



HeartWare Limited

ACN 111 970 257

Risk Management Policy

(Consolidated as at 1 December 2005)

HeartWare Limited

Risk Management Policy

1. Overview

Risk is inherent in all activities undertaken by HeartWare Limited (“HeartWare” or “the Company”). It is therefore important that risk must be mitigated on a continuous basis, particularly if the Company is to preserve shareholder value.

HeartWare’s goal is not to eliminate risk, rather to manage the risks inevitably involved in many corporate activities so as to maximise opportunities and minimise negative outcomes. Risk management requires:

- (a) forward thinking and a proactive approach by management; and
- (b) achieving a balance between the costs of managing a risk and the anticipated benefits.

This Policy is designed to provide the broad framework for dealing with risk in HeartWare’s business.

This Policy should be read in conjunction with the other corporate governance policies and employment documentation utilised by the Company.

2. Risk

2.1 Definitions

“Risk” is the chance that an event will occur that will impact upon the Company’s objectives. It is measured in terms of consequence and likelihood.

“Risk assessment” is the process used to determine risk management priorities by evaluating and comparing the level of risk against predetermined acceptable levels of risk.

“Risk management” is the culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects.

2.2 Key Areas of Risk

Sources of risk are varied and a wide view should be taken when considering business risks. Possible risk areas for HeartWare include:

- (a) Technology risks from both competitors and from Company systems. Competitive technology risk includes evolving LVAD, stem cell and pharmaceutical alternatives.
- (b) Engineering or operational risks pertaining to the Company’s products and manufacturing processes as well as business process failures.
- (a) Liquidity or credit risk, including funding and cash requirements of the Company. Specifically, access to debt and equity resources necessary to operate and expand the Company’s business and compliance with financier’s required covenants (if any).
- (b) Economic risks, including interest rate and foreign exchange fluctuations, market conditions, and costs of doing business internationally.

- (e) Market structure and regulation risks, including medical device approval regimes, the emergence of competitors from related fields (e.g. catheter-based technology) and regulatory initiatives.
- (f) Compliance risks, including issues with regulators having power over licenses or approvals required by the Company to do business.
- (g) Business continuity risks, including planning for hurricane, fire, terrorism, and other events that require disaster management.
- (h) Human resource risks, including succession planning, recruitment, compensation, and retention issues.
- (i) Accounting and financial control risk.

The Board, directly and via the Audit & Compliance Committee, shall work with management on an ongoing basis within the risk framework outlined in this Policy to mitigate the risks to the Company's business as it may evolve over time.

3. Responsibility

3.1 General

Everyone in the HeartWare organisation is responsible for the effective management of risk. All staff are responsible for identifying potential risks.

Management is responsible for developing risk mitigation plans and implementing risk reduction strategies. The risk management process should be integrated with other planning processes and management activities.

Notwithstanding the above, the Board of Directors is ultimately responsible for ensuring that the Company's risk management practises are sufficient to mitigate to the most cost effective extent possible the risks present in the Company's business.

As noted above, the Board delegates a portion of this responsibility to its Audit & Compliance Committee. Management is instructed and empowered by the Board to implement risk management strategies in cooperation with the Audit & Compliance Committee, report to the Board and the Audit & Compliance Committee on developments related to risk, and suggest to the Board new and revised strategies for mitigating risk.

3.2 Chief Executive Officer

The Chief Executive Officer is responsible for ensuring that a risk management system is established, implemented and maintained in accordance with this Policy. Assignment of responsibilities in relation to risk management is the prerogative of the Chief Executive Officer.

3.3 Audit & Compliance Committee

The Audit & Compliance Committee will be responsible for oversight of the processes for the identification and assessment of the general risk spectrum, reviewing the outcomes of risk assessments and for advising the Board of Directors as necessary.

3.4 Vice Presidents

Vice Presidents will be responsible to the Chief Executive Officer through their line manager (i.e. Director level employees) for the implementation of this Policy within their respective areas of responsibility.

4. Reporting

The Audit & Compliance Committee will receive regular reports on the identification and treatment of risk and will advise the Board of Directors as necessary.

5. Risk Framework

5.1 Key Elements

Key elements of the framework for the management of risk by HeartWare are:

- (a) Oversight of the Company's financial affairs by the Audit & Compliance Committee.
- (b) The annual planning and budgeting process.
- (c) Regular performance reporting enabling the identification of performance against targets and evaluation of trends.
- (a) Approval guidelines for capital.
- (e) Procedures for the management of financial risk and treasury operations.
- (f) A comprehensive annual insurance programme.
- (g) Establishing and maintaining an effective control environment.
- (h) Ongoing training and development programmes.

As the Company develops, it is anticipated that new "risk-focussed" roles will be created (e.g. Risk Manager, Internal Auditors) and that an internal audit programme will be introduced.

5.2 Risk Evaluation and Control

The management team, under the leadership of the Chief Executive Officer, is requested to draw together from within their ranks a group who periodically meet to identify and assess specific business risks. The group should have experience in all HeartWare's business plans, objectives and values.

Based on reviews of each segment of HeartWare's business, an overall profile of the risks of HeartWare is established.

- (a) Identified risks are assessed in terms of potential consequences and likelihood.
- (b) Risks are ranked in accordance with their likely impact.
- (c) The acceptability of each identified risk is assessed.
- (d) Proposed actions to eliminate, reduce or manage each material risk are considered and agreed.

- (a) Frequent reporting on identified key risks is made to senior management.
- (b) Responsibilities for the management of each risk are assigned to appropriate managers.

The overall results of this assessment are presented to the Board at least annually, and updated as required.

A Board review is made at least annually of the effectiveness and suitability of the risk management plan.

[Approved by the Board of Directors of HeartWare Limited on 30 November 2005.]