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Cochlear Limited
Tax Contribution Report
2021

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Letter from the CFO

I am pleased to present this Tax Contribution Report for 2021 for Cochlear Limited detailing Cochlear's taxes paid in Australia and globally and Cochlear's global tax strategy.

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.

A key driver of our global tax strategy is our longstanding commitment to Australian based research and development (R&D) and manufacturing as well as growing the business with broad economic benefits for Australia. Our tax strategy reflects that most of Cochlear's intellectual property is generated in Australia and the assets, risks and functions of implementing that strategy meant that the majority of Cochlear's corporate income tax was paid in Australia in 2021.

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

During the year, the new products launched included the Cochlear™ Nucleus® Kanso® 2 Sound Processor; Cochlear™ Nucleus® 7 Sound Processor for Nucleus 22 implant recipients; Custom Sound® Pro fitting software; Nucleus® SmartNav System; and Cochlear™ Baha® 6 Max Sound Processor.

Our R&D, product development and manufacturing are all inextricably linked and substantially based in Australia. Cochlear employs a global innovation network of more than 450 R&D employees as well as a large number of employees who are engaged in manufacturing with the vast majority employed in Australia.

We welcome the Australian Government's announcement of a tax incentive to encourage companies to commercialise home grown medical and health ideas in Australia. Subject to the final design and successful passage of legislation through parliament, the patent box tax regime for medical technology and biotechnology should encourage the development of innovation in Australia.

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



Stu Sayers
Chief Financial Officer

About Cochlear

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

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

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

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

For FY21, 61% of Cochlear's sales revenue was from cochlear implant (Nucleus) products and 10% from Acoustics products. Services revenue, which includes sound processor upgrade and accessories sales revenue, accounted for 29% 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 approximately 95% of revenue in FY21 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 90% 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.

Tax strategy and governance

This section on tax strategy and governance is approved by the Audit Committee. Publication of this statement is regarded as satisfying the statutory obligation under Paragraph 16(2), 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.

Approach to risk management and governance

Cochlear Limited 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.

An overall low risk tax strategy is adopted by Cochlear in order to meet this objective and this strategy is adopted across Cochlear's global locations.

Cochlear's global tax and finance teams work together to identify, analyse and evaluate global tax risks. Key global tax risks are identified by the Tax Manager EMEA for UK and EMEA tax risks, the Tax Manager US for US tax risks, the Group Tax Manager for Australian tax risks and also by the regional heads of finance for global locations and 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 Committee has an agenda item on global tax and, where appropriate, matters are reported through to the full Board.

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

Attitude towards tax planning

Cochlear's attitude towards tax planning is to ensure that transactions and compliance activities undertaken by Cochlear in Australia and by its subsidiaries overseas results in maintaining the overall low risk tax strategy adopted by Cochlear. Where appropriate, Cochlear will engage external advisors on complex 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

Cochlear's level of accepted risk in relation to taxation is to accept an overall low level of risk in relation to major transactions and when undertaking tax compliance activities globally. The Audit Committee reviews this approach annually.

Approach to engagement with global revenue authorities

Cochlear's 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.

Cochlear's approach is to engage early with global revenue authorities on major transactions and to ensure cooperative, collaborative 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 which has a term of 5 years, and one with the Internal Revenue Service of the United States which has a term of 7 years. Cochlear's dealings with its UK subsidiary based in London are concluded on similar principles but are not encapsulated in a formal Advanced Pricing Agreement.

International related party dealings

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

As the global manufacturer and developer of implantable hearing devices, Cochlear undertakes the majority of manufacturing and R&D activities in Australia. Cochlear also conducts manufacturing and R&D activities in other locations via service arrangements with its group entities located in Sweden, Belgium and the United States. All new knowledge and intellectual property generated from R&D activities is owned by Cochlear Limited.

Product manufactured by Cochlear is sold either directly by Cochlear Limited or through Cochlear's headquarter distributors located in the UK, US and Panama and also through distributors located in Asia Pacific.

A summary of Cochlear Limited's 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:

- Cochlear manufactures the cochlear implant product at three sites in Australia - Macquarie University and Lane Cove in NSW, and Brisbane in QLD. The manufacture of bone conduction and acoustic implants is carried out under contract manufacturing agreements in Sweden, and the US.
- All intellectual property is owned by Cochlear Limited in Australia with the majority of R&D activities undertaken in Australia. There are R&D capabilities in Sweden, Belgium and the United States and Cochlear Limited has contract R&D agreements with the subsidiaries in those regions.
- Cochlear has headquarter distributors located in the UK, US and Panama as well as other distributors located across Asia Pacific who purchase product directly from Cochlear Limited for ultimate sale in their regions.
- Cochlear operates a Global 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.
- Cochlear operates 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 Cochlear group.
- Cochlear has a captive insurance company in Singapore. It provides captive insurance services to subsidiaries in 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
Singapore ¹	Captive insurance company
Belgium	Service provider (contract R&D)
Sweden	Service provider (contract manufacturing and R&D)
United States	Service provider (contract R&D)
Malaysia ¹	Shared services provider (Global Repair Centre, IT support services, customer service admin)
Panama ¹	Shared services provider (customer service admin)
Panama ¹	Headquarter distributor for Latin America
United Kingdom	Headquarter distributor for EMEA
United States	Headquarter distributor for North America
Canada	Distributor of Cochlear products
China ¹	Distributor of Cochlear products
Hong Kong ¹	Distributor of Cochlear products
India ¹	Distributor of Cochlear products
Japan	Distributor of Cochlear products
Korea ¹	Distributor of Cochlear products
New Zealand	Distributor of Cochlear products
Singapore ¹	Distributor of Cochlear products
Taiwan ¹	Sales support for Cochlear products

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 Limited.

Income taxes disclosed in 2021 Annual Report

The income tax expense/(benefit) 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 income tax expense/(benefit) 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, whether any tax losses are incurred or utilised during the year and other taxes being excluded from ITE such as FBT, payroll and employee taxes.

Cochlear calculates its Effective Tax Rate (ETR) as income tax expense/(benefit) divided by accounting profit/(loss) before income tax. In FY21, Cochlear reported a net profit of \$326.5m.

Provided below is the calculation of the income tax expense/(benefit) for Cochlear and its Australian operations showing the impact of adjustments to the income tax expense/(benefit) on the calculation of the ETR, including the impact of the patent litigation case on the ETR, a reconciliation of income tax expense/(benefit) to cash tax paid, carried forward tax losses and 5 year historical ETRs for Cochlear.

Reconciliation of accounting profit/(loss) to income tax expense/(benefit)

Cochlear Limited Consolidated Worldwide Group	2021 \$m	2021 ETR	2020 \$m	2020 ETR
Net profit/(loss)	326.5		(238.3)	
Income tax expense/(benefit)	39.2		(32.8)	
Profit/(loss) before income tax	365.7		(271.1)	
Tax at the Australian tax rate of 30% (2020: 30%)	109.7	30.0%	(81.3)	30.0%
Add/(less) adjustments for:				
Patent litigation	-		63.7	(23.5%)
Research and development allowances	(10.1)	(2.8%)	(9.4)	3.5%
Net non-deductible/(non-assessable) items	3.2	0.9%	(3.3)	1.2%
Effects of tax rates in foreign jurisdictions	(3.2)	(0.9%)	0.2	(0.1%)
	99.6	27.2%	(30.1)	11.1%
Patent litigation adjustment for prior year ¹	(63.5)	(17.4%)	-	-
Adjustment for prior years	3.1	0.9%	(2.7)	1.0%
Income tax expense/(benefit) on profit/(loss) before income tax	39.2	10.7%	(32.8)	12.1%

Note 1 - Cochlear Limited prior year adjustment relating to patent litigation following the receipt of a private ruling from the ATO in December 2020 which clarified the deductibility of elements of the patent litigation expense treated as non-deductible in FY20.

Cochlear Limited's Australian Tax Consolidated Group	2021	2021	2020	2020
	\$m	ETR	\$m	ETR
Net profit/(loss)	285.8		(153.3)	
Income tax expense/(benefit)	17.6		(37.1)	
Profit/(loss) before income tax (reported)	303.4		(190.4)	
Dividends from wholly owned foreign subsidiaries	(45.8)		(116.0)	
Profit/(loss) before income tax (excluding dividends from wholly owned foreign subsidiaries)	257.6		(306.4)	
Profit/(loss) before income tax (reported)	303.4		(190.4)	
Income tax expense/(benefit) using the Company's domestic tax rate of 30%	91.0	30.0%	(57.1)	30.0%
Add/(less) adjustments for:				
Patent litigation	-	-	63.7	(33.5%)
Research and development allowances	(8.5)	(2.8%)	(8.5)	4.4%
Net non-deductible/(non-assessable) items	4.4	1.4%	(1.7)	0.9%
Controlled foreign company income	2.8	0.9%	1.6	(0.8%)
Exempt foreign sourced dividends from wholly owned subsidiaries	(13.7)	(4.5%)	(34.8)	18.3%
	76.0	25.0%	(36.8)	19.3%
Patent litigation prior year adjustment ¹	(63.5)	(20.9%)	-	-
Adjustment for prior years	5.1	1.7%	(0.3)	0.2%
Income tax expense/(benefit) on Australian profit/(loss) before income tax	17.6	5.8%	(37.1)	19.5%

Note 1 – Cochlear Limited prior year adjustment relating to patent litigation following the receipt of a private ruling from the ATO in December 2020 which clarified the deductibility of elements of the patent litigation expense treated as non-deductible in FY20.

Reconciliation of income tax expense/(benefit) to cash tax paid

Cochlear Limited Consolidated Worldwide Group	2021	2020
	\$m	\$m
Income tax expense/(benefit) on profit/(loss) before income tax	39.2	(32.8)
Timing differences recognised in deferred tax	(15.0)	33.2
Current year tax instalments receivable/(payable) next year ¹	43.3	53.1
Prior year instalments (received)/paid this year	(53.1)	26.0
Cash taxes paid as per cash flow statement	14.4	80.1

Note 1 – Due to the utilisation of carry forward tax losses in FY21, the majority of corporate income taxes paid during FY21 are expected to be refunded following lodgement of the 2021 Cochlear Limited tax return.

Carried forward tax losses

	2021	2020
	\$m	\$m
Total tax losses brought forward	26.8	-
Total losses recognised ¹	63.9	26.8
Total losses utilised against current taxable income	(29.5)	-
Total losses carried forward to be utilised in future years	61.2	26.8

Note 1 – Additional tax losses were recognised in FY21 following the receipt of a private ruling from the ATO in December 2020 which clarified the deductibility of elements of the patent litigation expense.

Effective tax rates for Cochlear Limited Consolidated Worldwide Group

Cochlear Limited Annual Report	2017	2018	2019	2020	2021
Profit/(loss) before tax (\$m)	308.8	340.5	365.6	(271.1)	365.7
Income tax expense/(benefit) (\$m)	85.2	94.7	88.9	(32.8)	39.2
Effective tax rate (%)	27.6%	27.8%	24.3%	12.1%	10.7%

Tax contribution summary

In FY21, Cochlear has 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	2020 \$m
Taxes paid by/(refunded to) Cochlear						
Corporate income tax	(3.0)	9.7	6.2	1.5	14.4	80.1
Employer/payroll taxes	21.3	5.2	10.2	-	36.7	30.8
Fringe benefits taxes	0.2	-	-	-	0.2	0.3
Taxes paid by Cochlear	18.5	14.9	16.4	1.5	51.3	111.2
Taxes collected by/(refunded to) Cochlear						
Salary withholding (PAYG/PAYE)	59.2	22.1	19.6	4.1	105.0	109.0
Net GST/VAT remitted/(refunded) ¹	(13.9)	(0.1)	(42.0)	1.5	(54.5)	(70.8)
Withholding taxes on interest and royalties	31.3	-	-	-	31.3	0.9
Taxes collected by/(refunded to) Cochlear	76.6	22.0	(22.4)	5.6	81.8	39.1
Total taxes paid and collected/(refunded)	95.1	36.9	(6.0)	7.1	133.1	150.3
2020	124.2	39.3	(23.2)	10.0	150.3	-

Note 1 – Sale of Cochlear products are generally exempt from GST / VAT.

Corporate income tax

Due to the combined impact of COVID and the patent litigation case in FY20, the majority of corporate income taxes paid during FY20 were refunded in FY21. In addition, Cochlear Limited generated tax losses in FY20 which will be carried forward and reduce taxable income in FY21 and future income years.

Pre COVID, Cochlear's corporate income taxes paid in Australia represented more than 80% of total corporate income taxes paid by the Cochlear Group. Cochlear expects to resume this level of contribution to Australia's economy in future years.

Withholding taxes

In FY21, the majority of the withholding taxes paid related to the patent litigation case.

ATO tax transparency disclosures

In December 2020, the Australian Taxation Office published the following taxation information from the Australian tax consolidated group income tax return for 2019:

2019	Cochlear Limited
Total income	\$996,409,522
Taxable / net income	\$393,111,740
Tax payable	\$73,572,786

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 2017. 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 – tax transparency disclosures	2017 ATO tax transparency disclosures A\$m	2018 ATO tax transparency disclosures A\$m	2019 ATO tax transparency disclosures A\$m	2020 To be published A\$m
Total income published	854.8	973.9	996.4	1,025.2
Taxable income ¹	348.4	388.6	393.1	0.0
Tax payable	65.0	74.3	73.6	0.0
Application of R&D tax incentive offset to tax transparency disclosures:				
Taxable income	248.4	288.6	293.1	0.0
R&D expense (100% add back)	100.0	100.0	100.0	-
Taxable income published	348.4	388.6	393.1	0.0
Tax payable (@30%)	104.5	116.6	117.9	0.0
R&D tax incentive offset	(38.5)	(38.5)	(38.5)	-
Other tax offsets	(1.0)	(3.8)	(5.8)	-
Tax payable published	65.0	74.3	73.6	0.0

Note 1 – In FY20, taxable income is nil due to the combined impact of COVID and the patent litigation case. In addition, tax losses were generated in FY20 which will be carried forward and reduce taxable income in FY21 and future income years.

Hear now. And always

As the global leader in implantable hearing solutions, Cochlear is dedicated to helping people with moderate to profound hearing loss experience a life full of hearing. We have provided more than 650,000 implantable devices, helping people of all ages to hear and connect with life's opportunities.

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

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

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Please seek advice from your health professional about treatments for hearing loss. Outcomes may vary, and your health professional will advise you about the factors which could affect your outcome. Always read the instructions for use. Not all products are available in all countries. Please contact your local Cochlear representative for product information.

Views expressed are those of the individual. Consult your health professional to determine if you are a candidate for Cochlear technology.

The Cochlear Nucleus Smart App is available on App Store and Google Play. The Cochlear Nucleus 7 Sound Processor is compatible with Apple and Android devices, for compatibility information visit www.cochlear.com/compatibility.

ACE, Advance Off-Stylet, AOS, AutoNRT, Autosensitivity, Beam, Bring Back the Beat, Button, Carina, Cochlear, 科利耳, コクレア, 코클리어, Cochlear SoftWear, Codacs, Contour, コントウア, Contour Advance, Custom Sound, ESPrit, Freedom, Hear now. And always, Hugfit, Hybrid, Invisible Hearing, Kanso, MET, MicroDrive, MP3000, myCochlear, mySmartSound, NRT, Nucleus, Osia, Outcome Focused Fitting, Off-Stylet, Profile, Slimline, SmartSound, Softip, SPrint, True Wireless, the elliptical logo, and Whisper are either trademarks or registered trademarks of Cochlear Limited. Ardium, Baha, Baha SoftWear, BCDrive, DermaLock, EveryWear, Human Design, Piezo Power, SoundArc, Vistafix, and WindShield are either trademarks or registered trademarks of Cochlear Bone Anchored Solutions AB.

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