Cochlear®
Hear now. And always

Inspired by you for 40 years

Cochlear Limited Annual Report 2021

Cochlear has been the global leader in implantable hearing solutions for 40 years, providing a range of implantable hearing solutions and sound processor upgrades that deliver a lifetime of hearing outcomes.

Our goal is to deliver value by helping more people to hear, which contributes to building a healthier and more productive society.

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2021 shareholder reports

Available at the Investor section of the website **www.cochlear.com**.

Our story

Graeme Clark wanted to fix ears

From a young age, Professor Graeme Clark knew what he wanted to do: "I want to fix ears." He had watched his father, a pharmacist, struggle with hearing loss, and wanted to save others from the same hardship.

Then he spotted a shell

Professor Clark had a concept – and the ambition to see it through – but the challenges of the time made it difficult to turn his idea into action. It was an encounter on a beach that was the final step Graeme needed. In a shell and a blade of grass – rigid at its roots but malleable at the tip – Graeme saw the structure that would allow an electrode array to adapt to any curve. It was here that the opportunity to connect hundreds of thousands of people to a life of hearing first came to light.

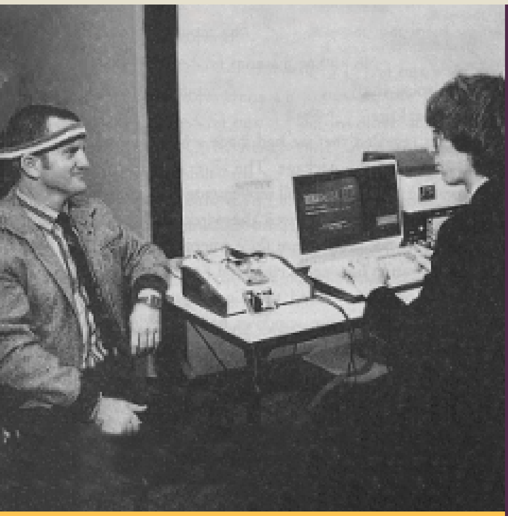
It helped to establish a company to bring that vision to life

Professor Clark partnered with Australian entrepreneur Paul Trainor – and his Nucleus Group – and the University of Melbourne to commercialise the cochlear implant. With funding from the Australian government, they developed the Cochlear™ Nucleus® 22 Implant, the first multi-channel cochlear implant, and Cochlear, the company, was formed.

Our work is far from over

Professor Clark changed the world when he and his team developed a new way of treating hearing loss. The history of our organisation has always been about transforming lives – giving people the opportunity to enjoy a life of hearing. Professor Clark was inspired to 'fix ears' – and so too was Dr Anders Tjellström, who performed the world's first bone conduction hearing implant surgery in Gothenburg in 1977.

The work of these pioneering researchers – and their brave first recipients – laid the foundation for our company. This drive has always been a part of our DNA – we gain our inspiration from the people we serve and support. That's what inspires our journey forward.



In 1982, Graham Carrick from Australia became the first recipient of the commercial Cochlear™ Nucleus® 22 Implant.

Celebrating 40 years

Cochlear marks an important milestone in 2021, celebrating 40 years since Professor Graeme Clark's dream to help people hear was realised.

From the realisation of one man's dream four decades ago, hundreds of thousands of people have experienced life's opportunities through hearing. And they form a global community of millions, through their families, friends, colleagues, teachers and more.

Today, we continue Professor Clark's dream, connecting hearing implant recipients everywhere. And they're not just connected to their own communities — each shares a link with each other and to Professor Clark's childhood desire to help people hear.

How we create value

Our goal is to deliver value by helping more people to hear, which contributes to building a healthier and more productive society.

We have a responsibility to be here to support a lifetime of hearing for the children, and adults, being implanted with our devices, which means we need to deliver sustainable financial growth, benefiting all our stakeholders.

We achieve this through market-leading innovation capabilities in conjunction with a global network of experts and collaborators; the strong and trusted relationships we build with our candidates, recipients, professional customers and payers; and our employees who are central to how we deliver our strategy and create value.

Our mission

The passion that drives the organisation and focuses the strategy

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

Our growth opportunity

The factors driving industry growth

- Hearing loss is prevalent and under-treated
- Cochlear implants are a cost-effective solution for all age groups
- Product indications are broadening and funding is expanding
- Cochlear implants can deliver superior outcomes to hearing aids for indicated patients
- Good hearing is essential for healthy ageing
- Opportunity to drive deeper penetration of the bone conduction segment

Our strategy

How we focus our resources

Our strategic priorities are focused on improving awareness of and access to implantable hearing solutions for people indicated for our products.

Retain market leadership

Grow the hearing implant market

Deliver consistent revenue and earnings growth

Key business activities

What we do

Cochlear has been the global leader in implantable hearing solutions for 40 years, providing a range of implantable hearing solutions and sound processor upgrades that deliver a lifetime of hearing outcomes.

The key inputs to creating value

Customers & communities

Our capacity to create value depends on the strong and trusted relationships we build with our candidates, recipients, professional customers and payers.

Innovation capability

We are pioneers and global leaders in the development, manufacture and commercialisation of implantable hearing solutions, collaborating with a global network of research partners.

People & capabilities

Our people's knowledge and expertise are central to how we deliver our strategy.

Financial & environmental

Prudent management of financial capital and responsible production and consumption underpins the delivery of consistent returns over time.

The value we create, driving success now and into the future

A healthier & more productive society

Transforming the way people understand and treat hearing loss by improving awareness and access.

Societal benefits: healthy ageing, education and productivity opportunities, standard treatment pathway for children and adults, appropriate funding for a cost-effective intervention

Empowered customers

Improving the wellbeing of recipients and providing convenience and confidence to our professional customers.

Customer benefits: positive customer experience, improving quality of life

A lifetime of hearing solutions

Innovating to build a market-leading portfolio of products and services that provides a lifetime of hearing solutions for recipients.

Innovation delivers: quality and reliability, improving hearing outcomes, connected care solutions, easy to use products, expanding product indications

Thriving people

An engaged, capable and high-performing workforce that delivers on our strategy and supports the creation of sustained value.

People outcomes: employee engagement, inclusion and diversity, health and safety

Sustained value

Maximising spending to grow the market and maintain our competitive position. Agile, efficient and environmentally responsible business processes to support our growth ambitions.

Financial outcomes: consistent financial and environmental performance, disciplined capital management, strong corporate governance, operational improvement, reduced climate impact

Resources & relationships

Value created

FY21 highlights

Record sales revenue was delivered as surgeries recovered following COVID shutdowns. We continued to invest in research and development (R&D) and awareness and access activities with solid progress made across the key value drivers.

FY21 value creation

A healthier & more productive society

Transforming the way people understand and treat hearing loss by improving awareness and access.

Demand generation programs continue to strengthen

- Growing referrals from direct-to-consumer (DTC) marketing activities and hearing aid channel referral programs.

Advocacy & awareness building activities

- Publication of the World Health Organization's (WHO) first 'World Report on Hearing' calling on governments and societies to prioritise hearing health, with the report recognising the effectiveness of cochlear implants.
- Publication of a global consensus on a minimum standard of care for treating adult hearing loss with a cochlear implant in JAMA Otolaryngology.
- Amplification of the consumer advocacy voice with the launch of the Cochlear Implant International Community of Action (CIICA), the first global cochlear implant advocacy network.

Publication of global consensus statement

Cost effectiveness studies

- Studies in Sweden and the Netherlands demonstrating the cost-effectiveness of cochlear implants in adults with the Netherlands study detailing the significant cost, health and societal benefits from cochlear implantation across all groups.

Benefits from expanded product indications

- Growing demand for our products in Belgium and France following expanded reimbursement.

Cochlear implant v hearing aid trial

- Entered into a contract to conduct an independent, randomised control trial to compare communication and quality of life outcomes of cochlear implants for adults compared to hearing aids.

Empowered customers

Improving the wellbeing of recipients and providing convenience and confidence to our professional customers.

Improving outcomes through skills training

- Cochlear™ CoPilot app launched to help adult recipients improve hearing outcomes through skills training.

Growing connectivity and engagement with recipients

- Cochlear Family membership increases 19% to >217,000.

Greater convenience and confidence for professional customers

- Remote Check rollout commences in the US and Europe.
- Great feedback on new professional customer tools, the Nucleus® SmartNav System and Custom Sound® Pro Fitting Software.

Remote Check rollout in the US and Europe

A lifetime of hearing solutions

Innovating to build a market-leading portfolio of products and services that provides a lifetime of hearing solutions for recipients.

Market-leading technology underpins growing global market share

- Eight new products and services achieve FDA approval over the past 18 months.
- Accelerated connected care development.

Pioneering new implant categories

- Cochlear™ Osia® 2 System driving category shift in the US and achieving CE Mark accreditation.

Cochlear™ Osia® 2 System driving category shift in the US

Providing the latest technology to our existing customers

- Cochlear™ Nucleus® Kanso® 2 Sound Processor driving demand for sound processor upgrades.
- Cochlear™ Nucleus® 7 Sound Processor for Nucleus® 22 implant recipients providing the latest technology to our first commercial implant recipients.

Thriving people

An engaged, capable and high-performing workforce that delivers on our strategy and supports the creation of sustained value.

Targeting gender equality

- 38% women in senior and executive management roles, up from 36%.
- 30% women on the board of directors, with the transition in August 2021 to our first female Chair.

Growing employee engagement

- Increased focus on organisational culture.
- Employee engagement up 1% to 80%.

Employee engagement up 1% to 80%

Broadening incentives to benefit more employees

- New short-term incentive (STI) plan and employee equity plan to broaden STIs and employee ownership of Cochlear.

Sustained value

Maximising spending to grow the market and maintain our competitive position. Agile, efficient and environmentally responsible business processes to support our growth ambitions.

Investing to grow

- Delivered record sales revenue of $1,493m, up 19% in CC.
- R&D investment of $195m on target @ ~12% of sales revenue.
- Increased investment in growth activities with COVID-related savings in travel and conferences.

Record sales revenue up 19% to $1,493m in CC*

Operational improvement

- Commenced a major process transformation and IT systems upgrade to improve agility and provide an even better customer experience.

Strong financial position

- Underlying net profit** of $237m, up 54% on FY20 and within the guidance range.
- Strong cash flow generation drives $108m increase in net cash position.
- Dividend re-introduced at H1 with the full year payout in line with the 70% target payout.

Emission reduction targets

- Commitment to reduce business travel related carbon emissions by at least 50% by FY25, contributing to a 25% reduction in total emissions.

* Constant currency. ** Excluding one-off and non-recurring items.

Letter to shareholders

2021 marks Cochlear's 40th anniversary and four decades serving as the global leader in implantable hearing solutions. In such an important year, we are pleased to report growing momentum in our operations with surgery rates and profitability improving following COVID shutdowns.

Our clear growth opportunity, the progress made on key strategic priorities and strong balance sheet mean we are well placed to create value for our stakeholders now, and over the long term.

Operational and financial review

We experienced improving momentum across the year as surgeries recovered following COVID shutdowns. While hospitals and clinics have adapted to operating during the pandemic, surgery rates continue to be variable across many countries as infection waves continue.

Record sales revenue of $1,493 million, up 10% (19% in constant currency (CC)*), was driven by a combination of market share gains, market growth and rescheduled surgeries. The US, Japan, Korea and China delivered strong growth in sales revenue on last year, as well as on FY19, the last financial year unaffected by COVID. Western Europe saw improving momentum, with many emerging markets experiencing a slower recovery.

Underlying net profit** of $237 million increased 54% on last year's result, with an underlying net profit margin of 16%, a big improvement on FY20 and a little below our 18% longer-term target. We increased our investment in market growth initiatives, benefitting from lower travel-related expenses as a result of COVID restrictions. Statutory net profit of $327 million benefited from $90 million in one-off gains.

Sales revenue

↑19% in CC*

Underlying net profit**

↑54%

* Constant currency (CC) removes the impact of foreign exchange (FX) rate movements to facilitate comparability of operational performance.
** Excluding one-off and non-recurring items.

Creating long-term value

Our goal is to deliver value by helping more people to hear, which contributes to building a healthier and more productive society. To outline how we aim to achieve this, we have introduced a value creation model that demonstrates how our business creates value over the long term. For us, this means describing the outcomes of our activities in broader terms than just the progress against our strategic priorities and the financial returns we generate. Genuine value creation describes the impact we have on all our key stakeholders – our customers, our people, our shareholders as well as society more broadly.

The following pages describe how the key inputs into our business – our customers and communities, our innovation capability, our people and financial capital – create value. For us, success will be defined by building a healthier and more productive society, having empowered customers, providing a lifetime of hearing solutions for our recipients and having thriving employees. Doing these things well should enable us to achieve sustainable financial returns over time.

A healthier & more productive society

We are focused on building a healthier and more productive society. We do this by transforming the way people understand and treat hearing loss through awareness and access activities. Over the past few years, we have been expanding our programs for driving growth of the adults and seniors segment through direct-to-consumer marketing activities and building referrals from hearing aid and ENT (ear, nose and throat) clinics.

An important long-term goal for us is to contribute to the development of a consistent treatment pathway to a cochlear implant for adults with severe or higher hearing loss. There were a number of important developments made this year with the World Health Organization (WHO) calling on governments and societies to prioritise hearing health, the publication of a global consensus on a minimum standard of care for treating adult hearing loss with a cochlear implant, the release of new adult cost-effectiveness studies and funding finalised to support an independent cochlear implant versus hearing aid head-to-head trial.

WHO calls on governments and societies to prioritise hearing health

In March, we joined people with hearing loss, hearing care experts and advocates in welcoming the WHO's landmark 'World Report on Hearing. Hearing Care for All. Screen. Rehabilitate. Communicate', which calls on governments and societies to prioritise hearing health.

The report affirms the effectiveness and cost effectiveness of cochlear implants and highlights the benefits for both children and adults. It calls upon member states of the WHO to integrate ear and hearing care into primary health care programs.

Launched on World Hearing Day (March 3), the WHO's first ever World Report on Hearing contains a roadmap for governments to adopt hearing screening, treatment and rehabilitation into primary health care systems to help curtail a worldwide rise in hearing loss.

It comes as new WHO figures reveal that globally, 1.5 billion people live with some degree of hearing loss. This includes around 60 million people who live with severe or higher hearing loss.[1]

In response to the rapidly rising prevalence of hearing loss, the report sets out hearing care actions for all societies and age groups, including babies, children and adults. It follows a 2017 World Health Assembly resolution that reinforced hearing loss as a significant public health issue, requiring all governments to make it a higher priority and develop national action plans.

World Report on Hearing front cover. Geneva: World Health Organization; 2021.

The number of people living with disabling hearing loss is continuing to rise year-on-year. This landmark report shows how hearing care leaders and policy makers can step up now to tackle this significant global public health challenge. This report should place hearing loss on the agenda of policy makers so that governments and communities can improve hearing care over the coming years through action.

Letter to shareholders

It is significant that the WHO have affirmed that age should not be a barrier to cochlear implant treatment, highlighting the importance for policymakers to take a 'life-course' approach to ear and hearing care. The WHO points out that age-related hearing loss poses the greatest societal and economic burden from hearing loss across the life course and is expected to increase with the current demographic shifts.

We are an active member of the WHO's World Hearing Forum, a global network promoting ear and hearing care worldwide.

Global consensus statement publication

In August 2020 we saw the publication of a global consensus[2] on a minimum standard of care for treating adult hearing loss with a cochlear implant in the international peer-reviewed medical journal, JAMA Otolaryngology. The publication is an important step forward, providing the foundation for the development of formal clinical practice guidelines in the coming years. It is anticipated that these guidelines for hearing health professionals will be important in building a clear and consistent referral path for adults from hearing aids to cochlear implants.

Data suggests that fewer than one in 20 adults who could benefit from a cochlear implant have one, which could mean missing out on social connections and participating in everyday life. While cochlear implant technology has improved remarkably over the past few decades, awareness continues to be low and access needs to improve. The consensus paper will help professionals know when the time is right to refer for a cochlear implant assessment. We look forward to collaborating with experts across the world to help improve hearing for more adults living with hearing loss.

Growing recognition of cost effectiveness of cochlear implants for adults

There are a growing number of cost-effectiveness studies highlighting the economic and societal benefits of adult implantation. These studies play an important role in educating payers and providers of the economic benefits to society achievable in addition to the quality of life benefits to recipients.

In April, a study[3] demonstrated the cost-effectiveness of cochlear implants in Sweden. The study, a collaboration between Macquarie University Centre for Health Economics and Cochlear, demonstrates the cost-effectiveness of unilateral cochlear implantation in adults when compared to hearing aids, and highlights the inequality of access and low uptake of cochlear implants when compared to other common interventions.

In May, a study[4] in the Netherlands detailed the significant cost, health and societal benefits from cochlear implantation across all groups. In particular, it found that for seniors, people over the age of 70, cochlear implantation was highly cost effective with net health benefits to society of EUR 76,000.

Benefits from expanded product indications

Market access activities have been focused on expanding indications and reimbursement for our products, contributing to growth in many markets. Belgium experienced a lift in demand following the expansion of reimbursement criteria for cochlear implants to include adult candidates with a severe hearing loss while expanded reimbursement for the Baha brand of bone conduction sound processors boosted acoustics upgrade revenue in France.

Cochlear implant versus hearing aid head-to-head trial

A challenge for professionals and consumers is understanding the potential improvement in hearing outcomes that can be attained from a cochlear implant. There is a growing body of evidence of the superior outcomes of cochlear implants over hearing aids for many people with a severe or higher hearing loss (>70dB). In 2018, a Cochlear study of recipient experiences[5] found that the number of participants reporting satisfaction with their hearing performance increased significantly after receiving a cochlear implant, rising from 9% when using hearing aids only to 95% after receiving a cochlear implant.

To build on the evidence, we have provided funding to the University of Nottingham for an independent, randomised control trial to compare communication and quality of life outcomes of cochlear implants for adults compared to hearing aids that will commence shortly in the UK. The trial aims to provide gold standard clinical evidence of the relative efficacy of cochlear implants for this patient group with results expected in the next several years. These studies are important in helping to educate hearing aid professionals and cochlear implant candidates on the benefits of cochlear implants when compared to hearing aids.

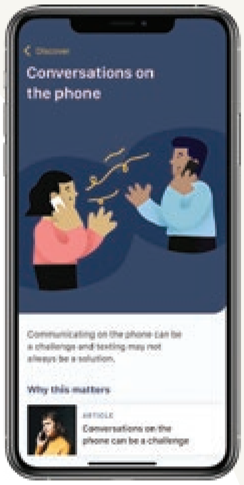
Empowered customers

We aim to improve the wellbeing of our recipients by providing them with the latest sound processor technology as well as easy-to-use after-care to support a lifetime of hearing outcomes. And we invest in education and clinical support tools to ensure our professional customers have convenience and confidence in caring for implant candidates and recipients.

Improving adult cochlear implant outcomes through skills training

Many adults with cochlear implants don't actively seek appropriate hearing rehabilitation because of a common belief that the hearing technology alone is enough.[6] While a cochlear implant provides access to sound, research shows that rehabilitation that involves knowledge building and hearing skills training will help recipients improve listening and communication in real-world everyday situations.[7,8]

In May, we launched **Cochlear™ CoPilot**, a new mobile app designed to improve hearing techniques. The iPhone app provides cochlear implant recipients with information, personalised support and practical tips for hearing, listening and communication. It features articles by clinical experts and cochlear implant recipients with tips on a range of topics, from listening in noise and managing listening fatigue to reconnecting to music and communicating in the workplace. Developed using the latest clinical evidence and proven rehabilitation practices, Cochlear CoPilot also features interactive skill builders designed to help improve listening and communication skills.



Cochlear™ CoPilot

Increasing connectivity and engagement with recipients

We invest to provide our recipients with a world-class customer experience with increased connectivity and engagement. Cochlear Family, the recipient membership program, provides us with the opportunity to connect directly with recipients to provide service and support.

Membership continues to grow rapidly, increasing by 19% over the last 12 months, to now exceed 217,000 members with a 60% join rate for new Cochlear™ Nucleus® implant recipients. An acceleration in recruitment in recent years has been driven by a combination of direct outreach programs and improvements in customer onboarding.

Over the last 12 months we have provided special edition newsletters and webinar virtual events about COVID safety, with special considerations for those living with a hearing device.

Ethan, Cochlear Family member

Letter to shareholders

Providing greater convenience and confidence to professional customers

Over the past year we have strengthened our product and service offering to our professional customers through the rollout of a number of new products all progressing to plan, with positive engagement and feedback from customers.

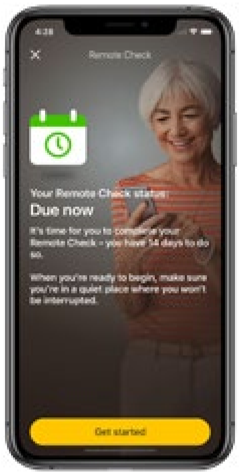
Remote Check is the first telehealth patient assessment tool for cochlear implant recipients. It is designed to be a convenient, at-home testing tool that allows people with a Cochlear™ Nucleus® 7 or Kanso® 2 Sound Processor to complete a series of hearing checks from their compatible iOS device using the Nucleus Smart App. Results are then sent remotely to the recipient's clinic for review by their clinician.

Remote Check can provide significant cost savings by offering a convenient, time-saving option for care that does not require travel to a clinic. It enables clinicians to provide a more convenient care option, redirect in-clinic time to manage patients with the greatest need and free up time to manage the anticipated growth in the number of people needing cochlear implants.

Remote care is a core pillar of our long-term innovation strategy, with access to care crucial to people who rely on a cochlear implant.

The **Nucleus® SmartNav System** is a new tool to support surgeons in optimising electrode placement during cochlear implant surgery. It delivers wireless, actionable intraoperative insights to support electrode insertion with real-time navigation, providing surgeons with added assurance of a successful surgical outcome for their patients.

Custom Sound® Pro Fitting Software supports clinicians in fitting our cochlear implant sound processors.



Cochlear™ Remote Check

A lifetime of hearing solutions

We innovate to build a market-leading portfolio of products and services that supports a lifetime of hearing outcomes for recipients. We have achieved this through a multi-decade philosophy of investing to grow and an unwavering commitment to innovation. In FY21 we invested $195 million in R&D, representing 13% of sales revenue, with eight new products and services achieving FDA approval over the past 18 months across all parts of the portfolio.

Cochlear™ Osia® 2 System

Pioneering new implant categories

Our new implantable product offering, the **Cochlear™ Osia® 2 System**, represents a significant improvement in performance, aesthetics and quality of life for bone conduction patients and has received an enthusiastic response from surgeons and patients in the US since launch in February 2020. It has quickly been established as the primary implant for clinics that have started implanting it, representing around 70% of acoustic implants in those clinics.

We are excited about the potential for the Osia 2 System with the opportunity for both increased penetration of bone conduction implants as well as geographic expansion in the coming years. We received regulatory approval in Europe during the second half with the rollout commencing in a few Western European countries by June.

Providing the latest technology to our existing customers

The **Cochlear™ Nucleus® Kanso® 2 Sound Processor** commenced its rollout in the US and Europe during the first half, bringing the features of the Cochlear™ Nucleus® 7 Sound Processor into an off-the-ear form factor.

The rollout is progressing well, with the Kanso 2 Sound Processor contributing to growth since its launch.

Cochlear™ Nucleus® Kanso® 2 Sound Processor

We received FDA clearance and CE Mark certification for the **Cochlear™ Baha® 6 Max Sound Processor** with the launch in the US and Europe during the second half. The launch is progressing well with strong demand experienced for the new sound processor. The Baha 6 Max Sound Processor provides a fitting range of up to 55 dB sensorineural hearing loss in the same small size as current 45 dB devices, with longer battery life and direct streaming from both Android and Apple devices.

Cochlear™ Baha® 6 Max Sound Processor

Thriving people

Our people are our most valuable asset and are an engaged, capable and high-performing team that delivers on our strategy and supports the creation of sustained value. We have a diverse workforce with over 4,000 people across the globe. Their knowledge, expertise, passion and focus on delivering excellence is key to achieving future success.

Shaping our culture

We have an inclusive organisation and a healthy corporate culture that is strongly connected to our mission and puts the customer at the centre of everything we do. As our workforce continues to expand, we work hard to intentionally shape the culture that will enable us to grow and deliver for our customers in the future.

Work continued this year to build on the organisational culture we want to support our business strategy and long-term growth goals. Our executive team focused on 'leading by example' in recognition of the critical role they play, and the example they each set for the rest of the organisation. We introduced culture champions, a group of 100 people focused on actively shaping our culture through communications, training and education. We implemented inclusive leadership and unconscious bias training, support in understanding and living our HEAR behaviours and better aligned our remuneration and reward structures to our cultural objectives.

We are pleased to report that overall employee engagement continues to remain strong at 80%, growing 1% on last year, with 93% of employees reporting that they feel proud to tell people they work at Cochlear.

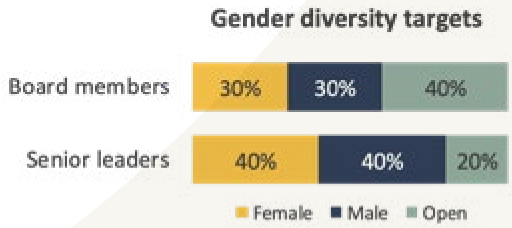
80%
Employee engagement

Broadening incentives to benefit more employees

Our total reward framework is an important part of building a strong and cohesive culture. From FY22, we are introducing changes to our reward offering to achieve greater alignment and consistency of how we reward employees across the business. The key highlights include aligning employees to the Global Short Term Incentive (STI) plan, ensuring more of our employees have some form of performance-based reward, and introducing a new global employee share plan. These changes support our cultural priorities, improve our market competitiveness to ensure we are able to attract and retain talent across all the markets in which we operate, and provide an opportunity for our employees to own shares in the company and be part of our future success.

Focus on gender equality

Achieving gender equality is one important element of our 'Diversity and Inclusion' strategy. We strive for a gender balance of 40:40:20, which means that 40-60% of either gender is represented (40% women, 40% men, 20% open). We have a target to achieve at least 40% female representation amongst our senior leaders by June 2023, with 38% today. And at Board level, we are targeting at least 30% female representation, a target which we achieved during the year with 30% today.



Letter to shareholders

Achievement of this target is being supported by focused activities in the areas of talent and succession planning and talent acquisition, with the aim of increasing our pipeline of female talent. A range of additional activities and policies recognised as key enablers to gender equality continue to be implemented to support improved access to work for all employees. These include a focus on continuing to embed flexible working for employees globally, further deployment of our inclusive leadership programs with a focus on unconscious bias education for all leaders, and continuing work to ensure gender pay equity across our global workforce.

Support and flexibility

We are committed to ensuring the safety and wellbeing of our people. With many of our employees continuing to work remotely due to COVID, we have provided additional support with a focus on staying connected to colleagues. We have increased communications and provided additional education and resources to support both physical and mental health.

As employees return to the workplace, we are seeing a greater uptake of flexible working arrangements, which is working well, supported by the rapid evolution of our IT infrastructure to enable efficient and inclusive remote working capabilities. We continue to educate and support our employees working in a hybrid work environment to ensure we maintain our culture of inclusiveness.

Appointment of Alison Deans as Cochlear Chair

Alison Deans has been appointed as Chair of Cochlear from 21 August 2021 following the retirement of Rick Holliday-Smith. Alison is a highly respected company director with extensive business experience across a broad range of industries and organisations. She has been a non-executive director on Cochlear's board since January 2015.

Alison's deep understanding of the company, breadth of experience as a non-executive director and extensive experience leading technology-enabled businesses means she will be an excellent and well-qualified Chair.

Commenting on her appointment, Alison said, "Rick has instilled a relentless focus on our Mission and the importance of investment to drive long-term sustainable growth. Under his stewardship, the corporate culture has thrived and ongoing investment in innovation and market development has strengthened our market position and growth outlook.

"Our goal is to ensure that we can support a lifetime of hearing to the children, and adults, being implanted with our devices today while also delivering leading hearing solutions for our future recipients. It is an honour to be appointed Chair of such a remarkable company, and I look forward to working with the Board and the management team to continue to build on these strengths."

Alison Deans, Chair

Rick Holliday-Smith has been a member of the Board since 2005 and has served as Chairman since mid-2010.

Commenting on his decision to retire from the Board, Mr Holliday-Smith said, "I have greatly enjoyed my time on the Board and especially as Chairman for the past 11 years. It has been a privilege to work with an exceptional Board and management team.

"Cochlear is an incredible company that has stayed true to its Mission to help more people hear, marking a major milestone this year in celebrating its 40th birthday. We have provided more than 650,000 implant devices to people globally and continue to be the global market leader in implantable hearing solutions."

Sustained value

To deliver consistent revenue and earnings growth over time, we balance maximising spending to grow the market with investment to maintain our competitive position while ensuring we have agile, efficient and environmentally responsible business processes to support our growth ambitions.

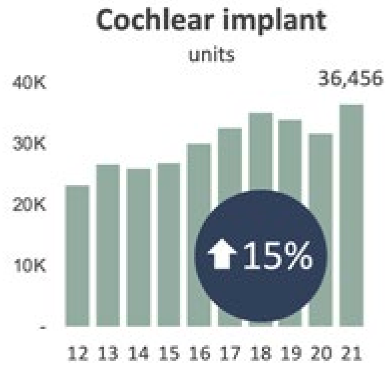
Underlying net profit increases 54% to $237 million

For FY21, underlying net profit increased 54% to $237 million, within the guidance range of $225-245 million. The underlying net profit margin of 16% was well above last year and a little below our longer-term target of 18%.

There were a number of factors contributing to the underlying net profit result. The recovery in trading was solid with the business delivering record sales revenue of $1,493 million, an increase of 19% in CC, driven by a combination of market share gains, market growth and rescheduled surgeries from FY20. Sales revenue was 6% ahead of FY19 in CC, the last financial year unaffected by COVID.

Gross margin declined from 75% to 73% with around half of the decline currency related, the result of the strengthening of the Australian dollar.

Operating expenses were maintained in line with last year (up 5% in CC). Continued investment was made in R&D, market growth activities, standard of care and market access initiatives. The increase in growth investment and re-establishment of the short-term incentive provision was partially offset by COVID-related savings including travel and conference expenses.



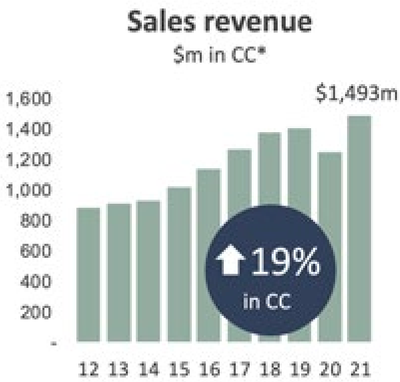
Statutory net profit of $327m benefits from $90m in one-off gains

We recorded $59 million in patent litigation-related tax and other benefits after-tax primarily relating to the receipt of a private ruling from the Australian Tax Office in December 2020 which clarified the deductibility of elements of the patent litigation expense treated as non-deductible as of 30 June 2020.

Over the past few years, the innovation fund has made several small investments in companies with novel technologies that may, over the longer term, enhance or leverage our intellectual property. The innovation fund includes investments in Saluda, Nyxoah, EpiMinder and Seer Medical, with $31 million in non-cash net gains after-tax realised from investments including Nyxoah and EpiMinder.

Nyxoah listed in September with a $24 million after-tax gain realised based on the value of our shareholding in Nyxoah at listing. We invested a further €5 million (A$8 million) in the initial public offering and a further US$23 million (A$30 million) in the July 2021 capital raising.

The $13 million after-tax gain in EpiMinder represents the increase in value of our shareholding following a financing round which saw Cochlear invest a further $3 million.



Strong financial position

The balance sheet remains strong with operating cash flows sufficient to fund investing activities and capital expenditure whilst delivering dividends to shareholders.

* Constant currency. ** Excluding one-off and non-recurring items.

Letter to shareholders

Net cash increased $108 million to $565 million, driven by strong free cash flow generation, with operating cash flows increasing by $429 million to $271 million and free cash flow of $180 million.

The dividend was re-introduced at the half as a result of improved trading conditions and cash flow generation. A final dividend of $1.40 per share has been determined, with full year dividends declared of $2.55, an increase of 59% on last year and representing a payout of 71% of underlying net profit.

The dividend is unfranked with the franking balance depleted as a result of the losses incurred by the business in FY20.

Taking action on carbon emissions

We have a relatively low level of carbon emissions as a business, with around 50% of total FY19 reported carbon emissions generated from Scope 3 – or indirect – emissions. For Cochlear, business travel is our single biggest source of carbon emissions.

COVID has driven changes in the way our customers and our people operate. The rapid adoption of technology to enable effective remote collaboration has been an important contributor to continuing to work with customers and an enabler to continued investment in R&D and market growth activities.

Many of the new ways of doing business remotely, both internally and with our customers, have been incredibly successful and will continue to be a part of how we do business going forward and this will enable us to reduce the amount of business travel. As a result, we are committing to a 50% absolute reduction in business flight-related carbon emissions by FY25, equivalent to around 25% in overall reported carbon emissions compared to our FY19 baseline. We will achieve this through a combination of reductions in business flights, with a targeted 20% reduction in business flights per full-time employee, and investment in carbon offsets.

This initiative forms part of the development of a more comprehensive approach to understanding, reporting and reducing our carbon emissions and environmental impact.

Decision to return FY21 COVID government assistance

We note our decision to repay $25 million in pre-tax COVID government assistance received in FY21 as a result of improved trading conditions. Most of the assistance, $23 million, was received from the Australian Federal Government's JobKeeper program, with JobKeeper repaid in February.

We met the eligibility requirements to participate in these programs, which were designed to support jobs during the first wave of COVID infections, providing an important safety net at a time of great disruption and uncertainty. Trading conditions since July have improved, and while there is still uncertainty ahead, we consider returning the COVID government assistance payments the appropriate thing to do.

Australian government announces patent box tax concession

We welcome the Australian Government's announcement of a tax incentive to encourage companies to commercialise home grown medical and health ideas in Australia. Subject to the final design and successful passage of legislation through parliament, the patent box tax regime for medical technology and biotechnology should encourage the development of innovation in Australia by taxing corporate income derived from patents at a concessional effective corporate tax rate of 17%, with the concession applying from income years starting on or after 1 July 2022.

A globally competitive Australian patent box regime will support local manufacturing of medical products and help reverse the trend of Australian research being commercialised offshore. It should result in more highly skilled, well-paid jobs and more investment in the commercialisation of Australia's world-leading medical research. It also enables Australia to compete with other advanced economies for investment in critical medical product research and manufacturing capability.

We are actively involved in current consultations on the detailed design of the patent box to ensure it delivers on the stated policy objectives of government – encouraging companies to base their medical and biotechnology R&D operations, and commercialise innovation, in Australia; and to retain ownership of eligible patented inventions in Australia.

To achieve these objectives the Australian patent box must:

- be competitive with similar incentives offered in peer nations;
- strike an appropriate balance between administrative integrity and being workable and practical for those using the regime; and
- reflect the nature of the sector that it is seeking to target and attract.

Subject to the final design of the patent box, we would expect to benefit from a reduced tax rate in the medium term.

FY22 outlook

As we look to the future, we remain confident of the opportunity to grow our markets. There remains a significant, unmet and addressable clinical need for cochlear and acoustic implants that is expected to continue to underpin the long-term sustainable growth of the business. Our clear growth opportunity and strategy, combined with a strong balance sheet, mean we are well placed to create value for our stakeholders now, and over the long term.

For FY22, we expect to deliver net profit of $265-285 million, a 12-20% increase on underlying net profit for FY21, based on a 74 cent AUD/USD. Sales revenue is expected to benefit from market growth, with a continuing recovery in surgery rates across many countries more affected by COVID. We will continue our investment in market growth activities, with the net profit margin expected to remain a little below our longer-term target of 18%.

Developed markets are expected to continue to grow in FY22. While hospitals and clinics have adapted to operating during the pandemic, surgery rates continue to be variable across many countries. The US has adapted quickly to COVID with the market growing well. Western Europe and parts of Asia Pacific have not recovered to the same extent due to impact from more recent COVID disruptions. We expect the rate of recovery to be protracted in a few markets as a result of waiting lists affecting all elective surgery procedures, potentially restricting the pace of growth.

The rate of recovery in emerging markets has varied and we expect continued improvement but at a slower rate than developed markets, with some countries still well down on FY19 levels and not likely to recover fully in FY22.

Guidance factors in some continuing near-term COVID impact. A more material disruption from COVID that significantly impacts sales or the supply chain remains a risk factor that does not form part of guidance. We are confident of the resilience of our hearing implant business given the improvements in surgery rates experienced across FY21. While we did see a moderation in demand at times of high hospitalisation rates for COVID patients, the deployment of COVID vaccines and the recovery of surgeries that followed COVID surges gives us some confidence that any further surgery deferrals could also recover quickly.

Our investment priorities continue to be focused on market growth activities and strengthening our competitive position. Operating expenses are expected to increase with the acceleration of a number of growth projects and some uplift in travel and conference expenses following constrained spending as a result of COVID. The commissioning of our China manufacturing facility will have a small negative gross margin impact over the coming years as we commission and then scale up production.

Capital expenditure is expected to be around $70-90 million for FY22 and includes around $20 million related to a major process transformation and IT systems upgrade, a program that is expected to be a $100-120 million investment over the next four to five years. It is not yet clear how much of this investment will be capitalised versus expensed as a result of a change in the accounting interpretation for cloud computing investment. We have not factored any expensing resulting from this accounting change into the net profit guidance. We expect to finalise the quantum of the impact by December 2021 and adopt the change in the HY22 result.

The effective tax rate is expected to decline to around 25% as a result of the introduction of changes to the R&D tax concession by the Australian government, with legislated changes to take effect from 1 July 2021. The changes include an increase in the $100 million R&D expenditure threshold and an increase in the deduction rate.

The Board is committed to maintaining the dividend policy which targets a 70% payout of underlying net profit.

Rick Holliday-Smith
Chairman

Dig Howitt
CEO & President

Our company

About Cochlear

For 40 years, Cochlear has been the global leader in implantable hearing solutions.

Cochlear commenced operations in 1981 as part of the Nucleus group and in 1995 listed on the Australian Securities Exchange. Today, it is a Top 50 listed Australian company with a market capitalisation of over $15 billion.

We aim to improve awareness of and access to implantable hearing solutions for people indicated for our products. We have provided more than 650,000 implant devices to people who benefit from one – or two – of our implantable solutions. Whether these hearing solutions were implanted today or many years ago, we continue to bring innovative new products to market as well as sound processor upgrades for prior generations of recipients.

We invest more than $190 million each year in R&D and participate in over 100 collaborative research programs worldwide. Our global headquarters are on the campus of Macquarie University in Sydney, with regional offices in Asia Pacific, Europe and the Americas. We have a deep geographical reach, selling in over 180 countries, with a direct presence in over 30 countries and a global workforce of over 4,000 employees.

For 40 years, Cochlear has been the global leader in implantable hearing solutions

We have a deep geographical reach, selling in over 180 countries

Our mission

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.

Cochlear at a glance

Business segments

61% Cochlear implants*
Cochlear implant systems

29% Services*
Sound processor upgrades, accessories & other

10% Acoustics*
Bone conduction systems and sound processor upgrades

Cochlear™ Nucleus® Profile™ Plus with Slim Modiolar Electrode (CI632)

Cochlear™ Nucleus® 7 Sound Processor

Cochlear™ Nucleus® Kanso® 2 Sound Processor

Cochlear™ Osia® 2 System

Cochlear™ Baha® 6 Max Sound Processor

Global sales

~$1.5b
in sales revenue

~80%
Developed markets*

~20%
Emerging markets*

48%
Americas*

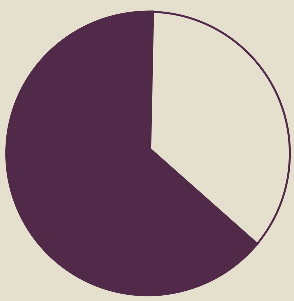
35%
EMEA*

17%
Asia Pacific*

Market leader

$190m+
in annual R&D

>60%
global market share**



650,000+
implants sold***

Growing scale

4,000+
employees

100+
collaborative research programs

30+
countries with direct operations

6
key manufacturing sites

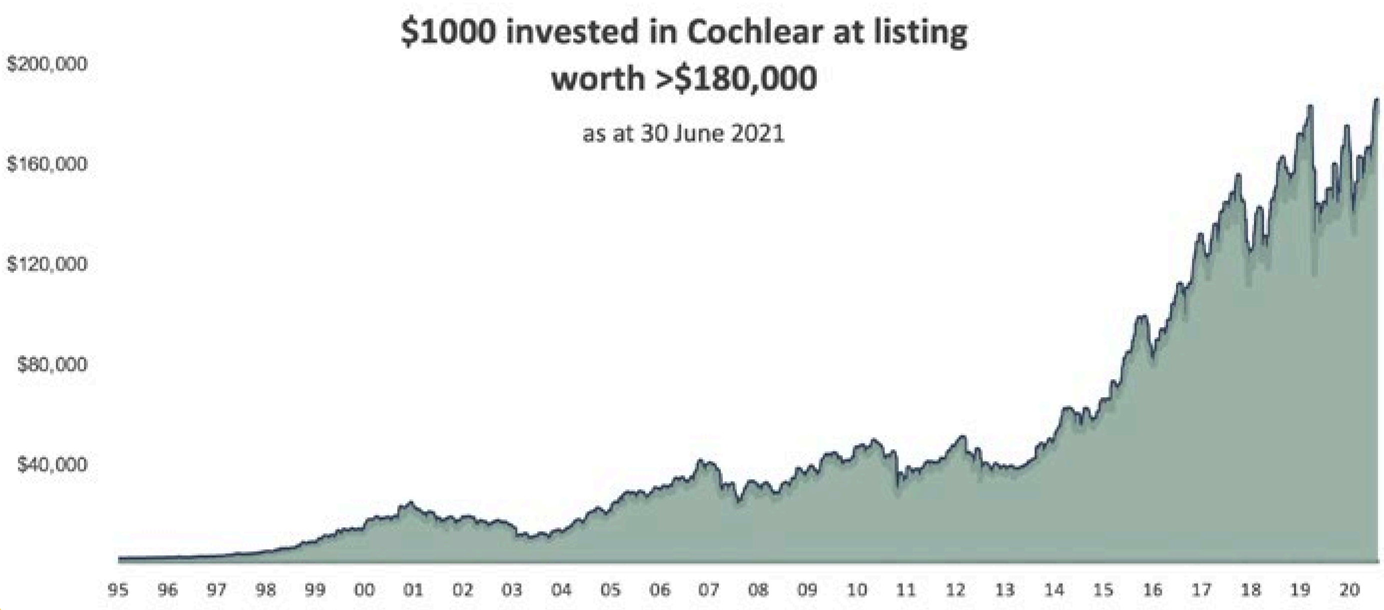
* Based on sales revenue. ** Based on Cochlear estimates for cochlear implants. *** Includes cochlear and acoustic implants.

Our company

Investment proposition

Cochlear provides shareholders with an opportunity to invest in the global leader in implantable hearing solutions, in an industry that has the potential to grow over the long term.

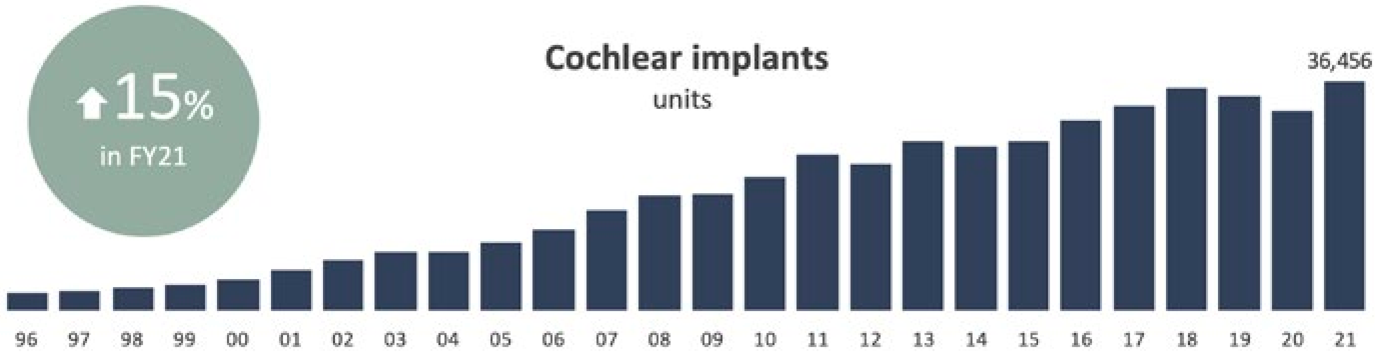
- **Global leader** in implantable hearing solutions for 40 years with over 60% global market share and more than 650,000 devices sold
- **Long-term market growth opportunity** with a significant, unmet and addressable clinical need for implantable hearing solutions and less than 5% market penetration
- **Unrivalled commitment to product innovation,** bringing innovative new products to market as well as sound processor upgrades for prior generations of our recipient base
- **Growing annuity income stream** from servicing of the expanding recipient base
- **Strong free cash flow generation** provides funding for market growth

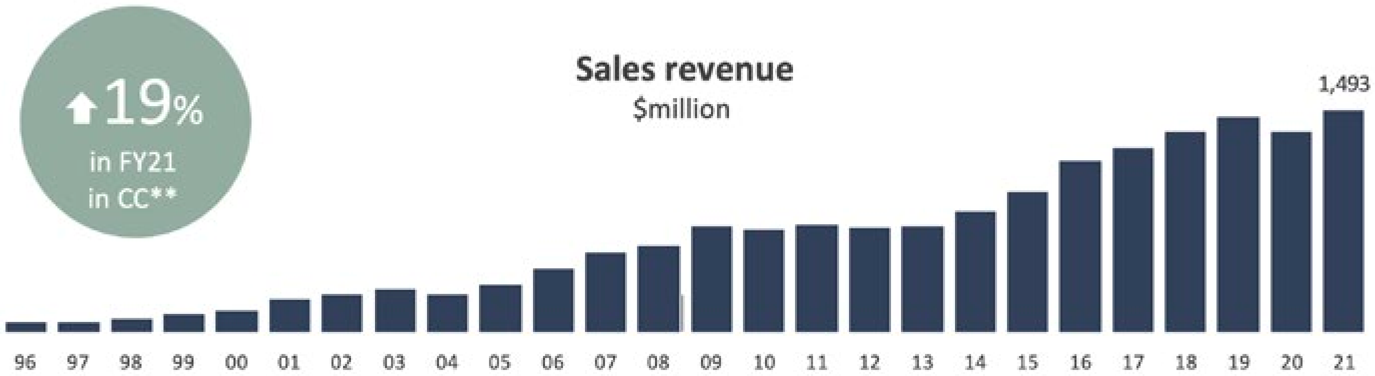


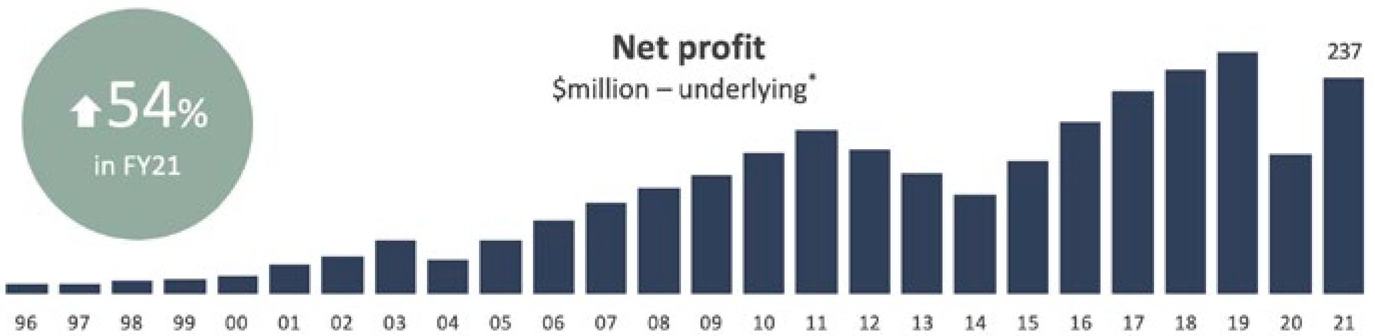
* Cash flow generation and dividends disrupted in FY20 by the impact of COVID and cost of an adverse litigation outcome.

Financial history

Cochlear has a long track record of delivering growing sales revenue, profits* and dividends, disrupted in FY20 by the impact of COVID.







* Excluding one-off and non-recurring items. ** Constant currency.

Our growth opportunity

Growing awareness of the cost-effectiveness and quality of life benefits of our products has the potential to underpin long-term industry growth.

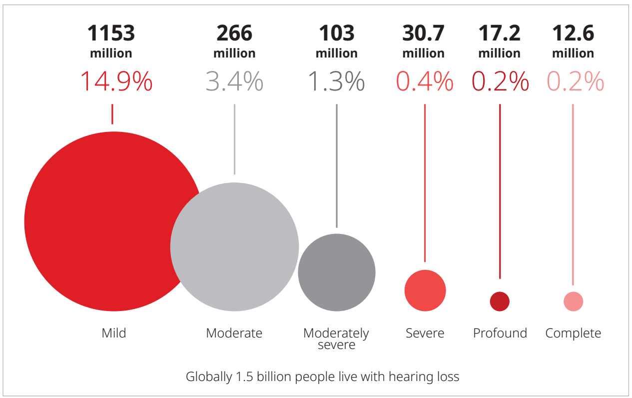
Opportunity	Description

Hearing loss is prevalent and under-treated

The World Health Organization estimates that there are over 60 million people worldwide who experience severe or higher hearing loss.[1]

A challenge for hearing care providers is that less than 5% of the people that could benefit from an implantable hearing solution have received one.[9]

>60m people with severe or higher hearing loss



Source: World Health Organization; 2021

Cochlear implants are a cost-effective solution for all age groups

Cochlear implants provide life changing outcomes for recipients, empowering them to connect with others and live a full life.

They also provide a cost-effective solution for all age groups, delivering significant returns on the investment made by the healthcare system.

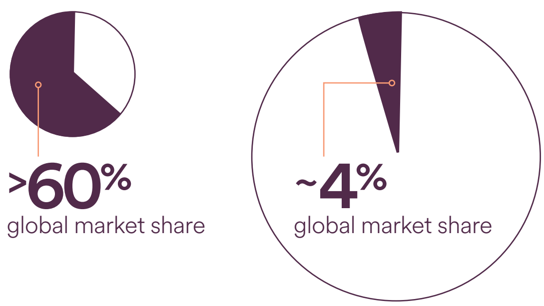
The estimated lifetime societal costs for a pre-lingual deaf child in developed markets exceeds US$1.5 million.[10-12]

The effective use of implants is cost-effective in adults and seniors with an estimated return on investment of 10:1.

Cochlear implants can deliver superior outcomes to hearing aids for indicated patients

Cochlear implants can provide a significant improvement in hearing outcomes and quality of life when compared to hearing aids for many people with a severe or higher hearing loss (>70dB).

We are the market leader in cochlear implants but a small player in the severe or higher hearing loss segment where hearing aids dominate



Cochlear implant market share

Hearing devices treating the severe or higher hearing loss segment

How we are responding

We are focused on transforming the way people understand and treat hearing loss through awareness and access activities aimed at improving the penetration of implantable hearing solutions.

Three key market segments have been prioritised comprising adults and seniors in developed markets, children in developed markets and children in emerging markets, with strategies to improve awareness and access that vary by segment.

We collaborate closely with governments, academic and research institutions, hearing care providers, consumer and professional representative NGO's and significant health setting bodies such as the WHO to build awareness of the importance of properly treating hearing loss. And our investment in R&D continues to focus on improving outcomes for recipients which broadens the population of candidates that can benefit from our hearing solutions.

The cost-effectiveness of health interventions is becoming a more important consideration in the allocation of healthcare spending with payers increasingly demanding cost-effectiveness data to support funding for health interventions. We believe we are well positioned with many studies demonstrating the cost-effectiveness of cochlear implants for both children and adults with severe or higher hearing loss.

For a pre-lingual deaf child, the return to society is more than 13 times every dollar spent on a cochlear implant solution based on the cost savings in education and improved productivity as an adult.[10-12]

Dementia and other cognitive decline diseases are some of the costliest conditions to treat in the world[13], at an estimated US$1 trillion in 2018 and estimated to double by 2030.[14] Unfortunately, individuals with severe hearing loss are almost five times more likely to develop dementia than people without hearing loss. The effective use of hearing aids and implants is cost-effective and has been proven in adults and seniors with an estimated return on investment of 10:1.[15a]

A challenge for professionals and consumers is understanding the potential improvement in hearing outcomes that can be attained from a cochlear implant. There is a growing body of evidence of the superior outcomes of cochlear implants over hearing aids for many people with a severe or higher hearing loss (>70dB).[16] In 2018, a Cochlear study of recipient experiences[5] found that the number of participants reporting satisfaction with their hearing performance increased significantly after receiving a cochlear implant, rising from 9% when using hearing aids only to 95% after receiving a cochlear implant.

In 2021, an independent, randomised control trial to compare communication and quality of life outcomes of cochlear implants for adults compared to hearing aids will commence in the UK. Cochlear has provided funding to the University of Nottingham for the trial which will aim to provide gold standard clinical evidence of the relative efficacy of cochlear implants for this patient group with results expected in the next several years. These studies are important in helping to educate hearing aid professionals and cochlear implant candidates on the benefits of cochlear implants when compared to hearing aids.

Our growth opportunity

Opportunity	Description
Product indications are broadening and funding is expanding	Product indications and funding are expanding as payers increasingly recognise the improved outcomes and cost-effectiveness of our implantable solutions.
Good hearing is essential for healthy ageing	Hearing loss is particularly prevalent in people over the age of 60, with one in four suffering moderate or higher hearing loss.[17] There is a growing understanding of the importance of properly treating hearing loss in this age group. It affects communication and is associated with social isolation, anxiety, depression and cognitive decline.[18]
Opportunity to drive deeper penetration of the bone conduction segment	The bone conduction market is under-penetrated and currently has limited geographic reach. We have developed a product that we believe provides the opportunity to drive deeper category penetration.

US: lowered the age of cochlear implantation from 12 to 9 months for Cochlear's Nucleus implant

Japan, UK and Belgium: expansion of reimbursement criteria for cochlear implants to include severe hearing loss

New Zealand: cochlear implant funding to reduce the adult waiting list

Czech Republic: funding for cochlear implants for adults

France: reimbursement approved for Baha sound processors

Growing understanding of the link between good hearing and healthy ageing

Cognitive decline
Hearing loss associated with accelerated cognitive decline and dementia in older adults.[20]

Depression
Significant association between hearing impairment and moderate to severe depression.[21-23]

Falls
Higher risk of dizziness causing falling.[22]

Social isolation
Hearing loss linked to withdrawal from social interactions, which can have a significant impact on psychological well-being and physical health.[24-25]

Ability to work
Hearing loss can affect sufferers' ability to work or stay in the workforce.[25-28]

Loss of independence
Seniors with hearing loss less likely to be able to self-care.[23]

Pre-market trials have demonstrated significant improvements in outcomes for patients using the Cochlear™ Osia® 2 System[29] over traditional bone conduction hearing solutions

How we are responding

Cochlear implants started as a solution for people with a profound hearing loss, equivalent to a hearing loss of greater than 90 decibels (dB). Advancements in the technology have driven significant improvements in hearing outcomes for patients with our products today able to provide life-changing outcomes for people with a severe or higher hearing loss (>70dB).

At the same time, there is a better understanding of the importance of properly treating hearing loss as we age and a growing body of evidence supporting the cost-effectiveness of cochlear implants. These factors have driven an expansion of indications and/or funding in many markets over the past few years, including the UK, US, Japan, France and Belgium.

Our job is to continue to work with governments and payers to recognise the benefits of treating hearing loss so we can continue to increase access to our products.

Cochlear implantation for seniors is an important trend, with hearing loss ranked as the leading cause of global years lived with disability for people over the age of 70.[19] We have been increasing our public advocacy engagement, our investment in health economics, our market access capability and the collaborations we have with the medical research community to build on the clinical evidence that demonstrates the effectiveness of our products, particularly for seniors.

In 2018, we pledged to gift US$10 million over 10 years to the Johns Hopkins Bloomberg School of Public Health to establish the 'Cochlear Center for Hearing and Public Health'. The Center is the first of its kind at any academic institution focused on addressing hearing loss as a global public health priority.

The Cochlear™ Osia® 2 System expands the Acoustics portfolio into the next generation of bone conduction hearing solutions, providing a significant improvement in performance and aesthetics for bone conduction patients.

Pre-market trials have demonstrated significant improvements in outcomes for patients[29] over traditional bone conduction hearing solutions, and we are already experiencing high demand for the new implant in the US.

We believe the Osia 2 System has the opportunity to become the gold standard acoustics implant in our current markets, more effectively competing with reconstructive surgery and is the right product to pursue geographic expansion, with our Acoustics business today generating the majority of revenue from the US and UK.

Our strategy

Our strategy is focused on improving awareness of and access to implantable hearing solutions for people indicated for our products.

We are committed to maintaining our technology leadership position in the industry by investing in R&D to improve hearing outcomes and expand reimbursement and indications for our implantable solutions. We aim to grow the hearing implant market by growing awareness and access for implant candidates. And with a growing recipient base, we are actively strengthening our servicing capability to provide products, programs and services to support our lifetime relationship with recipients. In achieving our goals, we will be disciplined in our investment, aiming to deliver consistent revenue and earnings growth over time.

Strategic priorities

Retain market leadership
Market-leading technology I World-class customer experience

Grow the hearing implant market
Awareness I Market access I Clinical evidence

Deliver consistent revenue & earnings growth
Invest to grow I Operational improvement I Strong financial position

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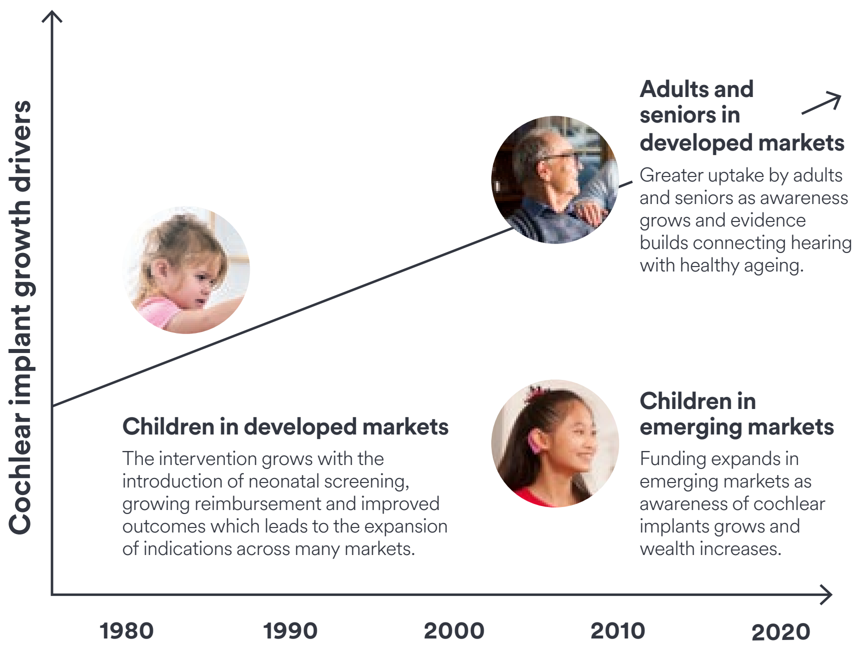
In developing our strategy, we have factored in the shifting demographics of our recipient base.

Over the last 10 years, there has been a greater uptake of cochlear implantation by older adults, particularly seniors, as awareness of the intervention has grown, and the body of evidence builds connecting good hearing with healthy ageing.

At the same time, funding has expanded in emerging markets as awareness of cochlear implants grows and wealth increases, driving implantation of children across the emerging world.

Growth is shifting to under-penetrated segments



Retain market leadership

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

Cochlear has been the global leader in implantable hearing solutions for 40 years. The investment in R&D aims to strengthen our leadership position through the development of market-leading technology. We invest around 12% of sales revenue each year in R&D, with over $2 billion invested since listing.

We have a global innovation network with over 350 R&D employees across the globe. Primary R&D is co-located with the Australian Hearing Hub in Sydney, with the 'Cochlear Technology Centre' in Belgium focused on advanced innovation. We have over 100 research partners in over 20 countries and a global network of design consultants and suppliers.

Our market-leading product & services portfolio

Innovations that make a difference to the moments that matter over time.

Cochlear implants

Benchmark in size, implant reliability and neural interface, with proven perimodiolar advantage

Cochlear™ Nucleus® Profile™ Plus implant

Slim Modiolar electrode

Acoustic implants

Benchmark in performance and aesthetics

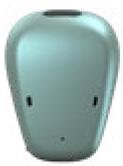
Cochlear™ Osia® 2 System

Sound processors

Benchmark in size, smartphone connectivity and hearing performance

Cochlear™ Nucleus® 7 Sound Processor

Cochlear™ Nucleus® Kanso® 2 Sound Processor

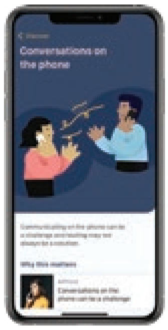


Cochlear™ Baha® 6 Max Sound Processor

Convenience & confidence

Apps and rehabilitation tools aimed at improving ease of use and quality of life for recipients

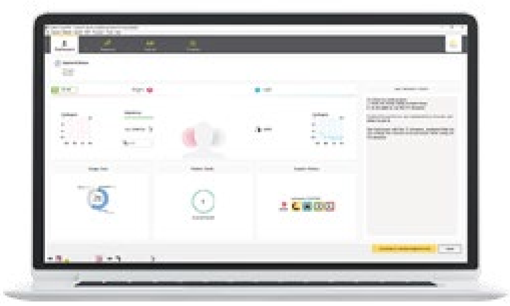
Nucleus, Baha & Osia Smart Apps



Cochlear™ CoPilot

Clinical & surgical support

Streamlining customer care for surgeons and clinicians



Custom Sound® Pro Fitting Software

Nucleus® SmartNav System

Telehealth solutions

Convenient, at-home testing for routine cochlear implant checks outside the hearing clinic

Remote Check solution for cochlear implants

Responsive & convenient service

Cloud-based service reducing time spent 'off air' when recipients need a replacement processor

Cochlear™ Link

Not all products are available in all countries.

Grow the hearing implant market

We grow the market by transforming the way people understand and treat hearing loss through awareness and access activities. Three key market segments have been prioritised with strategies to improve awareness and access, which vary by segment.

Segment	Description		
Children in developed markets	Cochlear implantation has been established as the standard of care for newborns across many developed markets, with bilateral implants indicated across most markets as evidence supports the benefit of binaural hearing.		**Addressable market*** **~130,000 people** **Current penetration*** **>80%** under 3-year-old children
Adults and seniors in developed markets	Adults and seniors in the developed markets provide the biggest opportunity for us to address the unmet need for hearing implants given the large, and growing, market size as the population ages and the low levels of penetration.		**Addressable market*** **>6m people** **Current penetration*** **~3%**
Children in emerging markets	Cochlear's emerging markets business has been growing rapidly as awareness of cochlear implants increases and wealth grows across many emerging economies.		**Addressable market*** **>1.3m people** **Current penetration*** **<10%**

* Cochlear estimates of segment prevalence of severe or higher hearing loss.

What are we doing

Cochlear implants started as a solution for children with a profound hearing loss. Over the last 30 years, neonatal screening has been successfully established across the developed world leading to high penetration levels.

The key priority for this segment is to maintain our leadership position while aiming to deepen our penetration in a few markets where rates of implantation for newborns with severe or higher hearing loss, and uptake of bilateral implantation, are below average.

There is also an opportunity to strengthen the treatment pathway for acquired or progressive hearing loss in older children. Lack of screening for children who have progressive hearing loss in childhood means that hearing loss often remains unidentified and without care. The WHO's World Report on Hearing notes the importance of hearing in education and says that the inclusion of ear and hearing care in school health services is essential. It highlights pre-school and school children as a group 'at risk' and proposes that screening and early intervention programs be put in place for this group as part of the holistic package of ear and hearing care interventions it proposes all countries adopt.

According to the WHO, hearing loss is particularly prevalent in people over the age of 60, with 65% experiencing hearing loss and one in four people suffering moderate or higher hearing loss. It affects communication and is associated with social isolation, anxiety, depression and cognitive decline.[14] The segment is however challenging to penetrate as most candidates suffer from a progressive hearing loss and, together with their care providers, either do not know about cochlear and acoustic implants or do not understand the indications for them.

While penetration rates are currently very low, at around 3%, the seniors segment has been the fastest growing segment for us over the past few years as awareness begins to improve. We have three programs for driving growth of the adults and seniors segment which include:

- **Direct-to-consumer (DTC) marketing** – building awareness directly with candidates motivated to find a better solution for their hearing loss;
- **Hearing aid channel referrals** – building a referral path from hearing aid and ENT clinics to cochlear and acoustic implants; and
- **Standard of care initiatives** – supporting initiatives to deliver a consistent treatment pathway for all adults with severe or higher hearing loss.

China has become a leading market for cochlear implants driven by a commitment from the government to fund implants for children which has driven the development of clinical infrastructure. Most other markets however remain under-penetrated. Our priorities for this segment are focused around market expansion with activities targeted at:

- **Building awareness** – public education campaigns, direct-to-consumer marketing and hearing screening;
- **Expanding funding** – driven by the compelling health economics of implantation in children;
- **Expanding our presence** – distributor relationships combined with an expanding direct presence;
- **Developing professional capability** – surgeon training and audiology education; and
- **Maximising penetration** through a tiered product offering.

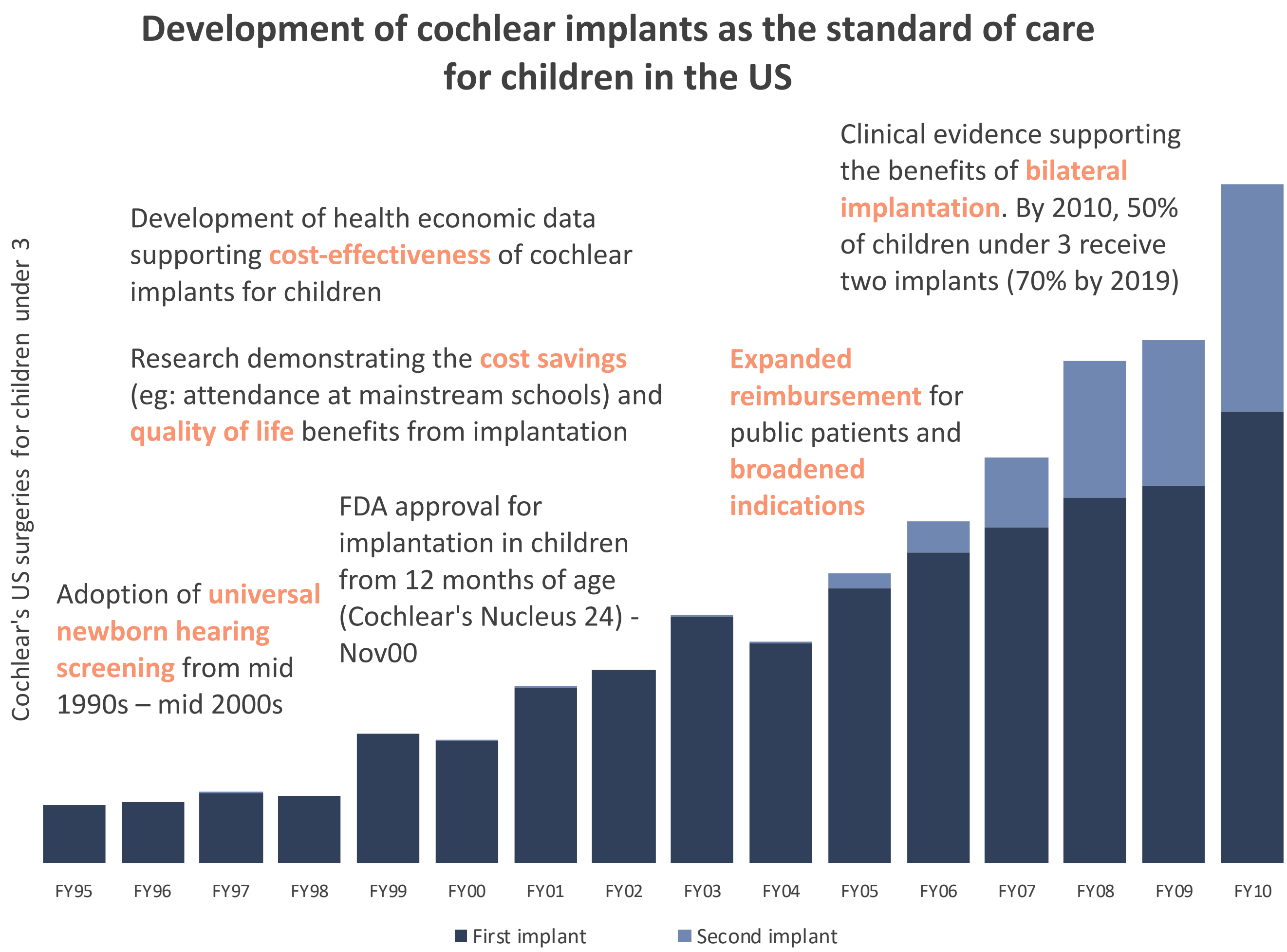
Grow the hearing implant market

Developing a treatment pathway for adults

Standard of care initiatives aim to establish a consistent process for diagnosing and referring adult cochlear implant candidates by all healthcare professionals.

Adults and seniors in the developed markets provide the biggest opportunity for us given the large, and growing, market size as the population ages and the low levels of penetration. One of our challenges is that there is no consistent treatment pathway to a cochlear implant for adults with severe or higher hearing loss. In addition, there is low awareness of cochlear implant indications amongst key hearing health professionals – ear, nose and throat (ENT) surgeons and hearing aid audiologists.

The development of a standard treatment pathway for care has many aspects and requires a co-ordinated effort between industry, hearing health professionals and public policy makers. It's a familiar journey for us, with the development of cochlear implants as the standard of care for children being the driver of growth for us during the 1990s and early 2000s. The key elements of that journey are highlighted in the chart below.



The evidence is building to support the establishment of a clinical pathway for adults with growing recognition that good hearing is an essential part of healthy ageing. We are also rapidly understanding that treating age-related hearing loss is cost-effective.

In 2020 a global consensus on a minimum standard of care for treating adult hearing loss with a cochlear implant was published in the leading journal JAMA Otolaryngology, the Journal of the American Medical Association. The publication is an important step forward, providing the foundation for the development of formal clinical practice guidelines in the coming years. It is anticipated that these guidelines for hearing loss professionals will be important in building a clear and consistent referral path for adults from hearing aids to cochlear implants. In the coming years, we will continue to support hearing health professionals in the development of formal clinical practice guidelines.

We are making investments in long-term initiatives to develop a standard clinical pathway for adults that aims to establish a more sustained referral model. These investments are geared to:

- **Develop consistent guidelines** to enable early identification and referral;
- **Build a body of clinical and economic evidence** that compels early adult referral and coverage; and
- **Drive awareness and advocacy** through hearing professionals.

The table below illustrates what good standard of care for adults would look like.

What standard of care looks like for adults

- ✓ Links between good hearing and healthy ageing established
- ✓ Links to cognitive decline and dementia are understood by all medical professionals
- ✓ Primary care providers routinely assess hearing loss in older patients
- ✓ Professionals know when to refer for a cochlear implant assessment
- ✓ The hearing aid channel is educated and the referral process is simple for a cochlear implant
- ✓ After-care is simple

Deliver consistent revenue and earnings growth

To deliver consistent revenue and earnings growth over time, we balance maximising spending to grow the market with investment to maintain our competitive position while ensuring we have agile, efficient and environmentally responsible business processes to support our growth ambitions.

Investment priorities

Invest to grow	Building awareness and access requires multi-year investment in sales, marketing and R&D activities. Aim: invest to grow, maintaining the net profit margin
Operational improvement	Optimising cost of production strengthens our competitive position. Aim: reinvest efficiency gains from growing scale into market growth activities
Strong financial position	Strong cash flow generation funds investment in growth. Aim: maintain the strong balance sheet position and target a dividend payout of around 70% of underlying net profit

Investment priority	**Consistent investment in sales and marketing**

Invest to grow

We take a long-term approach to investing and have invested in growing the market for implantable solutions since listing in 1995.

Our investment in sales and marketing activities is building awareness of and access to implantable solutions and driving market growth.

The increase in investment in selling, marketing & general expenses (SG&A) over many years has supported sales force expansion and investment in awareness building activities, particularly direct-to-consumer marketing initiatives, across a growing number of markets.

Revenue drivers

Cochlear implants

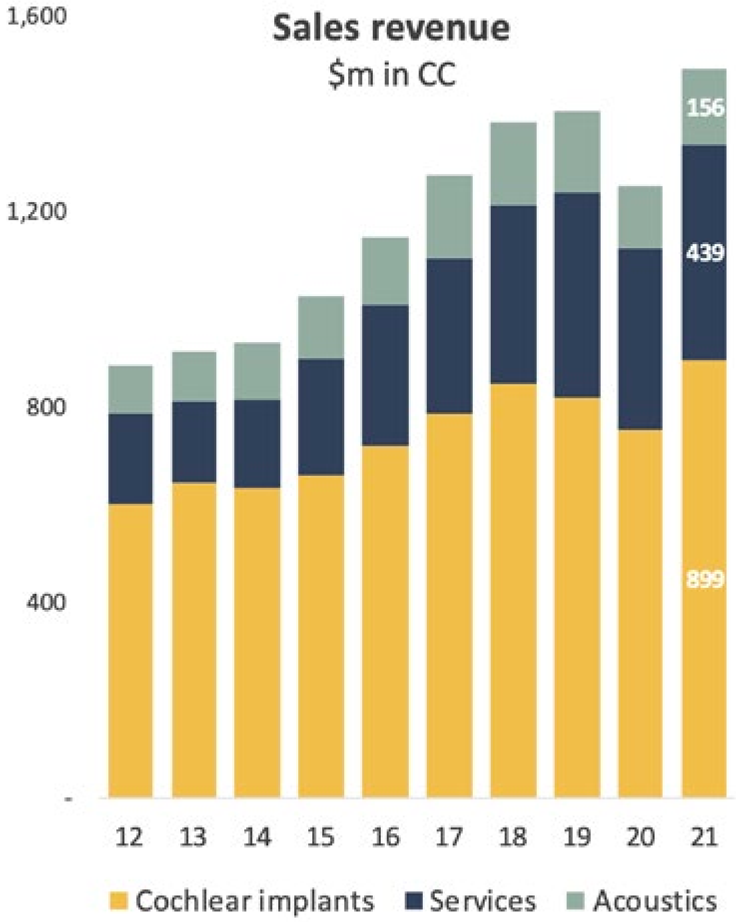
- Growing awareness and uptake by adults and seniors
- Emerging market expansion
- New products driving market growth and market share

Services

- Growing recipient base
- Greater connectivity and engagement with recipients
- Next generation sound processor upgrades

Acoustics

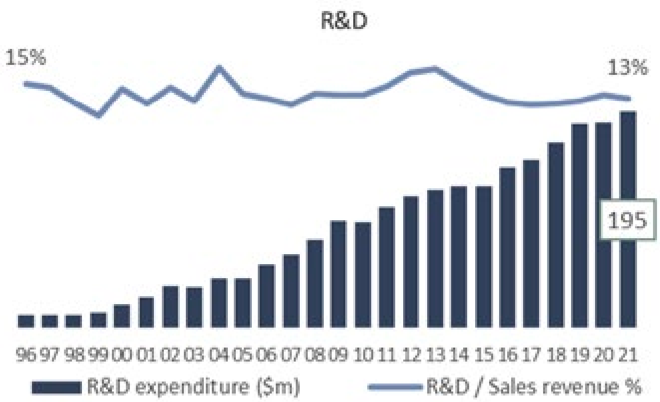
- New products
- Market expansion led by Cochlear™ Osia® 2 System



Growing R&D capability

The investment in R&D continues to strengthen our leadership position through the development of market-leading technology.

We have a wide range of fully featured products and a broad patent portfolio that protects our intellectual property. Over $2 billion has been invested in R&D since listing with 13% of sales revenue invested in R&D in FY21.



Delivering stable net profit margins

We will continue to invest operating cash flows into market growth activities with the objective of delivering consistent revenue and earnings growth over the long term.

Through disciplined investment, we are targeting to maintain the net profit margin, reinvesting any efficiency gains, currency or tax benefits into market growth activities.

* Excluding one-off and non-recurring items.

Deliver consistent revenue and earnings growth

Investment priority | **Disciplined use of capital**

Operational improvement

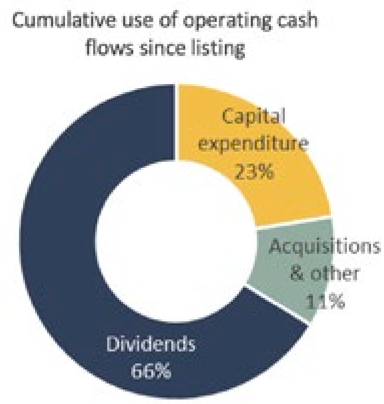
Disciplined capital investment and optimising cost of production strengthens our competitive position.

Operating cash flows have been primarily used to fund dividends, capital expenditure and acquisitions.

The dividend policy has been to payout 70% of net profit as dividends to shareholders since FY00.* Since listing, we have cumulatively paid out around 70% of operating cash flows as dividends.

Key acquisitions have been focused on building the core implant business and include:

- Sycle – hearing aid practice management software business (FY17)
- Otologics – implantable microphone technology (FY10)
- Brisbane manufacturing facility (FY07)
- Entific – bone conduction implant business (FY05)



The innovation fund has invested around $80 million in companies with novel technologies that may, over the longer term, enhance or leverage our core technology. The innovation fund includes investments in Saluda, Nyxoah, EpiMinder, Seer Medical and Sensorion.

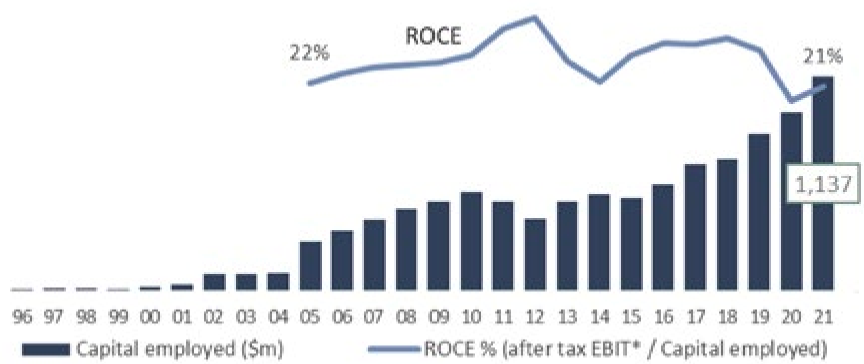
Investment priority | **High return on capital employed (ROCE)**

Strong financial position

Strong free cash flow generation provides funding for market growth activities and R&D as well as the ability to reward shareholders with a growing dividend stream.

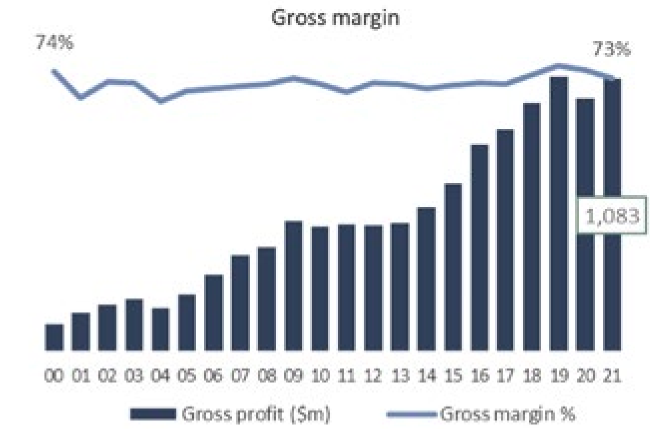
ROCE measures the cash return for each dollar invested in the business. We generate a high ROCE reflecting our competitive position in the market and the high barriers to entry to the cochlear implant industry which have proven to be robust over many decades.

The high ROCE is also a function of the relatively low level of tangible assets employed by the business. Our competitive advantage is driven by our strong product and patent portfolio, a result of investment in R&D over many years. As R&D investment is expensed through the income statement, no value for this important asset is captured on the balance sheet.



Stable gross margin

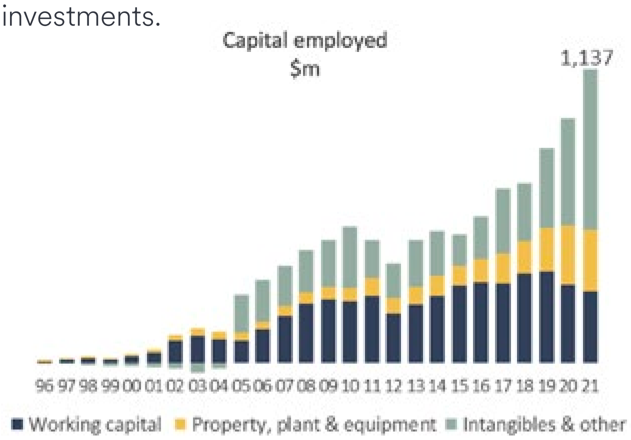
The gross margin has been relatively stable since listing. We use our scale to generate efficiency gains to reinvest back into market growth activities.



Capital employed

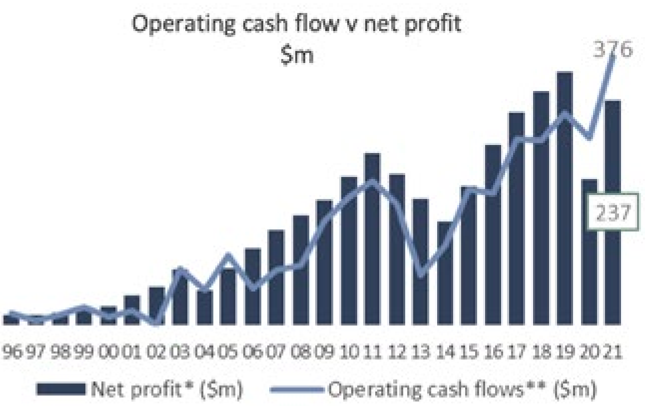
Capital employed is comprised of three broad categories: Working capital (24%), which is primarily inventory; Property, plant & equipment (21%) and Intangibles & other (55%).

Property, plant & equipment includes our key manufacturing equipment in Australia, Sweden, Malaysia and China. Intangibles & other includes goodwill from acquisitions and innovation fund investments.



Quality operating cash flows

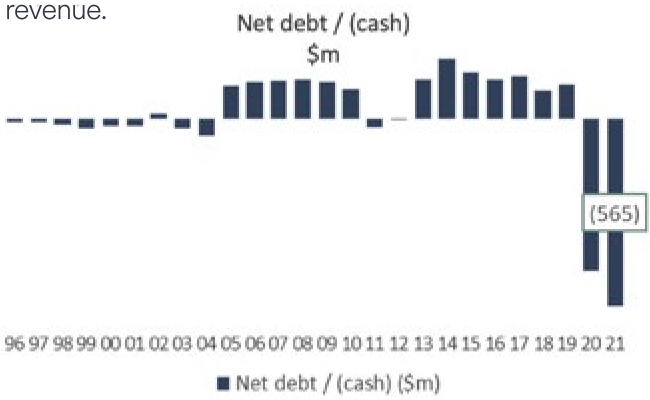
One of the highlights of our financial history has been the conversion of reported profits to cash. There has been a strong and consistent correlation between reported net profit and the operating cash flows generated by the business.*



Conservative gearing levels

We have a strong balance sheet. We are a growth company that has, until FY20, been able to fund investing activities, dividends, capital expenditure and acquisitions whilst maintaining conservative gearing levels.

A capital raising in FY20 was made to enhance liquidity in response to the significant impact of an adverse litigation judgement combined with the impact of COVID on sales revenue.



* Disrupted in FY20 by the impact of an adverse litigation outcome and COVID. Dividends were suspended in March 2020 until trading conditions improve. Operating cash flow in FY20-21 excludes the cash impact of patent litigation expenses.

Business risks

Cochlear has a sound and robust risk management framework to identify, assess and appropriately manage risks.

Our principal business risks are outlined below. These are risks that may materially adversely affect the business strategy, financial position or future performance. It is not possible to identify every risk that could affect the business and the actions taken to mitigate these risks cannot provide absolute assurance that a risk will not materialise. Details of Cochlear's risk management framework can be found in the Corporate Governance Statement, available on the website.

Risk	Description and potential consequences	Strategies used to mitigate the risk
Pandemics	As COVID has demonstrated, pandemics have the potential to impact our markets as elective surgeries may be deferred to reduce the strain on healthcare systems. Travel restrictions, government mandated shutdowns and potential supply chain impacts could also have business impacts.	In addition to developed business continuity and crisis management plans, our geographic spread of customers may mitigate the impact of a pandemic on our business.
Product innovation and competition	Increased competition exposes us to the risk of losing market share and lower average selling prices. This risk may be exacerbated by failure to produce innovative products and services. We are also exposed to the risk that our products are superseded by medical, biological and/or technological advancements resulting in alternative products or treatments being commercialised which may impact new business.	Our active and continuous assessment of markets (new and existing) informs our strategy, operating plans and innovation programs. The creation and protection of intellectual property is a key focus for us. In FY21, we invested 13% of sales revenue in R&D, aimed at retaining our market leadership position and growing the hearing implant market.
Misappropriation of Cochlear's know-how and intellectual property infringement	We are exposed to the risk that our proprietary know-how may be misappropriated through hacking of its systems, or by employees, consultants or third parties who may have access to systems. Our market share is at risk of competitors accessing and using this information. We are also exposed to allegations of infringement by third parties including competitors which could result in us paying damages and/or receiving injunctions preventing us from selling our products and/or paying royalties to continue selling.	Confidentiality agreements are in place with staff and third parties with access to our know-how. We limit access to key systems by business need and monitor access by individuals. We have an increasing and evolving patent portfolio across our technologies to assert against competitors, and internal and external legal resources to manage litigation, and our internal product development processes include 'freedom to operate' checks.
Medical device regulations	We operate in a highly regulated industry. Medical devices and the information they produce are strictly regulated in countries where our products are sold. Failure to meet regulations may result in product sanction or recall resulting in loss of sales and reputational harm.	Regulatory uncertainty is assessed as part of product development. We actively monitor the regulatory environment with regulators and incorporate requirements and changes into our product quality assurance system.
Product quality	Delivery of high quality and safe outcomes for our customers is central to our ongoing development of innovative product. As the developer, manufacturer, marketer and distributor, any failure in product quality might lead to injury, litigation, liability, recall and reputational harm.	Our focus on quality throughout the design, testing, manufacture and post-market monitoring of our products ensures high standards of product safety and efficacy. Effective collaboration with customers aligns clinical processes and technology with evidence-based practices. We also maintain product liability insurance.

Risk	Description and potential consequences	Strategies used to mitigate the risk
Market access	The majority of our developed market customers rely on a level of reimbursement from insurers and government health authorities to fund their purchases. Pressure on healthcare budgets globally may lead to pressure on reimbursement levels. Healthcare-related taxes by government agencies could also impact candidates' ability to access our products.	We continue to work with reimbursement and government agencies throughout the world to emphasise the health and economic benefits of cochlear and acoustic implants.
Credit and currency	We provide credit to a limited number of governments, government-supported universities and clinics or major hospital chains. The extension of credit creates a risk that borrowers fail to pay resulting in interrupted cash flow and lower earnings. Over 90% of our revenues and over 50% of costs are denominated in currencies other than Australian dollars. We bear exchange rate risk from AUD fluctuation against primarily US dollars, Euros, Japanese yen, Sterling, Swedish kroner and Swiss francs. Long term permanent changes in market rates may impact earnings.	Credit risk is not significantly concentrated and varies by location and customer type. Credit and receivables management (including identifying high risk customers and potential restrictions on future trading) is executed at a regional level, subject to country limits set by the Chief Financial Officer and overseen by the Audit & Risk Committee. Monthly credit balances and ageing are monitored by the Board. Financial instruments are used to manage foreign exchange risk in accordance with the Board approved policy.
Interruption to product supply	Our reliance on suppliers for key materials and services carries inherent risk of delay and disruption. This risk is distinct from that where alternative materials/sources and regulatory requirements make substitution costly, time-consuming or commercially unviable. While products are manufactured across six sites globally, supply may be disrupted by a site becoming inoperative. New manufacturing facilities require regulatory approval for products to be saleable. Such approval could take many months or years.	We work closely with our suppliers to mitigate potential interruption or delay to supplies. In addition, purchase quantities of inventory are managed to avoid short term impacts. Where appropriate, lifetime buys, strategic raw materials purchases, alternate sources and other supply chain interventions are undertaken to mitigate production impacts. We also review the business continuity plans for manufacturing and maintains business interruption insurance.
Privacy and Information security	We handle and store personal information, including health information, for our customers and employees. With expanding information privacy and security regulations, we recognise its security as a key element of our relationship with our customers.	We regularly assess our privacy governance and information security controls to ensure that when customer information is held it is secure. Whilst we maintain cyber insurance as part of our overall risk mitigation strategy, our pro-active approach aims to ensure that controls of these risks are prevalent.
Talent management	We operate in a competitive environment in relation to attracting and retaining scientific, technology and engineering talent. The absence of this talent may cause key positions to be unfilled, impacting our ability to innovate and grow.	Talent management programs are in place, both within Australia and in our key international markets. These programs develop the longer-term capabilities required for us to achieve our strategic goals.

Operational review

Business segment performance

$m	2021	2020	Change % (reported)	Change % (CC)*	Sales mix
Cochlear implants (units)	36,456	31,662	⬆ 15%		
Sales revenue					
Cochlear implants	898.6	817. 9	⬆ 10%	⬆ 19%	61%
Services (sound processor upgrades and other)	438.5	395.5	⬆ 11%	⬆ 19%	29%
Acoustics	156.2	138.9	⬆ 12%	⬆ 22%	10%
Total sales revenue	**1,493.3**	**1,352.3**	**⬆ 10%**	**⬆ 19%**	**100%**

During FY21, we have been focused on ensuring we emerge from the pandemic in a stronger competitive position, with our strategic priorities continuing to guide our investments. Over the past 12 months, we have maintained our people and market presence, ensuring the health and safety of our employees while providing ongoing support to our recipients, clinics and professional customers.

Our focus on long-term growth has continued with increasing levels of investment across R&D projects and market growth activities. Despite the challenging trading conditions, new products have been successfully launched across all product categories, with market share gains realised in many markets.

Cochlear implants

Cochlear implant units increased 15% to 36,456 units and sales revenue increased 19% in CC to $898.6 million, driven by a combination of market share gains, market growth and rescheduled surgeries from COVID shutdowns. Compared to FY19, the last financial year unaffected by COVID, units increased by 7% with sales revenue up 9% in CC.

While hospitals and clinics have adapted to operating during the pandemic, we experienced variability in surgery rates across countries as infection waves continued.

For **developed markets**, the pace of recovery varied across countries with strong growth in the US, Japan and Korea and improving momentum in Western Europe. Overall developed market unit volumes grew around 20%, an increase of around 10% on FY19.

While there had been some concern that candidates would hesitate in progressing to surgery during the pandemic, we have been pleased to see surgeries progress across all age groups, with the mix of seniors' surgeries back to pre-COVID levels across most countries. The majority of clinics have re-opened, and the new candidate pipeline has rebuilt quickly supported by our direct-to-consumer activities.

The US, Japan and Korea delivered strong growth in sales revenue on last year, as well as on FY19. Growth was driven by the combination of market share, market growth and rescheduled surgeries from the March/April 2020 shutdowns. Strong momentum follows successful new product launches and the introduction of a range of connected care services, providing greater convenience and confidence to both professional customers and recipients.

The US in particular is benefitting from the successful integration of a comprehensive suite of products and services for customers over the last few years, from the leading implant portfolio to clinical support tools like Cochlear Link and Remote Check, supported by the sales team. The investment has strengthened our capability, broadened our reach and is reducing workloads for clinics.

* Constant currency (CC) removes the impact of exchange rate movements and foreign exchange (FX) contract gains/(losses) to facilitate comparability. See Notes on page 45 for further detail.

Our market position in Western Europe remains strong but surgery rates have recovered more slowly than the US. Cochlear implant units grew on FY20 but remained below FY19 levels, with periods of disruption caused by COVID waves affecting both surgery rates and the candidate assessments across many Western European countries.

For the **emerging markets**, unit volumes overall increased around 10% on FY20 and were just above FY19 levels. Emerging markets experienced an improving rate of surgeries albeit at a slower pace than the developed markets. Surgeries in China are growing quickly due to strong private pay demand. In other markets, parts of Eastern Europe and the Middle East are recovering well, with volumes still materially lower in several markets including India and Brazil.

Services (sound processor upgrades and other)

Services revenue increased 19% in CC to $438.5 million, up 5% in CC on FY19, with improving momentum across the year. First and third quarter revenue was impacted by lower clinical capacity for sound processor upgrades, with new patients prioritised as COVID concerns limited clinic capacity.

The Cochlear™ Nucleus® Kanso® 2 Sound Processor was launched in October across the US and Europe, driving demand for upgrades, representing around 30% of the sound processor mix in the US by June.

We invest to provide our recipients with a world-class customer experience with increased connectivity and engagement. Cochlear Family, the recipient membership program, provides us with the opportunity to connect directly with recipients to provide service and support. Over the last 12 months we have provided special edition newsletters and webinar virtual events about COVID safety, with special considerations for those living with a hearing device.

Membership continues to grow rapidly, increasing by 19% over the last 12 months, to now exceed 217,000 members with a 60% join rate for new Cochlear™ Nucleus® implant recipients. An acceleration in recruitment in recent years has been driven by a combination of direct outreach programs and improvements in customer onboarding.

Acoustics

Acoustics revenue increased by 22% in CC to $156.2 million. Acoustics revenue is largely generated from the US and the UK with the US recovering quickly from COVID while the UK return to surgeries has been slower. As a result, sales revenue continues to be below FY19 levels, down 8% in CC, with improving momentum in the second half as new products were launched.

Surgery volumes in the US have recovered quickly with strong demand for the Cochlear™ Osia® 2 System. The Cochlear™ Baha® 6 Max Sound Processor was launched in the fourth quarter and is driving strong demand for sound processor upgrades.

Acoustic implant surgeries recommenced in the UK during the first quarter with a slower rate of recovery as a result of COVID, with disruption again during the third quarter as a result of rising COVID-related hospitalisations.

The Osia 2 System achieved CE Mark accreditation during the second half, with the rollout commencing in a few Western European countries by June.

Financial review

Profit and loss

$m	2021	2020	Change % (reported)	Change % (CC)**
Sales revenue	**1,493.3**	**1,352.3**	**10%**	**19%**
Cost of sales	**410.2**	**344.4**	**19%**	**25%**
% gross margin	*73%*	*75%*	*(2) pts*	*(1) pt*
Selling, marketing and general expenses	444.1	470.0	(6%)	1%
Research and development expenses	195.0	185.1	5%	6%
% of sales revenue	*13%*	*14%*	*(1) pt*	*(2) pts*
Administration expenses	112.2	93.8	20%	21%
Operating expenses	**751.3**	**748.9**	**0%**	**5%**
Other income / (expenses)	(5.9)	(20.4)		
FX contract gains / (losses)	4.3	(31.7)		
EBIT (underlying)*	**330.2**	**206.9**	**60%**	**57%**
*% EBIT margin**	*22%*	*15%*		
Net finance expense	8.4	8.9	(6%)	
Income tax expense*	85.1	44.2	93%	
% effective tax rate	*26%*	*22%*		
Underlying net profit*	**236.7**	**153.8**	**54%**	**51%**
*% underlying net profit margin**	*16%*	*11%*		
One-off and non-recurring items (after-tax):				
Patent litigation-related tax & other	59.0	(416.3)		
Innovation fund gains	30.8	24.2		
Statutory net profit	**326.5**	**(238.3)**		

Sales revenue increased 10% (19% in CC) to $1,493.3 million and underlying net profit increased 54% to $236.7 million. The underlying net profit margin of 16% was well above last year and a little below the longer-term target of 18%. Statutory net profit of $326.5 million includes $59.0 million in patent litigation-related tax and other benefits and $30.8 million in innovation fund gains after-tax.

Key points of note:

- Cost of sales increased 19% (25% in CC) to $410.2 million with the gross margin declining by two percentage points to 73% with around half of the decline currency related, the result of the strengthening of the Australian dollar;
- Selling, marketing and general expenses declined 6% (up 1% in CC) to $444.1 million with continued investment made in market growth activities, standard of care and market access initiatives. The re-establishment of the short-term incentive provision was largely offset by COVID-related savings including travel and conference expenses;
- Investment in R&D increased 5% (6% in CC) to $195.0 million with continued investment made in key R&D projects and development of the pipeline;
- Administration expenses increased 20% (21% in CC) to $112.2 million and includes the re-establishment of the short-term incentive provision, significant increases in insurance costs and increased depreciation and IT expenses;

* Excluding one-off and non-recurring items ** Constant currency (CC) removes the impact of exchange rate movements and FX contract gains/(losses) to facilitate comparability. See Notes on page 45 for further detail.

- Net finance expenses declined 6% to $8.4 million and includes $6.6 million in expenses relating to leasing accounting standard AASB16. Net finance expense (excluding the lease-related expense) declined 36% to $1.8 million with the business benefitting from lower debt, lower interest rates on debt and interest income on cash deposits from the March 2020 capital raising; and
- The effective tax rate for underlying net profit was 26%.

One-off and non-recurring items

$m	Pre-tax	Tax impact	Post-tax
Patent litigation-related tax & other benefits:			
ATO ruling on tax deductibility of litigation expenses	-	*63.5*	*63.5*
Withholding tax associated with ATO ruling	*(29.6)*	*8.9*	*(20.7)*
FX gains associated with balance sheet items	*23.2*	*(7.0)*	*16.2*
Patent litigation-related tax & other benefits (total)	(6.4)	65.4	59.0
Innovation fund gains	50.3	(19.5)	30.8
Total	**43.9**	**45.9**	**89.8**

$89.8 million in one-off gains after-tax includes:

- $59.0 million in patent litigation-related tax & other benefits after-tax which includes a $63.5 million tax benefit following the receipt of a private ruling from the Australian Tax Office (ATO) in December 2020 which clarified the deductibility of elements of the patent litigation expense treated as non-deductible at 30 June 2020; $20.7 million in withholding tax payable as a consequence of the ATO ruling; and $16.2 million in FX gains on balance sheet items related to the patent litigation since 30 June 2020; and
- Innovation fund gains after-tax includes a $23.5 million gain from the revaluation of Nyxoah following its listing in September, and a $12.9 million gain from the revaluation of the EpiMinder shareholding following a financing round and $1.2 million in equity accounted losses relating to Nyxoah.

Financial review

Cash flow

$m	2021	2020	Change
EBIT (underlying)	330.2	206.9	123.3
Depreciation and amortisation	79.5	77.5	2.0
Changes in working capital and other	(11.2)	66.9	(78.1)
Cash impact of patent litigation expense	(104.4)	(420.1)	315.7
Net interest paid	(8.4)	(8.9)	0.5
Income taxes paid	(14.4)	(80.1)	65.7
Operating cash flow	**271.3**	**(157.8)**	**429.1**
Capital expenditure	(72.6)	(130.5)	57.9
Other net investments	(18.4)	(14.2)	(4.2)
Free cash flow	**180.3**	**(302.5)**	**482.8**
Proceeds from issue of shares	2.4	1,081.9	(1,079.5)
Dividends paid	(75.6)	(193.7)	118.1
Other	0.5	(25.7)	26.2
Change in net cash – increase / (decrease)	**107.6**	**560.0**	**(452.4)**

Free cash flow increased $482.8 million to $180.3 million.

Key points of note:

- Improved trading conditions following COVID shutdowns resulted in a $123.3 million improvement in underlying EBIT;
- The $104.4 million cash outflow is the US$75 million in prejudgment interest and attorneys' fees resulting from the AMF judgment;
- Income taxes paid of $14.4 million includes the benefit of a $55.0 million tax refund resulting from an overpayment of tax instalments paid in FY20; and
- Capital expenditure (capex) decreased by $57.9 million to $72.6 million, reflecting stay-in-business capex. The decline in capex also reflects the completion of major projects in FY20 including the development of the new China manufacturing facility and fit out of the new Denver office.

Capital employed

$m	2021	2020	Change
Trade receivables	262.1	211.4	50.7
Inventories	216.1	223.8	(7.7)
Less: Trade payables	(202.9)	(155.3)	(47.6)
Working capital	**275.3**	**279.9**	**(4.6)**
Working capital / sales revenue	*18%*	*21%*	
Property, plant and equipment	239.5	230.5	9.0
Intangible assets	402.8	410.3	(7.5)
Investments & other financial assets	226.8	99.9	126.9
Other net liabilities	(7.3)	(76.1)	68.8
Capital employed	**1,137.1**	**944.5**	**192.6**

Capital employed increased by $192.6 million to $1,137.1 million since June 2020 reflecting an increase in investments and reduction in other net liabilities.

Key points of note:

- The $126.9 million increase in investments reflects the $18.4 million increase in investment in the innovation fund as well as the $101.8 million increase in the fair value of EpiMinder and Nyxoah; and
- Other net liabilities decreased $68.8 million reflecting movements across a number of other assets and liabilities. The $107.0 million reduction in provisions reflects the payment of US$75 million in prejudgment interest and attorneys' fees provided for in FY20 and paid in the first half. Net tax liabilities increased by $42.7 million reflecting deferred tax liabilities of gains made in innovation fund investments.

Financial review

Net cash

$m	2021	2020	Change
Cash, cash equivalents and term deposits	**609.6**	**930.0**	**(320.4)**
Less: Loans and borrowings			
Current	-	(393.1)	393.1
Non-current	(45.0)	(79.9)	34.9
Total loans and borrowings	**(45.0)**	**(473.0)**	**428.0**
Net cash	**564.6**	**457.0**	**107.6**

Net cash increased by $107.6 million to $564.6 million.

Dividends

$m	2021	2020	Change %
Interim ordinary dividend (per share)	$1.15	$1.60	(28%)
Final ordinary dividend (per share)	$1.40	-	
Total ordinary dividends (per share)	**$2.55**	**$1.60**	**59%**
% payout ratio (based on underlying net profit)	71%	60%	
% franking	0%	100%	

A final dividend of $1.40 per share has been determined, taking full year dividends to $2.55, an increase of 59% and representing a payout of 71% of underlying net profit.

The interim and full year dividends are unfranked. The franking balance was depleted due to losses incurred by the business in FY20.

The ex-dividend date is 23 September 2021. The record date for calculating dividend entitlements is 24 September 2021 with the final dividend expected to be paid on 18 October 2021.

Notes

Forward-looking statements

Cochlear advises that this document contains forward-looking statements which may be subject to significant uncertainties outside of Cochlear's control. No representation is made as to the accuracy or reliability of forward-looking statements or the assumptions on which they are based. Actual future events may vary from these forward-looking statements and it is cautioned that undue reliance is not placed on any forward-looking statements.

Non-International Financial Reporting Standards (IFRS) financial measures

Cochlear uses non-IFRS financial measures to assist readers in better understanding Cochlear's financial performance. Cochlear uses three non-IFRS measures in this document: Sales revenue, Underlying net profit and Constant currency. The Directors believe the presentation of these non-IFRS financial measures are useful for the users of this document as it reflects the underlying financial performance of the business. Each of these measures is described below in further detail including reasons why Cochlear believes these measures are of benefit to the reader.

These non-IFRS financial measures have not been subject to review or audit. However, Cochlear's external auditor has separately undertaken a set of procedures to agree the non-IFRS financial measures disclosed to the books and records of the Group.

Sales revenue

Sales revenue is the primary revenue reporting measure used by Cochlear for the purpose of assessing revenue performance of the Consolidated Entity. It represents total revenue excluding foreign exchange contract gains/losses on hedged sales.

Underlying net profit

Underlying net profit allows for comparability of the underlying financial performance by removing one-off and non-recurring items. The determination of items that are considered one-off or non-recurring is made after consideration of their nature and materiality and is applied consistently from period to period. Underlying net profit is used as the basis on which the dividend payout policy is applied. The Financial Review section includes a reconciliation of Underlying net profit (non-IFRS) to Statutory net profit (IFRS) which details each item excluded from Underlying net profit.

Constant currency

Constant currency removes the impact of foreign exchange rate movements to facilitate comparability of operational performance for Cochlear. This is done by converting the prior comparable period net profit of entities in the Group that use currencies other than Australian dollars at the rates that were applicable to the current period (translation currency effect) and by adjusting for current year foreign currency gains and losses (foreign currency effect). The sum of the translation currency effect and foreign currency effect is the amount by which EBIT and net profit is adjusted to calculate the result at constant currency.

Reconciliation of constant currency net profit to reported net profit

$m	2021	2020	Change %
Underlying net profit	**236.7**	**153.8**	**54%**
FX contract movement		36.0	
Spot exchange rate effect to sales revenue and expenses*		(23.8)	
Balance sheet revaluation*		(9.0)	
Underlying net profit (CC)	**236.7**	**157.0**	**51%**
One-off net gains / (losses)	89.8	(392.1)	
Statutory net profit / (loss) (CC)	**326.5**	**(235.1)**	

* FY21 actual v FY20 at FY21 rates.

Governance

Cochlear's Board and executive team are committed to high standards of corporate governance and transparency, with a focus on preserving and enhancing our reputation and long-term sustainability.

The Board is responsible for overall corporate governance including adopting appropriate policies and procedures designed to ensure that Cochlear is properly managed to create, protect and enhance shareholder value. The Board and its committees regularly review governance arrangements and practices to maintain compliance with regulatory requirements and industry practice, and to ensure that they continue to support business objectives. Directors, senior executives and employees are expected to act ethically, lawfully and responsibly at all times.

Since the outbreak of COVID, we have been guided by our Mission in establishing the following principles to manage the business:

- ensure the health and safety of our employees;
- provide ongoing support to our recipients, clinics and professional customers; and
- maintain the financial health of the Company.

The Board considers that Cochlear's corporate governance practices have been consistent with the recommendations contained in the 4th edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations released on 27 February 2019 (ASX Principles and Recommendations) throughout the reporting period from 1 July 2020 to 30 June 2021.

Further details are set out in the Corporate Governance Statement, which outlines key aspects of our corporate governance framework and practices, which is available at the 'Investors' or 'Investor Centre' section of our website www.cochlear.com.

Structure and composition of the Board

The Board is committed to ensuring its composition continues to include directors who bring an appropriate mix of skills, experience, knowledge, expertise and diversity, including gender diversity, required to discharge the Board's duties.

The tenure profile, represented by the length of service of each director on the Board, is appropriately balanced such that Board succession and renewal planning is managed over the medium to longer term. The directors possess an appropriate mix of skills, experience, knowledge, expertise and diversity to enable the Board to discharge its responsibilities, including overseeing the delivery of the Company's strategic priorities.

Roles and responsibilities of the Board and management

The role of the Board is to set Cochlear's strategic direction for the creation, maintenance and enhancement of long-term sustainable value, to guide and monitor the management of the Company and its implementation of the strategy and to oversee good governance practice. The Board aims to protect and enhance the interests of Cochlear's shareholders, while taking into account the interests of other stakeholders, including employees, customers, suppliers and the wider community.

In performing its role, the Board is committed to a high standard of corporate governance practice and to fostering a culture of compliance which values ethical, lawful and responsible behaviour, personal and corporate integrity, accountability, transparency and respect for others. The Board has a charter which clearly sets out its role and responsibilities and describes those matters expressly reserved for the Board's determination. The Board Charter is available on our website.

The CEO & President has responsibility for the implementation of Cochlear's strategic objectives, operating within the risk appetite set by the Board and for the day-to-day management of Cochlear. The CEO & President is supported in this function by the executive team.

Board's key responsibilities

Strategy	Set strategic direction, provide input into management's development of corporate strategy and oversee management's implementation of strategy.
Financial oversight	Approve and monitor the progress of major capital expenditure, capital management, operational budgets, acquisitions and divestments and dividend policy.
Financial and other reporting	Approve Cochlear's interim and annual financial statements and oversee the integrity of Cochlear's accounting and corporate reporting systems.
Corporate governance	Review, ratify and monitor the effectiveness of Cochlear's systems of governance, risk management and internal compliance and control, legal compliance, codes of conduct and other corporate governance policies and practices.
Risk management framework	Satisfy itself that Cochlear has in place an appropriate risk management framework. Set the risk appetite within which the Board expects the CEO & President and the Executive team to operate.
Board performance and composition	Undertake regular external and independent evaluation of Board performance. Review annually the composition of the Board.
Leadership selection	Evaluate the performance, and selection, of the CEO & President.
Succession and remuneration planning	Plan for Board, CEO & President and Executive succession and remuneration and set non-executive director remuneration.
Sustainability	Consider the social, ethical and environmental impact of Cochlear's activities and operations. Set standards and monitor compliance with Cochlear's sustainability responsibilities and practices.
Material transactions	Approve any unbudgeted expenditure and capital transactions, outside the authority delegated to management.

Board and Board committee membership as at 30 June 2021

Chair Member

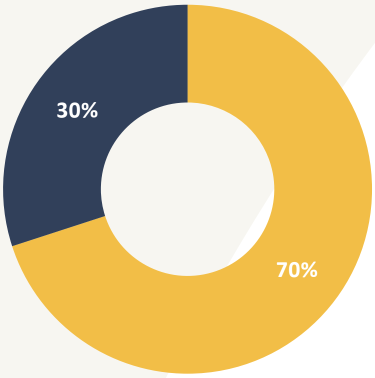
Director	Board	Audit and Risk Committee	Medical Science Committee	People & Culture Committee	Technology and Innovation Committee	Nomination Committee
Rick Holliday-Smith	Chair	Member		Member		Chair
Dig Howitt	Member		Member		Member	
Yasmin Allen	Member	Chair		Member	Member	Member
Andrew Denver	Member	Member	Member		Member	Member
Glen Boreham, AM	Member	Member		Chair	Member	Member
Alison Deans	Member	Member		Member	Chair	Member
Prof Bruce Robinson, AC	Member		Chair	Member	Member	Member
Abbas Hussain	Member		Member		Member	Member
Sir Michael Daniell, KNZM	Member		Member		Member	Member
Christine McLoughlin, AM	Member	Member		Member		Member

Governance

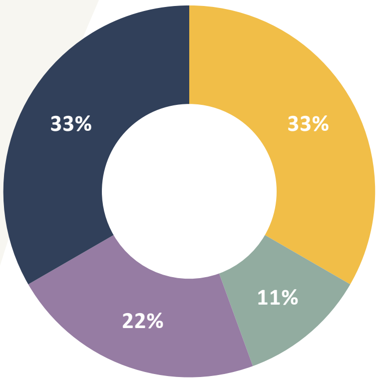
Board of directors

Board composition
As at 30 June 2021

Board gender diversity



Board tenure



Rick Holliday-Smith
Chairman

Appointed to the Board 1 March 2005 and retiring on 20 August 2021

Chairman of the Nomination Committee. Member of the Audit & Risk and People & Culture Committees.

Background

Global executive and leadership experience in capital markets and derivatives, and a background in venture capital activities. Former President of NationsBank-CRT, Chicago and Managing Director of Hong Kong Bank Limited, London.

Other boards

Non-executive Chairman, QBiotics and member of the Macquarie University Faculty of Business and Economics Advisory Board.

Former directorships

Chairman, ASX Limited, Snowy Hydro Limited and SFE Corporation Limited. Director, Servcorp Limited, St George Bank Limited, Exco Resources NL, DCA Group Limited and MIA Group Limited.

Qualifications

BA (Hons), FAICD, CA

Dig Howitt
CEO & President and Managing Director

Appointed to the Board 14 November 2017 and as CEO & President 3 January 2018

Member of the Medical Science and Technology & Innovation Committees.

Background

Joined Cochlear in 2000 and has a wealth of experience across the Company in roles including Chief Operating Officer, SVP, Manufacturing and Logistics and President, Asia Pacific. Prior to joining Cochlear, worked for Boral and Boston Consulting Group. Dig is a member of the Champions of Change STEM group. Appointed as President of Cochlear on 31 July 2017 and became CEO & President on 3 January 2018.

Other boards

Director, QPBT Pty Ltd.

Qualifications

BE (Hons), MBA

Board tenure chart excludes Managing Director.

Yasmin Allen
Non-executive Director

Appointed to the Board
2 August 2010

Chair of the Audit & Risk Committee. Member of the People & Culture, Nomination and Technology & Innovation Committees.

Background

Extensive career in investment banking with senior roles in strategic analysis and corporate advice. Former Vice President of Deutsche Bank AG, Director of ANZ Investment Bank and Associate Director of HSBC London.

Other boards

Chair of Australian Federal Government Steering Group for Digital Skills Organisation. Director, Santos Limited, ASX Limited and National Portrait Gallery. Member of the George Institute for Global Health Board. Chairman, Advance (Global Australian Network), Acting President, Australian Government Takeovers Panel and Chairman, Faethm.org.

Former directorships

Insurance Australia Group Limited. National director of the Australian Institute of Company Directors. Member of The Salvation Army Advisory Board. Chair of Macquarie Specialised Asset Management.

Qualifications

BCom, FAICD

Andrew Denver
Non-executive Director

Appointed to the Board
1 February 2007

Member of the Audit & Risk, Medical Science, Technology & Innovation and Nomination Committees.

Background

Extensive experience in the life sciences industry. Former Managing Director of Memtec Limited and President Asia for Pall Corporation.

Other boards

Chairman, SpeeDx and Director, Vaxxas and QBiotics.

Former directorships

Executive Chairman, Universal Biosensors.

Qualifications

BSc (Hons), MBA, FAICD

Glen Boreham, AM
Non-executive Director

Appointed to the Board
1 January 2015

Chair of the People & Culture Committee. Member of the Audit & Risk, 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. Strategic Advisor, IXUP.

Former directorships

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

Qualifications

BEc, FAICD

Governance

Board of directors

Alison Deans

Non-executive Director

Appointed to the Board 1 January 2015 and appointed as Chair effective 21 August 2021

Chair Technology & Innovation Committee until 19 August 2021. Member of the Audit & Risk, Nomination and People & Culture 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, Ramsay Health Care Limited and Deputy Group Pty Ltd. Senior Advisor to McKinsey & Company. Member of Investment Committee, CSIRO Innovation fund (MainSequence Ventures) and member of AICD Corporate Governance Committee. Director of SCEGGS Darlinghurst Limited and The Observership Program.

Former directorships

Westpac Banking Corporation, Insurance Australia Group Limited and Social Ventures Australia.

Qualifications

BA, MBA, GAICD

Prof Bruce Robinson, AC

Non-executive Director

Appointed to the Board 13 December 2016

Chair of Medical Science Committee. Member of the Nomination, People & Culture and Technology & Innovation Committees.

Background

Over 20 years' leadership experience as an academic physician/scientist across research, healthcare and medicine, and tertiary education. Former Dean, The University of Sydney's Sydney Medical School, Head of Medicine at Sydney's Royal North Shore Hospital and Head of the Cancer Genetics Laboratory at the Kolling Institute for Medical Research.

Other boards

Chairman, National Health and Medical Research Council. Director, MaynePharma, QBiotocs and Ecofibre. Director, Woolcock Institute of Medical Research and Senior Advisor to McKinsey & Company and MinterEllison.

Former directorships

Chairman, Medical Benefits Schedule Review Taskforce. Director, Lorica Health Pty Limited, Firefly and Digital Health Agency CRC.

Qualifications

MD, MSc, FRACP, FAAHMS, FAICD

Abbas Hussain

Non-executive Director

Appointed to the Board 1 December 2018 and retired on 20 July 2021

Member of the Nomination, Medical Science and Technology & Innovation Committees.

Background

Over 30 years' global experience in the pharmaceutical industry with significant experience in building relationships with professionals within the healthcare industry. Former Global President, Pharmaceuticals at GlaxoSmithKline.

Other boards

Director, Teva Pharmaceuticals and TARGTEX. Senior Advisor, CellResearch Corp and C-Bridge Group, Hikma PLC and Advisor to Indegene Inc.

Former directorships

CSL Limited and Immunocore Limited

Qualifications

BSc (Hons)

Sir Michael Daniell, KNZM
Non-executive Director

Appointed to the Board 1 January 2020

Chair of Technology & Innovation Committee effective 20 August 2021. Member of the Nomination, Medical Science and Technology & Innovation Committees.

Background

Over 40 years' experience in the medical device industry with extensive executive leadership experience. Former Managing Director and CEO of Fisher & Paykel Healthcare Corporation Limited responsible for the global business and operations including the design, manufacture and marketing of innovative products and systems for use in respiratory care, acute care and treatment of obstructive sleep apnea.

In June 2021, Sir Michael was made a Knight Companion of the New Zealand Order of Merit for his services to business, healthcare and governance.

Other boards

Director, Fisher & Paykel Healthcare Corporation Ltd, Council member, The University of Auckland, Director, Tait International Limited, Chair, New Zealand Medical Technology Centre of Research Excellence, Director, Medical Research Commercialisation Fund.

Qualifications

BE (Hons), Electrical, CMInstD (NZ)

Christine McLoughlin, AM
Non-executive Director

Appointed to the Board 1 November 2020

Member of the Audit & Risk, People & Culture and Nomination Committees.

Background

Ms McLoughlin has served on the boards of a number of ASX50 companies and is a highly respected company director with domestic and international experience. She has had wide ranging experience covering health, insurance, resources, infrastructure and financial services.

In June 2021, Ms McLoughlin was awarded a Member of the Order of Australia in the Queen's Birthday Honours for her services to business, the not-for-profit sector and women.

Other boards

Chairman of the Suncorp Group Limited, Chancellor of the University of Wollongong. Chairman, Destination NSW. Australian Private Sector Representative, G20 EMPOWER Council.

Former directorships

NIB Holding, the McGrath Foundation and Venues NSW.

Qualifications

BA, LLB (Hons), FAICD

Donal O'Dwyer
Non-executive Director

Appointed to the Board 1 August 2005 and retired on 20 October 2020

Member of the Audit & Risk, Medical Science, Nomination and Technology & Innovation Committees.

Background

Executive experience in global general management of healthcare products and medical devices. Former worldwide President of Cordis Cardiology (a Johnson & Johnson company) and President of Baxter's Cardiovascular Group, Europe.

Other boards

Director, Mesoblast Limited, Fisher & Paykel Healthcare and NIB Holdings Ltd. Chairman of Endoluminal Sciences and Director Cordis Asset Management Pty Ltd.

Former directorships

Chairman, CardieX (formerly Atcor Medical).

Qualifications

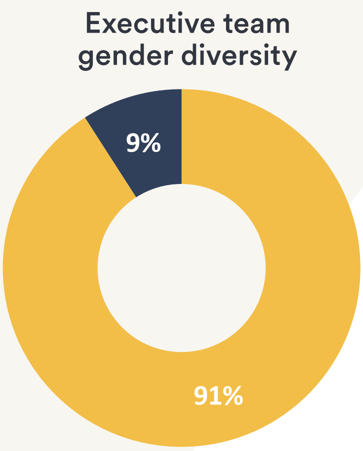
BE Civil, MBA

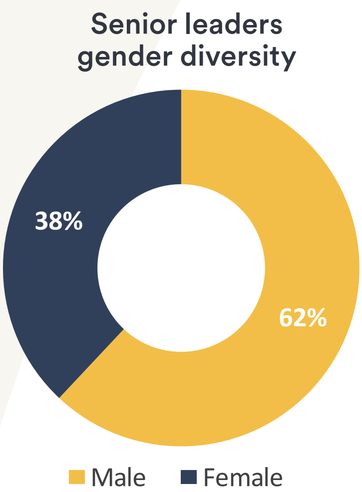
Governance

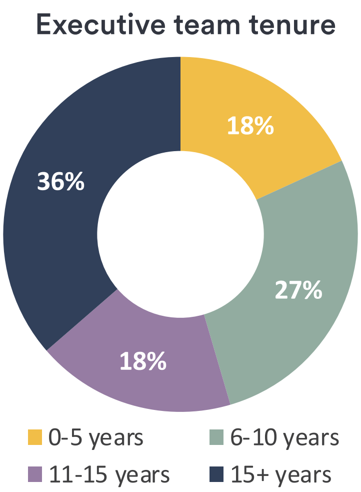
Executive team

Executive team & senior leader composition

As at 30 June 2021







Dig Howitt
CEO & President

Dig joined Cochlear in 2000 and has a wealth of experience across the Company in roles including Chief Operating Officer, President, Asia Pacific and SVP, Manufacturing and Logistics.

Prior to joining Cochlear, Dig worked at Boston Consulting Group and held a General Management role at Boral.

Dig is a member of the Champions of Change Coalition, STEM group. He was appointed President of Cochlear on 31 July 2017 and became CEO & President on 3 January 2018.

Qualifications

BE (Hons), MBA

Stu Sayers
Chief Financial Officer

Stu was appointed as Chief Financial Officer in February 2021. Stu joined Cochlear in July 2016 as inaugural President, Services.

Stu has a strong financial background and a wealth of experience in establishing and building customer focused technology and online businesses. Stu ran Amazon's subsidiary Audible in Asia Pacific, as well as E*TRADE and Yahoo!7 in Australia and New Zealand. He previously held senior roles with ANZ and McKinsey. Stu has a Bachelor of Economics (Honours in Accounting) from the University of Sydney and an MBA from Wharton.

Qualifications

BEc (Hons), MBA

Jan Janssen
Chief Technology Officer

Jan joined Cochlear in 2000 and was appointed Senior Vice President Research & Development in 2005.

Jan leads a team of over 450 highly qualified engineers and scientists who implement the R&D strategy with responsibility for identifying and developing cutting-edge technology and bringing these innovations through to commercialisation.

In 2017 Jan was appointed Chief Technology Officer and took on the additional accountability for Business Development. Since 2019 he has also been accountable for Quality and Regulatory Affairs.

Jan holds 10 granted patents in the field of implantable hearing technology.

Qualifications

MScEE

Tony Manna
President, Americas Region

Tony is responsible for the development and execution of the strategic direction for our North America operations.

Tony joined Cochlear in 2005 and has over 30 years' medical device experience, including senior commercial management roles at BEI Medical and Gyrus Medical. Prior roles in Cochlear include VP, Sales USA, General Manager, Cochlear Bone Anchored Solutions, USA and President, Cochlear Bone Anchored Solutions, Sweden.

Qualifications

BS EET

Richard Brook
President, EMEA

Richard is responsible for the development and execution of the strategic direction for all our operations in Europe, the Middle East and Africa (EMEA).

Before joining Cochlear in 2003, Richard held senior roles in Guidant Corporation and Alaris Medical Systems. He has over 30 years' experience in the medical device industry.

Qualifications

BSc Management, MBA

Governance
Executive team

Anthony Bishop
President, Asia Pacific & Latin American Regions

Anthony was appointed President, Asia Pacific in July 2016 and took on responsibility for Latin America in June 2021. Anthony is responsible for the development and execution of the strategic direction for all our operations in Australia, Asia, the South Pacific and Latin America.

Prior to Cochlear, Anthony spent 21 years at Johnson & Johnson Medical in various roles including marketing, sales and general management around the world including Managing Director, Johnson & Johnson Medical, Australia/New Zealand.

Qualifications

BBus (Hons), MManagement, GAICD

Dean Phizacklea
Senior Vice President, Global Strategic Marketing

Dean joined Cochlear in June 2016. Dean has responsibility for product marketing and commercialisation, consumer marketing, innovation, market access, market insights and corporate communications.

Dean has more than 20 years' experience in medical devices and pharmaceuticals, covering a range of senior commercial roles in the US, Japan, Europe and Australia. Prior to joining Cochlear, Dean led Global Strategic Marketing for Abbott Diabetes Care. Other roles include General Manager for Abbott's pharmaceutical and diabetes care businesses in Australia/New Zealand and commercial roles in Asia with AstraZeneca.

Qualifications

BSc Microbiology, MBA

David Hackshall
Chief Information Officer

David joined Cochlear in July 2015 as Cochlear's first Chief Information Officer and has global responsibility for the Company's information technology strategy and management. David's focus is to ensure Cochlear has the platforms in place to deliver and drive growth. This capability is critical in connecting Cochlear with both professionals and recipients and evolving Cochlear into both a business-to-business as well as business-to-customer organisation.

Prior to Cochlear, David was Chief Information Officer at Wesfarmers Insurance Ltd and brings over 15 years of executive experience across the communications, logistics and finance sectors.

Qualifications

DipFN, MIT, MBA

Greg Bodkin
Senior Vice President, Supply Chain & Operational Excellence

Greg has functional responsibility for new product industrialisation, sourcing & procurement, global manufacturing, and logistics. These functions enable the technologies developed in design and development to be supplied as commercial products in Cochlear's global markets. In addition, he leads the management of Cochlear's Global Property, facilities and corporate procurement functions.

Greg joined Cochlear in 2007 as Head of Supply with 20 years' prior experience in supply chain management and operations consulting positions, including appointments at Taylor Ceramic Engineering, Warman International Ltd, Weir Minerals PLC and National Australia Bank.

Qualifications

BE (Hons), MComm (UNSW)

Jennifer Hornery
Senior Vice President, People & Culture

Jennifer joined Cochlear in 2008 working in senior HR business partnering roles until her appointment as SVP People & Culture in 2017. Her focus is to ensure the right strategic capabilities, organisation and culture are in place to support Cochlear's performance and growth aspirations.

Prior to Cochlear, Jennifer worked in commercial, finance, strategy and HR leadership roles across a number of industries in Australia and the US, including senior positions at Campbell Arnott's and Booz & Company.

Qualifications

BComm, MBA, GAICD

Brian Kaplan
Senior Vice President, Clinical Strategy and Innovation

Brian joined Cochlear in 2016 and manages clinical strategy and innovation for Cochlear. He is responsible for the clinical data to support present and future products and services. Brian dedicates two-thirds of his time to his role at Cochlear, while continuing to direct a cochlear implant surgical practice at the Greater Baltimore Medical Center.

Brian's past research interests have included hearing loss, balance disorders, and hair cell regeneration. His current practice focuses on adult and paediatric otology, with an emphasis on hearing restoration. Brian is board-certified in otolaryngology and is a Fellow of the American College of Surgeons.

Qualifications

BNeuroSci, BA, MD, FACS

Remuneration report

Letter from the Chair of the People & Culture Committee (P&CC)

Dear Shareholders

On behalf of the Cochlear Board, I am pleased to present the FY21 Remuneration report where we outline our remuneration strategy, summarise the performance outcomes for FY21 and detail the associated remuneration outcomes for key management personnel.

In response to the global pandemic, several measures were taken by the Board at the end of FY20 to adjust the short-term incentive (STI) plan measures for FY21 to reflect higher levels of financial uncertainty. This change included refocusing the STI performance measures to have a greater weighting on the achievement of strategic measures – to ensure that in a year where there was still a significant level of volatility with setting clear financial targets, executives were able to focus on:

- strengthening our competitive position;
- investing for long-term growth; and
- managing costs to ensure reasonable recovery and stability into the future.

The change was for FY21 only, with the FY22 STI plan reverting to its original measures and weightings which have a greater focus on financial targets. Our earnings guidance for FY22 factors in some near-term COVID impact. We recognise however that a more material disruption from COVID remains a risk factor that does not form part of guidance. Should COVID impact performance more materially, the Board may need to again exercise appropriate discretion around executive performance measures and outcomes for FY22.

FY21 performance and reward outcomes

The Board is satisfied that the reward outcomes under the STI and long-term incentive (LTI) plans for FY21 reflect the Company's performance as it continues to recover from the impacts of the global pandemic.

Overall sales revenue grew by 10%, exceeding revenue targets for the financial year as well as reported revenue for FY19 and FY20. We also achieved significant progress across a number of key strategic priorities: increasing our market share and strengthening our market position across the globe; growing the hearing implant market; and building an even stronger organisation as we grow. Relative total shareholder return against the ASX 100 was at the 54th percentile and basic earnings per share (EPS) represented a (5.6%) compound annual growth rate over the last three years. Solid performance has resulted in the awarding of incentives to the CEO & President and executives under the FY21 STI and the FY19-21 LTI plans. Further detail on this year's remuneration outcomes is provided in this report.

Our executive remuneration framework

In FY21, we restructured the executive team to create a smaller, more experienced team to ensure that we can continue to grow and retain our market leadership in hearing solutions. The Board is committed to ensuring our executive remuneration framework and the associated reward outcomes align with our business objectives, performance and shareholder expectations. Given our sustained business growth in recent years, the Board has conducted a deeper review of executive remuneration with the outcome of this review highlighting gaps in our LTI structure and in fixed pay for select executives. The Board believes that the proposed changes to be implemented from FY22 will align executives more effectively with the long-term growth objectives of the organisation and will ensure executive remuneration continues to be balanced, fair and equitable, and deeply aligned with the interests of our shareholders.

Glen Boreham, AM
Chair, People & Culture Committee

Contents

This report covers:

1. Key management personnel;
2. Executive KMP remuneration received in FY21 (unaudited);
3. Our remuneration strategy and framework;
4. Executive KMP remuneration and link to performance;
5. Executive KMP statutory remuneration disclosure;
6. Executive service agreements;
7. Remuneration governance;
8. Executive KMP equity disclosures; and
9. Non-executive director fees.

The information provided in this Remuneration report (except for section 2 and section 8.3) has been audited as required by section 308(3C) of the *Corporations Act 2001*.

1. Key management personnel

This report covers key management personnel (KMP) who have authority for planning, directing and controlling the activities of Cochlear and comprise non-executive directors (NEDs) and executive KMP as outlined in the table below.

Name	Position	Term
Non-Executive Directors		
Rick Holliday-Smith	Chairman	Full year
Yasmin Allen	Non-Executive Director	Full year
Glen Boreham, AM	Non- Executive Director	Full year
Sir Michael Daniell, KNZM	Non- Executive Director	Full year
Alison Deans	Non-Executive Director	Full year
Andrew Denver	Non-Executive Director	Full year
Abbas Hussain	Non-Executive Director	Full year
Christine McLoughlin, AM	Non-Executive Director	Part year appointed 1 November 2020
Prof. Bruce Robinson, AC	Non-Executive Director	Full year
Former Non-Executive Directors		
Donal O'Dwyer	Non-Executive Director	Part year retired 20 October 2020
Executive KMP		
Dig Howitt	CEO & President (CEO&P)	Full year
Anthony Bishop	President, Asia Pacific Region	Full year
Richard Brook	President, EMEA & Latin American Region	Full year
Jan Janssen	Chief Technology Officer	Full year
Tony Manna	President, Americas Region	Full year
Stu Sayers	Chief Financial Officer	Part year appointed 1 January 2021
Former Executive KMP		
Brent Cubis	Chief Financial Officer	Part year until 30 September 2020

On 13 July 2020, B Cubis' resignation was announced and he concluded his KMP responsibilities related to the role of the Chief Financial Officer (CFO) on 30 September 2020. During the period between 1 October 2020 and 31 December 2020, the CEO&P performed the KMP responsibilities typically held by the CFO.

There were no changes to KMP after the reporting date and before the date the Directors' report was authorised for issue. The information provided in this Remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

2. Executive KMP remuneration received in FY21 (unaudited)

The table below presents the remuneration paid to, received by or vested to each executive KMP during the year. Fixed remuneration and cash STI relate to amounts earned during the year and vested deferred STI and vested LTI represent equity vesting from prior years.

The figures presented below are different to the statutory disclosures in section 5 which are prepared in accordance with the accounting standards and therefore include the accounting value for all unvested deferred STI and LTI awards expensed in the year. The table below has been provided voluntarily to ensure shareholders are able to clearly understand the remuneration outcomes and actual 'take-home pay' of executive KMP for FY21.

Amounts $	Year	Fixed remuneration[1]	Cash STI[2]	Vested deferred STI[3]	Vested LTI[4]	End of service	Total
Executive KMP							
D Howitt	**FY21**	**1,851,043**	**1,730,148**	**355,828**	**1,447,993**	–	**5,385,012**
	FY20	1,744,153	–	206,683	864,687	–	2,815,523
A Bishop	**FY21**	**580,655**	**395,175**	**92,532**	**110,355**	–	**1,178,717**
	FY20	561,171	–	129,803	272,124	–	963,097
R Brook	**FY21**	**947,798**	**519,413**	**139,850**	**318,182**	–	**1,925,243**
	FY20	1,045,039	–	205,594	682,358	–	1,932,991
J Janssen	**FY21**	**885,655**	**635,708**	**140,270**	**354,151**	–	**2,015,784**
	FY20	851,002	–	188,824	706,925	–	1,746,751
T Manna	**FY21**	**836,301**	**619,509**	**135,644**	**264,735**	–	**1,856,189**
	FY20	923,513	–	216,701	686,174	–	1,826,388
S Sayers[5]	**FY21**	**406,325**	**220,630**	–	–	–	**626,955**
Former Executive KMP							
B Cubis[6]	**FY21**	**164,827**	–	**115,034**	**228,929**	**327,132**	**835,922**
	FY20	633,651	–	52,923	–	–	686,574

1. Fixed remuneration earned in the year (base salary, superannuation and non-monetary benefits which may include insurances and car allowances). During the temporary pay reduction from mid-April 2020 until 12 July 2020, D Howitt took a 30% pay reduction in base salary and other executives took a 20% pay reduction in base salary. R Brook's fixed remuneration for FY21 and FY20 excludes employer contributions for social security, accident and sickness and reflects actual 'take-home pay'. These amounts are included with the non-monetary benefits in the statutory table in section 5.
2. Cash STI earned and relating to performance during the financial year. For example, FY21 is reported as STI payments which are accrued at year end, and received in August 2021, after the reporting year end.
3. Vested deferred STI is the value of the deferred STI from prior years that vested in August of the reported financial year (calculated as the number of rights that vested multiplied by the share price on the vesting date). For example, FY21 is reported as the FY18 deferred STI grant which vested in August 2020.
4. Vested LTI is the value of performance rights and options that vested in August of the reported financial year (rights are calculated as the number of rights that vested multiplied by the share price on the vesting date and options are calculated as the number of options multiplied by the share price on the date of vesting/exercise less the exercise price). For example, FY21 is reported as the FY18 LTI grant which vested in August 2020 (46.4% of awards vested due to performance).
5. Remuneration for S Sayers only relates to the period that he was a KMP from 1 January 2021.
6. B Cubis concluded to be a KMP as at 30 September 2020 and remained with Cochlear until 1 January 2021. The amounts in the table above reflect remuneration he received as a KMP until 30 September 2020. He continued to receive fixed remuneration of $183,310 from 1 October 2020 to 1 January 2021 and received an end of service payment of $327,132 that relates to statutory entitlements and contractual benefits agreed. Refer to section 6.1 for further detail.

3. Our remuneration strategy and framework

Cochlear's executive remuneration strategy is designed to attract, motivate and retain a highly qualified and experienced group of executives employed across diverse geographies. The following diagram links each of the executive team remuneration components to Cochlear's mission and strategy.

Cochlear's mission and strategy

To help people hear and be heard

We deliver this through our corporate strategy and organisational capability …

Retain market leadership

Grow the hearing implant market

Deliver consistent revenue and earnings growth

Build a stronger organisation

… which are reflected in performance measures across Cochlear's incentive plans …

Net profit after tax (NPAT)
Sales revenue

Achievement of business priorities and growth initiatives

Relative total shareholder return (TSR)

Compound annual growth rate in basic earnings per share (EPS)

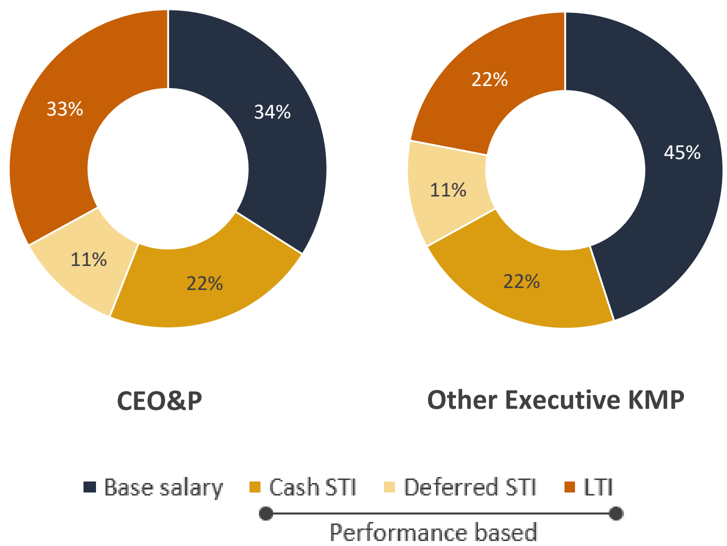
… with actual outcomes directly driving executive remuneration.

Fixed remuneration + Short-term incentive + Long-term incentive = Total remuneration

3.1 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 (44% for the CEO&P and 33% for other executive KMP) to align our executives with shareholder interests.

1



3.2 Fixed remuneration

Fixed remuneration comprises base salary, superannuation and non-monetary benefits which may include insurances and car allowances. It is set at a level to attract and retain executive talent with the appropriate capabilities to deliver Cochlear's objectives.

Fixed remuneration is generally positioned at the median of the relevant market and is reviewed annually to ensure alignment with local market benchmarks, and it is reflective of the executive's expertise and performance in the role. Market benchmarks are typically set with reference to market capitalisation and include organisations within Cochlear's industry sector and/or similar in global operations and complexity as determined by the P&CC each year.

3.3 Short-term incentive

Purpose	To align and reward executives for the achievement of Cochlear group and regional (for regional executives) performance targets set by the Board at the beginning of the performance period.
Performance measures	STI is dependent on meeting financial and strategic performance measures:

Performance measure and weighting	Description
Performance Gateway	• Group Performance Gateway (minimum NPAT threshold) to drive global alignment.
Sales revenue (40%)	• Sales revenue growth is critical to short and longer-term shareholder returns. • Financial targets are set by the Board, having regard to prior year performance, global market conditions, competitive environment, future prospects and Board approved budgets. The targets incorporate a significant amount of stretch to ensure executives are engaged and incentivised to appropriately deliver results. The specific targets are not disclosed to the market due to their commercial sensitivity. • For FY21, the Board approved a shift in the weighting for the sales revenue performance measure from 60% to 40% to reflect the uncertainty that Cochlear faced at the start of the FY21 performance year.
Strategic measures (60%)	• Strategic measures recognise that in addition to short-term financial results, a number of strategic initiatives are required to enable sustained growth over time. • For FY21, the Board approved a shift in the weighting for the strategic performance measure from 40% to 60% to ensure executives continued to focus on delivering critical strategic programs that will enable Cochlear to recover and grow beyond FY21.
Individual contribution	• Each executive's contribution against performance objectives is assessed at an individual level at the end of the performance period. This assessment determines the level at which awards are made.

Validation of performance against the measures set for:

- the CEO&P involves a review by the Board based on financial inputs from the CFO, and approved by the P&CC and Board each year; and
- other executive KMP involves a review by the CEO&P based on inputs from the CFO and approved by the P&CC.

Any anomalies or discretionary elements are validated and approved by the Board.

Refer to section 4 for further detail on measures for FY21.

Opportunity	**CEO&P:** target opportunity is 100% of base salary, and maximum is up to 180% of base salary. **Other executive KMP:** target opportunity is 75% of base salary, and maximum is up to 135% of base salary.
Delivery	Two-thirds of the award is paid in cash annually, with one-third deferred into service rights for a period of two years (subject to a service condition) to reinforce alignment to longer-term shareholder interests and for retention purposes. No dividends are attached to service rights. 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 share price following the announcement of full year results in August each year.
Cessation of employment	**Prior to STI payment date:** if an executive ceases employment with Cochlear prior to any cash being paid, or service rights being granted, the executive will forfeit any awards to be paid for the performance period, unless the Board determines otherwise.

	Post STI payment date: if an executive is dismissed for serious misconduct or resigns from their position after service rights have been granted, but prior to the relevant vesting date, any unvested rights will generally be forfeited, unless the Board determines otherwise.

3.4 Long-term incentive

Purpose	To align the remuneration opportunity for the executive team with shareholder value and provide a stimulus for the retention of executives within the Company.
Award vehicle	LTI is delivered as 50% options and 50% performance rights.
Opportunity	**CEO&P:** maximum opportunity is 100% of base salary. **Other executive KMP:** maximum opportunity is 50% of base salary.
Allocation method	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. Gross contract value discounts for dividends not paid, 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 share price following the announcement of full year results in August each year.
Performance period	Performance is measured over a four-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.
Performance measures and hurdles	Awards are subject to: • 50% weighting on relative TSR against the constituents of the ASX 100 index as at the start of the performance period; and • 50% weighting on compound annual growth rate (CAGR) in basic EPS. The proportion of awards that vest for performance are:

Relative TSR		Basic EPS	
Performance	**% of instruments that vest**	**Performance (CAGR)**	**% of instruments that vest**
Less than 50th percentile	0%	Less than 7.5%	0%
At the 50th percentile	40%	7.5%	50%
50th percentile to 75th percentile	40% to 100% (pro-rata)	7.5% to 12.5%	50% to 100% (pro-rata)
Above 75th percentile	100%	Above 12.5%	100%

These measures have been selected to incentivise the executive team towards long-term sustainable growth of the business and are generally accepted proxies for the creation of shareholder value.

Dividends	No dividends are attached to options or performance rights.
Cessation of employment	If an executive ceases employment with Cochlear before the end of the performance period, unvested LTI awards will generally be forfeited. In exceptional circumstances (including, but not limited to, 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.

4. Executive KMP remuneration and link to performance

4.1 FY21 STI outcomes

The STI plan for FY21 was adjusted by the P&CC at the start of the year to enable the Board to exercise discretion to moderate any unintended STI outcomes resulting from the global pandemic effects on Cochlear's performance. The adjustment to weightings for the FY21 STI performance measures (as outlined in 3.3 Short-term incentive) factored in the significant level of volatility and uncertainty with setting clear financial targets, which allowed executives to focus on:

- strengthening our competitive position;
- investing for long-term growth; and
- managing costs to ensure reasonable recovery and stability into the future.

For FY21, STI was based on meeting a Group Performance Gateway of Underlying NPAT, and performance against financial measures (40%) and strategic measures (60%). Final allocations to executive KMP were also based on individual performance as assessed by the Board (for the CEO&P) and CEO&P (for other executives).

The STI plan will revert to its original measures and weightings (with a greater focus on financial targets) from FY22.

When reviewing financial performance, the Board excludes revaluation gains and losses from non-core investments (the innovation fund) from the calculation of STI. For FY21, Underlying NPAT was $236.7 million and sales revenue grew 10%.

In addition to financial measures, the Board also considered progress against strategic measures which are critical to the achievement of Cochlear's longer-term goals.

Validation of performance against the measures set for:

- the CEO&P involves an independent review and endorsement by the 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 with a final review undertaken by the P&CC.

Any anomalies or discretionary elements are validated and approved by the Board.

The table below provides a summary, and achievement against each, of the financial measures and strategic measures of the STI plan. 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.

		Business priority	Commentary on performance	Achievement
Strategic measures (60%)	Retain market leadership	• Ensure technology Leadership • Accelerate Connected Care roll out • Grow market share • Increase upgrade penetration	• Strengthened competitive position across the globe through the launch of new products including: Osia, Baha 6, Kanso 2, Custom Sound Pro, Remote Check and Remote Programming. • Achieved significant progress through the commercial roll out of Connected Care solutions.	
	Grow the hearing implant market	• Increase access and funding • Expand and enhance direct-to-consumer capability • Build referrals from the Hearing Aid and ENT channel • Engage with more recipients	• Significant progress achieved in driving growth, despite COVID, with direct-to-consumer leads and surgeries exceeding target and good work on developing referrals from the hearing aid channel. • The Standard of Care work has progressed with the publication of the consensus paper and detailed country plans developed and being executed.	

		Objectives	Outcomes
	Build a stronger organisation	• Build an Achievement and One Team Culture • Develop organisational talent and capability • Drive commercial excellence • Implement the digital strategy	• Increased focus on two cultural priorities to improve how we work together across the organisation and how we deliver better results by resolving conflicts in responsibilities and priorities. • Progressed initiatives to support succession and executive development. • Successfully delivered a new Customer Data Architecture for Cochlear across the globe to ensure ongoing alignment of major business processes. • Continued to deliver on the digital strategy, with a majority of sites launched through FY21.
Financial measures (40%)	Deliver consistent revenue and earnings growth	• Improve quality, efficiency and agility • Achieve revenue to pre-COVID levels and positive operating cashflow • Develop partnerships and alliances	• Integrated the Services and Acoustics functions into other functions across the organisation with a view to simplify and improve efficiency. • Delivered record revenue for FY21, exceeding revenue targets for the financial year as well as reported revenue for FY19 and FY20 in constant currency. • Continued to manage costs in FY21 to ensure recover and stability beyond this financial year.

= Below expectations = Met expectations = Exceeded expectations

Key performance targets were exceeded for FY21 resulting in an average actual STI of 144% of target for executive KMP. The following STI payments were made as outlined in the table below.

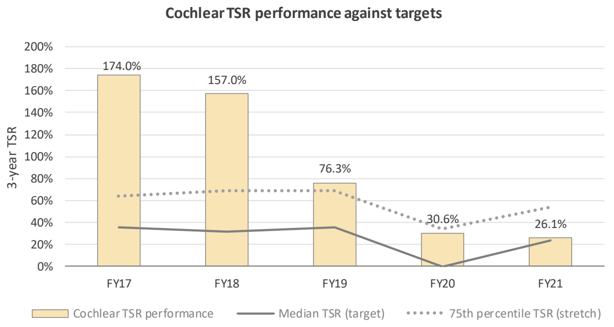
	STI target as a % of base salary	STI maximum as a % of base salary	Actual STI as a % of target	Actual STI as a % of maximum	STI forfeited as a % of maximum	Actual STI ($)
Executive KMP						
D Howitt	100%	180%	144%	80%	20%	2,595,222
A Bishop	75%	135%	144%	80%	20%	592,763
R Brook	75%	135%	137%	76%	24%	779,120
J Janssen	75%	135%	144%	80%	20%	953,562
T Manna	75%	135%	160%	89%	11%	929,264
S Sayers	75%	135%	137%	76%	24%	330,945
Former Executive KMP						
B Cubis	75%	135%	0%	0%	100%	0

Two-thirds of the actual STI will be delivered in cash in August 2021, and one-third will be deferred into service rights (and subject to service conditions) until August 2023.

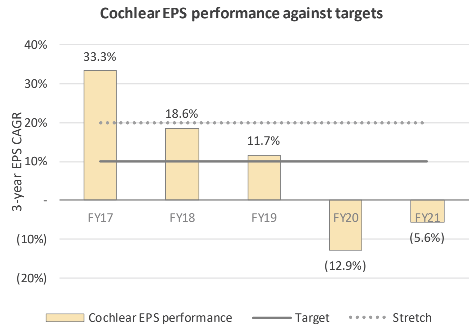
4.2 FY19-21 LTI vesting outcomes

LTI is based on performance against relative TSR (50%) and basic EPS growth (50%) over a three-year performance period. The graphs below illustrate Cochlear's relative TSR and basic EPS performance over the past five years.

For FY21, Cochlear's TSR performance was 26.1%, which was ranked at the 54th percentile of the ASX 100 comparator group. This resulted in performance around target, and as a result, 50.08% of the TSR portion of the LTI vested.



Cochlear's basic EPS[1] in FY21 was 360 cents, which is a (5.6%) CAGR over the three-year performance period. This resulted in performance below target and as a result, 0% of the EPS portion of the LTI vested.



For the FY19-21 LTI, 25.04% vests based on performance over the three-year period from 1 July 2018 to 30 June 2021.

1. For the purposes of LTI, basic EPS is determined based on underlying NPAT which excludes innovation fund gains and patent litigation-related tax and other benefits.

4.3 Financial performance history (FY17 to FY21)

	FY17	FY18	FY19	FY20	FY21
Sales revenue ($million)[1]	1,239.7	1,351.4	1,446.1	1,352.3	1,493.3
Earnings/(loss) before interest and tax (EBIT) ($million)	315.6	348.4	370.1	(262.2)	374.1
EBIT (excluding innovation fund gains and patent litigation expense) ($million)	n/a	350.6	359.3	206.9	330.2
Net profit/(loss) after tax (NPAT) ($million)	223.6	245.8	276.7	(238.3)	326.5
NPAT (excluding innovation fund gains and patent litigation expense) ($million)	n/a	248.0	265.9	153.8	236.7
Basic earnings/(loss) per share (EPS) (cents) – reported	389.7	427.3	460.9	(399.6)	496.7
Basic EPS (excluding innovation fund gains and patent litigation expense) (cents)	n/a	431.1	460.9	257.9	360.0
EPS growth (3-year CAGR)	33.3%	18.6%	13.2%	(200.8%)	5.1%
EPS growth (excluding innovation fund gains and patent litigation expense) (3-year CAGR)	n/a	n/a	11.7%	(12.9%)	(5.6%)
Total dividend per share ($)	2.70	3.00	3.30	1.60	2.55
Share price as at 30 June ($)	155.45	200.17	206.84	188.93	251.67
Relative total shareholder return (TSR) (3 years)	174.0%	157.0%	76.3%	30.6%	26.1%
TSR percentile ranking[2]	96th	97th	81st	72nd	54th

1. Excludes foreign exchange gain/(loss) on hedged sales.
2. TSR percentile ranking is shown over three financial years to 30 June. For LTI, performance is compared to the TSR of the constituents of the ASX 100 as at the start of the relevant performance period.

For further explanation of details on Cochlear performance, see the Operating and financial review section on pages 16 to 45 of this Annual Report.

5. Executive KMP statutory remuneration disclosure

The table below presents the total remuneration for executive KMP in accordance with the accounting standards.

Amounts $	Year	Short-term benefits			Post-employment	Other long-term benefits	Share-based payments			End of service	Total	% of performance related remuneration
		Salary	Cash STI	Non-monetary benefits[1]	Super-annuation contributions	Long service leave	Deferred STI[2]	LTI performance rights[3]	LTI options[3]			
Executive KMP												
D Howitt	FY21	1,827,811	1,730,148	1,538	21,694	(3,577)	472,519	293,673	518,191	–	4,861,997	62.00%
	FY20	1,721,612	–	1,538	21,003	41,051	298,081	151,890	463,205	–	2,698,380	33.84%
A Bishop	FY21	558,038	395,175	923	21,694	5,605	106,554	57,734	64,375	–	1,210,098	51.55%
	FY20	539,245	–	923	21,003	6,549	70,316	38,756	36,625	–	713,417	20.42%
R Brook	FY21	755,888	519,413	146,392	123,202	–	146,558	80,754	105,122	–	1,877,329	45.38%
	FY20	767,993	–	235,341	152,924	–	104,762	53,498	79,027	–	1,393,545	17.03%
J Janssen	FY21	862,423	635,708	1,538	21,694	(18,030)	176,357	90,036	117,930	–	1,887,656	54.04%
	FY20	828,461	–	1,538	21,003	4,869	115,315	60,412	88,868	–	1,120,466	23.61%
T Manna	FY21	764,830	619,509	52,057	19,414	–	162,052	75,093	126,835	–	1,819,790	54.04%
	FY20	816,517	–	85,755	21,241	–	102,227	36,386	111,795	–	1,173,921	21.33%
S Sayers[4]	FY21	395,020	220,630	458	10,847	9,133	56,846	18,348	24,128	–	735,410	43.51%
Former Executive KMP												
B Cubis[5]	FY21	158,486	–	233	6,108	746	47,473	21,611	32,030	327,132	593,819	17.03%
	FY20	611,725	–	923	21,003	4,397	84,302	52,062	59,666	–	834,078	23.50%
Total	FY21	5,322,496	4,120,583	203,139	224,653	(6,123)	1,168,359	637,249	988,611	327,132	12,986,099	53.25%
	FY20	5,285,553	–	326,018	258,177	56,866	775,003	393,004	839,186	–	7,933,807	25.30%

1. Non-monetary benefits include insurances for all KMP and car and housing allowances for overseas-based KMP which are market-based payments. During the temporary pay reduction from mid-April 2020 until 12 July 2020, D Howitt took a 30% pay reduction in base salary and other executives took a 20% pay reduction in base salary. For R Brook, the amount also includes compulsory social security contributions of approximately $78,000.
2. Deferred STI is granted in service rights and deferred for a further two years. The cost of the plan is expensed across three years. The FY21 amount represents the portion of the FY19 and FY21 deferred STI expensed in FY21. The FY20 amount represents the portion of the FY18 and FY19 deferred STI expensed in FY20. There was no expense for FY20 deferred STI as no awards were made in the year.
3. LTI granted in performance rights and options are expensed evenly over the period from grant date to vesting date. The value is calculated at the date of grant using the Black-Scholes-Merton pricing model discounted for vesting probabilities of non-market performance criteria. The amount expensed each reporting period includes adjustments to the life-to-date expense of grants based on the reassessed estimate of achieving non-market performance criteria and final vesting amounts for the non-market performance criteria of performance rights and options. The value disclosed above is the portion of the value of the performance rights and options recognised as an expense in the financial year. The ability to exercise the performance rights and options is conditional on Cochlear achieving certain performance hurdles. Further details of performance rights and options granted during the financial year are set out in this report.
4. Remuneration for S Sayers only relates to the period that he was a KMP from 1 January 2021.
5. B Cubis concluded to be a KMP as at 30 September 2020 and remained with Cochlear until 1 January 2021. The amounts in the table above reflect remuneration he received as a KMP until 30 September 2020. He continued to receive fixed remuneration of $183,310 from 1 October 2020 to 1 January 2021 and received an end of service payment of $327,132 that relates to statutory entitlements and contractual benefits agreed. The share-based payment values presented includes an expense of $8,198 for LTI performance rights and $11,992 for LTI options that would normally have been amortised over future years for awards that remain subject to vesting hurdles and timeframes, and LTI may not be paid out if conditions are not met. Refer to section 6.1 for further detail.

6. Executive service agreements

Cochlear does not enter into (limited) service contracts for executive KMP. The terms of employment for executive KMP meet local employment law requirements. Key provisions are similar but do, on occasion, vary to suit different needs.

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

Length of contract	Permanent contract until notice is given by either party.
Notice periods	CEO&P: 12 months' written notice by either party. Other executive KMP: between 60 days to six months' written notice by either party (exact period specified in each contract).
Post-employment restraints	All executive KMP are subject to post-employment restraints for up to 12 months.
Other arrangements	Richard Brook will receive a maximum of CHF 30,000 for repatriation costs in the case of termination or resignation.

6.1 End of service for former executives

Brent Cubis announced his resignation from Cochlear on 13 July 2020. He concluded to be a KMP on 30 September 2020 and remained employed with Cochlear until 1 January 2021. From 1 October 2021 to 1 January 2021, he continued to provide services as required and continued in his role as director of subsidiaries of Cochlear. Through this period, he received a fixed remuneration of $183,310. At the end of his service, he received:

- payment of $327,132 as part of a contractual agreement;
- payment of accrued but unused annual leave; and
- payment of any unpaid base salary.

The Board applied its discretion to allow some prior equity grants to remain on-foot subject to the original terms of those awards (both time and performance hurdles). The awards are detailed in section 8 and are eligible for vesting in August 2021 and August 2022.

7. Remuneration governance

7.1 Governance framework for remuneration at Cochlear

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 P&CC which comprises solely of independent NEDs.

Management

- Makes recommendations to the P&CC with respect to individual remuneration arrangements for executive KMP
- Implements policies and practices relating to talent management, remuneration, organisational culture, diversity and inclusion, work, health and safety and leadership development

People & Culture Committee

- 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 decisions on behalf of the Board on:
  - Remuneration policy, composition, quantum and performance targets for executive KMP
  - Remuneration policy in respect of NEDs
  - Organisational culture, diversity and inclusion, talent management and leadership development strategies and practices
  - Work, health and safety metrics and initiatives
  - Design features of employee and executive short-term and long-term incentive plan awards

Board

- Reviews, applies judgement and, as appropriate, approves recommendations from the P&CC

7.2 Advice from external advisors

To inform decisions, the P&CC sought advice and (at times) recommendations from the CEO&P and other management throughout the year. During FY21, the P&CC engaged Godfrey Remuneration Group (GRG) and received market practice advice and information in relation to the remuneration of NEDs, executives and senior leaders. GRG was paid $107,200 (excluding GST) for these services.

The P&CC is satisfied that the advice received from GRG is free from undue influence of the KMP to whom the remuneration recommendations relate as GRG confirmed in writing that the remuneration recommendations were made free from undue influence by management, in accordance with the *Corporations Act 2001*.

7.3 Share ownership requirements

Executive KMP are required to retain vested equity until they hold and maintain a holding of Cochlear shares equivalent to their annual salary in the previous year. The Board considers the minimum shareholding guidelines to be best practice to strengthen the alignment of executives' interests to those of shareholders. The table in section 8.2 details the current holdings of executive KMP.

7.4 Clawback Policy and discretion

All participants of the deferred STI and LTI plans are subject to the Clawback Policy, available in the 'Investor Centre' section of the Company's website. 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.

The Board retains discretion to adjust remuneration outcomes upwards or downwards to ensure incentives are not provided where it would be inappropriate or would provide unintended outcomes. The exercise of appropriate discretion may be used where a formulaic outcome does not align with the overall shareholder experience, or reflect overall business performance and intended outcomes; or leads to retention risk for key talent. The Board balances judgement on remuneration outcomes with consideration to all stakeholders.

8. Executive KMP equity disclosures

Executive KMP participate in the deferred STI and LTI plan which offers equity under the Cochlear Executive Incentive Plan (CEIP). The purpose of the CEIP is to encourage executives to hold Cochlear shares and to align their interests to shareholders' interests.

Under the LTI plan, vesting of options or performance rights only occurs if Cochlear achieves challenging and market competitive hurdles related to basic EPS growth and relative TSR. Under the deferred STI plan, grants are based on performance in the first year, and are then deferred for a further two years.

8.1 Equity granted as remuneration

The table below presents the number of options and performance rights granted to executive KMP as well as the number of instruments that vested or were forfeited during the year.

Equity granted in FY21 under the CEIP has been approved by shareholders for the CEO&P in accordance with ASX Listing Rule 10.14.

No options or rights vest if the conditions are not satisfied; hence the minimum value is nil. The maximum value of the grants has been determined as the fair value of awards at grant date that is yet to be expensed.

	Plan	Grant date	Options		Performance rights		Vesting date	Vested	Forfeited
			Number	Maximum value to be expensed ($)[1]	Number	Maximum value to be expensed ($)[1]			
Executive KMP									
D Howitt	FY18 LTI	18-Oct-17	46,842	–	3,372	–	19-Aug-20	46.4%	53.6%
	FY18 deferred STI	24-Aug-18	–	–	1,692	–	19-Aug-20	100.0%	0.0%
	FY19 LTI	17-Oct-18	35,907	–	1,685	–	23-Aug-21		
	FY19 deferred STI	17-Sep-19	–	–	2,634	–	23-Aug-21		
	FY20 LTI	23-Oct-19	24,041	214,818	4,432	147,370	16-Aug-23		
	FY21 LTI	21-Oct-20	21,217	647,959	4,782	561,807	21-Aug-24		
	Total		**128,007**	**862,777**	**18,597**	**709,177**			
A Bishop	FY18 LTI	18-Oct-17	1,778	–	697	–	19-Aug-20	46.4%	53.6%
	FY18 deferred STI	24-Aug-18	–	–	440	–	19-Aug-20	100.0%	0.0%
	FY19 LTI	17-Oct-18	1,598	–	700	–	23-Aug-21		
	FY19 deferred STI	17-Sep-19	–	–	582	–	23-Aug-21		
	FY20 LTI	23-Oct-19	2,014	10,561	332	7,220	17-Aug-22		
	FY20 LTI	23-Oct-19	2,745	24,528	506	16,825	16-Aug-23		
	FY21 LTI	21-Oct-20	3,230	98,643	728	85,528	21-Aug-24		
	Total		**11,365**	**133,732**	**3,985**	**109,573**			
R Brook	FY18 LTI	18-Oct-17	6,965	–	1,170	–	19-Aug-20	46.4%	53.6%
	FY18 deferred STI	24-Aug-18	–	–	665	–	19-Aug-20	100.0%	0.0%
	FY19 LTI	17-Oct-18	4,565	–	857	–	23-Aug-21		
	FY19 deferred STI	17-Sep-19	–	–	858	–	23-Aug-21		
	FY20 LTI	23-Oct-19	2,679	14,048	442	9,612	17-Aug-22		
	FY20 LTI	23-Oct-19	3,652	32,632	673	22,378	16-Aug-23		
	FY21 LTI	21-Oct-20	4,911	149,980	1,106	129,937	21-Aug-24		
	Total		**22,772**	**196,660**	**5,771**	**161,927**			
J Janssen	FY18 LTI	18-Oct-17	7,060	–	1,186	–	19-Aug-20	46.4%	53.6%
	FY18 deferred STI	24-Aug-18	–	–	667	–	19-Aug-20	100.0%	0.0%
	FY19 LTI	17-Oct-18	5,223	–	981	–	23-Aug-21		
	FY19 deferred STI	17-Sep-19	–	–	1,007	–	23-Aug-21		
	FY20 LTI	23-Oct-19	3,237	16,974	534	11,612	17-Aug-22		
	FY20 LTI	23-Oct-19	4,413	39,432	813	27,033	16-Aug-23		
	FY21 LTI	21-Oct-20	5,197	158,714	1,171	137,573	21-Aug-24		
	Total		**25,130**	**215,120**	**6,359**	**176,218**			
T Manna	FY18 LTI	18-Oct-17	10,385	–	436	–	19-Aug-20	46.4%	53.6%
	FY18 deferred STI	24-Aug-18	–	–	645	–	19-Aug-20	100.0%	0.0%
	FY19 LTI	17-Oct-18	7,530	–	353	–	23-Aug-21		
	FY19 deferred STI	17-Sep-19	–	–	841	–	23-Aug-21		
	FY20 LTI	23-Oct-19	3,055	16,019	504	10,960	17-Aug-22		
	FY20 LTI	23-Oct-19	4,165	37,216	767	25,504	16-Aug-23		
	FY21 LTI	21-Oct-20	5,045	154,072	1,137	133,579	21-Aug-24		
	Total		**30,180**	**207,307**	**4,683**	**170,043**			
S Sayers[2]	–	–	–	–	–	–	–	–	–
Former Executive KMP									
B Cubis	FY18 LTI	18-Oct-17	3,622	–	1,420	–	19-Aug-20	46.4%	53.6%
	FY18 deferred STI	24-Aug-18	–	–	547	–	19-Aug-20	100.0%	0.0%
	FY19 LTI	17-Oct-18	4,050	–	760	–	23-Aug-21		
	FY19 deferred STI	17-Sep-19	–	–	679	–	23-Aug-21		
	FY20 LTI	23-Oct-19	2,287	–	377	–	17-Aug-22		
	FY20 LTI	23-Oct-19	3,117	–	574	–	16-Aug-23	0.0%	100.0%
	Total		**13,076**	**–**	**4,357**	**–**			

1. The options granted in FY21 have an exercise price of $206.06, and an expiry date of 21 March 2025. Fair values (IFRS-2) of FY21 options and performance rights under the LTI plan as at the date of grant are as follows: options (basic EPS growth: $42.56; relative TSR: $38.88) and performance rights (basic EPS growth: $188.83; relative TSR: $124.47). This valuation is for accounting purposes only and forms the basis of the expense in future years. Further detail on the allocation methodology is provided in section 3.4.
2. In FY21, S Sayers did not receive any equity grants as a KMP.

8.2 Executive KMP equity holdings and minimum shareholding

This section details the movement in equity holdings during the financial year.

Shares held during the year

During the year the FY18 deferred STI plan and FY18 LTI plan vested in August 2020, and executives' options/rights converted into shares under these plans.

	Balance 1 July 2020	Received on exercise of options/rights[1]	Purchases and sales	Balance 30 June 2021
Executive KMP				
D Howitt	42,475	24,990	(21,734)	45,731
A Bishop	2,499	1,587	(1,587)	2,499
R Brook	5,000	4,438	(72)	9,366
J Janssen	6,786	4,492	(4,492)	6,786
T Manna	4,128	5,665	(5,064)	4,729
S Sayers	1,108	2,327	(860)	2,575
Former Executive KMP				
B Cubis	343	2,885	(2,015)	N/A

1. For options exercised, the amount paid per option was the exercise price of $154.73.

Rights held during the year

Rights are acquired by executive KMP under the deferred STI and LTI plan. During the year:

- Granted: FY21 LTI awards were granted in October 2020; and
- Vested: 100% of the FY18 deferred STI award and 46.4% of the FY18 LTI award vested in August 2020.

	Balance	Deferred STI service rights			LTI performance rights			Balance
	1 July 2020	Granted	Vested	Forfeited	Granted	Vested	Forfeited	30 June 2021
Executive KMP								
D Howitt	13,815	–	(1,692)	–	4,782	(1,564)	(1,808)	13,533
A Bishop	3,257	–	(440)	–	728	(323)	(374)	2,848
R Brook	4,665	–	(665)	–	1,106	(542)	(628)	3,936
J Janssen	5,188	–	(667)	–	1,171	(550)	(636)	4,506
T Manna	3,546	–	(645)	–	1,137	(202)	(234)	3,602
S Sayers	2,585	–	(449)	–	472	(270)	(312)	2,026
Former Executive KMP								
B Cubis	4,357	–	(547)	–	–	(658)	(1,336)	N/A

Options held during the year

Options over ordinary shares are acquired by executive KMP under the LTI plan. During the year, FY21 LTI awards were granted in October 2020 and 46.4% of the FY18 LTI award vested in August 2020.

All options held at the end of the year are unvested.

	Balance 1 July 2020	LTI options			Balance 30 June 2021
		Granted	Vested and exercised[1]	Forfeited	
Executive KMP					
D Howitt	106,790	21,217	(21,734)	(25,108)	81,165
A Bishop	8,135	3,230	(824)	(954)	9,587
R Brook	17,861	4,911	(3,231)	(3,734)	15,807
J Janssen	19,933	5,197	(3,275)	(3,785)	18,070
T Manna	25,135	5,045	(4,818)	(5,567)	19,795
S Sayers	8,859	2,097	(1,608)	(1,859)	7,489
Former Executive KMP					
B Cubis	13,076	–	(1,680)	(5,059)	N/A

1. The value of exercised options at the date of vesting is $55.57 (closing share price at the vesting date 19 August 2020 of $210.30 less the exercise price of $154.73).

Executive minimum shareholding

As at 30 June 2021, the Board is satisfied that the executive KMP are compliant with the Share Ownership Policy. The table below presents a summary of executive KMP holdings and compliance with minimum shareholding requirements.

	Ordinary shares held	Policy value of Cochlear shares at year end ($)[1]	% of base salary[2]
Executive KMP			
D Howitt	45,731	9,587,961	531%
A Bishop	2,499	523,940	95%
R Brook	9,366	1,963,676	258%
J Janssen	6,786	1,422,753	167%
T Manna	4,729	991,482	128%
S Sayers	2,575	539,875	65%

1. In line with the Share Ownership Policy, the value has been calculated as the average daily share price over the previous 12 months ($209.66), as at closing on the ASX up to 30 June 2021, times the number of shares.
2. The % of base salary is calculated as the value of shares divided by the contractual base salary as at 30 June 2021.

8.3 Potential dilution if options vest and ordinary shares issued (unaudited)

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 share capital.

At the date of this report, the number of ordinary shares that would be issued if all options were vested (having met the service and performance conditions) and exercised and assuming ordinary shares were issued, is as follows.

	Grant date	Number of options			Exercise price per share ($)	Exercise period	Current net value of outstanding options as at 30 June 2021 ($)[2]
		Issued	Forfeited/ lapsed[1]	At report date			
FY19 LTI	17-Oct-18	80,231	4,486	75,745	202.84	Aug-21 to Mar-22	3,698,628
FY20 LTI	23-Oct-19	24,231	–	24,231	217.28	Aug-22 to Mar-23	833,304
FY20 LTI	23-Oct-19	57,074	4,448	52,626	217.28	Aug-23 to Mar-24	1,809,808
FY21 LTI	21-Oct-20	55,729	–	55,729	206.06	Aug-24 to Mar-25	2,541,800
Total		**217,265**	**8,934**	**208,331**			**8,883,540**

1. Forfeited/lapsed options from unvested grants relate to plan participants who have departed Cochlear.
2. Closing share price as at 30 June 2021 was $251.67.

Total unvested equity currently accounts for approximately 0.43% of the total number of issued shares, as set out below.

Instrument	Number of equivalent shares at 30 June 2021
Unvested LTI options	208,331
Unvested LTI rights	35,528
Unvested deferred STI rights	30,687
Service rights under the APAC Employee Equity Plan[1]	7,581
Total	**282,127**
As % of total issued shares	0.43%
Number of issued shares	65,744,078

1. Refer to Note 4.3 to the financial statements for further information on the APAC Employee Equity Plan.

8.4 Transactions and loans with KMP

No transactions or loans involving directors or executive KMP, their close family members or entities they control or have significant influence over, were made during the year.

9. Non-executive director fees

NEDs are paid from an aggregate annual fee pool for FY21 of $3,000,000 (approved at the 2017 Annual General Meeting). Total remuneration paid during the year was $2,553,578 which is within the fee pool limit (represented 85.1% of fee pool). NEDs do not receive any performance-related remuneration, options or performance rights. NEDs receive reimbursement for costs directly related to Cochlear business.

9.1 Fee policy and changes during the year

Board fees must recognise the effort required to fulfil the responsibilities of a director. There were no fee increases for the Board for FY21.

The table below outlines the policy base and committee fees for FY20 and FY21.

Amounts $[1]	FY20		FY21	
	Chair	Member	Chair	Member
Cochlear Board	518,547	169,923	518,547	169,923
Committees[2]				
Audit & Risk	50,000	25,000	50,000	25,000
People & Culture	40,000	20,000	40,000	20,000
Technology & Innovation	40,000	20,000	40,000	20,000
Medical Science	30,000	15,000	30,000	15,000
Nomination	No fee	No fee	No fee	No fee

1. Superannuation contributions have been made in accordance with Australian superannuation legislation at a rate of 9.5% up to the Australian Government's prescribed maximum contributions limit. Fees are presented exclusive of superannuation.
2. Committee fees are not paid to the Chairman of the Board.

9.2 NED statutory remuneration

The table below presents the total remuneration for NEDs.

Amounts $	Year	Short-term benefits	Post-employment benefits	Total
		Fees	Superannuation[1]	
Non-Executive Director				
R Holliday-Smith	**FY21**	**515,755**	**21,694**	**537,449**
	FY20	488,387	21,003	509,390
Y Allen	**FY21**	**258,523**	**21,694**	**280,217**
	FY20	244,848	21,003	265,851
G Boreham	**FY21**	**253,550**	**21,694**	**275,244**
	FY20	240,136	21,003	261,139
M Daniell[2]	**FY21**	**203,819**	**20,216**	**224,035**
	FY20	85,122	9,210	94,332
A Deans[3]	**FY21**	**253,551**	**21,694**	**275,245**
	FY20	249,022	10,501	259,523
A Denver	**FY21**	**228,685**	**21,694**	**250,379**
	FY20	218,194	20,492	238,686
A Hussain	**FY21**	**203,819**	**20,216**	**224,035**
	FY20	193,021	19,280	212,301
C McLoughlin[4]	**FY21**	**137,641**	**13,076**	**150,717**
B Robinson	**FY21**	**238,631**	**21,694**	**260,325**
	FY20	226,002	20,921	246,923

Amounts $	Year	Short-term benefits	Post-employment benefits	Total
		Fees	Superannuation[1]	
Former Non-executive Director				
D O'Dwyer[5]	**FY21**	**68,623**	**7,309**	**75,932**
	FY20	216,578	20,492	237,070
Total	**FY21**	**2,362,597**	**190,981**	**2,553,578**
	FY20	2,161,310	163,905	2,325,215

1. During the temporary fee reduction period from mid-April 2020 until 12 July 2020, superannuation was maintained on full fees, and continued to be capped at the maximum superannuation contribution limit.
2. M Daniell was appointed to the Board on 1 January 2020.
3. Effective 1 January 2020 to 30 June 2020, A Deans has opted out of receiving superannuation guarantee payments in accordance with the *Superannuation Guarantee (Administration) Act 1992*. An equivalent amount of $10,501 was paid over the period from 1 January 2020 to 30 June 2020 as fees.
4. C McLoughlin was appointed to the Board on 1 November 2020. Effective 1 November 2020, C McLoughlin has opted out of receiving super guarantee payments in accordance with the *Superannuation Guarantee (Administration) Act 1992*. An equivalent amount of $8,411 was paid over the period from 1 November 2020 to 9 April 2021 as fees.
5. D O'Dwyer retired from the Board on 20 October 2020.

9.3 Minimum shareholding requirement for NEDs

NEDs are requested to hold shares equivalent to the fees (including both Board and committee fees) received in the previous 12 months. The share ownership requirement must be satisfied within three years of appointment to the Board.

As at 30 June 2021, all NEDs are compliant with the Share Ownership Policy which allows three years to build their shareholdings. The table below presents Cochlear Limited shareholdings for each NED.

	Balance 1 July 2020	Purchases	Sales	Balance 30 June 2021	Policy value of shares as at 30 June 2021 ($)[1]	% of fees
R Holliday-Smith	10,214	–	–	10,214	2,141,467	413%
Y Allen	3,714	–	–	3,714	778,677	300%
G Boreham	3,014	–	–	3,014	631,915	248%
M Daniell	1,214	–	–	1,214	254,527	124%
A Deans	3,214	786	–	4,000	838,640	329%
A Denver	4,214	–	–	4,214	883,507	384%
A Hussain	226	1,000	–	1,226	257,043	125%
C McLoughlin[2]	0	1,000	–	1,000	209,660	98%
B Robinson[3]	933	150	–	1,083	227,062	95%

1. In line with the Share Ownership Policy, available in the 'Investor Centre' section of the Company's website, the value of Cochlear Limited ordinary shares is calculated using the average daily share price over the previous 12 months ($209.66), as at closing on the ASX up to 30 June 2021, times the number of shares.
2. C McLoughlin was appointed to the Board on 1 November 2020 and in accordance with the policy has until 1 November 2023 to build her shareholding.
3. B Robinson temporarily fell below the minimum shareholding requirement and is actively working towards meeting the policy requirement by December 2021.

Directors' report

The directors present their report, together with the Consolidated Financial report of the Consolidated Entity (Cochlear), being Cochlear Limited (the Company) and its controlled entities, for the year ended 30 June 2021, and the Auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year were R Holliday-Smith (Chairman), YA Allen, G Boreham, AM, Sir M Daniell, KNZM, A Deans, A Denver, D Howitt, A Hussain, C McLoughlin, AM, DP O'Dwyer and Prof B Robinson, AC.

Information on the current directors is presented in the Annual Report. This information includes the qualifications, experience and special responsibilities of each director. It also gives details of the directors' other directorships.

Company Secretary

The Company Secretarial function is responsible for ensuring that the Company complies with its statutory duties and maintains proper documentation, registers and records. It also provides advice to directors and officers about corporate governance and gives practical effect to any decisions made by the Board.

Mr R Jarman was the Company Secretary during and since the end of the financial year. He has qualifications in law and science from The University of New South Wales and is an admitted solicitor in New South Wales. Mr Jarman joined Cochlear in 2008 as the inaugural Group General Counsel. He has over 35 years' experience in corporate and commercial law, litigation and dispute resolution, legal compliance and corporate governance across medical device, steel, mining and consumer goods industries.

Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year were:

	Board of Directors		Audit & Risk Committee		People & Culture Committee		Medical Science Committee		Nomination Committee		Technology & Innovation Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
R Holliday-Smith	10	10	4	4	5	5	–	–	2	1	–	–
YA Allen	10	10	4	4	5	5	–	–	2	2	2	2
G Boreham, AM	10	10	4	4	5	5	–	–	2	2	2	2
Sir M Daniell, KNZM	10	10	–	–	–	–	2	2	2	2	2	2
A Deans	10	10	4	4	5	5	–	–	2	2	2	2
A Denver	10	10	4	4	–	–	2	2	2	2	2	2
D Howitt	10	10	–	–	–	–	2	2	–	–	2	2
A Hussain[1]	10	10	–	–	–	–	2	2	2	2	2	2
C McLoughlin, AM[2]	8	7	3	3	4	4	–	–	1	1	–	–
DP O'Dwyer[3]	4	4	1	1	–	–	1	1	1	1	1	1
Prof B Robinson, AC	10	10	–	–	5	5	2	2	2	2	2	2

1. A Hussain retired from the Board on 20 July 2021.
2. D O'Dwyer retired from the Board on 20 October 2020.
3. C McLoughlin was appointed to the Board on 1 November 2020.

Principal activities

Information on the principal activities, operations and financial position of Cochlear Limited and its business strategies and prospects is set out in the Operating and financial review on pages 16 to 45 of this Annual Report.

Dividends

Dividends declared and paid by the Company to members since the end of the previous financial year were:

	Dollars per share	Total amount $m	Franked/ unfranked	Date of payment
Dividends recognised in the current financial year by the Company are:				
Interim 2021 ordinary	1.15	75.6	0% Franked	20 April 2021
Total amount	**1.15**	**75.6**		
Since the end of the financial year, the directors declared the following dividend:				
Final 2021 ordinary	1.40	92.0	0% Franked	18 October 2021
Total amount	**1.40**	**92.0**		

The financial effect of the 2021 final dividend will be recognised in the subsequent financial year as it was declared after 30 June 2021.

Environmental regulations

Cochlear's operations are subject to environmental regulations under the Commonwealth of Australia and State/Territory legislation. The Board believes that Cochlear has adequate systems in place to manage its environmental obligations and is not aware of any breach of those environmental requirements as they apply to Cochlear.

Non-audit services

During the year, KPMG, the Company's auditor, performed certain other services in addition to its statutory duties. The Board has considered the non-audit services provided during the year by the auditor, and in accordance with written advice provided by resolution of the Audit & Risk Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit & Risk Committee to ensure that they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services during the year are set out below:

	Consolidated	
	2021	**2020**
	$	**$**
Audit services		
Audit and review of financial reports	2,030,461	2,170,767
Total audit services	**2,030,461**	**2,170,767**
Non-audit services		
Other assurance services	–	35,666
Taxation compliance and advisory services	1,370,782	1,547,505
Other	52,942	9,185
Total non-audit services	**1,423,724**	**1,592,356**

State of affairs

There were no significant changes to the state of affairs of Cochlear during the financial year other than that referred to in the financial statements or notes thereto.

Remuneration report

Information on Cochlear's remuneration framework and the outcomes for the financial year ended 30 June 2021 for the Cochlear Limited Board, the CEO & President and other key management personnel, and changes for the financial year ending 30 June 2022, is included in the Remuneration report on pages 56 to 73 of this Annual Report.

Indemnification of officers

Under the terms of Article 10 of the Company's Constitution, and to the extent permitted by law, the Company has indemnified the directors of the Company named in this Directors' report, the Company Secretary, Mr R Jarman, and other persons concerned in or taking part in the management of the Consolidated Entity. The indemnity applies when persons are acting in their capacity as officers of the Company in respect of:

- liability to third parties (other than the Company or related bodies corporate), if the relevant officer has acted in good faith; and
- costs and expenses of successfully defending legal proceedings in which relief under the *Corporations Act 2001* is granted to the relevant officer.

Insurance premiums

During the financial year, the Company paid a premium for a Directors' and Officers' Liability Insurance policy. The insurance provides cover for the directors named in this Directors' report, the Company Secretary, and officers and former directors and officers of the Company. The insurance also provides cover for present and former directors and officers of other companies in the Consolidated Entity. The directors have not included in this report details of the nature of the liabilities covered and the amount of the premium paid in respect of the Directors' and Officers' Liability and Supplementary Legal Expenses Insurance policies, as such disclosure is prohibited under the terms of the contract.

Events subsequent to the reporting date

Other than the matter noted below, there has not arisen in the interval between the reporting date and the date of this Financial report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to significantly affect the operations of Cochlear, the results of those operations, or the state of affairs of Cochlear in future financial years:

Dividends

For dividends declared after 30 June 2021, refer above.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 78 and forms part of the Directors' report for the financial year ended 30 June 2021.

Rounding off

The Company is of a kind referred to in Australian Securities and Investments Commission (ASIC) (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and in accordance with that Instrument, amounts in the Directors' report and Financial report have been rounded off to the nearest one hundred thousand dollars unless otherwise stated.

Dated at Sydney this 20th day of August 2021.

Signed in accordance with a resolution of the directors:

Director

Director

Auditor’s independence declaration

Lead auditor’s independence declaration under section 307C of the *Corporations Act 2001*

To: the directors of Cochlear Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2021 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Julian McPherson, Partner

Sydney, 20 August 2021

Income statement

	Note	2021 $m	2020 $m
Revenue	2.2	1,497.6	1,320.6
Cost of sales	2.3	(410.2)	(344.4)
Gross profit		**1,087.4**	**976.2**
Selling, marketing and general expenses		(444.1)	(470.0)
Research and development expenses		(195.0)	(185.1)
Administration expenses		(112.2)	(93.8)
Other income	2.4	86.5	78.1
Other expenses	2.3	(40.4)	(62.7)
Patent litigation expense	2.3	(6.4)	(503.7)
Share of losses on equity accounted investments	5.4	(1.7)	(1.2)
Results from operating activities		**374.1**	**(262.2)**
Finance income – interest		3.6	1.6
Finance expense – interest		(12.0)	(10.5)
Net finance expense		**(8.4)**	**(8.9)**
Profit/(loss) before income tax		**365.7**	**(271.1)**
Income tax (expense)/benefit	3.1	(39.2)	32.8
Net profit/(loss)		**326.5**	**(238.3)**
Basic earnings/(loss) per share (cents)	2.5	496.7	(399.6)
Diluted earnings/(loss) per share (cents)	2.5	496.7	(399.6)

The notes on pages 84 to 120 are an integral part of these consolidated financial statements.

Statement of comprehensive income

	2021 $m	2020 $m
Net profit/(loss)	**326.5**	**(238.3)**
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to the income statement:		
Defined benefit plan actuarial (loss)/gain	(0.1)	1.6
Financial investments measured at fair value through other comprehensive income, net of tax	40.7	(1.8)
Total items that will not be reclassified subsequently to the income statement	**40.6**	**(0.2)**
Items that are or may be reclassified subsequently to the income statement:		
Foreign currency translation differences	(14.1)	3.9
Effective portion of changes in fair value of cash flow hedges, net of tax	11.2	(22.6)
Net change in fair value of discontinued cash flow hedges transferred to income statement, net of tax	–	18.3
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	(3.0)	22.2
Total items that are or may be reclassified subsequently to the income statement	**(5.9)**	**21.8**
Total other comprehensive income, net of tax	**34.7**	**21.6**
Total comprehensive income/(loss)	**361.2**	**(216.7)**

The notes on pages 84 to 120 are an integral part of these consolidated financial statements.

Balance sheet

	Note	2021 $m	2020 $m
Assets			
Cash and cash equivalents		609.6	565.0
Term deposits	6.3	–	365.0
Trade and other receivables	6.4(b)	296.3	235.5
Forward exchange contracts		17.6	1.2
Inventories	5.1	216.1	223.8
Current tax assets	3.2	69.2	69.4
Prepayments		21.2	17.6
Total current assets		**1,230.0**	**1,477.5**
Forward exchange contracts		3.3	2.1
Property, plant and equipment	5.2	239.5	230.5
Intangible assets	5.3	402.8	410.3
Investments	5.4	199.5	25.9
Equity-accounted investments	5.4	–	69.0
Other financial assets	5.4	27.3	5.0
Deferred tax assets	3.2	146.8	147.1
Right of use asset	5.7	189.0	208.3
Total non-current assets		**1,208.2**	**1,098.2**
Total assets		**2,438.2**	**2,575.7**
Liabilities			
Trade and other payables		202.9	159.3
Forward exchange contracts		4.7	0.3
Loans and borrowings	6.3	–	393.1
Current tax liabilities	3.2	12.9	7.2
Employee benefit liabilities	4.2	87.9	54.4
Provisions	5.5	19.4	130.2
Deferred revenue		42.8	47.0
Lease liability	5.7	31.9	26.0
Total current liabilities		**402.5**	**817.5**
Trade and other payables		0.7	13.6
Forward exchange contracts		3.2	1.7
Loans and borrowings	6.3	45.0	79.9
Employee benefit liabilities	4.2	12.1	12.4
Provisions	5.5	31.0	27.2
Deferred tax liabilities	3.2	50.6	14.1
Deferred revenue		4.0	2.3
Lease liability	5.7	187.4	205.5
Total non-current liabilities		**334.0**	**356.7**
Total liabilities		**736.5**	**1,174.2**
Net assets		**1,701.7**	**1,401.5**
Equity			
Share capital		1,276.6	1,272.4
Reserves		57.9	12.7
Retained earnings		367.2	116.4
Total equity		**1,701.7**	**1,401.5**

The notes on pages 84 to 120 are an integral part of these consolidated financial statements.

Statement of changes in equity

$m	Issued capital	Translation reserve	Hedging reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Total equity
2020							
Balance at 1 July 2019	182.3	(47.2)	(17.0)	(1.1)	50.0	546.8	713.8
Total comprehensive (loss)/income							
Net loss	–	–	–	–	–	(238.3)	(238.3)
Other comprehensive income/(loss)							
Defined benefit plan actuarial gains	–	–	–	–	–	1.6	1.6
Financial investments measured at fair value through other comprehensive income, net of tax	–	–	–	(1.8)	–	–	(1.8)
Foreign currency translation differences	–	3.9	–	–	–	–	3.9
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	(22.6)	–	–	–	(22.6)
Net change in fair value of discontinued cash flow hedges transferred to the income statement, net of tax	–	–	18.3	–	–	–	18.3
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	–	–	22.2	–	–	–	22.2
Total other comprehensive income/(loss)	–	**3.9**	**17.9**	**(1.8)**	–	**1.6**	**21.6**
Total comprehensive income/(loss)	**–**	**3.9**	**17.9**	**(1.8)**	**–**	**(236.7)**	**(216.7)**
Transactions with owners, recorded directly in equity							
Share options exercised	7.4	–	–	–	(0.5)	–	6.9
Performance rights vested	–	–	–	–	(0.6)	–	(0.6)
Shares issued through institutional placement, net of related costs	856.2	–	–	–	–	–	856.2
Shares issued through share purchase plan, net of related costs	219.4	–	–	–	–	–	219.4
Share-based payment transactions	–	–	–	–	7.0	–	7.0
Deferred tax recognised in equity	7.1	–	–	–	2.1	–	9.2
Dividends to shareholders	–	–	–	–	–	(193.7)	(193.7)
Balance at 30 June 2020	**1,272.4**	**(43.3)**	**0.9**	**(2.9)**	**58.0**	**116.4**	**1,401.5**
2021							
Balance at 1 July 2020	1,272.4	(43.3)	0.9	(2.9)	58.0	116.4	1,401.5
Total comprehensive income/(loss)							
Net profit	–	–	–	–	–	326.5	326.5
Other comprehensive income/(loss)	–						
Defined benefit plan actuarial losses	–	–	–	–	–	(0.1)	(0.1)
Financial investments measured at fair value through other comprehensive income, net of tax	–	–	–	40.7	–	–	40.7
Foreign currency translation differences	–	(14.1)	–	–	–	–	(14.1)
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	11.2	–	–	–	11.2
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	–	–	(3.0)	–	–	–	(3.0)
Total other comprehensive income/(loss)	–	**(14.1)**	**8.2**	**40.7**	–	**(0.1)**	**34.7**
Total comprehensive income/(loss)	–	**(14.1)**	**8.2**	**40.7**	–	**326.4**	**361.2**
Transactions with owners, recorded directly in equity							
Share options exercised	4.2	–	–	–	(1.2)	–	3.0
Performance rights vested	–	–	–	–	(0.7)	–	(0.7)
Share-based payment transactions	–	–	–	–	8.1	–	8.1
Deferred tax recognised in equity	–	–	–	–	4.2	–	4.2
Dividends to shareholders	–	–	–	–	–	(75.6)	(75.6)
Balance at 30 June 2021	**1,276.6**	**(57.4)**	**9.1**	**37.8**	**68.4**	**367.2**	**1,701.7**

The notes on pages 84 to 120 are an integral part of these consolidated financial statements.

Statement of cash flows

	Note	2021 $m	2020 $m
Cash flows from operating activities			
Cash receipts from customers		1,436.0	1,403.7
Cash paid to suppliers and employees		(1,150.2)	(1,501.6)
Grant and other income received	2.4	8.3	5.5
Government assistance in respect of COVID received	2.4	24.6	23.6
Government assistance in respect of COVID repaid	2.3	(24.6)	–
Interest received		3.6	1.6
Interest paid		(12.0)	(10.5)
Income taxes paid	3.1	(14.4)	(80.1)
Net cash provided by/(used in) operating activities	2.7(b)	**271.3**	**(157.8)**
Cash flows from investing activities			
Acquisition of leasehold improvements and plant and equipment	5.2	(41.2)	(92.9)
Acquisition of IT system costs	5.3	(5.9)	(18.5)
Acquisition of other intangible assets	5.3	(25.5)	(19.1)
Acquisition of investments	5.4	(18.4)	(14.2)
Proceeds from term deposits		365.0	–
Acquisition of term deposits		–	(365.0)
Net cash used in investing activities		**274.0**	**(509.7)**
Cash flows from financing activities			
Repayments of borrowings		(403.1)	(130.0)
Proceeds from borrowings		1.7	420.9
Payments of lease liability		(20.5)	(24.6)
Net proceeds from exercise of share options and performance rights		2.4	6.3
Net proceeds from shares issued through institutional placement		–	856.2
Net proceeds from share purchase plan		–	219.4
Dividends paid	2.6	(75.6)	(193.7)
Net cash (used in)/provided by financing activities		**(495.1)**	**1,154.5**
Net increase in cash and cash equivalents		**50.2**	**487.0**
Cash and cash equivalents, net of overdrafts at 1 July		565.0	78.6
Effect of exchange rate fluctuations on cash held		(5.6)	(0.6)
Cash and cash equivalents, net of overdrafts at 30 June		**609.6**	**565.0**

The notes on pages 84 to 120 are an integral part of these consolidated financial statements.

Notes to the financial statements

1. Basis of preparation

This section sets out the Company's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

1.1 Reporting entity

Cochlear Limited (the Company) is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2021 comprise the Company and its controlled entities (together referred to as Cochlear or the Consolidated Entity). Cochlear is a for-profit entity and operates in the implantable hearing device industry.

1.2 Basis of preparation

(a) Statement of compliance

The Financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) and Interpretations adopted by the International Accounting Standards Board.

The Board approved the consolidated financial statements on 20 August 2021.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and financial investments measured at fair value. The fair value measurement method of derivative instruments and financial investments measured at fair value through other comprehensive income is discussed further in Note 6.4(d).

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars (AUD), which is the Company's functional currency.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that Instrument, all financial information presented in AUD has been rounded to the nearest one hundred thousand dollars unless otherwise stated.

(d) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rates ruling at the date the fair value was determined.

Foreign exchange differences arising on translation are recognised in the income statement within other income and other expenses.

Financial statements of foreign operations

The assets and liabilities of foreign operations are translated to the Company's functional currency at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to the Company's functional currency at rates approximating the foreign exchange rates ruling at the dates of transactions.

Foreign currency differences arising from translation of controlled entities are recognised in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of, in part or in full, the relevant amount of its translation reserve is transferred to the income statement and reported as part of the gain or loss on disposal.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve.

(e) Use of judgements and estimates

The preparation of financial statements in conformity with AASB requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial year in which the estimate is revised and in any future years affected.

Management discussed with the Audit & Risk Committee the development, selection and disclosure of Cochlear's critical accounting policies and estimates and the application of these policies and estimates.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

Note 4.2 – Employee benefit liabilities

Note 4.3 – Share-based payments

Note 5.3 – Intangible assets

Note 5.5 – Provisions

Note 5.6 – Contingent liabilities

Note 5.7 – Leases

Note 6.4 – Financial risk management.

(f) Basis of consolidation

Controlled entities

The Consolidated Entity controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Special purpose entities

Cochlear has established special purpose entities (SPEs) for investment purposes. A SPE is consolidated if Cochlear concludes that it controls the SPE. SPEs controlled by Cochlear were established under terms that impose strict limitations on decision-making powers of the SPE's management.

(g) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST. Where the amount of GST incurred is not recoverable from the taxation authority, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant taxation authority are classified as operating cash flows.

(h) Comparability

Comparative information is reclassified where appropriate to enhance comparability.

2. Performance for the year

2.1 Operating segments

Cochlear's three reportable segments, determined on a geographical basis, are the strategic business units of Cochlear. Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items comprise corporate and other net expenses and corporate and manufacturing assets and liabilities.

Performance is measured based on segment earnings before interest and income tax (EBIT) as included in the internal management reports that are reviewed by Cochlear's CEO&P, who is also the chief operating decision maker.

Information about reportable segments

	Americas		EMEA[1]		Asia Pacific		Total	
	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Reportable segment revenue	724.8	650.3	517.7	479.6	250.8	222.4	**1,493.3**	**1,352.3**
Reportable segment EBIT	383.8	335.0	227.6	191.7	74.2	59.0	**685.6**	**585.7**
Reportable segment assets	301.9	353.7	275.8	247.6	138.1	148.2	**715.8**	**749.5**
Reportable segment liabilities	151.8	148.7	91.9	67.6	42.9	37.6	**286.6**	**253.9**
Other material items								
Depreciation and amortisation	11.2	10.8	6.5	5.6	5.4	5.6	23.1	22.0
Write-down in value of inventories	0.8	2.0	1.8	1.5	0.7	0.8	3.3	4.3
Acquisition of non-current assets	0.9	29.7	2.9	1.9	0.9	1.4	**4.7**	**33.0**

1. Europe, Middle East and Africa.

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

Revenues	Cochlear implants $m	Services (sound processor upgrades and other) $m	Total Cochlear implants $m	Acoustics $m	Reportable segment revenue $m	Foreign exchange gain/(loss) on hedged sales $m	Consolidated revenue $m
2021	898.6	438.5	**1,337.1**	156.2	**1,493.3**	4.3	**1,497.6**
2020	817.9	395.5	**1,213.4**	138.9	**1,352.3**	(31.7)	**1,320.6**

Profit or loss	Reportable segment EBIT $m	Corporate and other net expenses $m	Foreign exchange gain/(loss) on hedged sales $m	Net finance expense $m	Consolidated profit/(loss) before income tax $m
2021	685.6	(315.8)	4.3	(8.4)	**365.7**
2020	585.7	(816.2)	(31.7)	(8.9)	**(271.1)**

Assets and liabilities	Reportable segment assets $m	Corporate and manufacturing assets $m	Consolidated total assets $m	Reportable segment liabilities $m	Corporate and manufacturing liabilities $m	Consolidated total liabilities $m
2021	715.8	1,722.4	**2,438.2**	286.6	449.9	**736.5**
2020	749.5	1,826.2	**2,575.7**	253.9	920.3	**1,174.2**

Other material items	Reportable segment total		Corporate and manufacturing total		Consolidated total	
	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Depreciation and amortisation	23.1	22.0	56.4	55.5	**79.5**	**77.5**
Write-down in value of inventories	3.3	4.3	8.2	15.4	**11.5**	**19.7**
Acquisition of non-current assets	4.7	33.0	75.4	97.0	**80.1**	**130.0**
Impairment of intangible assets	–	–	–	16.7	**–**	**16.7**
Patent litigation expense	–	–	6.4	503.7	**6.4**	**503.7**
Equity accounted losses	–	–	1.7	1.2	**1.7**	**1.2**

2.2 Revenue

Revenue from the sale of cochlear and acoustic implants and associated sound processors and accessories to customers is based on the contracted sales price. Revenue is recognised at the point in time when control passes to the customer with the exact timing dependent on the agreed sales terms for each contract. Revenue from product sales is also deferred based on the historical rates of product returns.

Revenues from the rendering of services, including ongoing customer support and software licensing are provided to customers over time. Where payments are received in advance, the agreed transaction price is initially deferred and progressively recognised over the life of the agreement as the service is provided. The value of unfulfilled performance obligations under these contracts is reflected in the Consolidated Entity's deferred revenue balance.

Customers include implant recipients, medical practitioners and governments. Contracts are short-term with the exemption of software licences which are recognised over multiple years. The accounting policy for foreign exchange gains/losses arising from hedges of forecast sales transactions is set out in Note 6.4(a).

	2021 $m	2020 $m
Sale of goods before hedging	1,462.7	1,320.3
Foreign exchange gain/(loss) on hedged sales	4.3	(31.7)
Revenue from sale of goods	**1,467.0**	**1,288.6**
Rendering of services	30.6	32.0
Total revenue	**1,497.6**	**1,320.6**

2.3 Expenses

	2021 $m	2020 $m
(a) Cost of sales		
Carrying amount of inventories recognised as an expense	391.4	329.7
Write-down in value of inventories[1]	11.5	8.2
Other	7.3	6.5
Total cost of sales	**410.2**	**344.4**
(b) Other expenses		
Repayment of Government assistance in respect of COVID[2]	24.6	–
Net foreign exchange loss	15.8	6.8
Ineffective forward exchange contracts	–	26.1
Impairment expense[1]	–	29.8
Total other expenses	**40.4**	**62.7**
(c) Patent litigation expense		
Withholding tax expense	29.6	–
Foreign exchange (gain)	(23.2)	–
Patent litigation costs	–	503.7
Total patent litigation expense	**6.4**	**503.7**

1. Total inventory write-down of $11.5 million (2020: $19.7 million) comprises $11.5 million (2020: $8.2 million) write-down of inventories in cost of sales and nil (2020: $11.5 million) write-down of inventories in other expenses.
2. Voluntary repayment of government grants. Refer to Note 2.4 for further details.

Patent litigation expense

The patent litigation expense relates to the long-running patent dispute with Alfred E. Mann Foundation for Scientific Research and Advanced Bionics LLC (collectively referred to as AMF and AB).

In the prior year, the US Court of Appeals affirmed the US District Court's decision against Cochlear Limited and its US subsidiary Cochlear Americas (the Defendants) resulting in the Defendants paying USD 268 million in relation to patent infringement damages and a further USD 12 million in post judgment interest. The Defendants also agreed to a settlement with AMF and AB of pre-judgment interest and attorneys' fees totalling USD 75 million.

In the current year, $29.6 million has been recognised for withholding tax payable on the settlement amounts. This follows receipt of a private ruling from the ATO in December 2020 discussed in Note 3. The foreign exchange gain of $23.2 million represents the revaluation of balance sheet items related to the patent litigation. This includes the USD 268 million loan facility for patent litigation at 30 June 2020. As this matter has now been resolved, there are no provisions remaining in relation to this dispute.

2.4 Other income

Other income, including government grants, is recognised on a systematic basis over the years necessary to match it with the related costs for which it is intended to compensate. If the costs have already been incurred, the amount is recognised in the year the entitlement is confirmed. Foreign exchange gains/losses are recognised in accordance with the accounting policy at Note 1.2(d).

	2021 $m	2020 $m
Grant received or due and receivable	2.1	1.4
Release of contingent consideration	1.6	13.2
Government assistance in respect of COVID	24.6	23.6
Fair value change in investments measured at fair value through profit or loss	52.0	35.8
Other income	6.2	4.1
Total other income	**86.5**	**78.1**

Due to the impact of COVID, Cochlear received AUD 24.6 million (2020: AUD 23.6 million) in government assistance through Australia's JobKeeper Program and other government programs. Cochlear met the eligibility criteria to participate in these programs which were designed to support jobs during COVID. As trading conditions have improved, Cochlear has voluntarily repaid the assistance received in the current financial year from these programs. As the payment is voluntary, the repayment has been included as an expense in Note 2.3(b).

Changes to the contingent consideration value recognised for the Sycle, LLC business acquisition were considered at 30 June 2021. Based on performance hurdles expected to be met, $1.6 million (2020: $13.2 million) has been released to the Income Statement and $3.0 million remains as contingent consideration (2020: $6.2 million).

2.5 Earnings per share

Cochlear presents basic and diluted earnings per share (EPS) for its ordinary shares.

Basic earnings per share

The calculation of basic EPS has been based on the following net profit attributable to equity holders of the parent entity and weighted average number of ordinary shares of the Company:

	2021	2020
Net profit/(loss) attributable to equity holders of the parent entity	$326,500,000	($238,285,000)
Weighted average number of ordinary shares (basic):		
Issued ordinary shares at 1 July (number)	65,687,402	57,715,821
Effect of options, performance shares and performance rights exercised (number)	45,869	88,382
Effect of shares issued under Employee Share Plan (number)	–	5,629
Effect of shares issued under institutional placement (number) [1]	–	1,562,842
Effect of shares issued under share purchase plan (number) [2]	–	261,928
Weighted average number of ordinary shares (basic) at 30 June	**65,733,271**	**59,634,602**
Basic earnings/(loss) per share (cents)	**496.7**	**(399.6)**

1. Institutional placement of 6,285,715 shares 31 March 2020, weighted as per days held for the purpose of the EPS calculation.
2. Share purchase plan of 1,571,567 shares 30 April 2020, weighted as per days held for the purpose of the EPS calculation.

Diluted earnings per share

The calculation of diluted EPS has been based on the following net (loss)/profit attributable to equity holders of the parent entity and weighted average number of shares outstanding after adjustments for the effects of all dilutive potential ordinary shares:

	2021	2020
Net profit/(loss) attributable to equity holders of the parent entity	$326,500,000	($238,285,000)
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic) (number)	65,733,271	59,634,602
Effect of options, performance shares and performance rights unvested (number)	1,071	–
Weighted average number of ordinary shares (diluted) at 30 June	**65,734,342**	**59,634,602**
Diluted earnings/(loss) per share (cents)	**496.7**	**(399.6)**

2.6 Dividends

A liability for dividends payable is recognised in the financial year in which the dividends are declared.

	Dollars per share	Total amount $m	Franked/unfranked	Date of payment
Dividends recognised in the current financial year by the Company are:				
2021				
Interim 2021 ordinary	1.15	75.6	0% Franked	20 April 2021
Total amount	**1.15**	**75.6**		
2020				
Interim 2020 ordinary	1.60	92.5	100% Franked	17 April 2020
Final 2019 ordinary	1.75	101.2	100% Franked	14 October 2019
Total amount	**3.35**	**193.7**		

	Dollars per share	Total amount $m	Franked/unfranked	Date of payment
Subsequent event				
Since the end of the financial year, the directors declared the following dividend:				
Final 2021 ordinary	1.40	92.0	0% Franked	18 October 2021
Total amount	**1.40**	**92.0**		

The financial effect of the 2021 final dividend will be recognised in the subsequent financial year as it was declared after 30 June 2021.

Dividend franking account

Franked dividends paid during the prior year were franked at the tax rate of 30%. There are no further tax consequences as a result of paying dividends other than a reduction in the franking account.

The dividend franking account at year end is normally adjusted for:

- franking credits that will arise from the payment of the current tax liability;
- franking debits that will arise from the payment of dividends recognised as a liability at the year end; and
- franking credits that the Company may be prevented from distributing in subsequent financial years.

At 30 June 2021, there are no franking credits (2020: no franking credits) available to shareholders of Cochlear Limited for subsequent financial years. As there are no franking credits available for subsequent years, there is no impact on the dividend franking account after the balance sheet date.

2.7 Notes to the statement of cash flows

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of Cochlear's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

The operating cash account received an average interest rate of 0.58% (2020: 1.09%) per annum.

(b) Reconciliation of net profit/(loss) to net cash provided by/(used in) operating activities

	2021 $m	2020 $m
Net profit/(loss)	326.5	(238.3)
Add item classified as investing activities:		
Loss on disposal of property, plant and equipment	0.2	0.4
Add/(less) non-cash items:		
Depreciation and amortisation	79.5	77.5
Impairment of intangible assets	–	16.7
Release of contingent consideration	(1.6)	(13.2)
Change in fair value measurement of investments through profit or loss	(52.0)	(35.8)
Equity settled share-based payment transactions	8.1	7.0
Share of losses on equity accounted investments	1.7	1.2
Net cash provided by/(used in) operating activities before changes in assets and liabilities	**362.4**	**(184.5)**
Changes in assets and liabilities:		
Change in trade and other receivables	(60.8)	82.5
Change in inventories	7.7	(28.4)
Change in prepayments	(3.6)	9.3
Change in deferred tax assets/liabilities	36.8	(38.4)
Change in trade and other payables	30.7	(30.3)
Change in current tax assets/liabilities	5.9	(84.8)
Change in employee benefit liabilities	33.2	(15.8)
Change in provisions	(107.0)	85.9
Change in deferred revenue	(2.5)	3.7
Effect of movements in foreign exchange	(31.5)	43.0
Net cash provided by/(used in) operating activities	**271.3**	**(157.8)**

3. Income taxes

The Company and its wholly owned Australian resident entities are part of a tax consolidated group. As a consequence, all members of the tax consolidated group are taxed as a single entity. The head entity within the tax consolidated group is Cochlear Limited.

3.1 Income tax expense/(benefit)

Income tax expense/(benefit) includes current and deferred tax. Current and deferred tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income or equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Income tax expense/(benefit) recognised in the income statement

	2021 $m	2020 $m
Current income tax expense/(benefit)		
Current year	84.6	5.9
Adjustment for prior years	(61.3)	(6.5)
Total current income tax expense/(benefit)	**23.3**	**(0.6)**
Deferred income tax expense/(benefit)		
Origination and reversal of temporary differences	49.4	(9.2)
Net benefit of tax losses	(34.4)	(26.8)
Current year deferred income tax expense/(benefit)	**15.0**	**(36.0)**
Adjustment for prior years	0.9	3.8
Total deferred income tax expense/(benefit)	**15.9**	**(32.2)**
Total income tax expense/(benefit) recognised in the income statement	**39.2**	**(32.8)**

Consolidated Entity – Numerical reconciliation between income tax expense/(benefit) and profit/(loss) before income tax

	2021 $m	2020 $m
Profit/(loss) before income tax	**365.7**	**(271.1)**
Tax at the Australian tax rate of 30% (2020: 30%)	109.7	(81.3)
Add/(less) adjustments for:		
Patent litigation	–	63.7
Research and development allowances	(10.1)	(9.4)
Net non-deductible/(non-assessable) items	3.2	(3.3)
Effect of tax rates in foreign jurisdictions	(3.2)	0.2
	99.6	**(30.1)**
Patent litigation adjustment for prior year[1]	(63.5)	–
Other adjustment for prior years	3.1	(2.7)
Income tax expense/(benefit) on profit/(loss) before income tax	**39.2**	**(32.8)**

1. Cochlear Limited prior year adjustment relating to patent litigation following the receipt of a private ruling from the ATO in December 2020 which clarified the deductibility of elements of the patent litigation expense treated as non-deductible at 30 June 2020.

Income tax recognised in Statement of Changes in Equity

	Note	2021 $m	2020 $m
Income tax on:			
Fair value gains on investments	3.2	17.4	–
Cash flow hedges	3.2	3.5	7.7
Share-based payments	3.2	(4.2)	(2.1)
Capital raising	3.2	–	(7.1)
Total income tax recognised in Statement of Changes in Equity		**16.7**	**(1.5)**

Consolidated Entity – Numerical reconciliation between income tax expense/(benefit) and cash taxes paid

	2021 $m	2020 $m
Income tax expense/(benefit) on profit/(loss) before income tax	39.2	(32.8)
Timing differences recognised in deferred tax	(15.0)	33.8
Current year tax instalments receivable/(payable) next year	43.3	53.1
Prior year tax instalments (received)/paid this year	(53.1)	26.0
Cash taxes paid per statement of cash flows	**14.4**	**80.1**

Cochlear Limited's Australian tax consolidated group – Numerical reconciliation between income tax expense/(benefit) and profit/(loss) before income tax

	2021 $m	2020 $m
Profit/(loss) before income tax (excluding dividends from wholly owned foreign subsidiaries)	257.6	(306.4)
Add: Dividends from wholly owned foreign subsidiaries	45.8	116.0
Profit/(loss) before income tax	**303.4**	**(190.4)**
Tax at the Australian tax rate of 30% (2020: 30%)	91.0	(57.1)
Add/(less) adjustments for:		
Patent litigation	–	63.7
Research and development allowances	(8.5)	(8.5)
Net non-deductible/(non-assessable) items	4.4	(1.7)
Controlled foreign company income	2.8	1.6
Exempt foreign sourced dividends from wholly owned subsidiaries	(13.7)	(34.8)
	76.0	**(36.8)**
Patent litigation prior year adjustment[1]	(63.5)	–
Adjustment for prior years	5.1	(0.3)
Income tax expense/(benefit) on profit/(loss) before income tax	**17.6**	**(37.1)**

1. Cochlear Limited prior year adjustment relating to patent litigation following the receipt of a private ruling from the ATO in December 2020 which clarified the deductibility of elements of the patent litigation expense treated as non-deductible at 30 June 2020.

3.2 Current and deferred tax assets and liabilities

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes.

The measurement of deferred tax mirrors the tax consequences that the Consolidated Entity expects to recover or settle from the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which it can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced if it is no longer probable that the related tax benefit will be realised.

Recognised deferred tax assets and liabilities

	2021 $m	2020 $m
Deferred tax assets	146.8	147.1
Deferred tax liabilities	(50.6)	(14.1)
Deferred tax assets/(liabilities)	**96.2**	**133.0**

Reconciliation of deferred tax assets and liabilities

	Opening balance	Recognised in the income statement	Recognised in other comprehensive income	Recognised in equity	Closing balance
Property, plant and equipment	(1.2)	1.9	–	–	0.7
Intangible assets	(1.4)	(0.2)	–	–	(1.6)
Inventories	46.9	(7.9)	–	–	39.0
Provisions	59.7	(30.9)	–	–	28.8
Deferred revenue	4.0	0.8	–	–	4.8
Forward exchange contracts	(0.4)	–	(3.5)	–	(3.9)
Tax losses and offsets carried forward	26.8	34.4	–	–	61.2
Other	(1.4)	(13.1)	(17.4)	(0.9)	(32.8)
Deferred tax assets/(liabilities)	**133.0**	**(15.0)**	**(20.9)**	**(0.9)**	**96.2**

Unrecognised deferred tax liabilities

At 30 June 2021, a deferred tax liability of $48.1 million (2020: $22.8 million) relating to investments in subsidiaries has not been recognised because the Company controls whether the asset will be recovered or the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Carried forward tax losses

	2021 $m	2020 $m
Total tax losses brought forward	**26.8**	**–**
Total losses recognised	63.9	26.8
Total losses utilised against current taxable income	(29.5)	–
Total losses carried forward to be utilised in future years	**61.2**	**26.8**

Current tax assets and liabilities

The current tax assets for the Consolidated Entity of $69.2 million (2020: $69.4 million) represent the amount of income taxes recoverable in respect of current and prior years and arise from the payment of tax in excess of the amounts due to the relevant taxation authority. The current tax liabilities for the Consolidated Entity of $12.9 million (2020: $7.2 million) represent the amount of income taxes payable in respect of current and prior financial years.

4. Employee benefits

4.1 Employee expenses

	2021 $m	2020 $m
Wages and salaries	410.6	415.6
Contributions to superannuation plans	30.5	31.3
Increase in leave liabilities	(0.4)	6.4
Equity settled share-based payment transactions	8.1	7.0
Total employee expenses	**448.8**	**460.3**

4.2 Employee benefit liabilities

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave are recognised in other payables and provisions if Cochlear has a present obligation to pay an amount as a result of past services provided by the employee. The liability is calculated on remuneration rates as at the reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

Long service leave

The provision for long service leave is the present value of the estimated future cash outflows as a result of services provided by the employee up to the reporting date.

The provision is calculated using expected future increases in remuneration rates, including related on-costs, and expected settlement dates based on turnover history, and is discounted using the corporate bond rates which most closely match the terms to maturity of the related liabilities.

Defined benefit plans

The Consolidated Entity has defined benefit plans that cover, in aggregate, 84 employees in two countries (2020: 84 employees). Cochlear contributed cash of $1.4 million (2020: $1.5 million) to defined benefit plans in the year ended 30 June 2021 and expects to contribute $1.3 million in the year ending 30 June 2022.

The defined benefit obligations are calculated annually by a qualified actuary using the projected unit credit method. Remeasurements of the net defined benefit liability (excluding interest) are recognised immediately in other comprehensive income.

The Company determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the opening net defined benefit liability/(asset), adjusted for any changes in the net defined benefit liability/(asset) during the period resulting from contributions and benefit payments. Net interest expense related to defined benefit plans is recognised in the income statement.

	2021 $m	2020 $m
Current		
Provision for long service leave	13.5	13.4
Provision for annual leave	36.6	36.3
Provision for short-term incentives and sales commissions	37.8	4.7
Total current employee benefit liabilities	**87.9**	**54.4**
Non-current		
Provision for long service leave	6.1	6.9
Defined benefit plan	6.0	5.5
Total non-current employee benefit liabilities	**12.1**	**12.4**
Total employee benefit liabilities	**100.0**	**66.8**

4.3 Share-based payments

From 1 July 2013, the Company grants options and performance rights to certain employees under the Cochlear Executive Incentive Plan (CEIP).

The fair value of options and performance rights granted is recognised as an employee expense, with a corresponding increase in equity. The expense is adjusted by the actual number of options, and rights, that are expected to vest except where forfeiture is due to market-related conditions.

The fair value is measured using the Black-Scholes-Merton pricing model at the date the options, or performance rights are granted, taking into account market-based criteria and the terms and conditions attached to the instruments. The options, or performance rights, are expensed over the vesting period after which the employees become unconditionally entitled to them.

When the Company grants options over its shares to employees of controlled entities, the fair value at grant date is recognised as an increase in the investment in subsidiaries, with a corresponding increase in equity over the vesting period of the grant in the Company's accounts. At 30 June 2021, the unissued ordinary shares of the Company under option and rights and the terms and conditions of the grants and issues are as follows:

Grant date	Exercise price of options	Number of options	Number of performance rights	Contractual life
October 2018[1]	$202.84	75,745	9,280	4 years
August 2019[2]	N/A	–	30,687	2 years
October 2019[1,3]	$217.28	24,231	3,994	4 years
October 2019[1,3]	$217.28	52,626	9,697	5 years
September 2020[4]	N/A	–	4,996	2 years
October 2020[1,3]	$206.06	55,729	12,557	5 years
Total		**208,331**	**71,211**	

1. Options and performance rights offered under long-term incentives.
2. Performance rights offered under deferred short-term incentives.
3. From FY20, LTI Award is subject to a four-year performance period and as a transition for the FY20 LTI plan, two grants were offered including three-year and four-year performance period. No transitional arrangements were provided to the CEO&P. The CEO&P's FY20 LTI grant had a four-year performance period only.
4. Services rights offered under CEIP.

Grants are split between deferred short-term incentives (STI) and long-term incentives (LTI).

Under the CEIP, certain employees receive a portion of their STI achievement in the form of performance rights. The number of performance rights under the deferred STI grants is calculated at the end of each year and then held for two years until vesting. As a result of COVID, no deferred STI were offered in FY21.

Grants under LTI are in two equal tranches assigned to compound annual growth in EPS and ranking of total shareholder return (TSR) against the ASX 100 index. The conditions for minimum vesting are four years of service and:

- 50% weighting on compound annual growth in EPS with a minimum CAGR in EPS of 7.5% assigned to 50% of grant; or
- 50% weighting on relative TSR with the Consolidated Entity's TSR at the 50th percentile against the ASX 100 over four years assigned to 40% of grant.

The grant date fair value of options and performance rights was measured based on the Black-Scholes-Merton pricing model. Gross contract value discounts for dividends not paid, 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. The inputs used in the measurement of the fair values at the grant date are the following:

	21 October 2020 (4yr)		18 September 2020	23 October 2019 (3yr)		23 October 2019 (4yr)		17 September 2019
	TSR based conditions	EPS performance based conditions	Rights service based conditions	TSR based conditions	EPS performance based conditions	TSR based conditions	EPS performance based conditions	Deferred STI service based conditions
Fair value of options at grant date	$38.88	$42.56	N/A	$31.46	$34.13	$35.74	$37.56	N/A
Fair value of performance rights at grant date	$124.47	$188.83	$195.20	$130.48	$206.70	$133.01	$203.72	$209.75
Share price at valuation date	$201.75	$201.75	$201.75	$215.89	$215.89	$215.89	$215.89	$215.89
Option exercise price	$206.06	$206.06	N/A	$217.28	$217.28	$217.28	$217.28	N/A
Expected volatility[1]	30.77%	30.77%	39.13%	24.1%	24.1%	23.96%	23.96%	24.42%
Option life (years)	4 - 5	4 - 5	2	3 - 4	3 - 4	4 - 5	4 - 5	2
Expected dividend	1.66%	1.66%	1.66%	1.46%	1.46%	1.46%	1.46%	1.46%
Risk free interest rate[2]	0.30%	0.30%	0.30%	0.71%	0.71%	0.71%	0.71%	0.71%

1. Measure captures the characteristics of fluctuations in the share price.
2. Based on government bonds.

The numbers and weighted average exercise prices of options are as follows:

	Weighted average exercise price 2021	Number of options 2021	Weighted average exercise price 2020	Number of options 2020
Outstanding at 1 July	**$188.12**	**261,426**	**$163.71**	**263,613**
Forfeited	$159.34	(60,401)	$150.26	(20,846)
Exercised	$154.73	(48,423)	$135.84	(62,646)
Granted	$206.06	55,729	$217.28	81,305
Outstanding at 30 June	**$209.03**	**208,331**	**$188.12**	**261,426**
Exercisable at 30 June	$202.84	75,745	$154.73	104,376

48,423 options were exercised in 2021 (2020: 62,646 options were exercised). The weighted average market share price on the Australian Securities Exchange (ASX) at date of exercise was $207.72 (2020: $215.30). The weighted average remaining contractual life of options outstanding at the end of the year is two years (2020: two years).

Employee Share Plan

Cochlear's Employee Share Plan (Plan) was approved by special resolution at the Annual General Meeting held on 19 October 1999. Under the Plan, the directors can, at their discretion, allocate at nil consideration up to a maximum of $2,000 worth of shares per eligible employee in any one year. In practice, the directors issue shares worth up to the tax concessional limit, currently approximately $1,000 per eligible employee each year. The fair value of shares issued during the financial year is the market price of the Company's shares on the ASX as at the start of trading on the issue date.

Shares under the Plan vest with the employee immediately but are non-transferable for a period of up to three years.

In the current year, the Employee Share Plan was suspended due to COVID impacts. Refer to Note 6.2 for further details.

APAC Employee Equity Plan

The APAC Employee Equity Plan, established in 2016, aligns with the Cochlear Employee Share Plan and provides approximately $1,000 of service rights annually per eligible employee in selected Asian countries. Upon vesting, each service right converts to one share. For the year ended 30 June 2021, the Company issued 1,068 shares under the plan (2020: 826 shares).

4.4 Key management personnel

The following were key management personnel (KMP) of Cochlear at any time during the financial year and unless otherwise indicated were KMP for the entire financial year:

Non-executive directors

R Holliday-Smith (Chairman), YA Allen, G Boreham, AM, Sir M Daniell, KNZM, A Deans, A Denver, A Hussain[1], C McLoughlin[2], AM, DP O'Dwyer[3] and Prof B Robinson, AC.

Executive KMP

D Howitt, A Bishop, R Brook, J Janssen, T Manna and S Sayers[4]

Former Executive KMP

B Cubis[5]

1. Retired on 20 July 2021.
2. Appointed on 1 November 2020.
3. Retired on 20 October 2020.
4. Commenced as a KMP on 1 January 2021.
5. Ceased as a KMP on 30 September 2020.

Key management personnel disclosures

The KMP compensation is included in employee expenses as follows:

	Short-term employee benefits $	Post-employment benefits $	Other long-term benefits $	Share-based payments $	End of service payment $	Total $
2021	12,008,815	415,634	(6,123)	2,794,219	327,132	**15,539,677**
2020	7,772,881	422,082	56,866	2,007,193	–	**10,259,022**

Information regarding individual KMP remuneration and some equity instruments disclosures as permitted by section 300A of the *Corporations Act 2001* is provided in the Remuneration Report of this Annual Report on pages 56 to 73.

The KMP have not received any loans from Cochlear and there have been no other related party transactions with any of Cochlear's KMP.

5. Operating assets and liabilities

5.1 Inventories

Inventories are measured at the lower of cost and net realisable value.

Cost is based on the first-in-first-out principle including expenditure incurred in acquiring the inventories and bringing them to their existing condition and location. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and selling, marketing and distribution expenses.

	Raw materials $m	Work in progress $m	Finished goods $m	Total inventories $m
2021	87.4	32.9	95.8	**216.1**
2020	82.6	32.5	108.7	**223.8**

5.2 Property, plant and equipment

Owned assets

The value of property, plant and equipment is measured as the cost of the asset, minus accumulated depreciation and impairment losses (see Note 5.3). The cost of the asset is the consideration provided plus incidental costs directly attributable to the acquisition.

The value of internally-constructed assets includes the cost of material and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Subsequent costs in relation to replacing a part of property, plant and equipment are capitalised in the carrying amount of the item if it is probable that future economic benefits will flow to Cochlear and its cost can be measured reliably. All other costs are recognised in the income statement as incurred.

Depreciation

Depreciation is calculated to expense the cost of items of property, plant and equipment less their estimated residual values on a straight-line basis over their estimated useful lives. The estimated useful lives in the current and comparative years are as follows: leasehold improvements between one to 15 years, plant and equipment between three to 14 years and buildings between 10 to 30 years.

Depreciation is recognised in the income statement from the date of acquisition or, in respect of internally-constructed assets, from the time an asset is completed and held ready for use.

Depreciation rates and methods, useful lives and residual values are reviewed at each balance sheet date. When changes are made, adjustments are reflected prospectively in current and future financial years only.

	Leasehold improvements		Plant and equipment		Land and buildings		Total	
	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
At cost	66.1	67.6	308.3	295.7	73.1	67.7	**447.5**	**431.0**
Accumulated depreciation	(32.1)	(28.7)	(174.8)	(171.2)	(1.1)	(0.6)	**(208.0)**	**(200.5)**
Net book value	**34.0**	**38.9**	**133.5**	**124.5**	**72.0**	**67.1**	**239.5**	**230.5**
Reconciliations of the carrying amounts are:								
Opening balance	38.9	13.8	124.5	123.1	67.1	29.6	**230.5**	**166.5**
Additions	2.5	30.0	33.9	25.2	4.8	37.7	**41.2**	**92.9**
Disposals	–	–	(0.2)	(0.4)	–	–	**(0.2)**	**(0.4)**
Depreciation	(5.4)	(4.4)	(23.2)	(22.0)	(0.8)	(0.2)	**(29.4)**	**(26.6)**
Effect of movements in foreign exchange	(2.0)	(0.5)	(1.5)	(1.4)	0.9	–	**(2.6)**	**(1.9)**
Net book value	**34.0**	**38.9**	**133.5**	**124.5**	**72.0**	**67.1**	**239.5**	**230.5**

5.3 Intangible assets

Goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is tested annually for impairment.

IT system costs

IT system costs are recognised as an intangible asset where Cochlear controls future economic benefits as a result of the costs incurred, and are stated at cost less accumulated amortisation. Costs include expenditure directly related to the development and implementation (hardware and software costs) of IT systems including direct labour.

Other intangible assets

Other intangible assets, comprising acquired technology, patents and licences, customer relationships, capitalised development expenditure and intellectual property, are acquired individually or through business combinations and are stated at cost less accumulated amortisation and impairment losses (see below).

Amortisation

Amortisation is calculated to expense the cost of intangible assets less their estimated residual values on a straight-line basis over their estimated useful lives. The estimated useful lives for the current and comparative years are as follows: IT system costs between two to seven years, acquired technology, patents and licences between four to 15 years, customer relationships up to 31 years and capitalised development expenditure between four to 10 years.

Amortisation is recognised in the income statement from the date the assets are available for use unless their lives are indefinite.

Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment annually.

	Intangible assets with indefinite useful life	Intangible assets with finite useful life			Intangible assets
	Goodwill	IT system costs	Acquired technology, patents and licences	Other intangible assets	Total
	$m	$m	$m	$m	$m
2021					
At cost	267.3	132.8	140.3	53.8	**594.2**
Accumulated amortisation and impairment losses	–	(79.5)	(81.8)	(30.1)	**(191.4)**
Net book value	**267.3**	**53.3**	**58.5**	**23.7**	**402.8**
Reconciliations of the carrying amounts are:					
Opening balance	270.9	58.1	53.6	27.7	**410.3**
Additions	–	5.9	13.0	1.6	**20.5**
Amortisation	–	(10.7)	(8.1)	(3.8)	**(22.6)**
Effect of movements in foreign exchange	(3.6)	–	–	(1.8)	**(5.4)**
Net book value	**267.3**	**53.3**	**58.5**	**23.7**	**402.8**
2020					
At cost	270.9	127.4	127.4	55.4	**581.1**
Accumulated amortisation	–	(69.3)	(73.8)	(27.7)	**(170.8)**
Net book value	**270.9**	**58.1**	**53.6**	**27.7**	**410.3**
Reconciliations of the carrying amounts are:					
Opening balance	268.8	50.4	72.5	32.7	**424.4**
Additions	–	18.5	4.4	–	**22.9**
Amortisation	–	(10.8)	(6.6)	(5.1)	**(22.5)**
Impairment	–	–	(16.7)	–	**(16.7)**
Effect of movements in foreign exchange	2.1	–	–	0.1	**2.2**
Net book value	**270.9**	**58.1**	**53.6**	**27.7**	**410.3**

Impairment

Cochlear annually tests goodwill and other intangible assets with indefinite useful life for impairment. Other non-financial assets, other than inventories (see Note 5.1) and deferred tax assets (see Note 3.2), are tested if there is any indication of impairment or if there is any indication that an impairment loss recognised in a prior period may no longer exist or may have decreased.

Assets are impaired if their carrying value exceeds their recoverable amount. The asset's recoverable amount is estimated based on its value in use.

An asset that does not generate independent cash flows and its individual value in use cannot be estimated is tested for impairment as part of a cash-generating unit (CGU).

An impairment loss is recognised in the income statement when the carrying amount of an asset or CGU exceeds its recoverable amount. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

Impairment tests for CGUs

Cochlear allocates goodwill and other intangible assets to CGUs based on the expected benefits that each CGU will receive from use of those assets.

The aggregate carrying amounts of goodwill allocated to each CGU are:

	Americas	EMEA	Asia Pacific	Total
	$m	$m	$m	$m
2021	183.4	73.9	10.0	**267.3**
2020	185.2	75.5	10.2	**270.9**

The recoverable amount of each CGU is based on value-in-use calculations. Those calculations use five-year cash flow projections based on actual operating results and an EBIT growth rate, considered modest compared to historical growth rates in the CGUs.

Cash flows for year six onwards are extrapolated using a terminal growth rate of 3.0% (2020: 3.0%) per annum which is consistent with long-term growth rates. The pre-tax discount rate for each CGU is as follows: Americas 6.8% (2020: 9.6%), EMEA 6.9% (2020: 9.8%) and Asia Pacific 7.4% (2020: 10.3%).

The key assumptions and the approach to determining their value in the current year are:

Assumption	Approach
Discount rate	Based on weighted average cost of capital reflecting current market assessments of the time value of money and risks specific to the CGU.
EBIT growth rate	Based on a five-year cash flow projection taking into account historical growth rates and product lifecycle.
Terminal value growth rate	Based on long-term growth rates.

The recoverable amount of each CGU including unallocated corporate assets is in excess of the carrying amount and therefore no impairment expense was recognised. The above represents the best estimate of the directors. Sensitivity analysis has been undertaken to stress test cash flow forecasts, discount rates and terminal value growth rate assumptions. Based on the range and depth of sensitivities applied no reasonable change in assumptions would result in an impairment.

5.4 Investments, equity-accounted investments and other financial assets

Cochlear has a number of strategic investments that may, over the longer term, enhance or leverage our intellectual property. These include investments in Nyxoah S.A., Saluda Medical and EpiMinder. As Cochlear holds these investments for strategic purposes it elects to fair value investments through other comprehensive income when possible in accordance with accounting standards.

Cochlear's investments are valued individually using quoted prices or unobservable market inputs. Unobservable inputs are those not readily available in an active market. These inputs are generally derived from other observable inputs that match the risk profile of the financial instruments and validated against current market assumptions and historical transactions where available. Refer to Note 6.4(d) for further details on the valuation of financial assets.

Equity investments at fair value through other comprehensive income are ordinary shares. Investments measured at fair value through profit or loss are interests in entities that do not meet the definition of equity, such as instruments convertible into ordinary shares.

	Investments $m	Equity-Accounted Investments $m	Other Financial Assets $m
Balance at 1 July 2020	25.9	69.0	5.0
Additions	6.4	8.1	3.9
Share of equity-accounted losses	–	(1.7)	–
Fair value gain in investments measured at fair value through profit or loss	–	33.6	18.4
Transferred from equity-accounted investments	109.0	(109.0)	–
Fair value gain through other comprehensive income (before tax)	58.2	–	–
Balance at 30 June 2021	**199.5**	–	**27.3**

At 30 June 2021, $50.0 million of investments is measured at fair valued through profit or loss with the remaining $176.8 million measured at fair valued through other comprehensive income.

Investment in Nyxoah S.A.

In February 2020, Cochlear executed an agreement to invest an additional EUR 8.0 million in Nyxoah S.A. The additional investment resulted in Cochlear's ownership interest exceeding 20% and the investee has been reclassified as an associate from February 2020.

Associates are accounted for using the equity method with Cochlear recognising its share of the associate's profit or loss and other comprehensive income. Transactions with associates are eliminated to the extent of Cochlear's interest in the associate until such time as they are realised by the investee on consumption or sale. Investments in associates are assessed for impairment when indicators of impairment are present and, if required, written down to the recoverable amount.

If Cochlear's share of losses exceeds its interest in the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that Cochlear has incurred legal or constructive obligations or made payments on behalf of the associate.

In September 2020, Nyxoah S.A., completed an Initial Public Offering ('IPO'). Cochlear invested a further EUR 5.0 million ($8.1 million) in the IPO, however, the IPO resulted in Cochlear ownership interest falling to 17.9% and Cochlear's right to appoint a director to the Nyxoah board terminated at completion of the IPO. This change in ownership interest resulted in the investee being reclassified from an investment that is equity accounted to an investment that is fair valued through other comprehensive income.

As required by accounting standards, on ceasing equity-accounting of Nyxoah S.A. a $33.6 million gain was recognised in profit or loss, being the difference between the fair value and the equity-accounted carrying value at completion of the IPO. At 30 June 2021, the fair value of this investment is $158.8 million based on the listed share price, resulting in a gain of $49.8 million through other comprehensive income.

5.5 Provisions

A provision is recognised in the balance sheet when:

- Cochlear has a present obligation (legal or constructive) as a result of a past event;
- a reliable estimate can be made of the amount of the obligation; and
- it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

2021	Warranties	Legal and insurance	Product recall	Make good lease costs	Total
	$m	$m	$m	$m	$m
Opening balance	31.6	115.2	9.0	1.6	**157.4**
Provision made	16.3	31.5	–	1.5	**49.3**
Provision used	(11.4)	(136.8)	(1.0)	–	**(149.2)**
Effect of movements in foreign exchange	(2.2)	(4.9)	–	–	**(7.1)**
Total provisions	**34.3**	**5.0**	**8.0**	**3.1**	**50.4**
Represented by:					
Current	13.2	4.9	1.3	–	**19.4**
Non-current	21.1	0.1	6.7	3.1	**31.0**
Total provisions	**34.3**	**5.0**	**8.0**	**3.1**	**50.4**

Warranties

A provision for warranty claims is recognised in relation to sales made prior to the reporting date, based on historical claim rates and respective product populations. Warranty periods on hardware products extend for three to 10 years.

Legal and insurance

Cochlear is involved in litigation in the ordinary course of business, including claims made by Cochlear and against Cochlear for patent infringement. Where Cochlear is able to make a reliable estimate of the estimated future costs related to these proceedings, including legal fees, a provision is recognised.

The legal and insurance provision also included amounts provided in relation to the long-running patent dispute with Alfred E. Mann Foundation for Scientific Research and Advanced Bionics LLC (collectively referred to as AMF and AB). As at 30 June 2021, the provision has been fully utilised. Refer to Note 2.3 for further details.

Cochlear self-insures certain risks associated with operating in its line of business. Claims are recognised when an incident occurs that may give rise to a claim. They are measured at the cost that Cochlear expects to incur in defending or settling the claims, discounted using a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Product recall

On 11 September 2011, the Company initiated a worldwide voluntary recall of its unimplanted Nucleus CI500 cochlear implant range. Management has made judgements, estimates and assumptions related to probable costs arising from the recall which affect the reported amounts of assets, liabilities, income and expenses. Actual outcomes may differ from these estimates as further information is identified.

No additional provisions have been made or released to the income statement for the year ended 30 June 2021.

Make good lease costs

Cochlear has several operating leases over its offices that require the premises to be returned to the lessor in their original condition. The operating lease payments do not include an element for the repairs and overhauls.

5.6 Contingent liabilities

The details of contingent liabilities are set out below. The directors are of the opinion that provisions are either adequate or are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required, or the amount is not capable of reliable measurement.

Product liability claims

Cochlear is currently, and/or is likely from time to time to be, involved in claims and lawsuits incidental to the ordinary course of business, including claims for damages relating to its products and services.

In addition, Cochlear has received legal claims and lawsuits in various countries including the United States by recipients who have had Cochlear implant CI500 series devices stop functioning for the reason that led to the September 2011 voluntary recall of unimplanted CI500 series devices.

Cochlear carries product liability insurance and has made claims under the policies. The insurers have agreed to indemnify Cochlear in accordance with the terms and conditions of the policies including deductibles and exclusions. In the opinion of the directors, the details of the product liability insurance policies are commercially sensitive and any disclosure of these details may be prejudicial to the interests of Cochlear.

Regulatory actions

Cochlear operates in multiple overseas jurisdictions and, from time to time, is subject to tax, customs and regulatory reviews, audits and investigations. Known reviews, audits and investigations are not expected to result in a significant adverse outcome for Cochlear. Outcomes are uncertain because investigations are ongoing.

Patent infringement claims

Cochlear operates in an industry that has substantial intellectual property and patents protecting that intellectual property. From time to time, Cochlear is involved in confidential discussions with patent owners including competitors regarding threatened litigation for alleged infringement of patent rights. Current discussions are not expected to result in a significant adverse outcome for Cochlear.

5.7 Leases

Cochlear leases a number of assets including land and buildings, office equipment and motor vehicles. Cochlear's lease agreements often include a standard lease term with an extension option at the end. Lease agreements may include annual rent increases based on either a fixed percentage or benchmarked against an inflation index. Land and building leases may also include periodic market rent reviews which resets the rent to the market rent at the time of the review.

At inception of a contract, Cochlear assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Where the contract contains a lease, a lease liability is recognised at lease commencement date. The liability is initially measured at the present value of future lease payments, discounted using Cochlear's incremental borrowing rate.

The lease liability is subsequently remeasured when there is a modification in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. The right of use asset is initially measured at cost and subsequently adjusted for certain remeasurements of the lease liability.

Over the life of the lease, the lease liability will be increased by interest costs and will be reduced as lease payments are made. The right of use asset is amortised on a straight-line basis over its useful life.

Cochlear has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether Cochlear is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right of use assets recognised.

Cochlear has elected not to recognise a right of use asset and a corresponding lease liability for leases with a term of less than 12 months or for leases of low-value assets. Cochlear recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The right of use asset depreciation is recognised in cost of sales, selling, marketing and general expenses, research and development expenses and administration expenses in the income statement depending on the function of associated activities; while interest expense incurred on the lease liability is recognised in finance expense – interest in the income statement. For the purpose of presentation of the statement of cash flows, the lease payments are separated into principal payments (financing activities) and interest payments (operating activities).

The following table shows movements in the right of use assets during the year:

	Land and buildings $m	Other assets $m	Total $m
Balance at 1 July 2020	202.0	6.3	**208.3**
Additions	2.5	8.4	**10.9**
Remeasurement	0.9	–	**0.9**
Depreciation expense	(23.4)	(4.1)	**(27.5)**
Effect of movements in foreign exchange	(4.2)	0.6	**(3.6)**
Balance at 30 June 2021	**177.8**	**11.2**	**189.0**

6. Capital and financial structure

6.1 Capital management

Cochlear's capital management objectives are to safeguard its ability to continue as a going concern, provide returns to shareholders, provide benefits to other stakeholders and maintain an optimal capital structure to reduce the cost of capital.

The Board aims to maintain and develop a capital base appropriate to Cochlear's objectives and monitors a number of qualitative metrics as follows:

- gearing ratio – defined as total borrowings as a proportion of total equity;
- dividend payout ratio – defined as dividends as a proportion of net profit after tax excluding one-off and non-recurring items ('underlying net profit') for a given period;
- growth in EPS – defined as the compound annual growth percentage in EPS over a three-year period; and
- TSR – defined as the percentage growth in share price over a three-year period plus the cumulative three-year dividend return calculated against the opening share price in the same three-year period.

Senior management tracks, manages and reports against these capital management metrics periodically as part of broader corporate governance responsibilities. The Board undertakes periodic reviews to assess whether the metrics continue to be appropriate and whether the capital management structure is appropriate to meet Cochlear's medium and long-term strategic requirements.

In order to maintain or adjust the capital structure, Cochlear may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

In the financial year ended 30 June 2020, Cochlear increased its liquidity by undertaking a capital raising of AUD 1,075.6 million (net of related costs) and additionally increased Cochlear's overall available debt by obtaining additional working capital facilities from existing lenders and an additional facility for the patent litigation. During the financial year ended 30 June 2021, those additional working capital facilities were terminated, the additional facility for the patent litigation was fully repaid and existing net debt levels were reduced.

Cochlear's priority for the use of cash from the capital raising was to reduce existing debt levels, which was achieved during the financial year ended 30 June 2021, and to maintain a strengthened balance sheet to support the business during any continuing impacts of COVID while continuing to invest in core strategic business priorities, research and development and the resumption of dividends to shareholders.

6.2 Capital and reserves

Share capital

The Company does not have authorised capital or par value in respect of its issued shares.

	Total number of issued shares	
	2021	**2020**
On issue 1 July – fully paid	**65,687,402**	**57,715,821**
Issued for nil consideration under Employee Share Plan	–	7,955
Issued from exercise of APAC Equity Plan	1,068	826
Issued from the exercise of options	26,689	54,419
Issued from the exercise of performance rights	28,919	51,099
Issued from capital raising – institutional placement	–	6,285,715
Issued from capital raising – share purchase plan	–	1,571,567
On issue 30 June – fully paid	**65,744,078**	**65,687,402**

During the 2021 financial year, Cochlear purchased 24,990 shares (2020: 10,394 shares) on-market to satisfy exercise of options and performance rights and did not issue shares to employees under the Employee Share Plan (2020: 7,955 shares). Refer to Note 4.3 for further details.

Ordinary shares are classified as equity and incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any income tax benefit.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the prior year, Cochlear completed a capital raising of AUD 1,075.6 million, net of related costs, in response to the combined effects of COVID and the patent litigation. The capital raising was to ensure Cochlear remained strongly capitalised during the market uncertainties of COVID, to enhance Cochlear's balance sheet and to strengthen liquidity in order to position Cochlear for the future. From the capital raise, 6,285,715 shares were issued from the institutional placement on 31 March 2020 and 1,571,567 shares were issued from the share purchase plan on 30 April 2020.

Translation reserve

The translation reserve records the foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary, where their functional currency is different to the presentation currency of the reporting entity. See Note 1.2(d) for further details.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to underlying transactions that have not yet occurred.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of investments revalued through other comprehensive income until the assets are derecognised or impaired.

Share-based payment reserve

The share-based payment reserve comprises the cost of shares, options, performance shares and performance rights granted to eligible executives under the CEIP, as detailed in Note 4.3 less any payments made to meet Cochlear's obligations through the acquisition of shares on-market, together with any deferred tax asset/liability on such payments.

6.3 Total borrowings, net cash and finance costs

Loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequently, loans and borrowings are stated at amortised cost, with any difference between amortised cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

Debt establishment costs are capitalised and recognised as a reduction in loans and borrowings. They are recorded initially at cost and are amortised over the period of the loan. Included within borrowings is an amount of $0.7 million (2020: $0.9 million) in relation to unamortised loan establishment fees.

As a result of the capital raising, Cochlear continues to be in a net cash position for the year ended 30 June 2021.

	2021 $m	2020 $m
Cash at bank		
Cash and cash equivalents	609.6	565.0
Term deposits[1]	–	365.0
Total Cash	**609.6**	**930.0**
Less: Total borrowings		
Current	–	(393.1)
Non-current	(45.0)	(79.9)
Total borrowings	**(45.0)**	**(473.0)**
Net Cash	**564.6**	**457.0**

1. Term deposits are bank deposits with a fixed term maturity of longer than three months from inception. Bank deposits with a fixed term of less than three months are classified as cash and cash equivalents. All term deposits have matured and therefore no term deposits were held as at 30 June 2021 (2020: AUD 365.0 million).

Gearing ratio

	2021 $m	2020 $m
Total borrowings	45.0	473.0
Total equity	1,701.7	1,401.5
Gearing ratio[1]	**2.6%**	**33.7%**

1. Gearing ratio = Total borrowings/Total equity.

Financing arrangements

	Multi-option bank facilities		Other credit facilities		
	Unsecured bank loan	Bank guarantees[2]	Unsecured bank overdrafts	Unsecured bank loan	Bank guarantees[2]
	$m	$m	$m	$m	$m
2021					
Utilised at reporting date[1]	45.7	5.5	–	–	6.2
Not utilised at reporting date	300.0	9.5	2.7	5.4	3.4
Total facilities	**345.7**	**15.0**	**2.7**	**5.4**	**9.6**
2020					
Utilised at reporting date[1]	470.5	8.0	–	3.4	5.4
Not utilised at reporting date	527.2	7.0	2.9	2.7	4.2
Total facilities	**997.7**	**15.0**	**2.9**	**6.1**	**9.6**

1. Excludes the amount of $0.7 million (2020: $0.9 million) in relation to unamortised loan establishment fees.
2. Bank guarantees include standby letters of credit.

Multi-option bank facilities – Unsecured bank loan

During the year ended 30 June 2021, Cochlear restructured its bank loan facilities as follows:

Facility type	<1 year term $m	1 - 2 year term $m	2 - 3 year term $m	3 - 4 year term $m	5 - 6 year term $m	Total facilities $m
Committed debt including guarantees	–	145.7	115.0	–	100.0	**360.7**

All facilities are unsecured and have interlocking guarantees provided by certain controlled entities. Interest on the facilities is variable and charged at prevailing market rates.

Other credit facilities

Unsecured bank overdrafts

Certain unsecured bank overdrafts are payable on demand and are subject to annual review. Interest on unsecured bank overdrafts is variable and is charged at prevailing market rates.

Unsecured bank loan

Cochlear has a Japanese yen (JPY) 450.0 million loan facility and a Swedish kroner (SEK) 300.0 million loan facility. The facilities are unsecured bank loans. Interest on unsecured bank loans is variable and is charged at prevailing market rates.

Bank guarantees/Standby letters of credit

As at 30 June 2021, Cochlear had additional contingent liability facilities denominated in USD, Euros (EUR), Sterling (GBP), Indian rupees and New Zealand dollars totalling AUD 9.6 million (2020: AUD 9.6 million).

Finance costs

Interest income is recognised as it accrues in the income statement. Borrowing costs are recognised as they accrue in the income statement as a finance expense.

6.4 Financial risk management

The activities of Cochlear are exposed to a variety of risks, including market risk (comprising currency and interest rate risk), credit risk and liquidity risk. Cochlear's overall risk management program considers the unpredictability of financial markets and seeks to appropriately manage the potential adverse effects on financial performance.

The Board has overall responsibility for the establishment and oversight of the Risk Management Framework. Under instruction of the Board, management has established a Risk Management Committee which is responsible for identifying, assessing and appropriately managing risk throughout Cochlear. Key risks are reported to the Audit & Risk Committee on a regular basis.

The Audit & Risk Committee oversees how management monitors compliance with Cochlear's Risk Management Framework, policies and procedures and is assisted by Group Risk and Assurance which undertakes reviews of key management controls and procedures.

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect Cochlear's net profit or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures by buying and selling forward exchange contracts and incurring financial liabilities, within acceptable parameters, while optimising the return, all in accordance with the treasury risk policy.

Currency risk

Cochlear is exposed to currencies other than the respective functional currencies of the controlled entities, primarily AUD, Swiss francs (CHF), CNY, EUR, GBP, JPY, SEK and USD.

Over 90% of Cochlear's revenues and over 50% of costs are denominated in currencies other than AUD. Currency risk is hedged in accordance with the treasury risk policy. Risk resulting from the translation of assets and liabilities of foreign operations into Cochlear's reporting currency is not hedged.

Cochlear's exposure to foreign currency risk in relation to non-derivative financial instruments at 30 June 2021 was as follows, based upon notional amounts:

Amounts local currency/millions	CHF	CNY	EUR	GBP	JPY	SEK	USD
2021							
Trade receivables	0.3	6.4	45.1	2.2	922.2	5.5	97.0
Unsecured bank loan	–	–	–	–	–	(300.0)	–
Trade payables	(1.4)	(47.4)	(17.3)	(4.5)	(54.2)	(46.6)	(23.4)
Balance sheet exposure	**(1.1)**	**(41.0)**	**27.8**	**(2.3)**	**868.0**	**(341.1)**	**73.6**
2020							
Trade receivables	0.6	6.0	36.5	(0.9)	771.8	1.7	66.4
Unsecured bank loan	–	(165.4)	–	–	(250.0)	(300.0)	(268.0)
Trade payables	(0.1)	(26.3)	(10.6)	(3.0)	(74.4)	(39.9)	(23.8)
Balance sheet exposure	**0.5**	**(185.7)**	**25.9**	**(3.9)**	**447.4**	**(338.2)**	**(225.4)**

Derivative assets and liabilities

In order to reduce the impact of short-term fluctuations on Cochlear's earnings, Cochlear enters into forward exchange contracts to hedge anticipated sales and purchases in CHF, EUR, GBP, JPY, SEK and USD. The amounts of forward cover taken are in accordance with approved policy and internal forecasts.

In the year ended 30 June 2021, Cochlear designated the majority of forward exchange contracts as cash flow hedges. These are hedges of forecast future transactions to manage the currency risk arising from exchange rate fluctuations. The hedged items were highly probable foreign currency transactions.

At the start of a hedge relationship, Cochlear designates and documents the relationship between the hedging instrument and hedged item. This includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how Cochlear will assess the effectiveness of the hedging relationship. Cochlear regularly assesses whether the hedging instruments are expected to be highly effective in offsetting the changes in the cash flows of the respective hedged items.

Forward exchange contracts are recognised initially at fair value. Subsequently, forward exchange contracts are measured at fair value. Changes in the fair value are recognised directly in equity to the extent that the hedge is effective. The ineffective part of any hedging instrument is recognised immediately in the income statement.

If the forward exchange contract no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs or until cash flows arising from the transaction are received.

For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period the hedged forecast transaction affects the income statement and on the same line item as that hedged forecast transaction.

In the year ended 30 June 2021, all cash flow hedges were effective at the reporting date.

The following table sets out the gross value to be received or paid under remaining forward exchange contracts and the weighted average contracted exchange rates of outstanding contracts:

	Weighted average rate	< 1 year $m	1 - 2 years $m	2 - 5 years $m
2021				
Buy CHF	0.678	(18.6)	–	–
Sell EUR	0.617	146.3	95.9	–
Sell GBP	0.544	21.3	9.0	–
Sell JPY	76.901	18.2	9.2	–
Buy SEK	6.414	(32.7)	-	–
Sell USD	0.741	264.5	171.4	–
Total		**399.0**	**285.5**	–
2020				
Buy CHF	0.659	(12.0)	–	–
Sell EUR	0.595	–	63.1	–
Sell GBP	0.522	–	9.6	–
Sell JPY	72.979	19.8	11.1	–
Buy SEK	6.492	(27.7)	–	–
Sell USD	0.691	–	122.8	26.3
Total		**(19.9)**	**206.6**	**26.3**

Currency risk – Sensitivity analysis

An analysis based on a 10% strengthening of foreign currencies would have increased Cochlear's profit for the year ended 30 June 2021 after tax by approximately AUD 0.9 million (2020: increased loss by AUD 1.7 million) and increased Cochlear's equity by AUD 49.9 million (2020: increase by AUD 13.6 million). A 10% weakening of the foreign currencies would have a neutral impact on Cochlear's profit after tax (2020: decreased loss by AUD 2.4 million) and decreased equity by AUD 40.4 million (2020: decrease by AUD 13.0 million).

This analysis assumes that all other variables remain constant and ignores any impact from the translation of foreign operations.

The following significant exchange rates applied to Cochlear during the year:

	Average rate		Reporting date spot rate	
AUD 1 =	**2021**	**2020**	**2021**	**2020**
CHF	0.679	0.656	0.692	0.654
CNY	4.940	4.725	4.856	4.869
EUR	0.625	0.606	0.631	0.611
GBP	0.553	0.533	0.542	0.558
JPY	79.464	72.549	83.025	73.985
SEK	6.421	6.457	6.561	6.413
USD	0.745	0.672	0.752	0.688

Interest rate risk

Cochlear is exposed to interest rate risks in Australia, Japan and Sweden. See Note 6.4(c) for effective interest rates, repayment and repricing analysis of outstanding debt.

At the reporting date, the interest rate profile of Cochlear's interest-bearing financial instruments is financial assets of $609.6 million (2020: $930.0 million) and financial liabilities of $45.0 million (2020: $473.0 million).

Interest rate risk – Sensitivity analysis

For the year ended 30 June 2021, it is estimated that a general increase of one percent in interest rates would have reduced Cochlear's profit after income tax and equity by approximately $0.3 million (2020: increased loss by $3.3 million). A one percent general decrease in interest rates would have had the equal but opposite effect on Cochlear's loss and equity.

(b) Credit risk

Credit risk is the risk of financial loss to Cochlear if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Cochlear is exposed to credit risk from its operating activities (primarily from trade and other receivables) and from financing activities, including deposits with financial institutions and foreign exchange contracts. The carrying amounts of these financial assets at year-end represent Cochlear's maximum exposure to credit risk.

Credit risk management – Trade and other receivables

Customer credit risk is managed at a regional level, subject to Board approved policies and procedures. The ageing profile of total receivables balances, individually significant debtors by geographic region, high risk customers and collection activities are reported to management and the Board on a monthly basis. Where high risk customers are identified, regional management is responsible for placing restrictions on future trading, including suspending future shipments and administering dispatches on a prepayment basis.

Cochlear's exposure to credit risk is influenced mainly by the political and geographical location and characteristics of individual customers. Cochlear does not have a significant concentration of credit risk with a single customer.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Americas $m	EMEA $m	Asia Pacific $m	Total $m
2021	88.4	125.9	47.8	**262.1**
2020	74.7	92.1	44.6	**211.4**

Depending on the region, Cochlear's credit terms are generally 30 days; however, there are certain jurisdictions where it is customary practice for customers to make payment beyond 270 days. Although Cochlear discloses the balance as overdue, it is not indicative of a higher than normal credit risk as payments are typically received by Cochlear within the extended timeframes.

Cochlear has established an allowance for impairment that represents its estimate of the expected credit losses in respect of trade receivables. The expected credit losses are assessed by reference to historical collection trends and timing of recoveries of each customer type within a region.

In response to COVID, Cochlear undertook reviews of its outstanding trade debtors. The reviews considered the macroeconomic conditions and outlook in the country that the customer is located as well as any specific collection risk identified by either Cochlear or the customer. As a result of these reviews, the trade debtors provision has been adjusted to reflect the increased level of risk caused by COVID in the current and prior year. While these model inputs including forward-looking information were revised, the expected credit loss model remains consistent with the prior year.

Trade and other receivables are stated at amortised cost less impairment losses. The ageing of Cochlear's trade receivables at the reporting date was:

	2021 $m	2020 $m
Trade receivables		
Not past due	220.7	163.5
Past due 1 - 60 days	29.9	31.6
Past due 61 - 180 days	14.0	19.8
Past due 181 - 360 days	6.3	11.6
Past due 361 days and over	9.0	8.8
	279.9	**235.3**
Allowance for impairment losses	(17.8)	(23.9)
Trade receivables net of allowance for impairment losses	**262.1**	**211.4**
Other receivables – current	34.2	24.1
Trade and other receivables	**296.3**	**235.5**

Credit risk management – Cash deposits, term deposits and forward exchange contracts

The majority of Cochlear's cash deposits, term deposits and all forward exchange contracts are only executed with leading financial institutions whose credit rating is at least 'A' on the Standard & Poor's rating index.

(c) Liquidity risk

Liquidity risk is the risk that Cochlear will not be able to meet its financial obligations as they fall due. Cochlear manages liquidity risk by ensuring, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The capital raising increased Cochlear's liquidity such that Cochlear continues to be in a net cash position for the year ended 30 June 2021 (refer to Note 6.1). This has ensured that Cochlear has a strengthened balance sheet and is well positioned to meet all liabilities when due.

Non-derivative liabilities

Contractual maturities of non-derivative financial liabilities, including estimated interest payments and excluding the impact of netting agreements, are as follows:

	Effective interest rate Per annum	Carrying amount $m	Contractual cash flows $m	< 1 year $m	1 - 2 years $m	2 - 5 years $m	More than 5 years $m
2021							
SEK floating rate loan	0.66%	45.7	46.2	0.3	45.9	–	–
Trade and other payables	–	203.6	203.6	202.9	0.7	–	–
Lease liability	–	219.3	260.3	31.9	29.1	72.6	126.7
Total		**468.6**	**510.1**	**235.1**	**75.7**	**72.6**	**126.7**
2020							
USD floating rate loan	1.17%	389.8	394.3	394.3	–	–	–
CNY floating rate loan	2.60%	34.0	37.6	0.9	0.9	35.8	–
JPY floating rate loan	0.55%	3.3	3.4	3.4	–	–	–
SEK floating rate loan	0.91%	45.9	47.8	0.2	0.4	47.2	–
Trade and other payables	–	172.9	172.9	159.3	12.4	1.2	–
Lease liability	–	231.5	282.6	26.0	28.2	77.7	150.7
Total		**877.4**	**938.6**	**584.1**	**41.9**	**161.9**	**150.7**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

Derivative assets and liabilities

The following table indicates the periods in which the cash flows associated with Cochlear's derivatives are expected to occur:

	Carrying amount $m	Contractual cash flows $m	< 1 year $m	1 - 2 years $m	2 - 5 years $m
2021					
Assets	20.9	20.9	17.6	3.3	–
Liabilities	(7.9)	(7.9)	(4.7)	(3.2)	–
Total	**13.0**	**13.0**	**12.9**	**0.1**	–
2020					
Assets	3.3	3.3	1.2	2.0	0.1
Liabilities	(2.0)	(2.0)	(0.3)	(1.6)	(0.1)
Total	**1.3**	**1.3**	**0.9**	**0.4**	–

The expected impact on the income statement is not considered to be significantly different to the cash flow impact noted above.

(d) Fair value

The carrying amounts and estimated fair values of Cochlear's financial assets and liabilities are materially the same.

The fair value of forward exchange contracts is based upon the listed market price, if available. If a listed market price is not available, the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using benchmark bill futures and swap rates. These fair values are provided by independent third parties.

Valuation of financial assets and liabilities

For financial assets and liabilities measured and carried at fair value, Cochlear uses the following levels to categorise the valuation methods used:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of Cochlear's forward exchange contracts were valued using observable market inputs (Level 2) and there were no transfers between levels during the year.

7. Other notes

7.1 Auditors' remuneration

	2021 $	2020 $
Audit services		
Auditors of the Company – KPMG:		
– audit and review of financial reports	2,030,461	2,170,767
Total audit services	**2,030,461**	**2,170,767**
Non-audit services		
Auditors of the Company – KPMG:		
– other assurance services	–	35,666
– taxation compliance and advisory services	1,370,782	1,547,505
– other	52,942	9,185
Total non-audit services	**1,423,724**	**1,592,356**

7.2 Commitments

Capital expenditure commitments

As at 30 June 2021, Cochlear entered into contracts to purchase property, plant and equipment for $20.4 million (2020: $24.0 million).

7.3 Controlled entities

Subsidiaries conduct business transactions with various controlled entities. Such transactions include purchases and sales of certain products, dividends, interest and loans.

	Interest held 2021 %	Interest held 2020 %	Country of incorporation/ formation
Company			
Cochlear Limited			Australia
Controlled entities			
Cochlear AG	100	100	Switzerland
Cochlear Americas	100	100	USA
Cochlear Austria GmbH	100	100	Austria
Cochlear Benelux NV	100	100	Belgium
Cochlear Bone Anchored Solutions AB	100	100	Sweden
Cochlear Boulder LLC	100	100	USA
Cochlear Canada Inc	100	100	Canada
Cochlear Clinical Services LLC	100	100	USA

Cochlear Colombia SAS		100	100	Colombia
Cochlear Deutschland GmbH & Co KG		100	100	Germany
Cochlear Employee Share Trust		100	100	Australia
Cochlear Europe Finance GmbH		100	100	Germany
Cochlear Europe Limited		100	100	UK
Cochlear Finance Pty Limited		100	100	Australia
Cochlear France SAS		100	100	France
Cochlear German Holdings Pty Limited		100	100	Australia
Cochlear Incentive Plan Pty Ltd		100	100	Australia
Cochlear Investments Pty Ltd		100	100	Australia
Cochlear Investments (No. 2) Pty Ltd		100	100	Australia
Cochlear Italia SRL		100	100	Italy
Cochlear Korea Limited		100	100	Korea
Cochlear Labs Pty Limited		100	100	Australia
Cochlear Latinoamerica S.A.		100	100	Panama
Cochlear Malaysia Sdn. Bhd.		100	100	Malaysia
Cochlear Manufacturing Corporation		100	100	USA
Cochlear Medical Device (Beijing) Co., Ltd		100	100	China
Cochlear Medical Device (Chengdu) Co Ltd		100	100	China
Cochlear Medical Device Company India Private Limited		100	100	India
Cochlear Mexico SA de CV		100	100	Mexico
Cochlear Middle East FZ-LLC		100	100	UAE
Cochlear Nordic AB		100	100	Sweden
Cochlear Norway AS		100	100	Norway
Cochlear NZ Limited		100	100	New Zealand
Cochlear Research and Development Limited		100	100	UK
Cochlear Shared Services S.A.		100	100	Panama
Cochlear Sweden Holdings AB		100	100	Sweden
Cochlear Taiwan Limited		100	100	Taiwan
Cochlear (Thailand) Limited		100	100	Thailand
Cochlear Tibbi Cihazlar ve Saglik Hizmetleri Limited Sirketi		100	100	Turkey
Cochlear Verwaltungs GmbH		100	100	Germany
Cochlear (HK) Limited		100	100	Hong Kong
Cochlear (UK) Limited	(i)	100	100	UK
Medical Insurance Pte Limited		100	100	Singapore
Nihon Cochlear Co Limited		100	100	Japan
Sichuan Keli ShuangChuang Technology Co Ltd		51	51	China
Sycle, LLC		100	100	USA
Sycle.Net Technologies (Canada) Ltd		100	100	Canada

(i) Dormant.

7.4 Parent entity disclosure

At, and throughout the financial year ended, 30 June 2021, the parent company of Cochlear was Cochlear Limited.

	2021 $m	2020 $m
Result of the parent entity		
Net profit/(loss)	248.5	(191.4)
Other comprehensive income	8.3	17.9
Total comprehensive income/(loss)	**256.8**	**(173.5)**
Financial position of the parent entity at year end		
Current assets	1,192.6	1,441.8
Total assets	**1,903.2**	**2,154.8**
Current liabilities	282.8	689.0
Total liabilities	**474.7**	**922.0**
Total equity of the parent entity comprising:		
Share capital	1,276.6	1,272.4
Hedging reserve	9.1	0.9
Share-based payment reserve	68.4	58.0
Profit reserve	172.9	–
Accumulated losses	(98.5)	(98.5)
Total equity	**1,428.5**	**1,232.8**

Dividends will be paid from the profit reserve of Cochlear Limited, as the parent of the Consolidated Entity.

Dividend income from subsidiaries is recognised by the parent entity when the dividends are declared by the subsidiary.

Parent entity contingencies

The details of all contingent liabilities in respect of Cochlear Limited are disclosed in Note 5.6.

Parent entity capital commitments for acquisition of plant and equipment

As at 30 June 2021, the parent entity entered into contracts to purchase plant and equipment for $16.0 million (2020: $10.1 million).

7.5 Deed of Cross Guarantee

Cochlear Limited (the holding entity) together with wholly owned subsidiaries set out below (together referred to as the 'Closed Group') have entered a Deed of Cross Guarantee on 17 April 2019 in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 and are relieved from the *Corporations Act 2001* requirement to prepare and lodge an audited financial report and directors' report. The effect of the deed is that Cochlear Limited has guaranteed to pay any outstanding liabilities upon the winding up of any wholly owned subsidiary that is party to the Deed. Wholly owned subsidiaries that are party to the Deed have also been given a similar guarantee in the event that Cochlear Limited or another party to the Deed is wound up.

The subsidiaries party to the deed are:
Cochlear Finance Pty Limited;
Cochlear German Holdings Pty Limited;
Cochlear Investments Pty Ltd;
Cochlear Investments (No. 2) Pty Ltd; and
Cochlear Labs Pty Limited.

Set out below is the income statement, statement of comprehensive income, a summary of movements in (accumulated losses)/retained earnings and balance sheet of the entities party to the Deed of Cross Guarantee for the year ended 30 June 2021 and 30 June 2020:

	2021 $m	2020 $m
Income statement		
Revenue	959.7	851.1
Cost of sales	(351.1)	(307.2)
Gross profit	**608.6**	**543.9**
Selling, marketing and general expenses	(65.3)	(63.3)
Research and development expenses	(129.8)	(141.8)
Administration expenses	(106.6)	(88.3)
Other income	105.5	178.8
Other expenses	(95.0)	(107.7)
Patent litigation expense	(6.4)	(503.7)
Share of losses on equity accounted investments	(1.7)	(1.2)
Results from operating activities	**309.3**	**(183.3)**
Finance income – interest	4.3	3.0
Finance expense – interest	(10.1)	(10.0)
Net finance expense	**(5.8)**	**(7.0)**
Profit/(Loss) before income tax	**303.5**	**(190.3)**
Income tax benefit/(expense)	(17.6)	37.1
Net profit/(loss)	**285.9**	**(153.2)**

Statement of comprehensive income		
Financial investments measured at fair value through other comprehensive income, net of tax	40.7	(1.8)
Foreign currency translation differences	(0.1)	(2.2)
Effective portion of changes in fair value of cash flow hedges, net of tax	11.2	(22.6)
Net change in fair value of discontinued cash flow hedges transferred to the income statement, net of tax	–	18.3
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	(3.0)	22.3
Total comprehensive income/(loss)	**334.7**	**(139.2)**
Retained earnings at beginning of year	(82.0)	264.9
Net profit/(loss)	285.9	(153.2)
Dividends recognised	(75.6)	(193.7)
Retained earnings/(Accumulated losses) at end of year	**128.3**	**(82.0)**

Balance sheet	2021 $m	2020 $m
Assets		
Cash and cash equivalents	514.2	432.9
Term deposits	–	365.0
Trade and other receivables	441.9	443.2
Forward exchange contracts	17.6	1.0
Inventories	141.0	137.6
Current tax assets	65.1	53.5
Prepayments	13.4	9.4
Total current assets	**1,193.2**	**1,442.6**
Forward exchange contracts	3.3	2.1
Loans and borrowings – internal	121.3	79.8
Investments in subsidiaries	432.2	415.2
Investments	199.5	25.9
Equity accounted investments	–	69.0
Other financial assets	27.3	5.0
Property, plant and equipment	111.7	109.4
Intangible assets	108.5	107.4
Deferred tax assets	84.3	90.1
Right of use asset	113.5	117.6
Total non-current assets	**1,201.6**	**1,021.5**
Total assets	**2,394.8**	**2,464.1**
Liabilities		
Trade and other payables	201.7	115.0
Forward exchange contracts	4.6	0.3
Loans and borrowings – external	–	389.8
Loans and borrowings – internal	86.8	74.5
Current tax liabilities	2.8	1.7
Employee benefit liabilities	45.1	32.6
Provisions	14.4	139.6
Deferred revenue	5.2	2.6
Lease liability	14.8	13.4
Total current liabilities	**375.4**	**769.5**
Trade and other payables	–	51.3
Forward exchange contracts	3.2	1.7
Loans and borrowings – external	45.0	45.9
Loans and borrowings – internal	265.1	208.4
Employee benefit liabilities	4.0	4.7
Provisions	21.2	5.5
Deferred tax liabilities	50.2	12.9
Deferred revenue	–	2.0
Lease liability	118.7	123.8
Total non-current liabilities	**507.4**	**456.2**
Total liabilities	**882.8**	**1,225.7**
Net assets	**1,512.0**	**1,238.4**
Equity		
Share capital	1,276.6	1,272.4
Reserves	107.1	48.0
(Accumulated losses)/retained earnings	128.3	(82.0)
Total equity	**1,512.0**	**1,238.4**

7.6 Changes in accounting policies

There have been no changes to accounting policies materially impacting Cochlear in the current financial year.

7.7 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for financial years beginning on or after 1 July 2020, and have not been applied in preparing these consolidated financial statements. Of the new standards, only the below are expected to have an effect on the consolidated financial statements of Cochlear.

- **IFRIC Agenda Decision on *Configuration or customisation costs in a cloud computing arrangement***
  In April 2021, the International Financial Reporting Standards Interpretations Committee (IFRIC) issued a final agenda decision, *Configuration or customisation costs in a cloud computing arrangement*. The decision discusses whether configuration or customisation expenditure relating to cloud computing arrangements is able to be recognised as an intangible asset and if not, over what time period the expenditure is expensed.
  Cochlear's accounting policy has historically been to capitalise all configuration and customisation costs related to cloud computing arrangements as intangible assets. These are recorded within IT system costs disclosed in Note 5.3 of these financial statements.
  The adoption of this agenda decision could result in a reclassification of a portion of these intangible assets to either a prepaid asset in the Balance Sheet and/or recognition as an expense in the Income Statement, impacting both the current and prior periods presented.
  Cochlear has not yet applied this IFRIC agenda decision. The impact of the change is not reasonably estimable as Cochlear has yet to complete its assessment of the impact of the IFRIC agenda decision. Cochlear expects to adopt this IFRIC agenda decision in its interim financial statements ending on 31 December 2021.

7.8 Events subsequent to the reporting date

Other than the matter noted below, there has not arisen in the interval between the reporting date and the date of this Financial report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to significantly affect the operations of Cochlear, the results of those operations, or the state of affairs of Cochlear in future financial years:

Dividends

For dividends declared after 30 June 2021, see Note 2.6.

Directors' declaration

1. In the opinion of the directors of Cochlear Limited (the Company):
   a) the consolidated financial statements and notes and the Remuneration report are in accordance with the *Corporations Act 2001*, including:
      i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and
      ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
   b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
   c) at the date of this declaration, there are reasonable grounds to believe that the Company and each of the Closed Group entities identified in Note 7.5 will be able to meet any liabilities to which they are or may become subject to, because of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.
2. The directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer & President and Chief Financial Officer for the financial year ended 30 June 2021.
3. The directors draw attention to Note 1.2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Sydney this 20th day of August 2021.

Director

Director

Independent auditor's report to the shareholders of Cochlear Limited

Report on the audit of the Financial Report

Opinion

We have audited the Financial Report of Cochlear Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- Balance sheet as at 30 June 2021;
- Income statement, Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The Consolidated Entity consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Report section of our report.

We are independent of the Consolidated Entity in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The key audit matters we identified are:

- Recoverability of trade receivables; and
- Warranty provision.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of trade receivables $262.1 million

Refer to Note 6.4(b) Financial risk management, credit risk

The key audit matter	How the matter was addressed in our audit
Recoverability of trade receivables was considered a key audit matter due to: • The varying characteristics of customers which include governments, government-supported universities, clinics and major hospital chains; • The different geographical locations of customers and the political and economic environments they are	Our procedures included: • With the assistance of our IT specialists, testing key controls within the credit control process including: - management review and approval of new customer credit limits within the Consolidated Entity's credit limit policies; - the system configuration of credit limits; and

subject to, which may affect the timely recovery of certain receivables; • Trade receivables past due at the reporting date which have certain risk characteristics and therefore have a greater inherent risk of not being recovered; • The potential for COVID-19 to increase the risk of receivables being delayed for a prolonged period or not paid; • The inherent subjectivity involved in the Consolidated Entity making forward-looking judgements in relation to the recovery of credit risk exposures; and • The Consolidated Entity's adoption of AASB 9 *Financial Instruments* requiring the use of an expected credit loss model. These conditions gave rise to additional audit effort, including: • Greater involvement by our senior team members to gather evidence across the various customer profiles and their trade receivables; and • To challenge the forward-looking judgements made by the Consolidated Entity. We involved IT specialists to supplement our senior team members in assessing this key audit matter.	- management's evaluation of trade receivables ageing and trade receivables past due; • Assessing the Consolidated Entity's expected credit loss model in significant geographies against the requirements of the accounting standards; • Challenging the Consolidated Entity's view of credit risk and recoverability in certain locations by selecting a sample of significant overdue customer balances with indicators of credit deterioration. We: - noted the historical patterns for long outstanding trade receivables in those locations for those customer types, to form an understanding of the normal pattern of recovery and compared this to the age of the customer balances sampled; - assessed cash received subsequent to year-end from the Consolidated Entity's bank statements for its effect in reducing amounts outstanding at year-end; - evaluated other evidence including customer correspondence; - questioned the Consolidated Entity's assessment of the impact of COVID-19 on the risk of default; and - questioned the Consolidated Entity's knowledge of future conditions which may impact expected customer receipts based on consistency with the results of the procedures performed above; and • Assessing the Consolidated Entity's disclosures of the quantitative and qualitative considerations in relation to trade receivables credit risk, by comparing these disclosures to our understanding of the matter and the requirements of the accounting standards.

Warranty provision $34.3 million

Refer to Note 5.5 Provisions

The key audit matter	How the matter was addressed in our audit
The warranty provision was considered a key audit matter due to: • The estimation uncertainty inherent in the key assumptions applied by the Consolidated Entity to determine the warranty provision; • The Consolidated Entity's evolving product portfolio, through the introduction of new generations, where	Our procedures included: • Obtaining an understanding of the evolving product portfolio, each product's warrantable period and history of claim rates, and the different attributes which impact the key assumptions used in the Consolidated Entity's warranty provision; • Testing the sensitivity of the warranty provision by varying key assumptions, within a reasonably possible range, to focus our further procedures;

each product's design and quality attributes can impact the key assumptions;

- The increased use of the Global Repair Centre intended to reduce forecast repair cost;
- The inherent unpredictability of future failures resulting in claims under warranty; and
- The calculation is largely manually developed and therefore is at greater risk of error.

The key assumptions used in the Consolidated Entity's determination of the warranty provision are:

- The forecast claim rates of the multiple products in the portfolio;
- The ratio of repairing to replacing failed products;
- The forecast repair cost; and
- The forecast replacement cost which is based on standard forecasts of manufacturing costs.

Challenging these key assumptions required greater involvement by our senior team members.

- Challenging the Consolidated Entity's ability to reliably estimate the key assumptions by comparing previous estimates to actual outcomes;
- Assessing the integrity of the model for the warranty provision. This included checking the accuracy of the formulas within the model;
- Comparing the forecast claim rates of a sample of products to the historical warranty claims for that product or the historical warranty claims of previous generations of similar products;
- Comparing the forecast proportion of claims that can be repaired and associated repair costs to historical performance of the Global Repair Centre;
- Comparing the forecast replacement cost to:
  - the standard manufacturing cost used in board approved budgets; and
  - actual manufacturing costs to identify variances and their impact on the warranty provision;
- Enquiring of management responsible for product design and quality attributes and the Global Repair Centre to challenge the forward-looking assumptions used in the model; and
- Assessing the disclosures of the quantitative and qualitative considerations in relation to the warranty provision, by comparing these disclosures to our understanding of the matter and the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Cochlear Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

KPMG

Independent auditor's report to the shareholders of Cochlear Limited

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- implementing necessary internal controls to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Consolidated Entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Consolidated Entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Cochlear Limited for the year ended 30 June 2021, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 56 to 73 of the Directors' report for the year ended 30 June 2021.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Julian McPherson, *Partner*

Sydney, 20 August 2021

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Letter to shareholders

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Our growth opportunity

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Shareholder information

Additional information required by Australian Securities Exchange Listing Rules and not disclosed elsewhere in this report – the information presented is as at 30 June 2021.

Substantial shareholders

Investor	Number of ordinary shares	%
BlackRock Inc	4,160,651	6.3
ABP (Algemen Burgerlijk PSF)	3,621,994	5.5
Baillie Gifford & Co	3,471,533	5.3
State Street Corporation	3,345,897	5.1
Total	**14,600,075**	**22.2**

Distribution of shareholders

Number of shares held	Number of ordinary shareholders	% shares
1 - 1,000	41,634	10.9
1,001 - 5,000	2,669	7.8
5,001 - 10,000	128	1.3
10,001 - 100,000	71	2.7
100,001 and over	15	77.3
Total	**44,517**	**100.0**

Non-marketable parcels – 174 shareholders held less than a marketable parcel of ordinary shares.

Twenty largest shareholders

Shareholder	Number of ordinary shares	%
HSBC Custody Nominees (Australia) Limited	30,209,511	45.95
J P Morgan Nominees Australia Pty Limited	9,708,153	14.77
Citicorp Nominees Pty Limited	3,911,642	5.95
National Nominees Limited	1,606,824	2.44
BNP Paribas Noms Pty Ltd <DRP>	1,570,432	2.39
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	1,166,640	1.77
HSBC Custody Nominees (Australia) Limited-GSCO ECA	645,315	0.98
BNP Paribas Nominees Pty Ltd Six Sis Ltd <DRP A/C>	486,754	0.74
HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super CORP A/C>	373,306	0.57
Australian Foundation Investment Company Limited	324,174	0.49
Netwealth Investments Limited <Wrap Services A/C>	258,114	0.39
Citicorp Nominees Pty Limited <Colonial First State INV A/C>	222,299	0.34
Mr Christopher Graham Roberts	172,387	0.26
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd <DRP A/C>	120,873	0.18
Custodial Services Limited <Beneficiaries Holding A/C>	117,587	0.18
HSBC Custody Nominees (Australia) Limited - A/C 2	94,699	0.14
AMP Life Limited	80,692	0.12
BNP Paribas Nominees Pty Ltd ACF Clearstream	65,891	0.10
National Nominees Limited <N A/C>	57,163	0.09
BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient DRP>	55,055	0.08
Total	**51,247,511**	**77.93**

The 20 largest shareholders held 77.93% of the ordinary shares of the Company.

On market buy-back

There is no current on market buy-back.

Contact information

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Shareholder enquiries

Access to shareholding information is available to investors through Computershare.

Computershare Investor Services Pty Limited

GPO Box 2975

Melbourne VIC 3001

Australia

Telephone: 1300 850 505

Email: web.queries@computershare.com.au

Website: www.computershare.com.au

Calendar of events

20 August 2021	FY21 results announced
19 October 2021	Annual general meeting
22 February 2022	HY22 results announced*
19 August 2022	FY22 results announced*

* Indicative dates only.

Annual general meeting

The annual general meeting (AGM) of Cochlear Limited will be held on 19 October 2021 at 10.00am. Further details will be provided in the Notice of Meeting, which will be provided to shareholders in mid-September 2021. The Notice of Meeting will also be available on the ASX Company Announcements Platform and Cochlear's website at www.cochlear.com.

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 650,000 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.

Cochlear Ltd (ABN 96 002 618 073) 1 University Avenue, Macquarie University, NSW 2109, Australia T: +61 2 9428 6555 F: +61 2 9428 6352

www.cochlear.com

Please seek advice from your health professional about treatments for hearing loss. Outcomes may vary, and your health professional will advise you about the factors which could affect your outcome. Always read the instructions for use. Not all products are available in all countries. Please contact your local Cochlear representative for product information.

Views expressed are those of the individual. Consult your health professional to determine if you are a candidate for Cochlear technology.

The Cochlear Nucleus Smart App is available on App Store and Google Play. The Cochlear Nucleus 7 Sound Processor is compatible with Apple and Android devices, for compatibility information visit www.cochlear.com/compatibility.