.                                                                                                                                                                                                                                                                                                                                                                          | ✓         | <b>Pr 7</b> | <b>Recognise and manage risk</b>                                                                                                                                                                                                                                                                                                                                                                                                        |   |
| Rec 2.6     | Companies should provide the information indicated in the Guide to reporting on Principle 2.                                                                                                                                                                                                                                                                                                                                                                                                         | ✓         | Rec 7.1     | Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.                                                                                                                                                                                                                                                                                               | ✓ |
| <b>Pr 3</b> | <b>Promote ethical and responsible decision-making</b>                                                                                                                                                                                                                                                                                                                                                                                                                                               |           | 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 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 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 3.2     | Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.                                                                                                                                                                            | ✓         | Rec 7.4     | Companies should provide the information indicated in the Guide to reporting on Principle 7.                                                                                                                                                                                                                                                                                                                                            | ✓ |
| Rec 3.3     | Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.                                                                                                                                                                                                                                                                                               | ✓         | <b>Pr 8</b> | <b>Remunerate fairly and responsibly</b>                                                                                                                                                                                                                                                                                                                                                                                                |   |
| Rec 3.4     | Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.                                                                                                                                                                                                                                                                                                                             | ✓         | Rec 8.1     | The board should establish a remuneration committee.                                                                                                                                                                                                                                                                                                                                                                                    | ✓ |
| Rec 3.5     | Companies should provide the information indicated in the Guide to reporting on Principle 3.                                                                                                                                                                                                                                                                                                                                                                                                         | ✓         | Rec 8.2     | The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>consists of a majority of independent directors;</li> <li>is chaired by an independent chair; and</li> <li>has at least three members.</li> </ul>                                                                                                                                                                                    | ✓ |
| <b>Pr 4</b> | <b>Safeguard integrity in financial reporting</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                    |           | Rec 8.3     | Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.                                                                                                                                                                                                                                                                                     | ✓ |
| Rec 4.1     | The board should establish an audit committee.                                                                                                                                                                                                                                                                                                                                                                                                                                                       | ✓         | Rec 8.4     | Companies should provide the information indicated in the Guide to reporting on Principle 8.                                                                                                                                                                                                                                                                                                                                            | ✓ |
| 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>                                                                                                                                                                      | ✓         |             |                                                                                                                                                                                                                                                                                                                                                                                                                                         |   |

## Glossary, Company ASX Announcement Record and Company Information

### Glossary

|                                                                             |                                                                                    |
|-----------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| <b>AGM</b> Annual General Meeting.                                          | <b>FDA</b> United States Food and Drug Administration.                             |
| <b>ASIC</b> Australian Securities and Investments Commission.               | <b>FX</b> Foreign exchange.                                                        |
| <b>ASX</b> Australian Securities Exchange.                                  | <b>IFRS</b> International Financial Reporting Standards.                           |
| <b>EBIT</b> Earnings before interest and tax.                               | <b>KMP</b> Key management personnel.                                               |
| <b>EBITDA</b> Earnings before interest, tax, depreciation and amortisation. | <b>NPAT</b> Net profit after tax.                                                  |
| <b>EMEA</b> Europe, Middle East and Africa.                                 | <b>Previous GAAP</b> Previous Australian Generally Accepted Accounting Principles. |
| <b>EPS</b> Earnings per share.                                              | <b>Processor/sound processor</b>                                                   |
| <b>F12</b> Financial year 2012: 1 July 2011 to 30 June 2012.                | The externally worn part of the cochlear implant.                                  |
| <b>F13</b> Financial year 2013: 1 July 2012 to 30 June 2013.                | <b>R&amp;D</b> Research and development.                                           |
| <b>F14</b> Financial year 2014: 1 July 2013 to 30 June 2014.                | <b>TSR</b> Total shareholder return.                                               |
| <b>F15</b> Financial year 2015: 1 July 2014 to 30 June 2015.                |                                                                                    |

### Company ASX Announcement Record

#### 2 June 2014

##### *Cochlear to launch Nucleus Profile Implant Series*

Cochlear Limited announced it would be launching the Cochlear Nucleus Profile Series across Europe in June 2014. The first implant in the series, the Cochlear Nucleus Profile implant with Contour Advance electrode, has the thinnest implant body on the market.

#### 27 March 2014

##### *Half year report 2014*

Cochlear Limited provided an F14 half year report to shareholders listing half year revenues and sales.

#### 21 March 2014

##### *FDA approves Cochlear Nucleus Hybrid for sale in USA*

Cochlear Limited announced that the US FDA had approved the Cochlear Nucleus Hybrid L24 Cochlear Implant System for commercial release.

#### 11 February 2014

##### *Half year results announced*

Cochlear Limited announced revenue down 5% to \$371.1 million, with cochlear implant sales down by 14% for the six months ended 31 December 2013. The interim dividend of \$1.27 per share was up 2%.

#### 24 January 2014

##### *Jury trial verdict on USA Patent Infringement Case*

Cochlear Limited announced that a jury verdict in the patent infringement lawsuit by the Alfred E. Mann Foundation for Scientific Research and Advanced Bionics had been reached.

### Non-IFRS financial measures

Given the significance of the patent dispute, product recall and FX movements the directors believe the presentation of non-IFRS financial measures is useful for the users of this document as they reflect the underlying financial performance of the business.

The non-IFRS financial measures included in this document have been calculated on the following basis:

- excluding patent dispute provision: IFRS measures adjusted for the expense of the patent dispute provision;
- excluding recall costs: IFRS measures adjusted for the costs of the product recall;
- constant currency: restatement of IFRS financial measures in comparative years using F14 FX rates; and
- free cash flow: IFRS cash flow from operating and investing activities excluding interest and tax paid related to non-operating activities.

The above non-IFRS financial measures have not been subject to review or audit. However, KPMG has separately undertaken a set of procedures to agree the non-IFRS financial measures disclosed to the books and records of the Consolidated Entity.

### Company Information

#### Stock exchange listing

Australian Securities Exchange  
ASX code COH

#### Solicitors

Clayton Utz

#### Share registrar

Computershare Investor Services Pty Limited  
Level 4, 60 Carrington Street  
Sydney NSW 2000, Australia  
Tel: 61 3 9415 4000

#### Auditor

KPMG

#### Bankers

**Australia** Westpac Banking Corporation and HSBC Bank Australia Limited  
**Japan** The Bank of Tokyo-Mitsubishi UFJ, Limited  
**Sweden** Skandinaviska Enskilda Banken AB (publ)  
**United Kingdom** HSBC Bank plc  
**United States** Wells Fargo Bank West, NA

#### Annual General Meeting

The Annual General Meeting will be held at 10am on Tuesday 14 October 2014 at the Australian Securities Exchange, Exchange Square Auditorium, 20 Bridge Street, Sydney. A Notice of Annual General Meeting and Proxy Form are enclosed with this Annual Report.

#### Financial calendar

##### 2014

Dividend record date 4 September  
Payment of final dividend 25 September  
Annual General Meeting 14 October

##### 2015

Interim profit announcement 10 February\*  
Interim dividend record date 5 March\*  
Payment of interim dividend 26 March\*  
Final profit announcement 11 August\*  
Annual General Meeting 20 October\*

\* Indicative dates only.

ACE, Advance Off-Stylet, AOS, AutoNRT, Autosensitivity, Beam, Button, Carina, Cochlear, コクレア, Codacs, Contour, Contour Advance, Custom Sound, ESPrit, Freedom, Hear now. And always, Hybrid, inHear, Invisible Hearing, MET, MP3000, myCochlear, NRT, Nucleus, Nucleus in Chinese characters, Off-Stylet, SmartSound, Softip, SPrint, the elliptical logo and Whisper are either trademarks or registered trademarks of Cochlear Limited. Ardium, Baha, Baha Divino, Baha Intenso, Baha PureSound, Baha SoftWear, DermaLock, Vistafix and WindShield are either trademarks or registered trademarks of Cochlear Bone Anchored Solutions AB.

#### Design

Cross Media Communications Pty Ltd

# Hear now. And always

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