

RISK MANAGEMENT POLICY

Cochlear views risk management as a continual process, integral to achieving our corporate objectives, effectively managing Company assets and creating and maintaining shareholder value.

This Risk Management Policy outlines the key elements of the risk management framework.

Risk Management

Cochlear has implemented a comprehensive assurance and risk management program, consistent with the Australian and New Zealand Standard of Risk Management, AS/NZS4360 to manage its business risks.

The identification and proper management of risk within Cochlear is an important priority of the Board and Cochlear's senior management. In developing a culture of risk management, each manager is responsible for appropriate responses to manage risk.

To enable this, Cochlear:

- has implemented a systematic process to assist in the identification, assessment, treatment and monitoring of organisational risks;
- provides the necessary tools and resources to management and staff to support the effective management of risks; and
- reviews and communicates risk management best practice on a regular basis.

The key elements of the risk process are:

1. Oversight of the Risk Management System

The Cochlear Board is responsible for overseeing the risk management framework, as set out in the Responsibility and Authority section below.

2. Risk Identification and Profile

To ensure key risks are identified and analysed, Cochlear:

- defines risks in the context of the Group's strategy;
- prepares risk profiles including a description of the material risks, the risk level and action plans used to mitigate the risk; and
- regularly reviews and updates the risk profiles.

Cochlear optimises its ability to achieve business objectives by maintaining a system of internal controls that assists management and provides an early warning of risks. Although no system of internal control can provide absolute assurance that risks will be fully mitigated, these systems are designed to ensure that key risks are explicitly addressed and reduced to an acceptable level.

Cochlear focuses on effective management of the following material risk categories:

- strategic business risks;
- operational risks;

- financial risks;
- human resource risks; and
- legal/regulatory risks.

3. Assessment of Effectiveness

Cochlear assesses the effectiveness of its Risk Management Framework through a well-structured continuous improvement process to ensure risks and controls are continually monitored and reviewed. This includes appraisal of actions taken by risk owners to manage risks, input from Internal Audit and other assurance processes.

4. Reporting

The major monitoring and reporting mechanism is the Risk Management Committee. Cochlear ensures the Audit Committee and Board are adequately informed of significant risk management issues and the actions undertaken to manage risks on a regular basis.

Responsibility and Authority

1. Cochlear Board

The Cochlear Board is responsible for reviewing and ratifying the systems of risk management, and addressing specific issues as escalated by the Audit Committee or management.

2. Audit Committee

The Audit Committee advises the Board on risk management and is responsible for ensuring the Company maintains effective risk management and internal control systems. The Audit Committee is responsible for reviewing the Minutes and associated actions created by the Risk Management Committee.

3. Risk Management Committee

The Board has delegated day-to-day responsibility for implementation of the risk management framework to the Risk Management Committee. The aim of this Committee is to provide the Board, through the Audit Committee, assurance that the major business risks are being identified and consistently assessed and that management plans are in place to address risk.

The Risk Management Committee is comprised of risk owners for each of the core functions. It is responsible for:

- implementation of the principles, actions and requirements of the Risk Action Plans and monitoring its implementation within the Company and its business units;
- provision of the necessary tools and resources to identify and manage risks;
- regular review of progress against action plans for all risk items;
- regular review of the current list of risk items and making any necessary changes to the risk status of individual items;
- regular reporting of the status of risk items to the Audit Committee and Board;

- appraisal of risk owners actions taken to manage risk and correction of substandard performance;
- internal compliance and control systems for the implementation of the Risk Action Plans;
- co-operation necessary to assist the internal auditor in carrying out the internal risk audit under the terms required by the Audit Committee; and
- compliance with regulatory requirements and best practice.

4. Employees

All staff are responsible for the ownership of and for undertaking their part in the actions and requirements of the Risk Action Plans.