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Hear now. And always





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Introducing the world's first  
multi-disciplinary hearing hub,  
a catalyst for global collaboration  
and an opportunity to innovate for  
the benefit of generations to come.

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# Collaboration for innovation - linking global expertise into a global network.

From its earliest days, Cochlear has taken a multi-disciplinary approach to innovation, using development teams with a wide variety of medical and technology expertise.

This approach remains central to our philosophy of innovation and today Cochlear benefits from the largest global network of expertise in the implantable hearing solutions industry. This is a considerable competitive advantage for Cochlear and one that will help drive our growth into the future.

The Company's global headquarters is now located in its new, purpose-built facility at Macquarie University in Sydney. Alongside Cochlear's headquarters, Macquarie University is building the Australian Hearing Hub, a similar size building that will house its audiology department and allied disciplines. Also in this new building will be Australian Hearing Services and National Acoustic Laboratories, considered leaders in the field of hearing rehabilitation. Other organisations in the building will include the Royal Institute for Deaf and Blind Children, The Shepherd Centre, Sydney Cochlear Implant Centre and further research facilities for Cochlear.

This will create a hearing hub employing approximately 2,000 people involved in research, manufacturing, rehabilitation, clinical development and academia. As such, it will act as a unique and effective catalyst for global collaboration between all aspects of the hearing industry. This will create enormous opportunities for this industry.

Also on campus is the recently opened Macquarie University Hospital, in which cochlear implant surgeries are now being performed, adding another important discipline to the hearing hub. As Australia's first private teaching hospital on a university campus, the precinct includes the Macquarie University Clinic, the Australian School of Advanced Medicine, and state of the art facilities including Australia's first surgical Gamma Knife.

The university is also home to the Macquarie Centre for Cognitive Science, which has the first Magnetoencephalography (MEG) facility in the Southern Hemisphere, used for measuring brain activity and visualising the workings of the brain. It also has the first children's MEG facility in the world.

Some of the disciplines Cochlear has used in developing its products include psychiatry, audiology, speech pathology, neuroscience, otology, electro-chemistry, engineering and computer science, to name just a few. Cochlear's place in this new hearing hub is a strategic initiative to grow Cochlear's global network of expertise and, more importantly, act as a catalyst for global multi-disciplinary collaboration. The results of this will be an increase in knowledge, technologic innovation and, ultimately, better hearing for more people who suffer from hearing loss around the world.



# Opportunities for growth - advancing performance for future generations.

Cochlear envisages continual performance improvements for its hearing solutions and ongoing penetration into global markets. This will be augmented by the multi-disciplinary collaboration made possible in the new Macquarie University hearing precinct.

Cochlear has already helped over 250,000 people in over 100 countries connect to a world of hearing, but statistics indicate a far greater number of people being able to benefit from our hearing solutions and we are excited about the opportunities this presents us. There are significant benefits for future generations, both in terms of improved access to this technology, but also in terms of the technology itself, which we believe is still comparatively young, and has significant potential for further development, innovation and scalability.

Hearing loss continues to have a large negative impact on both individuals and societies worldwide. There is a significant economic cost associated with the effects of hearing loss, and for those experiencing it themselves the effects are far more immediate. Hearing loss can adversely affect speech development in young children, performance in school, career opportunities, as well as a person's confidence, independence and ability to socially participate with peers.

It is estimated that about 10% of the world's population is affected by hearing loss, which is approximately 600 million people<sup>1</sup>. Of these, it is thought that over 250 million people suffer from moderate to profound hearing loss<sup>1</sup>, therefore making them possible candidates for our products.

For those recipients that benefit from our hearing solutions, the effects are life changing. Not only can they connect or reconnect to their families, friends and colleagues, they can keep upgrading to Cochlear's latest technologies without the need for further surgery.

Cochlear is committed to ongoing technologic innovation to ensure that in collaboration with our global research partners we can keep growing the implantable hearing solutions industry. We believe that as good as it already is, there is much more we can do, and we are excited by what lies ahead.

<sup>1</sup> hear-it.org, February 2007.

Cochlear offers advanced solutions to address different types of hearing loss and upgrades without the need for further surgery.



**Our products**

**Cochlear Nucleus System**

Type of hearing solution

Electrical stimulation

**How our implantable hearing solutions work**

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.

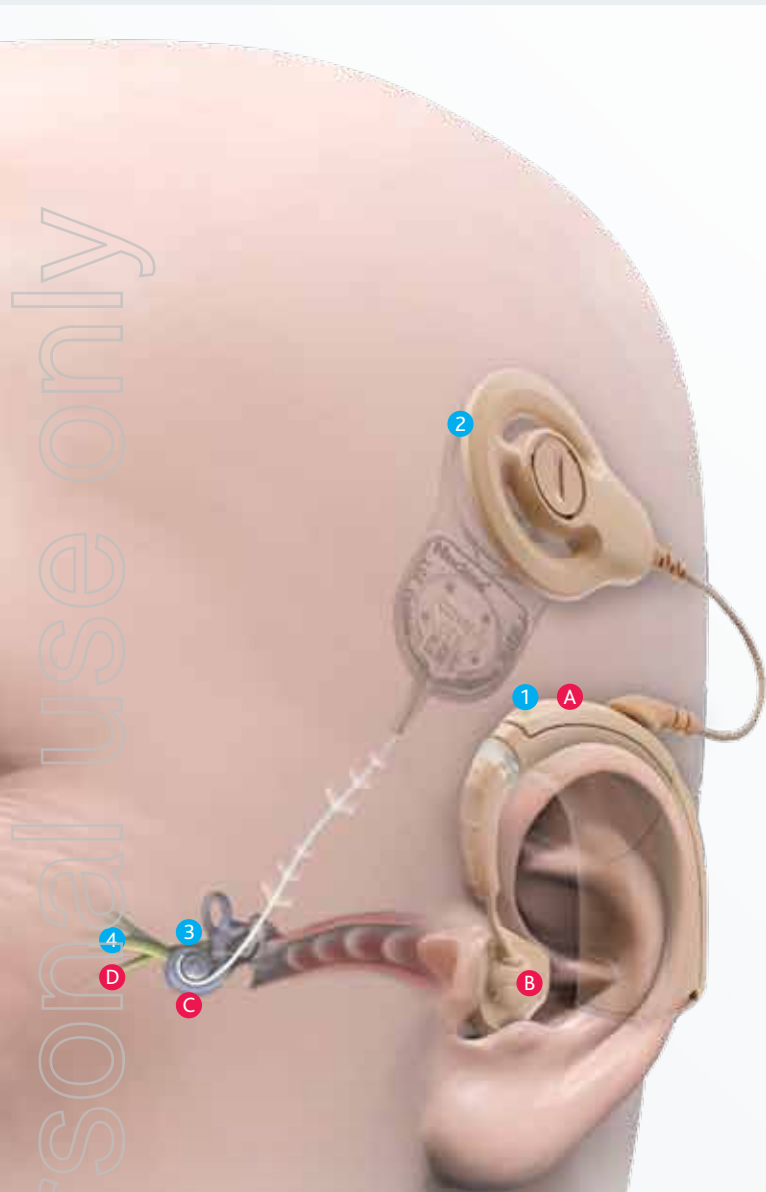
Cochlear implants in both ears result in a more balanced sound which makes it easier to understand speech in noisy environments or locate where sound is coming from.

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.

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Cochlear Hybrid System

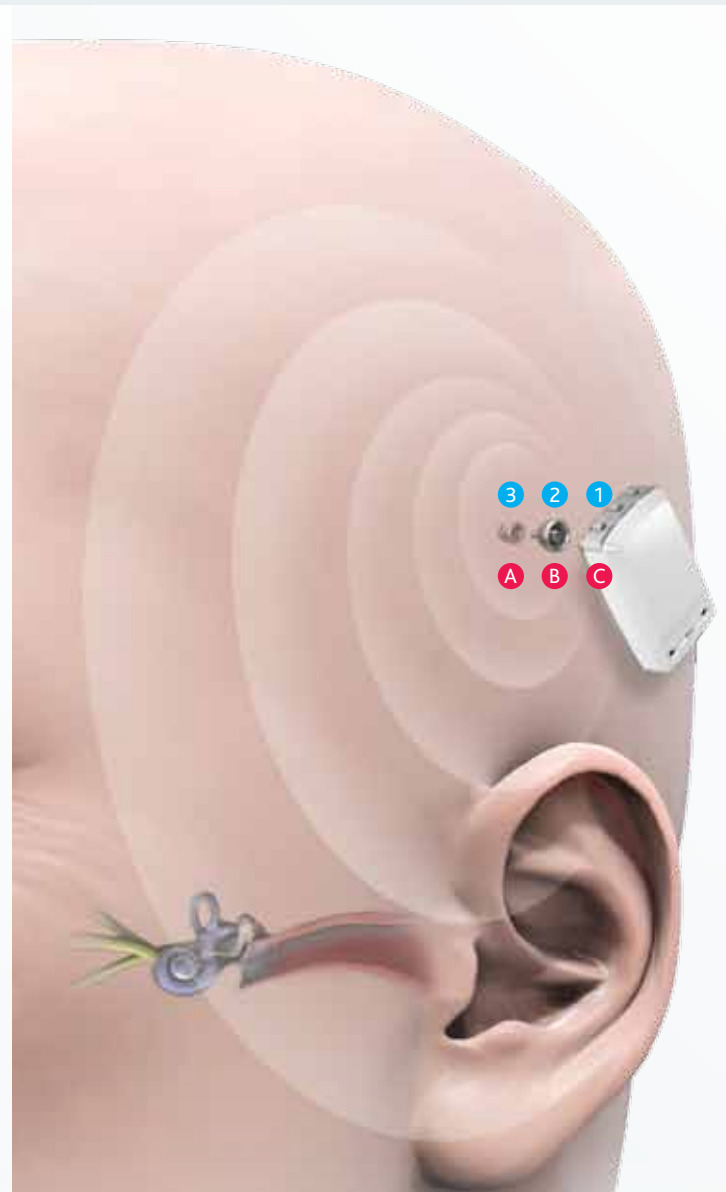
## Electro-acoustic stimulation

## 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 3 System

## Bone conduction

## 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.

# Hearing technology designed for life.

The Cochlear™ Nucleus® 5 System first launched in F10 and is now sold in more than 75 countries.

Nucleus 5 is the most advanced cochlear implant system, delivering superior hearing outcomes for adults and children with severe to profound hearing loss. The System helps recipients live the lives they want, by providing outstanding hearing performance and by supporting an active, varied lifestyle.

Nucleus 5's superior hearing performance in noise<sup>1</sup> is made possible by unique technologies including Cochlear's directional Dual-Microphones and advanced input processing. Recipients' hearing experience is further improved by a sound processor with a broad range of connectivity options and the industry's only bi-directional hand held remote assistant. This gives adults a discreet way to control their processor and gives parents of younger child recipients reassurance and peace of mind. The System also boasts industry-leading implant reliability.

During F11, the Nucleus 5 was made compatible with a previous system, the Cochlear Nucleus 24. This provides recipients with those implants, access to the latest hearing technology, with improved hearing performance and better speech understanding in noise<sup>2</sup>.

Other improvements to Nucleus 5 include new FM capabilities to help automatically manage the sound processor for optimal hearing, and enhancements to the remote assistant making it easier to use and even more effective in helping recipients best manage their hearing.

Software upgrades that improve product performance continue to be released. In F11, Custom Sound 3.2 was launched, providing easier and more effective recipient programming and greater predictability of outcomes.



Cochlear Nucleus 5 System

<sup>1</sup> Cochlear Limited: Clinical results with the new Cochlear™ Nucleus® 5 System, March 2010.

<sup>2</sup> Cochlear Limited: Clinical results with the Cochlear™ Nucleus® CP810 Sound Processor for Nucleus 24 recipients, May 2011.

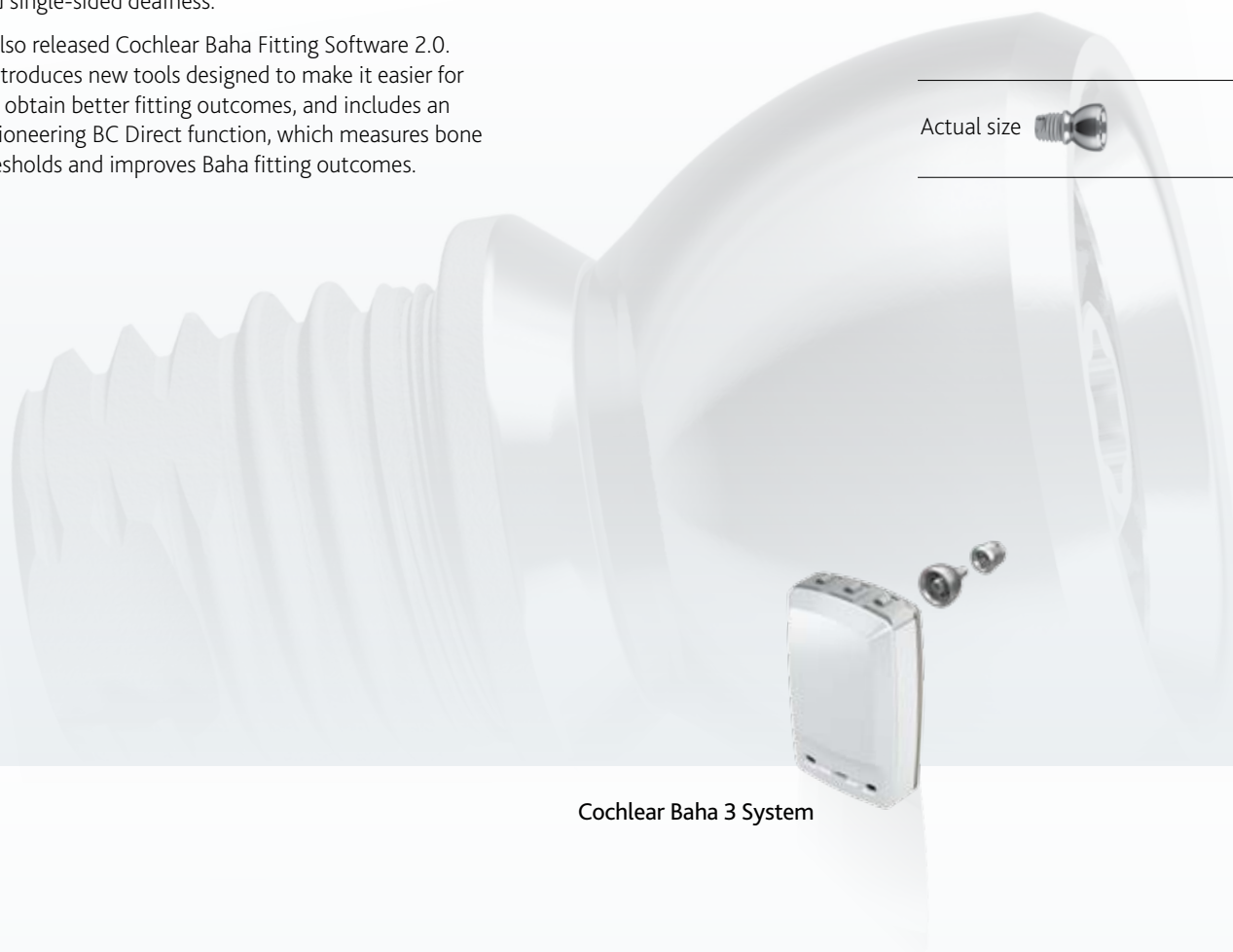


# An evolution of high-powered performance.

In F11, Cochlear continued the expansion of its Cochlear™ Baha® 3 System with the release of the Cochlear Baha BP110 Power Sound Processor. The BP110 Power is an evolution of the third generation platform and is a high-powered bone conduction sound processor. The hearing performance of the Baha 3 sound processors continue to improve the lives of people with conductive hearing loss, mixed hearing loss and single-sided deafness.

The Company also released Cochlear Baha Fitting Software 2.0. This software introduces new tools designed to make it easier for professionals to obtain better fitting outcomes, and includes an update to the pioneering BC Direct function, which measures bone conduction thresholds and improves Baha fitting outcomes.

New clinical results for the Cochlear Baha B1300 Implant were also published in F11. Importantly, six month data from a three year study show several improvements to the implant including significantly increased stability compared to the previous generation<sup>1,2</sup>, giving recipients early access to sound and more predictable results.



Cochlear Baha 3 System

<sup>1</sup> Dun CAJ, de Wolf MJF, Hol MKS, Wigren S, Eeg-Olofsson M, Green K, Karlsmo A, Flynn MC, Stalfors J, Rothera M, Mylanus EAM and Cremers CWRJ. Stability, Survival, and Tolerability of a Novel Baha Implant System: Six-Month Data From a Multicenter Clinical Investigation. *Otology & Neurotology* 2011 Jun; (epub ahead of print).

<sup>2</sup> Dun CAJ, Faber HT, Mylanus EAM, Cremers CWRJ and Hol MKS. Implant stability after earlier loading of the Baha B1300 implant. *Proceedings of the Third International Symposium for Bone Conduction Hearing – Craniofacial Osseointegration*; 2011 Mar 23-26; Sarasota, USA.

# Technology integration for quality and clarity.

The Cochlear™ Hybrid™ System, the world's first truly integrated electro-acoustic hybrid hearing solution, continues to be selectively released in Europe and Asia.

Cochlear Hybrid addresses severe to profound high frequency hearing loss, which can be very frustrating for people who suffer from it. Even though they can hear the sound of people talking, they can struggle to understand the words. The System provides an effective hearing solution that improves the quality and clarity of hearing by integrating cochlear implant and hearing aid technologies.

To support ongoing product innovation, Cochlear conducted multi-centre clinical trials involving more than 100 Hybrid recipients. Results showed that recipients using the System experienced improved speech recognition in both noisy and quiet environments<sup>1</sup>.



Cochlear Hybrid System

<sup>1</sup> Cochlear Hybrid System: Interim results from international multi-centre clinical trials, May 2011.



# A portfolio designed to maximise hearing performance.

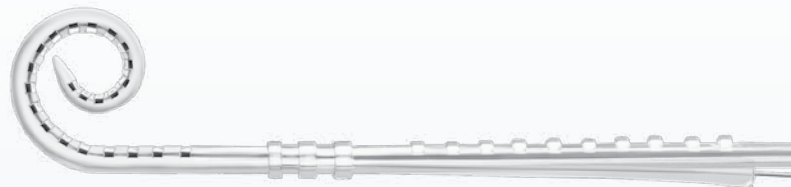
Cochlear has led the industry in electrode design and innovation for the last 30 years.

The primary design goals are to maximise the potential for hearing performance and simplify its production. The features, length and insertion mechanics of each electrode have been optimised following extensive research by Cochlear in collaboration with leading medical professionals around the world.

The results of this collaboration showed a requirement for flexibility, to allow for varying surgical techniques and patient

conditions. Cochlear has subsequently expanded its range of electrodes in F11, giving surgeons a range of options they can apply to individual cases.

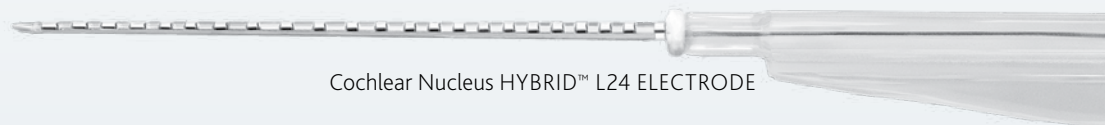
In today's world, MRI usage is increasingly routine in patient diagnosis so all Cochlear electrodes are delivered on the most reliable receiver/stimulator technology, enabling MRI capability up to 3.0 Tesla. Cochlear's implants continue to redefine the standards in the industry.



Cochlear™ Nucleus® CI512 with CONTOUR ADVANCE™ ELECTRODE



Cochlear Nucleus CI422 with SLIM STRAIGHT ELECTRODE



Cochlear Nucleus HYBRID™ L24 ELECTRODE



Cochlear Nucleus Freedom™ with FULL-BAND STRAIGHT ELECTRODE



Cochlear Nucleus CI551 with DOUBLE ARRAY ELECTRODE



Cochlear Nucleus ABI541 with AUDITORY BRAINSTEM ELECTRODE

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# This result was another record in terms of both revenue and profit.

Cochlear achieved an excellent financial result for the year ended 30 June 2011. This result was another record in terms of both revenue and profit and reflected strong performance over a number of countries and product lines in a difficult environment.

Cochlear sells into over 100 countries and has an expanding range of product lines.

This portfolio of products and geography are important in managing Cochlear's overall performance as inevitably some countries are better placed for growth than others, but together the mix delivers sustainable growth.

## Dividends up 13% in F11

Net profit after tax of \$180.1 million was strong with excellent accompanying cash flows. Together with a positive outlook for the longer-term future these results enabled the Board to increase its final dividend to \$1.20 (2010: \$1.05) per share.

The total dividend for the year was \$2.25 per share, up 13%.

The dividend payout ratio of approximately 70% was maintained.

The final dividend was partially franked to 70%. The unfranked portion of the dividend has been declared conduit foreign income (CFI). The CFI status assists our overseas investors, as dividend withholding tax on the unfranked portion will not apply.

## World economic conditions – impact on Cochlear

Cochlear is a global company with a direct presence in over 20 countries and sales in over 100 countries. World events have an impact on our results as do fluctuating foreign exchange rates.

Cochlear's life changing products, together with established and economically viable reimbursement regimes in most developed countries in which we operate, mean that Cochlear is resilient to a reasonable degree to the negative impact of the recent world economic turmoil and political events, but not immune.

In Japan, all our staff are safe after the recent devastating earthquake and tsunami, ongoing tremors and nuclear uncertainty. Our global supplies of critical parts from Japan were not affected and cochlear implantations continued without interruption.

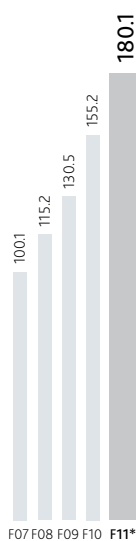
In January, flood waters came to the door of our externals factory in Brisbane, Australia, but no damage was done and production was not impacted.

By far the largest external impact on Cochlear in F11 was the foreign exchange fluctuations, which were triggered by world events.

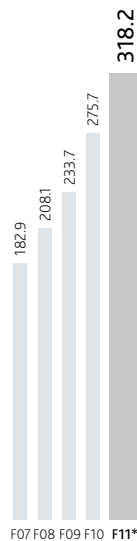
Cochlear has a comprehensive hedging strategy which assists in smoothing the impact of currency fluctuation in the short term but the impact of a strengthening Australian dollar against many of our main operating currencies has been a continual headwind.



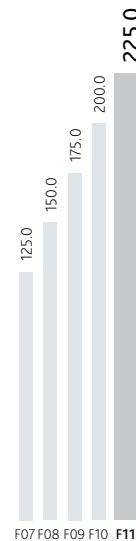
Cochlear implant system sales (units)



Net profit after tax (\$ million)



Basic earnings per share (cents)



Dividends per share (cents)

\* Financial years.

Cochlear's net profit after tax would have been \$14.9 million higher in F11 if F10 foreign exchange rates had prevailed.

#### Directors and Board activities

I was delighted that Mrs Yasmin Allen joined the Board on 2 August 2010. She has a strong background in finance and business and is an experienced independent director. On 19 October 2010, Mrs Allen was appointed Audit Committee Chair.

In F11, the Board again travelled overseas, this time to the USA. All our Board members have had extensive overseas business experience, but with over 90% of Cochlear's sales being outside Australia, it is important that Board members keep abreast of overseas conditions. The Board met with key opinion leaders in the implantable hearing space in the USA and then had a full operations review at Cochlear Americas' head office in Denver, Colorado. These visits are an important aspect of our role.

In addition to these visits, Cochlear's overseas and local management present regularly to the Board on operational matters.

#### Executive remuneration

There have been a number of legislative changes in this area over the last year and the Remuneration Committee and the Board have reviewed these in detail.

Our remuneration policies are essential to the motivation and retention of our staff and these policies, together with the details of Cochlear's senior executive remuneration structure are detailed in the Remuneration Report.

Cochlear meets all the requirements in this important area.

#### Our people

Cochlear employs approximately 2,500 people in some 50 countries. In our Australian operations alone, we are represented by over 60 nationalities.

This diversity has been a feature of Cochlear's workforce since the Company's inception. The global understanding that it brings has been an important element in Cochlear's success.

I would like to thank all our employees for their dedication, passion and hard work over the last year which has resulted in a successful F11.

#### Conclusion

F11 was another year of strong financial performance, but importantly, the Company continued to underpin this financial strength with advancements in the organisation, which will support long-term growth.




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Mr Rick Holliday-Smith Chairman



# Together, we can truly change the world of the hearing impaired.

F11 was another successful year of growth, on the long journey of providing life changing implantable technology for the hearing impaired, young and old. F11 was the first full year of Cochlear Nucleus 5, the best cochlear implant system ever. Market growth is driven by improved hearing outcomes (and technology has an important role in this), which, in a virtuous cycle, provides more resources for innovation benefiting all stakeholders. Successfully bringing to market innovative technology that is truly life changing underpins another year of growth.

## Financial results: record revenues and earnings

Total revenue for F11 was \$809.6 million, up 10% over F10. An appreciating Australian dollar masked the underlying sales growth, with sales in constant currency (i.e. restating F10 at F11 foreign exchange rates) up 17%.

Net profit after tax (NPAT) of \$180.1 million, was up 16%, and earnings per share (EPS) of \$3.18 was up 15%.

Cochlear implant unit sales were up 17% to 24,661 implants, with over 70% of cochlear implants sold being Cochlear Nucleus 5, the latest generation device.

Bone Anchored Solutions product sales (e.g. Baha) were \$84.2 million (up 2% in constant currency).

All regions grew: Americas, with sales of \$317.0 million up 16% in constant currency, with Europe up 14% in constant currency to \$293.3 million, and Asia Pacific, the fastest growing region, with sales of \$121.9 million up 31% in constant currency.

Free cash flow was \$166 million, the same as that for F10, as capital expenditure for the new headquarters and manufacturing facility increased (\$40 million in F11 versus \$18 million in F10). F11 debtor days at 74 days were similar to the 72 days at the end of F10, while F11 inventories at \$106.1 million (173 days) was up 2% on F10 (192 days). The final year dividend was increased 14% to \$1.20 per share giving a full year dividend, of \$2.25, up 13%.

## Innovative products driving growth

Cochlear Nucleus 5 continues to be very well received by recipients and healthcare professionals. From a design perspective, Nucleus 5 improves not only recipient hearing performance, but further advances ergonomics, usability, 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. During the second half of F11, release 3 of Nucleus 5 was rolled out providing a number of enhancements, including an improved and simplified user interface for the wireless remote assistant, as well as software enabling backwards compatibility of the Nucleus 5 sound processor to Nucleus 24 cochlear implant recipients. Bringing the latest technology to recipients with older generation implants such as the Nucleus 24, reaffirms our lifelong commitment to recipients of Cochlear's implants.

F11 also saw the release of the Slim Straight Electrode as an addition to the portfolio of electrodes available on cochlear implants. Preservation of residual hearing (for electro-acoustic stimulation, or hybrid) remains an important area, and new electrode and new surgical techniques are driving better understandings of how to preserve residual hearing: a great example of where technology precedes science.

Innovation in the Baha products resulted in the launch of an improved Baha 3 System, and by 30 June, of Baha 3 Power, which replaces the Intenso product range.

During F11, recruitment for Phase 1a clinical trial of DACS (Direct Acoustic Cochlear Stimulator) was completed (n=15). Lots of information has been learnt from this series of recipients, and the clinical results for this device are very encouraging. DACS remains an area of significant research and development, and an important addition to the portfolio of implantable devices for the hearing impaired.

Cochlear has signed a technology development and licence agreement with GN ReSound for the use of certain GN ReSound technology with Cochlear's implantable hearing solutions. The emphasis of this agreement is to further enhance Cochlear's wireless technology capabilities.

Technologic innovation remains a key success driver for Cochlear, with research and development expenses up 15% to \$109 million, or 13% of revenue.

## Global HQ at Macquarie University: completed

Cochlear's new global headquarters was successfully completed in F11 and all Sydney based functions, except manufacturing, have relocated to the Macquarie building. Manufacturing will transfer as regulatory approvals are obtained.

Macquarie University has commenced work on an adjacent building, and together, these buildings will create a hearing precinct employing approximately 2,000 people involved in diverse aspects of hearing. This will act as a catalyst for global collaboration.

Cochlear implantation as an intervention is very multi-disciplinary, much more so than many other medical device areas, and placing Cochlear within a hearing precinct is a useful step ensuring Cochlear remains close to advances relevant to this field. Macquarie University is to be congratulated on its vision in creating this unique hearing precinct.

#### **Aligning stakeholders' interests: total shareholder returns**

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. Total shareholder returns (TSR) (both absolute and relative) are key management metrics. Three year TSR is one of the performance hurdles for management's long-term incentive program (specifically TSR relative to the ASX 100). Three year TSR to 30 June 2011 was 70.8%, which placed Cochlear 4th out of the ASX 100 companies. While there are a lot of variables impacting share price over which management has no control, over the longer term share price does reflect management actions, and significant thought is given to connecting business strategy with shareholder returns.

Finally, and as expressed in the past, the passion and commitment of the approximately 2,500 employees 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.




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**Dr Chris Roberts** CEO/President

# Cochlear has achieved record results and is well positioned for long-term sustainable growth.

## Sales growth continues

- Total revenue up 10.2% to \$809.6 million.
- In constant currency terms, total revenue up 17%.
- Baha sales were \$84.2 million and grew 2% in constant currency terms.
- Sales growth in cochlear implant units was up 17% to 24,661.
- The portfolio effect of selling in over 100 countries was still evident this year. Revenues in constant currency terms increased in all regions; Americas increased 16%, Europe 14% and Asia Pacific 31%. China donation sales were 200 units in the current year.

## Profit

- Gross margin to total revenue at 72% was consistent with last year. In constant currency terms, the gross margin improved marginally.
- R&D expenses of \$108.9 million increased 14.8%. As a percentage of revenue, R&D spending remained unchanged at 13%.
- Net interest expense decreased \$3.5 million to \$7.6 million due to lower borrowings and lower unused line fees from a reduction in the facility. Interest cover was 32 times (2010: 20 times).
- The tax rate of 23.4% fell by 2.5 percentage points. Again this year, the tax expense was reduced by the impact of the tax concession on the increased R&D spend.
- NPAT increased 16% to \$180.1 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 applied against foreign cash inflows, resulted in a gain of \$77.4 million this year (2010: gain of \$38.6 million) recognised in revenue. This was in line with movement in foreign currency rates according to Cochlear's hedging policy.
- At 30 June 2011, Cochlear had foreign currency equivalent of \$472.8 million in foreign exchange contracts. In the coming year, F12, the average exchange rate for the US dollar contracts is 0.80 and the average for Euro contracts is 0.63.
- During the year, there was a net gain of \$2.5 million (2010: \$1.2 million) on the translation of foreign assets. This is reported through Note 6 (Net finance expense) to the financial statements.
- Overall, NPAT was negatively impacted by \$14.9 million due to the movements in foreign exchange rates during the year.

## Increased dividends

- The final dividend of 120 cents per share brought the full year dividend to 225 cents per share. The full year dividend is up 13% on that for 2010.
- The dividend reflects a payout ratio of approximately 70%. The final dividend is 70% franked, with the unfranked portion being conduit foreign income.

## Strong capital management

### Debt reduced

- The underlying operations had net cash of \$9.4 million at 30 June 2011, after decreasing net debt from \$41.1 million in 2010.
- At 30 June 2011, there was no net debt for the construction of the new global headquarters as construction was completed during the year and ownership of the building transferred to Macquarie University. In 2010, there was net debt of \$72.8 million related to the construction.
- Cochlear continues to meet all its debt covenant conditions.



**Debtors**

- Debtor days increased slightly to 74 days (2010: 72 days). Debtor days in the Americas region reduced over last year. Asia Pacific and Europe debtor days increased as a result of timing of sales in countries with longer terms.

**Inventories**

- Inventories of \$106.1 million were up 2% (2010: \$104.4 million). Days inventory decreased to 173 days (2010: 192 days), reflecting improved inventory management.

**Intangible assets – no impairment charges**

- Intangible assets of \$208.6 million (2010: \$211.8 million) are a significant proportion of Cochlear's total assets. Some \$159.1 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 2011.

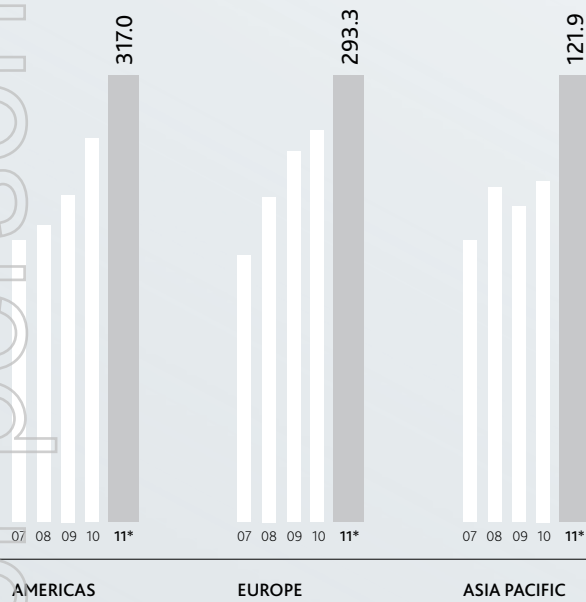
	2011 IFRS	2010 IFRS	2009 IFRS	2008 IFRS	2007 IFRS	2006 IFRS	2005 IFRS	2004 previous GAAP	2003 previous GAAP	2002 previous GAAP
Cochlear implant system sales (units)	24,661	21,023	18,553	18,228	15,947	12,901	10,802	9,306	9,328	7,845
Total revenue (\$million)	809.6	734.8	694.7	601.7	559.4	452.3	349.0	282.8	306.1	255.0
R&D expenses (\$million)	108.9	94.9	96.7	80.0	65.9	56.7	44.6	44.5	37.0	37.7 <sup>1</sup>
EBITDA (\$million)	270.1	243.6	205.5	193.3	170.9	130.2	96.8	54.9	87.9	56.2
EBIT (\$million)	242.7	220.5	183.3	167.3	150.2	111.5	82.5	45.5	80.1	51.5
NPAT (\$million)	180.1	155.2	130.5	115.2	100.1	80.0	59.6	36.8	58.2	40.1
Basic EPS (cents)	318.2	275.7	233.7	208.1	182.9	146.8	110.1	68.2	110.0	76.6
DPS (cents)	225.0	200.0	175.0	150.0	125.0	100.0	80.0	79.0	77.0	51.0
Closing share price (\$)	72.00	74.32	57.70	43.65	61.00	54.63	39.20	22.72	32.30	34.05
Market capitalisation as at 30 June (\$million)	4,081	4,198	3,230	2,423	3,341	2,985	2,123	1,231	1,714	1,788
Number of employees	2,319	2,006	1,888	1,789	1,655	1,100	982	816	814	722

<sup>1</sup> Excludes \$5.2 million acquisition of core technology from Implex AG Hearing Technology.

# Growth was achieved in all regions with Asia Pacific being the standout in F11.

The enhancements made to the Cochlear Nucleus 5 System played a key role in driving revenues. This was supported in each region with various initiatives to drive awareness and demand for Cochlear solutions.

Regional Constant Currency Sales (A\$million)



\* Financial years.

## AMERICAS

### Performance

- Revenue in the Americas region grew 16% in constant currency to a record \$317 million.
- Sales were driven by the Cochlear Nucleus 5 System enhancements, which are allowing Nucleus 24 and Freedom recipients to upgrade and benefit from the latest technology.

### Launches

- The new Baha 3 System launched in Cochlear Americas.
- The Nucleus 5 System continues to gain momentum after a successful launch in F10.

### Regional footprint

- A subsidiary company was established in Panama supporting distribution in Latin America.

### Market growth

- Cochlear Americas has led efforts to form the American Cochlear Implant Alliance, comprising clinicians and industry representatives nationwide to help establish cochlear implantation as the standard of care for people with severe to profound hearing loss.
- In F11, Cochlear Americas piloted a consumer outreach program in select markets, focusing on educating adults about cochlear implants and Baha. This integrated program consists of public relations, advertising and direct mail to consumers and primary healthcare providers, followed by well attended educational seminars. Subsequent growth seen in these pilot markets has led to plans to expand this program in F12.
- Investment continued in the Recipient Services business, with the expansion of the recipient call centre to include extended service hours, new chat and online support functions through social media channels.

## EUROPE

### Performance

- Revenue in the Europe region, which includes the Middle East and Africa, grew 14% in constant currency to a record of \$293 million.
- Cochlear implant sales were strong across the region, with bilateral cochlear implant sales boosted in the UK and Belgium by positive reimbursement decisions.

### Launches

- Enhancements to the Cochlear Nucleus 5 System were launched across the region, enabling Nucleus 24 and Freedom recipients to upgrade, a development that was enthusiastically received.
- The expanded Cochlear electrode portfolio was launched, representing a broader portfolio to better address the preferences of surgeons. Initial results are encouraging and have helped grow market share in various clinics.
- The Baha 3 System was expanded with the new BP110 Power Sound Processor.

### Regional footprint

- In F11, European distribution was moved to a new facility in Weybridge, UK, to support Cochlear's growth in the region. During F11, approximately one million distributions were made from the UK centre to destinations across the region.
- Facility space in Germany has been expanded and in Italy the organisation moved to new premises. Both activities were necessary in order to support the growth in these countries.

### Market growth

- The recently introduced 'Science and Research Seminars' have brought Cochlear and global experts together, to share knowledge on advancing outcomes in a variety of disciplines. These meetings are well received by customers and enable us to continue to develop new products and solutions.
- North Africa and the Middle East have shown continued strong market growth in F11, but remain politically volatile markets.
- In F11, a pilot program was run in Germany to raise awareness and understanding of Cochlear technologies in the referring medical community and has shown significant progress.

## ASIA PACIFIC

### Performance

- Revenue in the Asia Pacific region grew 31% in constant currency to a record \$122 million and it was the standout region in F11.
- Growth was driven by strong cochlear implant sales in the emerging markets, in particular India and China.
- Australia, our most penetrated market, also continued its strong growth.

### Launches

- The Nucleus 5 System continued to be rolled out across the region in accordance with country specific regulatory approvals. In F11, the System was introduced in Taiwan, Korea, Philippines, Vietnam and Thailand.
- The rollout of Nucleus 5 for Nucleus 24 implant recipients was well received and upgrade processor sales were above last year's levels.

### Regional footprint

- In F11, the Company initiated direct operations in India after more than 15 years of working with local distribution agents. There are now 30 people in the India office.
- The Asia Pacific regional office was relocated to Macquarie University to join the global headquarters. This will help drive distribution efficiencies.

### Market growth

- A Voice for Children campaign was launched in India and China, encouraging referrers and consumers to screen all babies for hearing loss. The campaign also helped people to better understand the impact of early intervention on hearing outcomes and language development.
- The Australian Federal Government announced funding for processor upgrades for 21 – 26 year olds from January 2012.
- Japan obtained Baha product approval in F11 and launch activities were received positively by Japanese ENT professionals.
- Following the terrible earthquake and tsunami in Japan, Cochlear ensured that all employees based in Japan and their families were safe, and delivery of products and services were unaffected.



# Leading expertise - attracting and keeping the best people.

During the year, over 600 employees were moved to our new headquarters at Macquarie University. The new site provides world class facilities to support employees and is situated near transport, retail, recreation and university library facilities. Lane Cove manufacturing and support staff will transfer across later in F12.

## Attracting and keeping the best people

In a competitive global talent market, Cochlear continues to have low staff turnover, at 8% in F11. This retention of staff remains a competitive advantage for Cochlear.

The Company continues to build its engineering capabilities and pipeline of talent through its graduate program, which started in 2006. These graduates continue to participate in a broad development program as they rotate throughout the various aspects of Cochlear's business. Those who joined the Company in the early years of the program are now moving into senior engineering roles.

## Ongoing learning

To support individuals and team capability development, Cochlear continues to invest in employee development programs. Our new site provides a more flexible working environment with improved facilities for collaboration and learning, and we have complemented this with greater use of our learning management system, Cochlear Academy, to provide a blend of flexible learning for all employees. We now have approximately 200 online learning modules on topics ranging from workplace health and safety (WHS) to Cochlear products. Cochlear Academy is now being used globally to provide an increased range of multi-lingual learning options, modules, documents and webinars for employees.

Currently, Cochlear's workforce is 47% female, which is above the Australian workforce average. In Australia, 31% of our managers are women and 38% of our new employees were female. Importantly, the proportion of female executive managers at Cochlear (22%) is higher than that for other top 200 ASX organisations (which averaged 10.7%). During F11, the Board approved Cochlear's Diversity Policy and an active program to promote diversity in our workforce continues. Specifically, we have encouraged the Women in Leadership network, which fosters the development of female leaders at Cochlear. In addition to hosting sessions with senior female speakers, the group has been active in university programs and supporting high-performing professionals and first level supervisors at Cochlear.

## Ensuring the health and safety of employees

Cochlear remains committed to providing and maintaining a safe and healthy workplace for all employees. Our WHS team helped in the move to the new site by ensuring our facilities, office furniture, equipment design and staff training enabled us to set new workplace safety standards. During the five week transition period, 550 staff participated in induction training at the site and 330 completed ergonomic training. A range of initiatives addressing quality of work life have accompanied our move to the new site including facilities for cyclists, a café selected by our Coffee Committee, as well as access to the facilities at the university, in particular the aquatic centre, volleyball courts, sports fields and library. Wellness programs offered by Cochlear include ergonomic assessment of workstation layout for individuals, free flu vaccinations, free eye screening and access to in-house Pilates and yoga classes.

## Supporting the community

The Cochlear Foundation, established in 2007 with an initial donation from Cochlear followed by additional donations in 2009 and 2011, continues its work. The Foundation supports various activities promoting research and awareness of treatments for people with significant hearing impairment. In F11, the Foundation matched Cochlear employees' donations to the Brisbane flood appeal and the Japanese disaster relief appeal. It was also an inaugural sponsor of the WiSE (Women in Science and Engineering) Leadership Summit held in April in Canberra to support the development of female engineers and scientists.

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

## 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 to further reduce Cochlear's environmental impact. The group has been active in the move to our new site, promoting alternative transport options and collaborating with the university to promote car pooling.



For personal use only





# Cochlear's manufacturing operations remain a source of sustainable competitive advantage.

Ongoing innovation continues to be a core growth driver for Cochlear. In F11, the Company invested \$108.9 million, which is 13% of revenue, in R&D demonstrating our commitment to invest in this area.

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), made further progress in F11. The first phase of the DACS clinical trial was completed, with the successful implantation of 15 recipients in three clinics in Europe. The outcomes from this feasibility study are encouraging and confirm the design direction and viability of a commercial DACS product. The efforts in the DACS project underline Cochlear's vision to provide an implantable hearing solution for all types of hearing loss that cannot be addressed with conventional air-conduction hearing aids.

In F11, Cochlear launched important additions and extensions to the successful Nucleus 5 System, providing enhanced wireless connectivity via FM systems and improved user experience with the CR110 Remote Assistant.

Work is also being done, in collaboration with the industry and other research bodies, on clinical management tools and software used by hearing healthcare professionals in the ongoing care of Cochlear recipients.

Approximately 300 specialists from a range of engineering technology disciplines and backgrounds worldwide make up Cochlear's design and development department. The activities undertaken by this highly specialised group leverage and build on the research conducted in collaboration with over 100 research partner organisations based in 20 countries.

The efforts of the R&D teams are also focused on further improving (binaural) hearing performance across each of Cochlear's product categories, ease of use and totally implantable hearing solutions. A wide range of technology developments is laying the foundation to feed the product pipeline to support Cochlear's technology leadership position.

## Manufacturing operations

Cochlear's manufacturing operations, located in Australia and Sweden, remain a source of sustainable competitive advantage and continue to deliver products of the highest quality and reliability.

Our manufacturing strategy is to ensure that production methods and capacity meet the ongoing reliability requirements but are also simplified to allow for improved efficiencies. Cochlear continues to run an operations improvement program, which incorporates "lean manufacturing" principles, and with ongoing investment in new manufacturing technologies which support scalability and productivity improvements.

During the year, we expanded our manufacturing site in Brisbane and made significant progress on the validation of manufacturing in the new facility at Macquarie University.

Sydney based manufacturing will move from the Lane Cove facility to the new building in F12, following regulatory approvals from the major regulators.

Nearly 800 people are currently employed across Cochlear's manufacturing facilities.

## Quality assurance

Cochlear has a worldwide quality assurance system in place to ensure the quality of its products and services. This system complies with all applicable regulatory requirements around the world.

## Device approvals

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

## Intellectual property

The creation of new intellectual property and the protection of that as well as our existing intellectual property remain key strategic imperatives for the business. In F11, Cochlear filed many new patent applications and currently holds over 900 patents and patent applications globally.



**1. Mr Rick Holliday-Smith, Chairman**

Age 61. BA (Hons), FAICD – Appointed to the Board 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 57. BE (Hons), MBA, PhD, Hon DSc (Macq), FAICD, FTSE, FIEAust – Appointed 1 February 2004

Chief Executive Officer/President of Cochlear Limited. Director of ResMed Inc since 1992 and Chairman of Research Australia (2004 – 2010). Dr Roberts has worked in the medical device industry for more than 35 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 65. 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 59. 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 62. 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.

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

**6. Mr Donal P O'Dwyer**

Age 58. 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 47. BCom, FAICD – Appointed 2 August 2010

Director of Insurance Australia Group Limited (IAG) since 2004, member of IAG Audit Committee and Chair of IAG Nomination and Remuneration Committee. Chair of Macquarie Specialised Asset Management (not publicly listed) since 2003. Former non-executive director of Film Australia (2004 – 2008), Export Finance and 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.

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



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### 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, 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 a non-executive director of John Holland Group, 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 300 highly qualified engineers and scientists who implement the R&D strategy. This includes responsibility for identifying and developing cutting-edge technologies and commercial products.

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

### 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.



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

### 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).



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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 2nd Edition (August 2007) (Guidelines). A checklist of the recommendations made in the Guidelines is set out at the end of this report. References to recommendations in the Guidelines are made throughout this report in order to indicate how Cochlear complies with the recommendations. All policies and terms of reference referred to in this report are published on the Company's website [www.cochlear.com](http://www.cochlear.com) in the Corporate Governance section, unless stated otherwise. The Corporate Governance section is located under the 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 the 2010 amendments to the Guidelines which came into effect on 1 January 2011 (Revised Guidelines). Cochlear has made significant progress towards complying with the Revised Guidelines, including the establishment of a diversity policy. Cochlear will report against the Revised Guidelines in relation to the financial year beginning 1 July 2011 as required by the 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 (Rec 1.3).

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

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

The Chairman is responsible for leading the Board in the performance of its duties. The Board's prime objectives are to improve shareholder returns and to achieve disciplined and sustainable growth. The full Board meets for at least eight scheduled meetings each year. Other meetings are called as and when necessary. A summary of meeting attendance (including committee meeting attendance) for F11 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 (Rec 2.1). Throughout the year, the Board has regular scheduled discussions on various aspects of the Company's strategy.

The CEO/President is responsible for the efficient and effective operation of Cochlear on a day-to-day basis. The CEO/President oversees the implementation of the strategies approved by the Board and is accountable to the Board for all authority delegated to the senior executive team. Notwithstanding these delegations by the Board, the CEO/President must consult the Chairman on matters that are sensitive, extraordinary or of a strategic nature. The CEO/President must bring all material matters to the Board's attention. The senior executive team briefs the Board regularly so as to keep the Board up to date and to assist the directors with monitoring the results of operations. Each month, directors receive operating reports prepared by senior management, covering each region and function. Directors also regularly visit and inspect operations in Australia and overseas.

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

**Principle 2: Structure the board to add value**

***Composition of the Board***

As at 30 June 2011, the Board comprised six non-executive directors (including the Chairman) and one executive director, the CEO/President. The directors consider that, between them, they possess the necessary skills, knowledge and experience to allow the Board to perform its duties appropriately. Between them, the directors bring to the Board scientific, medical, technical and financial expertise, as well as international business experience. Summaries of the relevant skills, experience and expertise of each director are set out on 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 recommendations at Principle 3 with regard to gender diversity. The Nominations Committee actively considers gender diversity in carrying out its role. In addition, Cochlear has established a Diversity Policy. This Policy recognises Cochlear's need for a workforce with a wide range of skills, expertise and diversity in terms of gender, age and ethnicity.

The Diversity Policy includes provision for the Board to establish diversity related measurable objectives for the Company and for management to review and report on progress towards the objectives.

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. The Chairman, Mr Rick Holliday-Smith, and Mr Paul Bell will retire at the 2011 AGM and will stand for re-election at that meeting. A review of the performance of the Board, its committees and individual directors is performed at least every two years, with the most recent being undertaken in 2011. The 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 key findings of these reviews were then discussed at the Nominations Committee meeting held in July 2011. The Performance Evaluation Process Overview gives details of performance evaluation for the Board, its committees and individual directors (Rec 2.5). The Performance Evaluation Process Overview is published in the Corporate Governance section of the Cochlear website.

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

#### **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 18,350. 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 is disclosed at page 21. Currently, no director has served longer than 10 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 Chair of each committee is free to use whatever resources they consider necessary to discharge the committee's responsibilities. The number of committee meetings held during the year and the attendance at these meetings by members is set out in the Directors' Report at page 32 (Recs 2.6, 4.4 and 8.3). With the exception of the Medical Science Committee and the Technology and Innovation Committee, all members of the committees are independent non-executive directors. Executive director Dr Chris Roberts is a member of the Medical Science Committee and the Technology and Innovation Committee.

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

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

The Audit Committee meets at least four times a year. The Audit Committee consists entirely of independent non-executive directors (Rec 4.2). As at 30 June 2011, Mrs Yasmin Allen chaired the Committee, with the other members being the Chairman of the Board Mr Rick Holliday-Smith, Mr Andrew Denver and Mr Donal O'Dwyer (Recs 4.2 and 4.4). The Board considers that the Audit Committee is of a sufficient size and independence and possesses sufficient technical expertise to discharge its mandate effectively. An assessment of the technical expertise of the Committee's members occurs on an annual basis. The external and internal auditors, the CEO/President and the Chief Financial Officer (CFO) and other executives are invited to the meetings at the discretion of the Committee. At each Committee meeting they attend, the external auditor reports on the outcome of their audit and other work. The Committee meets with the external auditor in the absence of members of management at every meeting that the external auditor attends. Summaries of the Committee members' technical expertise are set out at page 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 and management of risk.

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. As at 30 June 2011, Mr Paul Bell chaired the Committee with the other members being the Chairman of the Board Mr Rick Holliday-Smith, Mr Andrew Denver and Mr Donal O'Dwyer. All members of the Remuneration Committee are independent non-executive directors (Rec 8.3). The Remuneration Committee is structured in a manner which is compliant with the requirements of the Revised Guidelines. 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 Chairman of the Board Mr Rick Holliday-Smith and, as at 30 June 2011, the other members of the Committee were Mrs Yasmin Allen, 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 Nominations Committee was established in July 2003. The Committee's role is to assist the directors in ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of a director, having regard to the law and the highest standards of governance, by:

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

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

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

#### **Medical Science Committee**

The Medical Science Committee was established during the 2003 financial year and meets at least biannually. As at 30 June 2011, Prof Edward Byrne, AO chaired the Committee with the other members 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 2011, the Committee was chaired by the Chairman of the Board Mr Rick Holliday-Smith, with the other members being Mrs Yasmin Allen, Mr Paul Bell, Prof Edward Byrne, AO, Mr Andrew Denver, Mr Donal O'Dwyer and Dr Chris Roberts. Executives of the Company are invited to meetings at the discretion of the Committee.

The Technology and Innovation Committee Terms of Reference set out the Committee's role and responsibilities, composition, structure and membership requirements. The Technology and Innovation Committee Terms of Reference can be viewed in the Corporate Governance section of the Cochlear website. The Committee oversees the strategic direction of the Company's technology research and product development programs with an emphasis on priority and resource allocation in line with the Company's agreed corporate strategy.

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

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

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

The Code requires strict compliance with high standards of honesty, integrity and fairness in all conduct relating to Cochlear and its products. The Code outlines formal procedures relating to anti-corruption, confidentiality/privacy, trade practices, documentation management, workplace and other compliance issues for the purpose of ensuring that the Company meets best practice in these areas. The Code also provides for clear and confidential reporting mechanisms concerning any potential breach. 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. The Non-Executive Directors and Executives Share Ownership Policy is an internal document and is not available on the Cochlear website.

All directors, senior executives and employees are subject to Cochlear's Trading Policy (Rec 3.2). This Policy replaced the Dealing in Securities Policy. The Trading Policy was approved by the Board in December 2010 and became effective on 1 January 2011. The Trading Policy was established as a result of the amendments to Rule 12 of the ASX Listing Rules, which became effective on 1 January 2011. Consistent with the Corporations Act 2001, directors, senior executives and employees are prohibited by the Trading Policy from dealing in the Company's securities whilst in possession of "inside information". Subject to certain limited exceptions, the Trading Policy prohibits "Designated Persons" (which includes the Company's key management personnel and certain other persons) from dealing in Cochlear securities outside of set trading windows. During the trading windows, Designated Persons must still seek "no objection" from the Company prior to trading in Cochlear securities. Employees who are not Designated Persons are not restricted to dealing within the trading windows.

However, in order to mitigate the risk of inadvertently trading whilst in possession of inside information, the Policy advises employees to trade in the Company's securities only during the trading windows. Employees are encouraged to seek advice from the Company Secretary prior to trading if they are in any doubt as to whether they are in possession of inside information. Compliance with the Trading Policy is monitored. The Audit Committee receives a report at each of its meetings regarding trading in the Company's securities by the CEO/President and other members of the senior executive team. Share dealings by directors are promptly notified to the ASX in accordance with the ASX Listing Rules.

Executives who are granted shares under the CELTIP are provided with details of the Trading Policy and the trading windows as well as guidelines on what constitutes insider trading. The Trading Policy can be viewed in the Corporate Governance section of the Cochlear website (Recs 3.2 and 3.3).

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

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

Accounting and financial control policies and procedures have been established and are monitored by the Audit Committee (Rec 4.1). The Committee approves any new material accounting policies. Compliance with these procedures and policies is subject to review by the external and internal auditors. The Committee provides a link between the external auditor and the Board and monitors compliance with statutory responsibilities. The Audit Committee is responsible for making recommendations on the appointment, evaluation and dismissal of the external auditor, setting fees and ensuring that the external auditor reports to the Committee and the Board (Rec 4.4). The Audit Committee reviews the performance, independence and objectives of the external auditor on an annual

basis. Details relating to the selection and appointment of the Company's external auditor are included in the Audit Committee Terms of Reference (Rec 4.4).

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

Cochlear is committed to auditor independence. The Cochlear audit engagement partner must rotate every five years, with the next rotation occurring in July 2011. 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 at the Corporate Governance section of the Cochlear website (Recs 6.1 and 6.2). The Policy is designed to promote effective communications with shareholders and to encourage shareholders to participate in general meetings of the Company.

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

The Board's philosophy is to encourage full participation of shareholders at the AGM to ensure a high level of accountability and identification with Cochlear's strategy and goals. The Company provides a forum to address individual shareholders' questions at each AGM. The external auditor attends the AGM and is available to answer questions about the conduct of the audit and the preparation and content of the Audit Report. In addition to attending the AGM in person, shareholders may view a webcast of the AGM online. Advance notice of half year and full year results announcements is provided on the Cochlear website. Copies of results presentations are made available via the Cochlear and ASX websites.

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

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

Cochlear views risk management as integral to its objectives of effective management of Company assets and the creation and maintenance of shareholder value. The Board has established a Risk Management Policy. This Policy provides a framework for the oversight and management on a continuing basis of the material business risks associated with Cochlear's activities (Rec 7.1). 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. Cochlear is currently undertaking a process to transition the risk management framework to compliance with the International Standard for Risk Management ISO 31000.

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 F11 remuneration (including retirement benefits) of the directors, 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. As noted above, the structure of the Cochlear Remuneration Committee is compliant with 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 trading windows provided in the Company's Trading Policy. In line with the Corporations Act 2001, the Trading Policy prohibits executives from hedging unvested CELTIP awards.

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

Number	Requirement	Compliant			
<b>Pr 1</b>	<b>Lay solid foundations for management and oversight</b>				
Rec 1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	✓			
Rec 1.2	Companies should disclose the process for evaluating the performance of senior executives.	✓			
Rec 1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	✓			
<b>Pr 2</b>	<b>Structure the board to add value</b>				
Rec 2.1	A majority of the board should be independent directors.	✓			
Rec 2.2	The chairman should be an independent director.	✓			
Rec 2.3	The roles of chairman and chief executive officer should not be exercised by the same individual.	✓			
Rec 2.4	The board should establish a nomination committee.	✓			
Rec 2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	✓			
Rec 2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	✓			
<b>Pr 3</b>	<b>Promote ethical and responsible decision-making</b>				
Rec 3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>the practices necessary to maintain confidence in the company's integrity;</li> <li>the practices necessary to take account of their legal obligations and the reasonable expectations of their stakeholders; and</li> <li>the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	✓			
Rec 3.2	Companies should establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or a summary of that policy.	✓			
Rec 3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3.	✓			
<b>Pr 4</b>	<b>Safeguard integrity in financial reporting</b>				
Rec 4.1	The board should establish an audit committee.	✓			
Rec 4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>consists only of non-executive directors;</li> <li>consists of a majority of independent directors;</li> <li>is chaired by an independent chair, who is not chair of the board; and</li> <li>has at least three members.</li> </ul>	✓			
Rec 4.3	The audit committee should have a formal charter.	✓			
Rec 4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	✓			
<b>Pr 5</b>	<b>Make timely and balanced disclosure</b>				
Rec 5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	✓			
Rec 5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	✓			
<b>Pr 6</b>	<b>Respect the rights of shareholders</b>				
Rec 6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	✓			
Rec 6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	✓			
<b>Pr 7</b>	<b>Recognise and manage risk</b>				
Rec 7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	✓			
Rec 7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	✓			
Rec 7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	✓			
Rec 7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	✓			
<b>Pr 8</b>	<b>Remunerate fairly and responsibly</b>				
Rec 8.1	The board should establish a remuneration committee.	✓			
Rec 8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	✓			
Rec 8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	✓			



## Glossary

<b>AGM</b> Annual General Meeting.	<b>F11</b> Financial Year 2011: 1 July 2010 to 30 June 2011.
<b>ASIC</b> Australian Securities and Investments Commission.	<b>F12</b> Financial Year 2012: 1 July 2011 to 30 June 2012.
<b>ASX</b> Australian Securities Exchange.	<b>IFRS</b> International Financial Reporting Standards.
<b>DACS</b> Direct Acoustic Cochlear Stimulator.	<b>NPAT</b> Net profit after tax.
<b>DPS</b> Dividends per share.	<b>Previous GAAP</b> Previous Australian Generally Accepted Accounting Principles.
<b>EBIT</b> Earnings before interest and tax.	<b>Processor/sound processor</b> The externally worn part of the cochlear implant.
<b>EBITDA</b> Earnings before interest, tax, depreciation and amortisation.	<b>R&amp;D</b> Research and development.
<b>EMEA</b> Europe, Middle East and Africa.	<b>TSR</b> Total shareholder return.
<b>EPS</b> Earnings per share.	
<b>F10</b> Financial Year 2010: 1 July 2009 to 30 June 2010.	

## Company ASX Announcement Record

### 8 February 2011 *Record earnings for half year ended 31 December 2010*

Cochlear Limited announced record net profit after tax of \$87.2 million for the six months ended 31 December 2010, up 16% on the first half of F10. Total revenue was up 8% to \$377.1 million with sales up 17% in constant currency. The interim dividend of \$1.05 per share was up 11%.

### 19 October 2010 *Chairman's Address*

Cochlear Limited Chairman Mr Rick Holliday-Smith addressed shareholders at the Annual General Meeting.

### 10 August 2010 *Record earnings for full year ended 30 June 2010*

Cochlear Limited announced record revenue and earnings, with net profit after tax of \$155.2 million, up 19% for the full year ended 30 June 2010. The final dividend was \$1.05 per share, bringing total dividends for the year to \$2.00 per share, up 14% on the previous year.

### 2 August 2010 *Appointment of non-executive director*

Cochlear Limited announced the appointment of Mrs Yasmin Allen to the Board. Mrs Allen has over 20 years' experience in business, investment banking and as a company secretary.

## 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 3 9415 4000

**Auditor**  
KPMG

### Bankers

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

### Annual General Meeting

The Annual General Meeting will be held at 10am on Tuesday 18 October 2011 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

<b>2011</b>	
Dividend record date	1 September
Payment of final dividend	22 September
Annual General Meeting	18 October
<b>2012</b>	
Interim profit announcement	7 February
Interim dividend record date	24 February*
Payment of interim dividend	13 March*
Final profit announcement	7 August*
Annual General Meeting	16 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, Contour Advance, Freedom and Hybrid 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

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**Cochlear Benelux NV** Schaliënhoedreef 20 1, B - 2800 Mechelen, Belgium Tel: 32 1579 5511 Fax: 32 1579 5500

**Cochlear Italia S.r.l.** Via Larga 33, 40138 Bologna, Italia Tel: 39 051 601 53 11 Fax: 39 051 39 20 62

**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

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