

Annual Report 2010

Innovation driving performance

Toni Vourantonis
Bilateral cochlear
implant recipient



Hear now. And always



Toni, 24

Bilateral cochlear implant recipient

- Nucleus Freedom, 2002
 - Nucleus 5, 2009
-

Before implant

- Could not use the phone
 - Social difficulties at school
 - Relied on subtitles when watching films
-

Achievements after implant

- Fulfilling career
 - Confidence in groups
 - Gets more out of watching films
 - Zumba dancing
-

'I can have proper conversations on the phone with my family and friends. Everyone else takes it for granted – I really enjoy it.'

Cochlear Nucleus CP810
Sound Processor

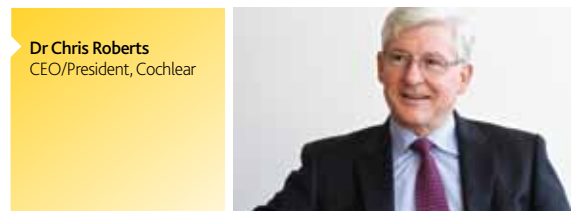


Inspiring our innovations

Our recipients' personal accomplishments inspire all of us at Cochlear.

We are inspired to develop the most advanced hearing technologies; we are inspired to provide the very best hearing outcomes; and we are inspired to support our recipients for a lifetime of sound.

Hear now. And always

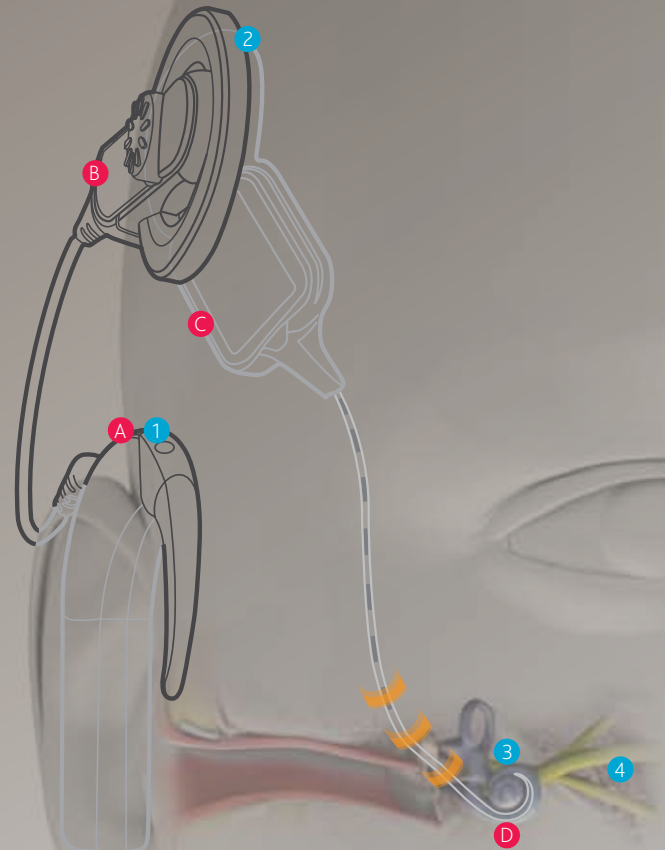


Contents

2	Life enhancing hearing solutions	10	Chairman's Report	18	Asia Pacific Report	24	Corporate Governance Report
4	Cochlear Nucleus 5 System	12	CEO/President's Report	19	Our People	31	Financial Report
6	Cochlear Hybrid System	14	Financial Discussion and Analysis	20	Research, Development and Operations	105	Glossary, Company ASX Announcement Record and Company Information
8	Cochlear Baha BP100	16	Americas Report	21	Board of Directors		
		17	Europe Report	22	Senior Executive Team		

Cochlear is the global leader in implantable hearing solutions. It has a dedicated global team of more than 2,000 people who deliver the gift of sound to the hearing impaired in over 100 countries around the world. Cochlear's vision is to connect people, young and old, to a world of sound by offering life enhancing hearing solutions.

How our implantable hearing solutions work



Cochlear Nucleus System

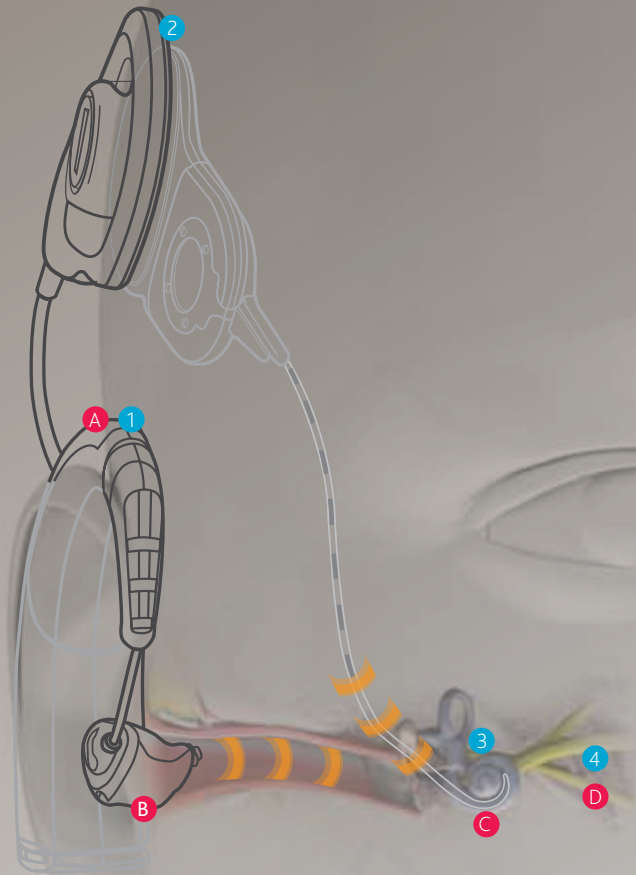
The ear is implanted with a cochlear implant system which has both external and internal parts:

- A. the sound processor and
- B. the coil are worn behind the ear; and
- C. the implant is placed just under the skin, behind the ear; and
- D. the electrode array is positioned in the cochlea.

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

How the cochlear implant system works

1. The sound processor captures sound and converts it into digital code.
2. The sound processor transmits the digitally coded sound via the coil to the implant just under the skin.
3. The implant converts the digitally coded sound to electrical signals and sends them to the electrode array.
4. The implant's electrodes stimulate the hearing nerve which relays the sound to the brain.



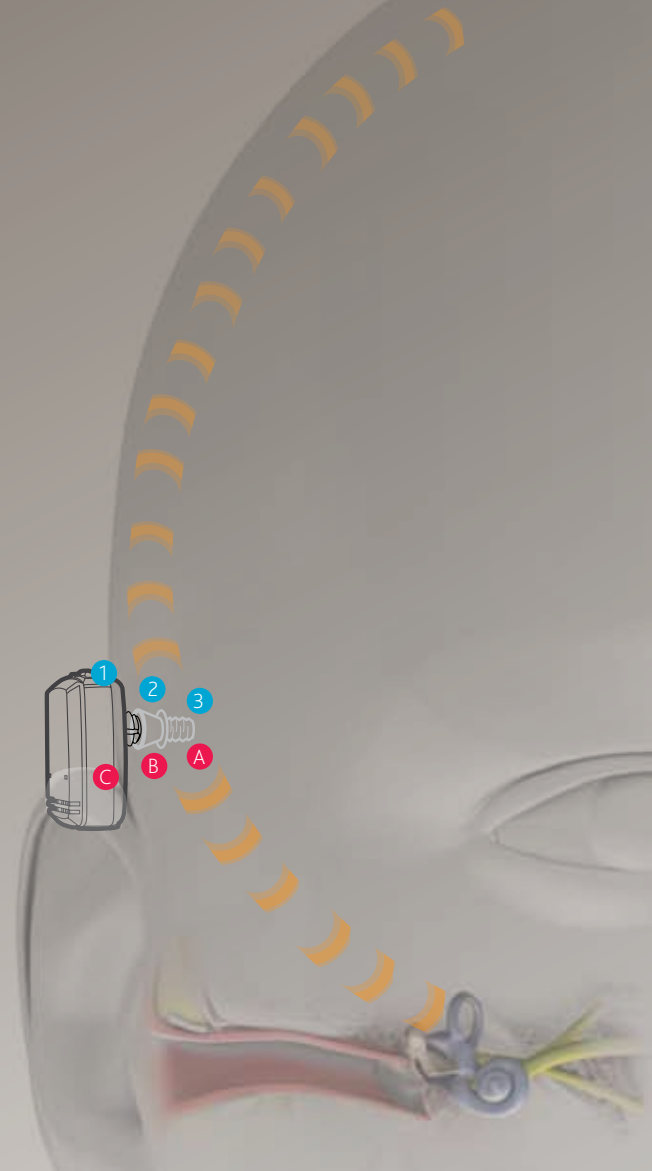
Cochlear Hybrid System

Acoustic pathway

- A. The external sound processor sends low frequency sounds to the acoustic component.
- B. The acoustic component amplifies the low frequency sounds and sends them via the normal hearing pathway.
- C. The amplified sounds activate the hearing nerves.
- D. The nerve hearing response caused by acoustic stimulation is sent to the brain which combines with electrical stimulation into a perceived sound.

Electrical pathway

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



Cochlear Baha System

The Baha System combines:

- A. a small titanium implant;
- B. a connecting abutment; and
- C. a detachable high performance sound processor.

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

How the bone conduction implant system works

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

Proven performance with Cochlear™ Nucleus® 5

The Cochlear™ Nucleus® 5 System was launched in the first half of the 2010 financial year and continues to build momentum owing to its proven superior hearing performance¹.

By year end, it had been launched in approximately 50 countries worldwide as regulatory and reimbursement approvals were obtained.

As the world's most advanced cochlear implant system, the Cochlear Nucleus 5 System has raised the technology bar in the cochlear implant industry and gained widespread praise from both recipients and hearing health professionals. The System comprises the world's thinnest and strongest cochlear implant, and delivers superior hearing performance outcomes with a next-generation sound processor and new feature-rich remote assistant.

Technically sophisticated and designed for style and ease of use, the System provides a smarter hearing solution to deliver superior hearing outcomes for both adults and children experiencing severe to profound hearing loss.

Utilising Cochlear's unique SmartSound™ technology, the new System optimises sound quality in a variety of listening environments and makes use of a sound processor that has been tested to withstand the most active lifestyle.

At only 3.9mm thin, the CI512 Cochlear Implant is 40% slimmer than Cochlear's previous generation implant, which makes it the world's thinnest cochlear implant. Also, the titanium based implant is 2.5 times more impact resistant than the previous generation Freedom™ implant.

Since its launch, the System has won several industry awards including the prestigious international design *red dot award: product design 2010* award for outstanding creative, innovative and high quality products.

In June 2010, the System also won the Australian International Design Award in the Medical and Scientific category, for its forward thinking design and innovation excellence.



Performance highlights

Proven implant reliability – 100% cumulative survival rate within one year²

The Nucleus 5 continues Cochlear's enviable record for implant reliability, meaning recipients can feel confident in the long-term performance of their implant.

Significant improvement of 30 percentage points with Zoom activated³

Understanding speech in noisy environments is often a challenge for the hearing impaired and with Nucleus 5, Cochlear has made advances in this area.

¹ Cochlear CP810 Sound Processor and CR110 Remote Assistant Validation Results, Cochlear (2009).

² Nucleus Reliability Report, Cochlear (June 2010).

³ Cochlear CP810 Sound Processor and CR110 Remote Assistant Validation Results, Cochlear (2009). Zoom is a setting designed to assist speech understanding in noise.

Peter, 42

Cochlear Nucleus 5 recipient (Bilateral)

Before implant

- Struggled to work in corporate environments
 - Could not relax when having conversations
 - Wanted to hear his wife's voice
-

Achievements after implant

- More career options
 - Can enjoy talking to people in all environments
 - Greater family interaction
-

'My hearing has changed dramatically. The first one was fantastic – it was 100% better than my hearing before. But then to go bilateral is like another 100% better than that.'



Cochlear Nucleus 5 System

Cochlear™ Hybrid™ System continues roll-out to industry applause

The Cochlear™ Hybrid™ System, the world's first truly integrated electro-acoustic hybrid hearing solution, has continued its release.

The System provides an effective hearing solution for people with severe to profound high frequency hearing loss, giving them a better quality and clarity of hearing with a solution that integrates cochlear implant and hearing aid technologies.

Cochlear Hybrid continued its roll-out in the 2010 financial year in Europe.

The System has won six Australian industry awards, acknowledging its design and engineering excellence:

- Excellence in Innovation Award 2010, Australian Cooperative Research Centre;
- Australian Government Engineering Innovation Award 2009, Engineers Australia;
- 2009 Australian International Design Award, Standards Australia;
- Kerrin Rennie Award for Excellence in Medical Technology 2009, Medical Technology Association of Australia;
- Engineering Excellence Award for Software and Embedded Systems 2009, Engineers Australia, Sydney Division; and
- Engineering Excellence Award for Welfare, Health and Safety 2009, Engineers Australia, Sydney Division.

Performance highlights

Clinical trials demonstrated at least 70% of recipients experienced improved hearing in noise compared to hearing aids¹

Many people who may not qualify for a standard cochlear implant still struggle to hear clearly when wearing a hearing aid. The Cochlear Hybrid System has given these individuals a new treatment alternative.

78% of patients have hearing preservation within 30db of pre-op level¹ one year after receiving a Hybrid L24 implant

The Hybrid implant has been specifically designed to bypass the damaged hair cells only in the high frequency region of a recipient's cochlea, whilst preserving existing low frequency hearing.

¹ Interim results of the European Cochlear Hybrid System Adult Clinical Trial (showing February 2009 German data), May 2009.



Bronwyn, 50

Cochlear Hybrid recipient

Before implant

- Difficulty communicating in noisy groups
 - Limited hearing on the phone
-

Achievements after implant

- More confident about job opportunities
 - Contributing more to conversations
 - Beginning to hear higher-pitched music
 - Greater appreciation when listening to singing
-

'My whole life is richer and I have gained courage, belief and trust in myself and others.'



Cochlear Hybrid System

Introducing the Cochlear™ Baha® 3 System – excellence through combined performance

At the end of the 2010 financial year, Cochlear launched the third generation bone conduction technology, the Cochlear™ Baha® 3 System. The new System and all its components are commercially available in Europe. The majority of the components are also available in Asia Pacific and the US, with roll-out of the B1300 Implant having started in July 2010.

The Cochlear Baha 3 System relies on a number of components that have been designed to deliver optimum performance: the BP100 Sound Processor, the B1300 Implant and the BA300 Abutment. The System's professional tools include the Baha Fitting Software and Baha surgical tools.

Proven performance

The BP100 Sound Processor is the industry's first moisture resistant and fully programmable, multi-channel sound processor. It is clinically proven to provide over 25% improved speech understanding in noise compared to the previous processor^{1 to 4}.

Optimised connection

The Baha 3 snap coupling connects to the inside of the BA300 Abutment to reduce risk of processor-to-skin contact. A helium-tight connection between the abutment and implant reduces the risk of microleakage.

Strong foundation

The B1300 Implant provides a strong foundation to the System by delivering unparalleled implant stability^{5 and 6} that reduces time to fitting by 50%⁷.

Simplified surgery

The new instrument organiser, surgical tools and packaging are designed to streamline the surgical process and non-invasive measurements facilitate easy assessment of implant stability.

Precise fitting

The Baha Fitting Software offers new capabilities in terms of fitting accuracy and simplicity. Innovative functionality, like BC Direct, make it easier to get actual bone conduction thresholds and provide better fitting outcomes.

Performance highlights

Speech understanding in noise

It is clinically proven to provide over 25% improved speech understanding in noise compared to the previous processor.

50% shorter time to fitting

The B1300 Implant provides a strong foundation to the Baha 3 System by delivering unparalleled implant stability that reduces time to fitting by 50%.

¹ Davison, Leese, Marley & Johnson (2009). Clinical impressions of a new Bone Anchored Hearing Aid processor. Presented at 2nd International symposium on bone conduction hearing - craniofacial osseointegration; 11 to 13 June, Gothenburg, Sweden.

² Kompis & Pfiffner (2010). A prospective comparative study of Baha BP100 and Baha Divino. Paper presented at CI 2010 (International Conference for Cochlear Implants and Other Auditory Implantable Technologies); 30 June to 3 July, Stockholm, Sweden.

³ Flynn, Sadeghi & Halvarsson (2009). Results of the first clinical evaluation of Cochlear Baha BP100, white paper; Cochlear Bone Anchored Solutions, Gothenburg, Sweden, E81511.

⁴ Hällgren, Larsby & Arlinger (2006). A Swedish version of the Hearing In Noise Test (HINT) for measurement of speech recognition. *International Journal of Audiology*; 45:227-37.

⁵ Gottlow, Sennerby, Rosengren & Flynn (2010). An experimental evaluation of a new craniofacial implant using the rabbit tibia model. Part I. Histological findings. *Otology and Neurotology*. Epub ahead of print.

⁶ Sennerby, Gottlow, Rosengren & Flynn (2010). An experimental evaluation of a new craniofacial implant using the rabbit tibia model. Part II. Biomechanical findings. *Otology and Neurotology*. Epub ahead of print.

⁷ Dun, de Wolf, Wigren, Eeg Olofsson, Granstrom, Green, Flynn, Staffors, Rothera, Mylanus & Cremers (2010). Development and Multi-centre Clinical Investigation of a Novel Baha Implant System. Technical and six month data. Paper presented at CI 2010; 30 June to 3 July, Stockholm, Sweden.

Anne-Marie, 63

Cochlear Baha BP100 recipient

Before implant

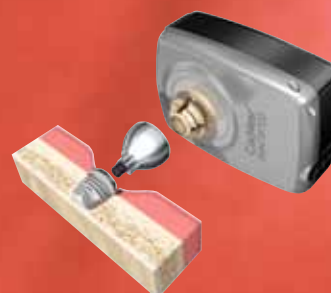
- Struggled with sound direction
 - Difficulty communicating with family and work colleagues
-

Achievements after implant

- Can identify where noises are coming from
 - Enjoys the richness of music
 - Has a family which really notices the difference
-

'Before my Baha, I always looked the wrong way when I heard a noise, and I struggled to identify which direction it was coming from. With the BP100, I can immediately determine the location of any sound – even whispers coming from directly behind me!'

Cochlear Baha 3 System



Innovative product launches and developing internal capabilities helped Cochlear achieve another year of sustained growth

Financial performance

Record revenue of \$734.8 million and a 19% increase in Net Profit after Tax (NPAT) to \$155.2 million underlined another successful year for Cochlear.

The highlight of the year was the successful launch of the Cochlear Nucleus 5 System in approximately 50 countries.

This was an important milestone in the sustained growth and development of Cochlear and will be discussed further by the CEO/President in his report.

Sustained growth

Sustainable growth is a key strategic objective for the Company and, despite the recent economic uncertainty in the world, Cochlear's performance continued to place it in the top quartile of the ASX 100.

Cochlear is the clear world leader in the field of cochlear implants. Following the successful launch of the Cochlear Nucleus 5 System and with our portfolio of hearing solutions, if global health economics and reimbursements are maintained then we expect continued growth for Cochlear and the industry.

Increased dividends

The increase in NPAT, ongoing confidence in future growth, together with strong cash flows, enabled the Board to increase its final dividend to \$1.05 per share (F09: 95 cents).

The total dividend for the year of \$2.00 per share was up 14% on the previous year. The dividend payout ratio remained at around 70% of NPAT.

As foreshadowed at the half year results announcement, the final 2010 dividend was partially franked, to 60%. This partial franking reflects the growing overseas proportion of profits.

Cochlear has declared the unfranked portion of the dividend as conduit foreign income (CFI). This will assist our non-resident shareholders as dividends withholding tax on the unfranked amount will not apply.

It is anticipated that Cochlear's 2011 dividend payments will again be partially franked, and the unfranked amount will also be declared CFI.

Capital management

The continued uncertainty in the global capital markets has ensured continued focus on the Company's capital management by the Board.

At 30 June 2010, Cochlear had a \$300 million corporate debt facility available, maturing in June 2012.

This was part of a conservative approach during the recent financial and world market difficulties. It was also deemed prudent to have substantial liquid firepower while we progressed our new headquarter project, financed by another special purpose project debt facility, through the early development phase. Excluding this special financing for the headquarter project, our corporate net debt was \$41 million at year-end.

This corporate facility is continually reviewed and at Cochlear's instigation it was reduced to \$200 million in August 2010. This still provides sufficient flexibility for all our forecast cash requirements.

The net debt attributable to the new headquarters project stood at \$73 million at 30 June 2010. This project debt is under a separate facility. This project is on time and on budget. The project debt will all be repaid, with funds from Macquarie University, on practical completion of the building. The headquarters will then be leased by Cochlear from Macquarie University on commercial terms already agreed. Practical completion is estimated for the second quarter of F11.

Influences on Cochlear from world economic conditions

Cochlear sells into over 100 countries and has a direct presence in over 20. Approximately 95% of our sales are into countries other than Australia. World events are therefore important to our continued growth; Cochlear is influenced by events in the global economy and by currency fluctuations against the Australian dollar.

Cochlear has a comprehensive range of life changing products. Together with the positive health economics for our range of hearing solutions, in particular cochlear implantations, this range of products has supported ongoing growth in F10. We also benefit from the broad geographical spread of countries we sell into, which has to date helped ameliorate demand distortions that arise in individual countries from time to time.

Directors and Board activities

As you know Mr Tommie Bergman retired as Chairman of the Board of Cochlear with effect from the end of 30 June 2010, after nearly nine years on the Board. His positive contribution to the growth and development of Cochlear's business is well recognised.



Mr Rick Holliday-Smith
Chairman

Personally, and on behalf of the whole Board, I congratulate him on his achievements and years of exceptional service and we wish him well for his retirement.

I was very pleased to be selected to replace Mr Bergman as Chairman of the Board. Cochlear is a great company and I will do all I can to work with the management team and the Board to move us forward and continue to ensure we are strong and successful.

I have been on the Board for four years and I have a deep understanding of Cochlear's activities. The current growth strategy, our continuing focus on technical development and innovation, and our manufacturing initiatives are all appropriate for Cochlear. The Board and I will continue to support the CEO/President and the senior executives to ensure we have well founded strategies and development plans and that we do all we can to ensure that they are successfully executed.

I am delighted that Mrs Yasmin Allen joined the Board effective 2 August 2010. Mrs Allen has a strong background in finance and business, and is an experienced independent director. She will complement the skill set of the Board and I look forward to working with her.

Cochlear is a global company and the Board frequently travels overseas to visit our various business units and to stay in touch with the markets into which we sell.

In 2010, we travelled to Europe, including Poland where we have a growing business. The Board met key surgeons and opinion leaders and heard first hand their views of our business generally and our new products. It is clear that developing countries are likely to play an increasingly important part in our future growth.

On the same trip, the Board visited our Bone Anchored Solutions headquarters and manufacturing facility in Gothenburg, Sweden. These trips allow for detailed review of our overseas activities as well as providing access and insights to key staff and customers. This is an important part of our duties and I intend to continue these activities.

Executive team

We are very lucky to have a strong executive team capably led by the CEO/President, Dr Chris Roberts.

This team has been together for some time and its stability, commitment, knowledge and hard work, together with the many other important team members in Cochlear, have helped

us to continually improve. It is also a vital part of meeting the challenging tasks of new product development, manufacturing improvements and volume achievements, and the successful launch of new products like Nucleus 5 and BP100 by our many sales oriented members.

The Board thanks all of the Cochlear team for a challenging but successful year.

Diversity

Cochlear is a diverse company. We employ over 2,000 employees in nearly 50 countries and in our Sydney office alone we are represented by over 60 nationalities. These combined energies and talents have made Cochlear the global success that it is.

This diversity has been important element in our success in the global market.

Executive remuneration and executive share option plans

There has been considerable discussion on executive pay and, in particular, share option plans during 2010. Cochlear continues to encourage employee ownership of the Company and did not cancel any of our option and share plan as a result of changes to legislation.

The Remuneration Committee has considered these matters and is satisfied that Cochlear's philosophy and practices regarding executive remuneration fully meet the standards required.

Over 150 executives and senior managers at Cochlear own options or performance shares. The employee share plan is a broad based scheme and over 1,000 employees are currently shareholders under the scheme.

Outlook

The outlook for Cochlear is positive. This is supported by the company's continued investment in research and development and marketing and sales growth initiatives. Internal capabilities necessary to support this growth are also being developed.

2010 was another successful year of growth, in which Cochlear Nucleus 5 was released in approximately 50 countries and received enthusiastically

Record revenues and earnings

Total revenue for F10 was \$734.8 million, up 6% over F09. An appreciating Australian dollar masked the underlying sales growth, with sales in constant currency (i.e. restating F09 at F10 FX rates) up 12%.

Net profit after tax (NPAT) of \$155.2 million, was up 19%, and earnings per share (EPS) of \$2.76 was up 18%.

Cochlear implant unit sales were up 13% to 21,023 implants, with growth in the second half (June half) up 20% helped by the Nucleus 5 release.

Bone Anchored Solutions (BAS) product sales (e.g. Baha) were \$92.5 million (up 9% in constant currency).

All regions grew: Americas was the fastest growing region, with sales of \$307.6 million up 18% in local currency, with EMEA (Europe, Middle East, Africa) up 7% in local currency to \$291.5 million, and Asia Pacific sales of \$97.1 million up 13% in local currency.

Free cash flow grew strongly, up 50% to \$166 million. Improvements in working capital underpinned this increase in free cash flow, with debtor days at 72 days (F09: 73 days), and inventory days at 192 days (F09: 198 days.) This free cash flow underpinned dividend increases, with final year dividend up 11% to \$1.05 per share giving a full year dividend, of \$2.00 per share, up 14%.

Cochlear Nucleus 5: A game changer

The highlight for F10 was the well executed launch of Cochlear Nucleus 5, which represents the future of cochlear implantation. From a design perspective, Nucleus 5 improves not only recipient hearing performance, but further advances ergonomics, useability, miniaturisation and reliability. The advanced microphone technology, digital signalling processing and other technologies improve hearing performance in a very meaningful way, particularly in difficult listening environments.

Nucleus 5 has been well received by recipients and clinicians. Many surgeons have commented on the benefits of the implant's new shape (and thinness), in terms of improved cosmesis and shortened surgical time. While the Nucleus 5 design has been very well received, the Cochlear team did an excellent job in rolling the product out across approximately 50 countries in F10. This included a range of activities from manufacturing ramp up (including many new manufacturing processes), training and excellent marketing material (not only multiple languages but multiple alphabets) supporting the key product positioning and messaging. A well executed launch can truly enhance a great design and this is what the Cochlear team has achieved. The opportunity over recent years to make significant investments in internal capability across all functions and regions has paid off with this well executed launch. My sincere congratulations to the entire Cochlear team.

Bone Anchored Solutions: Innovating across all Baha components

Bone anchored products remain an important implantable offering for certain types of hearing impairments, including single-sided deafness and conductive hearing loss. Our research and development efforts have been directed at innovating all system components. The next generation sound processor (BP100) and fitting software were released a year ago; however, a number of



Dr Chris Roberts
CEO/President

features have been enhanced and a new BP100 build standard released. A new implant (BI300), with an improved surface for promoting osseointegration and stability, has been developed (and launched as we enter F11), along with an improved abutment and the simplification of surgical tools. Importantly, the components have been optimised individually and as a complete system, which is now referred to as Cochlear Baha 3.

Innovation: The turbo charger of growth

Cochlear's product innovation also includes hybrid or electro-acoustic implants (where residual hearing at the low frequencies is preserved) and direct acoustic cochlear stimulation (DACS) for severe mixed hearing losses. Hybrid implants are steadily growing and DACS entered clinical trials in F10. The pipeline of products behind Nucleus 5, Baha 3, Hybrid and DACS is very full and while for competitive reasons we do not detail this pipeline, we do remain excited by the opportunity for technology to continue empowering clinicians to provide the gift of hearing.

Global HQ: Nearing completion

During F10, construction of Cochlear's new headquarter facilities at Macquarie University has gone to plan. All the activities currently at Lane Cove (manufacturing, R&D, Asia Pacific office, and head office functions) will move to the new 24,000m² facility expected to be open by the end of the 2010 calendar year. Forming a partnership with a leading university, which has strengths across a range of relevant disciplines, will create synergy for what is essentially a knowledge based business.

Aligning stakeholder interests

The business of developing, manufacturing and supplying implantable devices for the hearing impaired involves a lifelong commitment of support to recipients. For example, ensuring future external sound processors are backwards compatible to previous generation implants is fundamental to ensuring each recipient has a lifelong benefit from the implant. This lifelong commitment we take very seriously, hence our tag line, "Hear Now. And Always". This means, for example, that the long-term consequences of seemingly short-term decisions must be factored into everything we do.

From a shareholder perspective, that is good news, as the day to day business is truly about balancing the short and long term. It also makes it easier to ensure our business plans are linked with what drives shareholder returns. Indeed, total shareholder returns (TSR) (both absolute and relative) remains a key management metric. For example, TSR for F10 was 38%, for the F09 – F10 two year period was 73% and for the three years (F08 – F10) was 36%. These TSR results place Cochlear in the top quartile performance against the ASX 100 companies for these time periods, specifically 6th (one year), 2nd (two year) and 18th (three years). Since the IPO in 1995, the share price is up over 30 times (and dividends have increased every year for those 15 years). While in the short term, there are a lot of variables impacting share price over which management has little control, over the long term the share price does reflect management actions. This is inculcated in how we think and act.

Finally, and as expressed in the past, the passion and commitment of the 2,200 plus employees and contractors of Cochlear are palpable, and remain a key success factor for Cochlear, and to all our employees, thank you. There is no less passion and commitment in the thousands of healthcare professionals globally that implant and support our products. Together, we can truly change the world of the hearing impaired.

Continued growth

Sales growth continues

- Total revenue was up 5.8% to \$734.8 million.
- In constant currency terms, revenue was up 12%.
- Baha sales were \$92.5 million and grew 9% in constant currency terms.
- Sales growth in cochlear implant units, including Hybrid implants, was up 13% to 21,023 for the full year. The second half unit sales grew 20%, reflecting the momentum of the launch of the Nucleus 5 which commenced in the first half of F10.
- The portfolio effect of selling in over 100 countries was less evident this year. Revenues in constant currency terms increased in all regions; Americas increased 18%, Europe 7% and Asia Pacific 13%. China donation sales were 500 units in the current year.

Profit

- Gross margin to revenue at 72% was consistent with last year. In constant currency terms, the gross margin improved by 1 percentage point and was particularly pleasing in a year of product launch where learning effects of new production were expected.
- R&D expenses of \$94.9 million, reduced \$1.8 million from F09. Removing the impacts of currency, R&D spend increased 1.8% on F09, but as a percentage of sales, reduced by 1 percentage point to 13%.
- Net interest expense increased \$4.0 million to \$11.1 million due to higher interest rates and higher unused line fees. Interest cover was a strong 20 times.
- The tax rate of 25.9% remained consistent with last year. Again this year, the tax expense was reduced by the impact of the tax concession on R&D spend. There is uncertainty as to the benefit Cochlear will receive in F11 due to the proposed new R&D incentive legislation not yet being passed.
- NPAT increased 19% to \$155.2 million.

Foreign exchange

- Foreign exchange was again an important aspect of the result.
- Cochlear has a partial natural hedge with over 90% of sales in foreign currency and over 50% of expenses in foreign currency. To help manage the portion not covered by the natural hedge,

foreign exchange contracts on foreign currency cash flows back to Australia are taken out. These contracts cover a three year period at a declining level of cover. The Australian dollar strengthened during the year against all hedged currencies.

- Foreign currency contracts resulted in a gain of \$38.6 million this year (2009: loss of \$17.1 million) recognised in revenue. This was in line with movement in foreign currency rates according to our hedging policy.
- At 30 June 2010, Cochlear had foreign currency equivalent of \$644.9 million in foreign exchange contracts. In the coming year, F11, the average exchange rate for the US dollar contracts is 0.79 and the average for Euro contracts is 0.56.
- During the year, there was a net gain of \$1.2 million (2009: \$8.7 million) on the translation of foreign assets. This is reported through Note 6 (Net finance (expense)/income) to the financial statements.
- Overall, NPAT was negatively impacted by \$15.1 million due to the movements in foreign exchange rates during the year.

Increased dividends

- The final dividend of 105 cents per share brought the full year dividend to 200 cents per share. The full year dividend is up 14% on 2009.
- The dividend reflects a payout ratio of approximately 70%. The final dividend is 60% franked, with the unfranked portion being conduit foreign income.

Strong capital management

Debt reduced

- Net debt for the underlying operations decreased to \$41.1 million from \$98.7 million in 2009. This is a result of the continued focus on working capital management particularly on collection of receivables discussed below.
- At 30 June 2010, the net debt for the construction of the new global headquarters was \$72.8 million (2009: \$9.9 million).
- Cochlear continues to meet all its debt covenant conditions.

Debtors

- Debtor days decreased to 72 days (2009: 73 days). Debtor days in the Americas and Asia Pacific regions reduced over last year due to a concerted effort at managing and collecting receivables. Europe debtor days increased as a result of going direct in certain countries.

Inventories

- Inventories of \$104.4 million were down 1% (2009: \$105.9 million). This decrease is pleasing given the sales increase. Days inventory decreased to 192 days (2009: 198 days), reflecting improved inventory management.

Intangible assets – no impairment charges

- Intangible assets of \$211.8 million (2009: \$208.3 million) are a significant proportion of Cochlear's total assets. Some \$159.9 million of this total relates to goodwill arising from the earlier acquisition of businesses.
- All intangible assets are tested for impairment on an annual basis. There were no write-downs in 2010.

	2010 IFRS	2009 IFRS	2008 IFRS	2007 IFRS	2006 IFRS	2005 IFRS	2004 previous GAAP	2003 previous GAAP	2002 previous GAAP	2001 previous GAAP
Cochlear implant system sales (units)	21,023	18,553	18,228	15,947	12,901	10,802	9,306	9,328	7,845	6,482
Total revenue (\$million)	734.8	694.7	601.7	559.4	452.3	349.0	282.8	306.1	255.0	220.1
R&D expenses (\$million)	94.9	96.7	80.0	65.9	56.7	44.6	44.5	37.0	37.7 ⁽ⁱ⁾	27.7
EBITDA (\$million)	243.6	205.5	193.3	170.9	130.2	96.8	54.9	87.9	56.2	49.0
EBIT (\$million)	220.5	183.3	167.3	150.2	111.5	82.5	45.5	80.1	51.5	45.5
NPAT (\$million)	155.2	130.5	115.2	100.1	80.0	59.6	36.8	58.2	40.1	31.2
Basic EPS (cents)	275.7	233.7	208.1	182.9	146.8	110.1	68.2	110.0	76.6	60.2
DPS (cents)	200.0	175.0	150.0	125.0	100.0	80.0	79.0	77.0	51.0	41.0
Closing share price (\$)	74.32	57.70	43.65	61.00	54.63	39.20	22.72	32.30	34.05	39.00
Market capitalisation as at 30 June (\$million)	4,198	3,230	2,423	3,341	2,985	2,123	1,231	1,714	1,788	2,029
Number of employees	2,006	1,888	1,789	1,655	1,100	982	816	814	722	639

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

The Americas region grew with revenue up 18% (constant currency) to \$307.6 million as the market embraces new products

Record sales results

Revenue in the Americas region grew 18% in constant currency terms to a record \$307.6 million. Growth was driven by the successful launch of the Nucleus 5 System, which commenced in the first half of F10.

We also launched the new Cochlear Baha BP100 Sound Processor in the first half of F10, which further drove revenue growth.

New products launch in the Americas

The launch of the Nucleus 5 System was the focus for the year. Clinicians, candidates and recipients enthusiastically embraced the new products.

In a multi-centre clinical study in the US, preliminary data indicates that people using the Nucleus 5 experienced statistically relevant performance improvements in the most difficult hearing environment (noise) compared to Freedom¹. The new streamlined implant has been well received by surgeons in the market as it provides a lower profile for patients of all ages.

Initiatives to drive market growth

Initiatives to drive market growth continue to be a focus and Cochlear Americas has embarked on several key initiatives to ensure that implantable hearing technology becomes the standard of care for people with severe to profound hearing loss.

Ensuring best clinical practices and increasing access through legislative and public policy are key elements for successful market growth.

To increase awareness of implantable hearing technology, Cochlear Americas launched an online community, cochlearcommunity.com, where people can have conversations about the benefits of cochlear implants and support each other before, during and after the implant. Over 6,500 participants including volunteers connect with each other online and in person.

Cochlear Americas has initiated integrated market awareness campaigns in collaboration with clinics and hearing aid dispensers in select markets to increase awareness about the technology with potential candidates and their family members so that they are empowered to seek assistance from a clinic in their area.

Educating both people with hearing aids and hearing aid providers is important because many of them know very little about the benefits or candidacy of implantable hearing technology. To access people

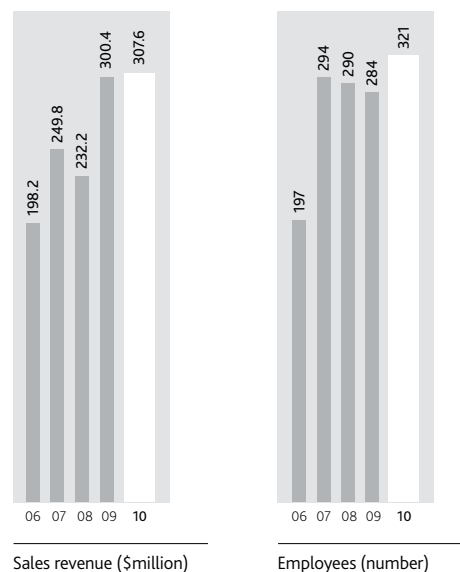
who are in the hearing aid channel, Cochlear Americas has invested in a dedicated outreach program, including a specialised field force to educate hearing aid providers and Ear, Nose and Throat specialists as well as their patients.

Recipient Services – a new business unit established to support recipients

A new business unit was established to provide personalised, valuable, and efficient access to products, services and support for Nucleus and Baha recipients. Cochlear’s vision is to provide the support each recipient needs to manage their hearing healthcare journey throughout their lifetime as well as providing new product releases specifically tailored to existing recipients. Our goal is to create a powerful recipient experience with Cochlear for continued long-term growth.

Outlook

The strategic focus for F11 will be on market growth through robust surgical training programs, continued outreach to hearing aid professionals, marketing campaigns targeted to raise awareness about our technology among medical professionals and consumers and an increased focus on providing services for our recipients.



¹ Multi-center conversion study, J Wolfe Cochlear Symposium, 11th International Conference on Cochlear Implants and Other Auditory Implantable Technologies, Stockholm, Sweden, 30 June 2010.

Revenue was up in the European region by 7% (constant currency) to \$291.5 million

Revenue growth

Revenue has increased by 7% in constant currency to \$291.5 million across the European region, which includes the Middle East and Africa.

This was driven by the successful launch of new products including Nucleus 5, as well as Baha System 3 and a full commercial launch of Hybrid. For the first time, marketing materials were translated into 30 languages at the time of launch and all products were well received into the market by hearing health professionals and candidates.

Approval of Nucleus 5 has now been gained in all western European markets, with registration and approval expected for remaining Central and Eastern Europe and Middle Eastern countries in the first half of F11.

F10 was also the first full year of direct commercial operation in Turkey.

World leading research

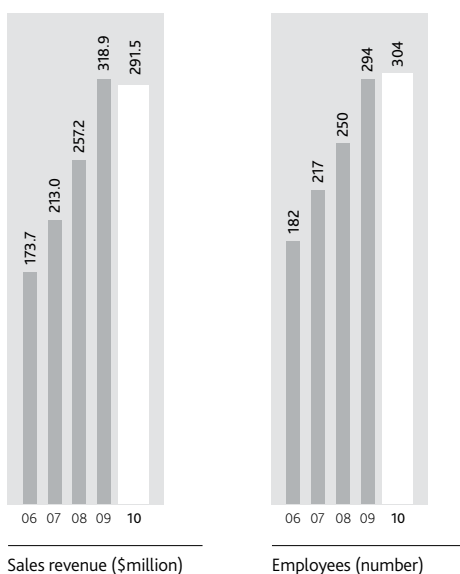
Collaborative research with leading academic organisations remains a focus for the European region, which continued its work with a range of leading research centres, including the Institute of Physiology and Pathology in Warsaw, the SRA Research Group and the Medizinische Hochschule Hannover in Germany, where research on Cochlear's new direct acoustic cochlear stimulator was also advanced during the year.

Technology showcases

Cochlear attended several key industry conferences during F10 to meet with customers and to showcase and demonstrate its technologies to a wide range of leading industry specialists, audiologists and surgeons. These events included ESPO 2010 (the International Congress for the European Society of Pediatric Otorhinolaryngology) in Pamplona, Spain, EAONO (European Academy of Otology & Neuro-Otology) in Parma, Italy, and CI 2010 (the International Conference on Cochlear Implants) in Stockholm, Sweden. The latter is a biannual event attracting over 1,600 professional delegates, where this year Cochlear presented a range of product performance data, receiving positive feedback.

Outlook

Despite market conditions remaining challenging across the European region, Cochlear expects ongoing growth and continued sales momentum from its recent product launches.



The Asia Pacific region experienced good growth in a year of change with overall revenue up 13% (constant currency) to \$97.1 million

Good growth in a year of change

Sales in Asia Pacific region of \$97.1 million were up 13% in constant currency. This included 500 units sold into China for the donation program.

Building regional infrastructure

During F10, Cochlear Asia Pacific continued to build its infrastructure in the region, broadening its presence in India with a new company to house direct operations. There are now over 30 employees in India working directly with customers in a market with excellent growth potential.

In China, a wholly-owned foreign entity was created to support our ongoing growth in this important region. In Beijing, a dedicated team of over 20 people work alongside a team of committed local distributors.

New products continue to roll out in Asia Pacific

Asia Pacific's complex regulatory environment continues to drive a staggered launch program throughout the region. Cochlear Nucleus 5 was launched in a number of countries in F10 and was a major contributor to the region's growth. Countries with access to Nucleus 5 include Australia, Hong Kong, India, Malaysia, New Zealand, Singapore and Thailand.

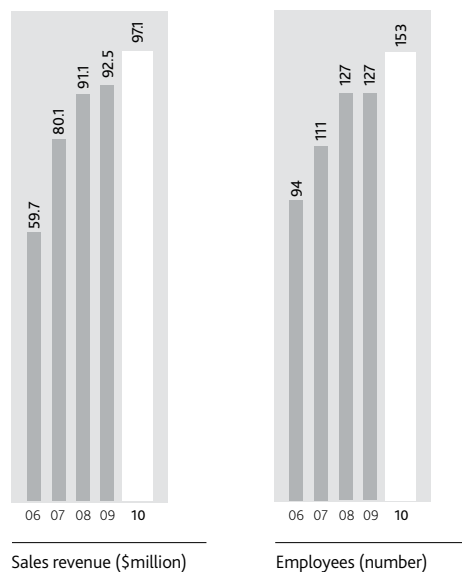
A number of other significant product launches occurred during the financial year including the introduction of Cochlear Baha BP100 and the limited release of Cochlear Hybrid following regulatory approval in both Australia and India. The Nucleus Freedom implant was launched in China and for the first time we were able to introduce Baha technology to that country following the approval of the Baha Intenso Sound Processor on Baha Softband.

Marketing initiatives

The Asia Pacific region leveraged the launch of its new products at the region's largest implantable hearing event, APSCI, held in Singapore in December 2009. This event, held every two years, attracted more than 700 implanting professionals from across the region and provided an opportunity to showcase Cochlear technologies to key industry customers.

Outlook

For F11, the focus remains on launching new products as regulatory approvals are gained and leveraging the direct presence Cochlear has established in F10 in India and China.



Cochlear has a focus on performance and learning, building its capability to deliver on its growth initiatives by building better teams and cross functional team work

Attracting and keeping the best people

In the competitive global talent market, Cochlear's priority is not only attracting but also retaining the best people. Over the past year, worldwide headcount grew by 224 to 2,239. Cochlear has also expanded its global business footprint with full time employees now working in offices in India and Turkey.

Investment in the Company's careers website and sourcing strategies have positioned Cochlear well for global recruiting and talent pool development. There is now an extensive database of talented people who have indicated an interest in working at Cochlear.

Cochlear's graduate engineering recruiting program, which is augmented by an active summer intern program, continues to attract high calibre recruits and builds the organisation's design and development and manufacturing capability for the future. Currently, Cochlear has 29 employees who joined the Company through this program.

Continually investing in individual, team and organisational capability

To support employees' learning and development, Cochlear has further developed its learning management system, Cochlear Academy, to provide a blend of flexible learning solutions. These include nearly 50 online learning modules on topics ranging from occupational health and safety to Cochlear products. This provides a range of learning options, modules and webinars, for employees around the globe and clinicians keen to learn more about our latest products.

Cochlear continued to deliver its Get Equipped induction program, which is a valuable learning tool to ensure a high global standard of knowledge for all employees. The Company continued to deploy its Leadership Architecture with learning interventions for individual leaders, people managers and managers of managers. In addition, investment continued to be made in global process improvement programs, which ensure Cochlear has a robust process management system and the capability to support its future growth.

Diversity is an important feature of Cochlear's working environment with over 60 nationalities represented at our Sydney office. Throughout F10, the Women in Leadership network continued to foster the development of female leaders at Cochlear. In addition to hosting lunchtime sessions with senior female speakers, the group has been active in university programs and has also piloted a program for high performing professionals and first level supervisors

at Cochlear. In F10, 44% of new employees in Sydney were female. Over 47% of the global workforce is female and the proportion of executive managers at Cochlear (22%) is higher than the ASX benchmark (average 10.7%).

Ensuring the health and safety of employees

Cochlear remains committed to providing and maintaining a safe and healthy workplace for all employees. Occupational health and safety training is provided for new employees, including increased risk assessment training for changed and new processes. Wellness programs offered by Cochlear include an ergonomic assessment of workstation layout for individuals, free flu vaccinations, free eye screening and in-house Pilates classes.

Supporting the community

The Cochlear Foundation was established in 2007 and this philanthropic entity continued to support various programs promoting research and awareness of treatments for people with significant hearing impairment.

Cochlear also supports its employees' participation in community fundraising activities and corporate sporting activities. Among the events that Cochlear and its employees supported this year were the City2Surf Fun Run, the Sydney to the Gong Bike Ride, the BRW Corporate Triathlon as well as Australia's Biggest Morning Tea and Loud Shirt Day.

Promoting environmental responsibility

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

Currently, Cochlear's emissions levels are significantly below the compulsory greenhouse gas reporting thresholds set out in the Australian Government's Energy Efficiency Opportunities program.

Technologic innovation is central to Cochlear's growth strategy and so ongoing investment in research and development remains a priority

In F10, the Company invested \$94.9 million, which was 12.9% of revenue, in its R&D activities.

R&D continues on the Company's three in-market product lines: the Cochlear Nucleus range of cochlear implant systems, the Cochlear Baha range of bone conduction systems and the Cochlear Hybrid electro-acoustic hearing solution.

The fourth product line, the direct acoustic cochlear stimulator (DACs), was also advanced during year. A DACs clinical trial has commenced with the successful implantation of four recipients at the Medizinische Hochschule Hannover in Germany. The outcomes from these recipients are encouraging and confirm the design direction and viability of the DACs product.

Simplification of the use of Cochlear products remained a priority in F10, with development of clinical management tools and software used by hearing healthcare professionals in the ongoing care of Cochlear recipients.

The Cochlear Design and Development Department comprises approximately 300 specialists from a range of engineering technology disciplines and backgrounds worldwide. The work this group conducts builds on the research conducted in collaboration with over 130 research partners based in 20 countries.

Projects underway include work to improve hearing performance across each of Cochlear's product categories, optimisation of binaural hearing, miniaturisation, cosmetics, ease of use and totally implantable hearing solutions. The Design and Development Department also continues to work on improved connectivity and solutions to enable further market scalability and growth.

Clinical validation of the research is a key part of Cochlear's development work. This clinical validation is conducted in each of our sales regions in collaboration with leading clinics in the regions.

Manufacturing operations

Cochlear runs manufacturing operations in Australia and Sweden, which continue to deliver high quality, reliable products.

During F10, the Company successfully introduced two new product ranges into manufacturing. The cochlear implant manufacturing technicians have improved mechanisation, which has supported the delivery of the Nucleus 5. Today, approximately 800 people are employed across our manufacturing facilities.

Cochlear remains committed to ensuring that production methods and capacity meet the growing ongoing demand for our solutions. To support this, significant investment has been made to advance the manufacturing technologies we develop, which will drive scalability and productivity improvements. In F11, Cochlear will start its move to its new manufacturing facility and global headquarters at Macquarie Park in Sydney.

Quality assurance

To ensure the quality of all of its products, Cochlear operates within a quality assurance system, which complies with all applicable regulatory requirements around the world.

Device approvals

The relevant regulatory authorities must approve all medical devices prior to commercial release. At present, Cochlear has all the necessary licences and approvals to enable the marketing of our products in the jurisdictions in which we sell. Ongoing approvals are regularly being sought for new products in a variety of jurisdictions.

Intellectual property

Generating new intellectual property and protecting existing intellectual property are key strategic imperatives for Cochlear. As of June 2010, the Company had over 850 issued patents and pending patent applications worldwide.



1. Mr Rick Holliday-Smith, Chairman

Age 60. BA (Hons), FAICD – Appointed 1 March 2005

Director of Servcorp Limited since 1999 and ASX Limited since 2006. Chairman of Snowy Hydro Limited (not publicly listed) since 2006. Chairman of SFE Corporation Limited since 1999 until de-listing 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 Nominations Committee and Technology and Innovation Committee. Member of the Audit Committee and Remuneration Committee.

2. Dr Chris G Roberts, CEO/President

Age 56. BE (Hons), MBA, PhD, Hon DSc (Macq) FAICD, FTSE – Appointed 1 February 2004

Chief Executive Officer of Cochlear Limited. Director of ResMed Inc since 1992 and Chairman of Research Australia. Dr Roberts has worked in the medical device industry for more than 34 years in a number of senior management positions.

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

3. Mr Paul R Bell

Age 64. BA, MA (Hons) – Appointed 1 August 2005

Director of Biota Holdings Limited since 2006. Former director of Bio-Link Partners Limited (2005 – 2009) and GroPep Limited (2003 – 2006). Extensive executive career spanning 30 years with the international pharmaceutical company, Merck & Co Inc (Managing Director – Australia, 1988 – 1997; President of the Asia Pacific Human Health Division, 1997– 2002).

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

4. Prof Edward Byrne, AO

Age 58. DSc, MD, MBA, FRCP, FRACP – Appointed 1 July 2002

Vice Chancellor of Monash University. Board member of Neurosciences Victoria Limited. 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). Former director of BUPA, Neurosciences Australia Limited, the Baker Medical Research Institute, Burnet Medical Research Institute, Prince Henry's Medical Research Institute, Southern Health, and Mental Health Research Institute.

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

5. Mr Andrew Denver

Age 61. BSc (Hons), MBA, FAICD – Appointed 1 February 2007

Chairman of Universal Biosensor Pty Limited since 2005 (director since 2002). Director of CathRx Limited and Principals Cornerstone Management Pty Limited (not publicly listed). Former Managing Director of Memtec Limited and President Asia for Pall Corporation. Chairman of the Audit Committee. Member of the Nominations Committee, Remuneration Committee and Technology and Innovation Committee.

6. Mr Donal P O'Dwyer

Age 57. BE Civil, MBA – Appointed 1 August 2005

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

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

7. Mrs Yasmin Allen

Age: 46 – Appointed 2 August 2010

Director of Insurance Australia Group (IAG) since 2004 and Chair of IAG Audit Committee. Chair of Macquarie Specialised Asset Management (not listed) since 2003. Former non-executive director of Film Australia (2004 – 2008) and Export, Finance & Insurance Corporation (2001 – 2007) and Australian Red Cross Blood Service (2002 – 2005). Former Vice President of Deutsche Bank AG, Director of ANZ Investment Bank and Associate Director, HSBC, London.

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



1. Dr Chris Roberts – CEO/President

See “Board of Directors” on page 21.

2. Richard Brook – President, European Region

BSc Management, MBA

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

Before joining Cochlear in 2003, Richard held senior roles in Guidant Corporation and Alaris Medical Systems. He has 19 years’ experience in the medical device industry.

3. Dr Bronwyn Evans – Senior Vice President, Global Quality, Clinical and Regulatory

BE (Hons), PhD, FIEAust

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

She joined the Company in 2005 after more than 20 years’ experience in engineering and management roles in power generation and distribution, engineering education and the medical industry. Most recently, she worked as Asia Service Manager for GE Healthcare, Ultrasound based in Singapore. Bronwyn is Chair of the Medical Technology Association of Australia (MTAA), Chair of the National Board of the Engineers Australia Centre for Learning and Management (CELM) and a member of the Federal Government Future Manufacturing Industry Innovation Council.

4. 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.

5. Jan Janssen – Senior Vice President, Design and Development

MScEE

Jan leads a team of over 250 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.

6. Michael Kavanagh – Senior Vice President, Global Marketing

BSc, MBA (Advanced)

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

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



7. Anne-Marie Leslie – Senior Vice President, Human Resources
BA (Hons), EMHRL

Anne-Marie joined Cochlear in 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 resource management roles, most recently with Bristol-Myers Squibb in the US. Earlier experience included quality management at Kodak as winners of the Australian Quality Prize and as an evaluator with Business Excellence Awards in Australia and the US.

8. Neville Mitchell – Chief Financial Officer and Company Secretary
BComm, CA (SA), CA

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

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

9. David Morris – President, Bone Anchored Solutions
BBus, BAppSc

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

David was appointed as President, Bone Anchored Solutions in 2005, having 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.

10. Jim Patrick – Senior Vice President, Chief Scientist
MSc

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

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

11. Mark Salmon – President, Asia Pacific Region
MBA (Executive)

Mark is responsible for the development and execution of the strategic direction for all our operations in Australia, Asia and the South Pacific. This high 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.

12. Chris Smith – President, Americas Region
BSc

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

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

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

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

In this Corporate Governance Report, Cochlear sets out the key governance principles and practices of Cochlear and reports against the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (August 2007) (Guidelines). A checklist of the recommendations made in the Guidelines is set out at the end of this report. References to recommendations in the Guidelines are made throughout this report in order to indicate how Cochlear complies with the recommendations. All policies and terms of reference referred to in this report are published on the Company's website www.cochlear.com in the Corporate Governance section, unless stated otherwise. The Corporate Governance section is located under the Investor Relations tab on the Company's website. Cochlear's corporate governance policies and procedures are reviewed on a regular basis and updated where appropriate. Cochlear notes that an amended version of the Guidelines will come into effect on 1 January 2011 (Revised Guidelines).

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 F10 is set out in the Directors' Report at page 32 (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 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 2010, the Board comprised six non-executive directors and one executive director, the CEO/President. Mr Tommie Bergman retired as a director and as Chairman with effect from 30 June 2010. Mr Rick Holliday-Smith succeeded Mr Bergman as Chairman with effect from 1 July 2010. The Board appointed Mrs Yasmin Allen as a new non-executive director with effect from 2 August 2010. Mrs Yasmin Allen will hold office until the 2010 AGM and will then stand for election at that meeting. 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 page 21 (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. Cochlear notes the new Recommendation 3 in the Revised Guidelines with regard to gender diversity. The Nominations Committee already actively considers gender diversity in carrying out its role.

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. Prof Edward Byrne, AO and Mr Donal O'Dwyer, will retire at the 2010 AGM and will stand for re-election at that meeting. In accordance with the Company's Constitution, Mrs Yasmin Allen will stand for election at the 2010 AGM, it being the first AGM since her appointment by the Board. 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 2010. The new Chairman Mr Rick Holliday-Smith 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 July 2010. 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 former Chairman Mr Tommie Bergman was an independent non-executive director and had not previously been the CEO of the Company. Mr Rick Holliday-Smith, the new Chairman, is also 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.

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 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 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 non-executive directors is 15,350. 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 (including the former Chairman Mr Tommie Bergman) is disclosed at page 21. Currently, no director has served longer than nine 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 (including the former Chairman Mr Tommie Bergman) is set out in the Directors' Report at page 32 (Recs 2.6, 4.4 and 8.3). With the exception of the Medical Science Committee and 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 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). As at 30 June 2010, Mr Rick Holliday-Smith chaired the Committee, with the other members being the former Chairman of the Board Mr Tommie Bergman, Mr Andrew Denver and Mr Donal O'Dwyer (Recs 4.2 and 4.4). As Mr Rick Holliday-Smith is now the Chairman of the Board, he no longer chairs the Audit Committee, although he remains a member. Mr Andrew Denver, who is not Chairman of the Board, is presently the chairman of the Audit Committee (Rec 4.2). Mrs Yasmin Allen has been appointed to the Audit Committee. 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 21 (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.

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.

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 and, as at 30 June 2010, the other members of the Committee were the former Chairman of the Board Mr Tommie Bergman and Mr Rick Holliday-Smith. Mr Andrew Denver and Mr Donal O'Dwyer have been appointed to the Remuneration Committee. 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 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 (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 35 to 44 (Rec 8.3).

Nominations Committee (Rec 2.4)

The Nominations Committee is chaired by the new Chairman of the Board Mr Rick Holliday-Smith and, as at 30 June 2010, the other members of the Committee were Mr Paul Bell, Prof Edward Byrne, AO, Mr Andrew Denver and Mr Donal O'Dwyer (Rec 2.6). The Nominations Committee is comprised entirely of independent non-executive directors. The former Chairman of the Board Mr Tommie Bergman was a member of and chaired the Nominations Committee until March 2010. Mrs Yasmin Allen has been appointed as an additional member of the Nominations Committee

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 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 2010 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. As at 30 June 2010, the Committee was chaired by the former Chairman of the Board Mr Tommie Bergman, with the other members being Mr Paul Bell, Prof Edward Byrne, AO, Mr Andrew Denver, Mr Donal O'Dwyer and Dr Chris Roberts. The new Chairman of the Board Mr Rick Holliday-Smith succeeds Mr Tommie Bergman as chair of the Technology and Innovation Committee. Mrs Yasmin Allen has been appointed as an additional member of the Technology and Innovation Committee. 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. 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 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. 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. 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).

Cochlear notes the changes to the ASX Listing Rules which will come into effect in January 2011 regarding share trading policies and the related changes in the Revised Guidelines.

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 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 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.

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 put 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 reports 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 Cochlear 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 F10 remuneration (including retirement benefits) of the directors (including the former Chairman of the Board Mr Tommie Bergman), the five highest paid executive officers of the Consolidated Entity and Company and specified executives are included in the Remuneration Report on pages 35 to 44. Further disclosure in relation to the remuneration philosophy is included in the Remuneration Report. Cochlear notes amended Recommendation 8 in the Revised Guidelines.

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
Pr 1	Lay solid foundations for management and oversight	
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.	✓
Pr 2	Structure the board to add value	
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.	✓
Pr 3	Promote ethical and responsible decision-making	
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"> the practices necessary to maintain confidence in the company's integrity; the practices necessary to take account of their legal obligations and the reasonable expectations of their stakeholders; and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 	✓
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.	✓
Pr 4	Safeguard integrity in financial reporting	
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"> consists only of non-executive directors; consists of a majority of independent directors; is chaired by an independent chair, who is not chair of the board; and has at least three members. 	✓
Rec 4.3	The audit committee should have a formal charter.	✓
Rec 4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	✓
Pr 5	Make timely and balanced disclosure	
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.	✓
Pr 6	Respect the rights of shareholders	
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.	✓
Pr 7	Recognise and manage risk	
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.	✓
Pr 8	Remunerate fairly and responsibly	
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.	✓

Glossary

AGM Annual General Meeting.	FDA United States Food and Drug Administration.
ASIC Australian Securities and Investments Commission.	IFRS International Financial Reporting Standards.
ASX Australian Securities Exchange.	NPAT Net profit after tax.
DACS Direct acoustic cochlear stimulator.	Previous GAAP Previous Australian Generally Accepted Accounting Principles.
DPS Dividends per share.	Processor/speech processor/sound processor The externally worn part of the cochlear implant.
EBIT Earnings before interest and taxes.	R&D Research and development.
EBITDA Earnings before interest, tax, depreciation and amortisation.	SmartSound Set of sound processing algorithms which enhance hearing performance.
EPS Earnings per share.	TSR Total shareholder return.
F09 Financial Year 2009: 1 July 2008 to 30 June 2009.	
F10 Financial Year 2010: 1 July 2009 to 30 June 2010.	
F11 Financial Year 2011: 1 July 2010 to 30 June 2011.	

Company ASX Announcement Record

4 June 2010 *Settlement agreement*

Cochlear Limited announced that its subsidiary, Cochlear Americas, had signed a settlement agreement with the US Department of Justice and the Office of Inspector General of the US Department of Health and Human Services. Under the agreement, Cochlear Americas agreed to pay USD950,000. Cochlear Americas specifically disputes and denies the factual and legal allegations made in this case.

17 March 2010 *New Chairman*

Cochlear Limited announced that Mr Tommie Bergman would retire as Chairman and non-executive director of Cochlear Limited, effective 30 June 2010, to be succeeded by Mr Rick Holliday-Smith as Chairman.

9 February 2010 *Record earnings for half year ended 31 December 2009*

Cochlear Limited announced record net profit after tax of \$75.2 million for the six months ended 31 December 2009, up 8% on the first half of F09. Total revenue of \$347.6 million was down 2%, with sales up in constant currency. The interim dividend of \$0.95 per share was up 19%.

20 October 2009 *Chairman's address*

Cochlear Limited Chairman, Mr Tommie Bergman, addressed shareholders at the Annual General Meeting.

9 September 2009 *Technology purchase*

Cochlear Limited advised that it has signed an exclusive licence agreement to purchase patent rights, know-how as well as joint development activities with Otologics LLC. The purchase price was US\$25 million.

4 September 2009 *FDA approval*

Cochlear Limited advised that it had received approval from the US Food and Drug Administration of the two Premarket Approval Supplements covering the new Cochlear Nucleus 5 System.

11 August 2009 *Record revenue and earnings for year ended 30 June 2009*

Cochlear Limited announced record net profit after tax of \$130.5 million for the year ended 30 June 2009, up 13% on the previous year. Cochlear would pay a fully franked final dividend of 95 cents per share, representing a 19% increase on the previous corresponding period.

13 July 2009 *Market update*

Cochlear Limited advised that it anticipated F09 total revenue to grow 15% to \$695 million. net profit after tax was anticipated to grow 13% to \$130.5 million and core earnings 12% to \$137.7 million. The update also included information of product releases in key markets.

Company Information

Stock exchange listing

Australian Securities Exchange

ASX code COH

Solicitors

Clayton Utz

Share registrar

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000, Australia

Tel: 61 2 8234 5000

Auditor

KPMG

Bankers

Australia Westpac Banking Corporation

Japan The Bank of Tokyo-Mitsubishi UFJ, Limited

Sweden Skandinaviska Enskilda Banken AB (publ)

United Kingdom NatWest Bank

United States Wells Fargo Bank West, NA

Annual General Meeting

The Annual General Meeting will be held at 10am on Tuesday 19 October 2010 at the Menzies Sydney Hotel, Australia Ballroom, 14 Carrington Street, Sydney. A Notice of Meeting and Proxy Form are enclosed with this Annual Report.

Financial calendar

2010

Dividend record date	2 September
Payment of final dividend	23 September
Annual General Meeting	19 October

2011

Interim profit announcement	8 February
Interim dividend record date	25 February*
Payment of interim dividend	15 March*
Final profit announcement	9 August
Annual General Meeting	18 October

* Indicative dates only.

Nucleus is a registered trademark of Cochlear Limited. Baha is a registered trademark of Cochlear Bone Anchored Solutions AB, a Cochlear group company. Cochlear, the elliptical logo, Freedom, Hybrid and SmartSound are trademarks of Cochlear Limited. Baha Intenso and Vistafix are trademarks of Cochlear Bone Anchored Solutions AB, a Cochlear group company.

Design

Cross Media Communications Pty Ltd

Hear now. And always

Cochlear Ltd (ABN 96 002 618 073) 14 Mars Road, Lane Cove NSW 2066, Australia Tel: 61 2 9428 6555 Fax: 61 2 9428 6352
Cochlear Bone Anchored Solutions AB Konstruktionsvägen 14, SE - 435 33 Mölnlycke, Sweden Tel: 46 31 792 44 00 Fax: 46 41 792 46 95
Cochlear Americas 13059 E Peakview Avenue, Centennial, CO 80111, USA Tel: 1 303 790 9010 Fax: 1 303 792 9025
Cochlear AG European Headquarters, Peter Merian-Weg 4, CH - 4052 Basel, Switzerland Tel: 41 61 205 0404 Fax: 41 61 205 0405
European Representative, Cochlear Deutschland GmbH & Co. KG Karl-Wiechert-Allee 76A, D-30625 Hannover Germany Tel: 49 511 542 770 Fax: 49 511 542 7770
Cochlear Europe Ltd 9 Weybridge Business Park, Addlestone Road, Addlestone, Surrey KT15 2UF, United Kingdom Tel: 44 1932 87 1500 Fax: 44 1932 87 1526
Nihon Cochlear Co Ltd Ochanomizu-Motomachi Bldg, 2-3-7 Hongo, Bunkyo-Ku, Tokyo 113-0033, Japan Tel: 81 3 3817 0241 Fax: 81 3 3817 0245
Cochlear (HK) Limited Unit 1810, Hopewell Centre, 183 Queens Road East, Wan Chai, Hong Kong SAR Tel: 852 2530 5773 Fax: 852 2530 5183
Cochlear (HK) Ltd Beijing Representative Office Unit 2208 Germdale Tower B, 91 Jianguo Road, Chaoyang District, Beijing 100022 P.R. China Tel: 86 10 5909 7800 Fax: 86 10 5909 7900
Cochlear Limited (Singapore Branch) 6 Sin Ming Road, #01-16 Sin Ming Plaza Tower 2, Singapore 575585 Tel: 65 6553 3814 Fax: 65 6451 4105
Cochlear Korea Ltd 1st floor, Cheongwon building, 828-5, Yuksam dong, Kangnam gu, Seoul, Korea Tel: 82 2 533 4663 Fax: 82 2 533 8408
Cochlear Benelux NV Schaliënhoefdreef 20 1, B - 2800 Mechelen, Belgium Tel: 32 1579 5511 Fax: 32 1579 5500
Cochlear Italia SRL Via Augusto Murri, 45/L, 40137 Bologna, Italia Tel: 39 051 7419811 Fax: 39 051 392062
Cochlear France S.A.S. Route de l'Orme aux Merisiers, Z.I. Les Algorithmes - Bât. Homère, 91190 Saint Aubin, France Tel: 33 811 111 993 Fax: 33 160 196 499
Cochlear Nordic AB Konstruktionsvägen 14, SE - 435 33 Mölnlycke, Sweden Tel: 46 31 335 14 61 Fax: 46 31 335 14 60
Cochlear Tıbbi Cihazlar ve Sağlık Hizmetleri Ltd. Sti. Cubuklu Mah. Bogazici Cad., Bogazici Plaza No: 6/1, Kavacik TR - 34805 Beykoz-Istanbul, Turkey Tel: 90 216 538 5900 Fax: 90 216 538 5919
Cochlear Canada Inc 2500-120 Adelaide Street West, Toronto, ON M5H 1T1 Canada Tel: 1 416 972 5082 Fax: 1 416 972 5083
www.cochlear.com