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About this report

This is Cochlear's first Environmental, Social and Governance (ESG) Report. It showcases our approach to caring for our employees and customers, the broader community and the environment. In developing this report, we have been guided by recognised standards of sustainability reporting to better monitor and report on our ESG performance.

Terms that are bold and underlined indicate links to further information such as reports, documents or pages from our website.

Unless otherwise specified, measurements and data in this report pertain to Cochlear Limited and its entities during the reporting period from 1 July 2017 to 30 June 2018 (FY18). You can find consolidated financial statements for the corresponding reporting period in the Cochlear 2018 Annual Report. All dollar values refer to Australian dollars (AUD) unless otherwise specified.

This ESG Report also contains updates on initiatives we started between July and December 2018.
Our commitment to ESG

This year, as well as developing a new ESG framework, we’re proud to publish Cochlear’s first ESG Report. This report outlines how we aim to improve the impact we have on our communities, environment, employees, and reflects our commitment to high standards of corporate governance.

Cochlear’s mission is to help people hear and be heard. This not only improves individual quality of life but also the health and wellbeing of communities. We do this by developing market-leading technology and contributing to clinical research related to hearing loss and its treatments.

We continue to invest in research collaborations that contribute to the global body of knowledge about the effects of hearing loss and its treatment. This includes a major partnership with Johns Hopkins University to establish the Cochlear Center for Hearing and Public Health in Baltimore in the US. This is a 10-year commitment to focus research on the link between hearing loss and age-related conditions such as dementia.

We launched our global diversity and inclusion strategy this year and aim to foster employee wellbeing by creating a safe and inclusive workplace for our employees to contribute and realise their potential. As a priority, Cochlear promotes gender equality and supports the equal participation of men and women in the workplace. We have also been examining the benefits offered to our employees to reward them fairly based on their contribution.

Environmental sustainability is an important focus of our ESG framework. This year, Cochlear is publishing its environmental performance data across energy, water and greenhouse gas emissions. We have tracked our environmental performance in Australia for the last three years and have seen a reduction in our greenhouse gas emissions. This has been achieved through improved energy efficiencies in our lighting and cooling systems.

In September we switched on solar panels at our Lane Cove factory, and we aim to make further reductions in our waste production, energy consumption and greenhouse gas emissions. We are also strengthening our supplier due diligence assessments to support sustainable and ethical procurement.

I look forward to seeing Cochlear’s continued efforts in improving its ESG performance in the long-term.

Dig Howitt
CEO & President
FYI8 AT A GLANCE

Celebrated the 40th Anniversary since the world's first recipient of a multi-channel implant

Released Nucleus Smart App for Android & Apple iPhone

Invested $160 million over 160 million (12% of sales revenue) in R&D

Invested in med-tech startups Sensorion

Cochlear Center for Hearing and Public Health at Johns Hopkins Bloomberg School of Public Health

Collaboration with Hearing and Healthy Ageing Co-funded Chair at Macquarie University

Established Cochlear's Supplier Code of Conduct

Cochlear Care Centre to increase regional access to hearing health

New global Diversity & Inclusion Strategy

Environmental Policy & Implemented a Global Environmental Management System

92% of employees feeling proud to tell people they work for Cochlear
We help people hear and be heard.

We **empower** people to connect with others and live a full life.

We **transform** the way people understand and treat hearing loss.

We **innovate** and bring to market a range of implantable hearing solutions that deliver a lifetime of hearing outcomes.
About Cochlear

Company overview

Cochlear is the global leader in implantable hearing solutions with products including cochlear implants, bone conduction implants and acoustic implants. We started operations in 1981 as part of the Nucleus group and in 1995, listed on the Australian Securities Exchange (ASX). Today, Cochlear is a top 50 ASX-listed company with a market capitalisation exceeding AUD$10 billion.

Cochlear aims to support cochlear implantation becoming the standard of care for people with severe to profound hearing loss. Cochlear also provides bone conduction implants for people with conductive hearing loss, mixed hearing loss and single sided deafness. To date, the company has provided more than 550,000 implant solutions, helping people of all ages to hear.

Whether our hearing solutions were implanted today or many years ago, Cochlear strives to continuously develop new technologies and innovations for all recipients. We invest more than $160 million each year in research and development (R&D) and currently participate in over 100 collaborative research programs worldwide.

Our global headquarters are on the campus of Macquarie University in Sydney, with regional headquarters in Asia Pacific, Europe and the Americas. We have a deep geographical reach, selling in over 100 countries, with a direct presence in over 30 countries and a global workforce of more than 3,500 employees.

Our principal manufacturing for the cochlear implant range is based in Australia at three sites: Macquarie University and Lane Cove in Sydney, and Brisbane. The Brisbane site is responsible for manufacturing non-implant components. We manufacture the bone conduction implant product range in Sweden and manufacture the acoustic implant product range across sites in Australia, the US and Belgium.

Each production unit (Sydney, Brisbane and Sweden) has its own procurement department, responsible for quality control of production consumables. Distribution of Cochlear products occurs through our warehouses in Sydney, Dubai, Hannover, London, Denver and Panama.
About Cochlear

550,000+ implants sold  A$160m+ in annual R&D investments  A$1.3b+ in annual sales revenue

3,500+ employees around the world  100+ countries where products are available  100+ collaborative research programs worldwide  5 key manufacturing sites
“Hear now. And always” embodies Cochlear’s commitment to providing our customers with the best possible hearing support. It also reflects our long-term commitment to global communities and environments.

We continue to improve how we monitor and document our environmental performance, the impact we have on communities and our employees, and the governance of our global operations. We have identified the following four key ESG areas:
ESG focus topics for Cochlear

Across the four ESG areas, Cochlear has identified focus topics that are relevant to our external and internal stakeholders. The following pages provide further detail on each of the objectives to support these focus topics and provide updates on our progress.

<table>
<thead>
<tr>
<th>Communities</th>
<th>Governance</th>
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<tr>
<td>• Advance hearing science and technology, creating opportunities for people to hear and connect, now and in the future.</td>
<td>• Act lawfully, ethically and responsibly.</td>
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<td>• Increase awareness of hearing loss and access to treatment.</td>
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<tr>
<td>• Focus on product quality and reliability, giving people the confidence to live their fullest lives.</td>
<td>• Manage business risks.</td>
</tr>
<tr>
<td>• Support education in Science, Technology, Engineering and Mathematics (STEM) and audiology, ensuring innovation and hearing support in the future.</td>
<td>• Strengthen data privacy and security.</td>
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<tr>
<th>Environment</th>
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<td>• Enhance environmental management and compliance.</td>
<td>• Develop our people.</td>
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<td>• Improve energy efficiency and reduce Greenhouse Gas (GHG) emissions.</td>
<td>• Build a diverse and inclusive workplace.</td>
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<tr>
<td>• Improve resource efficiency.</td>
<td>• Support the health and wellbeing of our workforce.</td>
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<tr>
<td>• Enhance supply chain sustainability.</td>
<td>• Reward and engage our talent.</td>
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</table>
Communities

Cochlear is committed to improving global health and social outcomes through the supply of implantable hearing solutions and support for those in need. We aim to lead advancements in hearing technology by creating and contributing to research, education and treatment. To enable sustainable progress over the long term, our focus is developing technologies and promoting education and careers in the science, technology, engineering and mathematics (STEM) fields.
## Communities

Through our mission, Cochlear aims to improve individual quality of life and the health and wellbeing of communities. Our efforts will be channelled through the following objectives:

<table>
<thead>
<tr>
<th>ESG focus topic</th>
<th>Objectives</th>
</tr>
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<tr>
<td><strong>Advance hearing science and technology, creating opportunities for people to hear and connect, now and in the future.</strong></td>
<td>1. Partner with key academic institutions, start-ups, and other leaders in health technology to contribute to the science of hearing.</td>
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<td></td>
<td>2. Develop a range of implantable hearing solutions that improve the quality of life for people with hearing loss.</td>
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<tr>
<td><strong>Increase awareness of hearing loss and access to treatment.</strong></td>
<td>3. Demonstrate the clinical, social and economic benefits of diagnosing and treating hearing loss.</td>
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<td></td>
<td>4. Support the awareness activities of hearing organisations and advocacy groups, and support education in relation to hearing loss.</td>
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<tr>
<td><strong>Focus on product quality and reliability, giving people the confidence to live their fullest lives.</strong></td>
<td>5. Product quality and implant reliability.</td>
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<td>6. Transparent reliability reporting.</td>
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<tr>
<td><strong>Support education in STEM and audiology, ensuring innovation and hearing support in the future.</strong></td>
<td>7. Support education for audiological, medical and health professionals.</td>
</tr>
<tr>
<td></td>
<td>8. Grow our STEM pipeline and nurture the next generation of hearing innovators and health professionals.</td>
</tr>
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</table>
Communities

Advance hearing science and technology, creating opportunities for people to hear and connect, now and in the future

1. Partner with key academic institutions, start-ups, and other leaders in health technology to contribute to the science of hearing

Cochlear contributes to the advancement of hearing loss treatment by aiming to fill research and knowledge gaps. In FY18, Cochlear:

- Invested $168 million (12% of our sales revenue) on research and development;
- Increased investment in the medical research community to more than 100 research partners in over 20 countries; and
- Funded research and clinical trials that resulted in over 25 peer-reviewed scientific publications.

Below are some examples of our partnerships:

**USD$10 million pledged over 10 years to the Johns Hopkins Bloomberg School of Public Health** – This commitment aims to establish the ‘Cochlear Center for Hearing and Public Health’. The Center will focus on hearing loss as a global public health priority, with an emphasis on the public health impacts of hearing loss in senior adults. This is an important and growing issue, especially as we begin to better understand the link between high levels of hearing loss and cognitive decline, social isolation and depression.

**Growing understanding of the link between hearing and healthy ageing:**

See detailed references on page 111 of FY18 Cochlear Annual Report.
Communities

**Co-funded Cochlear Chair in Hearing and Healthy Ageing at Macquarie University** – We have established a co-funded Chair role that will strengthen and formalise the strategic collaboration between Cochlear and Macquarie University. The Chair will oversee the implementation of collaborative hearing research, education strategies, clinical practice and advocacy, with the long-term goal of developing a leading platform for further impactful research in hearing in Australia. In addition, we will also provide financial support for the ongoing research activities of the University's Professor of Hearing, Language & the Brain and Australian Laureate Fellow, Professor David McAlpine.

**HEARing CRC** – We have partnered with 22 member organisations including Macquarie University, Melbourne University and Australian Hearing, to create value through research, develop the next generation of hearing aids and cochlear implants, and overcome barriers to use of hearing technology.

**Sichuan Innovation and Entrepreneurship Promotion Association (SIEPA)** – We have announced a collaboration with SIEPA to open a Sino-Australian International Hearing Hub in Chengdu to provide hearing health services and support health professionals in China.

**Pharmacological partnership with Sensorion** – We have entered into a strategic partnership with French biopharmaceutical company, Sensorion to develop and evaluate therapeutic approaches to improve hearing outcomes in cochlear implant recipients.

**Strengthened the Smart Hearing Alliance with GN Hearing** – The Smart Hearing Alliance in Denmark was established in 2015 to develop best-in-class, integrated hearing solutions that provide hearing aid and cochlear implant recipients access to the latest in connectivity and wireless technology, and allow bimodal recipients to achieve seamless connectivity between a cochlear implant in one ear and a GN hearing aid in the other. The deepening of this relationship between Cochlear and GN Hearing includes joint research and development, shared technology and strengthened global commercial collaboration.
2. **Develop a range of implantable hearing solutions that improve the quality of life for people with hearing loss**

We have a global innovation network of more than 350 R&D employees to develop implantable hearing solutions that help to deliver a lifetime of hearing outcomes. Our primary R&D is co-located with the Australian Hearing Hub in Sydney, while our Cochlear Technology Centre in Belgium is focused on advanced innovation.

Over the past few years, we have launched products which help improve the quality of life for people with severe to profound hearing loss. As of FY18, these include:

**Nucleus® 7 Sound Processor and Nucleus Smart App** – The world’s first Made for iPhone cochlear implant sound processor, which allows users to stream sound directly from a compatible iPhone®, iPad® and iPod touch® to their sound processor*. The direct streaming enhances the experience of talking on the phone and makes enjoying music or watching videos easily accessible. The Nucleus 7 Sound Processor is the winner of Cochlear’s third Red Dot award, and is 25% smaller and 24% lighter than previous generation Nucleus 6 Sound Processor, with user feedback contributing to the product’s development.

**Nucleus Profile Slim Modiolar Electrode** – The world’s thinnest full-length electrode sits closest to the hearing nerve for optimal hearing outcomes. It’s reloadable and offers a smooth, easy insertion.

**Nucleus Kanso® Sound Processor** – Our first off-the-ear sound processor is designed for discretion and comfort. Kanso lets people enjoy life with confidence, as it’s the smallest and lightest off-the-ear sound processor available.

**Baha® 5 Sound Processor** – Our latest generation of bone-conduction sound processors for people with conductive hearing loss, mixed hearing loss or single-sided sensorineural deafness includes Baha 5 (the industry’s smallest sound processor), Baha 5 Power (for people with greater hearing loss), and Baha 5 SuperPower (the industry’s most powerful head-worn bone conduction sound processor). All Baha 5 sound processors are made for iPhone, allowing easy streaming of phone, music and movies. They can be used with a bone anchor or a non-surgical solution.

**Baha SoundArc** – A comfortable, non-surgical hearing solution that works with all of our Baha 5 sound processors.

* iPhone, iPad and iPod touch are trademarks of Apple Inc., registered in the US and other countries.
Communities

Increase awareness of hearing loss and access to treatment

We aim to increase awareness of hearing loss and its effects, improve access to hearing loss assessment and treatment, and improve the quality of life of people with hearing loss. We do this by demonstrating the clinical, social and economic benefits of national auditory screening programs and implantable technologies; partnering research studies on hearing loss and its treatment; and supporting the activities of hearing advocacy groups. This is our most significant and complex area of influence, where we shape and demonstrate leadership in hearing loss awareness, care and treatment.

3. Demonstrate the clinical, social and economic benefits of diagnosing and treating hearing loss

The World Health Organization (WHO) estimates that there are more than 460 million people worldwide – over 5% of the world’s population – who experience disabling hearing loss. This includes 1 in every 3 people over the age of 65. By 2050, this is expected to rise to more than 900 million people – or 1 in every 10 people.

We estimate that more than 15 million people could benefit from a cochlear or bone conduction implant to treat moderate to profound hearing loss in children globally and in adults and seniors in the developed world. With less than 5% of the people that could benefit from an implantable hearing solution being treated, Cochlear can contribute to social outcomes by bringing to market a range of implantable hearing solutions that empower people to connect with others and live a full life. This clinical need is expected to continue to underpin the long-term sustainable growth of our business. As the global leader in implantable hearing solutions, we are transforming the way people understand and treat hearing loss.

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a Disabling hearing loss refers to hearing loss greater than 40 decibels (dB) in the better hearing ear in adults and a hearing loss greater than 30 dB in the better hearing ear in children.

11-13 See References on page 34
Communities

4. Support the awareness activities of hearing organisations and advocacy groups, and support education in relation to hearing loss

Cochlear supports a range of global and local initiatives aimed at increasing awareness and promoting the value of hearing health. In FY18, this includes:

- Working with the WHO and members of the international hearing care community on awareness activities as part of World Hearing Day. This year, we launched ‘Hearing Matters’, a community awareness social media campaign designed to help families and friends recognise the symptoms of hearing loss, and provide support for loved ones in seeking more information and treatment.

- Holding Cochlear Family activities in countries around the world, providing support and information to existing and potential cochlear implant recipients. Celebrations involved more than 5,000 attendees in South America alone, bringing our communities together and sharing the latest information.

- Continuing to fund 12 scholarship positions for Cochlear implant recipients, who each receive support throughout their three or four year university degrees in North America, Australia, the UK and Ireland.

Cochlear America supports Songs for Sound’s Mobile Hearing Kiosk which provides access to hearing screenings at no cost to communities, prioritising underserved populations. Last year, the program provided hearing screenings to 4,872 adults and children at 250 locations throughout the United States.

In partnership with the Hearing Loss Association of America, Cochlear Americas sponsored walk teams to participate in the Walk4Hearing held in 17 cities in the United States, attracting 10,000 participants. This event promotes awareness of hearing loss, screening and advocacy.

During May, Better Hearing and Speech Month, the #MillionEar Challenge campaign employed engaging social media strategies that included a film short, “See Sound Differently”, to help educate people about noise-induced hearing loss.

In regional Australia, Cochlear partnered with the Royal Victorian Eye and Ear Hospital to open the Geelong Cochlear Care Centre. The Centre will provide access to quality hearing health services for thousands of people with hearing loss in rural and regional Victoria.

Cochlear continues to support the Australian Hearing Hub, which is adjacent to Cochlear’s global headquarters at Macquarie University. The Hub brings together more than 2,000 people across disciplines, dedicated to promoting hearing health.
Focus on product quality and reliability, giving people the confidence to live their fullest lives

5. Product quality and implant reliability

Cochlear implants and sound processors are subject to rigorous internal and external testing and regulatory approvals and audits for patient safety. Pre-clinical and clinical trials are run or assisted by leading universities and research partners to study the efficacy of new technology in accordance with ethics approval and relevant standards.

Our quality management systems are an integral part of our reliability. They are reviewed and adjusted to address quality issues and regularly audited by internal and external auditors for adherence to ISO 13485:2003 (Medical devices - Quality management systems).

Cochlear monitors all of its products through the product lifecycle which includes returned device testing. It uses this data to continuously improve product quality and reliability through design and/or manufacturing modifications.

6. Transparent reliability reporting

Cochlear Implant reliability is important for successful patient outcomes. Cochlear records and investigates reports of possible adverse patient outcomes. Each year, we publish the Cochlear Nucleus Implant Reliability Report which discloses reliability data for all of our implants. The report is based on the reporting methodology recommended by International Standard ISO 5841-2\textsuperscript{14,15}, the reporting principles outlined in the European Consensus Statement on Cochlear Implant Failures and Explantations\textsuperscript{16}, and expert recommendations from the International Classification of Reliability for Implanted Cochlear Implant Receiver Stimulators.\textsuperscript{17}

Our latest implant range, Nucleus Profile Series implant, has a cumulative survival percentage (CSP)\textsuperscript{a} of 99.82% at four years.\textsuperscript{18} Our CI24RE Series, the world’s most widely used cochlear implant with more than 177,000 registered devices, has a CSP of 99% after being on the market for 13 years.\textsuperscript{18}

\textsuperscript{14-18} See References on page 34

\textsuperscript{a} Cumulative survival percentage is the percentage of implants still operational. This accounts for all causes of failures- even traumatic accidents.
7. Support education for audiological, medical and health professionals

Around the globe, we provide practical training courses to thousands of public and private health professionals, such as surgeons, audiologists and speech pathologists. These courses are carried out at our Cochlear Clinical Skills Institute, a world-class surgical training centre in the Australian Hearing Hub, our North American Headquarters in Denver, and in many other cities around the world.

We are also a core member of the HEARing CRC based in Australia, which combines academic, business, government and other relevant stakeholders. The Centre aims to further understand and develop technologies to diagnose and treat hearing loss. Since 2007, 71 students have completed post-graduate doctoral studies in hearing-related topics under this program.

8. Grow our STEM pipeline, and nurture the next generation of hearing innovators and health professionals

In Australia, we work closely with several schools, colleges and universities to promote the benefits of pursuing study and careers in science, technology, engineering and mathematics (STEM), especially for indigenous and female students.

This year, we hosted more than 1,000 students at open days across Australia, and we seek to grow and enhance this program in FY19 and beyond. Cochlear Australia’s Summer Internship and Graduate programs have been highly desirable career opportunities for STEM graduates for over a decade and attracts over 1,000 applicants annually.

We also work with The Smith Family and the Business Council of Australia to sponsor two students each year for the Cadetship to Career program with the aim of providing students from disadvantaged backgrounds work experience and to help them explore future career options. We support the National Youth Science Forum which engages with Australian school students to inspire interest and learning in science and technology.
At Cochlear, we have a proud history of providing the gift of sound for almost 40 years – and with that comes a great responsibility. Through our high quality products and services, we’ve worked hard to earn the trust of our recipients and the professionals who support them. Cochlear is committed to carrying out its business fairly, honestly, and legally, wherever we operate around the world. Cochlear recognises that good corporate governance is important for the creation, protection and enhancement of shareholder value. Cochlear’s principal governance arrangements and practices for effective decision-making and accountability are set out in its Corporate Governance Statement, available on the Corporate Governance section of the Company’s website.

We have identified the following ESG objectives in line with our commitment to acting ethically and responsibly, complying with all applicable laws and regulations, and maintaining high standards of business ethics and integrity:

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<td>Act lawfully, ethically and responsibly.</td>
<td>1. Maintain a quality board and governance structure.</td>
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<td>2. Monitor and support human rights governance in our supply chains.</td>
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<tr>
<td>Ensure financial and non-financial transparency.</td>
<td>3. Make timely and balanced disclosure.</td>
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<td>4. Publish a tax contribution report and an environmental, social and governance report annually.</td>
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<tr>
<td>Manage business risks.</td>
<td>5. Proactively manage our principal business risks</td>
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<tr>
<td>Strengthen data privacy and security.</td>
<td>6. Safeguard the security and privacy of customer data.</td>
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Governance

Act lawfully, ethically and responsibly

1. Maintain a quality board and governance structure

In performing its role, our Board is committed to a high standard of corporate governance practice and to fostering a culture of compliance which values ethical behaviour, personal and corporate integrity, accountability, transparency and respect for others. The Board has a charter which clearly sets out its role, responsibilities and describes those matters expressly reserved for the Board’s determination. The Board Charter is available in the Corporate Governance section of the Company’s website. The Board currently consists of eight independent non-executive directors, of which two are women, and one managing director, the CEO & President.

Cochlear’s Constitution requires one-third of its non-executive directors to retire from office at every annual general meeting (AGM) and no director may serve longer than three years without standing for re-election. We annually assess the Board’s mix of skills, knowledge, expertise and diversity required to discharge its duties.

Cochlear sets the ‘tone at the top’ by instilling and continually reinforcing a culture of acting lawfully, ethically and responsibly. Cochlear’s Global Code of Conduct, which is endorsed and supported by senior management, with the CEO & President providing the opening message encouraging use of the Code in day-to-day work, is a meaningful statement of Cochlear’s core values and is a commitment to act ethically and responsibly, follow all applicable laws, regulations, Cochlear policies and procedures, and maintain high standards of business ethics and integrity. Cochlear conducts mandatory training on the Global Code of Conduct for all staff on an annual basis.

The Cochlear Global Code of Conduct sets the baseline rules for business conduct including - anti-bribery and corruption, competition and consumer laws, conflicts of interest, confidentiality, privacy, trade restrictions, a fair work environment and health and safety. Cochlear also has a global Whistleblower Protection Policy and an independently-operated Cochlear Whistleblower Service to empower its people to report any suspected or actual violation, or potential violation, of the Global Code of Conduct.

2. Monitor and support human rights governance in our supply chains

We are currently improving our supplier due diligence assessments to support sustainable and ethical procurement. During FY2019, Cochlear works with its suppliers to encourage the standards set out in the Supplier Code of Conduct in relation to labour rights, safety and wellbeing, environmental sustainability, and ethical trading. We expect our suppliers to comply with all relevant legislation and to carry out their own measures to ensure that their suppliers, partners and distributors comply with our Supplier Code of Conduct.

We have also designed a supplier on-boarding process to screen new critical direct suppliers to our Australian and European manufacturing sites for major governance, human rights and environmental issues. In 2018, Cochlear carried out an environmental, social and governance risk assessment of its key direct suppliers based on the location of their manufacturing sites. This risk assessment concluded that Cochlear has no material exposure to these risks. Cochlear continues to monitor our suppliers and create opportunities for further assessment and improvement. Please refer to our UK Modern Slavery Statement for more details.

Ensure financial and non-financial transparency

3. Make timely and balanced disclosure

We are committed to effective communication with our investors to give them equal and timely access to accurate, balanced and understandable information. Cochlear’s Continuous Disclosure Policy and Procedures sets out Cochlear’s policy to strictly comply with its obligations under the Corporations Act and the ASX Listing...
Governance

Rules to keep the market fully informed of information which may have a material effect on the price or value of its securities. Cochlear discloses to the market all material issues relating to Cochlear in a timely, clear, factual, complete and balanced manner and to ensure all stakeholders have an equal opportunity to access that information.

4. **Publish a tax contribution report and an environmental, social and governance report annually**

   Cochlear publishes a [Tax Contribution Report](#) annually, which outlines our overall low risk tax strategy. In FY18 Cochlear paid more than $220 million in global taxes, 67% of which were paid in Australia to the Australian Taxation Office. For FY18, the effective tax rate for Cochlear Limited was 27.8%.

   This inaugural [ESG Report](#) provides transparency around non-financial issues, and will be reviewed and updated annually.

**Manage business risks**

Cochlear has established a [Risk Management Policy](#) which is overseen by the Board. The Risk Management Policy provides a risk management framework for the oversight and management on a continuing basis of the material business risks associated with Cochlear’s activities. The Board has delegated the day-to-day implementation of the risk management framework to the Risk Management Committee (an internal committee of senior executives) and the Audit Committee (consisting of independent non-executive directors) is the principal committee of the Board responsible for overseeing risk. The Audit Committee advises the Board on risk management and reviews the Risk Management Framework (at least annually) to ensure that it continues to be sound. The Audit Committee also assists the Board in ensuring that the Company maintains appropriate accounting and financial reporting practices, an independent external audit process, and effective risk management and internal control systems.

5. **Proactively manage our principal business risks**

   We use our Risk Management Framework as a basis to assess business, environmental and safety risks. Our Risk and Assurance team maintains and monitors a register of business risks, including ESG-related risks, which the team reviews at least annually, and acts to further assess and mitigate these risks via the Internal Audit program. Our [2018 Annual Report](#) outlines Cochlear’s material business risks in the Business risks section in the Directors Report and management strategies to mitigate these risks.

**Strengthen data privacy and security**

6. **Safeguard the security and privacy of customer data**

   Our business activities and product portfolio constantly evolve, to give our professional partners, recipients and employees more convenience and connectivity. These efforts are increasingly dependent on access to, and insights from, data, which may include personal information. We design and implement technology and security infrastructure and applications with controls in line with industry standards. We take a multi-layered approach, with several controls and countermeasures protecting infrastructure, systems and data.

   We collect and use personal information entrusted to us by customers, professionals and employees in a compliant, transparent and ethical manner as outlined in our [Global Privacy Policy](#). Our privacy function is led by Cochlear’s Chief Privacy Officer and is supported by staff around the world with specialised privacy training and certifications.
Cochlear’s promise of “Hear now. And always” not only embodies our commitment to providing our customers with the best possible hearing performance today and for the rest of their lives, it also reflects our long-term commitment to the environment we live in. We aim to continually improve and review our environmental performance, and we are endeavouring to promote the efficient use of materials and resources throughout our facilities. This includes working with our suppliers to manage environmental impacts within our supply chains.

Our objectives for environmental sustainability are:

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<th>ESG focus topic</th>
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<tr>
<td>Enhance environmental management and compliance.</td>
<td>1. Implement environmental management systems based on best practice international frameworks.</td>
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</table>
| Improve energy efficiency and reduce GHG emissions.  | 2. Improve energy efficiency.  
3. Reduce reliance on non-renewable energy.                                                          |
| Improve resource efficiency.                         | 4. Reduce waste to landfill.  
5. Manage materials and water consumption.                                                                |
| Enhance supply chain sustainability.                 | 6. Implement effective due diligence program to identify environmental risks in our supply chain.                                           |
Enhance environmental management and compliance

In FY2019 we conducted an environmental risk assessment and concluded that we do not have any material exposure to environmental risks. Nevertheless, we have identified strategies to manage climate change-related risks to our business. Our Environmental Policy outlines our long-term commitment to continually improving our environmental performance.

The Cochlear Board believes that the company has adequate systems in place to manage its environmental obligations and is not aware of any breach of those environmental requirements applicable in jurisdictions in which we operate.

1. Implement environmental management systems based on best practice international frameworks

Cochlear’s Environmental Management System (EMS) is aligned with ISO14001. We are currently implementing our EMS across our main manufacturing, service and research sites, and head offices. The EMS covers almost 80% of our operational footprint and we will look to expand this further going forward. The EMS incorporates environmental objectives and targets, and associated environmental monitoring and reporting framework.

The scope of this ESG Report includes the following environmental metrics:

- Electricity use
- Water use
- Greenhouse Gas (GHG) emissions.

Improve energy efficiency and reduce GHG emissions

This year we continued to reduce our energy use by applying new technologies and systems, and through better management and monitoring of our operations. Key environmental initiatives include energy efficiency upgrades to existing building fixtures and fittings at our major facilities in Australia.
Environment

2. Improve energy efficiency

We are a growing organisation with expanding global operations. In order to better quantify our environmental impact, we are measuring our gross energy consumption as well as energy intensity in terms of units produced and revenue. This will enable year-on-year comparison of energy use and GHG output relative to business activity.

Energy use, in particular purchased electricity, is our biggest contributor to scope 1 and 2 greenhouse gas emissions. Cochlear does not emit significant amounts of other gases such as sulphur dioxide or nitrous oxide.

Greenhouse gas emissions are measured using greenhouse gas protocols19, guidance documents20-21, and relevant tools22-24 (purchased electricity, stationary energy and transport), and the latest available emissions/conversion factors for each location, as per local and international environmental authorities25-28. The table below shows our energy use, greenhouse gas emissions and intensities across our key sites:

<table>
<thead>
<tr>
<th>Energy</th>
<th>Measurements at EMS sitesb</th>
<th>Global estimateb</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directly purchasedc electricity (MWh)</td>
<td>14,712</td>
<td>18,300</td>
</tr>
<tr>
<td>Directly purchasedc natural gas use (MWh)</td>
<td>2,641</td>
<td>3,300</td>
</tr>
<tr>
<td>Total directly purchased energy (MWh)</td>
<td>17,354</td>
<td>21,500</td>
</tr>
<tr>
<td>Energy intensity (MWh / unitd)</td>
<td>0.13</td>
<td>0.13</td>
</tr>
<tr>
<td>Energy intensity (MWh / mAUD revenue)</td>
<td>16.67</td>
<td>16.67</td>
</tr>
<tr>
<td>GHG emissions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total scope 1 emissionsd (tCO₂-e)</td>
<td>586</td>
<td>728</td>
</tr>
<tr>
<td>Total scope 2 emissionsd (tCO₂-e)</td>
<td>10,905</td>
<td>13,537</td>
</tr>
<tr>
<td>Total scope 1 and 2 emissions from energy (tCO₂-e)</td>
<td>11,477</td>
<td>14,248</td>
</tr>
<tr>
<td>Total scope 1 and 2 emissions (tCO₂-e)</td>
<td>11,491</td>
<td>14,265</td>
</tr>
<tr>
<td>Scope 1 and 2 GHG emissions intensity (kgCO2e /unitd)</td>
<td>89</td>
<td>89</td>
</tr>
<tr>
<td>Scope 1 and 2 GHG emissions intensity (kgCO2e / mAUD revenue)</td>
<td>1,351</td>
<td>1,351</td>
</tr>
<tr>
<td>Emissions from scope 3 business-related flights (tCO₂-e)</td>
<td>8,124g</td>
<td>9,976h</td>
</tr>
</tbody>
</table>

19-28 For References see Appendix on page 34
a Macquarie, Lane Cove, Brisbane, Melbourne, Weybridge, Denver, Mechelen, Gothenburg, Malaysia
b Calculated by extrapolating the total measurement for the reporting sites, in proportion to the global floor space. The exception is for Scope 3 Travel (flights) GHGs emissions, where flight emissions data was extrapolated based on employee numbers.
c Usage billed directly to Cochlear, plus usage at downstream leased assets (i.e. electricity and gas billed to Cochlear and then on-charged to tenants or sub-tenants).
d Global estimateb

Usage billed directly to Cochlear, plus usage at downstream leased assets (i.e. electricity and gas billed to Cochlear and then on-charged to tenants or sub-tenants).
d Unit = total number of Cochlear implants, Bahas and Sound Processors produced
e Total GHGs for energy created onsite, i.e. diesel, petrol, natural gas, and other fuel gases burned.
f Total GHGs for purchased energy, including emissions from downstream leased assets (i.e. from electricity used by tenants/subtenants).
g Reporting sites for flights emissions differs slightly from reporting sites for scope 1 and 2 emissions
h Global flight emissions data was extrapolated based on employee numbers.
Environment

Our main manufacturing operations, and the majority of our energy use and GHG emissions, currently occur in Australia. For this reason, energy efficiency initiatives will be prioritised on our Australian sites. Initiatives planned for 2018/19 to help reduce energy use include:

- Heating, ventilation, and air conditioning energy efficiency initiatives at our Lane Cove manufacturing facility;
- Optimisation of equipment shut-down and start-up protocols in our Australian manufacturing facilities;
- Installation of power-correction at our Brisbane manufacturing plant; and
- Installation of energy-efficient fixtures and fittings in our office expansion in Belgium.

The GHG emissions from energy use and energy-related emissions intensity (per million AUD revenue) in Australia have reduced each year since FY16.

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a Weybridge, Mechelen and Gothenberg
b Kuala Lumpur
c Denver
d Macquarie Park, Lane Cove, Brisbane and Melbourne
3. Reduce reliance on non-renewable energy

During FY18 we purchased or used renewable energy in our Melbourne and Belgium offices, and at our Gothenburg (Sweden) facility. In September 2018, we installed a solar array on the roof of our Lane Cove manufacturing facility, with further installations scheduled across Australia in 2019.

Employee business flights (scope 3 emissions) are our next most significant source of GHG emissions. We are reviewing our current business travel to identify how we can further reduce and/or offset emissions.

Improve resource efficiency

4. Reduce waste to landfill

Cochlear does not have a significant waste profile, however we continue to identify opportunities to reduce the amount of waste going to landfill. Key focus areas are effective sorting of recyclable materials and waste avoidance. Waste and recycling performance and measurement differs across regions due to several factors, including regulation and available infrastructure. We aim to improve the accuracy of data on our waste volumes in the countries we operate in through enhanced collection and reporting from our waste contractors.

In 2018, we initiated education initiatives and infrastructure improvements to encourage recycling of resources such as paper, cardboard, glass, plastic and metal at most Cochlear sites. We also started trialling converting our organic (wood and suitable plastic) waste into fuel bricks for other industries, reducing their reliance on fossil-fuels. Recycling continues to be a focus for the coming year.
Environment

5. Manage materials and water consumption

Cochlear will continue to identify opportunities to improve resource efficiency at our global repair centre, and we are working towards rechargeable batteries for most of our products.

We comply with the European Union (EU) Restriction of Hazardous Substances (RoHS) Directive 2002/95/EC, which governs the use of heavy metals and halogenated compounds in electrical and electronic equipment. We also comply with the EU’s regulation on the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) for the safe manufacture and use of chemical substances throughout their lifecycle.

Our current production processes use limited quantities of water, with the majority of water consumption from staff kitchens and bathrooms. Cochlear aims for responsible water consumption and continuously identifies appropriate water-saving initiatives. For example, at our Macquarie Head Office, we collect rain water from the roof and use this for our garden maintenance and flushing toilets. We estimate that our global water use in FY18 was 60,087m³.

<table>
<thead>
<tr>
<th>Australian reporting sites¹</th>
<th>European reporting sites</th>
<th>US</th>
<th>Malaysia</th>
<th>Global estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water use FY18 (m³)²</td>
<td>30,316</td>
<td>6,501</td>
<td>2,426</td>
<td>1,042</td>
</tr>
</tbody>
</table>

Enhance supply chain sustainability

6. Implement effective due diligence program to identify environmental risks in our supply chain

Our environmental impact extends beyond our operations to those in our supply chain. In recognition of this, we are currently working to improve our supplier due diligence assessments to support sustainable and ethical procurement. Our supplier due diligence process includes ongoing assessment of our suppliers’ legislative compliance, sustainability performance, and supplier due diligence.

Cochlear has:

- Published and distributed a Supplier Code of Conduct.
- Introduced a new supplier on-boarding processes to screen for major governance, human rights and environmental issues.
- Conducted an environmental, social and governance risk assessment of our key direct suppliers in FY18 based on known risk factors such as supplier location and concluded that we do not have any material exposure.

Cochlear aims to continue improving its supplier due diligence process in FY19. This will consist of the following measures:

- Undertaking further environmental sustainability assessments for higher-risk suppliers, such as questionnaires, on-site audits, consultation, and corrective action processes.

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¹ Includes water use as billed directly to Cochlear, plus water use apportioned to Cochlear in shared rental properties, plus water used by tenants/sub-tenants.

² Includes water use as billed directly to Cochlear, plus water use apportioned to Cochlear in shared rental properties, plus water used by tenants/sub-tenants.
Our people and culture are pivotal to Cochlear successfully delivering its business strategy. With an ambitious growth agenda, we not only need to attract and recruit the best talent, we also need to optimise, develop and retain the talented and diverse global workforce we already have. We have identified the following objectives aimed at developing and supporting our people:

<table>
<thead>
<tr>
<th>ESG focus topic</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop our people.</td>
<td>1. Develop leadership capabilities throughout the business.</td>
</tr>
<tr>
<td></td>
<td>2. Support internal career opportunities.</td>
</tr>
<tr>
<td>Build a diverse and inclusive workplace.</td>
<td>3. Embed the global diversity and inclusion strategy across the organisation.</td>
</tr>
<tr>
<td>Support the health and wellbeing of our workforce.</td>
<td>4. Support health and wellbeing.</td>
</tr>
<tr>
<td></td>
<td>5. Reduce the incidence and severity of workplace injuries.</td>
</tr>
<tr>
<td>Reward and engage our talent.</td>
<td>6. Improve our high engagement rate and maintain our low turnover rate.</td>
</tr>
<tr>
<td></td>
<td>7. Implement fair and competitive pay practices globally.</td>
</tr>
</tbody>
</table>
Develop our people

The continual development of our workforce is a critical part of our business strategy. Our talent development initiatives focus on different stages of people’s careers, supporting all employees, regardless of tenure, to develop the knowledge and skills to succeed in their role and fulfil their potential. In 2018, Cochlear was named by the Association of Talent Development as one of the “BEST Learning Organisations” globally. The BEST awards recognise organisations that demonstrate enterprise-wide success as a result of employee talent development.

1. Develop leadership capabilities throughout the business

We have introduced a new global on-boarding pathway to set new employees up for success in their new roles, whether they are entering the workforce for the first time as a student or joining us as an experienced professional. Cochlear also encourages all employees to grow and develop, by facilitating half-yearly performance reviews, goal-setting, and individual development plans. We also provide employees access to workshops from external consultants, on topics such as presentation skills, conflict resolution, influencing skills and personal effectiveness.

We continue to embed our Leading the Way leadership competency framework built around four topics - Leading Self, Leading Teams, Leading Results and Leading Strategy. The focus for FY18 has been Leading Self and Leading Teams and in our global roll-out, more than 800 employees attended the program, including 60% of our manager population. Many managers also participated in “Project Learn” to experience roles in other parts of the business and to gain a deeper understanding of the company and their colleagues.

2. Support internal career opportunities

To support the continual development of our workforce, we support internal career opportunities and hires. We do this by focusing on individual development plans, training people leaders to identify opportunities and encourage workers to seek out internal career-moves, and communicating internal career opportunities to employees.

Build a diverse and inclusive workplace

We believe in fostering a supportive environment that values and encourages the ideas, capabilities and experiences of our global workforce. We focus on creating a safe and inclusive workplace for our employees to contribute and fulfil their potential. Our workforce is ethnically diverse, with employees from more than 75 nationalities working in our offices around the world.

3. Embed the global diversity and inclusion strategy across the organisation

This year saw the launch of our new global diversity and inclusion strategy focusing on the five pillars of gender, ethnicity & religion, disability & accessibility, LGBTIQ+ and generational & mature age, all underpinned by our overarching goal to ensure and support employee wellbeing.

To enhance access to the workplace for all employees, we have introduced improved parental leave and purchased leave benefits to increase participation and retention.
People

In Australia, we have also implemented Flex@Cochlear – a program which supports our employees to integrate work and personal commitments, such as working remotely and flexible work arrangements, where the role allows.

Our commitment towards increasing female representation at all levels of our organisation remains a core focus of our recruitment and talent management because we recognise gender diversity in the workplace is instrumental to driving change in our broader community.

Our CEO & President, Dig Howitt, has joined the Male Champions of Change, an Australian organisation which aims to accelerate the advancement of women in leadership and achieve gender equality. He joins other business leaders who come together to share experiences, reflect on their own leadership and work together to identify and implement progressive, high impact actions that create meaningful and lasting change.

Through our Hiring Manager Excellence training sessions that we deliver globally, we aim to ensure a fair, equitable and unbiased approach towards recruitment and selection and to assist in attracting a more diverse talent pool. These sessions have been attended by more than 150 of our managers. We also undertake several initiatives during recruitment, such as ensuring female representation on our recruitment shortlists and interviewer panels. We are seeing some early success with our global female hire rate increasing to more than 56% in FY18. Our current global workforce is 52% female.

Cochlear’s Global Diversity and Inclusion Framework

<table>
<thead>
<tr>
<th>Gender</th>
<th>Ethnicity &amp; religion</th>
<th>Disability &amp; accessibility</th>
<th>LGBTIQ+</th>
<th>Generational &amp; mature age</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Pay equity</td>
<td>• Cultural diversity</td>
<td>• Hearing awareness</td>
<td>• Awareness and inclusion</td>
<td>• Supporting the ageing workforce</td>
</tr>
<tr>
<td>• Women in leadership</td>
<td>at senior levels</td>
<td>• Accessible workspaces</td>
<td>• Bring whole self to work</td>
<td>• Career opportunities across the lifespan</td>
</tr>
<tr>
<td>• Return to work</td>
<td>• Cultural capability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>and sensitivity</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Employee wellbeing

• Flexible work (including parental leave)
  • Employee safety
  • Mental health
Support the health and wellbeing of our workforce

We have a comprehensive approach to safety and wellness and we work towards providing a safe, healthy and supportive workplace for our people at all Cochlear sites. We apply a risk-based approach to managing all identified workplace hazards, and we seek to minimise exposure to workplace hazards by developing and implementing safety procedures in consultation with relevant and interested stakeholders.

4. Support health and wellbeing

Psychological stress is a major risk for employees in many industries around the world. Last year, we continued to provide psychological treatment programs that workers can access confidentially. We also trained key employees on how to respond better when colleagues need support for their psychological wellbeing. Workshops and education sessions were provided to support employee mental wellbeing.

To better support the ageing workforce, we have developed strategies to support long-term employment with a focus on holistic health promotion and injury prevention. We aim to reduce the rate of muscular conditions among the ageing members of our manufacturing teams and across our entire global workforce by designing safer workplaces, training safety leaders and helping our injured workers access early and effective treatment.

5. Reduce the incidence and severity of workplace injuries

At the end of FY18, all our global sites have been incorporated into our safety and wellness metrics. We have consulted with representatives from all our sites and continue to support personnel in making consistent reports on the incidence and severity of workplace injuries.

We use severity rate to provide a meaningful measure of workplace injury risk. This measure reflects the number of days a worker is absent, restricted or transferred due to injury. It is a more meaningful measure of workplace injury risk than measuring injury rates alone. The severity rate trended downwards over FY18, which coincided with a greater focus on injury management techniques and early treatment.

<table>
<thead>
<tr>
<th></th>
<th>FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total recordable injury frequency rate</td>
<td>5.9</td>
</tr>
<tr>
<td>Average severity rate</td>
<td>431</td>
</tr>
</tbody>
</table>
6. **Improve our high engagement rate and maintain our low turnover rate**

Each year all employees have the opportunity to provide feedback via our internal global engagement survey. We aim to increase participation year-on-year. Our overall engagement score was 79%, with 92% of employees feeling proud to tell people they work for Cochlear. Our high staff engagement is reflected in our high retention rates, with total employee turnover just 9.3% for FY18.

We have also made significant progress in building a high performance culture, an important element of which is setting clear goals and expectations in line with business priorities. Responses from our engagement survey demonstrate that over 90% of employees have a clear understanding of how their individual role contributes to our business strategy and to the satisfaction of our customers.

7. **Implement fair and competitive pay practices globally**

We aim to ensure fair remuneration by implementing a globally aligned and consistent pay structure that takes into account relevant factors such as an employee’s education, skills and experience, as well as local award and market rates. We also review gender pay equity twice annually to ensure fairness across our different markets.
References


12. Cochlear internal data.

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18. Cochlear Nucleus Reliability Report, Volume 16 December 2017

19. GHG Protocol Scope 2 Guidance, World Resources Institute, 2015

20. Corporate Value Chain (Scope 3) Accounting and Reporting Standard, World Resources Institute and World Business Council for Sustainable Development, September 2011


22. GHG Protocol Calculation Tool- GHG Emissions from Purchased Electricity, April 2017


24. GHG Protocol Calculation Tool- GHG Emissions from Transport or Mobile Sources, May 2015


26. UK Government GHG Conversion Factors for Company Reporting version 1.0, 2017


Hear now. And always

As the global leader in implantable hearing solutions, Cochlear is dedicated to helping people with moderate to profound hearing loss experience a life full of hearing. We have provided more than 350,000 implantable devices, helping people of all ages to hear and connect with life’s opportunities.

We aim to give people the best lifelong hearing experience and access to innovative future technologies. We have the industry’s best clinical, research and support networks.

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