Cochlear Remuneration Policy

Role of the Board and the People & Culture Committee

The Board is responsible for all areas of Cochlear's strategy and policy related to its people. Consistent with this responsibility, the Board has established the People & Culture Committee (P&CC) which comprises solely of independent Non-Executive Directors (NEDs).

The role of the P&CC is set out in its Terms of Reference, which is reviewed annually and was last revised and approved by the Board in December 2018. The P&CC's role includes:

- Ensuring that the appropriate procedures exist to assess the remuneration levels of the Chairman, other NEDs, executive directors, direct reports to the Chief Executive Officer & President (CEO&P), Board committees and the Board as a whole;
- Ensuring that Cochlear adopts, monitors and applies appropriate remuneration policies and procedures; and
- Ensuring that reporting disclosures related to remuneration meet the Board's disclosure objectives and all relevant legal requirements.

The P&CC's role and interaction with Board, internal and external advisors, are further illustrated below:

The Board

Reviews, applies judgement and, as appropriate, approves the P&CC's recommendations.

The People & Culture Committee

The P&CC operates under the delegated authority of the Board.

The P&CC is empowered to source any internal resources and obtain external independent professional advice it considers necessary to enable it to review management proposals and make recommendations to the Board on the following:

Remuneration policy, composition, quantum and performance targets for executive KMP	Remuneration policy in respect of NEDs	Talent management policies and practices	Design features of employee and executive short-term incentive and long-term incentive plan awards, including setting of performance and other vesting criteria

External consultants

Internal resources

Further information on the P&CC's role, responsibilities and membership is contained in the Corporate Governance Statement. The P&CC Terms of Reference can be viewed in the Investor Centre, Corporate Governance section of the Cochlear website, www.cochlear.com.

Executive remuneration

Cochlear's executive remuneration strategy is designed to attract, motivate and retain a highly qualified and experienced group of executives employed across diverse geographies. Fixed remuneration components are determined having regard to the specific skills and competencies of the executive with reference to both internal and external relativities, particularly local market conditions. The 'at risk' components of remuneration are strategically directed to encourage management to strive for superior (risk-balanced) performance by rewarding the achievement of targets that are challenging, clearly defined, understood and communicated within the ambit of accountability of the relevant executive.

Executive remuneration objectives

Attract, motivate and retain executive talent across diverse geographies	Differentiate reward to drive performance including values and behaviours components	Provide an appropriate balance of 'fixed' and 'at risk' components focused on long-term and shorter-term strategy	Align to shareholders' interests and value creation through equity components

Total target remuneration (TTR) is set by reference to the relevant geographic market

Fixed pay	At risk pay	
Total fixed remuneration (TFR)	**Short-term incentives (STI)**	**Long-term incentives (LTI)**
TFR is set relative to the median of the market comparator group and reflects responsibilities, performance, qualifications, experience and geographic location.	STI performance criteria are set by reference to Cochlear group and/or regional revenue and EBIT and individual strategic performance targets relevant to the specific position.	LTI targets are linked to Cochlear group performance measures: 50%: to internal EPS growth 50%: external relative TSR (EPS = Earnings Per Share TSR = Total Shareholder Return).
Remuneration will be delivered as:		
Base salary plus any fixed elements related to local markets, including superannuation or equivalents (health insurance, car allowances and insurances).	Part cash and part equity (service rights). The equity component will be subject to service and deferred for 2 years to build alignment to longer term shareholders' interests.	Equity in options and/or performance rights. All equity is held subject to service and performance for 3 years. The equity is at risk until vesting. Performance is tested once at the vesting date.
Strategic intent and market positioning		
Quantum and mix will take account of relevant market data considering the individual's expertise in the role. TFR must be competitive to attract and retain executive talent.	STI is directed to achieving Board approved targets, reflective of market circumstances. Targets are set as interim milestones on the longer term strategy, and equity delivery discourages short termism.	LTI is intended to reward executives for sustainable long-term growth aligned to shareholders' interests. Executives eligible for LTI may also be subject to the (Minimum) Share Ownership Policy.

Total target remuneration (TTR)

Each remuneration component and the overall total target reward levels are tested regularly for market competiveness by reference to appropriate independent and externally sourced comparable benchmark information, taking into account an executive's responsibilities, performance, qualifications, experience and geographic location.

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Remuneration mix

The remuneration mix for executive KMP is weighted towards at-risk performance based remuneration to ensure a strong focus on short, medium and long-term performance. A portion of executive remuneration is paid in equity (approximately, 44% for the CEO&P and 33% for other executive KMP) to align our executives with shareholder interests.

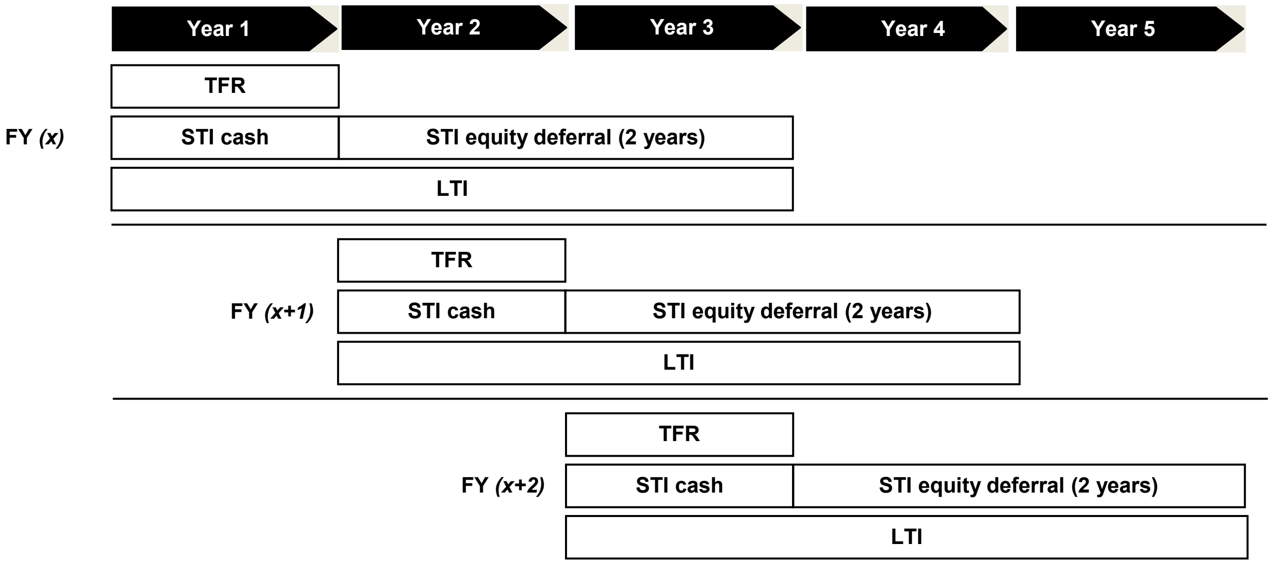
The Board believes this approach aligns executive KMP remuneration to shareholder interests and expectations.

The remuneration mix (presented as a % of total target remuneration (TTR)) is illustrated below:

Position	Base salary (cash)	STI at target (cash and deferred equity)	LTI at target
CEO&P	34% of TTR	33% of TTR	33% of TTR
Average other executive Key Management Personnel (KMP)	45% of TTR	33% of TTR	22% of TTR

Timing of receipt of remuneration

The three complementary components of executive KMP remuneration are 'earned' over multiple time ranges. This is illustrated in the following chart:



Note: LTI is awarded in year 1 and earned at the end of year 3 but expensed over the three year performance period.
As illustrated, executive KMP remuneration is delivered on a cascading basis, with a material component deferred over three years and awarded as equity. This remuneration mix is designed to ensure executive KMP are focused on delivering results over the short, medium and long term if they are to maximise their remuneration opportunity. The Board believes this approach aligns executive KMP remuneration to shareholder interests and expectations.

Variable (at risk) remuneration explained

Variable remuneration forms a significant portion of executive remuneration. Apart from being market competitive, the purpose of variable remuneration is to direct executives' behaviours towards maximising Cochlear's short, medium and long-term performance. The key aspects are summarised below:

Short-term incentives (STI)

Purpose	The STI arrangements at Cochlear are designed to reward executives for the achievement against annual performance targets set by the Board at the beginning of the performance period. The STI program is reviewed annually by the P&CC and approved by the Board. All individual STI awards to executive KMP are approved by the P&CC and Board. The deferred STI is designed to encourage a longer term focus and ensure reward is linked to longer term outcomes from shorter term goals. Deferral also provides some stimulus to retain the executive in the company. Deferral enables the Board to impose a clawback (or malus) if results in subsequent periods warrant it.
Performance measures	The key performance objectives of Cochlear are currently directed to achieving Board-approved sales revenue and EBIT targets and the achievement of strategic measures.
Mandatory deferral of STI	A mandatory deferral of a portion of STI (in the form of service rights) is intended to reinforce alignment to longer-term shareholder interests and for retention purpose. Based on the performance as measured under the cash STI plan, the number of service rights is determined at the end of the performance year and the service rights are held for a further two years until vesting. The number of rights to be allocated is calculated using the 'gross contract value', which refers to a Black-Scholes-Merton pricing model without discounting for service or performance hurdles. The model uses Cochlear's five day volume-weighted average share price following the announcement of full year results in August each year. Once the number of performance rights has been determined, there are no further performance measures other than continued service for the vesting period (two years). The Clawback Policy also ensures that participants maintain appropriate performance and behavior standards during the deferral period.

Performance measure and weighting	Description
Sales revenue and EBIT (60%)	• Sales revenue and EBIT were selected as they represent the key measures of short-term financial success of Cochlear. • Financial targets are set by the Board, having regard to prior year performance, global market conditions, competitive environment, future prospects and the Board approved budgets. The specific targets are not disclosed to the market due to their commercial sensitivity. • The weighting between Cochlear group and regional financial goals depends on the responsibilities and scope of influence of the individual. • Validation of performance against the measures set for: – the CEO&P involves an independent review and endorsement by the Chief Financial Officer (CFO), reviewed and approved by the P&CC and Board; and – other executive KMP involves a review by the CEO&P based on inputs from the CFO. Final review is undertaken by the P&CC and Board. Any anomalies or discretionary elements are validated and approved by the Board.
Strategic measures (40%)	• Strategic measures were selected to recognise that in addition to short-term financial results, a number of strategic initiatives are required to enable sustained growth over time. • Measures are agreed with the P&CC at the commencement of each financial year and are aligned to the delivery of initiatives that support Cochlear's strategic priorities. • Each executive's contribution against the strategic measures is assessed at an individual level at the end of the performance period. This assessment determines the level at which awards will be made for the strategic measures component of the award.

Long-term incentives (LTI)

The LTI opportunity is calculated using the ‘gross contract value’, which refers to a Black-Scholes-Merton pricing model without discounting for service or performance hurdles.

Cochlear’s performance hurdles are high compared to market practice (S&P/ASX 100 companies). Further, any LTI awards in equity grants will only have value to the executive if the performance hurdles are met to enable vesting to occur. LTI awards delivered in options will only have value to the executive if the share price on vesting exceeds the exercise price.

<table>
<tr><td>Purpose</td><td>To align executive KMP remuneration opportunity with shareholder value and provide stimulus for retention of executives within the Company.</td></tr>
<tr><td>Award vehicle</td><td>The current LTI structure was introduced in July 2013.

LTI is delivered in the form of options (being an option at a pre-set exercise price to acquire a fully paid ordinary share of Cochlear Limited) and performance rights (being a nil exercise price right to a fully paid ordinary share of Cochlear Limited).

A minimum 30% of the LTI value must be taken as options. This ensures that the share price at vesting/exercise must be greater than the share price at grant in order for any reward to be delivered for at least 30% of the LTI. The remaining 70% of the LTI value is at the election of each executive to choose either options or performance rights.</td></tr>
<tr><td>Timing of grant</td><td>All equity grants will be made after the Annual General Meeting (AGM) each year but based on values determined in the preceding August.</td></tr>
<tr><td>Allocation method and opportunity</td><td>The size of individual LTI grants is determined in accordance with the Board approved remuneration strategy mix.

The LTI dollar value for each executive is converted to options and/or performance rights based on LTI allocation values. These are independently determined based on the ‘gross contract value’ of the relevant equity instrument and on a Black-Scholes-Merton pricing model without discounting for service or EPS and TSR performance hurdles.

Cochlear has considered feedback from shareholders and maintains that the methodology of using the gross contract value for allocating options and performance rights remains appropriate considering the current design of Cochlear’s LTI plan. Gross contract value discounts for dividends, share price volatility and the risk free rate of return. There is no discount for the likelihood of service or performance conditions. The model uses Cochlear’s five day volume-weighted average price following the announcement of full year results in August each year.</td></tr>
<tr><td>Performance period</td><td>Performance is measured over a three year performance period.
Post vesting, options expire seven months after the vesting date if they have not been exercised.
There is no retesting of performance hurdles under the LTI plan.</td></tr>
<tr><td>Performance measures and hurdles</td><td>Awards are subject to:
50% weighting on relative TSR against the constituents of the ASX 100 index; and
50% weighting on CAGR in EPS.
These measures have been selected to incentivise executives towards long-term sustainable growth of the business and are generally accepted proxies for the creation of shareholder value.

The performance conditions applying to the FY18 grant were as follows:

<table>
<tr><th colspan="2">Relative TSR</th></tr>
<tr><th>Performance</th><th>% of instruments that vest</th></tr>
<tr><td>Less than 50th percentile</td><td>0%</td></tr>
<tr><td>At the 50th percentile</td><td>40%</td></tr>
<tr><td>50th percentile to 75th percentile</td><td>40% to 100% (pro-rata)</td></tr>
<tr><td>Above 75th percentile</td><td>100%</td></tr>
</table>
<table>
<tr><th colspan="2">EPS</th></tr>
<tr><th>Performance (CAGR)</th><th>% of instruments that vest</th></tr>
<tr><td>Less than 10%</td><td>0%</td></tr>
<tr><td>10%</td><td>50%</td></tr>
<tr><td>10% to 20%</td><td>50% to 100% (pro-rata)</td></tr>
<tr><td>Above 20%</td><td>100%</td></tr>
</table>

Options and performance rights vest if the time restrictions and relevant performance hurdles are met. The Board must approve any special provisions, in accordance with Company policies, in the event of termination of employment or a change of control.</td></tr>
<tr><td>Dividends</td><td>No dividends are attached to options or performance rights.</td></tr>
<tr><td>Voting rights</td><td>There are no voting rights attached to options or performance rights.</td></tr>
</table>

Cessation of employment	If an executive ceases employment before the end of the performance period, unvested LTI awards will be forfeited. In exceptional circumstances such as in the case of redundancy and retirement, the Board may in its discretion, determine that all or a portion of the award will vest in line with the original performance criteria and vesting date.

Potential dilution if options vest and ordinary shares issued

The Board encourages employee ownership of Cochlear shares. To restrict dilution of shareholders' interests the total employee interests in unvested equity cannot exceed 5% of shareholder capital.

Other remuneration elements and disclosures relevant to executive KMP

Clawback Policy

Cochlear implemented a clawback policy effective 1 July 2014 to meet good governance practice.

All participants of the deferred STI and LTI plan are subject to the Clawback Policy. The policy enables the Board to claw back remuneration outcomes in the event of a material non-compliance with any financial reporting requirement, misconduct, or following inappropriate behaviour post-employment in cases where the Board has exercised its discretion to allow retention of equity following termination of employment. The policy is designed to further align the interests of participants with the long-term interests of Cochlear and shareholders, and to ensure that excessive risk taking is not rewarded.

Hedging and margin lending prohibition

Under the Cochlear Trading Policy and in accordance with the Corporations Act 2001, equity granted under Cochlear equity incentive schemes must remain at risk until vested if performance rights or until exercised if options. It is a specific condition of grant that no individual or their associates enter into a scheme that specifically protects the unvested value of options or performance rights allocated.

Cochlear also prohibits ‘Designated Persons’ (including KMP) providing Cochlear securities in connection with a margin loan or similar financing arrangement, unless that person has received a specific notice of no objection in compliance with the policy.

Minimum shareholding guidelines

The purpose of the Cochlear Share Ownership Policy is to ensure appropriate alignment of the interests of Cochlear’s KMP with the financial interests of Cochlear’s shareholders. The Policy aims to create a share ownership focus and culture and to build long-term commitment to the Company by providing direction to KMP as to minimum levels of share ownership.

Executive KMP are requested to retain vested equity until they hold Cochlear Limited shares equivalent to their annual salary in the previous year, based on the 365 day average Cochlear Limited closing share price for the prior year.

The Clawback Policy, the Trading Policy and the Share Ownership Policy are all available on the Cochlear website, www.cochlear .com under Investor Centre, Corporate Governance, Policies

Employment agreements

The following sets out details of the employment agreements relating to executive KMP.

Length of contract	Permanent contracts, until notice is given by either party.
Notice periods	CEO&P: 12 months' written notice by either party. Other Executive KMP: between 60 days' and six months' written notice by either party (exact period specified in contract). Cochlear may choose to provide pay in lieu of notice.
Resignation	On resignation, unless the Board determines otherwise, all unvested STI or LTI benefits are forfeited.
Retirement	STI and LTI benefits may be allowed to remain subject to original performance criteria and vesting date, on a pro rata basis, at the absolute discretion of the Board with regard to the circumstances.
Redundancy	If Cochlear terminates employment for reasons of redundancy, a severance payment will comprise of payment in lieu of notice, up to 12 months' Base Pay. STI and LTI benefits on a pro-rata basis may remain subject to original performance criteria and vesting date on a pro rata basis at the absolute discretion of the Board with regard to the circumstances.
Death or total and permanent disability	On death or total and permanent disability, the Board has discretion to allow all unvested STI and LTI benefits to vest in full or on a pro-rata basis.
Termination for serious misconduct	Cochlear may immediately terminate employment at any time in the case of serious misconduct, and the executive will only be entitled to payment of TFR up to the date of termination. On termination without notice by Cochlear in the event of serious misconduct: • all unvested STI or LTI benefits will be forfeited; and • any equity instruments provided to the employee on vesting of STI or LTI awards that are held in trust, or subject to holding lock will be forfeited. At Board discretion, Cochlear may seek reimbursement for STI and/or LTI previously vested (clawback).
Statutory entitlements	Payment of statutory entitlements of long service leave and annual leave applies in all events of separation.
Other arrangements	Richard Brook - President, European Middle East and African Regions will receive: • a maximum of CHF 30,000 for repatriation costs in the case of termination or resignation.
Post-employment restraints	All executive KMP are subject to post-employment restraints for up to 12 months.

Employee share schemes

In addition to the executive LTI and Deferred STI plans, Cochlear operates the Cochlear Employee Share Plan (CESP). Employees cannot participate in the CESP if they participate in an executive equity plan.

The purpose of the CESP is to encourage general employee equity participation. In Australia, this benefits from tax concessional legislation which currently facilitates tax effective issues of approximately $1,000 worth of shares annually per eligible employee. The Plan also operates in Belgium, and a very similar plan operates across most Cochlear operations across Asia.

Non-executive director (NED) remuneration

Principle	Comment
Fees are set by reference to key considerations	Fees for NEDs are based on the nature of the NEDs' work and their responsibilities. The remuneration rates reflect the complexity of Cochlear and the extent of the geographical regions in which Cochlear operates. In determining the level of fees, survey data on comparable companies is considered. NEDs' fees are recommended by the P&CC and determined by the Board. Shareholders approve the aggregate amount available for the remuneration of NEDs.
Remuneration is structured to preserve independence whilst creating alignment	To preserve independence and impartiality, NEDs do not receive any performance related remuneration, options or performance shares/rights. The level of their fees is not set with reference to measures of Cochlear performance.
Minimum Shareholding Guidelines	In order to create alignment between NEDs and shareholders, the Board has adopted guidelines that request NEDs to hold (or have a benefit in) shares in Cochlear equivalent to the fees (including both Board and committee fees) received in the previous 12 months. Cochlear does not offer loans to fund share ownership.
Aggregate Board and committee fees are approved by shareholders	The total amount of fees paid to NEDs are detailed in the annual Remuneration report. The aggregate pool approved by shareholders at the Annual General Meeting (AGM) on 17 October 2017 was $3,000,000 per year.
Post-employment benefits	
Superannuation	Superannuation contributions satisfy the Company's statutory requirement. Contributions are not included in the base fee.
Retirement scheme	From 2003, no new NED was entitled to join the Cochlear directors' retirement scheme. NEDs appointed prior to this were members of the scheme, which provided NEDs with more than five years' service retirement benefits of up to three times their average annual remuneration over the previous three years. On 23 October 2006, the Board determined that it should implement changes to NED remuneration consistent with developing market practice and guidelines by discontinuing the ongoing accrual of benefits under the existing retirement scheme once the remaining members of the scheme reached their five year service period. The benefits accrued to that date are indexed by reference to the bank bill rate. Only one NED remains eligible for this benefit.
Other fees/benefits	NEDs receive reimbursement for costs directly related to Cochlear business.