



Cochlear Limited
**Tax Contribution
Report 2023**





Contents

About Cochlear	2
Tax strategy and governance	3
Approach to risk management and governance	3
Attitude towards tax planning	3
Accepted level of risk in relation to taxation	3
Approach to engagement with global revenue authorities	3
International related party dealings	3
Income taxes disclosed in 2023 Annual Report	5
Reconciliation of accounting profit to income tax expense	5
Reconciliation of income tax expense to cash tax paid	6
Effective tax rates	6
Tax contribution summary	7
ATO tax transparency disclosures	8

Cover: Kevin, Cochlear™ Nucleus® System recipient



About Cochlear

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

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 30 listed Australian company with a market capitalisation of over A\$15 billion.

Our goal is to deliver value by helping more people to hear, which contributes to building a healthier and more productive society. Our strategy is focused on improving awareness of and access to implantable hearing solutions for people indicated for our products.

We are pioneers and global leaders in the development, manufacture and commercialisation of implantable hearing solutions, collaborating in over 100 research programs worldwide to further research into hearing loss.

We invest around 12% of sales revenue each year in research and development (R&D), with over \$2.7 billion invested since listing, and we have a portfolio of more than 1,700 patents and patent applications worldwide.

Over the past 40 years we have provided more than 750,000 implant devices to people who benefit from one – or two – of our implantable solutions. And we deliver a lifetime of hearing solutions for recipients, with sound processor upgrades and services to support prior generation products.

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 global workforce of around 4,800 employees and a deep geographical reach, selling in over 180 countries, with employees based in over 50 countries.

For FY23, 58% of sales revenue was from cochlear implant (Nucleus) products and 12% from Acoustics products. Services revenue, which includes sound processor upgrade and accessories sales revenue, accounted for 30% of total sales revenue. On a regional basis, sales revenue was split:

- Americas (US, Canada and Latin America) – 50% of sales revenue
- EMEA (Europe, Middle East and Africa) – 33% of sales revenue
- Asia Pacific (Australasia and Asia) – 17% of sales revenue

Approximately 95% of revenue in FY23 was generated from countries outside Australia.

For FY23, all cochlear implant manufacture was conducted in Australia with sound processor and acoustics products manufacture occurring in Australia, Sweden, Malaysia and most recently sound processor manufacturing has also commenced in China. 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.





Tax strategy and governance

Approach to risk management and governance

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

The Audit and Risk Committee have approved a Tax Risk Management and Governance Framework which reflects the tax risk strategy and management controls relating to tax risk management and governance.

Global tax and finance teams work together to identify, analyse and evaluate global tax risks, with key global tax risks identified escalated to the Vice President Global Tax and Treasury who is a direct report of, and identifies global tax risks to, the Chief Financial Officer.

Each Audit and Risk Committee has an agenda item on global tax and, where appropriate, matters are reported through to the full Board.

The Audit and Risk Committee approve the Tax Risk Management and Governance Framework annually to satisfy itself that it continues to be sound and effectively identifies material areas of potential risk.

Publication of this statement is regarded as satisfying the statutory obligation under Paragraph 19, Schedule 19, Finance Act 2016 (UK) which prescribes that the UK tax strategy must be published for UK entities of the Cochlear global group. The UK entities to which this strategy applies are Cochlear Europe Limited and Cochlear Research and Development Limited.

Attitude towards tax planning

Our attitude towards tax planning is to ensure that transactions and compliance activities undertaken in Australia and by subsidiaries overseas have consideration of the Tax Risk Management and Governance Framework. Where appropriate, we will engage external advisors on significant transactions and for review of compliance activities.

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.

Accepted level of risk in relation to taxation

The level of accepted risk in relation to taxation is to assess the risk appetite of a transaction or activity in accordance with the Tax Risk Management and Governance Framework. The Audit and Risk Committee reviews this approach annually.

Approach to engagement with global revenue authorities

Our approach to engagement with global revenue authorities including but not limited to the ATO, Internal Revenue Service and Her Majesty's Revenue and Customs, is to be compliant with tax legislation and fulfil all tax obligations in accordance with local tax laws and practice.

Our approach is to engage early with global revenue authorities on significant transactions and to ensure cooperative, collaborative and transparent communication.

In this respect, we have signed two Bilateral Advanced Pricing Agreements with the ATO; one with the National Tax Authority of Japan which was recently renewed for a further term of 5 years, and one with the Internal Revenue Service of the United States which has a term of 7 years. Dealings with the UK subsidiary based in London are conducted on similar principles but are not encapsulated in a formal Bilateral Advanced Pricing Agreement.

International related party dealings

Cochlear Limited is the ultimate parent entity of the Cochlear group. Our global headquarters is on campus at Macquarie University in Sydney, Australia, with regional headquarters in Asia Pacific, EMEA and the Americas.

As the global manufacturer and developer of implantable hearing devices, we undertake the majority of manufacturing and R&D activities in Australia. We also conduct manufacturing and R&D activities in other locations via service arrangements with group entities located in Sweden, Malaysia, Belgium, the US and most recently China. All new knowledge and intellectual property generated from R&D activities is owned by Cochlear Limited.



Manufactured product is sold either directly or through headquarter distributors located in the UK, US and Panama and also through distributors located in Asia Pacific.

A summary of our international related party dealings is provided below. All dealings between related parties within the Cochlear group are priced on an arm's length basis in accordance with global transfer pricing laws and OECD guidelines:

- We manufacture the cochlear implant product range at three sites in Australia - Macquarie University and Lane Cove in New South Wales, and Brisbane in Queensland. The manufacture of the acoustic implant product range is carried out in Australia and under contract manufacturing agreements in Sweden and Malaysia. We have also recently commenced manufacturing sound processors in China.
- All intellectual property is owned by Cochlear in Australia with the majority of R&D activities undertaken in Australia. There are R&D capabilities in Sweden, Belgium and the US and contract R&D agreements with the subsidiaries in those regions.
- We have headquarter distributors located in the UK, US and Panama as well as other distributors located across Asia Pacific who purchase product directly from Cochlear for ultimate sale in their regions.
- We operate a repair centre in Malaysia. This entity provides testing, diagnostic and repair of sound processors, logistic activities including packing and shipping, scrapping of devices and related administrative tasks for Cochlear group entities globally.
- We operate Shared Service Centres in Malaysia and Panama. These centres provide support to Cochlear group entities such as customer order entry, service request entry, registration, invoicing, user acceptance testing, customer account set up and maintenance. The centre in Malaysia also provides IT support services to the group.
- We have a captive insurance company in Singapore. It provides captive insurance services to subsidiaries 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 nature of activities undertaken by subsidiaries incorporated, and branches located, in jurisdictions outside of Australia:

Country	International related party dealing
Belgium	Service provider (contract R&D)
Canada	Distributor of Cochlear products
China¹	Distributor of Cochlear products and service provider for contract manufacturing
Hong Kong¹	Distributor of Cochlear products
India¹	Distributor of Cochlear products
Japan	Distributor of Cochlear products
Korea¹	Distributor of Cochlear products
Malaysia¹	Shared services provider (contract manufacturing, repair centre, IT support services, customer service admin)
New Zealand	Distributor of Cochlear products
Panama¹	Headquarter distributor for Latin America and Shared services provider (customer service admin)
Singapore¹	Distributor of Cochlear products and captive insurance company
Sweden	Service provider (contract manufacturing, marketing and R&D)
Taiwan¹	Sales support for Cochlear products
Thailand¹	Sales support for Cochlear products
United Kingdom	Headquarter distributor for EMEA
United States	Headquarter distributor for North America and service provider (contract R&D)

Note 1 – The subsidiary companies in these countries are treated as Controlled Foreign Companies for Australian income tax purposes and are subject to tax at the Australian corporate tax rate of 30% on any profits generated from any activities between the subsidiaries and Cochlear.



Income taxes disclosed in 2023 Annual Report

The income tax expense disclosed in the Annual Report is calculated based on International Financial Reporting Standards (IFRS). In any one income year there may be a difference between the income tax expense calculated in the Annual Report to the total cash taxes paid to a relevant taxation authority during that same income year. This is due to a number of factors such as the timing of corporate tax instalment payments made to the relevant tax authorities, whether any tax losses are incurred or utilised during the year and other taxes being excluded from income tax expense such as FBT, payroll and employee taxes.

We calculate the Effective Tax Rate (ETR) as income tax expense divided by accounting profit before income tax. In FY23, reported net profit was \$300.6 million.

Provided below is the calculation of the income tax expense for Cochlear and its Australian operations showing the impact of adjustments to the income tax expense on the calculation of the ETR, a reconciliation of income tax expense to cash tax paid, carried forward tax losses and 5-year historical ETRs.

Reconciliation of accounting profit to income tax expense

	2023 \$m	2023 ETR	2022 \$m	2022 ETR
Net profit	300.6		289.1	
Income tax expense	96.0		104.7	
Profit before income tax	396.6		393.8	
Tax at the Australian tax rate of 30% (2022: 30%)	119.0	30.0%	118.1	30.0%
Add/(less) adjustments for:				
Research and development allowances	(21.1)	(5.3%)	(16.5)	(4.2%)
Net non-deductible/(non-assessable) items	5.6	1.4%	0.3	0.1%
Effects of tax rates in foreign jurisdictions	(4.5)	(1.1%)	(4.6)	(1.2%)
	99.0	25.0%	97.3	24.7%
Adjustment for prior years	(3.0)	(0.8%)	7.4	1.9%
Income tax expense on profit before income tax	96.0	24.2%	104.7	26.6%



Reconciliation of accounting profit to income tax expense for the Australian tax consolidated group

	2023 \$m	2023 ETR	2022 \$m	2022 ETR
Net profit	231.0		341.4	
Income tax expense	64.3		91.0	
Profit before income tax (reported)	295.3		432.4	
Dividends from wholly owned foreign subsidiaries	(23.1)		(95.5)	
Profit before income tax (excluding dividends from wholly owned foreign subsidiaries)	272.2		336.9	
Profit before income tax (reported)	295.3		432.4	
Income tax expense using the Company's domestic tax rate of 30%	88.6	30.0%	129.7	30.0%
Add/(less) adjustments for:				
Research and development allowances	(20.0)	(6.8%)	(15.8)	(3.7%)
Net non-deductible/(non-assessable) items	5.9	2.0%	2.8	0.6%
Controlled foreign company income	0.7	0.2%	2.3	0.5%
Exempt foreign sourced dividends from wholly owned subsidiaries	(6.9)	(2.3%)	(28.7)	(6.6%)
	68.3	23.1%	90.3	20.8%
Adjustment for prior years	(4.0)	(1.3%)	0.7	0.2%
Income tax expense on Australian profit before income tax	64.3	21.8%	91.0	21.0%

Reconciliation of income tax expense to cash tax paid

	2023 \$m	2022 \$m
Income tax expense on profit before income tax	96.0	104.7
Timing differences recognised in deferred tax	9.5	14.3
Net recognition/(utilisation) of tax losses recognised in deferred tax	2.3	(61.2)
Current year tax instalments (payable)/receivable next year ¹	(4.5)	21.1
Prior year instalments (received)/paid this year	(24.0)	(52.8)
Cash taxes paid as per statement of cash flows	79.3	26.1

Note 1 – The current tax instalments (payable)/receivable next year largely represents the return of Cochlear Limited Australian tax group to being tax payable after utilisation in FY22 of the remaining carry forward tax losses generated in FY20.

Effective tax rates

	2019	2020	2021	2022	2023
Profit/(loss) before tax (\$m)	365.6	(271.1)	361.8	393.8	396.6
Income tax expense/(benefit) (\$m)	88.9	(32.8)	38.0	104.7	96.0
Effective tax rate (%)	24.3%	12.1%	10.5%	26.6%	24.2%



Tax contribution summary

In FY23, we made the following cash tax payments to Australian and overseas tax authorities:

	Australia \$m	Americas/ Canada \$m	EMEA \$m	Asia Pacific \$m	Total Group \$m	2022 \$m
Taxes paid by/ (refunded to) Cochlear						
Corporate income tax ¹	43.5	14.8	12.0	9.0	79.3	26.1
Employer/payroll taxes	13.4	9.6	10.6	0.3	33.9	30.0
Fringe benefits taxes	0.4	-	-	-	0.4	0.3
Taxes paid by Cochlear	57.3	24.6	22.6	9.3	113.8	56.4
Taxes collected by/ (refunded to) Cochlear						
Salary withholding (PAYG/PAYE)	82.0	32.1	21.7	4.6	140.4	116.0
Net GST/VAT remitted/(refunded) ²	(21.9)	0.2	(39.3)	3.0	(58.0)	(68.9)
Net sales/consumption taxes	-	2.9	0.1	0.6	3.6	2.5
Withholding taxes on interest and royalties	2.2	-	-	-	2.2	1.2
Taxes collected by/ (refunded to) Cochlear	62.3	35.2	(17.5)	8.2	88.2	50.8
Total taxes paid and collected/(refunded)	119.6	59.8	5.1	17.5	202.0	107.2
2022	61.7	44.6	4.8	(3.9)	107.2	-

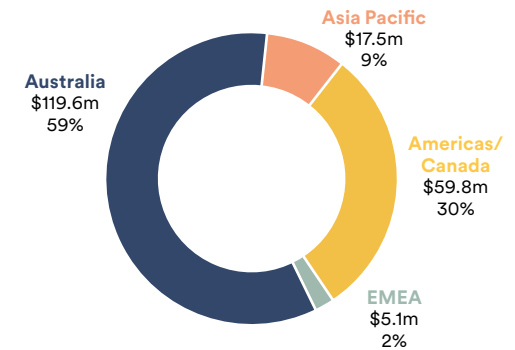
Note 1 – Cochlear Limited generated tax losses in FY20 which were carried forward and reduced taxable income in FY22, resulting in a refund of overpaid tax being received in FY23.

Note 2 – Sale of Cochlear products are generally exempt from GST / VAT.

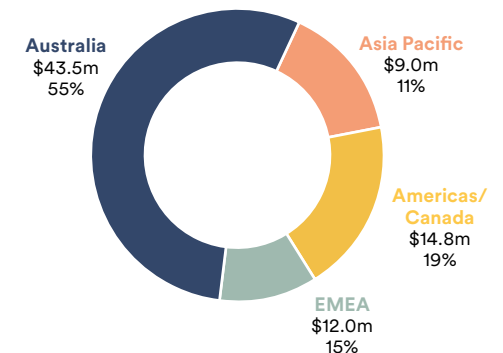
Corporate income tax

Corporate income taxes paid in Australia continue to represent the majority of total corporate income taxes paid by the Cochlear Group. We expect to resume previous levels of contribution of corporate income taxes (approximately 70%) to Australia's economy in future years now having utilised all carried forward tax losses.

Total global taxes paid/collected 2023



Total corporate income tax paid 2023





ATO tax transparency disclosures

In November 2022, the Australian Taxation Office published the following taxation information from the Australian tax consolidated group income tax return for 2021:

2021	
Total income	\$1,080,338,869
Taxable income	\$130,401,929
Tax payable	\$0

Taxable income is calculated based on accounting profit 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 2019. 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 incentive has been applied.

Cochlear Australian tax consolidated group	2019 A\$m	2020 A\$m	2021 A\$m	2022 A\$m
Total income published	996.4	1,025.2	1,080.3	1,296.9
Taxable income ¹	393.1	0.0	130.4	368.1
Tax payable ²	73.6	0.0	0.0	13.6
Application of R&D tax incentive offset to tax transparency disclosures:				
Taxable income	293.1	0.0	29.9	250.4
R&D expense (100% add back)	100.0	-	100.5	117.7
Taxable income published	393.1	0.0	130.4	368.1
Tax payable (@30%)	117.9	0.0	39.1	110.4
R&D tax incentive offset ³	(38.5)	-	(38.5)	(94.0)
Other tax offsets	(5.8)	-	(0.6)	(2.8)
Tax payable published	73.6	0.0	0.0	13.6

Note 1 – In FY20, taxable income is nil due to the combined impact of COVID and the patent litigation case.

Note 2 – Tax losses were generated in FY20 which have been carried forward and reduce taxable income in FY21 and FY22.

Note 3 – In FY22, carried forward R&D tax incentive offsets from FY20 were utilised in addition to the R&D tax incentive offset for that year.

Hear now. And always

Cochlear is dedicated to helping people with moderate to profound hearing loss experience a world full of hearing. As the global leader in implantable hearing solutions, we have provided more than 700,000 devices and helped 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 next generation technologies. We collaborate with leading clinical, research and support networks to advance hearing science and improve care.

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 6353

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 follow the directions for use. Not all products are available in all countries. Please contact your local Cochlear representative for product information.

ACE, Advance Off-Stylet, AOS, Ardium, AutoNRT, Autosensitivity, Baha, Baha SoftWear, BCDrive, Beam, Bring Back the Beat, Button, Carina, Cochlear, 科利耳, コクレア, 코클리어, Cochlear SoftWear, Contour, 콘트واء, Contour Advance, Custom Sound, DermaLock, Freedom, Hear now. And always, Hugfit, Human Design, Hybrid, Invisible Hearing, Kanso, LowPro, MET, MP3000, myCochlear, mySmartSound, NRT, Nucleus, Osia, Outcome Focused Fitting, Off-Stylet, Piezo Power, Profile, Slimline, SmartSound, Softip, SoundArc, True Wireless, the elliptical logo, Vistafix, Whisper, WindShield and Xidium are either trademarks or registered trademarks of the Cochlear group of companies.

© Cochlear Limited 2023. D2121244 V1 2023-08