2017 COCHLEAR LIMITED

Tax Contribution Report

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1 Chief Financial Officer statement

We are pleased to present this Tax Contribution Report for 2017 for Cochlear. Cochlear welcomes the opportunity to present this second annual report on its taxes paid in Australia and globally and provide detail on Cochlear's global tax strategy.

As with our Tax Contribution Report for 2016, we have followed the recommendations outlined in the Board of Tax's Tax Transparency Code. We continue to support the adoption of this voluntary code and believe it provides users with a comprehensive picture of Cochlear's tax activities.

A key driver of our global tax strategy is Cochlear's longstanding commitment to Australian based research and development (R&D) and to growing the business with benefits for Australia. Our tax strategy reflects that the majority of Cochlear's intellectual property is generated in Australia and the assets, risks and functions of implementing that strategy mean that more than 70% of Cochlear's corporate income tax is paid in Australia.

Our research, product development and manufacturing are all inextricably linked and also substantially based in Australia. Cochlear currently employs more than 400 scientists and engineers who are engaged in R&D projects and around 830 employees who are engaged in manufacturing, the vast majority of whom are employed in Australia.

During the year, the Kanso® Sound Processor, our first off-the-ear sound processor, and the Nucleus® Profile Slim Modiolar (CI532) electrode, the world's slimmest electrode, were launched with both products experiencing strong uptake. The next generation Nucleus 7 Sound Processor has received FDA and CE mark approval and will commence full commercial rollout in September. A significant number of our Cochlear engineers and employees were involved in the Nucleus 7 Sound Processor with the equivalent of around 120 person years of time spent on developing this product!

Cochlear continues to demonstrate its commitment to being the technology leader in our industry with ongoing investment in R&D. During the year we invested $152 million, 12% of sales revenue, in R&D with a pipeline of new products expected to be launched over the coming years.

In the increasingly competitive global environment, the R&D tax offset available in Australia is critical to Cochlear continuing this level of investment in R&D in Australia.

Cochlear has a strong commitment to transparency and compliance from a regulatory and financial perspective and values the principles of being transparent with respect to its tax strategy and compliance here in Australia and globally.

Signed

Brent Cubis	Kimberley Simpson
Chief Financial Officer	Group Tax Manager
17 August 2017	17 August 2017

2 Cochlear overview

Cochlear is the global leader in implantable hearing solutions.

Cochlear's 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 commenced operations in 1983 as part of the Nucleus group. In 1995, the company listed on the Australian Securities Exchange.

Today, Cochlear is a global company using ground breaking technology first developed by Professor Graeme Clark AC at the University of Melbourne. The genesis of the Company is a unique partnership of Government, academia and private sector expertise. Cochlear's global headquarters are on campus at Macquarie University in Sydney, Australia, with regional sales and marketing headquarters in Asia Pacific, Europe and the Americas. Cochlear has direct operations in over 20 countries and employs over 3000 people.

Cochlear develops a range of products including cochlear implants, bone conduction implants and acoustic implants, which address different types of hearing loss. The Company invests more than $150 million each year in research and development and currently participates in over 100 collaborative research programs worldwide. The vast majority of this research and development is conducted in Australia and intellectual property is held by the Australian entity.

Over 450,000 people of all ages, across more than 100 countries, can now hear because of Cochlear.

Cochlear's promise is 'Hear now. And always' – to provide recipients with the best possible hearing and support for the rest of their lives.

For the financial year ended 30 June 2017, 62% of Cochlear's sales revenue was from cochlear implant (Nucleus) products and 13% from Acoustics (bone conduction and acoustic implant) products. Services revenue, which includes sound processor upgrade and accessories sales revenue, accounted for 25% of total sales revenue. On a regional basis, Cochlear sales revenue was split:

- Americas (US, Canada & Latin America) – 48% of sales revenue
- EMEA (Europe, Middle East and Africa) – 35% of sales revenue
- Asia Pacific (Australasia & Asia) – 17% of sales revenue

Cochlear's third party sales are primarily overseas with over 96% of revenue in FY17 generated from countries outside Australia.

By contrast, all cochlear implant manufacture is conducted in Australia with bone conduction implant manufacture occurring in Sweden. Cochlear implant and services revenue account for 87% of our revenue. There is considerable know how associated with this specialised manufacture and the technology that underpins our products has been developed in Australia and is protected by patents. Our tax strategy is aligned with this holding of intellectual property in Australia.

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3 Tax strategy and governance

3.1 Approach to risk management and governance

Cochlear operates in a highly regulated global industry in the area of implantable hearing solutions. Cochlear must ensure it enters into transactions in a way which does not inhibit its ability to design, develop, manufacture and distribute its products globally and which also maintains its reputation with regulators and governments in the countries in which it operates.

A low risk tax strategy is adopted by Cochlear in order to meet this objective.

Cochlear's global tax and finance teams work together to identify, analyse and evaluate global tax risks. Key tax risks are escalated to the Head of Group Finance and Chief Financial Officer.

Each Audit Committee has an agenda item on tax and where appropriate matters are reported through to the full Board. The principal global external tax advisor, KPMG, attends almost all Audit Committee meetings. They are available during the private session with Directors, which excludes management, for Directors to make enquires.

These processes are written and approved by the Audit Committee in Cochlear's Tax Risk Management and Governance Framework.

3.2 Attitude towards tax planning

Cochlear's attitude towards tax planning is to ensure that transactions and compliance activities undertaken by Cochlear in Australia and overseas result in maintaining the low risk tax strategy adopted by Cochlear.

Cochlear together with its Australian subsidiaries has formed a tax consolidated group for Australian tax purposes with Cochlear Limited as the head company of the Australian tax consolidated group.

3.3 Accepted level of risk in relation to taxation

Cochlear's level of accepted risk in relation to taxation is to accept a low level of risk in relation to major transactions and when undertaking tax compliance activities.

Cochlear's approach to risk is documented and has been shared with the Australian Taxation Office (ATO). The Audit Committee reviews this approach annually.

3.4 Approach to engagement with the ATO

Cochlear's approach to engagement with the ATO is to be compliant with tax legislation and to engage early with the ATO on major transactions to ensure cooperative and transparent communication.

In this respect, Cochlear has signed two Bilateral Advanced Pricing Agreements with the ATO; one with the National Tax Authority of Japan and one with the Internal Revenue Service of the United States. These are long standing arrangements. Cochlear's dealings with our European subsidiary based in London are concluded on similar principles but are not encapsulated in a formal Advanced Pricing Agreement.

4 International related party dealings

Cochlear's operations overseas are conducted through a combination of subsidiary legal entities and independent third parties, all of whom are subject to local tax regimes. These subsidiary legal entities and their foreign jurisdictions are disclosed in the 2017 Annual Report. Cochlear has a number of international related party dealings with these subsidiary operations overseas and these dealings are summarised below:

- Contract manufacturing, contract marketing and contract research and development with Cochlear subsidiaries located in Sweden, UK, Belgium and the United States;
- Sales of product to Cochlear subsidiaries located in North and Central Americas, EMEA and Asia Pacific regions. The product distribution occurs through some 20 direct operations which are headquartered in Denver, London, Sydney and Panama City;
- Shared service activities with Cochlear subsidiaries located in Malaysia, United Kingdom and Switzerland including a global repair centre, information technology support and global customer service support that is provided to Cochlear entities globally;
- Shared service activities with a separate Cochlear subsidiary in Panama. This subsidiary in Panama provides dedicated customer service support to Cochlear subsidiaries located around the globe and in conjunction with Cochlear's distribution subsidiary in Panama is a dedicated presence for Cochlear to service our customers and support the Latin America region; and
- Captive insurance provided by a Cochlear subsidiary in Singapore to subsidiaries located in the Americas, EMEA and Asia Pacific. The captive insurance company is managed by an independent third party insurance broker.

The following table provides a summary of the total value of these international related party dealings for Cochlear Limited for FY17.

Country	International related party dealing	Cochlear Limited expenditure A$m	Cochlear Limited intercompany revenue A$m
Singapore	Captive insurance premiums	0.3	
Sweden	Contract manufacturing	48.4	
Sweden	Contract marketing fees	6.1	
United States	Contract R&D	2.4	
Sweden	Contract R&D	23.2	
Belgium	Contract R&D	25.4	
Panama	Shared service fees	-	
Malaysia	Shared service fees	3.5	
Singapore	Intercompany sales		0.9
New Zealand	Intercompany sales		3.6
Korea	Intercompany sales		8.6
India	Intercompany sales		18.9
Japan	Intercompany sales		21.2
China / Hong Kong	Intercompany sales		39.1
Panama	Intercompany sales		39.4
United Kingdom	Intercompany sales		253.4
United States	Intercompany sales		376.6
Total FY17		109.3	761.7
Total FY16 (comparable)		106.3	758.3

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5 Income taxes disclosed in 2017 Annual Report

The income tax expense (ITE) disclosed in the Cochlear Annual Report is calculated based on International Financial Reporting Standards (IFRS). In any one income year there may be a difference between the ITE calculated in the Annual Report to the total cash taxes paid to a relevant taxation authority during that same income year. This is because of a number of factors such as the timing of corporate tax instalment payments made to the relevant tax authorities and other taxes being excluded from ITE such as FBT, payroll and employee taxes. The ITE for Cochlear is also reduced by the R&D tax offset available in Australia.

Cochlear calculates its Effective Tax Rate (ETR) as ITE divided by accounting profit before income tax. For FY17, the ETR for Cochlear Limited was 27.6%. Provided below is the calculation of the ITE for Cochlear and its Australian operations showing the impact of adjustments to the ITE on the calculation of the ETR, a reconciliation of income tax expense to cash tax paid and 5 year historical ETRs for Cochlear.

5.1 Reconciliation of accounting profit to income tax expense

Cochlear Limited Consolidated Worldwide Group	2017 A$m	2017 ETR	2016 A$m	2016 ETR
Net profit	223.6		189.0	
Income tax expense	85.2		65.3	
Profit before income tax	308.8		254.3	
Tax at the Australia tax rate of 30% (2016: 30%)	**92.6**	**30.0%**	**76.3**	**30.0%**
Increase in income tax expense due to:				
Non-deductible expenses	0.8	0.3%	1.6	0.6%
Effects of different tax rates in foreign jurisdictions	0.6	0.2%	-	-
Decrease in income tax due to:				
Research and development allowances	(9.2)	(3.0%)	(11.3)	(4.4%)
	84.8	**27.5%**	**66.6**	**26.2%**
Adjustment for prior years	0.4	0.1%	(1.3)	(0.5%)
Income tax expense on profit before income tax	**85.2**	**27.6%**	**65.3**	**25.7%**

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Cochlear Limited's Australian Tax Consolidated Group	2017 A$m	2017 ETR	2016 A$m	2016 ETR
Net profit	173.9		157.2	
Income tax expense	68.0		53.4	
Profit before income tax (reported)	241.9		210.6	
Dividends from wholly owned foreign subsidiaries	(1.5)		(9.6)	
Profit before income tax (excluding dividends from wholly owned foreign subsidiaries)	240.4		201.0	
Profit before income tax (reported)	**241.9**		**210.6**	
Income tax expense using the Company's domestic tax rate of 30%	72.6	30.0%	63.2	30.0%
Increase in income tax expense due to:				
Controlled foreign company income	2.4	1.0%	2.3	1.1%
Other non-deductible expenses	1.7	0.7%	0.8	0.4%
Decrease in income tax due to:				
Research and development allowances	(8.1)	(3.3%)	(10.2)	(4.8%)
Exempt foreign sourced dividends from wholly owned subsidiaries	(0.5)	(0.2%)	(2.9)	(1.4%)
	68.1	**28.2%**	**53.2**	**25.3%**
Adjustment for prior years	(0.1)	(0.1%)	0.2	0.1%
Income tax expense on Australian profit before income tax	**68.0**	**28.1%**	**53.4**	**25.4%**

5.2 Reconciliation of income tax expense to cash tax paid

Cochlear Limited Consolidated Worldwide Group	2017 A$m	2016 A$m
Income tax expense on profit before income tax	**85.2**	**65.3**
Timing differences recognised in deferred tax	5.4	6.3
Current year tax instalments payable next year	(21.1)	(9.0)
Prior year instalments paid this year	9.0	18.1
Cash taxes paid as per cash flow statement	**78.5**	**80.7**

5.3 Effective tax rates for Cochlear Limited Consolidated Worldwide Group

Cochlear Limited Annual Report	2013	2014	2015	2016	2017
Profit before tax (A$m)	172.6	117.1	196.3	254.3	308.8
Tax expense (A$m)	40.1	23.4	50.5	65.3	85.2
Effective tax rate (%)	23.2%	20.0%	25.7%	25.7%	27.6%

6 Tax contribution summary

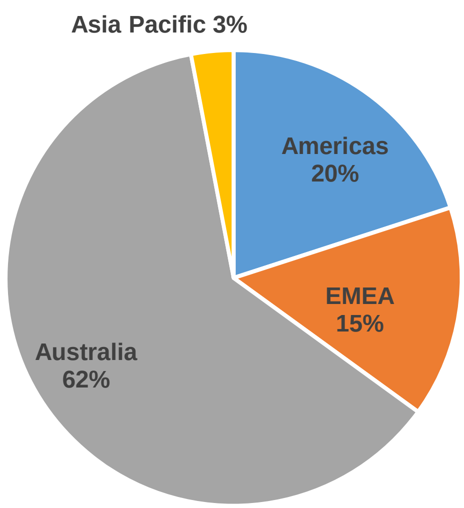
Provided below is a summary of Cochlear's total cash taxes paid to Australian and overseas tax authorities by region for the financial years ended 30 June 2017 and 2016. The majority of Cochlear's taxes are paid in Australia to the ATO. This is in line with Cochlear's business model where the majority of manufacturing and R&D is performed in Australia and the majority of intellectual property is owned in Australia.

Cochlear has not separately disclosed the net VAT/GST position as Cochlear's products generally are exempt from VAT/GST.

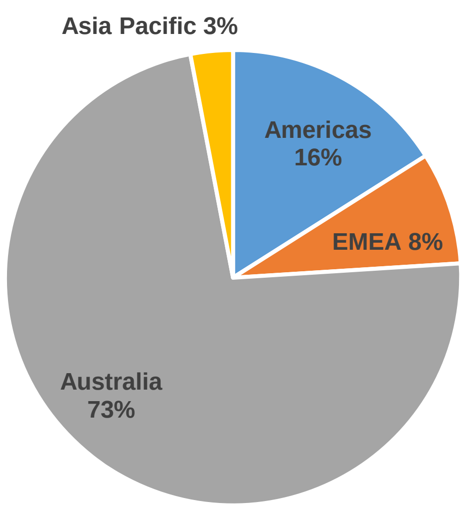
Region	Corporate income tax		Employer / payroll taxes [2]		Employee taxes remitted		Total tax contribution	
	2017 A$m	2016 A$m	2017 A$m	2016 A$m	2017 A$m	2016 A$m	2017 A$m	2016 A$m
Australia	57.1	62.7	10.6	9.9	44.8	41.9	112.5	114.5
Americas[1]	12.7	10.3	4.8	4.4	19.4	16.3	36.9	31.0
EMEA	6.4	5.4	7.4	7.8	13.4	14.0	27.2	27.2
Asia Pacific	2.3	2.3	0.0	0.0	3.1	2.3	5.4	4.6
Total	**78.5**	**80.7**	**22.8**	**22.1**	**80.7**	**74.5**	**182.0**	**177.3**

Note 1 – Includes taxes paid to US State tax authorities
Note 2 – includes Australian FBT liability for year ended 31 March

Total global tax contribution FY17



Total corporate income tax paid FY17



7 ATO tax transparency disclosures

In December 2016, the Australian Taxation Office published the following taxation information from the Australian tax consolidated group income tax return for 2015:

2015	Cochlear Limited
Total income	$692,637,125
Taxable / net income	$247,788,243
Tax payable	$35,586,728

Taxable income is calculated based on accounting concepts and adjusted for allowable tax timing and tax permanent differences as provided for in the Australian tax law. Tax payable is then calculated at the corporate income tax rate (30%) of taxable income, reduced by available tax offsets. For Cochlear, the primary tax offset which reduces the tax payable amount is the R&D tax offset.

Provided below is a summary of Cochlear's tax transparency information since 2013. Additional information has been provided in relation to the ATO tax transparency disclosures to demonstrate how the final tax payable amount is calculated after the R&D tax offset has been applied.

In summary, the R&D tax offset is calculated by adding back to taxable income 100% of the eligible expenditure incurred on R&D as non-deductible and taking a 40% tax offset (calculated as 40% of the eligible R&D expenditure added back to taxable income) against tax payable. This results in a net reduction to tax payable of 10% of the eligible R&D expenditure. From 1 July 2016, the tax offset has been reduced to 38.5%.

Cochlear Australian Tax Consolidated Group – tax transparency disclosures	2013[1] (comparable) A$m	2014 (ATO tax transparency disclosures) A$m	2015 (ATO tax transparency disclosures) A$m	2016 (to be published) A$m
Total income	604.0	649.3	692.6	827.1
Taxable income	194.8	171.4	247.8	325.0
Tax payable	23.4	10.7	35.6	57.4
Application of R&D tax incentive offset to tax transparency disclosures				
Taxable income	109.3	71.0	153.9	226.8
R&D expense (100% add back)	85.5	100.4	93.9	98.2
Taxable income published	**194.8**	**171.4**	**247.8**	**325.0**
Tax payable (@30%)	58.4	51.4	74.3	97.5
R&D tax incentive offset[2]	(34.2)	(40.1)	(37.5)	(39.3)
Other tax offsets	(0.8)	(0.6)	(1.2)	(0.8)
Tax payable published	**23.4**	**10.7**	**35.6**	**57.4**

Note 1 – figures provided for 2013 have been provided for information purposes only. These figures were not released by the ATO. The first year of ATO tax transparency disclosures was 2014.
Note 2 – These amounts are 40% of R&D expense compared to the ITE in the Annual Report which shows the net R&D tax offset at 10%. There will also be minor variances between the Annual report and the tax transparency disclosures due to the timing of completion of the review of the eligible expenditure for the R&D tax incentive in the tax return and the finalisation of the Annual Report.