

2018 COCHLEAR LIMITED

Notice of Annual General Meeting



Hear now. And always



Notice of Annual General Meeting



Notice is hereby given that the Annual General Meeting of the members of Cochlear Limited (the Company or Cochlear) will be held at the Australian Securities Exchange, Exchange Square Auditorium, 20 Bridge Street, Sydney NSW 2000 on Tuesday, 16 October 2018 at 10:00am (AEDT).

Business of the meeting

Ordinary business

1. Financial and other reports

To receive and consider the Company's Financial report, the Directors' report and the Auditor's report in respect of the financial year ended 30 June 2018 and to consider and, if thought fit, to pass the following resolution:

1.1 "THAT the Company's Financial report, the Directors' report and the Auditor's report in respect of the financial year ended 30 June 2018 be received."

Note: An explanation of the proposed resolution is set out at Item 1 of the Explanatory Notes attached to this Notice of Annual General Meeting.

2. Remuneration report

To consider and, if thought fit, to pass the following non-binding resolution:

2.1 "THAT the Company's Remuneration report in respect of the financial year ended 30 June 2018 be adopted."

Voting exclusion statement: The Company will disregard any votes cast on this resolution: (a) by or on behalf of a member of the KMP named in the remuneration report for the year ended 30 June 2018, or that KMP's closely related party, regardless of the capacity in which the vote is cast; and (b) as a proxy by a member of the KMP at the date of the meeting, or that KMP's closely related party, unless the vote is cast as a proxy for a person who is entitled to vote on this resolution: (i) in accordance with their directions on how to vote as set out in the proxy appointment; or (ii) by the Chair of the meeting pursuant to an express authorisation on the proxy/voting form.

Note: An explanation of the proposed resolution is set out at Item 2 of the Explanatory Notes attached to this Notice of Annual General Meeting.

3. Re-election of directors

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

3.1 "THAT Ms Alison Deans, being a director who is retiring in accordance with the Company's Constitution and who, being eligible, offers herself for re-election as a director of the Company, be re-elected as a director of the Company."

3.2 "THAT Mr Glen Boreham, AM, being a director who is retiring in accordance with the Company's Constitution and who, being eligible, offers himself for re-election as a director of the Company, be re-elected as a director of the Company."

Note: An explanation of the proposed resolutions is set out at Item 3 of the Explanatory Notes attached to this Notice of Annual General Meeting.

Special business

4. Approval of securities to be granted to the CEO & President under the Cochlear Executive Incentive Plan

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

4.1 "THAT approval be given to:

(a) the grant to Mr Dig Howitt, the Company's CEO & President, of options and performance rights under the Cochlear Executive Incentive Plan calculated in accordance with the formula and on the terms summarised in the Explanatory Notes attached to the Notice of Annual General Meeting; and

(b) the transfer to Mr Howitt of existing shares upon the exercise of any options and/or performance rights granted to Mr Howitt pursuant to (a) above."

Voting exclusion statement: The Company will disregard any votes cast: (a) in favour of this resolution by or on behalf of Mr Howitt or an associate of Mr Howitt, regardless of the capacity in which the vote is cast; and (b) on this resolution as a proxy by a member of the KMP at the date of the meeting, or that KMP's closely related party, unless the vote is cast as a proxy for a person who is entitled to vote on this resolution: (i) in accordance with their directions of how to vote as set out in the proxy/voting form; or (ii) by the Chair of the meeting pursuant to an express authorisation on the proxy/voting form.

Note: An explanation of the proposed resolution is set out at Item 4 of the Explanatory Notes attached to this Notice of Annual General Meeting.

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5. Renewal of proportional takeover provisions

To consider and, if thought fit, to pass the following resolution as a special resolution:

5.1 "THAT the Company renew the proportional takeover provisions contained in Article 7.7 and Schedule 1 of the Company's Constitution for a period of three (3) years from and including the date of this resolution."

Note: An explanation of the proposed resolution is set out at Item 5 of the Explanatory Notes attached to this Notice of Annual General Meeting. The statement required by Section 648G(5) of the *Corporations Act 2001*(Cth) is also set out at Item 5 of the Explanatory Notes attached to this Notice of Annual General Meeting.

By order of the Board

A handwritten signature in black ink that reads "Ray Jarman". The signature is written in a cursive style and is positioned above a faint, light-colored rectangular stamp.

Ray Jarman

Company Secretary

Dated: 12 September 2018

Item 1. Financial and other reports

As required by section 317 of the Corporations Act 2001 (Cth) (Act), the Company's Financial report, the Directors' report and the Auditor's report for the financial year ended 30 June 2018 (FY18) will be laid before the Company in the Annual General Meeting (AGM). There is no requirement for a formal resolution on this item; however, it is the Company's practice to do so.

Resolution 1.1 – directors' recommendation

The Board recommends that shareholders vote in favour of the resolution.

The Chairman intends to vote all available proxies in favour of the resolution.

Item 2. Remuneration report

As required by section 250R(2) of the Act, the Remuneration report of the Company for FY18 will be laid before the Company in the AGM and a resolution that it be adopted will be put to a vote. The Remuneration report is contained in the Directors' report in the Company's 2018 Annual Report. The Annual Report is available on the Company's website (www.cochlear.com).

The Remuneration report explains the structure of and policy behind the Company's remuneration practices and the link between the remuneration of executives and the Company's performance. The Remuneration report also sets out remuneration details for each director and for certain specified executives. A reasonable opportunity will be provided for discussion of the Remuneration report at the meeting. Although there is a requirement for a formal resolution on this item, by operation of section 250R(3) of the Act, the resolution is advisory only and does not bind the directors or the Company.

The Board believes Cochlear's approach to Board and executive KMP remuneration is a balanced, fair and equitable approach. The Company's executive remuneration practices are designed to reward and motivate a successful and experienced executive team to deliver ongoing business growth which meets the expectations of all shareholders. The Board welcomes feedback from shareholders on Cochlear's remuneration practices.

Resolution 2.1 – directors' recommendation

The Non-executive Directors recommend that shareholders vote in favour of the resolution.

Voting exclusions apply to this resolution as specified in the Notice of Annual General Meeting.

The Chairman intends to vote all available proxies in favour of the resolution.

Item 3. Re-election of directors

Pursuant to Article 16.2 of the Company's Constitution, each director (excluding the CEO & President) must retire from office not later than at the third AGM following his or her last election or appointment by a general meeting, but may submit himself or herself for and will be eligible for re-election. Prof Edward Byrne, AC, Ms Alison Deans and Mr Glen Boreham, AM are retiring at this AGM in accordance with Article 16.2.

The retirements of Prof Edward Byrne, AC, Ms Alison Deans and Mr Glen Boreham, AM mean that the requirement of Article 16.1 of the Company's Constitution, that one-third of the directors for the time being (excluding the CEO & President and rounded down to the nearest multiple of 3) retire from office at each AGM, is also satisfied.

Prof Edward Byrne, AC has decided to retire from the Board with effect from the end of the AGM and accordingly is not standing for re-election.

Both Ms Alison Deans and Mr Glen Boreham, AM are submitting themselves for re-election.

The Board considers that each of Ms Alison Deans and Mr Glen Boreham, AM is an independent Non-executive Director.

Ms Alison Deans
Non-executive Director
Age 50

BA, MBA, GAICD



Appointed to the Board 1 January 2015: Member of the Audit, Nomination, People & Culture, and Technology & Innovation Committees.

Background: Extensive experience leading technology-enabled businesses across e-commerce, media and financial services. Former Chief Executive Officer of netus, Hoyts Cinemas, ecorp and eBay Australia and New Zealand.

Other boards: Director, Westpac Banking Corporation, Senior Advisor to McKinsey & Company, member of Investment Committee, Main Sequence Ventures, Director of SCEGGS Darlinghurst Limited.

Former directorships: Director of Insurance Australia Group Limited, Social Ventures Australia and kikki.K Holdings Pty Ltd. Chairman of ninemsn, Allure Media and Downstream Media.

Resolution 3.1 – directors' recommendation

The Board (other than Ms Alison Deans) recommends that shareholders vote in favour of the resolution.

The Chairman intends to vote all available proxies in favour of the resolution.

Mr Glen Boreham, AM
Non-executive Director
Age 54

BEC, FAICD



Appointed to the Board 1 January 2015: Chairman of the People & Culture Committee. Member of the Audit, Nomination, and Technology & Innovation Committees.

Background: Led organisations in information technology, new media and the creative industries through periods of rapid change and innovation. Former Managing Director of IBM Australia and New Zealand.

Other boards: Director, Southern Cross Media Group and Link Group. Chairman, Advisory Board IXUP.

Former directorships: Director of Data#3. Chairman of Screen Australia, Advance (Global Australian Network), Business School and Industry Advisory Board for the University of Technology Sydney.

Resolution 3.2 – directors’ recommendation

The Board (other than Mr Glen Boreham, AM) recommends that shareholders vote in favour of the resolution.

The Chairman intends to vote all available proxies in favour of the resolution.

Item 4. Approval of securities to be granted to the CEO & President under the Cochlear Executive Incentive Plan

Why is shareholder approval being sought?

The Cochlear Executive Incentive Plan (CEIP) requires that any shares to be delivered to a director upon the exercise of options or performance rights that are issued under the CEIP after 21 July 2015 must be existing shares acquired on the market. Accordingly, an exception to the Australian Securities Exchange (ASX) Listing Rule 10.14 applies. Notwithstanding this, the Company intends to seek approval for the grant of CEIP long-term incentive (CEIP LTI) awards to the CEO & President as it is the Company's practice to do so and for good corporate governance.

Terms of the CEIP LTI

Purpose: The CEIP LTI is designed to reward participants for the long-term growth of the Company.

Structure: For the financial year ending 30 June 2019 (FY19), participants can elect to receive options alone, or a combination of performance rights (being rights to subscribe for or be allocated or receive the transfer of ordinary shares in the Company) and options, provided as a minimum at least 30% are options.

Mr Dig Howitt has elected to receive 80% of his FY19 offer as options and 20% of his FY19 offer as performance rights. The CEIP rules permit the Company to satisfy its obligation to deliver shares under options or performance rights through an employee share trust.

Each option or performance right entitles Mr Howitt to receive the transfer of one ordinary share in the capital of the Company, subject to certain vesting restrictions.

Approval is being sought from shareholders for the FY19 grant of options and performance rights to Mr Howitt under the CEIP LTI. If shareholders approve the grant of options and performance rights to Mr Howitt in accordance with the proposed resolution, the Company will issue the options and performance rights within five (5) business days of the Company's 2018 AGM. These options and performance rights will be taken to be granted as at 17 October 2018, being the date on which CEIP LTI options and/or performance rights will be granted to other Company executives under the CEIP (based on values determined as at 21 August 2018).

The options will be granted for nil consideration with an exercise price of A\$202.84, being the weighted average price of ordinary shares in the Company traded on the ASX during the five day period commencing the day after the release of the Company's FY18 full year results on 14 August 2018, payable on exercise of the options.

Performance rights are granted for nil consideration with a nil exercise price.

Vesting restrictions: The options and performance rights are subject to vesting restrictions, which will ultimately determine the final number of options and performance rights which will be exercisable. The relevant vesting restrictions for the FY19 offers are:

(i) the options and performance rights will not vest before the full year results are announced in 2021. The participant will be unable to exercise the options and performance rights before they vest unless the Board decides to allow early exercise pursuant to the CEIP rules. Should the participant cease to be an employee of Cochlear or a related body corporate, all unvested options and performance rights will lapse unless the Board determines otherwise; and

(ii) the performance of the Company from 1 July 2018 to 30 June 2021 in terms of annual growth in earnings per share (EPS) and in terms of relative total shareholder return (TSR) as measured against the ASX 100 comparator group, each according to the table set out below. Half of the offer will be assessed against EPS growth and the other half using relative TSR as follows:

Compound annual growth rate of EPS over the three year vesting period		Ranking of TSR against ASX 100 comparator group over the three year vesting period	
Performance	% vesting	Performance	% vesting
< 10%	0%	< 50 th percentile	0%
10% to 20%	50% to 100% (pro-rata)	50 th to 75 th percentile	40% to 100% (pro-rata)
> 20%	100%	> 75 th percentile	100%

Calculation of the number of securities to be granted to Mr Howitt under the CEIP LTI for FY19

Assumptions:

The value of the offer is A\$1,680,000, which is 100% of Mr Howitt's base salary in FY19.

(a) The value of an option is defined below and is A\$37.43. The value of a performance right is defined below and is A\$199.29.

(b) Options and performance rights are subject to the EPS and TSR vesting hurdles described above.

Total value of offer (TVO)	A\$1,680,000
Components	Options and performance rights
Option value (OV)	A\$37.43
Performance right value (PV)	A\$199.29
Number of options and performance rights	$= \frac{TVO \times 80\%}{OV} + \frac{TVO \times 20\%}{PV}$ $= \frac{A\$1,344,000}{A\$37.43} + \frac{A\$336,000}{A\$199.29}$ $= 35,907 \text{ options and } 1,685 \text{ performance rights}$

where:

TVO = the total value of the offer made to the participant under the CEIP LTI (expressed in Australian dollars), which is a percentage of fixed remuneration of the participant;

OV = the value of an option, based on the Black-Scholes-Merton value before service or EPS and TSR performance discounts; and

PV = the value of a performance right, based on the Black-Scholes-Merton value before service or EPS and TSR performance discounts.

Exercise price (options)	A\$202.84
Exercise price (performance rights)	Nil
Expected volatility (options)	22.585%
Expected volatility (performance rights)	22.178%
Expected contract life (options)	3.419 years
Expected contract life (performance rights)	2.838 years
Expected dividend yield	1.349%
Risk free interest rate	2.040%

Other terms of the CEIP

Eligibility: Persons who are permanent full-time or part-time employees of the Company or a related body corporate of the Company are Eligible Employees.

Allocation: The CEIP is administered by the Board. Each year, the Board may decide to offer designated Eligible Employees the opportunity to participate in the CEIP. The number of options and/or performance rights to be offered to a participant depends upon the participant's salary and the Company's target remuneration package for the participant's position.

The Board has determined that any options or performance rights that do not vest will lapse or be forfeited automatically.

Rights: Option and performance right holders will not be entitled to any dividend payments until the options or performance rights are exercised.

Additional conditions: All participants will be bound by the applicable plan rules. A participant must exercise their options within seven months after the date of vesting, otherwise the options will lapse. Performance rights will be exercised automatically on vesting. The shares delivered on exercise of options or performance rights will be held by an employee share trust until withdrawn by participants. While participants are employees of the Company, they must abide by the Company's Trading Policy (available in the Investor Centre section of www.cochlear.com under Corporate Governance).

It is a specific condition of grant that no schemes are entered into by an individual or their associates that specifically protect the unvested value of options or performance rights allocated.

The CEIP requires that any shares to be delivered to a director upon the exercise of options or performance rights that are issued under the CEIP after 21 July 2015 must be existing shares acquired on market.

Plan limit: An overall limit applies on the number of options and performance rights that are offered under the CEIP, being that the aggregate of the number of options and performance rights offered together with outstanding offers under the CEIP and the total number of shares issued to employees under employee incentive schemes in the last five years cannot exceed 5%, excluding unregulated offers, of the total number of issued shares at the time of the offer.

Overriding restrictions: No options or performance rights may be offered under the CEIP if to do so would contravene the Act, the ASX Listing Rules, or instruments of relief issued by the Australian Securities and Investments Commission from time to time relating to the CEIP or employee incentive schemes generally.

Administration: The Board may amend, terminate or suspend the operation of the CEIP and/or any relevant CEIP rules at any time.

Resolution 4.1 – directors’ recommendation

The Non-executive Directors recommend that shareholders vote in favour of the resolution.

Voting exclusions apply to this resolution as specified in the Notice of Annual General Meeting.

The Chairman intends to vote all available proxies in favour of the resolution.

Item 5. Renewal of proportional takeover provisions

A proportional takeover bid is an off-market bid under which an offer is made for only a proportion of each holder’s holding of securities. At the 2006 AGM, the Company amended its Constitution so as to insert proportional takeover provisions at Article 7.7 and Schedule 1 of the Constitution (Provisions) which prohibit the registration of a transfer of shares under a proportional takeover bid unless and until a resolution to approve the bid is passed by the holders of the securities of the class to which the securities being bid for belong (Bid Class Securities). Unless renewed, the Provisions will cease to apply on 20 October 2018.

Effect of the Provisions

The Provisions require the directors to seek approval of a proportional takeover bid proceeding through a meeting of the persons entitled to vote on the resolution. The resolution will be taken to have been passed if the proportion that the number of votes in favour of the resolution bears to the total number of votes on the resolution, is greater than one-half. The bidder and any associate of the bidder will be excluded from voting. The directors must ensure that a resolution to approve the bid is voted on before the day which is 14 days before the last day of the bid period (Approving Resolution Deadline). If no resolution to approve the bid has been voted on as at the end of the day before the Approving Resolution Deadline, a resolution to approve the bid to proceed is taken to have been passed. If a resolution to approve the bid is voted on and rejected, all offers under the bid are taken to be withdrawn and each binding takeover contract for the bid is rescinded.

If the Provisions are renewed, they will remain in the Constitution for a further period of three years (unless sooner omitted).

Reasons for the Provisions

The Board considers that holders of Bid Class Securities should have the opportunity to vote on any proportional takeover bid for the Company. A proportional takeover bid may enable control of the Company to pass without shareholders having an opportunity to sell all of their securities to the bidder. Shareholders, therefore, may be exposed to the risk of being left as a minority in the Company and of the bidder being able to acquire control of the Company without payment of an adequate premium for all of their securities. The Provisions lessen these risks

as they allow holders of Bid Class Securities to decide whether a proportional takeover bid is acceptable and should be allowed to proceed.

No awareness of any proposal to, acquire or to increase the extent of, a substantial interest in the Company

As at the date of this Notice of Annual General Meeting, no director is aware of any proposal by any person to acquire, or increase the extent of, a substantial interest in the Company.

Review of advantages and disadvantages of the Provisions

The directors consider that the Provisions have no potential advantages or potential disadvantages for the directors as the Board remains free to make whatever recommendations it considers appropriate on any proportional takeover bid that may be made.

The potential advantages of the Provisions for shareholders include:

- (i) shareholders have the right to decide by majority whether to accept a proportional takeover bid;
- (ii) it may help shareholders avoid being locked in as a minority and may prevent a bidder acquiring control of the Company without payment of an adequate premium for control; and
- (iii) it increases shareholders' bargaining power and may assist in ensuring any proportional takeover is adequately priced and is attractive to the majority of shareholders.

Some potential disadvantages of the Provisions for shareholders include:

- (i) the Provisions may reduce the likelihood of a proportional takeover bid being successful and may therefore discourage the making of a proportional takeover bid; and
- (ii) the Provisions may reduce the opportunities which shareholders have to sell some of their securities at a premium.

Since 2006 when the provisions first came into effect, there have been no takeover bids for the Company. The Board is not aware of any potential bid that was discouraged by the Provisions.

The Board considers that it is in the interests of shareholders to have the right to vote on a proportional takeover bid.

Resolution 5.1 – directors' recommendation

The Board recommends that shareholders vote in favour of the resolution.

Quorum, who may vote and proxies

Quorum

The Company's Constitution provides that two registered Company shareholders present personally or by representative, attorney or proxy shall be a quorum for a general meeting of the Company.

Who may vote

Persons whose names are set out in the register of shareholders as at 10:00am (AEDT) on Sunday, 14 October 2018 are entitled to attend and vote at the AGM (and at any adjournment of the meeting which takes place within 28 days).

Proxies

If you wish to appoint a proxy, you should complete the enclosed proxy/voting form and comply with the details set out in that form for lodgement. A proxy need not be a shareholder of the Company. The proxy/voting form must be received not less than 48 hours before the time for holding the AGM.

Number of proxies

A shareholder of the Company who is entitled to attend and cast a vote at a meeting has a right to appoint a single proxy. A shareholder of the Company who is entitled to attend and cast two or more votes at a meeting has a right to appoint up to two proxies.

Proportion of votes per proxy

Where the appointment is for two proxies, a shareholder may specify the proportion of votes that the proxy may exercise. If the appointment does not specify the proportion of votes that each proxy may exercise, then each proxy may exercise half of the votes of the relevant member.

Voting

Unless the member specifically directs the proxy how to vote, the proxy may vote as he or she thinks fit (except as specified in the Voting exclusion statements in the Notice of Annual General Meeting) or abstain from voting.

If you intend to appoint the Chair as your proxy and you do not want your vote exercised in favour of a resolution, you should direct the Chair to vote against, or to abstain from voting on, the resolution.

Signing of proxy/voting form

The proxy/voting form must be signed as follows:

Individual: Where the holding is in one name, the shareholder must sign;

Joint holding: Where the holding is in more than one name, all of the shareholders must sign;

Power of attorney: To sign under power of attorney, you must have already lodged this document with the Company's Share Registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the power of attorney to the proxy/voting form when you return it; or

Companies: Where a company has a sole director who is also the sole company secretary, the proxy/voting form must be signed by that person. If a company (pursuant to section 204A of the Act) does not have a company secretary, a sole director can also sign alone. Otherwise, the proxy/voting form must be signed by a director jointly with either another director or a company secretary. Please indicate the office by signing in the appropriate place.

Lodging your vote

You can lodge your vote or appoint a proxy online at www.investorvote.com.au, or by posting it to Computershare using the reply paid envelope or to Computershare Investor Services Pty Limited, GPO Box 242, Melbourne, VIC 3001, Australia, or by faxing it to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia).

Shareholder questions

If you would like a question to be put to the Chair of the meeting or the auditor and you are not able to attend the meeting, please complete the Questions from Shareholders form enclosed and send it to:

Company Secretary
Cochlear Limited
1 University Avenue
Macquarie University NSW 2109
Australia

Alternatively, email it to the Company Secretary at: rjarman@cochlear.com

Questions must be received by the Company Secretary by 5:00pm (AEDT) on Wednesday, 10 October 2018.

Hear now. And always

As the global leader in implantable hearing solutions, Cochlear is dedicated to bringing the gift of sound to people with moderate to profound hearing loss. We have provided more than 550,000 implantable devices to recipients of all ages, helping them live full and active lives by reconnecting them with family, friends and community.

We aim to give our recipients the best lifelong hearing experience and access to innovative future technologies. For our professional partners, we offer the industry's largest clinical, research and support networks.

That's why more people choose Cochlear than any other hearing implant company.

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www.cochlear.com

The Cochlear Nucleus 7 Sound Processor and Baha 5 sound processors are compatible with iPhone, iPad and iPod touch.

The Cochlear Nucleus Smart App and Baha 5 Smart App are available on App Store and Google Play. For compatibility information visit www.cochlear.com/compatibility.

Please seek advice from your medical practitioner or health professional about treatments for hearing loss. They will be able to advise on a suitable solution for the hearing loss condition. All products should be used only as directed by your medical practitioner or health professional. Not all products are available in all countries. Please contact your local Cochlear representative.

ACE, Advance Off-Stylet, AOS, AutoNRT, Autosensitivity, Beam, Button, CareYourWay, Carina, Cochlear, Cochlear SoftWear, コクレア, Codacs, ConnectYourWay, Contour, Contour Advance, Custom Sound, ESprit, Freedom, Hear now. And always, HearYourWay, Hugfit, Hybrid, inHear, Invisible Hearing, Kanso, MET, MicroDrive, MP3000, myCochlear, mySmartSound, NRT, Nucleus, 科利耳, Off-Stylet, Slimline, SmartSound, Softip, SPrint, True Wireless, the elliptical logo, WearYourWay and Whisper are either trademarks or registered trademarks of Cochlear Limited. Ardium, Baha, Baha SoftWear, BCDrive, DermaLock, EveryWear, Vistafix and WindShield are either trademarks or registered trademarks of Cochlear Bone Anchored Solutions AB.

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