Appendix 4D

Cochlear Limited
Half Yearly Report
As at 31 December 2023

Results for announcement to the market

		Movement from 31 December 2022		$m
Sales Revenue[1]	up	25%	to	1,113.4
Total Revenue	up	24%	to	1,098.5
Earnings before interest and taxes (EBIT)	up	37%	to	254.9
Net profit for the period attributable to members	up	**35%**	**to**	**191.4**
Underlying net profit for the period[2]	up	35%	to	191.8
Basic earnings per share (cents)	up	36%	to	291.9
Underlying basic earnings per share (cents)[2]	up	36%	to	292.5
Dividend (dollars)	up	29%	to	$2.00

Net tangible assets per share at 31 December 2023 (cents)[3]	up	2%	to	2,020.2
Net tangible assets per share at 31 December 2022 (cents)				1,986.9

Dividends	Amount per security	Franked amount per security[4]	Conduit foreign income per security[4]
Interim dividend per share (dollars)	$2.00	$1.40	$0.30
Previous corresponding period (dollars)	$1.55	$0.54	$0.70

Record date for determining entitlements to the dividend	22 March 2024
Dividend payment date	15 April 2024

No dividend reinvestment plans were in operation during or since the half-year.

Additional Appendix 4D disclosure requirements can be found in the 31 December 2023 Interim Financial Report lodged with this document. This report is based on the 31 December 2023 Interim Financial Report which has been reviewed by KPMG with the Independent auditor's review report included in the 31 December 2023 Interim Financial Report.

This Appendix 4D and the 31 December 2023 Interim Financial Report should be read in conjunction with the 30 June 2023 Annual Report of Cochlear Limited.

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[1] 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.

[2] Excluding one-off and non-recurring items.

[3] Net tangible assets are net assets less intangible assets.

[4] Rounded to two decimal places.

Cochlear Limited and its controlled entities

ACN 002 618 073

Consolidated Interim Financial Report

31 December 2023

The directors present their report, together with the consolidated interim financial report of the Consolidated Entity (Cochlear), being Cochlear Limited (the Company) and its controlled entities, for the half year ended 31 December 2023 and the independent auditor's review report thereon.

Directors

The directors of the Company during and since the end of the interim period are:

Name	Period of directorship
Non-Executive Directors	
Alison Deans	Chair since August 2021
	Director since January 2015
Yasmin Allen, AM	Director since August 2010
Glen Boreham, AM	Director since January 2015
Sir Michael Daniell, KNZM	Director since January 2020
Michael del Prado	Director since January 2022
Andrew Denver	Director since February 2007. Retired October 2023.
Christine McLoughlin, AM	Director since November 2020
Karen Penrose	Director since July 2022
Prof. Bruce Robinson, AC	Director since December 2016
Executive Directors	
Dig Howitt, *CEO & President*	Director since November 2017
	Managing Director since January 2018

Principal activities and review of operations and results

Other than as discussed in this report, there were no significant changes in the nature of operating activities during the half year ended 31 December 2023 and the results of those operations are set out below.

Review of operations

The following provides a summary of Cochlear's performance for the half year ended 31 December 2023.

	31 Dec 2023 $m	31 Dec 2022 $m
Total Revenue	**1,098.5**	**885.2**
Sales revenue[1]	1,113.4	892.6
Statutory net profit[2]	**191.4**	**141.6**
Underlying net profit[3]	191.8	141.6
Basic earnings per share (cents)	291.9	215.3
Diluted earnings per share (cents)	291.3	215.3
Underlying basic earnings per share (cents)[3]	292.5	215.3
Interim dividend per share (dollars)	$2.00	$1.55

[1] 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 (FX) contract losses on hedged sales of $14.9m (31 December 2022 losses of $7.4m).

[2] This represents net profit attributable to members as per Appendix 4D.

[3] Excluding one-off and non-recurring items (refer to page 9).

Operational review

$m	HY24	HY23	Change % (reported)	Change % (CC)	Sales Mix
Cochlear implants (units)	24,193	21,249	⬆ 14%		
Sales revenue					
Cochlear implants	648.5	513.1	⬆ 26%	⬆ 22%	59%
Services (sound processor upgrades and other)	348.9	258.6	⬆ 35%	⬆ 29%	31%
Acoustics	116.0	120.9	⬆ (4%)	⬆ (9%)	10%
Total sales revenue	**1,113.4**	**892.6**	⬆ **25%**	⬆ **20%**	**100%**

Cochlear implants

Cochlear implant units increased 14% to 24,193 units, with strong growth across both developed and emerging markets. Sales revenue increased 26% (22% in CC) to $648.5 million. Sales revenue increased 18% in CC after adjusting for the impact of the technology exchange program in HY23, with around $20 million in revenue deferred from the first to the second half. Comparable average selling price increased around 3% in CC as a result of positive country mix and price increases in some countries.

Developed market units grew around 15% with strong growth across all markets driven by the consolidation of market share gains following the launch of the Nucleus® 8 Sound Processor as well as strong market growth. Implant growth has been strong across all segments – children, adults and seniors. We continue to see an improving trend in adult referral rates in key markets, in part driven by initiatives to improve awareness and access for adult cochlear implant candidates.

Emerging market units grew around 10% with strong growth across a broad range of countries including China, India, Central Europe and the Middle East.

Services

Services revenue increased 35% (29% in CC) to $348.9 million, with strong uptake of the new sound processor across the developed markets. Emerging markets also performed well with growing rates of sound processor upgrade penetration across many markets.

Acoustics

Acoustics revenue decreased 4% (down 9% in CC) to $116.0 million with lower demand for Cochlear™ Baha® 6 Max Sound Processors following three years of strong upgrade demand. The 3 Tesla MRI compatible Cochlear™ Osia® 2 System was launched in the US late in the half, with strong demand from December.

Financial review

We delivered sales revenue of $1,113 million, an increase of 25% (20% in CC), driven by strong growth in cochlear implants and sound processor upgrades.

The gross margin was 74%, a point below last year and our 75% longer-term target. The gross margin decline was driven by inventory write-downs and the commencement of production at Chengdu which offset the benefit of improved average selling price. Operating expenses increased 19% (16% in CC) reflecting growing investment in R&D and market growth activities.

Cloud computing-related investment of $17 million was in line with the prior half year and forms part of the around $150 million investment being made in cloud-based technology solutions, with around $80 million invested since FY21.

Underlying net profit increased 35% (21% in CC) to $192 million. The underlying net profit margin was 17% (18% excluding the impact of cloud computing-related expenses), and is a point below our 18% longer-term target.

The balance sheet remains strong with net cash of $485 million, with operating cash flows sufficient to fund investing activities and capital expenditure whilst delivering dividends to shareholders. An interim dividend of $2.00 per share has been determined, an increase of 29% on last year and representing a payout of 68% of underlying net profit.

FY24 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 FY24, we expect the positive momentum of the first half to continue into the second half and on 8 February increased underlying net profit guidance to $385-400 million, which represents a 26-31% increase on FY23. The upgrade was 8% above the midpoint of the prior guidance of $355-375 million advised in August 2023. We expect profit growth to be driven by a combination of revenue growth and improved net profit margin.

Cochlear implant trading conditions continue to be strong across most markets, with an improving trend in adult referral rates in many developed countries. We have maintained the market share gains made in FY23, with strong market growth across the first half. The key change to our expectations is that we now expect to achieve 10-15% growth in our cochlear implant units for FY24 compared to the high single-digit growth expected in August.

The Services segment is growing strongly with strong demand for upgrades to the Nucleus® 8 Sound Processor.

Acoustics growth rates are expected to be lower than FY23, with continuing growth from the rollout of the Osia® 2 System to be moderated by a smaller contribution from upgrades to the Baha® 6 Max Sound Processor. The new 3 Tesla MRI compatible Osia® 2 System has just been launched in the US and expected to be progressively launched across the rest of the world as regulatory approvals are obtained.

We are continuing our investment in R&D and market growth activities to support long-term market growth, with an anticipated investment of around 12% of sales revenue in R&D.

Cloud computing-related investment is expected to be around $34 million ($24 million after tax) in FY24.

Guidance is based on a 66 cent AUD/USD, a cent below the 67 cents guided in August (67.5 cent average in FY23) and a 61 cent AUD/EUR (64.4 cent average in FY23).

Capital expenditure is expected to be $70-90 million.

The Board maintains a dividend policy that targets a 70% payout of underlying net profit.

The on-market share buyback is being paused given the current high interest rate environment. $73 million in shares have been repurchased since the buyback commenced in March 2023.

Guidance does not factor in any impact from the proposed acquisition of Oticon Medical, which is targeted to complete by the end of June 2024, with integration costs currently estimated at $30 million.

Financial review

Profit & loss

$m	HY24	HY23	Change % (reported)	Change % (CC)
Sales revenue	**1,113.4**	**892.6**	**25%**	**20%**
Cost of sales	**285.8**	**226.9**	**26%**	**25%**
% Gross margin	*74%*	*75%*		
Selling, marketing and general expenses	330.5	275.4	20%	16%
Research and development expenses	127.3	102.6	24%	21%
% of sales revenue	*11%*	*11%*		
Administration expenses (excluding cloud investment)	84.6	76.2	11%	11%
Administration expenses (cloud investment)	16.9	17.3	(2%)	(2%)
Operating expenses	**559.3**	**471.5**	**19%**	**16%**
Other income / (expenses)	1.9	(1.1)		
FX contract losses	(14.9)	(7.4)		
EBIT (underlying)*	**255.3**	**185.7**	**37%**	**23%**
*% EBIT margin**	*23%*	*21%*		
Net finance income	5.1	2.0		
Income tax expense*	(68.6)	(46.1)		
% Effective tax rate	*26%*	*25%*		
Underlying net profit*	**191.8**	**141.6**	**35%**	**21%**
*% Underlying net profit margin**	*17%*	*16%*		
*% Underlying net profit margin (pre cloud investment)**	*18%*	*17%*		
One-off and non-recurring items (after-tax):				
Share of losses on equity-accounted investments	(0.4)	–		
Statutory net profit	**191.4**	**141.6**	**35%**	**21%**

* Excluding one-off and non-recurring items (refer p7).

Sales revenue increased 25% (20% in CC) to $1,113.4 million and underlying net profit increased 35% (21% in CC) to $191.8 million. Statutory net profit increased 35% to $191.4 million.

Key points of note:

- Cost of sales increased 26% (25% in CC) to $285.8 million. The gross margin declined by one percentage point to 74%, below our long-term target gross margin of 75%. The gross margin decline was driven by inventory write-downs and the commencement of production at Chengdu which offset the benefit of improved average selling price. A $15.6 million write-down in the value of inventories largely relates to components for older generation products which are being progressively obsoleted;
- Selling, marketing and general expenses increased 20% (16% in CC) to $330.5 million reflecting continued investment in market growth activities, standard of care and market access initiatives;
- Investment in R&D increased 24% (21% in CC) to $127.3 million with continued investment made in key R&D projects and development of the product and services pipeline; and
- Administration expenses (excluding cloud investment) increased 11% to $84.6 million primarily driven by increases in IT licensing and people costs.

Cash flow

$m	HY24	HY23	Change
EBIT (underlying)	255.3	185.7	69.6
Depreciation and amortisation	43.1	37.3	5.8
Increase in working capital and other	(84.0)	(85.3)	1.3
Net interest received	5.1	2.0	3.1
Income taxes paid	(62.4)	(50.6)	(11.8)
Operating cash flow	**157.1**	**89.1**	**68.0**
Capital expenditure	(42.7)	(42.7)	–
Other net investments	(5.1)	(17.9)	12.8
Free cash flow	**109.3**	**28.5**	**80.8**
Outlay from exercise of share options and performance rights	(2.4)	–	(2.4)
Payments for share buyback	(43.0)	–	(43.0)
Dividends paid	(114.7)	(95.4)	(19.3)
Payment of lease liability and other	(19.5)	(14.4)	(5.1)
Decrease in net cash	**(70.3)**	**(81.3)**	**11.0**

Operating cash flow increased $68.0 million to $157.1 million, with free cash flow increasing $80.8 million to $109.3m.

Key points of note:

- EBIT (underlying) increased $69.6 million as a result of strong business performance;
- Capital expenditure (capex) was in line with last year and includes investment in the upgrade of the Lane Cove facility and stay-in-business capex; and
- Payments for share buyback reflects the $43.0 million outlay for the repurchase of ordinary shares as part of the on-market share buyback.

Capital employed

$m	Dec23	Jun23	Change
Trade receivables	379.3	388.4	(9.1)
Inventories	321.5	311.5	10.0
Less: Trade payables	(247.1)	(270.4)	23.3
Working capital	**453.7**	**429.5**	**24.2**
*Working capital / sales revenue**	*20%*	*22%*	
Property, plant and equipment	279.7	276.7	3.0
Intangible assets	458.7	444.1	14.6
Investments and other financial assets	155.2	188.1	(32.9)
Other net liabilities	(50.7)	(145.1)	94.4
Capital employed	**1,296.6**	**1,193.3**	**103.3**
Funding sources:			
Equity	1,781.8	1,748.8	33.0
Less: Net cash	(485.2)	(555.5)	70.3
Capital employed	**1,296.6**	**1,193.3**	**103.3**

* Dec23 calculation based on doubling HY24 sales revenue.

Capital employed increased $103.3 million to $1,296.6 million since June 2023.

Key points of note:

- Working capital increased $24.2 million, declining from 22% to 20% of sales;
- Investments and other financial assets decreased $32.9 million to $155.2 million, primarily reflecting the revaluation of investments in Nyxoah and Seer;
- Other net liabilities decreased $94.4 million to $50.7 million, and includes $39.9 million reduction in employee benefit liabilities, following the payment of cash incentives, and an increase in prepayments and other receivables; and
- Net cash decreased $70.3 million to $485.2 million.

Dividends

	HY24	HY23	Change %
Interim ordinary dividend (per share)	$2.00	$1.55	29%
% Payout ratio (based on underlying net profit)	68%	72%	
% Franking	70%	35%	

An interim dividend of $2.00 per share has been determined, an increase of 29% on last year and representing a payout of 68% of underlying net profit. The interim dividend is franked at 70%.

The ex-dividend date is 21 March 2024. The record date for calculating dividend entitlements is 22 March 2024 with the interim dividend expected to be paid on 15 April 2024.

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 statement.

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 compare 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 are 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

$m	**HY24**	**HY23***	**Change %**
Underlying net profit	**191.8**	**141.6**	**35%**
FX contract movement		(7.5)	
Spot exchange rate effect to sales revenue and expenses*		20.0	
Balance sheet revaluation*		4.1	
Underlying net profit (CC)	**191.8**	**158.2**	**21%**
One-off net losses	(0.4)	–	
Statutory net profit (CC)	**191.4**	**158.2**	**21%**

* HY24 actual v HY23 at HY24 rates.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act

The lead auditor's independence declaration is set out on page 11 and forms part of the Directors' Report for the half year ended 31 December 2023.

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 (Rounding instrument) 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 indicated.

Dated at Sydney this 19th day of February 2024.

Signed in accordance with a resolution of the directors:

Director

Director

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 review of Cochlear Limited for the half year ended 31 December 2023 there have been:

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

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

KPMG

KPMG

Rachel Gatt

Rachel Gatt, Partner
Sydney, 19 February 2024

Interim income statement

	Note	31 Dec 2023 $m	31 Dec 2022 $m
Revenue	2.2	1,098.5	885.2
Cost of sales	2.3	(285.8)	(226.9)
Gross profit		**812.7**	**658.3**
Selling, marketing and general expenses		(330.5)	(275.4)
Research and development expenses		(127.3)	(102.6)
Administration expenses		(101.5)	(93.5)
Other income	2.4	5.5	6.7
Other expenses	2.3	(3.6)	(7.8)
Share of losses on equity-accounted investments	4.2	(0.4)	–
Results from operating activities		**254.9**	**185.7**
Finance income - interest		9.4	6.7
Finance expense - interest		(4.3)	(4.7)
Net finance income		**5.1**	**2.0**
Profit before income tax		**260.0**	**187.7**
Income tax expense	3	(68.6)	(46.1)
Net profit		**191.4**	**141.6**
Basic earnings per share (cents)	2.5	291.9	215.3
Diluted earnings per share (cents)	2.5	291.3	215.3

The notes on pages 17 to 24 are an integral part of these consolidated interim financial statements.

Interim statement of comprehensive income

	31 Dec 2023 $m	31 Dec 2022 $m
Net profit	**191.4**	**141.6**
Other comprehensive income / (loss)		
Items that will not be reclassified subsequently to the income statement:		
Financial investments measured at fair value through other comprehensive income, net of tax	(37.2)	(30.7)
Total items that will not be reclassified subsequently to the income statement	**(37.2)**	**(30.7)**
Items that may be reclassified subsequently to the income statement:		
Foreign currency translation differences	3.1	1.1
Effective portion of changes in fair value of cash flow hedges, net of tax	13.2	(1.7)
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	10.4	5.2
Total items that may be reclassified subsequently to the income statement	**26.7**	**4.6**
Other comprehensive income / (loss), net of tax	**(10.5)**	**(26.1)**
Total comprehensive income	**180.9**	**115.5**

The notes on pages 17 to 24 are an integral part of these consolidated interim financial statements.

Interim balance sheet

	Note	31 Dec 2023 $m	30 Jun 2023 $m
Assets			
Cash and cash equivalents		485.2	555.5
Trade and other receivables	4.1	445.8	437.5
Forward exchange contracts		12.7	3.7
Inventories		321.5	311.5
Current tax assets		8.0	20.0
Prepayments		54.2	33.3
Total current assets		**1,327.4**	**1,361.5**
Trade and other receivables		0.3	0.9
Forward exchange contracts		5.8	1.6
Property, plant and equipment		279.7	276.7
Intangible assets		458.7	444.1
Investments	4.2	56.2	93.8
Other financial assets	4.2	95.9	90.8
Equity-accounted investments	4.2	3.1	3.5
Deferred tax assets		127.2	125.3
Right of use asset		176.2	170.5
Total non-current assets		**1,203.1**	**1,207.2**
Total assets		**2,530.5**	**2,568.7**
Liabilities			
Trade and other payables		247.1	270.4
Forward exchange contracts		5.9	20.6
Current tax liabilities		21.3	17.5
Employee benefit liabilities		106.5	146.4
Provisions		27.0	22.3
Deferred revenue		69.8	61.6
Lease liability		39.8	39.2
Total current liabilities		**517.4**	**578.0**
Forward exchange contracts		0.9	6.4
Employee benefit liabilities		9.7	9.7
Provisions		27.8	35.1
Deferred tax liabilities		17.4	18.3
Deferred revenue		8.6	9.8
Lease liability		166.9	162.6
Total non-current liabilities		**231.3**	**241.9**
Total liabilities		**748.7**	**819.9**
Net assets		**1,781.8**	**1,748.8**
Equity			
Share capital		1,204.2	1,250.3
Reserves		(54.5)	(56.9)
Retained earnings		632.1	555.4
Total equity		**1,781.8**	**1,748.8**

The notes on pages 17 to 24 are an integral part of these consolidated interim financial statements.

Interim statement of changes in equity

$m	Issued capital	Treasury share reserve	Translation reserve	Hedging reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Total equity
Balance at 1 July 2022	**1,276.6**	**–**	**(63.6)**	**(12.8)**	**(46.0)**	**76.2**	**455.3**	**1,685.7**
Total comprehensive income/(loss)								
Net profit	–	–	–	–	–	–	141.6	141.6
Foreign currency translation differences	–	–	1.1	–	–	–	–	1.1
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	(1.7)	–	–	–	(1.7)
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	–	–	–	5.2	–	–	–	5.2
Financial investments measured at fair value through other comprehensive income, net of tax	–	–	–	–	(30.7)	–	–	(30.7)
Total other comprehensive loss	**–**	**–**	**1.1**	**3.5**	**(30.7)**	**–**	**–**	**(26.1)**
Total comprehensive income	**–**	**–**	**1.1**	**3.5**	**(30.7)**	**–**	**141.6**	**115.5**
Transactions with owners, recorded directly in equity								
Shares issued	0.1	–	–	–	–	–	–	0.1
Dividends to shareholders	–	–	–	–	–	–	(95.4)	(95.4)
Share based payment transactions	–	–	–	–	–	7.0	–	7.0
Deferred tax recognised in equity	–	–	–	–	–	2.4	–	2.4
Balance at 31 December 2022	**1,276.7**	**–**	**(62.5)**	**(9.3)**	**(76.7)**	**85.6**	**501.5**	**1,715.3**
Balance at 1 July 2023	**1,250.3**	**(13.9)**	**(56.3)**	**(15.4)**	**(66.0)**	**94.7**	**555.4**	**1,748.8**
Total comprehensive income/(loss)								
Net profit	–	–	–	–	–	–	191.4	191.4
Foreign currency translation differences	–	–	3.1	–	–	–	–	3.1
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	13.2	–	–	–	13.2
Net change in fair value of cash flow hedges transferred to the income statement, net of tax	–	–	–	10.4	–	–	–	10.4
Financial investments measured at fair value through other comprehensive income, net of tax	–	–	–	–	(37.2)	–	–	(37.2)
Total other comprehensive loss	**–**	**–**	**3.1**	**23.6**	**(37.2)**	**–**	**–**	**(10.5)**
Total comprehensive income	**–**	**–**	**3.1**	**23.6**	**(37.2)**	**–**	**191.4**	**180.9**
Transactions with owners, recorded directly in equity								
Shares issued	0.1	–	–	–	–	–	–	0.1
Treasury shares acquired	–	(43.0)	–	–	–	–	–	(43.0)
Shares cancelled	(46.2)	46.2	–	–	–	–	–	–
Share options exercised	–	0.4	–	–	–	(0.5)	–	(0.1)
Performance rights vested	–	10.3	–	–	–	(12.7)	–	(2.4)
Share based payment transactions	–	–	–	–	–	9.2	–	9.2
Deferred tax recognised in equity	–	–	–	–	–	3.0	–	3.0
Dividends to shareholders	–	–	–	–	–	–	(114.7)	(114.7)
Balance at 31 December 2023	**1,204.2**	**–**	**(53.2)**	**8.2**	**(103.2)**	**93.7**	**632.1**	**1,781.8**

The notes on pages 17 to 24 are an integral part of these consolidated interim financial statements.

Interim statement of cash flows

	31 Dec 2023 $m	31 Dec 2022 $m
Cash flows from operating activities		
Cash receipts from customers	1,093.3	866.6
Cash paid to suppliers and employees	(884.4)	(735.6)
Grant and other income received	5.5	6.7
Interest received	9.4	6.7
Interest paid	(4.3)	(4.7)
Income taxes paid	(62.4)	(50.6)
Net cash provided by operating activities	**157.1**	**89.1**
Cash flows from investing activities		
Acquisition of leasehold improvements and plant and equipment	(22.6)	(20.3)
Acquisition of IT systems	(8.5)	(8.3)
Acquisition of other intangibles	(11.6)	(14.1)
Acquisition of investments	(5.1)	(17.9)
Acquisition of term deposits	–	(25.0)
Net cash used in investing activities	**(47.8)**	**(85.6)**
Cash flows from financing activities		
Payment of lease liabilities	(17.3)	(15.3)
Outlay from exercise of share options and performance rights, net	(2.5)	–
Proceeds from share issuance	0.1	–
Payments for share buyback	(43.0)	–
Dividends paid	(114.7)	(95.4)
Net cash used in financing activities	**(177.4)**	**(110.7)**
Net decrease in cash and cash equivalents	**(68.1)**	(107.2)
Cash and cash equivalents at 1 July	555.5	629.3
Effect of exchange rate fluctuation on cash held	(2.2)	(0.4)
Cash and cash equivalents, net of overdrafts at 31 December	**485.2**	**521.7**

The notes on pages 17 to 24 are an integral part of these consolidated interim financial statements.

Notes to the Consolidated Interim Financial Report

1. Basis of preparation

1.1 Reporting entity

Cochlear Limited (the Company) is a company domiciled in Australia. The Consolidated Interim Financial Report of the Company as at and for the half year ended 31 December 2023 comprises 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. Cochlear's Consolidated Annual Financial Report as at and for the year ended 30 June 2023 is available upon request from the Company's registered office at 1 University Avenue, Macquarie University NSW 2109, Australia or at www.cochlear.com.

1.2 Statement of compliance

The Consolidated Interim Financial Report is a general purpose financial report which has been prepared in accordance with AASB134 *Interim financial reporting* and the *Corporations Act 2001*, and with IAS 34 Interim financial reporting.

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with Cochlear's consolidated annual financial report as at and for the year ended 30 June 2023. This report should also be read in conjunction with any public announcements made by Cochlear Limited during the half year ended 31 December 2023 in accordance with continuous disclosure obligations arising under the *Corporations Act 2001*.

The Consolidated Interim Financial Report was approved by the Board of Directors on 19 February 2024.

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

1.3 Material accounting policies

The Group adopted Disclosure of Accounting Policies (Amendments to AASB 101 and IFRS Practice Statement 2) from January 2023. The amendments did not result in any changes to the accounting policies and accounting policy information disclosed in the financial statements.

The change in accounting policy will also be reflected in the Group's consolidated financial statements as at and for the year ended 30 June 2024.

Apart from the change noted above, the accounting policies applied by the Consolidated Entity in this Consolidated Interim Financial Report are the same as those applied by the Consolidated Entity in the Consolidated Annual Financial Report as at and for the year ended 30 June 2023.

1.4 Estimates and judgements

The preparation of the consolidated interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this consolidated interim financial report, the significant judgements made by management in applying Cochlear's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Annual Financial Report as at and for the year ended 30 June 2023.

1.5 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for financial years beginning after 1 July 2023 and have not been applied in preparing these consolidated financial statements.

2. Performance for the half year

2.1 Operating segments

Revenue	31 Dec 2023 $m	31 Dec 2022 $m
Cochlear implants	648.5	513.1
Services	348.9	258.6
Total cochlear implants	**997.4**	**771.7**
Acoustics	116.0	120.9
Sales revenue	**1,113.4**	**892.6**
Foreign exchange loss on hedged sales	(14.9)	(7.4)
Revenue	**1,098.5**	**885.2**

31 Dec 2023	Americas	EMEA[1]	Asia Pacific	Corporate and other net expenses	Total
Profit or loss	**$m**	**$m**	**$m**	**$m**	**$m**
Revenue	585.4	352.5	175.5	(14.9)	**1,098.5**
EBIT	334.8	160.9	24.1	(264.9)	**254.9**
Net finance income				5.1	**5.1**
Profit before income tax					**260.0**
Depreciation and amortisation	6.0	4.3	2.9	29.9	**43.1**
Write-down in value of inventories	0.8	2.1	2.8	9.9	**15.6**
Equity accounted losses	–	–	–	0.4	**0.4**

31 Dec 2022	Americas	EMEA[1]	Asia Pacific	Corporate and other net expenses	Total
Profit or loss	**$m**	**$m**	**$m**	**$m**	**$m**
Revenue	444.5	286.7	161.4	(7.4)	**885.2**
EBIT	232.5	127.4	56.8	(231.0)	**185.7**
Net finance income				2.0	**2.0**
Profit before income tax					**187.7**
Depreciation and amortisation	6.5	3.5	2.9	24.4	**37.3**
Write-down in value of inventories	1.0	0.4	0.1	–	**1.5**

31 Dec 2023	Americas	EMEA[1]	Asia Pacific	Corporate and manufacturing	Total
Assets and liabilities	**$m**	**$m**	**$m**	**$m**	**$m**
Assets	399.5	399.9	190.7	1,540.4	**2,530.5**
Liabilities	178.2	119.0	68.7	382.8	**748.7**
Acquisition of non-current assets	3.6	4.8	0.5	33.7	**42.6**

30 June 2023	Americas	EMEA	Asia Pacific	Corporate and manufacturing	Total
Assets and liabilities	**$m**	**$m**	**$m**	**$m**	**$m**
Assets	392.9	357.9	213.7	1,604.2	**2,568.7**
Liabilities	199.7	122.1	68.5	429.6	**819.9**
Acquisition of non-current assets	2.1	6.7	1.0	129.6	**139.4**

[1] Europe, Middle East and Africa

Cochlear Limited is domiciled in Australia and earns less than 5% of its sales revenue from external customers in Australia. Cochlear Limited has $413.0 million (June 2023: $385.1 million) of non-current assets (excluding financial instruments and deferred tax) in Australia, including Australian based manufacturing facilities.

2.2 Revenue

	31 Dec 2023	31 Dec 2022
	$m	**$m**
Sale of goods before hedging	1,095.4	874.3
Foreign exchange loss on hedged sales	(14.9)	(7.4)
Revenue from sale of goods	**1,080.5**	**866.9**
Rendering of services	18.0	18.3
Total revenue	**1,098.5**	**885.2**

2.3 Expenses

	31 Dec 2023	31 Dec 2022
	$m	**$m**
(a) Cost of sales		
Carrying amount of inventories recognised as an expense	265.6	222.6
Write-down in value of inventories	15.6	1.5
Other	4.6	2.8
Total cost of sales	**285.8**	**226.9**
(b) Other expenses		
Net foreign exchange loss	3.6	7.8
Total other expenses	**3.6**	**7.8**

2.4 Other income

	31 Dec 2023	31 Dec 2022
	$m	**$m**
Grant received or due and receivable	1.6	0.9
Other	3.9	5.8
Total other income	**5.5**	**6.7**

2.5 Earnings per share

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:

	31 Dec 2023	31 Dec 2022
Net profit attributable to equity holders of the parent entity	$191,400,000	$141,648,000
Weighted average number of ordinary shares (basic):		
Issued ordinary shares at 1 July (number)	65,671,649	65,775,339
Effect of options and performance shares exercised (number)	902	3,763
Effect of shares cancelled under Share Buy-back (number)	(93,919)	–
Effect of shares purchased and held as treasury stock (number)	(109)	–
Effect of shares issued under Employee Share Plan (number)	203	125
Weighted average number of ordinary shares (basic)	**65,578,726**	**65,779,227**
Basic earnings per share (cents)	**291.9**	**215.3**

Diluted earnings per share

The calculation of diluted EPS has been based on the following net 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:

	31 Dec 2023	31 Dec 2022
Net profit attributable to equity holders of the parent entity	$191,400,000	$141,648,000
Weighted average number of ordinary shares (diluted):		
Weighted average number of shares (basic) (number)	65,578,726	65,779,227
Effect of options, performance shares and rights unvested (number)	128,038	–
Weighted average number of ordinary shares (diluted)	**65,706,764**	**65,779,227**
Diluted earnings per share (cents)	**291.3**	**215.3**

At 31 December 2023, 126,292 options (December 2022: 243,155) were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been antidilutive.

2.6 Options and performance rights

The Company has granted options and performance rights to certain employees and key management personnel under the Cochlear Executive Incentive Plan (CEIP). The terms and conditions of the plan are disclosed in the Consolidated Annual Financial Report as at and for the year ended 30 June 2023.

Grants made in the current period to certain employee and key management personnel under the CEIP are set out below.

Grant date	Exercise price of options	Number of options	Number of performance rights	Contractual life
18 September 2023	–	–	46,741	2 years
18 October 2023	–	–	20,606	4 years
18 October 2023[1]	$257.69	58,805	–	6 years

1. Options offered under the Cochlear Executive Incentive Plan (CEIP) with a four-year performance period and 25-month exercise period.

2.7 Dividends

Dividends recognised in the current and prior financial period by Cochlear Limited are:

	Dollars per share	Total amount $m	Franked/unfranked	Date of payment
31 December 2022				
Final – ordinary	1.45	95.4	40% Franked	17 October 2022
31 December 2023				
Final – ordinary	1.75	114.7	70% Franked	11 October 2023
Subsequent event				
Since the end of the financial year, the directors declared the following dividend:				
Interim – ordinary	2.00	131.0	70% Franked	15 April 2024

The financial effect of these dividends has not been brought to account in the consolidated Interim financial report for the half year ended 31 December 2023 and will be recognised in subsequent financial statements.

3. Income taxes

Numerical reconciliation between income tax expense and profit before income tax

	31 Dec 2023 $m	31 Dec 2022 $m
Net profit	191.4	141.6
Income tax expense	68.6	46.1
Profit before income tax	**260.0**	**187.7**
Tax at the Australian tax rate of 30% (Dec 2022: 30%)	78.0	56.3
Add/(less) adjustments for:		
Research and development allowances	(9.9)	(8.0)
Net non-deductible items	2.3	2.0
Effect of tax rate in foreign jurisdictions	(2.5)	(1.3)
Other adjustments for prior year	0.7	(2.9)
Income tax expense on profit before income tax	**68.6**	**46.1**

Future tax developments

The Organisation for Economic Co-operation and Development's (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) addresses the tax challenges arising from the digitalisation of the global economy. The BEPS Pillar Two model rules seek to apply a 15% global minimum tax to individual jurisdictions across the globe and is expected to apply to the Group from 1 July 2024.

As at 31 December 2023 the Group has operations in jurisdictions which have enacted or substantively enacted the Pillar Two legislation and it is anticipated that Australia will be substantively enacting this legislation before 1 July 2024 (with the relevant provisions rules being effective for income years on or after 1 January 2024).

Cochlear has operations globally which may give rise to an exposure to top-up taxes and is in the process of evaluating the cash tax implications of the Pillar Two global minimum tax rules. Cochlear has applied the mandatory temporary exception at 31 December 2023 under AASB 2023-2 *Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules* issued by the Australian Accounting Standards Board in June 2023. The amendments provide a temporary mandatory exception from deferred tax accounting for the Pillar Two global minimum top-up tax. The mandatory exception applies retrospectively. The retrospective application has had no impact on Cochlear's financial statements.

4. Operating assets and liabilities

4.1 Trade and other receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance under the Expected Credit Loss (ECL) model. The ECL model has not materially changed since 30 June 2023. For further explanation of the ECL approach, refer to the 30 June 2023 Annual Financial Report.

4.2 Investments, equity-accounted investments and other financial assets

The following table shows movements in investments, other financial assets and equity-accounted investments during the period:

	Investments $m	Other financial assets $m	Equity-accounted investments $m
Balance at 1 July 2023	93.8	90.8	3.5
Additions	–	5.1	–
Fair value loss through other comprehensive income (before tax)	(37.6)	–	–
Share of losses on equity-accounted investments	–	–	(0.4)
Balance at 31 December 2023	**56.2**	**95.9**	**3.1**

At 31 December 2023, $108.9 million (June 2023: $103.8 million) of investments and other financial assets are measured at fair value through profit or loss and designated as Level 3 financial assets. The remaining $43.2 million (June 2023: $80.8 million) are measured at fair value through other comprehensive income with $35.3 million (June 2023: $59.5 million) designated as Level 1 and $7.9 million (June 2023: $21.3 million) designated as Level 3.

4.3 Contingent liabilities

Contingent liabilities are disclosed where a provision is not recognised due to the uncertainty regarding the outcome of future events and/or inability to reliably measure such 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.

Patent infringement claim

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.

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 is currently, and/or is likely from time to time to be, subject to tax, customs and regulatory reviews, audits and investigations. Individually significant confidential investigation(s) by an authority are not disclosed, as disclosure may prejudice Cochlear.

Proposed acquisition of Oticon Medical's cochlear implant business

Cochlear and Demant are pursuing a transfer of Oticon Medical's cochlear implant business ("CI Carve Out Transaction"), which remains conditional on satisfaction of customary closing conditions and regulatory approvals.

If the CI Carve Out Transaction does not complete because the necessary competition approvals have not been obtained, Cochlear has agreed to make a payment of $27.5 million 12 months after Cochlear and Demant have ceased pursuing the CI Carve Out Transaction, provided that Demant does not attempt to dispose of, or dispose of the cochlear implant business (or any part) to any third party during this 12 month period.

5. Financial and capital structure

5.1 Loans and Borrowings

	31 Dec 2023 $m	30 Jun 2023 $m
Cash		
Cash and cash equivalents	485.2	555.5
Total cash	**485.2**	**555.5**
Less: Total borrowings		
Current	–	–
Non-current	–	–
Total borrowings	–	–
Net cash	**485.2**	**555.5**

Multi-option bank facilities - Unsecured bank loan

As at 31 December 2023, maturity profile of Cochlear's bank loan facilities are 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	–	100.0	100.0	150.0	20.0	**370.0**

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.

Secured bank loan

Cochlear has no secured bank loans.

Bank guarantees

As at 31 December 2023, Cochlear had contingent liability facilities denominated in United States dollars, Euros, Sterling, Indian rupees and New Zealand dollars totalling AUD 12.5 million (June 2023: AUD 12.8 million).

5.2 Financial Instruments

Fair values

The carrying amounts and estimated fair value 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 asset 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).

The equity securities classified as financial assets measured at fair value through other comprehensive income are valued where available using quoted prices (Level 1), or where not available using unobservable market inputs (Level 3). Refer to Note 4.2 for further details.

There were no transfers between levels during the half year.

6. Other notes

6.1 Events subsequent to reporting date

Other than reported 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 affect significantly the operations of Cochlear, the results of those operations, or the state of affairs of Cochlear in future financial years.

Dividends

For dividends determined after 31 December 2023, see Note 2.7.

Directors' Declaration

In the opinion of the directors of Cochlear Limited:

1. The consolidated financial statements and notes set out on pages 12 to 24 are in accordance with the *Corporations Act 2001*, including:
   a. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2023, and of its performance, for the six month period ended on that date; and
   b. complying with Australian Accounting Standard AASB 134 *Interim financial reporting* and the *Corporations Regulations 2001*; and
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Dated at Sydney this 19th day of February 2024.

Director

Director

Independent Auditor's Review Report

To the members of Cochlear Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying Interim Financial Report of Cochlear Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Cochlear Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Consolidated Entity's*** financial position as at 31 December 2023 and of its performance for the half year ended on that date; and
- complying with *Australian Accounting Standard* AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

The Interim Financial Report comprises:

- the interim balance sheet as at 31 December 2023;
- the interim income statement, interim statement of comprehensive income, interim statement of changes in equity and interim statement of cash flows for the half year ended on that date;
- Notes 1 to 6 comprising material accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Consolidated Entity*** comprises Cochlear Limited (the Company) and the entities it controlled at the half year's end or from time to time during the half year.

Basis for Conclusion

We conducted our review in accordance with *ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in *the Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Consolidated Entity in accordance with the auditor independence requirements of 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)* that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Consolidated Entity are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Consolidated Entity’s financial position as at 31 December 2023 and its performance for the half year ended on that date, and complying with *Australian Accounting Standard* AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

KPMG

Rachel Gatt

Rachel Gatt, *Partner*

Sydney, 19 February 2024