

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



# Sound fundamentals

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

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

## **Independence**

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

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

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

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

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

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

## **Board committees**

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

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

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

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

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

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

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

The Committee's primary responsibilities include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Medical Science Committee**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Remuneration Policy is built around principles that:

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

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

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

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

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

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

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

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

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

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